



CAPE WOOLS SA
CREATING WEALTH IN WOOL



Annual Report

2016/17

CONTENTS

About us	P1
Chairman's Review	P2
CEO's review of operations	P3
Industry Statistics	P5
• General	P5
• The Wool Market	P5
• Production and Sales	P6
• Clip Profile	P6
• Early Stage Processing and Fibre Export Profile	P7
• Exports by Major Destination, on Value	P7
• Exports by Major Destination, on Weight	P8
• Clip Distribution—Graphs	P8
Promotion	P10
Research and Development	P11
Wool Production Advisory Services	P14

FINANCIAL STATEMENTS

Statement of Directors' Responsibility
Report of the Independent Auditors
Directors' Report
Statement of Financial Position
Statement of Comprehensive Income
Statement of Changes in Equity
Statement of Cash Flows
Notes to the financial statements
Detailed income statement

ABOUT US

WOOL PRODUCER ORGANISATIONS (Including Small Stock Breeders' Society Group)

Dr GE de Kock (Chairman)
SK Makinana
GM du Toit
WG van Zyl

WOOL BROKERS AND TRADERS GROUP

W Edmayr

WOOL BUYERS AND EARLY PROCESSORS GROUP

PA Lynch (Vice-chairman)
DJ Pape
CF Friskin
RA Kirsten

LABOUR

MG Manqindi

PURPOSE

Our **purpose** at Cape Wools is to create wealth in wool. Whether your group is a producer, buyer or any other group, we at Cape Wools are unified by this purpose, to create wealth in wool, and it assists us in all our decisions for the greater good of the wool industry.

VISION

Our **vision** at Cape Wools is being the leading role-player in a profitable and growing wool industry.

MISSION

The **mission** of Cape Wools is to support the South African wool industry with research, development, promotion and market intelligence through progressive, independent and transparent projects, respecting different role-players.

VALUES

We **value**:

- ♦ innovation and creativity
- ♦ being effective and accountable to all our stakeholders
- ♦ being socially and environmentally responsible
- ♦ being a trusted partner

CORPORATE GOVERNANCE

Cape Wools SA is a tax-exempt entity without share capital. It was established as an association on March 11, 1997, in terms of Section 21 of the Companies Act (Act 61 of 1973).

The company's Memorandum of Incorporation declares its main business as the promotion of group interests involved in the production, trading and consumption of South African wool.

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CHAIRMAN'S REVIEW

The past season was still severely affected by the drought in almost all of the wool producing areas of South Africa. These conditions also led to a poor maize crop resulting in higher feed prices. These two factors severely impacted on the ability of the growers to take advantage of the excellent performance of the wool price.

Despite that, wool production in South Africa increased from 49 809 402 kg last season (2015/16) to 52 458 410 kg in the reporting period. An increase year-on-year of 5,31%. The increase over the previous five-year average production of 48 773 454 kg was an even more impressive 7,5% with an equally impressive 10,6% increase over the average production over the previous ten years.

It is however still a concern that, despite the efforts of all role-players in the wool industry to stimulate increased wool production, the accumulative year-on-year growth over the previous 10 years was approximately only 0,6% per annum. This was despite the wool price increasing by an average of more than 11% year-on-year for the same period. If one includes the 2016/17 season the year-on-year price increase over the last decade was an even more impressive 12% per annum with a year-on-year accumulative production growth of approximately only 1%.

Stimulating an increase in wool production in South Africa has been identified as one of the primary functions of Cape Wools. Thus our research priorities, local promotion and on farm advisory services, as well as our focus on biosecurity and our lobbying efforts, are all aimed at increasing and sustaining wool production. One hopes that these efforts, supported by the steady increase in wool prices, will result in continued increases in production in all wool producing regions.

The past season's South African wool clip was the biggest since the 1998/99 season and was handled, tested, auctioned, recorded, exported or processed without significant constraints. To everyone involved in this process, as well as to the producers growing this clip, a warm "Well done".

In an attempt to add fresh ideas to Board discussions and to allow younger wool growers and buyers to be exposed to the workings of Cape Wools, Messrs. H B van der Walt, Andrew Pape and Ken Craig were invited to participate in Board meetings this year. I would like to thank these gentleman, as well as the serving Board members, for their effort and dedication to serve the wool industry. I would in particular like to thank Messrs. Lynch and Edmayr (exco members), Mr Friskin (chairman of the production advisory committee) and Mr Kirsten (head of delegation to the IWTO).

The staff of Cape Wools under the guidance of Mr Louis de Beer again needs to be applauded and thanked for making Cape Wools not only a respected role player in the South African agricultural environment but also in the global wool family.

At Cape Wools we can only hope and pray to God that the coming season will be blessed with good country wide rains providing much needed relief but especially to the critically dry Western growing regions.

CEO REVIEW OF OPERATIONS

The 2016/17 wool growing season traded at record levels with the Cape Wools Merino Indicator well above the 15 000 c/kg (clean) level and reaching an all-time high of 16,673 at auction 30 on 19 April 2017.

The weak Rand ensured that producers returned sufficient Rands for their wool sales, however, there was more to the market than just currency. Globally supply of wool is at a 70-year low with demand steadily on the rise. The demand for good quality long wool was excellent throughout the season and there was hefty competition for all wool offered at auction. The drought still hampered production in most of the production areas, yet despite this, wool received at brokers' stores increased by 5%. This is very encouraging as it is significantly above the medium-term average of 50 m/kg that the industry has become accustomed to receiving. Practically all wool offered at auction was sold and very little if any stocks are to be found along the wool pipeline. This bodes well for the 2017/18 season!

During the current and previous season Cape Wools went to great lengths to encourage participation and expanded production of wool. The Wool Industry Growth Plan message was refined and all of Cape Wools' initiatives were aligned accordingly. Essentially the Growth Plan identifies the current excellent opportunity that wool production holds and invites role-players participation without prescribing activities. We also maintain that this opportunity is also in national interest and presents a solution for South Africans struggling to find solutions for their land reform challenges as woolled sheep farming is an excellent economic driver and should be considered for use on the vast expanses of unproductive lands.

The National Woolgrowers' Association of South Africa successfully delivered on the second year of the two-year tender. Six extra production advisors were employed to assist in delivering the services to communities in the Eastern Cape and we are glad to report that their integration was successful.

The advice received from the Cape Wools Production Advisory Committee, under the

Chairmanship of Mr. Clarence Friskin, was instrumental in aligning the 2017/18 Production Advisory Services Tender to the expectations of the South African producer base. The valuable information gleaned from the biannual survey was also incorporated and the focus of the service was aligned accordingly.

During May 2017, the IWTO congress was hosted in Harrogate, United Kingdom with the theme "Wool in a digital age". The finances of the IWTO, under the care of its treasurer, Mr. Wolfgang Edmayr, were reported to be in good shape and Mr. Peter Ackroyd will continue as President of the IWTO for the foreseeable future. The IWTO enjoys the support of the South African Wool Industry and Cape Wools is committed to support the IWTO initiatives. South Africans play pivotal roles at IWTO with both the Biosecurity and Sustainable Practices Working Groups chaired by South Africans, supported by Cape Wools.

