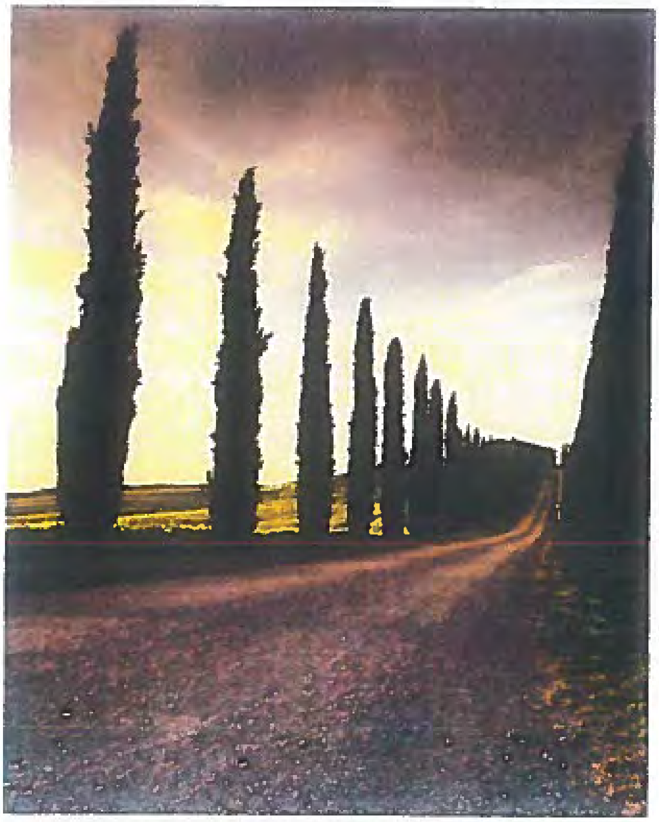

INTEGRATED ANNUAL REPORT

2022/2023

KZN GROWTH FUND

Inspired Investing

Trust Information

REGISTRATION NUMBER
IT 1437/2007 (PMB)

TRUSTEES

ACTING CHIEF EXECUTIVE OFFICER (ACEO)
Mr KH Ngqaka

COMPANY SECRETARY
Ms T Nxumalo

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AUDITORS
Auditor-General, South Africa

BANKERS
Standard Bank of South Africa Limited

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1. Introduction

The KZN Growth Fund Trust (KGFT), is pleased to present its' eighth integrated report covering the period 01 April 2022 to 31 March 2023. The report aims to give a comprehensive overview of KGFT's performance in the execution of its strategic mandate, its operational and financial performance, stakeholder management, governance matters, material issues with reference to risks and opportunities and how these elements contributed to the KGFT's prerogative to maintain continued sustainability and economic growth.

KGFT'S APPROACH TO INTEGRATED REPORTING

In preparing the report, the KGFT applied the guidelines on integrated reporting as prescribed by the International Integrated Reporting Committee (IIRC) in conjunction with the King Report on Corporate Governance for South Africa, 2016 (King IV).

As part of the KGFT's integrated reporting journey, it is constantly seeking to improve the quality of the information provided so that stakeholders have a balanced and transparent account of KGFT's business. The KGFT has sought to clearly disclose material issues in the report and consideration has been given to connecting material issues, risks, strategic objectives, and data stakeholder issues.

REPORTING PRINCIPLES AND ASSURANCE

KGFT's Annual Financial Statements (AFS) have been prepared in accordance with International Financial Reporting Standards (IFRS) and the principles of the Public Finance Management Act, No1 of 1999 (PFMA) as applied to the AFS. There have been no restatements of financial information in respect of prior periods. KGFT receives external assurance from the Auditor-General South Africa (AGSA), on the fair representation of its AFS. The AGSA also provides assurance in respect of KGFT's achievement of annual performance targets as set out in the Annual Performance Plan. KGFT will seek to obtain assurance on other non-financial matters as a part of its integrated reporting plan going forward.

FORWARD LOOKING INFORMATION

Certain matters discussed in this report about KGFT's future performance, including, without limitation, future financial performance, strategies, prospects, and all other statements that are not purely historical, constitute 'forward-looking statements. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. Such statements are based on management's best estimates as well as assumptions made by and information currently available to management.

MATERIALITY

The principle of materiality has been applied in determining the content and extent of disclosure in the Integrated Report. In identifying those matters that are material, a wide range of resources were consulted, including KGFT's corporate plan and strategy, the outcomes of engagements with stakeholders, reports submitted and produced for the Board of KGFT ('the Board') and sub-committees, the key risks identified during the risk management process taking cognisance of various policies and regulations applicable to KGFT.

APPROVAL BY THE BOARD

This report was prepared by Executive Management under the supervision of the Board. I would like to thank the Board for all the input and guidance to the Management Team during

Board has applied its collective mind to the preparation and presentation of the Integrated Report and believes that it addresses all material issues and fairly presents the performance of KGFT. KGFT has taken a phased approach to integrated reporting and, therefore, believes that by 2022/2023, the report shall be fully compliant with the IIRC Framework.

Given the impact of challenging economic conditions and load shedding, the leadership of the Board and the Executive Management of KGFT have been hard at work to ensure KGFT's agility and adaptability to current economic environments. We are confident about the socio-economic contributions that the KGFT will make in the following year.

Mr. S Hlophe
Chairman: Board of Trustees

EXECUTIVE AUTHORITY STATEMENT: MEC FOR EDTEA, MR S.A DUMA, MPL

ANNUAL REPORT: 2022/2023

KZN GROWTH FUND TRUST

Over the past years, the KZN Growth Fund Trust has recorded project approvals amounting to R1.1bn towards investments in the manufacturing, healthcare, transport and logistics as well as telecommunication sectors.

These projects have created a total of 9 955 job opportunities to date. The funding by the KZN Growth Fund Trust unlocked a total investment of over R3bn.

This entity continues to further spatial distribution of its funding impact with project locations spread across the entire province of KwaZulu-Natal. During the year under review, the focus was reaching out to all corners of the province.

One of the key mandate imperatives of this entity is the reduction of inequalities and the promotion of broad-based Black Economic Empowerment. It is, therefore, important to see progress made by the entity in relation to the creation of Black Industrialists.

During the year under review, KZN Growth Fund Trust added money totalling R49m towards Black Industrialist-led projects. This co-funding has unlocked a Black Industrialist project value of approximately R820m, mainly in the manufacturing sector.

This funding support has massive socio-economic benefits and helps to unlock industrial potential whilst radically changing the pattern of ownership and control.

As the KwaZulu-Natal provincial government, we recognise the value of the KZN Growth Fund Trust and take responsibility for providing much-needed support to the entity and ensuring that its mandate is executed efficiently.

I wish to pay tribute to the Acting Chief Executive Officer, Executive Management and the entire staff members for their concerted efforts in executing the mandate and aligning with the KwaZulu-Natal government's programme of action.

Mr Siboniso Duma, MPL
MEC for Economic Development, Tourism and Environmental Affairs
DATE:

3. Chairman's Report

I am pleased to present this report on the KGFT for the 2022/23 financial year on behalf of the Board. The KGFT has strived to continue to be able to achieve its mandate in a year characterised by uncertainty and slowing economic development following the impact of challenging economic conditions and load shedding which resulted in majority of the KGFT funded clients to struggle to honour their obligations to KGFT.

South Africa remains in the longest business cycle downswing on record, since the fourth quarter of 2013, with annual growth below the estimated potential growth rate of the country. Growth momentum remains very weak. The country's slow growth is not only affected by domestic problems, but by impact challenging economic conditions which adversely affected progress on Government's Economic Recovery Plan.

The entities, like KGFT, need to be innovative to address the economic challenges such poverty, high unemployment, and income inequality. The subdued economic growth has led to lower business confidence, and this directly affect the business of KGFT.

Thus, KGFT will be reviewing its product offerings to align with market needs and enhance its impact on the KZN economy.

Looking ahead the prospects are positive as we expect a slight lift in economic performance boosted by improved business confidence following the recent statistics of projects economic growth over the medium term. The moderate inflation and stable interest rates environment following previous SARB rate cuts coupled with a recovery of the agricultural sector offers positive outlook for investment opportunities. We are confident that the KGFT will continue to play its meaningful role in addressing inequalities of the past and restructure the economic landscape of our Province and country.

GOVERNANCE

The KGFT continues with upholding high standards of governance in the execution of its mandate and responsibilities. This has been evidenced by receiving its 11th consecutive Clean Audit opinion attained in the past financial year.

The KGFT monitors and reports on compliance as set out in the King IV report and PFMA and continues to remain fully committed to transparent and disciplined corporate governance processes. In addition, our risk management processes remain robust throughout the KGFT and integrate the functions of risk, internal audit and legal and compliance. Furthermore, the KGFT leverages its position as a lender or investor to ensure that its investee companies also adhere to good corporate governance.

TRANSFORMATION AND SPATIAL DEVELOPMENT

During the past financial year, the Board of Trustees reaffirmed the mandate of transformation and addressing the previous economic exclusions by prioritising designated groups such as women, youth, and rural/township projects.

LOOKING FORWARD

Unemployment, especially among the youth, remains a pressing challenge requiring immediate policy priority in the country as it continues increases sitting at 32.9%. Its impact extend beyond financial depravation to include high socio-economic costs and low productive of the economy.

The coming year will be another year of transition as the KGFT reconsiders its product offering to be aligned with provincial and national priorities. The KGFT aspires to be world-class in all that it does and differentiates itself by being adaptable and innovative in its approach. It is because of these attributes that the KZN Growth Fund brand is gaining strength and positive recognition in the market, which is evidenced by the quality of the deal flow pipeline and referrals being attracted by the KGFT.

In the coming year, the KGFT will increase its efforts of targeting projects that are led by women, youth, and rural/township projects to realize impactful investing.

GRATITUDE

On behalf of the Board of Trustees and the organization, I would like to thank our shareholder representative, MEC: EDTEA Mr. Siboniso Duma for the leadership and support given in the execution of the mandate and strategy. I would also like to extend my appreciation to the Acting Chief Executive Officer (Mr. Kaya Ngqaka), his Executive Management, and all staff members for their hard work and commitment to the achievement of the Fund's mandate. A special word of thanks to my fellow Trustees for their dedication and diligence and providing oversight to the organization and ensuring that the lives of our people in KZN are improved.

Mr. Silas Hlophe
Chairman: Board of Trustees

4. Acting Chief Executive Officer Report

The 2022/23 financial year was a challenging one considering the poor economic performance, loadshedding and disrupted global supply chains due the war between Russia and Ukraine. The organisation came through a challenging period characterised with uncertainty related to the vacancies at the executive management level and non-performing loans. Despite the said challenges, KGFT remained resolute on its mandate and addressing its challenges.

OPERATING ENVIRONMENT

KGFT's performance fell short of expectations when it comes to deal making. This has been made worse by poor performance of the loan book. In view of the said challenges, the Board of KGFT took a resolution to review the business model and address issues that led to the decline in the performance of the entity. GTAC was appointed to help KGFT in its turnaround project and the work is at an advanced stage. The project is expected to come up with a new business model that will improve the performance of KGFT in terms of deal approvals, loan book performance, a suitable organizational structure, digitization and automation of the systems, etcetera.

DELIVERING ON OUR MANDATE

The Fund is tasked with a responsibility to deliver on three (3) key mandates, namely job creation, transformation and economic development. It executes these mandates through originating, assessing and financing appropriate impactful projects that are also commercially viable. In the past financial year, the Fund has been able to successfully execute on its mandate by approving funding to projects equating to R 40 million in total value leading to the creation of more than 160 job opportunities being created. In addition, the KGFT was appointed to facilitate the Youth Fund programme with no disbursement in the year under review. In addition, the KGFT was appointed as disbursing agent for Operation Vula Fund programme which resulted in the disbursement of approximately R19,5m to the beneficiaries.

FUND MANAGEMENT RESPONSIBILITIES

Based on the track record of good governance, prudent fund management and excellent delivery on our mandate, the KZN Growth Fund has made its name in the investment space and among other government entities as a fund manager of reference. The Fund has been requested to assist the Province with fund management expertise on two strategic projects, namely KZN Youth Fund and Operation Vula Fund.

FINANCIAL PERFORMANCE

The Fund continues to be self-sustainable in that it generates good returns to be able to finance its operational expenses without using the capital that is earmarked for financing projects. The impairment charge however decreased from R373m to R349 million during the period under review, owing to the introduction of the IFRS 9 reporting standard as well the tough trading conditions facing the sectors that some of our investee companies are facing. Whilst the impairment ratio is within the appetite range set by the Board, the Fund remains concerned with the total amount of impairments. The Fund has taken strategic actions to contain further impairments on affected investee companies, which among others, entail appointment of turnaround specialists and finding strategic partners, with capital and extensive experience in these industries. We have also refocused our organisation and we are in a process of capacitating our dedicated post investment unit within KGFT to focus on the strategic management of our key clients and investments.

Our balance sheet continued to grow with Assets Under Management growing by 3.33% to R1.52 billion from R1.43 billion in the previous year, on the back of growth in investments, new fund management mandates, and appropriation from Provincial Fiscus.

OUTLOOK

On the economic front, the outlook is looking negative with forecasts for economic recession, high inflation and high interest rate environment in major economies and the continuing war between Russia and Ukraine, South African business is likely to suffer. With a CPI of 7,1%, unemployment rate of 32,9% and Q4 GDP of -1.3% q/q as per Statistics SA, the outlook for the South African economy did not look positive. The electricity crisis, high inflation rate and high interest rates are the main factors contributing to the decline. These dynamics will weigh negatively on growth and pose a serious risk to the business of KGFT, as it deals with business.

KGFT will continue to differentiate itself from commercial financiers, deepen our transformative role while enhancing our partnerships to remain relevant as we deliver our mandate. This includes maintaining a cost-effective business, prudent and judicious capital allocations, and an investment in our people to develop industrial development thought-leaders.

GRATITUDE

I would like to thank our Board of Trustees for its leadership and guidance, and members of the Executive team for their support during the past financial year. I commend all of our staff for their valuable contribution to our performance during the year, achieved while embracing capacity challenges.

A special word of thanks to our shareholder representative, MEC for Economic Development, Tourism and Environmental Affairs (EDTEA), Mr Siboniso Duma together with the Head of Department, Mr Nhlakanipho Nkontwana for their leadership and unwavering support and confidence given to KGFT as we continued with our efforts to transform the economic landscape of the KZN Province.

Mr Kaya Ngqaka
Acting Chief Executive Officer

5. Organisational Profile

The KGFT currently caters for both a debt and an equity fund and is able to bring on board additional investors to participate in both funds. An FSP licenced entity (KGF Capital) has been set up to facilitate partnership opportunities with like-minded investors, where KGFT would act as the Fund Manager. This is a structure that is typically used in the Private Equity Industry.

The Debt Fund finances projects ranging from a minimum of R25m and may consider funding up to R100m in size. Projects requiring amounts over and above the upper limit are co-funded with other financial institutions. The Equity Fund invests in projects ranging from a minimum of R20m and may consider investments up to R100m. The funds focus on strategic infrastructure and economic sectors such as:

- Transport and logistics;
- Manufacturing;
- Telecommunications;
- Power and energy;
- Health and education infrastructure;
- Agro-processing;
- Mining and mineral beneficiation;
- Tourism; and
- Any other sector that may promote the objectives of the KGFT, provided it satisfies the Investment Policy of the Fund.

VISION

To be KZN's leading Development Financier and socially responsible Impact Investor.

MISSION

To provide competitive and innovative financing solutions through the management of public, and private equity funds that propel socioeconomic growth for a better future.

MANDATE

To support sustainable growth by financing private sector projects that drive economic success, stimulate job creation, promote broad based black economic empowerment (B-BBEE) and reduce inequality.

VALUES

The KGFT's values are **RAISE:**

- Respect
- Accountability
- Integrity
- Service
- Enterprising

STRATEGIC GOALS

The KGFT's strategic goals are as follows:

- To manage the KGFT's resources efficiently and effectively so as to remain financially sustainable;
- To be an impact investor by utilising government capital to leverage off the private/institutional sector funding and to maximise the development impact in the KZN Province;
- To increase employment through inclusive economic growth by funding sustainable projects with ownership of mainly Black Africans;
- To promote environmental sustainability by ensuring that funded projects own, manage and sustain environmental assets and resources; and
- To promote organisational Integrity, Governance, Accountability and Compliance.

STRATEGIC OBJECTIVES

The strategic objectives of KGFT are:

- To maintain sound corporate governance and an unqualified audit opinion;
- To utilise government capital to leverage off institutional/private investor's capital so as to grow the assets under management;
- To identify and finance viable private sector projects that maximise the development impact of KGFT's investments;
- To remain financially sustainable by fully committing available funds under management and ensuring appropriate post investment management; and
- To fund projects that will provide inclusive and sustainable job creation.

To achieve the strategic objectives of the Fund, KGFT has adopted the following high level initiatives:

- To manage funds that can officer competitive financing products to attract private participation;
- To build long-term relationships with other Development Finance Institutions (DFIs) and lending institutions to cross-refer and co-finance projects and build on the public private partnership (PPP) model;
- To further implement the comprehensive marketing strategy;
- To adequately resource and retain the necessary human capital and skills in KGFT;
- To implement and maintain sound policies, procedures and systems of internal controls to ensure good corporate governance; and
- To implement appropriate post-investment management.

By implementing the above strategies, KGFT will be able to achieve its strategic objectives, hence establishing a successful track record and a reputation for effective delivery. The strategy of the KGFT will be driven by a single-minded goal of developmental finance and growing the assets under management.

6. Leadership

Board of TRUSTEES

Mr Silas Hlophe
Chairman

Independent Trustee as from 15/02/2018

MBL (Masters of Business Leadership) – UNISA, Bcom (Hons) - UKZN

Brief Profile

- Mr Silas Hlophe holds a Master's in Business Leadership (MBL) from UNISA, a BCOM Honours in Accounting from UKZN and National Diploma in Cost and Management Accounting from Durban University of Technology.
- He completed his articles through the office of the Auditor General. He has worked in both private and public sector as Senior Management Level mainly within KZN. His experience varies from being Chief Financial Officer of local Government Municipalities and Provincial Government Department.
- Over the years to current he has served in various Boards and Committee where he contributed significantly on improving internal controls governance and compliance.
-

Ms Bongekile Zulu
Trustee

Independent Trustee as from 12/12/2016

Academic qualifications
B Proc, MBA - UKZN

Brief Profile

- Ms Zulu is an attorney with over 18 years' experience in the field of Commercial and Corporate Law.
- She is also internationally accredited, with CEDR, as a Commercial Mediator.
- She possesses vast experience as a business compliance and Corporate Governance practitioner, and serves on various provincial and national boards including, amongst others, the Construction Industry Development Board (CIDB), the Community Schemes Ombud Service (CSOS), and has recently been appointed to Umgeni Water Board.
- As an ADR specialist in Corporate Law, Ms Zulu serves on the Companies Tribunal, where she provides over disputes arising between companies and the CIPC. She is also a member of EThekwini Municipality's Audit, Risk and Performance Committee.

Mr Ashvir Dhuki Trustee

Independent Trustee as from 12/12/2016

Academic qualifications
Chartered Accountant (UKZN)

Brief Profile

- Mr Dhuki is currently the managing director of Strategic Audit Techniques Inc., an audit firm operating in KZN and Gauteng
- Mr Ashvir Dhuki has gained a diverse in-depth experience in the financial services industry, both in private and public sectors.
- He served his articles at PKF Durban, and gained experience for a year as Audit Manager before moving to Morar Inc. as Director.
- He has gained immense experience by serving on many Boards and committees and as a financial advisor to higher learning institutions.

Represented KZN in SA Presidents Strategic Projects Presentations, and

Ms Bernadette Khumalo
Trustee
Independent Trustee as from 01/06/2022

Academic Qualifications
BCom Accounting – University of Natal Howard College
IEDP – University of London (Cass Business School) and GIBBS
PDP – University of Cape Town
PGDip Futures Studies – University of Stellenbosch (completing in Dec 2022)

Current Studies
PGDip Futures Studies – University of Stellenbosch (completing in Dec 2022)
Master of Science in Global Finance – HKUST- NYU| Stern – Class of 2023

Ms. Khumalo is an experienced and driven ex Corporate and Investment Banking (Real Estate and Structured Finance) Banker,
Ms. Khumalo has amassed experience which comprised but is not limited to:

- different divisions of the financial services sector i.e. Growth and acquisition (G&A), Property and Strategist.
- Ex Chief Executive Officer of the Rokwil Group (Pty) Ltd.
- Being a member of the Audit and Risk Committee, as well as the Social and Ethics Committee of the Sub-Saharan Industrial Holdings,
- Being member of the Audit and Risk Committee as well as Nominations Committee of the University of South Africa, and ex Chairperson of the Women in Industries Holding.

She is currently:

- A Non- Executive Director of Hyprop Investments Ltd serving in both their Investment and Social and Ethics Committee,
- the current Regional Chairperson of South African Property Owners Association – SAPOA, and
- Running a property mezzanine funding business of her own amongst other business interests that her business is involved in.

Achievements

- Featured in SAPOA magazine – Leading Women in Property,

Youngest candidate at the time to be nominated to participate in the International Executive Development Programme by BankSeta.

- Nominated for Business Women of the Year Award 2018,
-

EXECUTIVE MANAGEMENT

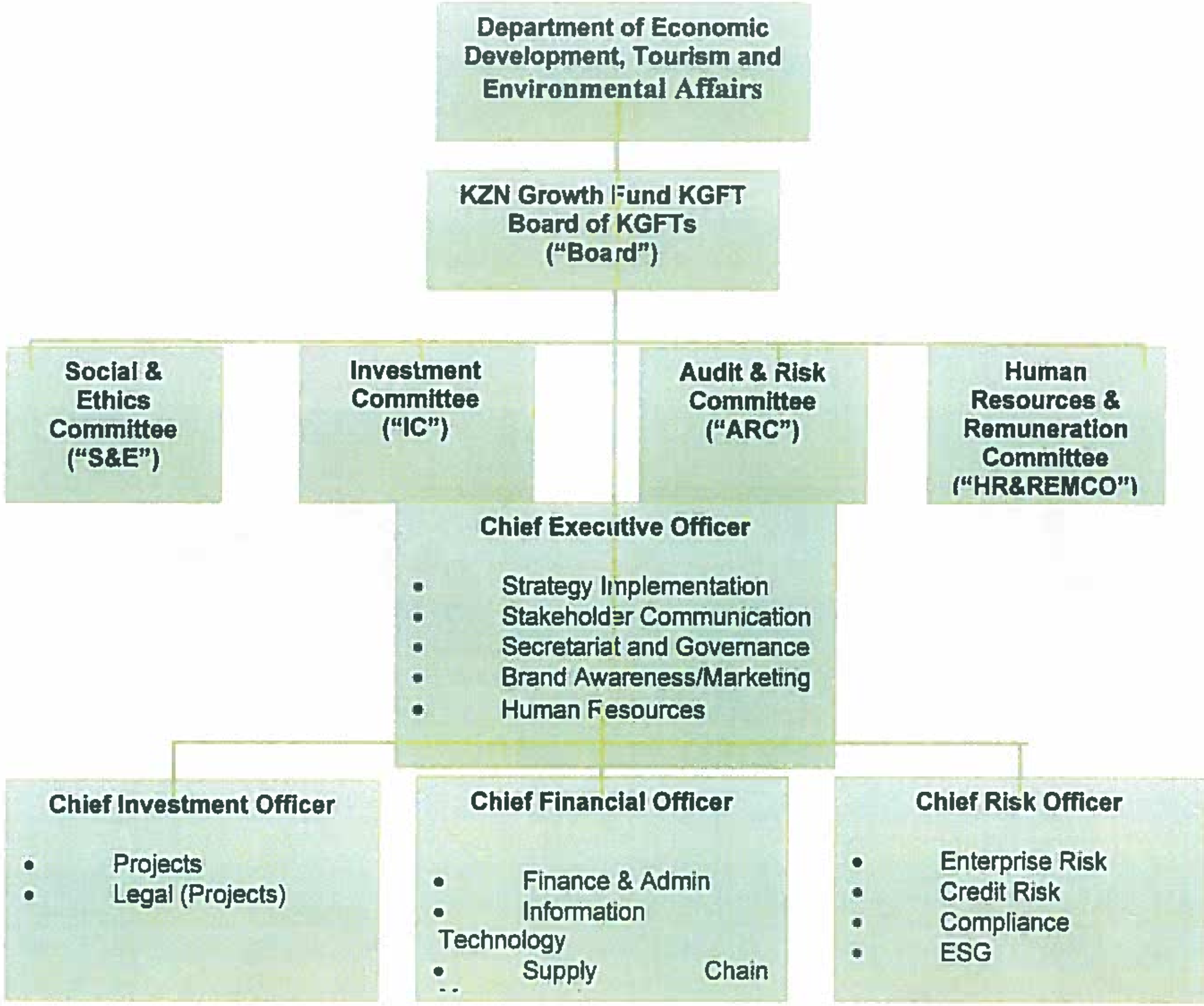
KAYA NGQAKA
ACTING CHIEF EXECUTIVE OFFICER

LWAZI ZONDI
CHIEF FINANCIAL OFFICER

THULISILE NXUMALO
COMPANY SECRETARY

KHWEZI NHASSENGO
CHIEF INVESTMENT OFFICER

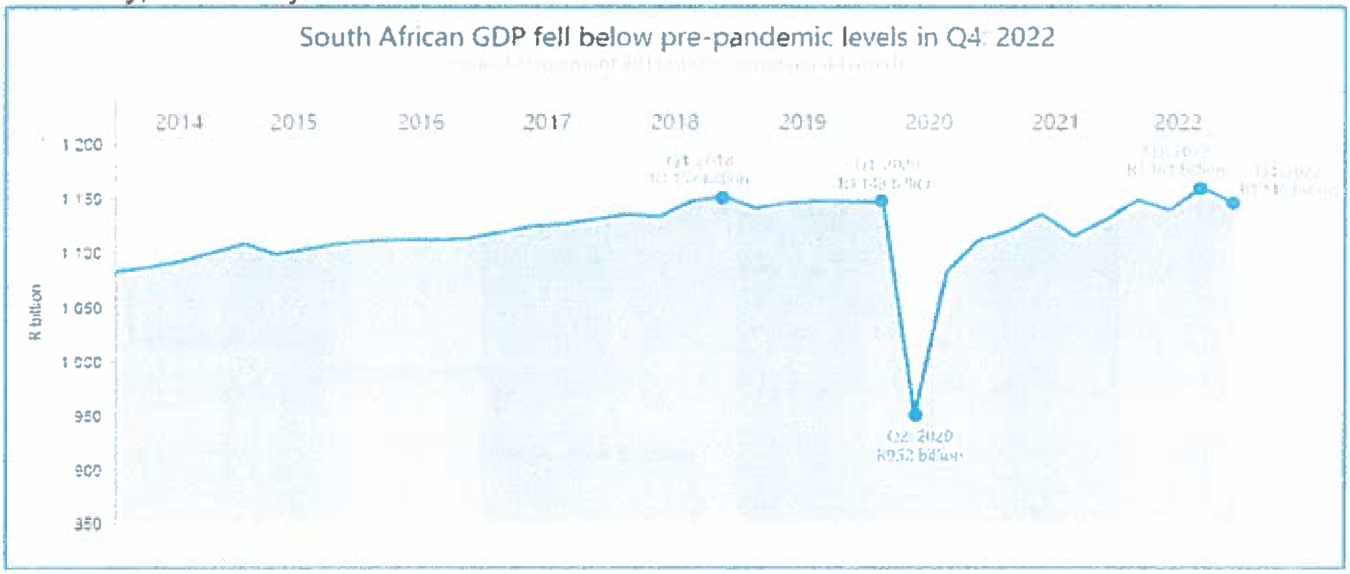
7. Governance Structure



8. Investment Committee Report

ECONOMIC ENVIRONMENT

South Africa's Gross Domestic Product (GDP) increased by 2.0% for the year 2022. This was below the 2.5% growth previously expected and below the 2021 GDP growth of 4.9%. The year 2022 started with GDP experiencing a growth of 1.6% in the first quarter, which marked a second consecutive quarter of upward growth and brought the size of the economy back to pre-pandemic levels. However, in the second quarter of 2022, the GDP contracted by 0.8% compared to the previous quarter. There was a recovery in the third quarter, with a 1.8% expansion, surpassing pre-pandemic levels and reaching the highest quarterly GDP recorded. However, in the fourth quarter, the GDP declined by 1.3% as economic activity experienced a decline driven by several factors, including the increased occurrence of electricity load-shedding and logistical challenges resulting from industrial action at Transnet. This decline affected all sectors of the economy, including the primary, secondary, and tertiary sectors.



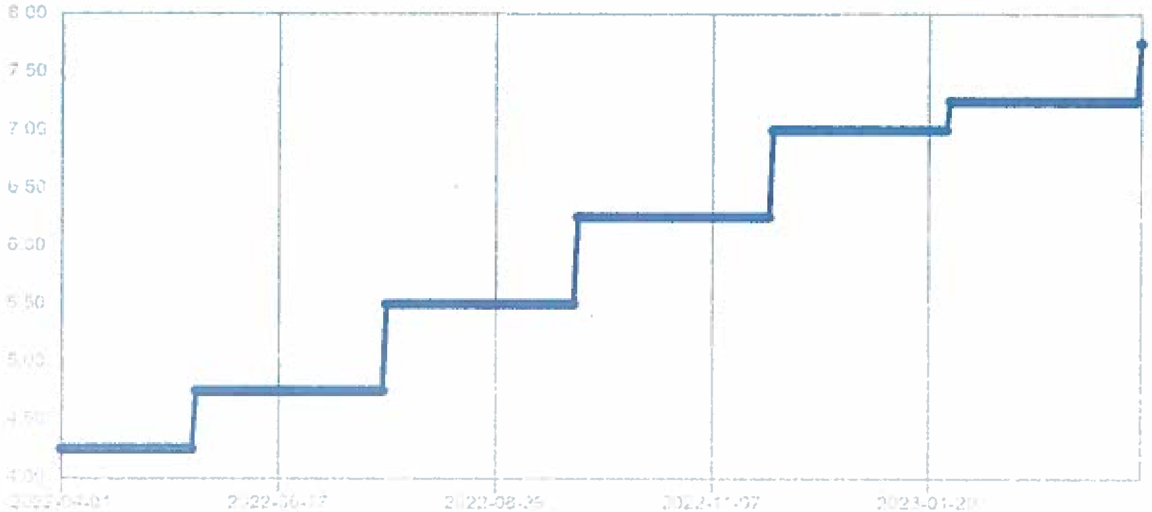
Source: Statistics SA

The country's growth has been hindered by electricity supply shortages (load-shedding) for a number of years. Since 2007, load shedding has become increasingly severe, with daily outages reaching nearly 9 hours in 2022. This significant deficit in electricity has disrupted economic activity and caused businesses to incur higher operating costs as they rely on expensive diesel generators. Furthermore, the shortages also impacted other vital infrastructure such as water, IT services, and the delivery of essential services like healthcare and education.