Onderstepoort Biological Products (OBP) Board of Directors was re-appointed, with Dr. Pieter Vervoort and Dr. Charlotte Nkuna appointed. This is appreciated as a big step in the right direction for OBP and we believe that the appointment of a competent CEO will follow shortly. The South African wool industry is heavily reliant on the vaccines produced at OBP and the national flocks disease status is at risk when OBP is dysfunctional.

The (JSE) Johannesburg Stock Exchange partnered with Cape Wools to launch the Merino Wool Futures Contract during this period under review. The intention of the contract is to establish a financial instrument that gives role-players in the wool industry the ability to hedge their risk. The biggest challenge when starting up a futures contract is in generating the liquidity required for trade to happen. Cape Wools is fortunate to have the JSE committed to making the market.

Vodacom partnered with Cape Wools to develop a tracking device specific to the wool sheep industry and supported by the high-tech abilities and logistical support of Vodacom. The advantages of partnering with Vodacom on this project was in the commitment to expanding their network to oblige their devices roll-out. Take-up of

the offering was picking up at period end as Vodacom activated their corporate marketing efforts to promote the device as part of their greater connected farmer vision and our Growth Plan.

The industry requirement for wool appraisers as well as technical staff knowledgeable on wool continues to grow and Cape Wools remains committed to training interns. Mr. Juan van Schalkwyk was successfully employed at Quantrio Wools following his training by industry.

Traceability as well as animal identification form integral parts of disease control and market readiness for our product. Radio frequency identification of bales and the impact of RFID on the logistics of bale movements will impact the industry and Cape Wools supported research on this in collaboration with industry. The staffing challenges experienced throughout government departments on which we are dependent have highlighted the need to streamline industries' process through the use of technology.

Throughout the year our partners at Zulukama, the Olive Leaf Foundation, received requests from neighbouring properties and communities for assistance. The St. Marks community in particular proved noteworthy as their infrastructure could support the substantial expansion to wool. This successful initiative continues to go from strength to strength.

Cape Wools partnered with the Bureau for Food and Agriculture Policy (BFAP) to assist policy and decision makers through providing better information suited to their needs through the BFAP network publication. We believe that this partnership will unlock value for the industry eventually through its influence at policy decision level.

Cape Wools successfully lobbied government for funding to support infrastructure developments to the industry. R15,4 million was made available to the Eastern Cape Department of Rural Development and Agrarian Reform as a result.

The Wool Industry Growth Plan application for cluster funding on a sub-national basis was submitted and we await the outcome of this submission. We are excited about the prospects this holds to impact the growth of our industry as well as the potential for collaboration with the Mohair and Cotton Industries.

Our sincere appreciation to the staff of Cape Wools for their sterling efforts in ensuring the success of Cape Wools without which none of this would be possible. A special word of gratitude for Mrs. Trudie Greeff who retired from the industry after having served the industry well.

INDUSTRY STATISTICS

GENERAL

Continuation of the statutory measures for registration and records and returns in the South African wool industry was granted on 4 April 2016 for a period of four years to lapse on 30 June 2020.

THE WOOL MARKET

The 2016/17 season opened to a solid start with the Cape Wools Merino Indicator closing at an increase of 13,61% above the corresponding sale of the previous year. Demand for good quality, long Merino wool characterised a buoyant market throughout the season and eventually the Cape Wools Merino Indicator closed at a value of R152,18 (clean), 3,6% up on the opening sale.

Export earnings of R4 289 million was up by 3,33% on the previous year.

Exports to China increased by 3,45% in volume and 4,45% in value and China is now entrenched as South Africa's primary export destination receiving 71% in value and 75% in volume of South Africa's wool shipments. The Czech Republic increased in volume from a healthy 6,9 million kg to 7,4 million kg, a 7,2% increase year-on-year.

Italy increased its consumption of South African wool from 3,1 million kg by 2,17% to 3,2 million kg, unfortunately the value declined year-on-year by 7,55% ending the year at a healthy R458 million.

The supply of wool is at its lowest in 70 years whilst demand driven by consumer preference is growing steadily. The wool pipeline remains empty with very little stock along the value chain. The value of wool traded and the prices paid to market during this period reflects the supply gap and we foresee this to continue in the foreseeable future.

The Rand started the season at R13,42 and ended at R12,88 to the US Dollar. It was a gradual increase in value of 4,2% over the year with the cabinet reshuffle seeing Minister Gordhan ousted during March 2017 resulting in a 9% weakening of the Rand over a period of two weeks being the only glitch. The undervalued Rand is a concern and we foresee the Rand strengthening barring any further political shenanigans.

The second half of the season again saw the market follow its familiar trend moving sideways between the 15500 c/kg and 16670 c/kg levels. Demand for good quality long wool was strong throughout with high demand for finer wools driving the market upwards.

The South African wool producers delivered 5%, 2,5 million kg more wool to broker stores during this period compared to the corresponding period of the previous season. The extra volumes were marketed and sold without a mention which supports our growth assumption that demand far outstrips supply.

The South African clip remains mules-free which undoubtedly gives South Africa a competitive advantage in the market, however, we are more concerned about the overall image of wool as a whole to the consumer than we are about winning inter-continental trophies.

During the season, South Africa's export markets in alphabetical order received included Bulgaria, China, Czech Republic, Egypt, France, Germany, Hong Kong, India, Italy, Malaysia, Mexico, Mauritius, South Korea, United Kingdom and USA. Sixteen destinations in total and testimony to the skills of the South African buyers.

During the period nine buyers purchased wool on the South African market. Modiano purchased the most bales (102 681), Standard Wool second (97 124) and Lempriere SA third (72 207). At the end of the season Tianyu SA registered as a buyer and bought 1 738 bales at its first auction (13,3%) showing its intent to take its share of the market.

Imports of wool totalled 386 085 kgs down by 30% from 556 962 kg. Wool was imported from Argentina (28%), Australia (44%) and New Zealand (28%).

PRODUCTION AND SALES

BROKER RECEIPTS AND BUYER RETURNS (Kg greasy)			
Source	2016/2017	2015/2016	Change (%)
Eastern Cape	18 158 275	17 065 019	+ 6,4
Free State	9 437 028	8 768 316	+ 7,6
Western Cape	8 389 212	8 345 829	+ 0,5
Northern Cape	6 165 665	5 841 280	+ 5,6
Lesotho	6 566 012	5 722 225	+ 14,7
Mpumalanga	2 200 894	2 361 636	- 6,8
KwaZulu Natal	638 896	684 668	- 6,7
North West	588 321	581 711	+ 1,1
Gauteng	303 496	325 428	- 6,7
Limpopo	8 386	5 275	+ 59,0
Namibia	2 225	2 581	- 13,8
TOTAL	52 458 410	49 703 968	+ 5,5

CLIP PROFILE

An analysis of the characteristics of the clip delivered during this season, and in comparison to the previous season, showed that of all fleece wool deliveries, only 45% was good topmaking or better.

Deliveries tested as follows:

Superfine:	<17,6 μ	5%
Fine:	17,6 μ – 18,9 μ	11%
Medium:	19,0 μ - 22 μ	77%
Strong:	>22 μ	7%

Vegetable matter (VM) tested very low as was the case during the 2015/2016 season with 77% of wool on offer testing lower than 2% VM.

Yields were lower this season as 55% tested 60% and higher compared with 56,8% in 2015/2016.

The overall quality of the clip for 2016/2017 was good.