In April 2022, the National State of Disaster came to 750 days since the country went into the initial lockdown on 15 March 2020 to curb the spread of COVID-19. However, the combination of weak structural growth and the COVID-19 pandemic worsened socio-economic challenges in the country. Although the country has managed to recover its pre-pandemic GDP, it had not been able to restore employment levels. By the end of 2022, there were still approximately 500,000 fewer jobs compared to the end of 2019, with women and young people disproportionately affected. Inequality in the country remains one of the highest in the world, and poverty rates, based on the upper-middle-income country poverty line, stood at an estimated 63% in 2022, only slightly below the peak experienced during the pandemic. These trends sparked increased social demands for government assistance. South Africa's unemployment rate in the first quarter of 2023 was recorded at 32,9 % and considered among the highest in the world.

Between 1 April 2022 and 31 March 2023, the Monetary Policy Committee (MPC) of the SA Reserve Bank (SARB) increased the repo rate six time. Overall, the repo rate increased from 4.25% on 1 April 2022, until finally reaching 7.75% on 31 March 2023. This saw an increase to the prime lending rate up to 11.75% by March 2023.

FIGURE 2: REPO RATE - APRIL 2022 TO MARCH 2023



The latest decision to increase the repo rate by a further 50 basis points to 7.75% with effect from the 31st of March 2023 was made by the committee considering the following:

- A sharp upward revision to the SARB's headline CPI forecast for 2023, to an average of 6% from 5.4% in January.
- The judgement that, even after the upward revision to headline inflation in 2023, there were still upside risks to the central bank's outlook for future price pressures.
- Currency risks - The MPC argued that following the rand exchange rate weakening trend since January, further currency weakness was likely.

Overall, economic and financial conditions were expected to remain more volatile for the foreseeable future.

Sources:

1. Statistics SA
2. SARB Quarterly Bulletin Publications
3. World Bank – South Africa Overview
4. BER Economic snapshot

INVESTMENT COMMITTEE COMPOSITION

The Investment Committee (IC) of the KGFT is composed of three (3) members of the board of trustees as well as two (2) independent industry experts. The individuals are drawn from diverse backgrounds and have wide ranging experience in governance, finance, legal, accounting, investment banking as well as private equity. The Investment Committee assists the Board of Trustees in the achievement of the KGFT mandate. The IC is responsible for the assessment of proposed investments or divestments and recommendation to the board of trustees for approval as per delegation of authority. The IC is also responsible for oversight on the performance of the debt and equity portfolio post investment. The Equity Investment committee which was constituted to have oversight over the equity investments in the Private Equity Fund is currently not being convened due to the partnership agreement being on hold. KGFT continues to seek and assess equity investment to invest in outside of the since the upliftment of the moratorium on equity investments.

The significant contribution the members provide towards impacting the lives of the people of KwaZulu Natal and promoting diversified economic participation is greatly appreciated.

REVIEW OF THE 2022/2023 FINANCIAL YEAR

The KGFT finances private sector-led projects and companies through loans with minimum term of five and maximum of 10 years. The Fund also makes equity investments that provide private black owned enterprises with long-term growth capital for expansion or greenfield operations. The private sector is an essential force for sustainable development in that it stimulates innovation and improves productivity and economic efficiency, while creating the jobs and growth needed to reduce poverty and promote shared prosperity.

For the period ended 31 March 2023, KGFT approved just over R40m in debt financing to a black-owned entity in the manufacturing sector. The approved funding is expected to create 160 jobs at final implementation. There were no new approved equity transactions for the period under review.

For the period under review, 3 projects were taken through the due diligence process and 1 of these projects was approved for funding. The project pipeline remains healthy, as at year end there were 26 investment leads in the pipeline, requiring approximately R1.8 billion in funding from the KGFT. These projects are at various stages of the investment appraisal processes and those that meet the investment policy criteria will be presented to the relevant Board committees for consideration.

During the 2022/23 financial period we disbursed R19.5m under the Operation Vula Fund (OVF), which is a special fund administered by KZN Growth Fund on behalf of EDTEA.

The majority of KGFT's portfolio remains skewed toward greenfield projects which account for 67% of the total number of funded projects in the portfolio. The portfolio is also biased towards the manufacturing sector with around 70% of the investee companies categorised as manufacturing entities. These manufacturing investee companies also account for around 1300 of the forecasted jobs versus 1800 jobs for the entire portfolio.

The non-performing loan book stood at 95% as at the end of the financial period against a 55% threshold set by the shareholder. The board and management work tirelessly to turnaround the performance of the loan book and employ hard and soft approaches as a means of improving performance. The KGFT has appointed a panel of business mentors and turnaround specialists to assist with supporting the post investment unit.

The equity investments were valued at R223m as of 31 March 2023 against a cost of R306m showing a decrease from initial investment by 27%.

The non-performing loan book stood at 95% as at the end of the financial period against a 55% threshold set by the shareholder. The board and management work tirelessly to turnaround the performance of the loan book and employ hard and soft approaches as a means of improving performance. The KGFT has appointed a panel of business mentors and turnaround specialists to assist with supporting the post investment unit.

The equity investments were valued at R223m as of 31 March 2023 against a cost of R306m, showing a decrease from initial investment by 27%. The investment activities for the year are summarised in the table below against performance for the two preceding years.

Table 1.1: Investment Activities Comparison to Previous Years

Performance Indicator	FY-22/23 Unaudited	FY-21/22 Audited	FY-20/21 Audited	FY-19/20 Audited	FY-18/19 Audited
Total value of approved financing (R'm)	40	54	73,8	45	160,4
Total value of disbursements (R'm)	4.1	4.2	35,5	76,8	114,4
Total #jobs created/saved	160	103	216	105 (246 retained)	393

The Investment Committee of the KGFT will continue to play its role in support of these socio-economic imperatives by leveraging private capital in the financing of commercially viable projects.

Mr Bongekile Zulu
Chairman: Investment Committee

9. Operating Environment

GLOBAL ECONOMIC DEVELOPMENTS

Global economic growth is estimated by the International Monetary Fund (IMF) to have slowed to 2.9% in 2019, from 3.6% recorded in 2018. In advanced economies, the US economy outperformed and posted a 2.3% growth in 2019 compared to 1.2% in the Eurozone. Growth in the US was spurred by robust consumer spending while weak growth in Germany was the key driver of growth easing in Europe. During the period under review, Germany's automotive sector continued to suffer from the emission scandal and the economy faced lower demand from China overall. With strong growth in the US, the dollar outperformed expectations in 2019 - averaging $1.12/€, that is more than 5% stronger compared to 2018. In the UK, continued uncertainty surrounding Brexit hampered private fixed investment and the economy grew by 1.4%. Eventually, at the beginning of 2020, the UK exited the European Union (EU), supported by a transition period to discuss trade and other arrangements with the remaining members. In emerging markets, economic growth was underpinned by China (+6.1%), while India slowed to 4.2% mainly due to a slowdown in domestic demand.

A key driver of the slowdown in global growth was a moderation in world trade growth, recorded by the IMF at 1% in 2019, down from 3.7% a year prior. To a large extent, this is attributed to the adverse impact of the trade tiff between the US and China. Subdued private sector fixed investment is another key driver of the global slowdown. Additionally, a number of geopolitical uncertainties such as the Brexit delays in 2019 and social unrest in many parts of the world (including political unrest in Hong Kong) contributed to the slowdown.

While manufacturing struggled, in advanced countries consumer spending continued to grow at a reasonable pace throughout 2019. Sustained low inflation, strong labour markets and rising equity markets supported growth in household disposable incomes. Amid these tentative signs of stabilisation entered the coronavirus, first discovered in China and started spreading through the rest of the world. Consequently, financial markets tumbled during the first quarter of 2020. This was in spite of the extraordinary monetary and fiscal policy responses from across the globe. Just like during the 2008-9 global financial crisis, most central banks introduced a raft of measures characterised by reduced policy interest rates and massive bond-buying programmes.

Through 2019, the oil price remained fairly volatile influenced by global growth concerns and increased supply. With the emergence of the coronavirus, growth outlook weighed heavily on oil prices. On top of the drop in demand, Saudi Arabia and Russia got embroiled in a price war which further put significant downward pressure on prices. At record levels not seen in recent years, Brent crude oil traded below $30 per barrel, down by about 50% in less than a month.

With the exception of coal, the prices of some of South Africa's key export commodities performed well through 2019. The price of coal declined by roughly 27%. This is largely attributed to slower GDP growth in India and increased global environmental sensitivity to the use of fossil fuels. In contrast, rhodium and palladium prices rose on the back of increased demand. Building on a 100% increase in 2018, rhodium price rose by 75% in 2019 while palladium rose by 50%. Palladium now contributes more to SA's export revenue than gold. The coronavirus led to a significant drop in car sales in China at the start of the 2020 year, leading to a drop in the platinum price. At the same time, gold prices, spurred by drastic monetary policy easing together with higher safe-haven demand, firmed at the start of 2020.

Sub-Saharan African economy

The IMF estimates that economic growth slowed to 3.1% in 2019, from 3.3% the year prior. The deeper-than-expected slumps in China and Europe compounded domestic challenges, notably drought conditions in Southern Africa, the adverse impact of cyclones Idai and Kenneth in South-eastern Africa, security issues in West Africa and the Ebola outbreak in the DRC. The Bretton Woods institution estimates that South Sudan recorded the fastest growth rate (+11.3%), after years of civil war. Rwanda grew by 10.1% in 2019, slightly ahead of Ethiopia which recorded 9% growth during the same period. Pulling down the region's growth, according to IMF estimates were six countries - namely DRC, Namibia, Angola, Liberia, Equatorial Guinea and Zimbabwe. South Africa recorded a paltry 0.2%.

The region's biggest economy, Nigeria, expanded by 2.2% - the fastest growth since 2015. Inclusive of Nigeria, the oil-producing countries, however, came under significant pressure early 2020 as international oil prices plummeted to record levels. These countries include Angola, Gabon and Congo Republic. Economies lot less dependent on extractive commodities, on the East (Rwanda, Ethiopia, Kenya, and Tanzania) and West (Cote d'Ivoire, Senegal, Cameroon) of the continent continue to post the strongest growth. These economies are more capable of withstanding fluctuations in commodity prices.

South Africa

SA's immediate economic prospects are being influenced by sharply contrasting factors. Despite the aggravating power crisis, the country's domestic equity and bond markets had a positive start in 2023, which can be attributed to increased global risk appetite. However, this optimistic news from trading partners is unlikely to offset the restrictive impact of severe power outages and the delayed repercussions of a 375bps increase in local policy interest rates since November 2021. Moreover, the surge in domestic demand due to the reopening in 2021 and 2022 will not be repeated. Therefore, the projection for real GDP growth in 2023 is below 1%, with only a modest recovery anticipated in 2024.

Forecasts for SA's real GDP growth in 2023 are starting to significantly diverge due to three primary reasons. Firstly, there are varying assumptions about the frequency and severity of load-shedding, as well as the measures adopted by firms and households to counteract its effects. Secondly, there is a discrepancy in estimates regarding the level of investment in green energy in 2023 and its potential impact on GDP growth. Finally, there is uncertainty over the strength of global growth and its effect on South Africa's economy.
There may be disagreement on the strength of global growth and the impact thereof on SA. In a nutshell, our underlying assumptions are for:

- More frequent and intense load-shedding in 2023 than last year.
- Some mitigation against power cuts but that proves inadequate to fully safeguard against stage 4 (and above) load-shedding.
- Robust green-energy investment but a high import leakage dilutes the boost to GDP.
- Subdued ex-China global growth that is not conducive to SA exports.

Considering the unstable coalition arrangements in local government before and after next year's elections, lower-end real GDP growth forecasts for 2023 and 2024 are anticipated. There is still scepticism about the effectiveness of measures announced in the State of the Nation address, including the declaration of a state of disaster regarding energy and the appointment of an electricity minister in the presidency, in improving the power crisis in the short term.

SA Greylisted by the Financial Action Task Force (FATF)
The greylisting of a country impacts its reputation significantly as it is perceived to be ineffective in combating financial crimes like corruption, money-laundering, and terror financing, which are below international standards. The second implication is related to the action taken by foreign banks on cross-border transactions, especially those that provide correspondent banking services. It is essential to note that the FATF does not mandate the application of enhanced due diligence measures.

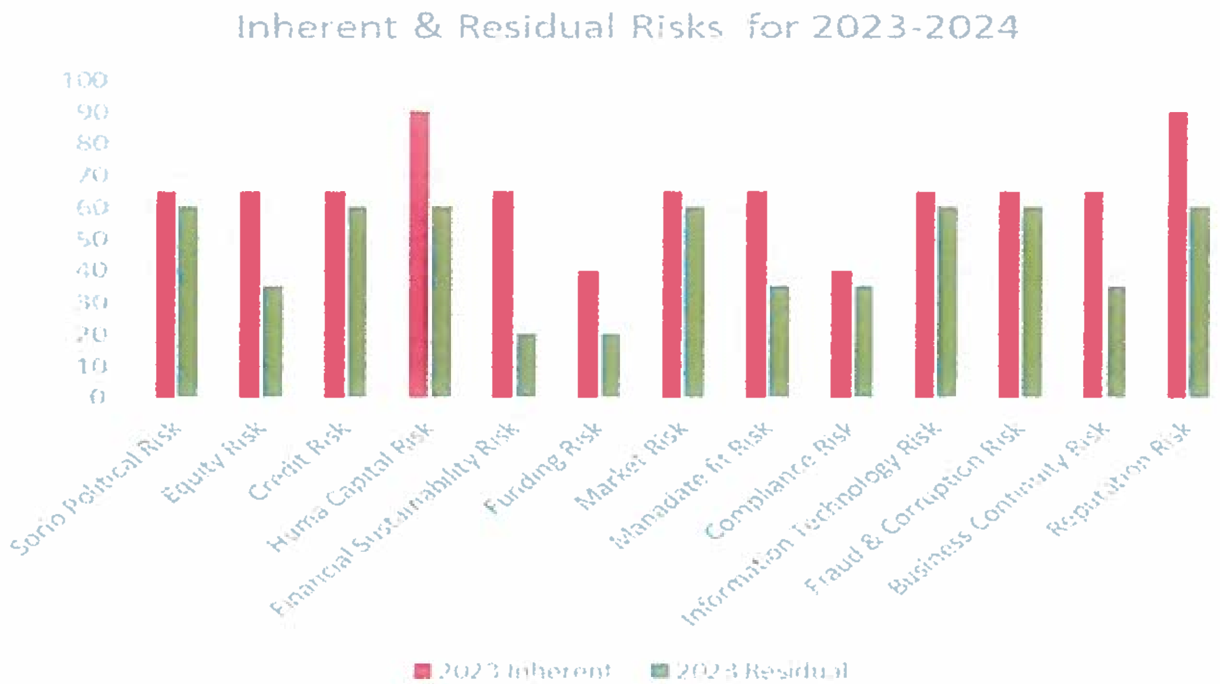
Despite the requirement by FATF, certain institutions are anticipated to carry out more extensive monitoring due to their own business reasons or requirements imposed by their laws. As a result, financial institutions based in a greylisted country engaging in cross-border trade and other activities could be subjected to more stringent customer due diligence by foreign financial institutions. This means that foreign institutions will have to be more thorough in processing and verifying clients, as well as comprehending the sources of their funds.
Generally, countries take one to three years to rectify the shortcomings and get removed from the grey list. This is usually done after a final on-site assessment, where both the FATF and the country concerned are satisfied that all the elements of the action plan have been substantially or completely addressed. South Africa has been tasked with addressing the eight strategic deficiencies highlighted by the FATF no later than the end of January 2025. However, the government aims to address them earlier, possibly by 2024.

SA Reserve Bank hikes repo rate to 14-year high
The South African Reserve Bank unexpectedly raised the repo rate to 7.75% on March 30, an increase of 50 basis points, the highest level since the start of the Global Financial Crisis in 2009. Since the start of the rate hiking cycle in November 2021, the MPC has increased the repo rate by 425bps, taking the policy rate to 7.75% (above its pre-COVID level of 6.5%). The Reserve Bank is worried about the persistence of headline consumer inflation above its target range of 3% to 6%, as well as the significant rise in inflation expectations over the past year. Additionally, the Monetary Policy Statement notes that extensive load-shedding and logistical issues are expected to subtract 2 percentage points from GDP growth this year.

10. Material Risks and Opportunities

The KGFT faces a number of strategic risks that could affect its business operations and ultimately its ability to create value in the long term. A strategic risk assessment workshop was facilitated in January 2023 with the objective of identifying the top strategic risks that could prevent the KGFT from achieving its strategic objectives. Changes to the KGFT's operating environment and the change in funding model were taken into account when identifying the strategic risks considering the impact of COVID19. The graph below reflects the Inherent risk of each strategic risk as well as the residual risk after taking existing controls into account.

Graph 2.1 – Inherent Risk vs Residual Risk



The table below provides an analysis of the top eleven strategic risks affecting the KGFT, the current controls in place to mitigate those risks, the opportunities presented and a link to the strategic objectives of the KGFT which are listed at the end of the table.

Table 2.1 – Summary of Top Twelve Strategic Risks

Rank	Key Risk	Current controls	Opportunity
1	Socio-political risk	– Monitor political landscape by constant engagement / lobbying with key stakeholders. – KGFT representation in key meetings – Mechanisms in place to ensure relevance - continuous reporting to EDTEA and delivery of mandate. – Manage relationships with all critical stakeholders. – Existing client engagements.	

Rank	Key Risk	Current controls	Opportunity
2	Equity/Investment Risk	– Projects subject to comprehensive due diligence which is reviewed by the Investment Committee. – Key criteria of Investment policy are captured in submissions made. – Continuous Private Equity Specialist Training. – Investment Policies and Procedures which are reviewed on a regular basis. – Monitoring and ensuring personal interest from sponsors. – Proactive review, monitoring and reporting on portfolio including independent monitoring of value add. – Implementation of findings of due diligence reports to prepare project company for exit. – Background checks, KYC – Recruitment of employees with specialised skills. – Appointment of director/s to investee boards. – Comprehensive legal risk management / enforcing compliance with terms and conditions. – Alignment of interests between parties – Continuous training of all specialists	– Gain recognition as Private Equity specialised SOC - model for other DFI's
3	Credit Risk	– Credit and Investment strategy, Policies and Procedures which are reviewed on a regular basis. – Comprehensive analysis to gauge potential creditworthiness. – Project subject to comprehensive due diligence which is reviewed by the Credit Committee. – Conflict of interest Policy.	– Developing more expertise in managing high risk projects.

Rank	Key Risk	Current controls	Opportunity
		– Implementation of findings of due diligence reports to prepare project company for exit. – Proactive review, monitoring and reporting on portfolio including independent monitoring of value add. – Monitor compliance with existing covenants. – Assess, collateral coverage relative to the current condition. – Identify contractual payment delinquencies and classify potential problem credits. – Remedial management. – Talent mapping and Recruitment of employees with specialised skills. – Monitoring and ensuring personal interest from sponsors. – Business mentorship. – Enforcing default remedies.	
4	Human Capital	– Performance management policy in place. – Oversight by HR Committee. – Employee Satisfactory surveys conducted, resulting in an action plan. – Board and management feedback session with staff. – Staff morale sessions e.g. Team building exercise. – Benchmarking of remuneration packages. – Approved HR Strategy and implementation model. – Ongoing Employee Training. – Regular review of organisational design. – Approved Talent management and succession plan framework in place. – Improved retention strategies. – Conduct exit interviews.	– Create a high-performance culture to attract and retain people. – Increase engagement levels which results in an increase in organisational results e.g. improves productivity. Staff Retention, Reward Schemes, Increase Staff Morale

Rank	Key Risk	Current controls	Opportunity
5	Financial sustainability	– Effective annual budgeting process including monthly monitoring of Actual v Budget variances. – Quarterly review and adjustments to annual budgets (Revised Estimates). – Monthly review of budget variances including commentary by departmental executives. – Monthly review of income statement and balance sheet by CFO including monitoring of performance against budget expectations. – Treasury cost cutting measures are implemented. – Policies, procedures, and delegation of authority in place and reviewed regularly. – Performance management in line with targets set in corporate plan. – Quarterly solvency and liquidity testing. – Monthly review of cash flow position (including working capital). – Monthly monitoring and review of creditor payments to ensure payments are made according to agreed payment terms. – Ongoing management of the loan portfolio. – Prudential limits in place.	– Manage assets under management efficiently. – Seek fund mandates to manage with fund management fees.
6	Funding Risk	– Proactive restructuring of loans and investments – Monitor political landscape by constant engagement / lobbying with key stakeholders. – KGFT representation in key meetings – Mechanisms in place to ensure relevance - continuous reporting to EDTEA and delivery of mandate.	– Partnership with other DFIs. – Additional revenue streams. Establishment of second fund without losing the government funding to create a fund pool.

Rank	Key Risk	Current controls	Opportunity
		– Manage relationships with all critical stakeholders. – Efficient diversification of assets and sectors. – Proactive review, monitoring and reporting on portfolio including independent monitoring of value add and exit thesis. – Fundraising. – Engagements with IDC, DBSA for strategic partnerships resulting in MoA with IDC	
7	Market Risk	– Proactive review, monitoring and reporting on portfolio including independent monitoring and implementation of value add and exit strategies. – Proactive monitoring and balance sheet management of portfolio returns and movements to be implemented. – Proactive restructuring of loans and investments. – Efficient diversification of assets and sectors. – Sensitivity and scenario analysis on each project's financial model prior to approval at FAR stage. – Project team ensures that legal agreements make provision for adequate restructuring in the event of adverse changes in macro and micro economic environment. – Implementation of Bloomberg as a research tool. – Establishment of in-house views and forecasts. – Monitoring of Bank risk ratings on a quarterly basis. – Investing KGFT funds in low-risk portfolios.	– Proactive Strategic interventions encouraging a forward looking and proactive culture. – Advantage to some of KGFT clients as a result in the drop in exchange rate – Focus on sectors that are resilient to adverse economic conditions
8	Mandate fit	– Implementation of strategy, Corporate plan and Annual	- Engage shareholder and review the mandate

Rank	Key Risk	Current controls	Opportunity
		Performance Plan which is submitted to the EDTEA. – The fund provides Quarterly performance reports to the EDTEA. – Ensure alignment of Trust objectives with the provincial government strategies. – Alignment and regular assessments of Individual KPAs with strategy. corporate plan and Annual performance plan. – Development and maintenance of policies to facilitate the implementation of the approved strategy. – Marketing and Branding the Fund – Strategic partnerships, relationships with Investors, NGO's, consultants and stakeholder, e.g. TIKZN, IDC, PIC, commercial lenders etc. – Introduction of equity finance and diversity in product range enabling more promoters to access funding. – Unique approach to assess and manage risk in line with the mandate (customised approach) through research & benchmarking & case studies and partnership with identified institutions (training and formal agenda item for the projects team). – Marketing business model is aligned to Mandate (appointment of a service provider to assist)	
9	Governance and Compliance	– Implementation of Policies and Procedures which are reviewed on a regular basis. – Adherence to King IV. – Staff workshopped on Policies Workshops with acknowledgement and signatures that staff has been	– Maintain good governance

Rank	Key Risk	Current controls	Opportunity
		workshopped on policies and its reviews. – Monitoring and reporting of compliance and risk via independent function to relevant committees. – In-house compliance function and internal audit. – Combined assurance plan has been developed, approved, and implemented. – In -house legal counsel appointed and access to external legal counsel – Risk assessment undertaken to determine high risk threats to KGFT. – BCP and DRP approved by Board of Trustees and tested. – Communication, Training and roll out of policies and procedures. – Adherence to all relevant regulations.	
10	Information and Communication Technology	– Antivirus. – Access control processes. – ICT Security policy and procedures. – Patch Management. – Vulnerability and compliance scans. – Intrusion detection and Prevention tools. – Firewalls installed and monitored. – Logical and Physical access implemented into server rooms. – Exception reports. – Benchmarking against IT practices of other similar entities in the same operating space. – Cloud IT Strategy approved for implementation of Cloud based storage. Currently using Cloud 9 for system storage. – Upgraded hardware for interoperability with the cloud system.	– Introduce ERP system for financial reporting – Implement investment management systems – Strengthen security systems and processes – Build internal IT capacity/skills

Rank	Key Risk	Current controls	Opportunity
11	Fraud and Corruption	– Implemented policies and procedures at all levels / Implemented internal control processes and systems (segregation of duties / reconciliatory processes). – Regular monitoring key internal processes (Internal Audit and Compliance Reviews). – Employees / Trustees managed through Code of conduct essentially being KGFT's Brand Ambassadors (Conflict of Interest declarations and checks). – Anti-fraud / Whistle blower Policy. – Gift policy and register. – Establishment of the Social and Ethics committee. – Disciplinary process in place for fraud, theft, and corruption. – Employment preselection checks.	– Building an ethical company culture. – Training/appointment of Ethics officers
12	Business Continuity	– Implemented Business Continuity and Disaster Recovery Plan. – Annual testing of the Business Continuity and Disaster Recovery Plan. – Cloud based storage in use for financial systems. – Business Continuity policy is in place.	– Review Business Continuity Plan annually
13	Reputation Risk Negative publicity that is damaging the brand and reputation of KGFT	– Marketing and Public Relations expertise available – Media training provided to EXCO and Board. – Awareness campaigns. – Use of social media to rebuild the brand. – CSI initiatives	– To grow KGFT brand in the market – To aim for excellence

Strategic Objectives
A: To maintain sound corporate governance and an unqualified audit opinion;
B: To utilise government capital to leverage off institutional / private investor's capital so as to grow the assets under management
C: To identify and finance viable private sector projects that maximise the developmental impact of KGFT's investments;
D: To remain financially sustainable by fully committing available funds under management and ensuring appropriate post investment management.
E: To fund projects that will provide inclusive and sustainable job creation

11. Managing Risks and Opportunities

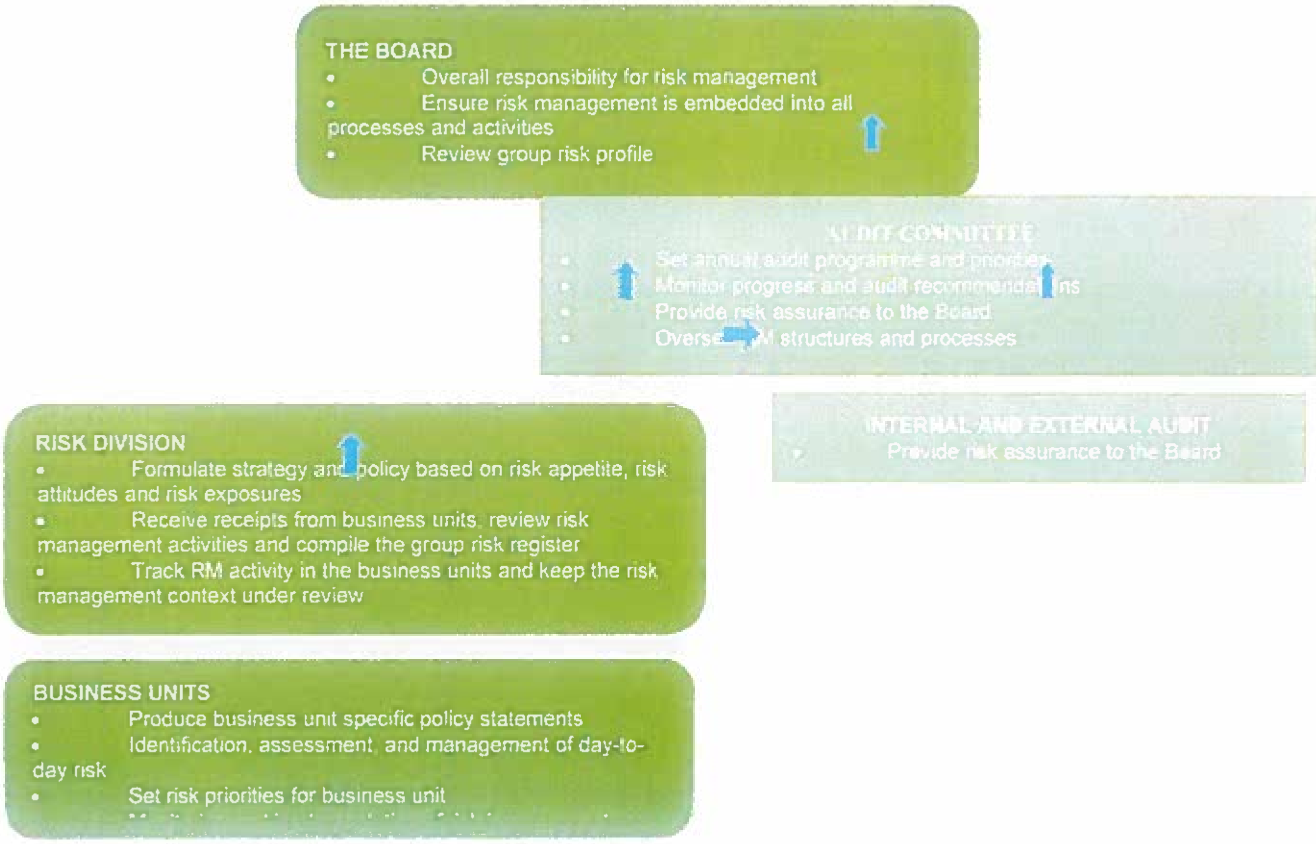
KGFT recognises that identifying and managing risks and opportunities its fundamental to the achievement of its strategic objectives.