EARLY-STAGE PROCESSING AND FIBRE EXPORT PROFILE

The total mass of wool received for processing was 6 738 798 kg which was 5,4% down on receipts the previous season.

The mass returned from processing per class was scoured 77 580 kg (-64,95%); carbonising 1 363 353 kg (-6,37%); top 2 069 272kg (-6,0%); noil 413 118 kg (-27,3%).

An analysis of fibre exports again confirmed the ongoing trend of growth in greasy wool exports. During the 2016/2017 season South Africa exported 93,3% in weight and 88,6% in value.

The total value of fibre exported amounted to R4 289 940 859, up 3,3% from R4 151 484 114 in 2015/2016.

EXPORTS BY MAJOR DESTINATION, ON VALUE, 2016/2017 (GREASY)

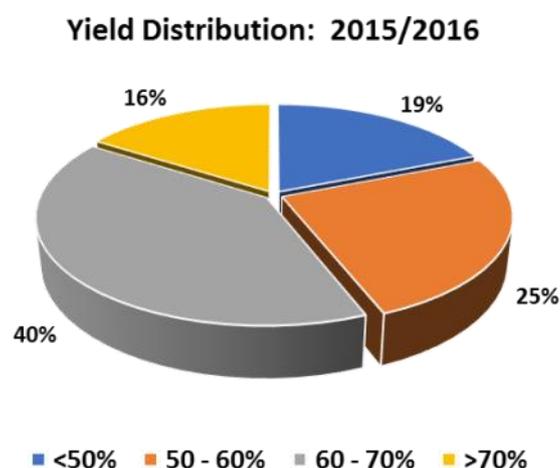
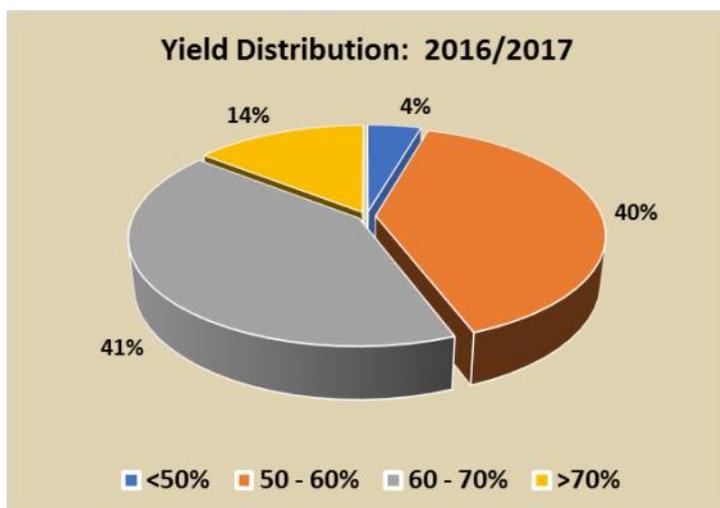
*FOB = FREE-ON-board

Country	Total FOB Value (R)	% Contributions by Product Type			% of Total FOB Value, All Destinations
		Grease	Scoured	Combed	
China/Macau	2 754 425 896	98,3	1,4	0,2	64,2
Czech Republic	678 878 508	100,0	0,0	0,0	15,8
Italy	458 620 800	41,7	12,4	43,8	10,7
India	106 674 995	99,0	0,0	1,0	2,5
Germany	93 980 946	0,0	31,5	67,5	2,2
Egypt	81 886 669	100,0	0,0	0,0	1,9
France	36 654 302	0,0	0,0	100,0	0,9
U.S.A.	13 150 542	0,0	22,6	77,4	0,3
U.K.	13 908 561	0,0	0,0	62,2	0,3
OTHER	40 551 628	83,3	4,6	11,0	0,9
Mauritius	11 208 012	0,0	0,0	100,0	0,3
TOTAL	4 289 940 859	88,6	3,0	8,0	100,0

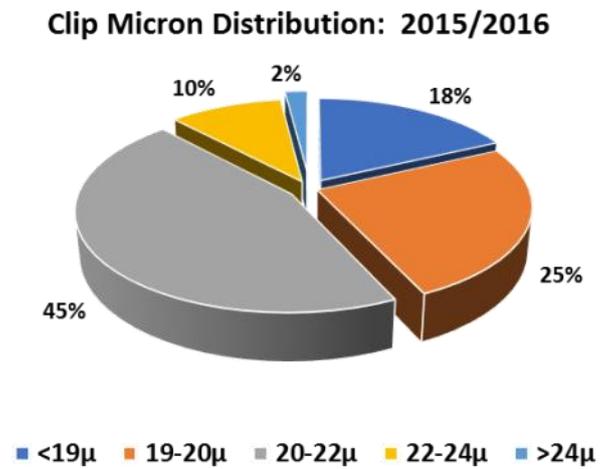
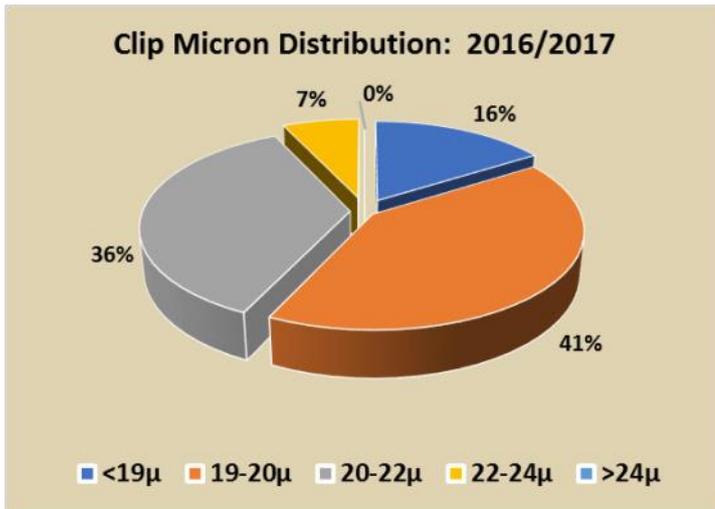
EXPORTS BY MAJOR DESTINATION, ON WEIGHT, 2016/2017 (GREASY)

Country	Greasy Weight (kg)	% Contributions by Product Type			% of Total Weight, All Destinations
		Grease	Scoured	Combed	
China/Macau	33 514 670	99,1	0,89	0,001	64,2
Czech Republic	7 436 239	100,0	0,0	0,0	15,5
Italy	3 264 598	48,0	17,1	34,9	10,7
India	1 041 828	98,9	1,1	0,0	2,5
Germany	644 903	0,0	42,0	58,0	2,2
Egypt	681 774	100,0	0,0	0,0	1,9
France	220 588	0,0	0,0	100,0	0,9
U.K.	135 673	0,0	63,4	36,6	0,3
U.S.A.	68 912	0,0	32,3	67,7	0,3
OTHER	356 339	87,5	5,8	6,7	1,2
Mauritius	67 911	0,0	0,0	100,0	0,3
TOTAL	47 433 435				100