The Board has overall responsibility for risk management, ensuring that risk management is embedded into all processes and activities of the KGFT and adopting an enterprise risk management (ERM) framework. This approach ensures that KGFT takes a holistic view of the risks inherent in its strategy, operations and business and that the management of risks is embedded into the planning, business and decision-making processes. It is also the responsibility of the Board to review the KGFT's risk profile from time to time.

The Audit and Risk Committee is mandated to oversee the implementation of the KGFT's ERM framework and assesses key risk reports on a quarterly basis. Operational issues are included in the quarterly reports and are managed by Executive Committee (Exco) and Internal Risk Committee (IRC).

Internal Audit and External Audit provide independent assurance on the effectiveness of risk management to the Board. Internal Audit is outsourced to Morar Inc due to the size of the KGFT.

The diagram below portrays the risk architecture of the KZN Growth Fund:



KGFT Risk is managed on three levels, namely strategic, operational and projects

Strategic risks are those risks that are most consequential to KGFT's ability to execute its strategies and achieve its' developmental mandate. These risk exposures can ultimately affect KGFT's shareholder value and long-term sustainability.
Operational risk refers to risks inherent in KGFT's operations and processes. These are emerging risks introduced by internal factors (such as Human Resources, Legal and Compliance, Fraud) and external factors (such as suppliers, politics, reputation, the economic climate, etc).
Project risk refers to risks that could impact the progress, result or outcome of a specific product funded by KGFT, which would result in deviations in expected returns on a project or impact the planned outcomes of specific value-creating initiatives.

RISK MANAGEMENT

At a strategic level, risk management functions performed by the Board, Executives and management include definition of risk, determining risk appetite, formulating strategies and policies for managing risk and developing adequate strategies and policies for managing risk and developing adequate systems and controls to ensure that overall risk remains within an acceptable level.

Enterprise risk management, which encompasses operational risk, is managed by the Risk function, while regulatory risks are managed by the Compliance function. Enterprise risk management activities are performed by the relevant business units, and we are entrenched through adherence to operational procedures and guidelines set by management. Operational risk management strategies and policies are used in conjunction with delegated powers of authority, which detail the authority levels for various transactions.

Project risk assessments are performed to identify key risks that could impact the progress, result or outcome of a specific project and actions that are designed to adequately mitigate the risks identified and put in place.
The implementation and effectiveness of planned actions are monitored throughout the duration of the project by the Projects and Credit functions and are reported through project governance structures. Project risks are also managed by adherence to the investment, equity and credit policies and business process procedure approved by the KGFT.

The Board has delegated the responsibility for the management of credit and investment risk to the Investment Committee (IC). The Board has also delegated the approval of Initial Screening Reports to the Internal Risk Committee (IRC) in order to facilitate speedy turnaround times and to enhance the competitiveness of the KGFT.

The IC is responsible for ensuring that extensive due diligence is done on projects requiring funding prior to recommending projects for approval to the Board. The IC is also tasked with the duty to oversee the management of project performance after disbursements to ensure that the KGFT maintains long-term sustainability portfolio. The KGFT always strives to maintain a balance between its developmental mandate and the expected returns to long-term sustainability to robust risk appetite of its' stakeholders.

KGFT RISK UNIVERSE

The nature of the business of KGFT exposes it to the following categories of risk:

FINANCIAL RISK	OPERATIONAL RISK	BUSINESS RISK
Credit (Counterparty) Risk	Information, Communication and Technology (ICT) Risk	Reputational Risk
Interest Rate Risk	Operational Risk (including People Risk)	Regulatory Risk
Liquidity Risk	Legal and Third-Party Risk	Environmental Health and Safety Risk
Solvency Risk	Business Continuity Planning	Fraud, Theft and Abuse
Market Risk		

FINANCIAL RISK

Credit (Counterparty Risk) is the risk of non-payment by the KGFT funded projects and non-recoverability of the funding, which would result in impairments and write-offs. This risk is managed by robust evaluation of projects by the internal committees, entering into legality binding contractual agreements with project companies and effective post-investment monitoring of the projects.

Interest Rate Risk is the potential variability that KGFT is exposed to owing to changes in the level of interest rates.

Liquidity Risk is the risk to an entity's earnings and capital arising from its inability to timely meet obligations when they come due without incurring unacceptable losses, i.e. the possibility of KGFT being unable to meet obligations, repayments and withdrawals at the proper place and time.

Solvency Risk relates to the possibility of KGFT being unable to sustain its business activities and to meet commitments, repayments and withdrawals at the proper time and place as a result of it having accumulating liabilities, which in aggregate exceeds the fair value of its assets.

Market Risk is the risk that the value of an investment will decrease due to movement in market prices, interest rates, exchange rates, market volatilities and competitive mix, i.e. the possibility that the market price of an asset may change, resulting in a capital gain or loss to KGFT upon subsequent realisation of the asset.

OPERATIONAL RISK

Information, Communication and Technology (ICT) Risk is the risk of failures in system support, including errors in the development of programmes, inadequate or untimely management information and inadequate security and contingency planning.

Operational Risk (including People Risk) is a risk that does not have a 'direct' financial impact as compared with the pure financial risks such as liquidity risk, interest rate risk and credit risk. Operational risk is the risk resulting from inadequate or failed internal processes, people and systems (inefficient or ineffective), or from external events, resulting in financial loss. People risk is defined as possible inadequacies in human capital. This may stem from a lack of adequate skills or knowledge, a reward system that fails to motivate properly or loss of key staff due to uncertainty.

Legal Risk is the risk of loss due to business objectives not having been properly formulated in agreements or other defective contractual arrangements, legal liability (both criminal and civil) incurred during operations by the failure of the KGFT to perform its obligations or enforce its rights and by failure to address identified concerns to the appropriate authorities where changes in the law are proposed (compliance with the law and implanting changes are dealt with as part of compliance risk).

Business Continuity Planning is the process whereby an organisation ensures the maintenance or recovery of operations including services to customers when confronted with adverse events such as natural disasters, technological failures, human error and terrorism.

BUSINESS RISK

Reputational Risk is the potential that negative publicity regarding KGFT's business practices or internal controls, whether true or not, which could have an impact on the liquidity or capital of KGFT, or cause a decline in the customer base, costly litigation or revenue erosion or reductions.

Regulatory Risk is the risk associated with the potential for laws related to a given industry, country or type of security to change and impact relevant investments.

Environmental Health and Safety Risk is the risk associated with the economic or administrative consequences of slow or catastrophic environmental pollution, hazards and the safety of persons in connection with the use of plant and machinery, or the protection of persons against hazards to health and safety arising out of, or in connection with, the activities of persons at work.

Fraud, Theft and Abuse is the risk of unlawful and intentional making of a misappropriation by persons internal or external to the organisation, which causes actual prejudice or which is potentially prejudicial to others.

Compliance Risk is the risk that procedures implemented by KGFT to ensure compliance with the relevant statutory regulatory and supervisory requirements are not adhered to and/or is inefficient and/or ineffective.

MANAGING RISK

Liquidity Risk

The nature and type of business that KGFT engages in exposes it to the following liquidity risks:

- Inability to repay borrowings;
- Inability to meet lending requirements;
- Payments of excessive premiums above market rates in order to attract funds.

The KGFT's Finance Department manages liquidity on a projected cash-flow basis. The key focus areas in managing liquidity involves the continuous monitoring of actual and projected cash flows and maintenance of a liquidity buffer to fund unforeseen cash flows.

Liquidity risk management strategies and processes include:

- Preparing cash flow projections regularly to assess available cash against cash requirements;
- Maintaining a buffer or liquid assets in short-term investments; and
- Projected cash inflow and outflow estimates and, thus, the net deficit or surplus over a time horizon.

Liquidity risk is measured by conducting an analysis of net funding requirements. Net funding requirements are determined by analysing future cash flows based on the assumption of the expected behaviour of assets and liabilities. The liquidity position is continuously monitored through the Financial Fund Model (FFM) by Exco, who then reports to the Audit and Risk Committee quarterly.

Interest Rate Risk

Interest rate risk to KGFT may arise due to:

- The margin between the interest rates earned on assets and paid on liabilities;
- The repricing potential of assets and liabilities at different points in time, resulting in mismatches in various time bands between the contractual repricing of assets and liabilities; and
- The period over which these differences persist.

Interest rate risk is the responsibility of Exco at management level and Audit and risk Committee at Board level. Interest rate risk management strategy manages placement of funds and the balance between risk and return, considering the KGFT's view on interest rates. Medium to long-term strategy return includes initiatives to reduce exposure to interest rate risk.

Concentration Risk

Funds available for investment are split between various banking institutions, with a minimum of 90% of funds being invested with banking institutions with along a long-term rating of BBB (and/or other rating agencies with the equivalent ratings) or above or short-term rating of F3 or above as listed by Fitch ratings agency (or other rating agencies with the equivalent ratings) with the exception of Ithala Soc Ltd as approved by the Board, which is limited to a total of 10% of available funds. No more than 25% of KGFT investments can be placed with only one institution at a time.

Operational Risk

Operational risk is managed through the implementation of appropriate internal control systems, supported by staff training. Clearly defined and documented operational policies and procedures in the form of key controls and procedures are maintained and made available to all staff members. To ensure that the policies and procedures and control mandates meet KGFT's requirements, both statutory and commercial, the policies, key controls and procedures are subject to review by management and appropriate risk committees to ensure ongoing development and maintenance of sound and prudent operational risk policies and procedures.

The Executive management is responsible for the practical implementation of the principles of operational risk management and monitoring thereof at departmental level. The Executive management is also responsible for the development and maintenance of the procedures for the management of operational risk related to KGFT's products, services, functions, processes and systems.

Insurance Risk

The KGFT's assets and relevant exposures are covered by the relevant insurance policies to minimise losses. These insurance policies are reviewed annually.

Business Continuity Management

The KGFT maintains business continuity plans that are tested annually, and IT backup is done daily, with weekly full backups maintained at a secure off-site location.

Technology Risk

Technology is the risk of failures in systems, errors in the development of programmes, inadequate or inaccurate management information, as well as inadequate security and contingency planning. Technology is key to KGFT's business and hence it's imperative to maintain disaster recovery policies and plans that give guidance to operations in the case of disruption. These plans are tested on an annual basis and are adjusted in line with changes in operations, services and strategy.

Compliance Risk

Compliance risk not only exposes KGFT to fines, civil claims, loss of authorisation to operate and an ability to enforce contract, but also to reputational damage.

KGFT's has a dedicated compliance function whose role is to assist management in discharging their responsibilities to comply with applicable regulatory requirements. The compliance function assists through the identification, assessment, management, monitoring and reporting of compliance risks faced by KGFT. The regulatory universe is reviewed and approved on an annual basis and identifies the core legislation applicable to KGFT.

The regulatory universe is reviewed and approved on an annual basis and identifies the core legislation applicable to KGFT.

Legal Risk

Legal risk is managed in terms of the newly devised legal risk management framework that is currently being drafted. Support activities include the monitoring of new legislation, the implementation of awareness initiatives and the identification of significant legal risks, together with managing and monitoring the impact of such risks through appropriate processes and procedures.

Credit Risk Exposure

The primary focus of risk management is to identify and assess all risks directly associated with the project with a view to determine how well the project can sustain ongoing commercial operations and service its obligations on time and in full.

As a Development Finance Institution (DFI), the KGFT is exposed to credit risk in its portfolio. Credit risk constitutes the entity's primary source of risk and therefore, it is required to robustly and effectively manage this risk. The risk is managed through the various stages of the credit life cycle and value chain to ensure that the KGFT delivers on its mandate while remaining financially sustainable in its project finance investments and interventions.

KGFT's approach to risk management is based on well-established governance processes and includes the full involvement of the Board, IC and IRC, supported by policies, procedures and systems.

Credit risk management activities are performed at four distinct stages in KGFT, namely initial acceptance of the credit application, ISR, FAR and post investment, guided mainly by the KGFT's investment, credit and loan pricing policies and relevant South African legislative and regulatory requirements.

Investment Risk

The investment policy sets out the basis on which investments to be made by the Fund are approved as well as the procedure to be followed for the IC to make investment recommendations to the Board of the Fund for their final approval. The aim of the Investment policy is to establish primarily whether a proposed investment meets the credit criteria set out in the credit policy and satisfies the Fund's development mandate.

The credit policy provides a framework for the evaluation of all new and existing credit exposures, as well as the management, control and monitoring of such exposures with the goal of appropriately providing a risk-reward profile by maintaining credit risk exposures within acceptable and agreed parameters.

The loan pricing policy provides the basis for calculating the pricing of the loans and sets in place an internal methodology and business process for determining the loan pricing strategy in relation to best practice, regulation and legislation relevant to the business.

Initial acceptance stage of the Credit Application

The Projects Department, headed by Executive Management, conducts risk assessment in terms of the relevant and initial credit risk criteria to determine whether the application can be considered for further appraisal at the next phase is conducted by the projects department headed by the Executive Management. At this stage KGFT does searches using Windeed, Dow Jones, Who owns who and other available risk and compliance search tools to identify further risks and if satisfied, the project is advanced to the next stage for further assessment.

Initial screening report (ISR) stage

In terms of the Fund's Credit Policy, credit applications that are deemed fundable by the projects team are subjected to an approval process and entails identification and assessment of potential risks that could be unique to the project under screening. Also, to ensure consistency with the investment and credit policies. The Board has delegated the approval of initial screening reports to the IRC in order to facilitate quick turnaround times and to enhance the competitiveness of the fund.

Final appraisal report (FAR) stage

Once the ISR has been approved by the IRC, due diligence reviews are performed in order to assess the commerciality and sustainability of the project. The IC is responsible for ensuring that extensive due diligence has been done on projects requiring funding, and recommending projects for approval to the Board for final approval.

The project promoter is required to submit additional relevant project support information to facilitate robust appraisal in preparing the FAR. The FAR is submitted to the IC for assessment and a recommendation for approval is made by the IC to the Board.

Post investment stage

Portfolio management is a critical element in ensuring the recovery of all disbursed funds. KGFT has an effective system in place to identify, measure, monitor and control risk as part of an overall approach to risk management.

The IC is also tasked with the duty to oversee the management of projects and performance after disbursements to ensure that the fund has a performing portfolio.

The established credit policy provides the foundation and guidelines for sound portfolio management and includes among other controls the following:

- Monitoring the compliance with facility agreements;
- Internal review of portfolio risk rating;
- Monitoring disbursed funds by means of periodic reports from the project's management accounts and related information to assess the project performance;
- Annual review of credit portfolio and valuation of securities held;
- Monitoring events that may lead to payment default;
- Risk classification and provisioning of loans;
- Periodic review of every stage of the credit processes and credit policy, audit reviews as well as loan recovery strategies.
- Frequent customer visits to obtain a clear picture of management and operations of the business as well as to spot and assess the overall exposure to risk.

Reports on portfolio performance are submitted to the KGFT executives, IRC, IC and the Board for review.

Environmental, Social and Governance (ESG) Management

ESG is growing in significance amongst investors. The disclosure of ESG performance is becoming a new normal, with companies working on improving their ESG performances to attract and retain investments. Accordingly, the KGFT has embedded the ESG factors in all its operating activities.

The environmental factor is primarily concerned with the company's influence on the environment and its ability to mitigate various risks that could harm the environment and enhance opportunities. Generally, a company is assessed by its use of energy, waste generation, level of the pollution produced, and utilisation of the resources.

The social component consists of people-related elements like company culture and issues that impact employees, customers, consumers, and suppliers; both within the company and in greater society. The social factor may affect the company's operational success by attracting new customers and retaining their loyalty and maintaining relationships with business partners and communities affected by the company's operations.

Corporate governance is concerned with the internal company's affairs and the relationships with the main company's stakeholders, including its employees and the shareholders. Proper and transparent corporate governance can help avoid conflicts of interest between the company's stakeholders. In addition, corporate governance is directly linked to the company's long-term success as proper governance policies can help to attract and retain talented employees.

The KGFT's framework for managing operational risk comprise a list of legislation, policies and guidelines applicable to the management of an ESG framework, as indicated below:

National Regulation	• National Environmental Management Act (NEMA) (Act No. 107 of 1998); • Occupational Health and Safety Act (OHS) (Act No. 85 of 1993); • Employment Equity Act (EEA) (Act No. 55 of 1998); • The Companies Act (Act no. 71 of 2008); and • Public Finance Management Act (Act No. 1 of 1999).
Guidelines, Principles, and Standards	• KGFT ESG Policy; • Codes for Responsible Investing in South Africa (CRISA); • IFC Performance Standards (IFC PS); • Equator Principles (EP); and • United Nation Principles for Responsible Investment (UNPRI).

Since the appointment of a dedicated ESG Officer, the KGFT has made progress on the key areas of ESG management such as the development of ESG policy, assessment, ESG Reporting, Corporate Social Initiatives (CSI) and ESG due diligence on projects. The ESG analyst works with the deal team on project appraisals, and also assesses the KGFT's internal ESG performance. ESG and ethics awareness training has also been provided to the clients of the KGFT.

1.5 Compliance Risk Management and Operational Risk Management

Compliance risk. The process of compliance management aims to assist and guide management in adhering to compliance obligations as set out in statutory, regulatory and supervisory requirements as well as relevant industry codes and best practice guidelines. The legal, risk and compliance team monitors, assesses, research and reports on the regulatory environment in which the business operates to support the development of business while protecting investors, clients, employees, suppliers and other relevant stakeholders.

The process of compliance management encompasses:

- identifying and prioritising all Acts and regulations applicable to the KGFT as detailed in the Trust regulatory universe;
- incorporating regulatory requirements into control measures such as standard operating procedures, processes, manuals and policies;
- recommending corrective measures or steps to ensure compliance; and
- monitoring compliance through the adequacy and effectiveness of control measures through the compilation of compliance risk management plans for high-risk legislation
- the continuous monitoring of the regulatory environment.

The KGFT has adopted the guidelines set out in the Generally Accepted Compliance Practice Framework – Principles, Standards and Guidelines including guidelines in International compliance practices which were adhered too in setting out KGFT's Compliance Framework, programme, processes and policies.

The Compliance activities undertaken by KGFT

Over the past financial year, the Legal, Risk and compliance team focused on the following regulatory key matters:

- Amendments to the Broad-Based Black Economic Empowerment
- Financial sector changes affecting the organisation
- Monitoring proposed amendments to the Protection of personal information or data.
- Anti-corruption, money-laundering and criminal finances legislation.
- Basic conditions of Employment Act

- Occupational Health and Safety Act

The consequences of non-compliance with key legislative requirements can be costly and damaging to KGFT ranging from penalties and fines to imprisonment, lawsuits and reputational risk.

Operational risk. The Legal, Risk and Compliance unit manages a Departmental risk register for the organisation that identifies key risks in the areas of finance, clients, human resources, environmental and the investment community. Within each of these areas the risks are rated on the likelihood and impact, who is responsible for managing the risk and identifies the controls and mitigations in respect of each risk. The register is reviewed and updated quarterly taking into consideration the nature of risks and the sufficiency of controls in respect of them.

12. Business Model

The KGFT has taken the view that in order to leverage Government s capital to maximise the developmental reach of its funds, it is essential to manage third party capital. The KGFT has set up a new equity fund under an en-commandite partnership model. The new model and governance structure enables the implementation of separate funds and the introduction of new funding instruments as and when deemed necessary by the beneficiary.

The KGFT currently manages its own capital in two internally separated funds, namely a debt and an equity fund. The management of the two funds are segregated by separate policies and procedures and where practically possible, staff a well. The asset allocation of the KGFT determines the size of the respective funds, which is depicted in the table below.

Asset Allocation of the KGFT's Capital

SOURCES OF FUNDS	R'm	ASSET ALLOCATION	R'm
Initial capitalisation (EDTEA)	362.5	Equity Fund	442.6
Accumulated allocations (EDTEA)	409.0	Debt Fund	1 079.5
EDTEA allocation*	481.7		
Capitalised returns	268.9		
Total	**1 522**	**Total**	**1 522**

The annual allocation from EDTEA is earmarked for project disbursements only and not operational costs.

The Breakdown of the funds into the asset classes (R443m Equity Fund and R1,079bn Debt Fund) was determined by various factors *inter alia* considerations around minimum requirements for the establishment of a private equity fund with strategic institutional patterns.

13. Strategy

KGFT is a project financier located in KZN and mandated to invest in projects mainly in KZN which can positively impact economic development, increase job creation, promote B-BBEE and reduce inequality.

The KGFT seeks to fill the capital gap on bankable business plans in respect of commercially viable projects. The KGFT fulfils its developmental mandate by investing in such projects through its debt and equity fund.

ALIGNMENT TO PROVINCIAL STRATEGIES

The KGFT is part of a Steering Committee set up by the EDTEA to facilitate strong participation of KZN Black Industrialists in the DTI Black Industrialists Scheme. The KGFT has a key role to play in terms of ensuring access to funding of KZN Black Industrialists in the DTI Black Industrialists Scheme and in leveraging the national funding scheme and incentives. The KGFT is pivotal in implementing fund management for the KZN Youth Fund.

ALIGNMENT TO PROVINCIAL GROWTH AND DEVELOPMENT STRATEGY (PGDS)

The KGFT has aligned itself with the KZN 2016-2035 PGDS through its mandate, mission and investment policy. The KGFT seeks to align itself to four of the seven strategic goals identified in the KZN PGDS, namely job creation, strategic infrastructure development, environmental sustainability, governance and policy.

The KGFT provides project finance, debt funding and equity finance to projects within specific target sectors where gaps or backlogs in economic develo9pment and job creation have not been adequately addressed by traditional financial institutions.

The table below shows the alignment between the PGDS goals and the Fund's activities.

Table 3.2: Alignment of the KGFT to PGDP

Provincial Strategic Goal	Objective	KGFT Alignment
Goal 1 – Inclusive Economic Growth	- Develop and promote the agro-processing potential of KZN, enhance sectoral development through trade investment and business retention, enhance spatial economic development, improve the efficiency, innovation government-led job creation programmes.	KGFT invests in projects with a high potential of creating sustainable jobs, improving rural economy and in this manner seek to eradicate poverty and inequality.

	promote SMME and entrepreneurial development, youth development	
Goal 2 – Human Resource Development	Improve early childhood development, primary and secondary education, Support skills development to economic growth, Enhance youth and adult skills development and life-long learning.	- KGFT enhances youth and adult skills development by providing internships to learners that give them practical experience and education thereby enhancing their skills level for future employment opportunities. - KGFT is in the process of forming an Educational Foundation KGFT to assist with scholarships and bursaries.
Goal 5 - Environmental Sustainability	- Enhance resilience of ecosystem services, expand the application of green technologies, adapt and respond to climate change.	- KGFT aligns itself by ensuring that projects being funded adhere to Equator Principles (the principles, adopted by the financial industry as a benchmark for determining, assessing and managing social and environmental risk in project financing). - KGFT ensures that all projects funded are in compliance with environmental, social governance principles. - The KGFT seek to fund more alternative energy generation projects.
Goal 6 - Governance and Policy	- Strengthen policy strategy co-ordination and IGR, build government capacity, eradicate fraud and corruption, and promote participative, facilitative and accountable governance.	- KGFT adheres to good corporate governance, PFMA and King IV in its investments and as an organisation. - KGFT strives to maintain a Clean Audit record.

ALIGNMENT TO EDTEA STRATEGIC GOALS

KGFT has aligned itself to EDTEA 2020-2025 strategic goals through its mandate, mission and investment policy as follows:

Table 3.3: Alignment of the KGFT to EDTEA

Strategic Goals	Strategic Objectives	KGFT Alignment
Goal 2 - Inclusive and sustainable economic growth that supports decent employment	- Increased economic growth that supports job creations, HDI's, SMME's and social enterprises.	- KGFT invests in projects with a high potential of creating sustainable jobs, improving rural & town-ship economy and eradicating poverty and inequality.
Goal 3 – Preferred tourism destination in the country	Accelerate global competitiveness of KZN as a preferred tourism destination for domestic and global tourism through: - Improved KZN Tourism product and service offering in the sector - Improved KZN Tourism marketing and packaging - Improved KZN Tourism compliance with tourism legislation - A transformed KZN Tourism sector towards inclusive growth and employment.	- KGFT seeks to transform the tourism sector to achieve the province's developmental objective of inclusive growth and employment by funding future projects in the tourism sector.
Goal 4 - Sustainable environmental management	Promote conservation of environmental assets and natural resources to yield sustainable development through: - Enhanced governance systems and capacity - Sustained ecosystems and efficient natural resource use - An environmentally sustainable, low-carbon economy resulting from a well-managed just transition - An effective climate change mitigation and adaptation response	- KGFT subscribes to sustainable environmental management by ensuring that all funded comply with environmental regulations throughout the term of the funding. This is achieved by conducting EIA at the initial stage of the project and annual ongoing compliance reporting by the borrower.
Goal 5- Achieve institutional excellence responsive to the needs of the Province	- Improved efficient, effective and accountable public-sector institution, improved co-operation governance for robust business processes and system. - Improved sound financial management practise	- KGFT adheres to good corporate governance, PFMA and KING IV - KGFT strives to maintain a clean audit record

14. Our Stakeholders

KGFT recognises that managing relationships with its various stakeholders is key for the effective execution of its mandate and to ensure the long-term sustainability of the Fund. KGFT interacts regularly with its stakeholder groups in order to understand and respond to legitimate stakeholder concerns

Table 4.1: KGFT Stakeholder engagement

Provincial Government	- To facilitate the alignment of KGFT's objectives with government priorities - To monitor performance and report on activities	- Regular meetings with the MEC: EDTEA - Quarterly performance reporting - EDTEA representatives attend KGFT Board meetings - Presentations to EDTEA and KZN Finance Portfolio Committee - KGFT's Corporate Plan and Annual Performance Plan	- KGFT's developmental role - Strategy and long-term sustainability - Financial performance - Carrying out of the mandate	A, B, D
Clients (Existing and prospective)	- To understand client needs - Enhance Developmental impact - Attract funding opportunities - Inform clients of how to apply for funding	- Client meetings - Marketing Campaigns - Roadshows - Website - Business Networking - KGFT's Audio Visual - Brochures - Social Media - Transaction tombstones	- Client needs (funding and non-funding support) - Job creation - Perceptions and expectations - Environmental impact	C, D
Employees	- To understand and respond to staff needs and concerns - To align employees' work with the corporate strategy and performance targets - To create an inclusive environment where employees feel valued and committed	- Regular staff meetings - Identification of training and development needs - Performance Reviews - Presentations and workshops - Employee wellness initiatives - Employee Climate surveys	- KGFT's strategy - Internal developments - Financial performance - Development and Training - Internal policies and procedures and any changes thereto - Performance Management - Employee Code of Conduct	A, D
Suppliers	- To ensure timeous cost-effective procurement	- Meetings with suppliers	- Supplier performance	A, D

	of goods and services from quality suppliers	- Advertisement of Bids/Tenders - KGF's website	- KGF's procurement practises (including the prioritisation of B-BBEE suppliers) - Service Level Agreements/Contracts/Engagement letters	
Strategic Partners, Industry Bodies and other government business enterprises	-To increase the exposure and market presence of the Fund through strategic interaction.	-Roadshows -Business Breakfasts -Participation/involvement in industry bodies and business associations -Memorandum of Understanding with -Advertising -Brochures	- Understanding KGFT's mandate and developmental role in KZN - KGF's offering - Financial performance - Future partnership opportunities	B, C, D

Strategic Objectives

A: To maintain sound corporate governance and an unqualified audit opinion.

B: To utilise government capital to leverage off institutional/private investor's capital so as to grow the assets under management.

C: To identify and finance viable private sector projects that maximise the development impact of KGF's investments.

D: To remain financially sustainable by fully committing available funds under management and ensuring appropriate post investment Management.