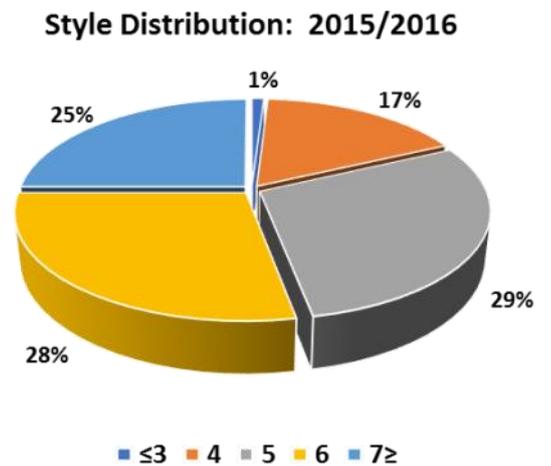
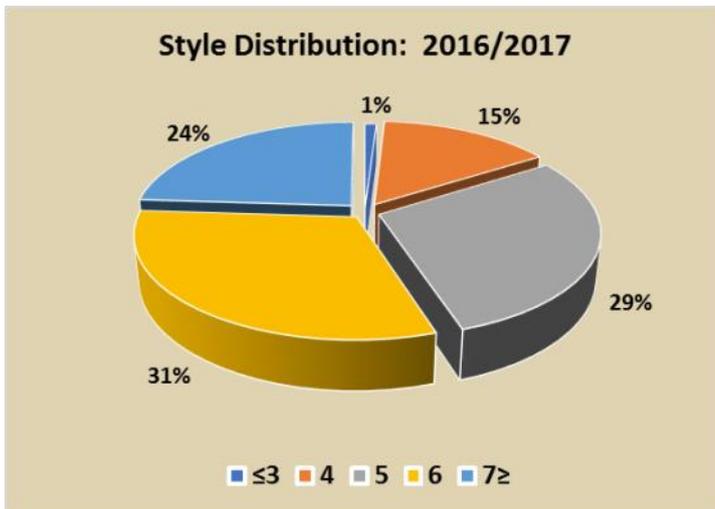
CLIP YIELD DISTRIBUTION



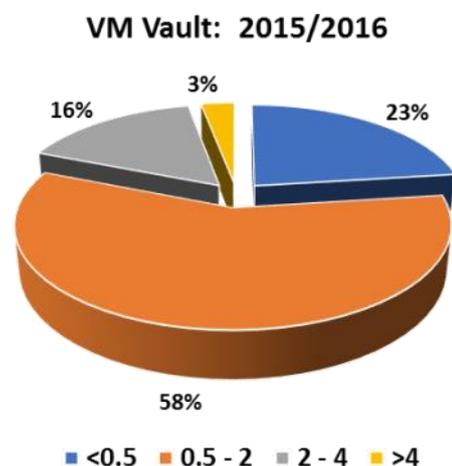
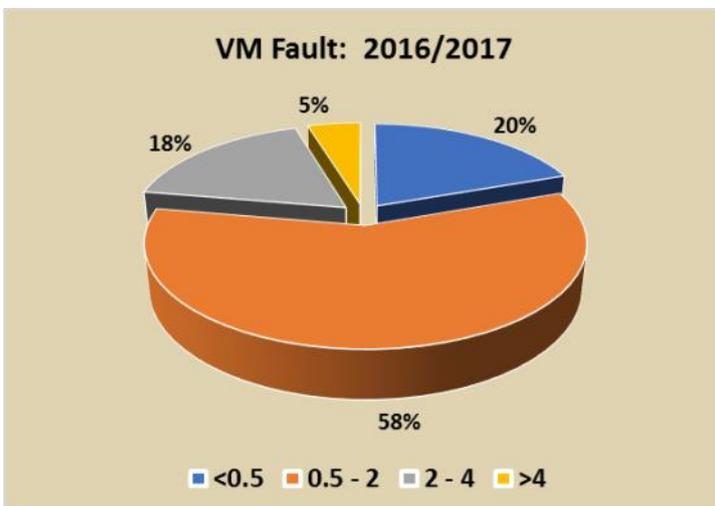
CLIP MICRON DISTRIBUTION



STYLE DISTRIBUTION - FLEECE WOOLS



VM VAULT (%)



PROMOTION

Collaborative marketing of wool internationally is still regarded by Cape Wools as the best option in spending its producers' and industry role-players' marketing Rands. This policy paid handsome dividends at the Campaign for Wool's conference which was held at Dumfries House in East Ayrshire, Scotland. The Dumfries House conference brought together the world's wool community and the most prestigious international gathering of wool experts to gather in the UK recently.

The Dumfries House Wool Declaration signing was presided over by His Royal Highness, The Prince of Wales, Patron of the Campaign for Wool which agrees amongst other things that the major wool growing countries conform to the strictest standards of animal welfare standards as is promised on the five freedoms of animal welfare as set forth by the World Organisation for Animal Health (OIE). The conference was attended by 200 delegates and news of its success and message was widely published in the press.

Marks and Spencer CEO, Steve Rowe, reconfirmed Marks and Spencer's commitment to wool as one of the leading retailers of wool items who use over 3 000 tonnes of wool annually.

We are glad also to confirm His Royal Highness' commitment to the Campaign for Wool of another five years was also agreed.

Hats off to Mr. Nicholas Coleridge CBE and Chairman of the Campaign, as well as Mr. Peter Ackroyd MBE and CEO of the Campaign for a job well done at Dumfries House and with the affairs of the Campaign as a whole.

Another successful Campaign event was the visit by His Royal Highness to Sala Bianca on the 3rd of April where wool exhibits from the best Italian wool spinning and weaving mills were displayed in collaboration with Ideabiella and Pitti Immagine Filati as well as renowned names like Ermenegildo Zegna, Loro Piana, Fay Brothers and Company, Lanificio di Tollegno and Gruppo Giuseppe Botto.

Various other successful activities were hosted by the Campaign during this period, most notably the Wool Week UK in London which included the Wool BnB: Living with Wool Initiative. The Wool BnB welcomed guests to a house kitted out completely in wool including bedrooms, carpets and wardrobes to demonstrate how living with wool can be beneficial.

In South Africa Cape Wools changed tack and decided to host a function in Swellendam to celebrate wool production and thank wool producers for their continued support of the wool industry in place of Wool Week displays at retail. The event proved to be successful despite the challenges of hosting a grand event for 200 people at a remote location. Mr. Peter Ackroyd MBE, President of the IWTO, attended the event and his message to the producer audience was appreciated.

Projects that were delivered to completion during this period include the JSE, launching the Wool Futures Contract and the Vodacom sheep tracing device for wool sheep farmers.

The Cape Wools Promotion Committee agreed a focus going forward that would include SA Fashion Week activation with retail window displays and supported by print and advertorials with the purpose of linking young designers to the wool value chain as well as local agricultural show support and an expanded focus on the Wealth in Wool Growth Plan.

RESEARCH & DEVELOPMENT

A total amount of R1 421 700 was allocated to 13 wool related research projects . This is an increase of 42% on the previous year. Of the allocated funds 99,6% was spent as opposed to only 70% the previous year. The main reason for this dramatic increase in funds allocated was because of a concerted effort by the Research and Development Committee over the past few years to stimulate interest in wool related research. What is however of concern is that very few project proposals come from Grootfontein and Dohne Agricultural Institutes and the Universities. Three projects have been completed with one final report still outstanding whilst 6 new projects have been approved for 2017/18.