Annual Performance Report

Programme / Sub programme / Perf	Objectives	Reporting Period Quarterly, Bi-Annual or	Annual Target for 2022/23 as per the APP	Annual Actual for 2022/23
Programme 1 : Finance and Administration				
1.1 Sub-Programme Name : Office of the CEO				
1.1.1 To obtain and maintain an unqualified audit opinion with no matters of emphasis	Maintain external unqualified audit opinion with no matters of emphasis	Annual	Achieve a clean audit report for the 2021/22 financial year end	Achieved a clean audit report for the 2021/22 financial year end
1.1.2 To remain financially sustainable by growing the assets under management by KGFT	Achieve % Growth in the Fund size (current Fund size R1.4bn)	Annual	Equal to or more than CPI as at 31 March 2023	3.29% increase in AUM achieved to date
1.2 Sub-Programme Name : Financial Administration				
1.2.1 Achieve % procurement spend on targeted B-BBEE suppliers (procurement spend on targeted suppliers /total procurement spend)	To provide effective and transparent financial management systems	Annual	75% of total procurement from suppliers with a BEE level of 2 and above and/or 20% of total spend on targeted suppliers as at 31 March 2023	78.3% of total procurement from suppliers with a BEE level of 2 and above and 42.43% of total spend on targeted suppliers as at 31 March 2023
1.2.2 Achieve Operational cost effectiveness (total operational costs/total assets under management)		Annual	4.5% as at 31 March 2023	Operational cost effectiveness is at 4.49% as at 31 March 2023
Programme 2 : Project Investments				
2.1 Sub-Programme Name : Project origination and appraisal				
2.1.1 Estimated (direct/ indirect) job opportunities to be supported or created	Contribution to socio-economic development	Annual	200 jobs opportunities as at 31 March 2023	
2.1.2 % of disbursed projects meeting B-BBEE investment policy criteria (no of projects meeting the B-BBEE criteria / total no of projects disbursed)		Annual	75% of disbursed projects meeting the new B-BBEE Investment policy criteria as at 31 March 2023	100% of disbursed projects meeting the new B-BBEE Investment policy criteria as at 31 March 2023
2.2 Sub-Programme Name : Project Disbursements				
2.2.1 Rand Value of Projects disbursed	Fully commit all available funds to viable projects	Annual	Disburse R120m capital approved by 31 March 2023	R4.1mil was disbursed to HBM
2.3 Sub-Programme Name : Aftercare				
2.3.1 To maintain at least 50% of performing loans in the portfolio (Value of loans performing / total value of loans) (Debt)	To ensure appropriate portfolio management and aftercare is being performed so as to strive toward good asset quality and long term sustainable growth of the Trust	Annual	At least 50% performance loans within the total loan portfolio as at 31 March 2023	0% of the portfolio is performing as at 31 March 2023
2.3.2 At the time of valuation of the investment portfolio the valuation reductions should be less than or equal to 40% of the cost of the portfolio (Equity)		Annual	At least 60% of the total cost of the investment portfolio to be maintained based on annual valuations and provisions as at 31 March 2023	73% of the cost of equity investments have been maintained as at 31 March 2023

15. Financial Performance

While we had set out to achieve a net loss of R22.5m this year, we recorded a net profit of R30.5m. This was largely attributable to impairment reversal of R24m and upside performance of equity investments resulting to a fair value gain of R10m. The Trust has developed a revised funding model which will assist in managing the projects effectively to improve the performance of capital invested in the economy.

Key Performance Measures			
Rands	**2023**	**2022**	**% Change**
Profitability			
Interest Income	68 740 700	41 271 364	67%
Loss on disposal	(5 542)	-	100%
Dividend Income	4 131 000	4 000 000	3%
Interest paid	(217 317)	(241 723)	-10%
Other Income	169 891	17 615 759	-99%
Fair value gains or (losses)	10 460 140	30 330 000	-66%
Provision for doubtful debts	24 042 149	(19 256 443)	-225%
Operating expenses	(76 820 012)	(48 147 039)	-60%
Assets			
Cash and cash equivalents	44 770 510	152 604 273	-71%
Loans and advances			
New loans and advanced	4 136 856	4 190 649	-1%
Repayments	(16 187 021)	(7 282 904)	122%
Gross loans and advances	448 517 254	448 517 254	0%
Provision for impairments	(349 083 685)	(373 125 837)	6%
Net loans and advances	87 383 404	75 391 418	16%
Provision for impairments as a % of gross loans & advances	78%	83%	
Non-performing loans and advances	436 467 089	448 517 254	-3%
Total Assets			
Liabilities			
Provisions, accruals and other liabilities	152 345 905	146 349 027	4%
Total Liabilities			
Ratios			
Total Liabilities to Total Assets	9.60	29.40	
Current Assets to Current liabilities	8.00	22.80	
Equity			
Capital and reserves attributable to equity holders	1 308 189 006	1 228 572 995	6%
Operations			
No of employees	32	29	
Previously disadvantaged South Africans	32	23	
No of females	24	21	

16. Contributing Value to the Economy
ECONOMIC VALUE ADD STATEMENT

KGFT contributed value to the local economy and created wealth for its stakeholders for the current and previous reporting periods as follows.

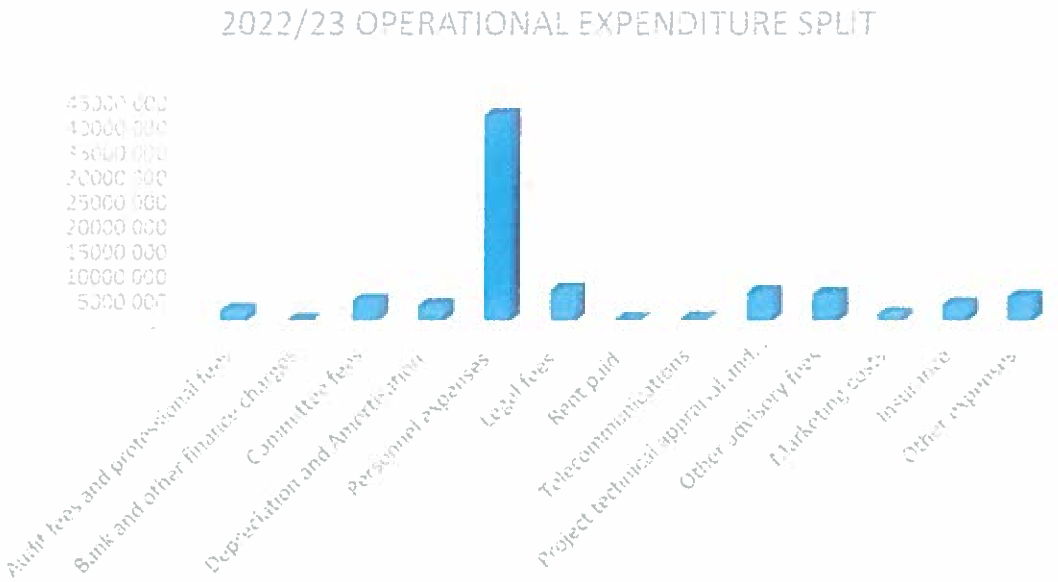
Rands	2023	2022
Interest income	68 740 700	41 271 364
Raising fee	-5 542	
other income	169 891	17 615 759
Dividend Income	4 131 000	4 000 000
Direct economic Value generated	**73 036 049**	**62 887 123**
To suppliers in payment of operating expenses	-32 266 632	-17 196 019
To employees	-40 924 572	-27 635 254
To providers of Funds	-	
Other interest paid	-217 317	-241 723
Unemployment insurance Fund	-150 503	-92 446
Skills development levies	-308 110	-208 947
Property rates and taxes	-250 743	-145 751
Economic value distributed	**-74 297 480**	**-45 520 140**
Accumulated profit	**-1 261 431**	**17 366 983**
Provision for doubtful debts	34 502 289	11 073 557
Depreciation and amortisation	(2 919 452)	(2 868 621
Economic value retained for expansion growth	**30 501 009**	**25 571 919**

Economic value added during the year is represented by payments made to employees and service providers, amounting to R40.9m (2022: R27.6m) and R32.3m (2022: R17.2m) respectively.

KGFT is committed to promoting economic growth through applying the Preferential Procurement Policy Framework Act, 5 of 2000 (PPPFA) regulations when appointing service providers. This includes the need for bidding service providers to be B-BBEE compliant as part of the selection criteria.

The KGFT procures goods and services from consultants, contractors and other suppliers mainly through open tenders. The figure below reflects expenditure during the year under review by service category

2022/23 Operation Expenditure Split



The KGFT also promotes the procurement of goods and services from KZN based service providers. About 90% of the procurement spend in the year under review was to KZN based suppliers

17. Socio-Economic Development

As both a development financier and impact investor, KGFT plays multiple and critical roles when serving its clients and stakeholders – as an advisor, asset manager, a facilitator, implementer, enabler and an investor. Similar to all financial institutions, our sustainability benefits from a growing and stable economy. Consequently, we strive to do our part to contribute to a healthy, expanding economy and to manage our firm in a responsible way. At the core of this drive, is the desire for shared growth and structural transformation of the local economic landscape. Our contribution is to stimulate economic growth, in the process facilitating job creation, reducing inequality and promoting environmental sustainability. In other words, our intention is to generate positive, measurable social and environmental impact alongside a financial return.

At KGFT, we believe that our ability to succeed in the years to come will depend on identifying today's challenges to sustainable growth and addressing them. For that reason, we take impact investing as a critical element of our financing activities.

(i) KGFT Core Business

R40 MILLION	R4.3 MILLION
Financing approvals during the year	The value of disbursements during the year
RNIL	RNIL MILLION
Disbursed to Youth Fund Beneficiaries	Approved for businesses with women ownership
160	**1**
Job opportunities created	The number of black industrialist projects supported during the year

Case Study I: Brace Able Manufacturing – Brace Able

Investment partners	**Founding shareholder** **New shareholder** **Employee trust**
Industry	Manufacturing
Location	Pinetown, KwaZulu-Natal
Job creation potential / Existing employees	105 / 246
BBBEE ownership	60%

Brace Able is a first-tier supplier to the Automotive Industry for over 30 years. The company designs, manufactures and assemble automotive tools and equipment for the motor industry. Brace Able specialises in these areas: Welding, Pressing, Rails, E-Coating, Wire and Tubing. The business is the first majority black owned supplier and manufacturer in the province. Brace Able is co-owned by the founding Family Trust, Arabic Moon Investment, a 100% black and female owned business and an Employee Trust.

Case Study II: Operation Vula

The KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA); KZN Treasury and the KZN Growth Fund Trust (KGFT) introduced the Operation Vula Programme ("OVF Fund"). The R267 million grant funding was initially provided financial year to administered by KGFT as the disbursing agent and targeted at black Africa youth female, people with disabilities and youth owned businesses as beneficiaries. In the financial year 2023 no funds were received for OVF. As at 31 March 2023 the KGFT has disbursed just over R226 million to deserving entrepreneurs of the province. What is outstanding to be disburse are construction projects which will be disbursed in stages.

Our Approach To Impact Investing

We take a hands-on approach to managing environmental, social and governance (ESG)-related risks and resolving environmental and social challenges. We harness specialist skills and deploy capital to build thriving and sustainable economies, and we emphasize the importance of effective corporate governance at our portfolio companies.

The Snapshot

R256 thousand

- Was spent by KGFT towards Corporate Social Initiatives (CSI) in 2022/23.

78.3 percent

- KGFT's procurement spend was targeted towards BEE Level 1 to Level 3 suppliers, this is in line with South Africa's transformation agenda and is highly commendable.

2 interns

- Were employed by KGFT on a 24-month fixed term contract as at 2022/23 financial year.
- 1 Black female Law Intern.
- 1 Black male Supply Chain Management

R806 thousand

- Was invested by KGFT toward skills development and training of employees.

Natural Capital - Resource Efficiency

Natural Capital (NC) is a metaphor to indicate the importance of elements of nature (e.g. minerals, ecosystems and ecosystem processes) to human society. It is a way of thinking about nature as a stock that provides a flow of benefits to people and the economy.

KGFT's Natural Capital is derived from:

- Use of natural resources such as water and power/energy.
  - **121 246** kilowatt-hour (kWh) of electricity consumed at KGFT, a reduction from the previous year (115 840).
  - **1 222** litres (L) of water consumed at KGFT, an increase from the previous year (1 741).

	Annual 2022/23	**Annual 2021/22**
	1 April 2022 – 31 March 2023	**1 April 2021 – 31 March 2022**
Electricity Spend	R 305 023.86	R 255 949.58
Electricity Consumption (kWh)	121 246	115 840
Water Spend	R 52 692.96	R 84 043.96
Water Consumption (L)	1 222	1 741

- The management of waste.
  - KGFT has a recycling program through partnership with Evergreen Recycling CC, a detailed recycling program will be developed in the coming financial year.

Human Capital – Skills Development and Training

Human capital (HC) is defined as people's skills and experience, and their capacity and motivations to innovate. Training and skills development of employees is a priority at KGFT. This is part of the Social and Ethics Committee (SEC) focus areas in terms of sustainable development practices. The actual spend during 2022/23 in comparison to the 2021/22 financial year is seen below.

2022/23	**2021/22**
R 806 000	**R 674 000**
Basic Microsoft SuiteIrregular Expenditure Treasury update King IV (IODSA) FICA Training Fraud and Ethics BBBEE 4th Annual Leadership Development for Women in Govt & SOE IoDSA Director Series 1-5 SHE Representative Regulatory Exam Corporate Governance, IFRS 9, Private Equity Training Private Debt Masterclass Essential Leadership Skills for Women Ethics and Sexual Harassment Ethics and ESG compliance	Private Equity Training Mastering Project Finance Board Evaluation Advance Report Writing Managing time for results Enterprise and Supplier Development Staff Morale Workshop HR Analytics & Methodologies Business Rescue Decision Making Governance of Ethics Being a Director Part 5 Financial Insight for Non-Financial directors Management Advancement Programme for Future Change Leaders So you want to be a Non-executive Director Training of leaders

The Risk and Compliance Division undertook a roadshow to KGFT's portfolio companies in order to raise awareness and workshop Ethics and Environmental, Social, and Governance (ESG).

Ethics Awareness was aimed at promoting a "speak-up drive" on ethics at the workplace and various ways to implement ethical awareness, this was facilitated by KGFT's Compliance officer. Tools such as the Whistle Blower hotline were workshopped for staff to enable them to report any unethical behaviour.

ESG Awareness focused on various ESG risks and opportunities that are relevant to each portfolio company and, also provided guidance on how to benchmark their maturity and improve on their ESG performance.

Social and Relationship Capital

For KGFT Social and Relationship Capital encapsulates our relationships within and between the communities, groups of stakeholders, our shareholder and other networks, and the ability to share information to improve individual and collective well-being.

KGFT recognises that managing relationships with its various stakeholders is key for the effective execution of its mandate and to ensure the long-term sustainability of the Fund. KGFT interacts regularly with its stakeholder groups in order to understand and respond to legitimate stakeholder concerns.

Governance

In each entity, the tone at the top is set by the board of directors and embodied by senior management. To complement that, employees ought to be trained on a company's business standards and culture, underscoring the importance each employee has to play in serving clients and managing the firm responsibly for all stakeholders. Therefore, appropriate oversight at management and board level, as well as effective policies and practices, are key contributors to every company's ability to effectively manage a wide variety of risk factors. Not only is this a practice at KG, but emphasized at all portfolio companies.

18. Human Resources and Remuneration Committee Report

This report is presented by the Human Resources and Remuneration Committee (the HR&REMCO) and describes how the committee has discharged its duties in respect of the 2022/23 financial year.

Mandate of the committee

The HR&REMCO has an independent oversight and advisory role. The HR Committee operates in accordance with a Board-approved mandate and is governed by a formal term of reference, which have been approved by the Board of Trustees and is regularly reviewed. The HR&REMCO can utilise the services of independent advisors on specialist matters as required.

Composition of the committee

The HR&REMCO currently comprises three independent non-executive members, and is chaired by an independent member. The remaining two members are Trustees on the Board. The composition of the HR&REMCO consists of members with the qualifications and experience necessary to fulfil the responsibilities of the committee. The Executive Management of the KGFT are invited to attend committee meetings. A quorum for meetings is the majority of members being present.

Attendance at meetings

The HR&REMCO met five times during the period under review. Details of attendance at meetings are included in section 21 (Corporate Governance) of the integrated report.

Key responsibilities of the committee

The HR&REMCO is responsible for all matters relating to the Human resources functions within the KGFT environment. A detailed work plan was formally adopted to ensure the effective functioning of the HR&REMCO. These responsibilities include:

- Ensuring that Executive management are adequately informed of best practice in human resource management;
- Assisting the Board in ensuring that the KGFT remunerates its employees fairly and responsibly and that the disclosure of remuneration is accurate, complete and transparent and in accordance with the laws and regulations applicable to the KGFT;
- Overseeing the establishment of a remuneration strategy which promotes the achievement of the KGFT's strategic objectives and encourage individual performance;
- Evaluating the performance of the CEO together with the Chairman of the Board in determining his remuneration / performance bonus;
- Performing a review of the employee engagement evaluation;
- Overseeing employment equity and other human capital statutory reports; and
- Exercising oversight of matters related to human resource management and succession planning.

KEY ACHIEVEMENTS OF THE HR COMMITTEE DURING THE YEAR

During the year under review the HR&REMCO:

- reviewed the HR strategy of the KGFT;
- advised on the HR implementation model;
- approved the grading and salary benchmarking for all positions within the entity;
- exercised oversight over salary increases, performance & retention bonuses (refer to note 19 for disclosure of Executive remuneration);
- reviewed various KGFT policies;
- set, in conjunction with the CEO and the Chairman of the Board, the CEO's key performance indicators (KPIs) and carried out the necessary review of performance against the set KPIs;

- performed a review the KGFT organogram;
- had oversight of the KGFT's employment equity reporting;
- reviewed the KGFT's reward and recognition strategy, and
- exercise oversight of matters related to human resource management and succession planning.

The HR&REMCO is satisfied that it has, during the past financial year met its responsibilities as stipulated in its terms of reference and that it has complied with all its legal, regulatory and other responsibilities.

Remuneration strategy and policy

The Board has ultimate responsibility for the remuneration policy. The KGFT's remuneration strategy is aimed at attracting, motivating and retaining competent and talented leaders and staff in order to ensure that its business remains sustainable. Remuneration levels are influenced by the scarcity of skills and work performance.

A performance-based incentive scheme is in place and has been rolled out to all levels of the KGFT to acknowledge the contribution of individual employees by rewarding them for exceptional performance. KPIs are identified and agreed between each staff member and his/her immediate superior and his/her performance is measured against these agreed indicators. Individuals' KPIs are linked to the KGFT's KPIs as a means of ensuring that the KGFT achieves its objectives. A reward and recognition programme has also been implemented.

Remuneration packages are benchmarked to similar positions in the industry to ensure that they are fair and competitive.

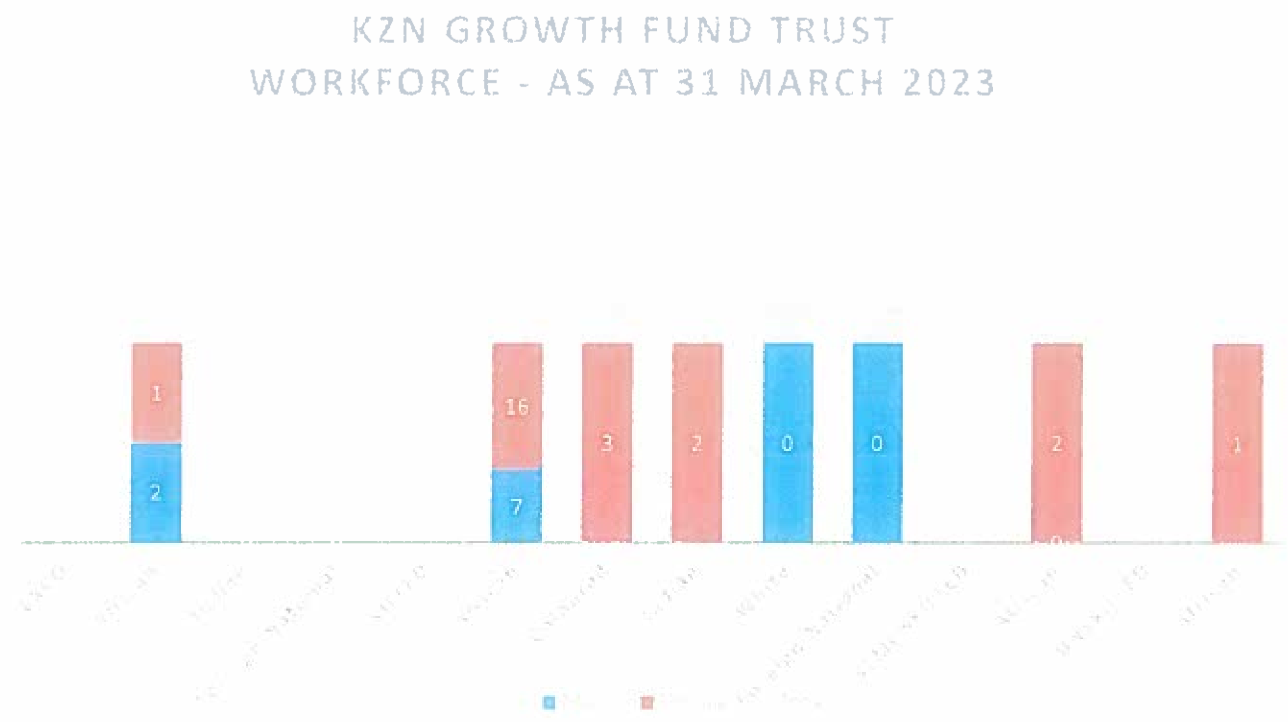
Mr N Jansen
Chairman: Human Resources and Remuneration Committee

19. Operational Excellence

HUMAN CAPITAL INVESTMENT AND DEVELOPMENT

As at the end of the financial year, the KGFT employed 38 employees with 25 permanent employees and 12 contract employees. During the 2022/23 financial year, the KGFT appointed 7 new employees, and 4 employees left employment. The representation of the KGFT's workforce is demonstrated in the graph below.

Graph 6.1: KGFT Workforce as at 31 March 2023



Remuneration Report

For KGFT to achieve its mandate, the organisation is committed to a remuneration philosophy that:

- Supports the execution of the mandate and business strategy.
- Base salary increases on an updated market salary benchmark report which is conducted by PE Corporate Services
- Promotes good governance and risk management.
- Aligns its policies, procedures and practices with best practice, and legislation (the PFMA, and King IV, in particular).
- Motivates and reinforces performance at all levels (organisational, functional and individual).

KGFT's application of its remuneration philosophy aims to meet the strategic objectives of:

- Aiming to be competitive in specific labour markets in order to attract, retain and motivate key and talented people.
- Determining the value proposition of the various job levels required by KGFT.
- Ensuring that the hybrid of performance and competency management forms an integral part of remuneration, thereby influencing the remuneration components of base pay and incentives.
- Payment being fair, appropriately structured and competitively remunerated.
- Applying good governance to remuneration practices within approved structures.
- Supporting KGFT's culture as embedded in its values.

Employee remuneration

The Board is committed to attracting, motivating, managing and retaining employees of the highest calibre for KGFT through the payment of fair, appropriately structured and competitive remuneration packages. KGFT recognises a mix of both competitiveness and performance in its remuneration structure.

The remuneration packages for the employees are divided into fixed and variable components, including short-term performance incentives. KGFT has implemented a long-term incentive scheme which will seek to ensure that KGFT's ultimate long-term delivery outcomes are achieved.

Guaranteed packages

All employees, including executives, receive a cost to company package (CTC) based on their roles and responsibilities. Contributions to retirement are included in the CTC

The HR&REMCO reviews the CEO's remuneration and makes recommendations to the Board for consideration.

KGFT provides a range of benefits to employees over and above their cost to company package. This includes risk benefits, study assistance for employees, annual leave, sick leave, as well as maternity and paternity leave.

The increases in CTC for employees are based on a review of market data, viz. the consideration of individual performance and potential, and the business priorities of KGFT.

Short-term incentives

All employees, including executives, participate in a yearly short-term incentive plan. Bonus payments are discretionary and depend on business performance and individual contribution.

The performance of the employees is measured against pre-determined goals, as approved by the Board.

Retention payments

In 2018/19 financial year the board approved the implementation of a retention incentive policy which is now in place.

This is aimed at ensuring that critical skills are maintained within KGFT, providing stability in the organisation.

Details of the remuneration of Executive Management are reflected in the notes to the AFS.

Talent Management Drive

KGFT has developed a strategic framework for the management of talent within the organisation, in order to ensure that the right people with the right skills are in the right roles at the right time to deliver on KGFT's Three Year Corporate Plan.

This aspect is governed by an approved Talent Management Framework, which identifies mission-critical positions and a succession plan to be followed to adequately manage the risks associated with staff movement and development in the organisation. Each employee has a Personal Development Plan that considers short and long term career aspirations of the employee.

Organisational Culture

A move towards a "transparent" culture has been adopted by KGFT, by way of keeping all staff members abreast of all developments within the organisation in the form of quarterly newsletters, regular staff feedback meetings and fortnightly EXCO meetings. Invitations are extended to all skilled professional staff to the annual Strategic Planning sessions to create awareness of KGFT's strategic plan on all levels.

Furthermore, employees are also directly involved in the creation of the Corporate Plan as well as the Annual Performance Plan to enable understanding and follow-through of the organisations objectives, as outlined in these documents. Further organisational transparency is enforced by KGFT's subscription to "Whistle-blowers" in an effort to ensure the availability of anonymous reporting methods for instances of suspected occupational fraud.

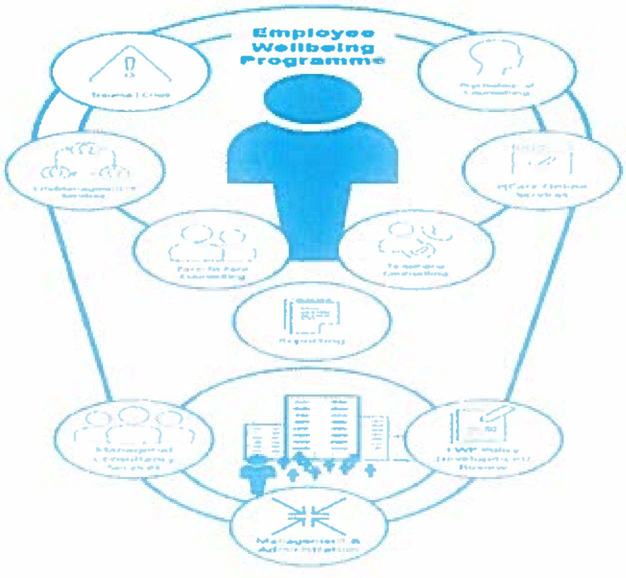
Performance Monitoring

The Performance Management Policy has been reinforced to enable recognition and rewarding of excellent achievements within the organisation. Training and development measures, as well as on-the-job coaching is provided to employees to enable and encourage greater performance standards on an employee level, and inevitably, thereby impacting on overall performance of the organisation.

Our culture of open and honest dialogue promotes immediate and direct performance feedback between the manager, employee and team to help individuals identify performance gaps and address development needs more accurately and effectively.

Employee Wellness

During the reporting period, various interventions were implemented which were aimed at working towards employee wellbeing in the categories of financial, emotional, physical and psychological wellbeing. The KGFT has outsourced the function to an independent leading professional firm in the area of expertise. The services include various interventions that promote the well-being of employees, and has been successfully implemented during the year. During this financial year, additional benefits were included in the suite of services available to employees, such as musculoskeletal health management.



KGFT Wellness Programme

Training and Development

Actual training spent for the year amounted to R806k has been allocated to empower KGFT female employees with critical Executive and Management competencies. Some of the training interventions include the following:

- Treasury update
- SCM Training
- King IV (IODSA)
- Role of Social & Ethics Committee
- IoDSA Director Series 1-5
- Corporate Governance,
- Private Equity Training
- POPI Act
- South African Venture Capitalist and Private Equity Conference

Internship Programme

One intern was in employment on a 24-month fixed term contract during the 2022/23 financial year.

Information Technology Report

Information Technology (IT) remains a critical enabler of the KGFT's strategy and overall organisational performance. In this regard, the KGFT has placed emphasis and focus on the governance of IT in line with good corporate governance and King IV principles. The KGFT's Board is ultimately responsible for ensuring that there is effective IT governance in place, including the alignment of the IT strategy to the KGFT's strategic objectives. Responsibilities of the Board are executed through the Audit and Risk Committee (ARC), through which have been delegated the authority to oversee the successful implementation of the KGFT's IT governance framework. IT forms an integral part of the KGFT's risk management and ARC considers the impact of IT on financial controls as part of the organisation's audit plan.

The KGFT's EXCO provides regular updates to the ARC on the status of significant IT initiatives, in addition to other governance-related issues. Amongst the IT governance imperatives, the KGFT has ensured that periodic Disaster Recovery (DR) tests are conducted timeously. The KGFT will continue to review and improve the overall DR solution in the future. The overall IT security posture of the KGFT has also received due focus, with continuous improvement initiatives being rolled out during the year, together with the provision of IT security awareness training to the business.

During the past year, the KGFT has entered a contract with an IT Cyber security service provider in order to improve IT security.

With the planned IT development and rollout of a new enterprise architecture as envisaged in the IT Strategy, IT is well placed to enable the KGFT to both exceed stakeholders' expectations and to ultimately contribute towards the realisation of strategies of the KGFT in achieving its mandate.

MARKETING Report

During the 2022/23 financial year, KGFT continued with the implementation of its marketing strategy that was developed in the previous financial year. The strategy included the KGFT's short, medium and long term marketing requirements, ultimately aimed at re-profiling the organization and repositioning the KGFT corporate Brand.

Through several initiatives that were earmarked to stimulate the KGFT brand, various initiatives took place namely:

- Strategy Development and Implementation
- Media Engagement
- Writing & Editing

- Social Media
- Media Engagement & Media Buying
- Media Legal Matters

Several stakeholder engagements events and exhibitions whereas an entity KGFT participated yielded great results where the public interacted with officials to understand the KGFT offerings. These continue to grow as the COVID-19 is no longer the hinderance.

20. Corporate Governance

Application of Governance Principles

KGFT strives for the overarching governance principles of accountability, fairness, transparency and responsibility. The KGFT is established in terms of a Trust Deed which is legally governed by the Trust Property Control Act, 57 of 1998. The Trust Deed determines the mandate of the KGFT. Historically, the entity was neither a Company nor a listed Public Entity in terms of the Public Finance Management Act, 1 of 1999 (PFMA). When the Debt Fund was set up in 2008, it was deemed not to be a PFMA entity by virtue of private sector lenders' facilities being more than 50 per cent of the size of the Fund as well as the fact that some of the decisions at a governance level needed to be made through consultation between the lenders and government.

However, the Board elected to comply with the PFMA as a schedule 3D Public Entity (government business enterprise). In terms of the new funding model, the KGFT will be deemed to be a PFMA entity and has therefore begun the process of listing as a public entity with National Treasury. KGFT endorses King IV and has endeavoured to adhere to the recommendations thereof as far as possible. KGFT is also aligned with and supports all the relevant legislation in South Africa that applies to its activities.

Strategic Objectives and Performance Management

In line with section 52 of the PFMA, KGFT submitted a Shareholder Compact/Memorandum of understanding and Corporate Plan to the EDTEA for the 2021/22 financial year. This serves as an agreement between KGFT and the beneficiary and documents the key performance measures and targets against which organisational performance is assessed. The Board reports on performance and related matters to the beneficiary by way of quarterly reports and regular meetings are held between the Board Chairman, the CEO and the MEC.

Based on the Corporate Plan including the Annual Performance plan, the Board sets KGFT's strategic objectives and determines its performance criteria. Management is then charged with the detailed planning and implementation of those objectives, within appropriate risk parameters.

Board of TRUSTEES

The Board takes overall responsibility for directing KGFT towards achievement of its strategic objectives, vision and mission, as well as the KGFT's overall performance.

The Board is governed by the Trust Deed which records its objective to provide responsible business leadership and details duties of individual Trustees in the course of discharging their duties. In addition to the Trust Deed, the Board operates in terms of an approved Board Charter which sets out the Board's role and responsibilities as well as the requirements for its composition and meeting procedures. The Board considers the charter as a living document, updated periodically to align with changes required by relevant legislation and regulation.

The Board has a diverse mix of skills, expertise and experience which is required to meet KGFT's strategic objectives. This includes but is not limited to appropriate legal, banking, project finance, private equity, Governance, human resources, quantity surveying, infrastructure and development project finance, and governance experience and expertise.

The Board is responsible for setting and formulating economic, social and environmental direction through strategic objectives and key policies, major plans of action, its risk policy, annual budgets and business plans. It ensures that the EDTEA's performance objectives are achieved through the implementation of structured reporting systems which are used to monitor performance.

Board Structure and Composition

The Board comprises of six Trustees, comprising of five independent Trustees appointed by the MEC: EDTEA and the CEO who is a Trustee by virtue of his position. In making the appointments of the Independent Trustees, the MEC takes into consideration gender and demographic representation, KZN representation, as well as the appropriate collective skills required by the Board. The roles of the Chairperson and CEO are separately held to ensure a clear division of duties. The Board are expected to keep themselves abreast of changes and trends in the business environment and markets, which shall include changes and trends in the economic, political, social, technology and legal climate generally. The Board holds at least 4 meetings per year as well as a strategic planning session. Special meetings are convened as required.

The table below details the Board of KGFT, the number of years' service and attendance at the 2022/23 Board meetings.

Name	Position	Number of years' service	Board Meetings Held	Attendance at Board Meetings
Board Members:				
Mr Silas Hlophe***	Chairperson	5year 1 month	5	5
Mr Kaya Ngqaka	Trustee/CEO (Ex Officio Member)	1 year 3 months (as a Trustee)	5	5
Mr Ashvir Dhuki	Trustee	6 year 3 months	5	5
Ms Bongekile Zulu	Trustee	6 year 3 months	5	4
Mr Khaya Thango **	Trustee	6 year 3 months	1	1
Ms Bernadette Khumalo	Trustee	10 months	4	4
Mr Thabani Zulu*^	Trustee	7 months	3	3
Mthandeni Dlungwane*^	Trustee	7 months	2	2
Mr Siphile Buthelezi**	Chairperson	6 year 3 months	1	1

Appointed 1 June 22
Resigned in June 2022
***** Appointed as Chairperson**
^ Resigned January 2023

The table below details the Board of Trustees, the number of years' service and attendance at the 2022/23 Board Special meetings.

Name	Position	Number of years' service	Board Meetings Held	Attendance at Board Meetings
Board Members:				
Mr Silas Hlophe	Chairperson	6 year 3 months	28****	28
Mr Kaya Ngqaka	Trustee/CEO (Ex Officio Member)	1 year 3 months (as a Trustee)	25*	25
Mr Ashvir Dhuki	Trustee	6 year 3 months	26	24
Ms Bongekile Zulu	Trustee	6 year 3 months	26	25
Ms Bernadette Khumalo	Trustee	10 months	26	26
Mr Thabani Zulu*^	Trustee	7 months	18	18
Mthandeni Dlungwane*^	Trustee	7 months	4	4

Mr Siphile Buthelezi**	Chairperson	6 year 3 months	6	6
Mr Khaya Thango **	Trustee	6 year 3 months	-	-

****Includes attendance at MEC quarterly meetings, Strategic session and Risk workshops
* Appointed 1 June 22
** Resigned in June 2022
*** Appointed as Chairperson
^Resigned in January

Committee	Key Responsibilities	Membership	Meetings Held	Attendance
Audit and Risk Committee	- Monitor adequacy of financial controls and reporting - Reviews audit plans and adherence to these by external and internal auditors; - Ascertains the reliability of the audit; - Ensures that financial reporting complies with IFRS and the PFMA; - Ensures that there are effective measures in place on Information Technology risks as they relate to financial reporting; - Makes recommendations on all financial matters; - Oversees the compliance and risk reporting; - Assesses the effectiveness of the finance function and internal audit; - Appoints the internal auditor and recommends the external auditor to the Board	***Audit Committee members:***		
		Mr Wilfred Ngubane (Chairperson)	4**	4
		Mr Khaya Ngqaka (ACEO – Ex Officio Member)	4	3
		Ms Bongekile Zulu (Member)	4	4
		Mr Silas Hlophe (Member)	4	3
		Mr Ashvir Dhuki (Member)	4	4
		Mr Thabani Zulu*^	3	2
Human Resources & Remuneration Committee	- The HR&REMCO exercises oversight of matters related to human resource management and succession planning; develops and implements the human resource strategy; assists the Board in the development of remuneration policies, incentive policies and performance targets as well as specific remuneration levels for KGFT.	***HR & REMCO Committee members:***		
		Mr Ashvir Dhuki (Acting Chairman – Independent Representative)	5**	5
		Mr Kaya Ngqaka (ACEO – Ex Officio Member)	5	5
		Mr Khaya Thango (Member)	1**	1
		Mr Neil Jansen (Chairman – Independent Representative)	2	2
		Mr Thabani Zulu*^	4	3
		Mthandeni Dlungwane*^	3	1

Investment Committee	**-Devising the Investment, Equity, Guarantee, Credit, Equity Pricing and Valuation, and Loan Pricing Policies which shall consist of processes and procedures to be applied to the Investments;** **-Evaluating, assessing and approving the creditworthiness of any investment identified by the Executive Management and;** **-Monitoring of investment mandates**	***Investment Committee members:***		
		Mr Silas Hlophe	4	3
		Mr Siphile Buthelezi	1	1
		Mr Kaya Ngqaka (ACEO – Ex Officio Member)	4	4
		Bernadette Khumalo	3	2
		Ms Gasenna Kungwane (Independent Representative)	3**	3
		Ms Bongi Zulu (Chairperson)	4	4
		Mr Magayana#	2	2
		J Gloak #	2	2
Social and Ethics Committee	-Monitor Social and Economic Development and goals towards the 10 (ten) principles set out in the United Nations Global Compact Principles -the Organisation of Economic Co-Operation and Development ("OECD") recommendations regarding corruption -Monitoring of Trusts ethics programme -Implementation and execution of effective stakeholder relationship management	Mr Khaya Thango (Chairperson)***	1	1
		Mr Ashvir Dhuki	4	3
		Ms Bongi Zulu	4	4
		Mr Kaya Ngqaka (ACEO – Ex Officio Member)	4**	3
	-	Ms Bernadette Khumalo (Chairperson)	3	3
	-	Mthandeni Dlungwane*^	2	1

Includes attendance of Investment Committee (Equity) Meetings
****Includes attendance at Board meetings, Strategic & Risk workshops and interviews for Executives**
*****Resigned in June 2022.**
*** Appointed 1 June 22**
***** Appointed as Chairperson**
^ Resigned January 2023

Board Effectiveness Assessment

King IV requires that the performance of the Board, its sub-committees and individual members be evaluated on an annual basis. A formal internal Board evaluation was performed during the current financial year for the 2022/23 year. A report was presented to the sub committees of the Board which concluded that there is consensus that the Board conducts its business professionally in an atmosphere of good governance with the business of the Board being conducted openly and transparently.

The Board evaluations for the 2022/23 financial year will be conducted externally using the services of Institute of Directors programme.

Delegated Power of Authority

The Board is authorised to form standing and ad hoc committees to assist it in the execution of its duties, powers and authorities. The Delegation of Authority Framework document is reviewed annually and approved by the Board. The terms of reference of each committee clearly differentiates, where appropriate, between powers that are delegated to committees for decision by the committee concerned and those in respect of which the Board retains decision making powers but requires a recommendation from the committee concerned. Delegation of authority to Board committees or management does not mitigate or discharge the Board and its Trustees of their duties and responsibilities, or ultimately their accountability.

Remuneration of the Board of KGFT

The Trustees are remunerated for the meetings they attend at rates approved by the EDTEA. No performance-based remuneration is paid to Trustees.

Board Committees

The Board has established four standing committees to assist it in exercising its authority. In line with the principles of King IV, all committees of the Board have formally approved terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed at least annually, along with the overall effectiveness and performance of the committees.

The Board committees are the Audit and Risk Committee, the Human Resources and Remuneration Committee, the Investment Committee and Social and Ethics Committee.

The Investment Committee, Social and Ethics Committee and the Human Resource and Remuneration Committee are chaired by independent non-executive Trustees and Audit and Risk Committee is each chaired by an independent, non-executive who is not Trustee.

Internal Control Environment

Responsibility for the systems of internal financial and operational control has been delegated to the Audit and Risk Committee. KGFT's governance principles on ethical behaviour, legislative compliance and sound accounting practice lay the foundation for its internal control processes, while enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.

The Internal Audit function is responsible for providing independent, objective assurance on KGFT's system of governance, risk management and internal control. KGFT has outsourced its internal audit function to Morar Incorporated who have produced a rolling three-year strategic internal audit plan based on its assessment of KGFT's key risk areas, having regard to its current operations, those proposed in its corporate plan and KGFT's risk management strategy. Internal audit provides independent assurance to the Board and management on the effectiveness of the internal control system. Members of the Audit and Risk Committee review the work of Internal Audit and the internal auditors have unfettered access to the Chairman of the committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention. A review of the performance of the internal audit function is undertaken on an annual basis.

Combined Assurance

Principle 15 of the King IV Report recommend combined assurance as a recommended governance practice. The recommendation was made following a general understanding that more can be done to improve assurance coverage and quality through better co-ordination of the assurance providers. While combined assurance offers numerous benefits, it is considered one of the biggest challenges facing businesses and organisations in adopting King IV.

Management has implemented a Combined Assurance Model Framework which sets out the combined assurance objectives as well as identifying KGFT's assurance providers and setting out the roles and responsibilities of each. The framework also details the seven steps for combined assurance implementation which include: identifying assurance drivers; assessing potential for combined assurance; identifying assurance providers; risk mapping; developing a combined assurance plan; application of the combined assurance plan; and reporting on combined assurance. A combined assurance plan was developed by KGFT and approved by the Audit and Risk Committee in the 2021/22 financial year.

Anti-Fraud and Corruption

KGFT is committed to eradicating all forms of fraud and corruption. The PFMA requires that KGFT has in place a Fraud Prevention Plan which is approved by the Board and submitted to EDTEA with KGFT's Corporate Plan on an annual basis.

Measures in place to ensure that the risk of fraud is minimised include:

- The provision of fraud awareness training;
- Adherence to a culture of zero tolerance with regards to fraud and theft
- Effective management and implementation of policies aimed at governing staff behaviour including the Business Code of Conduct and Ethics and KGFT's Fraud Prevention Plan;
- Conducting fraud risk assessments to highlight KGFT's fraud risks, identify the controls in place to mitigate those risks and formulate action plans in terms of identified gaps or weaknesses; and
- An independent "whistle-blowing" service, enabling staff and other stakeholders to report fraud via a tip off line.

KGFT's management and employees have signed and committed to an anti-fraud declaration as a pledge to zero tolerance against fraud and corruption. Fraud risk is reported upon at each meeting of the Audit and Risk Committee.

There have been no incidents of fraud and corruption reported in the period either directly to management or via the whistle blowers hotline.

Ethics and Managing Conflicts of Interest

KGFT has a Business Code of Conduct and Ethics in place which is intended to promote and enforce ethical behaviour and enhance professionalism in dealing with suppliers, customers, business partners, stakeholders, government and society at large.

The Board conforms to KGFT's Declaration of Interest Policy Framework which re-enforces the KGFT's commitment to ensure that the organisation is managed ethically and transparently in a manner that benefits all of its stakeholders. Declarations of Interest are made on an annual basis and the Board, sub-committee members and the executive management are required to disclose any potential conflicts at meetings of the Board and its committees. KGFT also has a gifts and inducement policy which requires that any gifts, given or received, over R500 are approved by the executive management and declared to the compliance function.

Promotion of Access to Information

KGFT is committed to complying with the Promotion of Access to Information Act (PAIA) which supports important principles of good governance, transparency and accountability. The PAIA of 2000 gives effect to the constitutional right of access to any information held by the State and any information that is held by another person and that is required for the exercise or protection of any rights. KGFT has a PAIA Manual available on its website which details the process to be followed to request information. KGFT reports to the South African Human Rights Commission on an annual basis in terms of section 32 of the PAIA stating how many requests for information have been received from the public. There were no requests for information received in the 2021/22 financial year.

21. Social and Ethics Committee Report

The report is presented by the Social and Ethics Committee (SEC) and covers the activities of the SEC in respect of the 2022/23 financial year. The SEC assists the Board in monitoring KGFT's performance as a good and responsible corporate citizen. This report describes how the SEC discharges its duties as mandated by the Board of the KGFT.

The Social and Ethics Committee has adopted an appropriate formal term of reference through the Social and Ethics Committee Charter. The SEC regulates its conduct in compliance with this Charter and has discharged all its responsibilities in accordance therewith. The terms of reference make provision for guidance from SEC on transactions and policies that could pose a high risk to the KGFT. The terms of reference are a working document, as experience has shown that creating good terms of reference for a social and ethics committee is not a once off exercise but an evolutionary process. The terms of reference are reviewed annually.

SOCIAL AND ETHICS COMMITTEE RESPONSIBILITY

The role of the SEC is to assist the Board with the governance of social and ethical matters relating to the KGFT. The SEC's role is articulated by the Board through the committee's work plan. The Board reviews the SEC's work plan and alignment to the KGFT's mandate on an annual basis to ensure that the KGFT conducts its business in an ethical and socially responsible manner. As part of King IV compliance and upholding the principles of good governance, the KGFT formed its first Social & Ethics committee in 2018.

COMPOSITION OF THE COMMITTEE

The SEC currently comprises three independent non-executive members and is chaired by an independent member who is a Trustee. The remaining two members are a Trustee and independent member. The Executive Management of the KGFT are invited to attend committee meetings. A quorum for meetings is many members being present.

POLICY REVIEW

The SEC is responsible for developing and reviewing the KGFT's policies taking into consideration the KGFT's commitment in respect of good corporate governance, ethical conduct and its sustainable development performance impact for purposes of making recommendations to the Board for improvement and compliance reporting. The annual work plan for the upcoming year will require the SEC to review the KGFT's Code of Conduct and Ethics, Gifts Policy, Politically Exposed Persons Policy, Conflict of Interest Policy, B-BBEE Policy and Transformation plan, Ethics Policy, and Fraud Prevention Plan.

BUSINESS CODE OF CONDUCT & ETHICS

KGFT has a zero-tolerance approach to unethical behaviour and is committed to ensuring that its employees, Board and Management implement and enforce the KGFT's values and reputation. The Business Code of Conduct governs the conduct of all KGFT employees, and the Board Charter regulates the Boards conformance with its code of conduct.

The KGFT also practices adherence to the code with its service providers, through the terms and conditions as contained in its legal agreements with service providers.

TIPS OFF ANONYMOUS

KGFT continuously promotes a culture of openness and transparency within the organisation. Employees and other stakeholders are encouraged to report any unethical or suspicious behaviour they may encounter. An independently monitored and anonymous whistle-blowing hotline (Whistle Blowers) is available to all employees to report any suspected fraud and/or activities which are in contrast with the Code of Conduct. The tip-offs service is made available to stakeholders through the KGFT's website. The details in respect of this hotline are available online.

PROMOTING BBBEE

One of the responsibilities of SEC is to assist the Board in ensuring that it discharges its duties and obligations in respect of the country's transformation. The Board, in terms of the KGFT's mandate must ensure the development and empowerment of historically disadvantaged individuals through the projects in which the KGFT invests in. The SEC contributes to upholding the implementation of B-BBEE principles within the KGFT by entrenching this within the KGFT's transformation strategy and policy.

MONITORING OF SUSTAINABLE DEVELOPMENT PRACTICES

As part of the SEC's responsibilities, the following focus areas are closely monitored:

- Corporate social investment.
- Compliance and ethics.
- Stakeholder relations.
- Corruption and fraud.
- Broad based black economic empowerment.
- Labour relations, employment equity and best working conditions.
- Training and skills development for KGFT employees.
- Adherence to the King IV principles.

The SEC's monitoring role also includes the monitoring of any relevant legislation, other legal requirements, or prevailing codes of best practice, specifically with regards to matters relating to social and economic development and good corporate citizenship.

The SEC shall endeavour to ensure that the KGFT continues to meet its environment, social and governance responsibilities and that the KGFT is guided through appropriate policies and frameworks to sustain its commitment to social and economic development, fair labour practices, sustainable environmental responsibility and good corporate citizenship.

On behalf of the Social and Ethics Committee,

____

Ms Bernadette Khumalo
Chairperson: Social & Ethics Committee

22. Audit and Risk Committee Report

The Audit and Risk Committee is a committee of the Board of Trustees and it assists the Board through advising and making submissions on financial reporting, oversight of the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the KGFT.

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

The Audit and Risk Committee members and their attendance at meetings are as follows:

Name of Audit and Risk Committee Member	Type of Appointment	Date of Appointment	Number of Meetings held	Number of Meetings attended
In-Coming Committee:				
Mr W Ngubane (Chairman)*	Trustee	2020-04-01	4	4
Mr A Dhuki	Trustee	2017-1-17	4	4
Mr S Hlophe	Trustee	2018-2-15	4	3
Ms B Zulu	Trustee	2017-1-17	4	4
Mr T Zulu	Trustee	2022-06-01	3	2
Mr K Ngqaka	CEO – Ex Officio Member	2021-12-01	4	3

Executive Management of the Trust and representatives from the external and internal auditors attend the committee meetings by invitation only. The internal and external auditors have unrestricted access to the Audit and Risk Committee Chairman.

Audit and Risk Committee Responsibility
The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations section 21.1.10(b) and (c) and section 27.1.7.

Section 51(1)(a) of the PFMA states the following:
The Accounting Authority must ensure that the public entity has and maintains –
(i) Effective, efficient and transparent systems of financial and risk management and internal control;
(ii) A system of internal audit under the control and direction of an Audit and Risk Committee complying with and operating in accordance with regulations and instructions prescribed in terms of section 76 and 77; and
(iii) An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective.

Statutory Duties
In execution of its statutory duties during the past financial year, the Audit and Risk Committee:

- Believes that the appointment of Auditor General – South Africa (AGSA) as auditor complies with the relevant provisions of the Trust Property Control Act and the Public Finance Management Act;
- Determined the fees to be paid to the AG as disclosed in note 15 of the financial statements;
- Determined in terms of engagement of the external auditor;
- Reviewed the quality of financial information;
- Reviewed the Integrated Report and Financial Statements;

- Received no complaints relating to the accounting practices and internal/external audit of KGFT, the content or auditing of its financial statements, the internal financial controls of the KGFT, and any other related matters;
- Made the submission to the Board matters concerning the KGFT's accounting policies, financial control, records and reporting; and
- Concurs that the adoption of the going concern basis of preparation in the financial statements is appropriate.

Oversight of Risk Management
The Audit and Risk Committee has satisfied itself that the following areas have been appropriately addressed:

- Financial reporting risks;
- Internal financial controls;
- Fraud risk as it relates to financial reporting; and
- IT risk as it related to financial reporting.

Internal Financial Controls
The Audit and Risk Committee has:

- Reviewed the effectiveness of the KGFT's system of internal financial controls including receiving assurance from management, internal audit and external;
- Reviewed significant issues raised by the internal and external audit process; and
- Reviewed policies and procedures for preventing and detecting fraud.

No significant cases of misconduct or fraud or any other unethical activity by employees of the KGFT has been brought to the attention of the Audit and Risk Committee.

Based on the processes and assurances obtained, KGFT believes that significant internal financial controls are effective.

Regulatory Compliance
The Audit and Risk Committee has:

- Reviewed the effectiveness of the system for monitoring compliance with laws and regulations.

External Audit
The Audit and Risk Committee has:

- Reviewed the external audit scope to ensure that the critical areas of the business are being addressed; and
- Reviewed the external auditors report including issues arising out of the external audit.

The external auditors have furthermore provided written assurance to the Audit and Risk Committee that they have remained independent of KGFT.

Internal Audit
The Audit and Risk Committee has reviewed the activities of the internal audit function to determine its effectiveness and to ensure that no unjustified restrictions or limitations were made.
The Committee has also reviewed the internal audit reports, including the responses of management to issues raised therein.
Based on the scope and results of their work, and subject to the limitations of sampling and audit risk, internal audit is of the opinion that key controls implemented by management appear to indicate that an adequate control framework is in place, however; implementation requires continuous attention in certain key control activities to provide reasonable assurance that residual risk areas reported are properly mitigated and controlled.

The Quality of In-Year Management and Monthly and Quarterly Reports Submitted in Terms of the PFMA
The Audit and Risk Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued to the Board of Trustees by management of the KGFT during the year under review.

Finance Function
The Audit and Risk Committee has considered and satisfied itself of the appropriateness of the expertise, resources and experience of the Finance function.
Based on the processes and assurances obtained, the Audit and Risk Committee believes that the accounting practices are effective.

The Audit and Risk Committee has discussed the conclusions of the External Auditors on the annual financial statements, read together with the report of the External Auditors and recommend these to the Board of Trustees for acceptance.

On behalf of the Audit and Risk Committee

Mr W Ngubane
Chairman: Audit and Risk Committee

KZN Growth Fund Trust
Annual financial statements
for the year ended 31 March 2023
Issued 31 May 2023

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Preparer

M Dlamini
Acting Chief Financial Officer

Published

31 May 2023

Trustees Report

The trustess have pleasure in presenting this report on the annual financial statements of KZN Growth Fund Trust for the year ended 31 March 2023.

1. Nature of Business

The KGFT was registered with the Pietermaritzburg High Court on 22 October 2007. The main objectives of the KGFT are to provide support for creating an enabling environment for activities that create jobs and accelerate the economic development of the KZN Province whilst promoting Broad Based Black Economic Empowerment.

2. Business Model

The KGFT was set up in 2008 as an initiative of the KZN Government's Department of Economic Development, Tourism and Environmental Affairs (EDTEA) to administer the KZN Growth Fund ("KGF Debt Fund 1"). This initiative was a first in South Africa, aimed at creating sustainable economic development, job creation, broad based black economic empowerment (B-BBEE) and reducing inequality in KZN.

The KGF Debt Fund 1 was a closed debt fund and in order to give effect to new funds and products (restricted under KGF Debt Fund 1), the KGFT unencumbered its capital from the existing security in the KGF Debt Fund 1 by prepayment of the existing exposures and cancellation of all debt facilities on 31 March 2015. The KGFT now caters for both a debt and an equity fund and is able to bring on board additional investors to participate in either.

3. Financial results for the year ended 31 March 2023

The financial results of the KGFT are fully disclosed on pages 4 to 59.

The key financial indicators for the year under review are:

The total comprehensive profit in the current year amounts to R31m (2022: R25m). The variance is attributable to the reversal of the provision for impairment due to offers of settlements amounting to R99,8m including an increase in security in one of the investments and unrealised fair value adjustment gains on equity investments as they continue to recover following impact of COVID19.

Assets under management increased from R1, 473bn in 2022 to R1,522bn as at 31 March 2023.

4. High level overview of the performance of the KGFT

Despite the global and South African economic challenges, the KGFT again leveraged its strengths, expertise, and resources to stimulate economic growth in province, while creating job opportunities vital for poverty alleviation and shared prosperity. The KGFT approved R40m in financing during the 2022/23 financial year to support almost R3bn worth of projects in telecommunications, manufacturing and healthcare sectors.

Disbursements, amounted to R4.1m during the 2022/23 financial year. None amount disbursed during the period under review relates to funding committed during the 2022/23 financial year. The low rate of disbursement is mainly due to one approved project in 2021/22 financial year was in a contracting stage during the year under review.

5. Capital Contribution and Reserves

The KGFT's equity instruments primarily includes government funding. This funding represents capital provided by the Department of Economic Development, Tourism and Environmental Affairs (EDTEA) and remains part of the permanent capital of the KGFT.

In addition to the annual allocation (R49m during the 2022/23 financial year) from EDTEA, and this resulted in an increase in assets under management to R1 522bn.

6. Board of Trustees and its Sub-Committees

In accordance with the Trust Deed there shall, at all times, be seven Trustees, comprising of six independent non-executive Trustees nominated and appointed by the Government acting through the Department of Economic Development, Tourism & Environmental Affairs and the Chief Executive Officer (CEO) by reason of appointment as CEO.

The KGFT has four Sub-Committees namely the Investment Committee, the Audit and Risk Committee, Social and Ethics Committee and the Human Resources and Remuneration Committee. The Trustees and other committee members in the office during the year under review are as follows:

Trustees Report

. **Board of Trustees and its Sub-Committees (continued)**

Directors	Office		Changes
Mr S Buthelezi	Chairperson of Trust	Trustee	Resigned Tuesday, 31 May 2022
Mr K Thango	Chairperson of Social & EThics Committee	Trustee	Resigned Tuesday, 31 May 2022
Ms B Zulu	Chairperson of Investment Committee	Trustee	
Mr A Dhuki		Trustee	
Mr S Hlophe	Chairperson of Trust	Trustee	
Mr WB Ngubane	Chairperson of Audit & Risk Committe	Trustee	
Ms G Kungwane		Trustee	
Mr T Zulu		Trustee	Appointed Wednesday, 01 June 2022
Ms B Khumalo	Chairperson of Social & Ethics Committee		Appointed Wednesday, 01 June 2022
M Dlungwane		Trustee	Appointed Wednesday, 01 June 2022
J Gloak		Independent Trustee	Appointed Tuesday, 01 November 2022
L Magayana		Independent Trustee	Appointed Tuesday, 01 November 2022
N Jansen	Chairperson of Human Resources & Remuneration Committee	Independent Trustee	Appointed Tuesday, 01 November 2022

7. Going concern

The KGFTs have no reason to believe that the KGFT will not be a going concern in the future, based on the KGFT's funding forecasts and projected strategic plans.

8. Auditors

The Auditor General - South Africa serves as independent auditor as appointed by the KGFTs.

9. Subsequent events

No events were identified subsequent to year end that requires adjustment or disclosure in the annual financial statements.

Approval of annual financial statements

Mr S Hlophe

Report of the auditor-general to KwaZulu-Natal Provincial Legislature on KZN Growth Fund Trust

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the KZN Growth Fund Trust set out on pages xx to xx, which comprise the statement of financial position as at 31 March 2023, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the KZN Growth Fund Trust as at 31 March 2023, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for opinion

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

4. I am independent of the trust in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matters

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

7 As disclosed on note 8 to the financial statements, a total accumulated impairment on loans and advances of R 349,08 million (2021-22: R 373,13 million) was reported due to projects not being able to meet its loan repayments due.

8. As disclosed in note 27 to the financial statements, the trust is a defendant in a claim from a co-shareholder in a project undertaken with the trust, in which the co-shareholder is claiming

R 73,15 million (including interest) for damages incurred due to the liquidation of a project. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Responsibilities of the Board of Trustees for the financial statements

9. The Board of Trustees is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Framework and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

10. In preparing the financial statements, the trustees are responsible for assessing the trust's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the trust or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

11. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on the audit of the annual performance report

13. The trust is not required to prepare a report on its performance against predetermined objectives, as it does not fall within the ambit of the Public Finance Management Act, 1999, and such reporting is not required in terms of the entity's specific legislation.

Other information in the annual report

14. The Board of Trustees is responsible for the other information included in the annual report which includes the foreword by the responsible MEC, report from the Chairperson of the Board and the Chief executive report. The other information referred to does not include the financial statements and the auditor's report.

15. My opinion on the financial statements does not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

16. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Internal control deficiencies

18. I considered internal control relevant to my audit of the financial statements, however, my objective was not to express any form of assurance on it.

19. I did not identify any significant deficiencies in internal control.

Other reports

20. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements.

21. An independent forensic investigator conducted an investigation into alleged irregularities relating to leaked information to the media, information technology security, possible collusion and possible compromised systems within the KZN Growth Fund Trust covering the period 1 April 2020 to 31 March 2023. This investigation report was tabled on 18 July 2023 and management is in the process of implementing the recommendations in the report.