CAPE WOOLS SA Projects								
PROJECT (Short Name)	INSTITUTION	PROJECT LEADER	2015/16		2016/17		TOTAL FUNDING FROM INCEPTION	2017/18
			Bud	Act	Bud	Act	(R)	(R)
Genomic Breeding	GADI	M.A. Snyman	200 000	200 000	200 000	200 000	600 000	-
OJD Validation	CSIR	Anton Botha	100 000	100 000	100 000	100 000	200 000	-
Proper wool classing	NWGA	Louis du Pisani			75 000	75 000	75 000	-
Lucern cropping systems	Elsenburg	J Labuschagne			11 700	11 700	11 700	41 180
Rangeland Biodiversity	GADI	Loraine vd Berg	60 000	60 000	60 000	60 000	380 000	60 000
Johne's Study	Elsenburg	Schalk Cloete	143 682	143 682	100 000	100 000	243 682	100 000
Temperature Analysis	CSIR	Anton Botha	50 000	-	200 000	193 883	193 883	49 000
Scientific Assessment	NMMU	Graham Kerley	250 000	-	250 000	250 000	500 000	250 000
Short Duration Grazing	UCT	H Hawkins	200 000	200 000	200 000	200 000	400 000	200 000
Model for Lamb Production	Elsenburg	Tertius Brand			120 000	120 000	120 000	120 000
Evaluation of tail docking	Elsenburg	A.J. Scholtz			25 000	25 000	25 000	27 500
Assessment of ovine meat traits	Elsenburg	Schalk Cloete			30 000	30 000	30 000	30 000
Disease-free Wool	CSIR	Anton Botha	-	-	-	(cont.)	126 000	47 000
Wool Comfort Properties	CSIR	Anton Botha	-	-	50 000	50 000	144 500	50 000
Zulukama/Indibano Project	Olive Leaf	Rolf Pretorius	180 000	200 000	255 000	255 000	738 008	355 000
Long Term Bio	GADI	Loraine vd Berg			-	-		25 000
Helminth Management	UP	Jan van Wyk			-	-		70 000
Grape Pomace	SUN	Cletos Mapiye			-	-		82 000
SNP's	GADI	M.A. Snyman			-	-		200 000
Whole Farm Decision Support	SUN	Willem Hoffmann			-	-		100 000
Hydroponic Grain	NWGA	Louis du Pisani			-	-		40 400
			1 183 682	903 682	1 676 700	1 670 583	3 787 773	1 847 080

Genomic breeding

This project has successfully achieved its initial three year objective namely to successfully establish a reference population for the South African Merino breed. The project has been concluded but Cape Wools has entered into a new project agreement with the same research team with the eventual aim of implementing genomic breeding values in the wool sheep industry. The project led to the publication of 4 research papers.

OJD validation

This project will be completed by December 2017. Up to now satisfactory results have been obtained insofar as the researchers have managed to culture MAP organisms from both faecal and tissue samples. PCR amplification has also been successfully used to increase the sensitivity of the diagnostic procedure. Proficiency and inter laboratory test results have also been satisfactory.

Effect of proper wool classing

A study was undertaken to see if improving the standard of wool classing in the communal production areas would lead to the producers receiving more for their wool. The results of this limited study proved otherwise. What was found was that profitability was increased by using proper shearing shed equipment, most notably wool presses as this led to heavier bales and fewer bin bales.

Lucerne cropping system

This project was started in March 2016 and the first lucerne was planted in May 2017. So far it appears as if establishment of the lucerne was successful. 2 plots were planted, one on fallow land and the other on a site planted to a cover crop in 2016. This is a long term project (ending in 2023) and has been successfully initiated.

Rangeland biodiversity monitoring

The purpose of this long term project is to monitor the effect of various grazing practises on the biodiversity of the arid and semi-arid Karoo. The effects of droughts inevitably have an impact on the monitoring process. The results from a study to determine the effect of various long term grazing strategies on plant biodiversity has been accepted for publication. It was found that high density grazing followed by periods of rest was most beneficial to increased plant biodiversity.

Model for lamb production

The aim of this study is to determine feed intake and growth rates of different sheep breeds enabling producers to rear lambs more efficiently. This project is in the early stage and no data is available. The project is running according to the project protocol.

Johne's Study - effect of vaccination with Gudair

So far this project has confirmed the following.

- 1) that Gudair vaccine results in a positive ELISA test (85%).
- 2) That Johne's disease has a low incidence even in positive unvaccinated flocks.
- 3) No shedding of bacteria was found in the flock vaccinated with Gudair.
- 4) Although the population tested was small, there was no statistical evidence indicating breed susceptibility to Johne's infection.

Temperature recording of wool bale contents

Of eleven consignments sent to Europe (6), China (4) and India (1), only one consignment's (to India) average inner bale temperature approximated the minimum 40 degrees Celsius required to inactivate Foot and Mouth virus (as recommended by the OIE terrestrial animal manual).

Scientific assessment of predation of small stock in South Africa

This project was delayed as some partners experienced difficulty in releasing the committed funds. During the past year the project has however been initiated and a total of R181 000 of the R500 000 contributed by Cape Wools thus far has been spent according to the project protocol. A Project Custodian Group has been appointed, Lead Authors and co-authors contracted, reviewers approved (30 in total) and the first draft document submitted for review.

Evaluation of the effect of tail docking on Merino lambs

This project aims to monitor the effect of tail docking on Merino lambs. 173 Merino lambs born during autumn 2016 were divided at random into two groups. One group's tails were docked at the 3rd joint with a hot iron at approximately 3 weeks of age. The control group was left intact. Docking had no effect on weaning weight, lamb survival or rate of fly strike. This project is continued in 2017/18.

Genetic assessment of ovine meat traits

As meat production makes a significant contribution to profitable wool sheep farming it was decided to contribute to the funding of this project. As the data is already available the cost of the research is low. As meat traits are hard to measure it is expected to benefit from genomic selection. The project is on schedule and is continued in 2017/18.

Disease-free wool

The effect of radiation on the properties of wool. Gamma-ray radiation appeared to have altered the protein structure of the wool sampled. This could explain the colouring (yellowing) of the treated wool. Samples were subsequently subjected to microwave irradiation and the effects thereof are currently being analysed with results expected by the end of 2017.

The positive effect of wool's comfort properties in terms of climate change

As reported last year the tests initially done using the Permatest method were replicated at Cornell University (New York). The results confirmed what was found with the Permatest method, namely that fibre mass and thickness were the determining factors on the measured comfort properties of the 12 different suits. (with identical construction but different fibre composition).

High density, short duration grazing (HDSD)

High density, short duration grazing (HDSD) , the impact there of on animal production and veld condition. Thus far the the control group of animals (cattle) on the conventional grazing systems fared better (higher daily mass gain) than those on the HDSD system. Unfortunately the implementation of HDSD grazing at 2 different communal farming sites was abandoned because the communities for various reasons stopped the rotational grazing practices. Because of the nature of this project it would be best to evaluate the long term (10 to 20 years) effects of different grazing practices. It is of concern that the communal grazing component of the project has been abandoned.

The five village system: HLLM communal to commercial

Cape Wools has also been involved with the funding of a community development project in the Zulukama region. This project has evolved from the initial youth co-operative project (concluded in March 2016) and was followed by the 5 village project where the knowledge and credibility gained during the youth project was used to expand the project to 5 villages. The aim of this project is to find and test ways of making communal wool sheep farming profitable to the point of being sustainable i.e. from being unsustainable subsistence to commercial. Holistic land and livestock management strategies form the basis of the current phase of the project. The project is running on schedule.

WOOL PRODUCTION ADVISORY SERVICES

Cape Wools delivers production advisory services to the wool producers of South Africa. This service is available to every and any producer of wool. This service is not subject to the producers' membership of any organisation. The delivery of production advisory services is put to tender on a two-year period.

The current tender contract is for the period 1 July 2017 until 30 June 2019. The tender for the following period will be decided during the second quarter of 2019.

The wool industry delivers training and transfers knowledge to producers across a large geographic and demographic area. The success of the wool industry is dependent on the successful delivery of this service.

The delivery of the production advisory services to the wool industry for this period was contracted to the National Woolgrowers Association of South Africa (NWGA).

The NWGA reports achieving good success rates in delivering the services. 118% success in achieving the contract targets for delivering the production advisory services to the communal

areas and 122% achieved for the delivery of contracted production advisory services to the communal areas

Staff shortages hampered service delivery but industry's commitment to employing a further 6 production advisors for a 3½ year period has greatly assisted in alleviating this problem.

Economic Study Groups popularity and efficiency as a tool to achieve production advisory knowledge transfer was highlighted as a concern. Fortunately a comprehensive analysis and diagnostic tool used by the advisors in the field now provides solutions to the producers.

South Africa's World Sheep Shearing Champion in the blade shearing division, Mr. Mayenseke Shweni, won the World Championships in Ireland. Congratulations! The NWGA is convinced of the quality of the shearer training due to the performance of the National Shearing Team.

Wool classing was supported through an analysis of the Clip Fault Reporty and a decline in the number of faults was reported.

**ANNUAL
FINANCIAL
STATEMENTS**

Cape Wools SA NPC
(Registration number 1997/003450/08)
Annual Financial Statements
for the year ended 30 June 2017

Cape Wools SA NPC
(Registration number 1997/003450/08)
Annual Financial Statements for the year ended 30 June 2017

Index

The reports and statements set out below comprise the annual financial statements presented to the members:

Index	Page
Directors' Responsibilities and Approval	2
Directors' Report	3 - 4
Independent Auditors' Report	5 - 7
Statement of Financial Position	8
Statement of Comprehensive Income	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Accounting Policies	12 - 15
Notes to the Financial Statements	16 - 20

The following supplementary information does not form part of the financial statements and is unaudited:

Detailed Income Statement	21
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Level of assurance

These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Prepared under the supervision of:

CF Lane CA (SA)

Directors' Responsibilities and Approval

The directors are required by the Companies Act 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 30 June 2018 and, in light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 5 to 7.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of the members, the directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The annual financial statements and additional schedule set out on pages 3 to 21, which have been prepared on the going concern basis, were approved by the directors on 11 September 2017 and were signed on its behalf by:



Chairman



Vice Chairman



Chief Executive Officer
LMJ de Beer

Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Cape Wools SA NPC for the year ended 30 June 2017.

1. Nature of business

Cape Wools SA NPC was incorporated in South Africa. The main business of the company is to promote the group's interest involved in the production and consumption of wool.

2. Review of financial results and activities

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the company was R 2,258,894 (2016: R 2,650,509), after taxation of R - (2016: R -).

3. Staff complement

At 30 June 2017, the company employed 4 staff members (2016: 6 staff members).

4. Going concern

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

5. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report that would have a material impact on these annual financial statements.

6. Directors' interests in contracts

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the company.

Cape Wools SA NPC
(Registration number 1997/003450/08)
Annual Financial Statements for the year ended 30 June 2017

Directors' Report (continued)

7. Directors

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

Name	Designation
De Kock GE	Chairman
Lynch PA	Vice-chairman
Friskin CF	Non-executive
Manqindi MG	Non-executive
Makinana SK	Non-executive
Du Toit GM	Non-executive
Edmayr W	Non-executive
Van Zyl WG	Non-executive
Kirsten RA	Non-executive
Pape DJ	Non-executive

8. Secretary

The company secretary is LMJ de Beer.

Postal address	PO Box 2191 North End Port Elizabeth 6056
Business address	16 Grahamstown Road North End Port Elizabeth 6056

9. Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90 of the Companies Act 71 of 2008.



Independent auditor's report

To the Members of Cape Wools SA NPC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cape Wools SA NPC (the Company) as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

What we have audited

Cape Wools SA NPC's financial statements set out on pages 8 to 20 comprise:

- the statement of financial position as at 30 June 2017;
 - the statement of comprehensive income for the year then ended;
 - the statement of changes in equity for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).



Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of South Africa, Directors' Responsibilities and Approval and the Detailed Income Statement. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: S Williams
Registered Auditor
Port Elizabeth
11 September 2017

Cape Wools SA NPC
(Registration number 1997/003450/08)
Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

	Notes	2017 R	2016 R
Assets			
Current Assets			
Trade and other receivables	2	11,441,631	8,255,276
Cash and cash equivalents	3	7,770,546	9,393,744
		<u>19,212,177</u>	<u>17,649,020</u>
Non-Current Assets			
Property, plant and equipment	4	111,789	124,512
Non-current receivables	5	1,944,961	1,906,240
		<u>2,056,750</u>	<u>2,030,752</u>
Total Assets		<u>21,268,927</u>	<u>19,679,772</u>
Equity and Liabilities			
Liabilities			
Current Liabilities			
Trade and other payables	6	314,752	984,491
Equity			
Members' interest	7	100	100
Non-distributable retained surplus		1,863,476	2,152,832
Reserve arising on receipt of assets from Wool Trust		190,687	190,687
Wool Promotion Reserve		8,875,839	8,546,859
Research and Development Reserve		10,024,073	7,834,283
Shearing Shed Reserve		-	(29,480)
		<u>20,954,175</u>	<u>18,695,281</u>
Total Equity and Liabilities		<u>21,268,927</u>	<u>19,679,772</u>

The accounting policies on pages 12 to 15 and the notes on pages 16 to 20 form an integral part of the annual financial statements.

Cape Wools SA NPC
 (Registration number 1997/003450/08)
 Annual Financial Statements for the year ended 30 June 2017

Statement of Comprehensive Income

	Notes	2017 R	2016 R
Revenue	8	33,463,753	26,783,384
Other income	9	2,780	775,661
Operating expenses		(24,204,718)	(19,006,249)
Administrative expenses		(8,535,204)	(7,032,450)
Operating surplus	10	726,611	1,520,346
Finance income	11	1,546,499	1,130,163
Finance costs	12	(14,216)	-
Surplus for the year		2,258,894	2,650,509
Other comprehensive income		-	-
Total comprehensive income for the year		2,258,894	2,650,509

The accounting policies on pages 12 to 15 and the notes on pages 16 to 20 form an integral part of the annual financial statements.