AUDITOR - GENERAL

Pietermaritzburg

31 July 2023

Statement of Financial Position as at 31 March 2023

Figures in Rand	Notes	2023	2022
Assets			
Non-Current Assets			
Property, plant and equipment	2	965 381	750 320
Intangible assets	3	2 114 761	3 271 043
Right-of-use assets	4	1 550 924	3 101 855
Investments	5	223 228 002	212 740 000
Investment deposits	6	20 174 380	-
		248 033 448	**219 863 218**
Current Assets			
Cash and cash equivalents	6	44 770 510	152 604 273
Investment deposits	6	1 072 513 244	921 089 348
Trade and other receivables	7	7 834 305	5 973 767
Short term portion of loans and advances	8	87 383 404	75 391 417
		1 212 501 463	**1 155 058 805**
Total Assets		**1 460 534 911**	**1 374 922 023**
Equity and Liabilities			
Equity			
Capital contribution	9	1 522 190 010	1 473 075 010
Accumulated deficit		(214 001 004)	(244 502 015)
		1 308 189 006	**1 228 572 995**
Liabilities			
Non-Current Liabilities			
Lease Liability	4	-	1 751 862
Long term portion of provisions	11	126 400	130 300
		126 400	**1 882 162**
Current Liabilities			
Trade and other payables	12	150 472 815	142 921 964
Lease Liability	4	1 746 690	1 544 902
		152 219 505	**144 466 866**
Total Liabilities		**152 345 905**	**146 349 028**
Total Equity and Liabilities		**1 460 534 911**	**1 374 922 023**

KZN Growth Fund Trust

Annual Financial Statements for the year ended 31 March 2023

Statement of Profit or Loss and Other Comprehensive Income

Figures in Rand	Notes	2023	2022
Interest income net of suspended interest	13	68 740 700	41 271 364
Interest expense	14	(217 317)	(241 723)
Net margin		**68 523 383**	**41 029 641**
Other income	15	169 891	17 615 760
Other operating gains (losses)	16	(5 542)	-
(Impairment loss)/Reversal - loans and advances	17	24 042 149	(19 256 443)
Operating expenses		(76 820 012)	(48 147 038)
Operating profit (loss)	17	**15 909 869**	**(8 758 080)**
Dividend income		4 131 000	4 000 000
Fair value adjustment (loss)/gain	18	10 460 140	30 330 000
Total comprehensive income for the year		**30 501 009**	**25 571 920**

Statement of Changes in Equity

Figures in Rand	Capital contributions	Accumulated deficit	Total
Balance at 01 April 2021	**1 433 496 010**	**(270 073 935)**	**1 163 422 075**
Total comprehensive income for the year	**-**	**25 571 920**	**25 571 920**
Capital contribution - EDTEA	39 579 000	-	39 579 000
Balance at 01 April 2022	**1 473 075 010**	**(244 502 013)**	**1 228 572 997**
Total comprehensive income for the year	**-**	**30 501 009**	**30 501 009**
Capital contribution - EDTEA	49 115 000	-	49 115 000
Balance at 31 March 2023	**1 522 190 010**	**(214 001 004)**	**1 308 189 006**
Note	9		

Statement of Cash Flows

Figures in Rand	Notes	2023	2022
Cash flows from operating activities			
Cash (used in)/generated from operations	22	(68 044 261)	70 221 142
Interest received		58 326 363	41 271 364
Dividend received		4 131 000	4 000 000
Interest paid		(217 317)	(241 723)
Net cash from operating activities		**(5 804 215)**	**115 250 782**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(534 790)	(53 495)
Reallocation of fixed assets	2	101 955	-
(Increase)/Decrease in loans and advances		12 022 300	5 149 881
Decrease/(increase) in investments deposits		(161 183 939)	(18 442 496)
Net cash from investing activities		**(149 594 474)**	**(9 346 110)**
Cash flows from financing activities			
Increase in capital contribution	9	49 115 000	39 579 000
Increase/(decrease) in lease liability		(1 550 074)	(1 356 169)
Net cash from financing activities		**47 564 926**	**38 222 831**
Net (decrease)/increase cash and eash equivalents		**(107 833 763)**	**140 127 502**
Cash and eash equivalents at the beginning of the year		152 604 273	12 476 771
Total cash and cash equivalents at end of the year	6	**44 770 510**	**152 604 273**

Accounting Policies

Reporting enty

KwaZulu-Natal Growth Fund (KGFT) is a domiciled in South Africa. It was established in accordance with the KGFT Deed registered by the High Court in Pietermaritzburg on 22 October 2007 and as duly amended by the revised KGFT Deed as registered in July 2015.

The annual financial statements were approved by the Board of KGFT at their meeting held on 30 May 2023.

The annual financial statements for the year ended 31 March 2023 were authorised for issue in accordance with a resolution of the directors on Wednesday, 31 May 2023.

1. Accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

1.1 Basis of preparation

1.1.1 Basis of preparation
The annual financial statements have been prepared on the going concern basis historical cost concept except for financial instruments at fair value through profit or loss which are not measured at amortised cost. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

1.1.2 Funcuional and Presentation currency
The financial statements are presented in South African Rand which is the KGFT's functional currency.

1.1.3 Basis of Accounting
The financial statements of the KGFT as at and for the year ended 31 March 2023 have been prepared in accordance with International Financial Reporting Standards.

1.1.4 Use of estimates and judgments
The preparation of financial statements requires management to make judgments estimates and assumptions that affect the application of accounting policies and reported amounts of assets liabilities income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods' revisions affect both current and future periods.

1.1.5 Critical accounting estimates and assumptions
The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year relate to the following:

Going concern
Management has made an assessment of the KGFT's ability to continue as a going concern using current & liquidity ratios including cash flow forecast for the next 3 years and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore management is not aware of any material uncertainties that may cast significant doubt upon the KGFT's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

Impairment of loans and advances
Financial assets are impaired using the approach prescribed in IFRS 9 (refer to note 1.4) unless the asset is considered to be credit impaired on initial recognition in which case those specific requirements as contained in IFRS 9 will be applied. The estimation of impairments of financial assets is inherently uncertain and depends on many factors including general economic conditions (current and forward-looking) structural changes within industries changes in individual counterparty's circumstances and other external factors such as legal requirements regulatory specifications and governmental policy changes.

Accounting Policies

1.1 Basis of preparation (continued)

Upon origination of financial assets impairments measured at 12-month expected credit losses will be provided. Impairment measured at lifetime expected credit losses will be provided on financial assets whose credit risk that has increased significantly since initial recognition. Impairment measured at lifetime expected credit losses will also be provided on financial assets that are credit-impaired. Refer to note 1.3.4 for detail regarding the expected credit loss model.

Valuation of financial instruments
Valuation of equity instruments. Equity investments are designated as held-to-maturity if they have fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. All other equity investments are designated at fair value through profit and loss which is determined from observable market data in respect of similar financial instruments. Where market observable data is not available they are estimated based on appropriate assumptions.

Valuation of derivatives and hedging activities
The KGFT establishes the fair value of derivatives and hedging activities as outlined in note number 1.4 for the carrying amount of the derivative refer to note 25.

Carrying amount of other employee benefits ("Long service award")
The KGFT establishes the fair value of long service award as outlined in note number 1.4 For the carrying amount of the derivative refer to note 11.

Impairment of equity investments
The KGFT determines that equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement the KGFT evaluates amongst other factors the normal volatility in earnings. In addition impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee industry and sector performance changes in technology and operational and financing cash flows. This is outlined in note number 1.4.

1.1.6 Changes in accounting estimates
Property Plant & Equipment
Equipment is depreciated over its estimated useful lives taking into account residual values where appropriate. The remaining useful lives of assets and residual values are assessed annually.

1.1.7 Correction of prior period errors
The Trust shall correct a prior period error retrospectively in the first financial statements authorised for issue after its discovery by:
(a) Restating the comparative amounts for the prior period(s) presented in which the error occurred or
(b) If the error occurred before the earliest prior period presented restating the opening balances of assets liabilities and equity for the earliest prior period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented the trust shall restate the opening balances of assets liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

1.2 Property, plant and equipment
Items of Property plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. The assets are depreciated on a straight-line basis at rates that will reduce the historical costs to estimated residual values over their anticipated useful lives. The residual value of assets is the estimated amount that the KGFT would currently obtain from disposal of assets after deducting the estimated costs of disposal as if the asset was already at the age and in the condition expected at the end of its useful life.

Equipment acquired under finance lease arrangements are capitalised. Such assets are depreciated on a straight-line basis at rates considered appropriate to reduce the capitalised cost to estimated residual value over the anticipated useful lives of the assets. Lease finance charges are amortised over the duration of the finance leases using the effective interest rate method.

A review of asset values residual values depreciation method and impairment is performed annually by management and adjusted if appropriate. Impairment losses are determined as the excess of the carrying amount of items of property plant and equipment over the recoverable amount and are charged to profit or loss.

Accounting Policies

1.2 Property, plant and equipment (continued)

Depreciation has been provided on a straight-line basis based on the estimated useful lives of the assets as follows:

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	6 - 8 years
Office equipment	Straight line	5 - 7 years
Computer equipment	Straight line	3 - 5 years
Leasehold improvements	Straight line	3years
Portsable communication devices	Straight line	2 years

Subsequent expenditure incurred on items of property plant and equipment is only capitalised to the extent that such expenditure enhances the value or previous capacity of those assets. Repairs and maintenance not deemed to enhance the economic benefits or service potential of items of property; plant and equipment are expensed as incurred. Gains and losses on disposal of property plant and equipment are determined by comparing the proceeds from disposal with the carrying amounts and are included in the profit and loss.

1.3 Intangible assets

Intangible assets are recognised if it is probable that future economic benefits will flow to the entity from the intangible assets and the costs of the intangible assets can be reliably measured.

Intangible assets comprise computer software and work-in-progress. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their useful economic life generally not exceeding 20 years. At each date of the statement of financial position intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Computer software and licenses
Acquired computer software and licenses are capitalised as assets on the basis of the costs incurred to acquire and bring the specific software into use. Capitalised computer software is carried at cost less accumulated amortisation and impairment losses. Computer software is tested annually for impairment or changes in estimated future benefits.

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

Item	Depreciation method	Average useful life
Computer software	Straight line	2 years
Loan Management System	Straight line	5 years

System development costs
Costs associated with maintaining computer software programmes are recognised as an expense as and when incurred. Direct software development costs that enhance the benefits of computer software programmes and are clearly associated with an identifiable and unique software system which will be controlled by the KGFT and has a probable benefit exceeding one year are recognised as intangible assets.

These costs are initially capitalised as work-in-progress up to the date of completion of project after which the asset is transferred to computer software and accounted for as per the computer software and licenses policy. Management reviews the carrying value of capitalised work-in-progress on an annual basis irrespective of whether there is an indication of impairment.

Development costs are recognised as intangible assets when the following criteria are met:
- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it:
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefit;
- Adequate technical financial and other resources to complete the development and to use or sell the software product are available; and

Accounting Policies

1.3 Intangible assets (continued)

The expenditure attributable to the software product during its development can be reliably measured.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period the KGFT reviews the carrying amount of its tangible and intangible assets in order to determine whether there is any indication that those assets have suffered an impairment loss. 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). When it is not possible to estimate the recoverable amount of individual assets the KGFT estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified corporate assets are also allocated to individual cash-generating units or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

1.4 Financial instruments

Recognition and initial measurement

Financial instruments are initially recognised when the KGFT becomes party to the contractual provisions of the relevant instrument. Transaction costs on financial instruments measured at FVTPL are not included in the amount at which the instrument is initially measured; instead they are immediately recognised in profit or loss.

Accounting Policies

1.4 Financial instruments (continued)

Classification and subsequent measurement

Financial assets
On initial recognition a financial asset is classified and measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the KGFT changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

On initial recognition of an equity investment that is not held for trading the KGFT may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition the KGFT may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs) as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest the KGFT considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that could change the timing or amount of contractual cash flows such that it would not meet the criteria. In making this assessment some of the factors that the KGFT considers are:
- conversion features that would result in a variability of cash flows that is not consistent with a basic lending arrangement;
- whether fees included in the contract is representative of reasonable compensation for a basic lending arrangement;
- terms that may adjust the contractual interest rate;
- non-market related features;
- features that modify consideration of the time value of money;
- prepayment and extension features; and
- terms that limit the KGFT's claim to cash flows in the event of liquidation or breach of contract by the borrower/issuer.

Financial assets – Business model assessment:
The KGFT makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income maintaining a particular interest rate profile matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the KGFT s management;

Accounting Policies

1.4 Financial instruments (continued)

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency volume and timing of sales of financial assets in prior periods the reasons for such sale and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis is measured at FVTPL.

The 'Investments' caption in the Statement of Financial Position includes:

- Equity investments mandatorily measured at FVTPL;
- Shareholder loans mandatorily measured at FVTPL; and
- Preference shares mandatorily measured at FVTPL.

Derivative financial instruments are mandatorily measured at FVTPL.

Loans and advances cash and investment deposits and trade and other receivables are measured at amortised cost.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The KGFT has issued no loan commitments that are measured at FVTPL. For other loan commitments the KGFT recognises a loss allowance.

Financial assets – Subsequent measurement and gains and losses:

Financial assets at amortised cost
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

Debt investments at FVOCI.
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets at FVTPL
These assets are subsequently measured at fair value. Net gains and losses including any interest or dividend income are recognised in profit or loss.

Cash and investment Deposits

Cash and investment deposits includes cash on hand, deposits held on call with banks. investments in money market instruments and accrued interest on investments outstanding at year end. Cash and investment deposits are stated at amortised cost which due to their short-term nature closely approximates their fair value.

Financial liabilities – Classification subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses including any interest expense are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Impairment
Non-derivative financial assets
The KGFT recognises loss allowances for ECLs on financial assets measured at amortised cost.

1.4 Financial instruments (continued)

The KGFT measures loss allowances at an amount equal to lifetime ECLs except for the following which are measured at 12-month ECLs:

- loans and advances (including loan commitments) and cash and investment deposits that are determined to have low credit risk at the reporting date; and
- Other loans (including loan commitments) and cash and investment deposits for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to 12 - month ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs the KGFT considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the KGFT's historical experience and informed credit assessment and including forward-looking information.

Quantitatively the KGFT assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or if its internal credit rating is downgraded.

Qualitatively the credit risk of exposures will be considered to have increased significantly when an exposure is categorised as a 'doubtful' or a 'loss' account.

The KGFT considers a financial asset to be in default when the financial asset is 90 days or more past due.

The KGFT considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ' investment grade'. The KGFT considers this to be BBB- or higher.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the KGFT expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit losses for undrawn loan commitments are measured as the present value of the difference between the contractual cash flows that are due to the KGFT if the commitment is drawn down and the cash flows that the KGFT expects to receive.

Credit-impaired financial assets

At each reporting date the KGFT assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
significant financial difficulty of the borrower;

- it is probable that the borrower will enter bankruptcy or other financial reorganisation:
- exposures that are in default i.e. when the financial asset is 90 days or more past due:
- exposures that have been restructured due to financial distress; or
- exposures categorised as non-performing (includes 'doubtful' and 'loss' accounts).

Presentation of allowance for ECL in the statement of financial position
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Accounting Policies

1.4 Financial instruments (continued)

Write-off
The gross carrying amount of a financial asset is reduced by KGFT when there is no reasonable expectation to of recovering the financial asset in its entirety or a portion thereof.

KGFT will classify a financial asset into its 'very high risk (loss)' category (in terms of KGFT's Credit Policy) in the following circumstance:

- it has been classified as non-performing (credit-impaired) in terms of KGFT's credit policy;
- the non-performing financial asset has been outstanding for at least 12 months;
- the financial asset is not well secured and is considered uncollectible once recovery efforts such as realisation of collateral and institution of legal proceedings have been unsuccessful.

Once the financial asset is classified into the 'very high risk (loss)' category (and the factors above have been met) these financial assets will then be reported to KGFT's Board of Trustees who will then make a decision as to whether the amount should be written off. Only the Board of Trustees can approve a "write off".

Offsetting
Financial assets and liabilities are offset and the net amount reported on the statement of financial position where there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are offset only to the extent that their related instruments have been offset in the statement of financial position.

Derivatives and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and if so the nature of the item being hedged. Where derivatives do not meet the hedging criteria they are classified as held for trading for accounting purposes

1.5 Specific instruments

Specific instruments
The KGFT's equity instruments primarily includes government funding. This funding represents capital provided by the Department of Economic Development Tourism and Environmental Affairs and remains part of the permanent capital of the KGFT. Any directly attributable transaction costs are allocated to equity.

Prior to the unencumbering of government funding within the closed Debt Fund contributions received from the beneficiary were classified as a liability. Capital undrawn was recorded as deferred funds and transferred to capital to the extent of exposures within projects. This included Fund II funds which were received from the beneficiary for the purposes of equity investments however was ring-fenced due to the security structure with the previous lenders. The approval of the Evolution Strategy in April 2015 resulted in the capitalisation of all funds to be utilised for Debt and Equity products.

1.6 Provisions Contingent Liabilities and Contingent Assets

A provision is recognised as a result of a past event the KGFT has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision for an onerous contract is recognised by the KGFT when the expected benefits to be derived by the KGFT from a contract are lower than the unavoidable cost of meeting its obligation under the contract. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Contingent liabilities which include certain guarantees other than financial guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events; not wholly within the KGFT's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the Notes to the financial statements unless they are remote.

1.7 Revenue recognition

Revenue comprises the fair value of consideration received or receivable in the ordinary course of the KGFT's business. Revenue is recognised when it is probable that economic benefits will flow to the KGFT and that these benefits can be reliably measured:

Interest income and expense

Accounting Policies

1.7 Revenue recognition (continued)

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the KGFT estimates future cash flows considering all contractual terms of the financial instrument but not ECL. For purchased or originated credit-impaired financial assets a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However for financial assets that have become credit-impaired subsequent to initial recognition interest income is calculated by applying the effective interest rate to the amortised cost(net) of the financial asset. This is done from the beginning of the quarter subsequent to the asset becoming credit-impaired. If the asset is no longer credit-impaired then the calculation of interest income reverts to the gross basis from the beginning of the quarter subsequent to the asset being cured.

For financial assets that were credit-impaired on initial recognition interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset improves.

Raising fee

KGFT charges a raising fee of up to 2% on the amount advanced to projects. KGFT is entitled to this income and recognise this income in the statement of comprehensive income on the first day that funds are disbursed to the qualifying projects.

Other income

Other income consists of income generated from the sale of assets that are no longer in use to the entity to employees any income from realisation of insurance claims and any income received from Serv SETA in relation training spent on staff. Furthermore, included is the fees earned when managing government programmes like Youth Fund.

Dividend income

Dividend income is recognised in the statement of profit and loss when KGFT's right to receive payments is established.

1.8 Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. It includes salaries accumulated leave payments, medical aid, provident fund, performance and retention bonuses.

Other long term employee benefits - Long Service Award

The long service award liability is calculated by independent actuaries using the projected unit credit method. The long service award liability is an unfunded liability in that there are no separate plan assets out of which obligations are to be settled. The amount recognised as a long service award liability is therefore the present value of the defined benefit obligation at the end of the reported period. Current service costs and interest costs are recognised as expenses. All actuarial gains and losses and past service costs are recognised immediately as expenses.

Accounting Policies

1.9 Leases

The KGFT assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the KGFT has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Accounting Policies

1.9 Taxation (continued)

Company as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the KGFT is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the KGFT recognises the lease payments as an operating expense (note 17) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the KGFT uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the trust under residual value guarantees;
- the exercise price of purchase options, if the trust is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the trust is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 4).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note).

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the trust will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset; or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are presented as a separate line item on the Statement of Financial Position.

Accounting Policies

1.9 Taxation (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the company incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

When the trust incurs an obligation for the costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying assets to the condition required by the terms and conditions of the lease, a provision is recognised in the Statement of Financial Position in note Provisions.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

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

1.10 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of the assets transferred by the KGFT less the liabilities incurred by the KGFT to the former owners of the acquiree and the equity interests issued by the KGFT in exchange for control of the acquirer. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date. Business combination involving entities or businesses under common control is defined in IFRS3: Business Combinations as a business combination in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the combination and that control is not transitory.

Goodwill represents the future economic benefits arising from assets that are not capable of being individually identified and separately recognised in a business combination and is determined as the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets liabilities and contingent liabilities of the entity. If after reassessment the KGFT's interest in the net fair value of the acquiree's identification assets liabilities and contingent liabilities exceeds the cost of the business combination the excess is recognised immediately in profit or loss.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing goodwill is allocated to each of the KGFT's cash-generating unit's expected benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Accounting Policies

1.11 Events after the reporting period

An event which could be favourable or unfavourable that occurs between the end of the reporting period and the date that the financial statements are authorised for issue.

Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period including an event that indicates that the going concern assumption in relation to the whole or part of the entity is not appropriate.

Non-adjusting event: An event after the reporting period that is indicative of the condition that arose after end of the reporting period.

1.12 Determination of fair values

A number of the KGFT's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability.

Financial Instruments

Some of the KGFT's financial instruments are measured at fair value such as those that are designated by management as at fair value through profit and loss and derivative financial instruments.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than a forced or liquidation sale.

The method of determining the fair value of financial instruments can be split into the following categories:

- Level 1 – unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.
- Level 2 – Valuation techniques using market observable inputs. Such techniques may include: using recent arm's-length market transactions reference to the current fair value of similar instruments and discounted cash flow analysis pricing models or other techniques commonly used by market participants.
- Level 3 – Valuation techniques as described in (b) above for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price which is the best indicator of fair value although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value commonly referred to as day one profit and loss is either amortised over the life of the transaction deferred until the instrument's fair value can be determined using market observable inputs or realised through settlement.

Equity investments

After initial recognition the KGFT measures equity investments at fair value through profit or loss as follows: Unquoted equity instrument are held at cost. If the market for an equity financial instrument is not active the KGFT uses a valuation technique to establish what the transaction price would be in an arm's length transaction motivated by normal business considerations.

The KGFT uses valuation techniques in measuring equity instruments including:

- Price of recent investment if available;
- Discounted cash flow analysis based on free cash flows earnings or dividends using market-related adjusted discount rates;
- Price earnings growth (PEG); and Option pricing models.

The KGFT ensures that these valuation techniques:

- Make maximum use of market inputs and rely as little as possible on entity-specific inputs;
- Incorporate all factors that market participants would consider in setting a price; and
- Are consistent with accepted economic methodologies for pricing financial instruments.

1.13 Taxation

The income of the KGFT is not subject to normal tax as its income is deemed to vest with its shareholder (entity of KwaZulu-Natal Government) which is exempt in terms of Section 10(1) (a) of the Income Tax Act. The KGFT is however subject to indirect taxes which comprise non-recoverable value added taxation (VAT) and skills development levies (SDL).

Accounting Policies

1.13 Taxation (continued)

Value Added Tax ("VAT")

Revenues expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on an acquisition of an asset or services is not recoverable from the taxation authority the VAT is recognised as part of the asset or expenditure; and
- Receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

1.14 Related parties

The following details are disclosed in the notes to the financial statements with regard to related parties:

- All related party names and details of the relationship.
- Transactions with related parties during the period
- All balances outstanding with related parties at year-end;
- Transactions and balances related to key management personnel
- Compensation paid to key management personnel.

The amount of contractual commitments for the acquisition of property plant and equipment or major contracts are disclosed in the notes to the annual financial statements.

Future operating and finance lease commitments are disclosed in the notes to the annual financial statements.

1.15 Contractual Commitments

The amount of contractual commitments for the acquisition of property plant and equipment or major contracts are disclosed in the notes to the annual financial statements.

Future operating and finance lease commitments are disclosed in the notes to the annual financial statements.

1.16 New standards and interpretations not yet effective

At the date of authorisation of the financial statements of the KGFT for the year ended 31 March 2023 the following Standards and Interpretations applicable to the KGFT were in issue but not effective:

All standards and interpretations will be adopted at their effective dates. The KGFTs are of the opinion that these amendments will not have a material impact on the KGFT's annual financial statements.

The amendments to IFRS 16, IFRS17, IAS 1, IAS8 and IAS 8 are not applicable to the business of the KGFT and will therefore have no impact on future financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

2. Property, plant and equipment

	2023			2022		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Leasehold property	1 707 341	(1 519 859)	187 482	1 649 588	(1 436 030)	213 558
Furniture and fixtures	1 079 836	(795 553)	284 283	1 280 613	(942 884)	337 729
Office equipment	810 019	(706 227)	103 792	735 479	(668 434)	67 045
Computer equipment	1 274 674	(914 216)	360 458	1 024 375	(929 668)	94 707
Potable communication devices	146 583	(117 217)	29 366	183 348	(146 067)	37 281
Total	**5 018 453**	**(4 053 072)**	**965 381**	**4 873 403**	**(4 123 083)**	**750 320**

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Leasehold property	213 558	-	-	57 753	(83 829)	187 482
Furniture and fixtures	337 729	-	(5 517)	-	(47 929)	284 283
Office equipment	67 045	74 540	-	-	(37 793)	103 792
Computer equipment	94 707	432 734	(25)	-	(166 958)	360 458
Potable communication devices	37 281	27 516	-	-	(35 431)	29 366
	750 320	**534 790**	**(5 542)**	**57 753**	**(371 940)**	**965 381**

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Depreciation	Total
Leasehold property	274 946	10 746	(72 134)	213 558
Furniture and fixtures	399 621	-	(61 892)	337 729
Office equipment	89 276	19 585	(41 816)	67 045
Computer equipment	237 277	-	(142 570)	94 707
Potable communication devices	31 735	23 164	(17 618)	37 281
	1 032 855	**53 495**	**(336 030)**	**750 320**

The KGFT had fully depreciated Office equipment, furniture and computer equipment with a historic cost amounting to R486 255, 2022 R379 539 in the fixed asset register and these fully depreciated assets are still in use.

3. Intangible assets

	2023			2022		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	5 625 818	(3 511 057)	2 114 761	5 447 717	(2 514 477)	2 933 240
KGFT Logo Fund Model and IFRS 9 model Work	-	-	-	337 803	-	337 803
Total	5 625 818	(3 511 057)	2 114 761	5 785 520	(2 514 477)	3 271 043

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

3. Intangible assets (continued)

Reconciliation of intangible assets - 2023

	Opening balance	Transfers	Amortisation	Total
Computer software	2 933 240	178 101	(996 580)	2 114 761
KGFT Logo Fund Model and IFRS 9 model Work	337 803	(337 803)	-	-
	3 271 043	**(159 702)**	**(996 580)**	**2 114 761**

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	3 914 904	(981 664)	2 933 240
KGFT Logo Fund Model and IFRS 9 model Work	337 803	-	337 803
	4 252 707	**(981 664)**	**3 271 043**

The KGFT had fully depreciated equipment software and cellphone instruments with a historic cost amounting to R1 066 344 in the fixed asset register and these fully depreciated assets are still in use.

4. Rights of use asset

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are as follows:

	2023	2022
Office floor space	1 229 074	2 458 149
Parking floor space	321 850	643 706
	1 550 924	**3 101 855**

Reconciliation of right-of-use assets - 2023	Opening balance	Additions	Depreciation	Total
Office floor space	2 458 149	-	(1 229 075)	1 229 074
Parking floor space	643 706	-	(321 856)	321 850
	3 101 855		**(1 550 931)**	**1 550 924**

Reconciliation of right-of-use assets - 2022	Opening balance	Additions	Depreciation	Total
Office floor space	-	3 687 223	(1 229 074)	2 458 149
Parking floor space	-	965 559	(321 853)	643 706
	-	4 652 782	(1 550 927)	3 101 855

Figures in Rand	2023	2022

4. Rights of use asset (continued)

Lease Liability

Lease liabilities have been included in the lease liability line item on the statement of financial position. Refer to note 10 Lease liability.

Non-current liabilities	-	1 751 862
Current liabilities	1 746 690	1 544 902
	1 746 690	**3 296 764**

5. Investments

KZN Growth Fund KGFT's investments consist of the following:		
Equity investments (Desinated at FVTPL)	142 755 707	137 800 000
Shareholder loans (Mandatorily) measured at FVTPL previously held to maturity)	760 000	740 000
Preference shares (Mandotorily measured at FVTPL previously held to maturity	79 712 295	74 200 000
	223 228 002	**212 740 000**

Equity investments designated at FVTPL	**Holding %**		
KwaDukuza Private Hospital (Pty) Ltd	26%	-	-
Ross Healthcare (Pty) Ltd	25%	142 755 707	137 800 000
Inoxa Industries (Pty) Ltd	35%	-	-

Movement in equity investment designated at FVTPL		
Balance at the beginning of the year	137 800 000	107 670 000
Fair value adjustment-gain/(loss)	4 955 707	30 130 000
Balance as at 31 March	**142 755 707**	**137 800 000**

Equity investments mandatorily measured at fair value through profit or loss consist of direct equity in ordinary shares in KwaDukuza Private Hospital (Pty) Ltd (KDPH) and Ross Healthcare (Pty) Ltd. Both equity investments fair values have been performed by an independent equity valuation service provider as at 31 March 2023. The total portfolio has decreased by 31% from initial investment cost

Equity Investments – Shareholder Loans		
KGF Capital (Pty) Ltd	760 000	740 000

Movement in equity investment held - Shareholder loans:		
Balance as at 01 April	740 000	3 540 000
Add: Shareholder loan granted	20 000	-
Add/less: FV gain/(loss)	-	(2 800 000)
	760 000	**740 000**

Equity investments (Mandotorily measured at FVTPL previously held to maturity:		
Afrozone Preference share	5 726 229	6 800 000
Brace Able Preference share	73 986 066	67 400 000

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

5. Investments (continued)

Movement in preference shares held at FVTPL (previously measured at amortised cost:

Balance as at 01 April	74 200 000	71 200 000
Add/Less: Fair Value Gain/(loss)	5 512 295	3 000 000
Balance as at 31 March	**79 712 295**	**74 200 000**

The KGFT has invested in 1000 cumulative redeemable preference shares with Microfinish at an issue price of R15m. These shares contain potential voting rights and they are accounted for in terms of IFRS 9 at Fair Value through profit or loss. The KGFT has invested in 1000 non-cumulative potentially convertible preference shares with Afrozonke at an issue price of R5m. The KGFT has invested in 1000 non-cumulative potentially convertible preference shares with Arabicmoon Investments at an issue price of R45.9m. The KGFT received dividends of R4m in 2022 financial year and R4.1m in the current financial year.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 632	2 437
Bank balances	12 454 420	8 881 298
Short-term deposits	32 314 458	143 720 538
	44 770 510	**152 604 273**

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

Cash and Investment Deposits		
Current Accounts	5 728 117	8 896 972
Call Accounts	32 300 321	143 707 301
Investment accounts - Opex	141 540 016	117 700 899
Investment account - Swap security*	20 174 380	20 189 662
Investment Accounts – Capital available Fund I-Debt Fund**	679 642 949	731 766 562
Investment Accounts –Capital available Fund II-Equity Fund***	153 911 153	46 151 914
Investment accounts Capital available Fund 1 - Youth Fund****	91 997 874	-
Investment accounts - Capital available Operation Vula Funds*****	14 926 941	8 043 929
Expected Credit Loss	(2 763 618)	(2 763 618)
	1 137 458 133	**1 073 693 621**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

6. Cash and cash equivalents (continued)

Exposure to currency risk

* Included in the above amounts is R20m deposit previously held with Rand Merchant Bank as collateral on the interest rate swap agreement maturing on 31 March 2026.