Cape Wools SA NPC
(Registration number 1997/003450/08)
Financial Statements for the year ended 30 June 2017

Statement of Changes in Equity

	Note	2017 R	2016 R
Members interest	7	<u>100</u>	<u>100</u>
Non-distributable reserves			
<i>Non-distributable retained surplus</i>			
At beginning of year		2,152,832	1,995,174
Surplus for the year		2,258,894	2,650,509
Transfer to Wool Promotion Reserve		(328,980)	(2,029,962)
Transfer to Research and Development Reserve		(2,219,270)	(865,905)
Transfer from Shearing Shed Reserve		-	403,016
At end of year		<u>1,863,476</u>	<u>2,152,832</u>
<i>Reserve arising on receipt of assets from Wool Trust</i>			
At beginning of year and end of year		<u>190,687</u>	<u>190,687</u>
<i>Wool Promotion Reserve</i>			
At beginning of year		8,546,859	6,516,897
Transfer from non-distributable retained surplus		328,980	2,029,962
Distribution received from SAWAMBA		7,926,318	7,843,006
Foreign exchange (loss)/gain		(879,703)	700,372
Interest earned on promotion reserve		391,149	306,727
Wool promotion expenses paid		(7,108,784)	(6,820,143)
At end of year		<u>8,875,839</u>	<u>8,546,859</u>
<i>Research and Development Reserve</i>			
At beginning of year		7,834,283	6,968,378
Transferred from non-distributable retained surplus		2,219,270	865,905
Gross project funding allocated		8,800,000	3,000,000
Notional interest income		898,594	582,130
Present value adjustment		(914,450)	(755,799)
Expenses paid		(6,564,874)	(1,960,426)
Transfer from Shearing Shed Reserve		(29,480)	-
At end of year		<u>10,024,073</u>	<u>7,834,283</u>
<i>Shearing Shed Reserve</i>			
At beginning of year		(29,480)	373,536
Transfer to/(from) Research and Development Reserve and Non-distributable retained surplus		29,480	(403,016)
Transfer to Research and Development Reserve		29,480	-
Expenses paid		-	(403,016)
At end of year		<u>-</u>	<u>(29,480)</u>
Total		<u>20,954,175</u>	<u>18,695,181</u>

Cape Wools SA NPC
(Registration number 1997/003450/08)
Annual Financial Statements for the year ended 30 June 2017

Statement of Cash Flows

	Notes	2017 R	2016 R
Cash flows from operating activities			
Cash receipts from customers		31,140,051	26,847,062
Cash paid to suppliers and employees		(33,342,687)	(25,663,153)
Cash (used in) generated from operations	15	(2,202,636)	1,183,909
Finance income		647,905	548,033
Finance costs		(14,216)	-
Net cash from operating activities		(1,568,947)	1,731,942
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(54,251)	(70,002)
Sale of property, plant and equipment	4	-	19,998
Net cash from investing activities		(54,251)	(50,004)
Total cash movement for the year		(1,623,198)	1,681,938
Cash at the beginning of the year		9,393,744	7,711,806
Total cash at end of the year	3	7,770,546	9,393,744

The accounting policies on pages 12 to 15 and the notes on pages 16 to 20 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of annual financial statements

Cape Wools SA NPC is a non-profit company incorporated in South Africa. The address of its registered office and principal place of business is 16 Grahamstown Road, North End, Port Elizabeth, 6056. The main business of the company is to promote the group interest involved in the production and consumption of wool.

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the Companies Act 71 of 2008. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make judgements, estimates and assumptions that affect the amounts presented in the annual financial statements and related disclosures. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

No significant estimates and judgements

No significant estimates and judgements have been applied in the preparation of these financial statements.

1.2 Financial instruments

When a financial asset or financial liability is recognised initially, it is measured at the transaction price (including transaction costs) unless the arrangement constitutes, in effect, a financing transaction.

Financial instruments at amortised cost

These include loans, trade receivables and trade payables. Those debt instruments which meet the criteria in section 11.8(b) of the standard, are subsequently measured at amortised cost using the effective interest rate method. Debt instruments which are classified as current assets or current liabilities are measured at the undiscounted amount of the cash expected to be received or paid, unless the arrangement effectively constitutes a financing transaction.

At each reporting date, the carrying amounts of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence, the recoverable amount is estimated and compared with the carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in the statement of comprehensive income.

Trade receivables

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less.

Accounting Policies

1.2 Financial instruments (continued)

Trade payables

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest rate method.

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into Rand using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

1.3 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.4 Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, or for rental to others or for administrative purposes; and are expected to be used during more than one period.

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

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

Depreciation is provided using the straight-line method to write down the cost, less estimated residual value over the useful life of the property, plant and equipment as follows:

Item	Average useful life
Furniture and fittings	5 years
Motor vehicles	5 years
Office equipment	5 years
Computer equipment	3 years
Computer software	3 years

The residual value, depreciation method and useful life of each asset are reviewed and adjusted prospectively, if appropriate, only where there is an indication that there has been a significant change from the previous estimate.

Gains and losses on disposals are recognised in the statement of comprehensive income.

1.5 Leases

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

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless:

- another systematic basis is representative of the time pattern of the benefit from the leased asset, even if the payments are not on that basis, or
- the payments are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

Accounting Policies

1.6 Impairment of non-financial assets

The company assesses at each reporting date whether there is any indication that property, plant and equipment may be impaired.

If there is any such indication, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in the statement of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in the statement of comprehensive income.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as leave pay, sick leave, bonuses and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted.

1.8 Provisions and accruals for employee leave entitlement

Provisions are recognised when:

- the company has an obligation at the reporting date as a result of a past event;
- it is probable that the company will be required to transfer economic benefits in settlement; and
- the amount of the obligation can be estimated reliably.

Provisions are not recognised for future operating losses.

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

1.9 Revenue

Revenue is recognised to the extent that the company has transferred the significant risks and rewards of ownership of goods to the buyer, or has rendered services under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transaction will flow to the company. Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax and discounts.

Interest is recognised, in the statement of comprehensive income, using the effective interest rate method.

Cape Wools SA NPC
(Registration number 1997/003450/08)
Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.10 Foreign exchange

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in the functional currency of the company, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in the statement of comprehensive income in the period in which they arise.

Notes to the Financial Statements

	2017 R	2016 R
2. Trade and other receivables		
Trade receivables	1,800,789	2,121,427
Prepayments	2,255,380	3,243,598
Project funding distribution from Wool Trust	7,369,201	2,823,583
Other receivables	16,261	66,668
	<u>11,441,631</u>	<u>8,255,276</u>

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

No provision for doubtful debts has been made as the company has no recent history of significant bad debt write-offs.

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash	2,000	2,000
Current accounts	51,758	65,878
Call accounts	7,716,788	9,325,866
	<u>7,770,546</u>	<u>9,393,744</u>

4. Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fittings	73,912	(39,795)	34,117	72,536	(28,354)	44,182
Office equipment	113,518	(73,284)	40,234	86,024	(64,081)	21,943
Computer equipment	194,911	(163,759)	31,152	169,367	(128,277)	41,090
Computer software	148,168	(141,882)	6,286	148,168	(130,871)	17,297
Total	530,509	(418,720)	111,789	476,095	(351,583)	124,512

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Depreciation	Total
Furniture and fittings	44,182	1,376	(11,441)	34,117
Office equipment	21,943	27,494	(9,203)	40,234
Computer equipment	41,090	25,381	(35,319)	31,152
Computer software	17,297	-	(11,011)	6,286
	<u>124,512</u>	<u>54,251</u>	<u>(66,974)</u>	<u>111,789</u>

Notes to the Financial Statements

2017
R

2016
R

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fittings	7,088	46,645	-	(9,551)	44,182
Motor vehicles	1	-	(1)	-	-
Office equipment	14,034	12,193	-	(4,284)	21,943
Computer equipment	69,120	11,164	-	(39,194)	41,090
Computer software	30,552	-	-	(13,255)	17,297
	120,795	70,002	(1)	(66,284)	124,512

Registers with details of property, plant and equipment are available for inspection by the members or their duly authorised representatives at the registered office of the company.