** Capital totalling R40m is further committed to approved project as at 31 March 2023 and R54m in 31 March 2023 with R834m available to investment

***Capital to be utilised and committed as Government contribution in en-commandite partnership within private equity structure.

****The funds ring-fenced for Youth Fund received in March 2019 from EDTEA and Premier's Office(R2.7m) including the R90m for the second round of Youth Fund.

***** Capital to be utilised only for the Operation Vula project KGFT is disbursing the funds on behalf of EDTEA

The call account includes funds ring-fenced for Operation Vula Project amount to R39m include fee of R20m charged for service provided to EDTEA.

The Trust invests surplus funds with financial institutions that are related in accordance with Fitch rating of BBB with the exception of Ithala which is not independently rated however has been approved as an authorised institution by the KGFT. The interest earned on surplus funds approximated on average 7.85% (2022: 5,14%) during the year.

Short-term deposit and maturity analysis		
Current Accounts	12 456 052	8 896 972
Call Accounts	32 300 321	143 707 301
1-30 Days	822 531 028	33 609 430
1-3 Months	252 759 970	361 731 528
3 – 12 Months	-	528 512 008
1 – 5 years	20 174 380	-
Expected Credit Loss	(2 763 618)	(2 763 618)
	1 137 458 133	**1 073 693 621**

Disclosure in the statement of cash flows		
Disclosure in the Statement of Cash Flows	44 770 510	152 604 273
Cash and cash equivalents		
Investment deposits	1 099 067 882	921 089 348
Movement in impairment allowance	2 736 618	2 736 618

7. Trade and other receivables

Financial instruments:		
Trade receivables	1 508 540	1 508 540
Loss allowance	(1 508 540)	-
Trade receivables at amortised cost	-	1 508 540
Deposits	450 077	450 077
Retention incentive receivable	1 757 480	1 577 795
Prepayments	3 202 157	2 241 414
SheepCor funds receivable	-	900
Sundry debtors	2 424 591	195 041
Total trade and other receivables	**7 834 305**	**5 973 767**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

7. Trade and other receivables (continued)

Split between non-current and current portions

Current assets	7 834 305	5 973 767

Exposure to credit risk

Trade and other receivables are non-interest bearing and are normally settled on 30 to 60 days terms The KGFT received an amount of R49m from EDTEA in 2019 and these funds have been ring-fenced to be utilised for the implementation of the SheepCor Projects. KGFT is managing the usage of funds on behalf of EDTEA and an amount of R12m has already been disbursed. The receivables noted above are funds not yet used in the project in Sheepcor Bank account as at 31 March 2023.

The loss allowance provision is determined as follows:

Short-term Deposit and Maturity Analysis

Demand	2 424 591	1 704 481
1-12 months	5 409 714	4 269 286
	7 834 305	**5 973 767**

8. Loans and advances

Loans and advances are presented at amortised cost, which is net of loss allowance, as follows:

Loans advances net of provision for suspended interest	436 467 089	448 517 254
Impairment allowance	(349 083 685)	(373 125 837)
	87 383 404	**75 391 417**

Movement in loans and advances:		
Balance as at 1 April	75 391 420	99 797 743
Add: draw down	4 136 856	4 190 649
Add(Less) net interest earned/Reversal of interest)	-	(2 057 626)
Add/(Less): Impairment allowance reversal	24 042 149	(19 256 442)
Less: Payment received	(16 187 021)	(7 282 904)
	87 383 404	**75 391 420**

The loans and advances bear interest at rates that are determined at JIBAR plus a margin and liquidity costs. The margins range from 1.59% to 4.47% based on the debt structuring and credit risk assessed for each loan. Repayment periods also vary from monthly quarterly and biannually as supported by the cash flows of the underlying projects.

Movement in loans and advances:		
Balance as at 1 April	(373 125 836)	(353 869 393)
Charge to statement of comprehensive income	24 042 149	(19 256 443)
	(349 083 687)	**(373 125 836)**

An impairment reversal is raised during the current financial year using the IFRS 9 forward looking model on all debt projects based on expected credit losses. During the current financial year all projects in the portfolio were unable to meet its repayment terms and are currently at stage 3 as per IFRS9. These project have not been able to meet its loan repayments due.The impairment reversal is due instalment collections of loans to the value of R16,2 million and improvement in the coverage ratio resulting from the inclusion of collateral value of R6,2 million for Bhamshela that was excluded in the previous year due to the property being damaged during the July 2021 social unrest as well as increase in BFG, iDube and KDPH collateral values. Refer to note 23 for details on the calculation of impairment allowances.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

9. Capital contribution

Capital Contribution and Reserves

	2023	2022
Initial capital	10	10
Capital contribution – Debt capital	1 079 533 000	1 123 075 000
Capital contribution – Equity capital	442 657 000	350 000 000
	1 522 190 010	**1 473 075 010**

The total capital contribution represents capital provided by the KwaZulu-Natal Provincial Government and remains part of the KGFT's capital for the life span of the KGFT. There are no repayment terms and this funding is interest fee. The balance has increased due to additional funding of R49m from Government in the current financial year.

10. Lease liability

Lease liability

	2023	2022
Total Lease liability	1 746 690	3 296 763
Less: Non-current portion of the lease	-	(1 751 861)
	1 746 690	**1 544 902**

Lease liability maturity analysis

	2023	2022
Year 1	1 746 690	1 544 901
Year 2	-	1 751 862
	1 746 690	**3 296 763**

The KGFT leases an office space from Delta Properties using the whole 28th floor space. The average lease term is 3 years recently renewed for 3 years from 1 April 2021 until 31 March 2024.

11. Provisions

Provisions comprise of the following:

	2023	2022
Long service awards	126 400	130 300

The KGFT operates an unfunded long service award (LSA) for qualifying employees. Under the award the employees are entitled to a LSA for every five years of service completed from five years to twenty years of service completed. No other employee benefits are provided for employees.

The most recent actuarial valuations of the present value of the long service obligation were carried out in May 2023 by Mr Chanan Weiss Fellow of the Faculty of Actuaries and the Actuarial Consulting. The present value of the long service obligation and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

Movements for the year

	2023	2022
Net expense recognised in profit or loss	(3 900)	40 200

Amounts recognised in profit and loss in respect of the long service award

	2023	2022
Current service cost	34 600	24 100
Interest cost	11 200	8 600
Actuarial gains	(14 700)	7 500
Employer vesting benefits	(35 000)	-
	(3 900)	**40 200**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

11. Provisions (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	10.51 %	9.86 %
Benefit salary inflation(long-term)	5.24 %	5.35 %
Net discount rate	5.01 %	4.28 %
Average retirement age	63	63

The expense is included in the personnel expense which is classified as administrative expenses as per note 17.

The amount included in the statement of financial position arising from KGFT's obligation in respect of its long service award is as follows:

Present value of unfunded defined benefit obligation	126 400	130 300

Opening defined benefit obligation

Opening define benefit obligation	130 300	90 100
Current service cost	34 600	24 100
Interest	11 200	8 600
Employer vesting benefits	(35 000)	-
Actuarial loss (gain)	(14 700)	7 500
	126 400	**130 300**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

11. Provisions (continued)

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	change	Liability	% change	Liability	% change
Central assumptions		126 400		130 300	
General salary inflation	+1%	133 000	5%	136 300	5%
General salary inflation	-1%	120 300	-5%	124 700	-4%
Discount rate	+1%	120 000	-5%	124 700	-5%
	-1%	133 300	5%	124 400	+5%
Average retirement age	+2 yrs	137 900	9%	140 800	+8%
	-2 yrs	116 800	-8%	122 900	-6%
Withdrawal rates	x2	97 800	-23%	102 700	-21%
	x50%	149 700	15%	149 400	+15%

Sensitivity Analysis on the Current-service and Interest Costs for the Year Ending 31 March 2023

Assumption	change	Current-service cost	Interest cost	Total	% change
Central assumptions		34 600	11 200	45 800	
Central assumptions	+1%	37 900	13 200	51 100	+6%
	-1%	33 600	11 900	45 500	-6%
Discount rate	+1%	33 800	13 000	46 800	-3%
	-1%	37 600	12 000	49 600	3%
Average retirement age	+2 yrs	36 900	13 700	50 600	5%
	-2 yrs	33 400	11 500	44 900	-7%
Withdrawal rates	X200%	25 600	9 500	35 100	-27%
	x50%	43 000	14 500	57 500	19%

Sensitivity Analysis on the Current-service and Interest Costs for the Year Ending 31 March 2022

Assumption	change	Current-service cost	Interest cost	Total	% change
Central assumptions		24 100	8 600	32 700	
General salary inflation	+1%	25 800	9 000	34 800	6%
	-1%	22 800	8 200	31 000	-5%
Discount rate	+1	22 800	9 000	31 800	-3%
	-1%	25 700	8 100	33 800	3%
Average retirement age	+2 yrs	24 900	9 500	34 400	5%
		22 600	8 100	30 700	-6%
Withdrawal rates	X200%	16 200	6 700	22 900	-30%
	x50%	30 400	9 900	40 300	23

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

12. Trade and other payables

Financial instruments:		
Trade payables	4 286 903	633 051
Committee fees payable	11 040	1 120 058
Accrued leave pay	2 348 103	1 721 584
Trade accruals	4 654 660	1 542 462
VAT payable	-	2 033 597
Other payables	139 172 109	135 871 212
	150 472 815	**142 921 964**

Trade and other payables are non-interest bearing and are normally settled on 30 to 60 day terms. Leave pay accrual leave days due to employees and is calculated using the current remuneration packages. The timing of cash is dependent on the employees' resignation retirement or dismissal. Other payables includes funds received from EDTEA which entails Operation Vula Fund (R40 923 244), and Youth Fund (R94 841 006), Sheepcor(R3 407 860).

13. Revenue

Revenue other than from contracts with customers		
Interest received (trading)	68 740 700	41 271 364
Interest Income		
Current account	429 201	28 935
Call account	3 189 081	1 277 023
Investment accounts	65 122 420	42 023 023
Loans and advances	(2)	(2 057 617)
	68 740 700	**41 271 364**

14. Interest expense

Interest expense on lease liability	217 317	241 723

The amounts reported above include interest income and expense calculated using the effective interest method that relate to the following financial assets and financial liabilities including leases.

Above amount as inclused SARS penalty and interest of R63 286.65 in March 2023.

15. Other operating income

Youth fund fees	143 093	149 766
Oeration Vula fees	2 750	17 419 736
Profit on foreign exchange differences	24 048	46 258
	169 891	**17 615 760**

The KGFT earned fund management fee in relation to the implementation of the Youth Fund including closing fee in relation to being a disbursing agent for EDTEA for all Operational Vula beneficiaries. There was not funds received in the year under for Operationa Vula beneficiaries in the year under review.

Notes to the Annual Financial Statements

Figures in Rand		2023	2022

16. Other operating gains (losses)

Gains (losses) on disposals, scrappings and settlements			
Property, plant and equipment	2	(5 542)	-

17. Operating profit (loss)

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

	2023	2022
Auditor's remuneration - external		
Audit fees	1 435 414	1 519 339
Auditor's remuneration - internal	**367 616**	**367 505**
Remuneration, other than to employees		
Consulting and professional services	14 519 709	7 666 158
Employee costs		
Salaries, wages, bonuses and other benefits	37 652 456	25 682 605
Long service - current cost	34 600	24 100
Long service - interest cost	11 200	8 600
Long service - actuarial (gain)/loss	(14 700)	7 500
Retirement benefit plans: defined benefit expense	3 699 629	2 269 673
Total employee costs	**41 383 185**	**27 992 478**
Depreciation and amortisation		
Depreciation of property, plant and equipment	371 940	336 030
Depreciation of right-of-use assets	1 550 931	1 550 927
Amortisation of intangible assets	996 581	981 664
Total depreciation and amortisation	**2 919 452**	**2 868 621**
Movement in credit loss allowances		
Loans receivables at amortised cost	(24 042 149)	19 256 443
Expenses by nature		
Employee costs	41 383 185	27 992 478
Lease expenses	228 177	198 766
Depreciation, amortisation and impairment	2 919 452	2 868 621
Other expenses	32 289 198	17 087 173
	76 820 012	**48 147 038**

18. Gains (losses) on financial assets

	2023	2022
Investment - gains	10 460 140	30 330 000

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

19. KGFT and other committee members' remuneration and executive remuneration

2023

	Board of KGFT	Investment Committee	Audit & Risk Committee	Human Resource and Remuneration Committee	Social and Ethics Committee	Special Meetings	Total
Mr S Buthelezi	65 001	12 663	-	-	-	196 691	274 355
Mr K Thango	23 648	-	-	89 670	77 532	-	190 850
Ms B Zulu	85 545	80 891	50 653	-	35 625	233 720	486 434
Mr A Dhuki	90 068	-	37 990	69 779	8 906	265 366	472 109
Mr S Hlophe	319 275	60 732	12 663	-	-	768 744	1 161 414
Mr WB Ngubane	-	-	90 971	-	-	24 583	115 554
Ms G Kungwane	-	66 076	-	-	-	-	66 076
Mr T Zulu	57 375	-	25 326	26 719	-	241 814	351 234
Ms B Khumalo	81 022	25 326	-	-	46 519	201 642	354 509
M Dlungwane	38 250	-	-	8 906	8 906	40 318	96 380
J Gloak	-	25 326	-	-	-	26 706	52 032
L Magayana	-	25 326	-	-	-	64 696	90 022
N Jansen	-	-	-	24 413	-	232 596	257 009
	760 184	**296 340**	**217 603**	**219 487**	**177 488**	**2 296 876**	**3 967 978**

2022

	Board of KGFT	Investment Committee	Audit & Risk Committee	Human Resource and Remuneration Committee	Social and Ethics Committee	Total
Mr S Buthelezi	791 107	63 316	-	-	-	854 423
Mr K Thango	162 480	-	-	75 390	62 026	299 896
Ms B Zulu	154 954	63 316	79 306	-	35 625	333 201
Mr A Dhuki	166 780	-	83 509	142 318	35 625	428 232
Mr S Hlophe	170 799	113 713	82 819	-	-	367 331
Mr WB Ngubane	-	-	207 294	-	-	207 294
Ms G Kungwane	-	75 979	-	-	-	75 979
	1 446 120	**316 324**	**452 928**	**217 708**	**133 276**	**2 566 356**

Executive management remuneration		
Mr K Ngqaka - Acting Chief Executive Officer (December 2021 to March 2023)	3 351 605	815 065
Ms K Nhassengo - Chief Investment Officer	2 231 587	1 755 858
Mr N Nkosi - Chief Risk Officer	1 592 917	1 723 103
Mr L Zondi - Chief Financial Officer	1 788 234	1 845 640
Mr X Nhlapo Acting Chief Investment Officer(January 2021 to August 2022)	55 584	151 446
Ms U Ojageer - Acting Chief Risk Officer (April 2022 to August 2022)	79 276	66 034
Ms T Nxumalo - Acting Chief Risk Officer (December 2022 to March 2023)	118 914	-
Ms N Jali - Acting Financial Officer (ACFO - April 21 to Oct 21)	-	99 632
Mr M Dlamini - Acting Chief Financial Officer (Dec 2022 to Mar 2023)	134 416	-
	9 352 533	6 456 778

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

20. Employee costs

Employee costs		
Basic	35 446 692	24 184 892
Medical aid - company contributions	1 747 151	1 196 320
UIF	150 503	92 446
SDL	308 110	208 947
LSA current service cost	34 600	24 100
SLA interest	11 200	8 600
SLA actruarial loss/(gain)	(14 700)	7 500
Retirement benefit plans	3 699 629	2 269 673
	41 383 185	**27 992 478**

21. Depreciation, amortisation and impairment losses

Depreciation		
Property, plant and equipment	371 940	336 030
Right-of-use assets	1 550 931	1 550 927
	1 922 871	**1 886 957**
Amortisation		
Intangible assets	996 581	981 664
Total depreciation, amortisation and impairment		
Depreciation	1 922 871	1 886 957
Amortisation	996 581	981 664
	2 919 452	**2 868 621**

22. Cash generated from operations

Total comprehensive income	30 501 009	25 571 920
Adjustments for:		
Depreciation and amortisation	2 919 452	2 868 620
Loss/(profit) on sale of assets	5 542	-
Fair value (gain)/loss adjustments	(10 460 140)	(30 330 000)
Dividends income	(4 131 000)	(4 000 000)
Interest income net of suspended interest	(68 740 700)	(41 271 364)
(Reversal)/Provision for loans impairment	(24 042 149)	19 256 443
Long service award	(3 900)	40 200
Interest paid	217 317	241 723
Changes in working capital:		
Trade and other receivables	(1 860 538)	(1 237 628)
Trade and other payables	7 550 846	99 081 228
	(68 044 261)	70 221 142

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

23. Financial Risk Management

Split between non-current and current portions

Introduction and overview

The KGFT has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the KGFT's exposure to each of the above risks the KGFT's objectives policies and processes for measuring and managing risk.

Risk management framework

The Board of Trustees has overall responsibility for the establishment and oversight of the KGFT's risk management framework. The CEO is the executive sponsor for the risk management process and is responsible for ensuring that the risk management framework is developed and approved by the Board and for monitoring the effective implementation of KGFT's risk management framework. The CEO regularly reports to the Board of Trustees on the outcome of their activities. The KGFT's risk management policies are established to identify and analyse the risks faced by the entity to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the KGFT's activities. The KGFT through its training and management standards and procedures aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The KGFT's audit and risk committee oversee how management monitors compliance with the KGFT's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the KGFT.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the KGFT resulting in a financial loss to the KGFT. It arises principally from loans and advances, cash and investment deposits and trade and other receivables. For risk management reporting purposes, the KGFT considers and consolidates all elements of credit risk exposure such as individual's obligor default risk and sector risk.

The KGFT's maximum credit risk exposure (before collateral and other credit enhancements) at the statement of financial position date is represented by the respective carrying amounts of the financial assets in the Statement of Financial Position. The risks on some of these exposures such as loan and advances are mitigated by collateral held.

Expected credit losses (ECLs) on financial assets recognised in profit or loss were as follows:		
ECL on loans and advances	(24 042 149)	19 256 443
ECL on trade and other receivables	1 508 540	-
	(22 533 609)	19 256 443

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23. Financial Risk Management (continued)

Loans and advances

The KGFT's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards and by obtaining collateral for advances made. The KGFT through its Investment Committee has designed comprehensive investment credit and pricing policies that regulate the processes to be conducted in the evaluation of loans and advances as well as the terms and conditions under which loans and advances are made.

The KGFT assesses the credit rating of the loans and advances when it becomes party to the transaction and this is used to determine the credit margin which is included in the price that is charged to the loan. The KGFT's credit risks are monitored on a quarterly basis by the Audit & Risk Committee and Board of KGFT.

The KGFT holds tangible and intangible securities for the loans and advances granted to approved projects. This includes but is not limited to specific notarial bonds, cession of insurance policies including project accounts shareholder agreements and other assets(i.e. Debtors accounts). The KGFT's maximum exposure to credit risk is shown under note number 8. Holding of collateral against advances made limits the KGFT's exposure to credit risk.

Because of the KGFT's focus on counterparty's creditworthiness, the KGFT does routinely update the valuation of collateral held against all loans and advances. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans the KGFT obtains appraisals of collateral because it provides input into determining the management credit risk actions.

The KGFT has considered the impact of COVID19 including the 2021 July unrest on its operations mainly its debt instrument portfolio. The strong financial position as at 31 March 2023 including liquidity & solvency positions will assist to address the credit risk and capital adequacy risk arising from inability of debt instrument client experiencing cash constraints. The KGFT will continue to monitor its client closely as the economy is still recovering following the impact of COVID19 and easing of lock-down regulations on investee clients following the slow rate of vaccinations.

At 31 March 2023 the net carrying amount of credit-impaired loans and advances amounted to R88.9m (2022: R109,3 million) and the value of identifiable collateral held against those loans and advances amounted to R88.2m million (2022: R88,3 million).

The KGFT classifies their loans as follows:

Internal credit grade	Description
Standard (very low credit risk)	Those exposures which are not more than 30 days past due and meets the qualitative criteria per KGFT's credit policy.
Special mention (low risk)	Those exposures which are more than 30 days past due but less than 90 days past due and/or meets the qualitative criteria per the Credit Policy
Sub-standard (medium risk)	Those exposures that are 90 days or more past due but less than 180 days past due and/or meets the qualitative criteria per KGFT's credit policy.
Doubtful (high risk)	Those exposures which are 180 days and/or more past due but less than 364 days past due and meets the qualitative criteria per KGFT's credit policy.
Loss (very high risk)	Those exposures which are 365 days or more past due and/or meets the qualitative criteria per KGFT's credit policy.

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23. Financial Risk Management (continued)

At 31 March 2023 the exposure to credit risk for loans and advances by industry was as follows:

Changes due to investments recognised at the beginning of the reporting period:		
Transport and Logistics	58 876 122	58 876 122
Health care	75 093 549	75 093 549
Manufacturing	290 607 844	301 483 158
Property – Shopping Mall	11 889 574	13 389 574
Closing balance	**436 467 089**	**448 842 403**

A summary of KGFT's exposure to credit risk for loans and advances is as follows:

BB+ to B-	436 467 092	448 517 254
Loss allowance	(349 083 688)	(373 125 837)
Carrying amount	**87 383 404**	**75 391 417**

Expected credit loss assessment

The KGFT estimates impairment for loans and advances using the general approach under IFRS 9. In doing so the KGFT statistically models the following:

- historical trends of the probability of default and the mapping of internal risk ratings to probabilities of default;

- timing of recoveries; and

- the amount of loss incurred.

These factors are adjusted for management's judgement regarding whether current economic and credit conditions will result in actual losses that are likely to be greater or less than those suggested by the historical models. Loss given defaults are assessed against benchmark information as well as collateral values. Default rates loss rates and the expected timing of future recoveries are regularly benchmarked against actual results to ensure that they remain appropriate. The model is also adjusted for macro-economic and forward-looking factors.

The inputs and assumptions for estimating ECL are summarised below

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition the KGFT considers reasonable and supportable information that is relevant and available without undue cost and effort.

When making the assessment the KGFT uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses (i.e. collateral and security are not considered).

The KGFT considers both quantitative and qualitative indicators of significant increases in credit risk (including forward-looking information) as well as the rebuttable presumption as per IFRS 9 that credit risk is presumed to have increased significantly if it is more than 30 days past due.

Quantitative factors:

The credit risk of exposures will be considered to have increased significantly (classified as stage 2) when:

- it is more than 30 days past due; or

- it's internal credit rating is downgraded as follows:

23. Financial Risk Management (continued)

- AAA to BBB- : x notch downgrade;
- BB+ to BB- : x notch downgrade;
- B+ to B : x notch downgrade;
- B- : x notch downgrade; and
- CCC+ to CCC- : x notch downgrade.

For the notching downgrades described above the KGFT allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the counterparty. Exposures are subject to ongoing monitoring which may result in an exposure being moved to a different credit risk grade.

Absolute threshold

An absolute threshold of CCC+ has been defined whereby exposures originated better than CCC+ are automatically migrated to stage 2 when the rating is downgraded to CCC+ or worse irrespective of the number of notch downgrades. The absolute trigger threshold was determined using time to default transition and curing data obtained from market available information and default studies. The data indicated that for ratings that migrated after their original rating into the CCC/C rating categories the average time to default decreased substantially. Per our analysis the shorter time to default supports the absolute threshold of CCC+.

Relative threshold

Relative trigger thresholds have been defined whereby exposures are migrated to stage 2 based on the number of notch downgrades experienced between the origination date of the financial instrument and the reporting date. The relative trigger threshold was determined using time to default transition and curing data obtained from market available information and default studies for the period 2010 to 2016. The development process involved defining relative notch downgrade criteria that resulted in triggering approximately 50% of the defaults per the default studies assessed.

Qualitative factors:

The credit risk of exposures will be considered to have increased significantly (i.e. items are classified as stage 2) when an exposure displays the following characteristics:

- Early signs that liquidity problems are emerging e.g. late payments;
- Financial information required to assess the loan is inadequate; for example annual audited financial statements cannot be obtained or are unavailable;
- Condition of and control over collateral is questionable;
- Fails to obtain proper documentation (e.g. security or other statutory documentation) from the customer;
- The KGFT finds the customer uncooperative or finds it difficult to maintain contact with the customer;
- Early indicators suggest the customer's business activity or financial strength is weakening but which has not yet jeopardised servicing the facility;
- Volatility in economic or market conditions that may negatively affect the customer in the future;
- Poor performance in a customer's industry;
- Key executive is in ill health;
- Customer is a party to litigation that may adversely affect his financial position

23. Financial Risk Management (continued)

• Customer is experiencing difficulty servicing other loans.

Generating the term of PD (probability of default)

The PD (probability of default) is the probability that an account enters default at some point in the future where default is defined as 90 days past due. The PD term structure introduces a timing (ageing) element to the PD where the term structure (life of the loan) is broken down into the annualised periods.

The KGFT collects performance and default information about its credit risk exposures analysed by counterparty and credit risk grading. The KGFT employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. The internal risk gradings of counterparties are mapped to PDs. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors. For most exposures key macro-economic indicators include GDP growth.

As a backstop the KGFT considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The KGFT monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;

- the criteria do not align with the point in time when an asset becomes 30 days past due; and

- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk such as delinquency or forbearance may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the KGFT determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default and credit-impaired financial assets

The KGFT considers a financial asset to be credit-impaired in the following circumstances (whichever occurs earlier):

- Exposures that are in default defined as outstanding for 90 days or more past due;

- Exposures that have been restructured due to financial distress or

- Exposures categorised as 'Non-performing' (includes 'Doubtful' and 'Loss') in terms of KGFT's credit policy.

As can be noted from the above the KGFT considers both qualitative and quantitative indicators in the assessment of whether a borrower is credit impaired (in default).

Staging criteria

Stage 1	Stage 2	Stage 3

23. Financial Risk Management (continued)

All exposures that have not had a significant increase in credit risk since initial recognition (in Stage 1 on initial recognition) or which have low credit risk at the reporting date (not meeting the criteria for Stage 2 and Stage 3). This includes:

- Standard (very low risk): those exposures which are not more than 30 days past due and meets the qualitative criteria per the Credit Policy; and

- Exposures that do not meet the notching criteria as discussed above.

Special mention (low risk): those exposures which are more than 30 days past due but less than 90 days past due and/or meets the qualitative criteria per the Credit Policy; and

Exposures whose internal credit rating is downgraded as per the quantitative notch downward criteria as discussed above.

Sub-standard (medium risk): those exposures that are 90 days or more past due but less than 180 days past due and/or meets the qualitative criteria per the Credit Policy; and

Doubtful accounts (high risk): those exposures which are 180 days and/or more past due but less than 364 days past due and meets the qualitative criteria per the Credit Policy;

Loss accounts (very high risk): those exposures which are 365 days or more past due and/or meets the qualitative criteria per the Credit Policy; and

Exposures that have been restructured due to financial distress.

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23. Financial Risk Management (continued)

Incorporation of forward-looking information

The KGFT incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The KGFT links macroeconomic information to credit parameters by producing a model and forward-looking information (FLI) that take into account the requirements and recommendations of the IFRS 9 standard and industry best practice.

The analyses of the FLI component are based on the KGFT's portfolio the correlation results pointing to shared relationships between the macroeconomic factors and credit index as well as economic theory. The findings from this analysis were captured in the form of a regression equation selected from a range of shortlisted equations. The preferred equation fulfils the relevant econometric requirements offers a good historical fit as well as provides reasonable and stable future forecasts for the credit index.

A range of macro-economic variables were selected to determine whether there was a correlation between the movement in the variable and the ECL model (determined using the KGFT's historically observed default rates) and to test for predictive relationships with the credit index. Data for the economic variables was sourced from the South African Reserve Bank (SARB) World Bank African Economic Outlook (AEO) International Monetary Fund (IMF) and National Treasury at the highest publication frequency available. In order to standardise the data to align to one common frequency a conversion of monthly data into quarterly data was required. Several variables and their lagged values were tested against the credit index for a relationship.

The following variables were identified and selected as they exhibited high correlations with the credit index and the fact that they were supportable by economic theory:

- Real gross domestic product (GDP) growth rate

The ECL calculation is based on three scenarios as follows:

- Base Case Scenario – The base case scenario is aligned to management's macro-economic view;

- Bull Case Scenario – The bull case scenario forecasts a potential upside view from the base case;

- Bear Case Scenario – the bear case scenario forecasts a potential downside view from the base case.

The equation selected fulfilled the requirements of historical goodness of fit forecast reasonability and econometric robustness.

ECL sensitivity analysis

Significant increase in credit risk

A reasonably possible upgrade or downgrade of relative trigger notches as at 31 March 2023 would have affected the expected credit losses of financial assets by the amounts shown below.

Loan and advances		
Cash and investment deposits	(24 042 149)	19 256 443

Modified financial assets

The contractual terms of a financial asset may be modified for a number of reasons including changing market conditions counterparty retention and other factors not related to a current or potential credit deterioration of the counterparty. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy for initial recognition of a financial asset.

The revised terms usually include extending the maturity changing the timing of interest payments changing the amount of the monthly instalment or changing the interest rate.

The KGFT renegotiates loans with counterparties in the following circumstances:

23. Financial Risk Management (continued)

- Distressed restructure (i.e. the borrower is in a financially distressed position);

- Adverse changes in macro- and micro-economic environment; and

- In order to remain competitive in the market KGFT will offer their customers more favourable terms in the event that the customer chooses to refinance their loan with another party that offers better terms than currently offered by KGFT to the customer.

When modifications take place the KGFT will perform a quantitative and qualitative evaluation of whether the cash flows of the original loan has been substantially modified (should be derecognised). When modification results in derecognition a new loan is recognised allocated to Stage 1 (assuming it is not credit-impaired at that time).

Generally distressed restructures to financial assets are a qualitative indicator of a significant increase in credit risk and an expectation of distressed restructures may constitute evidence that an exposure is credit-impaired. A counterparty needs to demonstrate consistently good behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the probability of default is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses.

When the terms of a financial asset are modified such that it does not result in derecognition the determination of whether the asset's credit risk has increased significantly reflects a comparison of:

- its remaining lifetime probability of default at the reporting date based on the modified terms;

- with the remaining lifetime probability of default estimated based on data at initial recognition and the original contractual terms.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following:

- probability of default (PD);

- loss given default (LGD);

- exposure at default (EAD);

- effective interest rate (EIR);

- PD lifetime; and

- LGD lifetime.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying lifetime PD by LGD and EAD. These parameters have been derived by utilising internal historical data as well as industry standard loss given default data. The PD has been adjusted to reflect forward-looking information as described above.

PD parameters are estimated at a point in time using internal historical default data and industry standard statistical models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. Both performing and non-performing exposures are considered in the PD calculation where the PD model tracks the default behaviour of performing accounts over the remaining life of the loan. For Stage 1 exposures this is limited to a 12 month period.

23. Financial Risk Management (continued)

LGD is the magnitude of the likely loss upon default. The KGFT estimates LGD parameters based on the expected future recoveries over the remaining lifetime of a defaulted account. The LGD models consider the structure collateral seniority of claim and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure at the point of default. The KGFT derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments the EADs are potential future amounts that may be drawn under the contract which are estimated based on historical observations and forward-looking forecasts.

As described above Stage 1 financial assets are measured using a 12 month ECL which considers the likelihood of default within the next 12 months the expected balance drawdown at this default point and the expected loss during default. For financial assets that have shown an increase in credit risk the KGFT measures ECL considering the risk of default over the maximum contractual period (including any counterparty's extension options representing the period the account is exposed to risk) as well as the balance outstanding at this point in time with the associated expected loss. The maximum contractual period extends to the date at which the KGFT has the right to require repayment of an advance or terminate a loan commitment.

Estimation techniques and significant assumptions used in the ECL model is assessed at each reporting date. Any changes made to the model in subsequent reporting periods will be disclosed accordingly.

The following table presents an analysis of the credit quality of loans and advances. It indicates whether assets were subject to a 12-month ECL or lifetime ECL allowance and in the latter case whether they were credit-impaired.

2023	**12-month ECL**	**Lifetime ECL – not credit-impaired**	**Lifetime ECL – credit-impaired**	**Total**
BB+ to B-	-	-	436 467 092	436 467 092
Subtotal	-	-	436 467 092	436 467 092
Loss allowance	-	-	(349 083 688)	(349 083 688)
	-	-	**87 383 404**	**87 383 404**

2022	**12-month ECL**	**Lifetime ECL – not credit-impaired**	**Lifetime ECL – credit-impaired**	**Total**
BB+ to B-	-	-	448 517 254	448 517 254
Subtotal	-	-	448 517 254	448 517 254
Loss allowance	-	-	(373 125 837)	(373 125 837)
	-	-	**75 391 417**	**75 391 417**

The KGFT did not have any loans that were past due but not impaired at 31 March 2023.

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23. Financial Risk Management (continued)

The movement in the allowance for impairment for loans and advances during the year was as follows.		
Balance at 1 April under IFRS 9	373 125 836	353 869 393
Transfer to lifetime ECL – not credit-impaired	(24 042 149)	19 256 443
	349 083 687	**373 125 836**

The loss allowance in these tables includes ECL on loan commitments because the KGFT cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

The following table provides an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in loss allowance.

Impact: Increase/(decrease) 2023		**Stage 1**	**Stage 2**	**Stage 3**
Increase/(decrease) in loans advanced for the year	-	-	-	(24 042 149)

Impact: Increase/(decrease) 2022		**Stage 1**	**Stage 2**	**Stage 3**
Increase/(decrease) in loans advanced for the year	-	-	-	19 256 443

Cash & cash equivalents and investment deposits

The KGFT held cash and cash equivalents and investment deposits of R1 137 458 133 thousand at 31 March 2023 (2022: R1 076 457 214). The KGFT invests surplus funds with financial institutions that are rated in accordance with Fitch rating of BBB with the exception of Ithala Limited which is not independently rated however has been approved as an authorised institution by the KGFT.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The KGFT considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The KGFT uses external credit risk ratings for the financial institutions in which it invests surplus cash and maps those credit ratings to probabilities of default. External benchmark information is used as a starting point for the loss given default calculation.

On initial application of IFRS 9 the impact of the loss allowance on cash and cash equivalents were immaterial refer to note 23 as these funds were invested reputable financial institutions and funds can be drawn from these institutions anytime they are required.

The movement in the allowance for impairment for cash and cash equivalents and investment deposit during the year was as follows.

Cash & cash equivalents and investment deposits - stage 1		
Gross balance at 31 March	1 140 221 751	1 076 457 214
	(2 763 618)	(2 763 618)
	1 137 458 133	**1 073 693 596**

Trade and other receivables

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23. Financial Risk Management (continued)

Trade and other receivables		
Gross balance at 31 March	9 342 845	5 973 767
Net re-measurement of loss allowance	(1 508 540)	-
	7 834 305	**5 973 767**

Management of credit risk

The KGFT's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards and by taking collateral for advances made. The KGFT through its Investment Committee has designed comprehensive investment credit and pricing policies that regulate the processes to be conducted in the evaluation of loans and advances as well as the terms and conditions under which loans and advances are made.

The KGFT assesses the credit rating of the loans and advances when it becomes party to the transaction and this is used to determine the credit margin which is included in the price that is charged to the loan. The KGFT's credit risks are monitored on a semi-annual basis by the Board of KGFT.

Cash and investment deposits are required to be held with the financial institutions as approved by the KGFT.

Exposure to credit risk

The KGFT's maximum credit risk exposure (before collateral and other credit enhancements) at the statement of financial position date is represented by the respective carrying amounts of the financial assets in the Statement of Financial Position. The risks on some of these exposures such as loans and advances are mitigated by collateral held.

The KGFT holds tangible and intangible securities for the loans and advances. This includes but is not limited to specific notarial bonds cession of insurance policies project accounts shareholder agreements and other assets.

Cash and investment deposits

The KGFT's cash and investment deposits are held mainly with South Africa financial institution with a rating of F3 (ZAR) short term National Rating based on rating agency Fitch ratings.

Concentration of credit risk

The Investment Committee reviews credit concentration of debt securities held based on counterparties and industries.

As at the reporting date the KGFT's debt securities exposures were concentrated in the following industries:

Transport and Logistics	13%
Health care	17%
Manufacturing	67%
Property – Shopping Mall	3%

Loans and advances

The KGFT enters into credit agreements that may result in credit loss in the event that the counterparty to the transaction is unable to fulfil its contractual obligation to the KGFT. The KGFT minimises its credit risk by monitoring the counterpart's creditworthiness in addition to this the counterparties are required to go through an approval process and provide collateral in order to qualify for a loan.

Trade and other receivables

The trade and other receivables as disclosed are exposed to credit risk and no amounts are overdue.

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23. Financial Risk Management (continued)

Counterparty risk

Credit risk also arises in the form of financial counterparty risk from the KGFT's cash and liquidity management activities. In order to mitigate this risk the KGFT only deals with the financial institutions as approved by the Board of Trustees.

Liquidity risk

Liquidity risk is the risk that the KGFT will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset or that such obligations will have to be settled in a manner disadvantageous to the KGFT.

Management of liquidity risk

The KGFT's policy and the KGFT's approach to managing liquidity is to have sufficient liquidity to meet its liabilities as and when due without incurring undue losses or risking damage to the KGFT's reputation.

The KGFT's liquidity risk is managed in accordance with policies and procedures in place whereby the KGFT overall liquidity risks are monitored on a regular basis by the Board of Trustees.

A summary of the KGFT's liquidity profile as at 31 March 2023 is as follows

Financial Assets	**On demand**	**Less than 1 year**	**From 1 to 5 years**	**Greater than 5 years**	**Total**
Investments	-	-	142 755 707	80 472 295	223 228 002
Loans and advances	324 300 472	72 212 265	39 954 352	-	436 467 089
Trade receivable	3 933 131	3 901 174	-	-	7 834 305
Cash and cash equivalents and investment deposit	44 770 509	1 072 513 244	20 174 380	-	1 137 458 133
Financial Liabilities					
Trade and other payables	(150 472 815)	-	-	-	(150 472 815)
	222 531 297	**1 148 626 683**	**202 884 439**	**80 472 295**	**1 654 514 714**
Cumulative Liquidity (shortfall)/excess	**222 652 400**	**1 371 279 083**	**1 574 163 522**	**1 654 635 817**	**1 654 635 817**

A summary of the KGFT's liquidity profile as at 31 March 2022 is as follows

Financial Assets	**On demand**	**Less than 1 year**	**From 1 to 5 years**	**Greater than 5 years**	**Total**
Investments	-	-	137 800 000	74 940 000	212 740 000
Loans and advances	241 741 656	83 164 594	117 908 482	6 027 672	448 842 404
Trade receivable	1 704 481	4 269 286	-	-	5 973 767

23. Financial Risk Management (continued)

Cash and cash equivalents and investment deposit	152 604 273	33 609 430	890 243 536	-	1 076 457 239
Financial Liabilities					
Trade and other payables	(141 200 381)	-	-	-	(141 200 381)
	254 850 029	**121 043 310**	**145 952 018**	**80 967 672**	**1 602 813 029**
Cumulative Liquidity (shortfall)/excess	**254 850 029**	**375 893 339**	**1 611 805 115**	**1 801 363 111**	**1 801 363 111**

The table shows the undiscounted cash flows of the KGFT's financial liabilities on the basis of their earliest possible contractual maturity. The gross amounts include interest payable where appropriate. The Trust's expected cash flows on these instruments do not vary significantly from this analysis.

Market risks

Market risk is the risk that changes in market prices such as interest risk that will affect the KGFT's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Management of market risks

The KGFT's market risk is managed by the KGFT in accordance with policies and procedures in place. The KGFT's level of borrowing and consequently the debt service costs are closely monitored and controlled by the Trustees having regards to the prevailing and projected interest rates and the KGFT's capacity to service such debt from future earnings. The KGFT mitigation measures against the market risk is shown under note number 8.

Interest rate risk

Interest rate risk refers to the susceptibility of the KGFT's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the KGFT through their net effect on interest rate sensitive assets. At the same time movements in interest rates impact the KGFT's capital through their net effect on the market value of assets. Interest rate risk in the KGFT arises naturally as a result of its funding and lending operations.

This risk materialises in the KGFT's significant cash portfolio invested in various interest earning bank treasury and call accounts. The KGFT is dependent on interest income from cash on call to fund its annual operations and will become more dependent on interest income from cash balances as well as from the originated loans portfolio to fund its annual operational requirements going forward.

Interest rate risk sensitivity analysis

In assessing the impact of changes in interest rates on the most impacting areas of the investment activities of the KGFT the effect of a 1% change in the interest environment around originated loans and cash and investment deposits was considered as follows:

2023	**Carrying Amount**	**Interest Earned**	**Sensitivity of 1% effective interest adjustment**
Loans and Advances	436 467 092	(2)	4 364 671
Cash & Cash equivalents and Investment Deposit	1 137 458 133	68 740 702	11 374 581

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23. Financial Risk Management (continued)

	1 573 925 225	68 740 700	15 739 252

2022	Carrying Amount	Interest Earned	Sensitivity of 1% effective interest adjustment
Loans and Advances	448 517 254	(2 057 617)	4 485 173
Cash & Cash equivalents and Investment Deposit	1 073 693 621	42 023 023	10 736 936
	1 522 210 875	39 965 406	15 222 109

Exposure to margin risk

The KGFT is exposed to the risk that the fair value or future cash flows of its financial instruments will be affected by the impairment of financial assets. The internal procedures require the KGFT to manage margin risk in accordance with policies and procedures in place. The KGFT has designed a Risk Reward profile to assist the KGFT in managing the margin risk.

2023	Less than 1 year	From 1 to 5 years	Greater than 5 years	Total
Cash & cash equivalents and investment deposits	137 458 133	-	-	137 458 133
Preference Shares	-	-	79 712 295	79 712 295
Equity Investments	-	142 755 707	-	142 755 707
Shareholder loans	-	-	760 000	760 000
Loans and advances	396 512 737	39 954 352	-	436 467 089
	533 970 870	182 710 059	80 472 295	797 153 224

2022	Less than 1 year	From 1 to 5 years	Greater than 5 years	Total
Cash & cash equivalents and investment deposits	1 076 457 239	-	-	1 076 457 23
Preference Shares	3 000 000	15 000 000	45 900 000	63 900 00
Equity Investments	-	239 030 323	-	239 030 32
Shareholder loans	-	285 110 852	-	285 110 85
Loans and advances	324 906 250	117 583 333	6 027 672	448 517 25
	1 404 363 489	656 724 508	51 927 672	2 113 015 66

Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes technology and infrastructure supporting the KGFT's operations either internally within the KGFT or externally at the KGFT's service providers and from external factors other than credit market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all the KGFT's activities.

Notes to the Annual Financial Statements

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23. Financial Risk Management (continued)

The KGFT's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Trustees.

This responsibility is supported by the development of overall standards for the management of operational risk which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers in the following areas:

- Requirements for appropriate segregation of duties between various functions roles;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Contingency plans;
- Ethical and business standards; and
- Risk mitigation including insurance where this is effective.

The KGFT's assessment over the adequacy of the controls and processes in place with respect to operational risks is carried out via regular discussions and a review of the audited annual financial statements reports on internal controls and budgets where available.

Capital management

The capital contribution represents capital provided from the KwaZulu-Natal Department of Economic Development Tourism and Environmental Affairs which is made in terms of the Capital Contribution Agreement. In terms of the Evolution Strategy funds previously received for equity from the beneficiary (and held in a warehousing capacity outside of capital within the Debt Fund) was approved to be utilised for the KGFT mandate and revised product offerings was transferred to capital. There are no repayment terms and this funding is interest free. The quantitative data of how KGFT manages its capital is shown under note number 9.

24. Commitments

Capital expenditure

Other		
• Contribution to en-commadite partnership	300 000 000	300 000 000

The KGFT entered into an en-commadite partnership with PIC to form an Equity Fund which will be managed by KGFT through KGF Capital (Pty) Ltd (refer to note 26). Each limited liability partner will commit R300m each resulting to R600m Asset under Management. The KGFT Equity team is currently finalising the conditions precedents in relation to side letter agreement between KGFT and PIC in order to start drawing down funds required from each partner to be able to have sufficient to run the Equity from operational and investment purposes. This agreement was entered into in 2018 and the comparative has been restated to reflect the commitment. Following the impact of COVID19 and change in KGFT management the Condition Precedent for draw down were affected.

25. Taxation

No provision has been made for taxation for the KGFT as the entity is considered a vested entity of the Department of Economic Development & Tourism (as the ultimate beneficiary of the KGFT is the KwaZulu-Natal Government) which is exempt from income tax in terms of Section 10(1)(a) of the Income Tax Act no 58 of 1962 ('the Act').

Notes to the Annual Financial Statements

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26. Related parties

The KGFT is one of twelve (12) entities within the Department of Economic Development Tourism & Environmental Affairs (EDTEA). As such these entities and other entities within the sphere of Government are considered to be related parties. The KGFT enters into transactions with related parties in its normal course of business.

The following are the KGFT's key related parties and the transactions entered into during the financial year:

Department of Economic Development Tourism & Environmental Affairs

The Department of Economic Development Tourism & Environmental Affairs (EDTEA) is the ultimate beneficiary of the KGFT.

During the 2023 financial year a total amount of R49m of annual allocation was provided by the KwaZulu-Natal Provincial Government and this budget allocation received in second and third quarters of 2023 financial year. The amounts received related to the annual fund allocation refer to note 9. In addition, the KGFT received funds from Youth Fund of R20m from EDTEA during the year under review. Included in the unspent amount is R40m from EDTEA and R54.9m from Office of the Premier in relation to Youth Fund, refer to note 9.

During the 2022 financial year a total amount of R39m was provided by the KwaZulu-Natal Provincial Government and this budget allocation received in second and third quarters of 2022 financial year. The amounts received related to the annual fund allocation refer to note 9.

Ithala SOC Ltd

Ithala SOC Limited is a wholly owned subsidiary of Ithala and operates as a retail bank operating under an exemption licence with the South African Reserve Bank. Both Ithala and KGFT are one of the twelve entities within EDTEA. Funds held on fixed deposit as at 31 March 2023 amounted to R109 874 795.46 (2022: R83 845 944.23) including accrued interest. Total interest earned during the year totalled R7 493 255.42 (2022: R5 079 442.96). Ithala SOC Limited further provided intermediary insurance advisory services for which insurance payments totalling R3 097 596 (2022: R3 283 800) were paid during the year.

Key management personnel

The total committee fees for the year comprised of below as per note 19:		
Trustee's fees	2 774 554	1 446 120
Investment Committee's	321 668	316 324
Audit and Risk Committee's	242 185	452 928
Human Resource & Remuneration Committee fees	452 083	217 708
Social & Ethics Committee fees	177 489	133 726
	3 967 979	**2 566 806**

Executive management remuneration for the year refer to note 19		
Executive management remuneration	9 352 533	6 456 778

KwaDukuza Private Hospital (Pty) Ltd

The KGFT holds 26% of the shareholding in KwaDukuza Private Hospital (Pty) Ltd. Transactions with this entity is disclosed in note 5 to the financial statements.

KDPH		
Transactions (Interest)	11 463 608	8 546 816
Loans and advances	75 093 549	75 093 549
Impairment	(18 049 771)	(15 664 852)

Inoxa Industries (Pty) Ltd

The KGFT holds 35% of the shareholding in Insa Industries (Pty) Ltd. Transactions with this entity is disclosed in note 5 to the financial statements

Figures in Rand	2023	2022

26. Related parties (continued)

INSA		
Loans and advances	77 999 871	78 603 571
Impairment	**(77 999 871)**	**(78 603 571)**

Ross Healthcare (Pty) Ltd

The KGFT holds 25% of the shareholding in Ross Healthcare (Pty) Ltd. Transactions with this entity is disclosed in note 5 to the financial statements.

SheepCor Midlands (Pty) Ltd

The KGFT former CEO (Aubrey Shabane) was appointed as Director of SheepCor Midlands (Pty) Ltd where KGFT is managing the project and usage of funds on behalf of EDTEA. The project has been moved to a government agency focusing on agricultural projects and unused funds of R37m have been transferred back to KZN Treasury. Transactions with this entity is disclosed in note 8 and 16 to the financial statements.

SheepCor		
Transactions (Opex)	179 603	-
Payables balance	3 407 860	3 587 463

KGF Capital (Pty) Ltd

The KGFT holds 49% of the shareholding in KGF Capital (Pty) Ltd. Lwazi Zondi (KGFT CFO) and Xolani Nhapo (KGFT Acting Chief Investment Officer) are appointed as Directors of KGF Capital (Pty) Ltd where KGF Capital is a fund manager in an en-commadite partnership structure between PIC and KGFT. Transactions with this entity is disclosed in note 5 to the financial statements.

KGF Capital (Pty) Ltd		
Receivable balance	760 000	740 000

The KZN Growth Fund Education Trust

The Education Trust is the majority shareholder of the Fund Manager, holding 51% of shareholding KGF Capital (Pty) Limited. This is a Broad-Based Black Economic Empowerment (B-BBEE) trust which will benefit underprivileged black people (as defined in the BBBEE Act) who qualify in terms of certain selection criteria to receive bursaries, scholarships and/or financial assistance Lwazi Zondi(KGFT CFO) and Nkosinathi Nkosi (KGFT CRO) are appointed as Trustees of Education Trust. There was not transactions and balances with regards to KZNGF Education Trust during the year.

Dube Trade Port

The Dube Trade Port Chief Operating Offer (Mr K Ngqaka) has been seconded to KGFT as Acting CEO since 14 Dec 2022 up until appointment is finalised. Transactions with this entity is disclosed in note 17 to the financial statements.

Dube Trade Port		
Salaries	3 351 605	724 725

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

27. Contingencies

KwaDukuza Private Hospital (Pty) Ltd (KDPH)

The KGFT holds 26% of the equity shareholding in KwaDukuza Private Hospital (Pty) Ltd. During the financial year, the KGFT issued a letter of undertaking to provide financial support for future periods subject to KGFT management obtaining approval from various. It must be further noted that the amount of any outflow in respect letter of undertaking cannot be reliable measured at this stage. KGFT's equity is valued at R0. The project is in litigation, summons served in November 2022.

Matter with co-shareholder at INSA

The KGFT together with the co-shareholder ("Brand Investment Pty Ltd") owns equity shareholder at INSA which is one of the projects approved was approved including disbursements for funding. The company (INSA) has not managed to fully commission the plant to ensure efficient operation. The KGFT has invested R82m and Brand has invested R63m on the project. This has resulted to the following legal matters:

Brand has instituted action against the Growth Fund Trust the individual Trustees and the Honourable MEC for an amount of R 63.2 million as a result of damages it has incurred due to the liquidation of INSA (Pty) Ltd ("INSA") and interest amount of R9.95 million

It is alleged that the Growth Fund Trust and the individual Trustees (collectively "the Trust") induced Brand to invest in INSA on the basis of material representations that were false alternatively that the representations were made negligently and without the requisite due care and diligence.

A letter of demand was addressed to the KwaZulu-Natal Growth Fund Trust the individual Trustees Webber Wentzel Attorneys on behalf of Brand Investments (Pty) Ltd ("Brand"). The matter is before court and summons/application has been issued.

The Plaintiff served a Replication to the KGFT's plea wherein the Plaintiff deny that the cession was mala fides due to Robvin having a bona fide claim against Brand, so, their contention is that the cession is one for value. During the discovery process, this statement will be investigated. Robvin also claim that Brand's deed of suretyship was limited, however, there is no limitation.

The KGFT attorneys proposed that Robvin's action against KGFT and KGFT's action against Brand be consolidated or proceed as one trial. The reason for the proposal is that much of the evidence and issues will be the same in both actions. The court rules provide that where two matters have substantially the same evidence and facts to be led and are interconnected, the court can consolidate the two matters so that they have heard together – in-order to save costs and time.

The two cases were consolidated in March 2022 and pre-trial was held in March 2023. Brand and Robvin informed the KGFT, that the KGFT's respective responses to Robvin and Brand's requests for admissions were deficient and evasive, insofar as that KGFT refused to provide the admissions that were sought on certain issues [e.g of issues (amongst many) were that KGFT shared teaser of project, internal confidential information and induced defendants to signing deed of suretyship etc] and, in this regard, requested that the KGFT revisit its respective responses to the admissions that were sought. The KGFT proposed that both Robvin and Brand serve its supplementary request for admissions regarding those paragraphs wherein KGFT will reply again.

Figures in Rand	2023	2022

28. Financial Assets and Liabilities

Accounting Classifications and Fair Values

The following tables present the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

The carrying amount of loans and advances cash and investment deposits and trade and other receivables is a reasonable approximation of fair value.

Categories of financial instruments

Categories of financial assets

2023

	Notes	Equity investments - Mandatorily at fair value	Equity investments - Mandatorily at fair value	Shareholder loans - Mandatorily at fair value	Amortised cost	Total	Fair value
Loans receivable	8	-	-	-	87 383 404	87 383 404	-
Investments	5	79 712 295	142 755 707	760 000	-	223 228 002	223 228 002
Trade and other receivables	7	-	-	-	7 834 305	7 834 305	7 834 305
Cash and investment deposits	6	-	-	-	1 137 458 133	1 137 458 133	44 770 510
		79 712 295	**142 755 707**	**760 000**	**1 232 675 842**	**1 455 903 844**	**275 832 817**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

28. Financial Assets and Liabilities (continued)

2022

	Notes	Preference shares - Mandatorily at fair value	Equity investments - Mandatorily at fair value	Shareholder loans - Mandatorily at fair value	Amortised cost	Total	Fair value
Loans and advances	8	-	-	-	75 391 417	75 391 417	-
Investments	5	74 200 000	137 800 000	740 000	-	212 740 000	212 740 000
Trade and other receivables	7	-	-	-	5 973 767	5 973 767	5 973 767
Cash and investment deposits	6	-	-	-	1 073 693 621	1 073 693 621	152 604 273
		74 200 000	**137 800 000**	**740 000**	**1 155 058 805**	**1 367 798 805**	**371 318 040**

Categories of financial liabilities

2023

	Notes	Amortised cost	Total	Fair value
Trade and other payables	12	150 472 815	150 472 815	-

2022

	Notes	Amortised cost	Total	Fair value
Trade and other payables	12	142 921 964	142 921 964	-

Levels in fair value hierarchy

Financial assets measured at fair value Investments	Level 1	Level 2	Level 3	Total
Equity investments	-	-	142 755 707	142 755 707
Shareholder loans	-	-	760 000	760 000
Preference shares	-	-	79 712 295	79 712 295
			223 228 002	223 228 002

The following tables represent the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments measured at fair value in the statement of financial position as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs and how they are developed	Inter-relationship between significant unobservable inputs and fair value measurement

28. Financial Assets and Liabilities (continued)

Equity investments	Eg Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee adjusted for the effect of the non-marketability of the equity securities and the revenue and EBITDA of the investee. The estimate is adjusted for the net debt of the investee.	Eg Adjusted market multiple	Eg The estimated fair value would increase (decrease) if the adjusted market multiple were higher (lower).
Shareholder loans	Eg The valuation model considers the present value of the expected future payments discounted using a market-adjusted discount rate.	Eg - Expected cash flows Eg – Market-adjusted discount rate	Eg The estimated fair value would increase (decrease) if: - the expected cash flows were higher (lower); or - the risk-adjusted discount rate were lower (higher).
Preference shares	Eg The valuation model considers the present value of the expected future payments discounted using a market-adjusted discount rate.	Eg - Expected cash flows Eg – Market-adjusted discount rate	Eg The estimated fair value would increase (decrease) if: - the expected cash flows were higher (lower); or - the risk-adjusted discount rate were lower (higher).

Level 3 fair values

Reconciliation of Level 3 fair values

Notes to the Annual Financial Statements

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28. Financial Assets and Liabilities (continued)

	Equity investments	Shareholder loans	Preference Shares	Total
Balance at 31 March 2021	107 670 000	3 540 000	71 200 000	182 410 000
Net change in fair value	30 130 000	(2 800 000)	3 000 000	30 330 000
Balance at 31 March 2022	137 800 000	740 000	74 200 000	212 740 000
Net change in fair value	4 955 707	20 000	5 512 295	10 488 002
	142 755 707	**760 000**	**79 712 295**	**223 228 002**

Sensitivity analysis

For the fair values of equity investments, shareholder loans and preference shares reasonably possible changes at the reporting date to one of the significant unobservable inputs holding other inputs constant would have the following effects.

	Profit or loss	
Increase	**Decrease**	**Equity investments**
		Eg Adjusted market multiple (5% movement)
28%		**Shareholder loans**
		Eg Expected cash flow movement (10% movement)
	100%	Eg Market-adjusted discount rate (1% movement)
		Preference shares
		Eg Expected cash flow movement (10% movement)
4%		Eg Market-adjusted discount rate (1% movement)

Comparative information

The table below provides reconciliation of the line items in the KGFT's statement of financial position to the categories of financial instruments.

Gains and losses on financial assets

Accounting Classifications and Fair Values 2023	Financial Assets	Financial Assets	Other financial liabilities	Total
Equity Investments	-	223 228 002	-	223 228 002
Loans and advances	-	87 383 404	-	87 383 404

Notes to the Annual Financial Statements

Figures in Rand			2023	2022

28. Financial Assets and Liabilities (continued)

Cash and investment deposits	-	137 458 133	-	137 458 133
Trade and other receivables	-	7 834 305	-	7 834 305
Trade and other payables	-	-	(150 472 815)	(150 472 815)
	-	**455 903 844**	**(150 472 815)**	**305 431 029**

Accounting Classifications and Fair Values	**Financial Assets**	**Financial Assets**	**Other financial liabilities**	**Total**
Equity Investments	-	212 740 000	-	212 740 000
Loans and advances	-	75 391 418	-	75 391 418
Cash and investment deposits	-	1 073 693 621	-	1 073 693 621
Trade and other receivables	-	5 973 767	-	5 973 767
Trade and other payables	-	-	(141 921 964)	(141 921 964)
	-	**1 367 798 806**	**(141 921 964)**	**1 225 876 842**

29. Events after the reporting period

Amendements to the Trust Property Act was the only event identified subsequent to year end that requires disclosure in the annual financial statements.

Amendment to the Trust Property Act 2023 were affect from 1 April 2023. KGFT will have to comply with following amendments:
i) disclose to an accountable institution that we engage with in the capacity of a trustee that the relevant transaction or business relationship relates to trust property;
ii) record the details of accountable institution prescribed in regulation 3B;
iii) establish and record the beneficial ownership information of a trust prescribed in regulation 3C;
iv) keep an up-to-date record of the beneficial ownership information prescribed in regulation 3C; or
v) lodge a register of the beneficial ownership information prescribed in regulation 3C with the Master of the High Court.

30. Fruitless and wasteful expenditure

	2023	2022
Add: Fruitless and wasteful expenditure current	63 287	-

Fruitless and wasteful expenditure relate to late payement of PAYE, UIF and SDL for the month of May 2022.