5. Non-current receivables

Project funding distribution from Wool Trust	<u>1,944,961</u>	<u>1,906,240</u>
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The project funding distribution from Wool Trust is recoverable over four years. This receivable is denominated in Rands and is not impaired. The company does not hold any collateral as security.

6. Trade and other payables

Trade payables	57,767	302,661
South African Revenue Services - VAT	53,575	487,843
Accruals	203,410	193,987
	<u>314,752</u>	<u>984,491</u>

7. Members' interest

Total members' interest	<u>100</u>	<u>100</u>
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Total members' interest consists of the following groups:

<u>Groups</u>	
Wool Producer Group	49 %
Wool Buyers and Early Processors Group	22 %
Wool Brokers and Traders Group	16 %
Small Stock Breeders Group	5 %
Wool Testing Group	3 %
Labour Group	5 %
	<u>100 %</u>

8. Revenue

Distribution funding group interest	17,724,058	16,696,177
Project research funding	7,885,550	2,244,201
Wool promotion funding	7,854,145	7,843,006
	<u>33,463,753</u>	<u>26,783,384</u>

Cape Wools SA NPC
 (Registration number 1997/003450/08)
 Annual Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

	2017 R	2016 R
9. Other income		
Foreign exchange gain	-	700,372
Other	2,780	55,292
Profit on sale of property, plant and equipment	-	19,997
	<u>2,780</u>	<u>775,661</u>
10. Operating surplus		
Operating surplus for the year is stated after accounting for the following:		
Operating lease charges		
Lease rentals on operating lease		
• Office	202,259	185,678
Lease rentals on operating lease		
• Fax and photocopy machines	44,527	40,665
	<u>246,786</u>	<u>226,343</u>
Foreign exchange loss	879,703	-
Depreciation on property, plant and equipment	66,974	66,284
Employee costs	2,799,161	2,673,040
Emoluments as directors	347,863	313,087
	<u>4,073,907</u>	<u>3,058,098</u>
11. Finance income		
Interest received		
Bank	647,905	548,033
Notional interest on long term receivable	898,594	582,130
	<u>1,546,499</u>	<u>1,130,163</u>
12. Finance costs		
SARS	14,216	-
	<u>14,216</u>	<u>-</u>
13. Auditors' remuneration		
Audit fees	113,000	106,000
Other services	85,470	11,425
	<u>198,470</u>	<u>117,425</u>
14. Taxation		

No provision has been made for tax as the company is exempt from Income Tax, under Section 10(1)(cN) of the Income Tax Act.

Cape Wools SA NPC
(Registration number 1997/003450/08)
Annual Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

	2017 R	2016 R
15. Cash (used in) generated from operations		
Surplus before taxation	2,258,894	2,650,509
Adjustments for:		
Depreciation	66,974	66,284
Profit on sale of property, plant and equipment	-	(19,997)
Finance income	(1,546,499)	(1,130,163)
Finance costs	14,216	-
Notional finance income	898,594	582,130
Changes in working capital:		
Trade and other receivables	(3,186,355)	(1,091,365)
Trade and other payables	(669,739)	329,259
Change in long term loan receivable	(38,721)	(202,748)
	<u>(2,202,636)</u>	<u>1,183,909</u>

16. Commitments

Operating leases – as lessee (expense)

Minimum lease payments due

- Not later than 1 year	238,408	222,688
- Later than 1 year and not later than 5 years	398,723	645,881
Total future cash flows	<u>637,131</u>	<u>868,569</u>

Operating lease payments represent rentals payable by the company for their offices and other equipment. Leases relating to the offices are for a period of 5 years with an annual escalation of 8%. Leases relating to other equipment are for a period of 5 years with an annual escalation linked to inflation. No contingent rent is payable.

17. Related parties

Related party balances and transactions with related parties

Related party transactions

The company receives an annual distribution from Wool Trust to fund the promotion of the group interests involved in the production and consumption of wool. From time to time the Wool Trust also makes additional distributions for specific projects. The company is the only beneficiary of the Wool Trust.

Wool Promotion funding was received from the South African Wool and Mohair Buyers Association ("SAWAMBA") to fund the various promotional activities of the company. There is commonality between the members and directors of Cape Wools SA and this entity.

Distributions received from related parties

Wool Trust

- Distribution funding group interests	17,724,058	16,696,177
- Project funding	7,885,550	2,244,201
SAWAMBA		
- Wool Promotion Funding	7,854,145	7,843,006
	<u>33,463,753</u>	<u>26,783,384</u>

Notes to the Financial Statements

	2017 R	2016 R
17. Related parties (continued)		
Amounts receivable from related parties		
Wool Trust	9,314,162	4,729,823
SAWAMBA	1,772,425	2,097,102
	<u>11,086,587</u>	<u>6,826,925</u>

18. Going concern

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

19. Events after the reporting period

The annual financial statements were authorised for issue on 11 September 2017 by the board of directors of the company.

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report which would have a material impact on these annual financial statements.

20. Financial instruments by category

2017	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Trade and other receivables	9,186,251	-	9,186,251
Cash and cash equivalents	7,770,546	-	7,770,546
Non-current receivable	1,944,961	-	1,944,961
Trade and other payables	-	(261,177)	(261,177)
	<u>18,901,758</u>	<u>(261,177)</u>	<u>18,640,581</u>
2016	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Trade and other receivables	5,011,678	-	5,011,678
Cash and cash equivalents	9,393,744	-	9,393,744
Non-current receivable	1,906,240	-	1,906,240
Trade and other payables	-	(496,648)	(496,648)
	<u>16,311,662</u>	<u>(496,648)</u>	<u>15,815,014</u>

Detailed Income Statement

	Notes	2017 R	2016 R
Revenue			
Promotional services		33,463,753	26,783,384
- Distribution funding group interest		17,724,058	16,696,177
- Project research funding		7,885,550	2,244,201
- Wool promotion funding		7,854,145	7,843,006
Other income	9	2,780	775,661
Finance income	11	1,546,499	1,130,163
		35,013,032	28,689,208
Expenditure			
		(32,739,922)	(26,038,699)
Direct Operational Responsibilities			
		(6,479,207)	(5,103,437)
Board		(803,372)	(686,012)
Wool Forum		(862)	-
International Wool Textile Organisation		(116,862)	(149,420)
Information statistics and communication costs		(825,834)	(610,735)
Public relations costs		(15,160)	(5,700)
Employee costs		(2,799,161)	(2,673,040)
Depreciation		(66,974)	(66,284)
General administrative expenses		(769,020)	(726,568)
Office rental		(202,259)	(185,678)
Foreign exchange loss		(879,703)	-
Outsourced IT service costs		(2,055,997)	(1,929,013)
Grower Services		(10,531,060)	(9,822,664)
Research and Development		(6,564,874)	(1,960,426)
Wool promotion expenses		(7,108,784)	(6,820,143)
Shearing Shed		-	(403,016)
Finance expense	12	(14,216)	-
Surplus for the year		2,258,894	2,650,509