



CAPE WOOLS SA

# ANNUAL REPORT

## 2014/2015



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# ABOUT US

## WOOL PRODUCER ORGANISATIONS

(Including Small Stock Breeders' Society)

GEJ Kingwill (Chairman)  
SK Makinana  
Dr GE de Kock  
JH Prinsloo

## WOOL BROKERS AND TRADERS GROUP

W Edmayr

## WOOL BUYERS AND EARLY PROCESSORS GROUP

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

## LABOUR

MG Manqindi

## VISION

For Cape Wools SA to contribute in a meaningful way to a sustainable, world-class South African wool industry.

## MISSION

To support the South African wool industry with research, development, promotion and market intelligence through progressive independent and transparent projects, respecting the different role-players.

## 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.

An elected Board of Directors representing the various interest groups in the wool industry duly governs the company.

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# CHAIRMAN'S REVIEW

The market closed on a record high with the Cape Wools Market Indicator at 14 120 which was up by 27% on the opening level for the season. This late surge in the price had less of an effect on the average market indicator which was up 1% on the previous season but it is important to remember that the seasonal average of the Market Indicator has slowly declined by 3% in real terms over the past 4 seasons. The recent severe volatility in the wool price seems to have coincided with even more volatility in the stock markets of China and the world, and we hope that when stability returns to the stock markets that our Market Indicator will return to the levels of over US\$ 11.00 that were reached at the close of last season.

In the 2014/15 season production declined by 1,42% to just below 50 mkg. This decline can be attributed to a sharp decline in Lesotho production with the production from South African growers being slightly higher. The central part of the country, which includes Lesotho, experienced the worst drought in two decades and it is encouraging that production was largely maintained under these trying conditions.

Predation and alternative land use, particularly the surge in game farming, at the moment remain a factor curtailing production increases under what can be described as favourable wool prices.

Cape Wools hosted a very successful Wool Week in Cape Town in April as part of the International Campaign for Wool that is championed by HRH Prince Charles. The Campaign for Wool continues to successfully promote wool all over the world and Cape Wools is proud to be one of the principle funders of this campaign, together with three other grower countries namely Australia, the United Kingdom and New Zealand.

Wool promotion remains an important focus area of Cape Wools and these promotional projects, together with key projects being undertaken by the International Wool Textile Organisation (IWTO) in areas of the Environmental Impact of Wool, Animal Welfare and promoting the benefits of wool to mothers and infants, are continuing to stimulate the demand for wool. The IWTO has also initiated a project where exporting countries are working together to develop strategies and technologies to mitigate against trade disruption in

the case of the outbreak of a disease that prevents the export of wool from that particular country.

The National Wool Growers' Association have been contracted to provide a Production Advisory Service to the wool growers for a further two years. The results of the survey carried out last year were used to determine the tender requirements and we feel some of the weaknesses that were identified in the contract will be addressed, while continuing to build on the areas of strength.

This reporting period saw the retirement of two directors namely Messrs Philip Stucken and Harry Prinsloo. We thank them both for the invaluable contribution to the wool industry which in Philip Stucken's case included serving Cape Wools as a director for 17 years.

Mr Jakes Mulder retired from Cape Wools after 30 years of service to the wool industry. We thank him for the service he supplied to Cape Wools and wool producers in general and wish him well with his retirement.

I would like to thank both our main sub-contractors, the NWGA and Webroute and their personnel together with the dedicated Cape Wools staff who through their hard work helped the Company deliver valuable services to the South African wool industry.

Lastly I would like to thank all the directors of Cape Wools for all the time, expertise and insight that they have contributed to Cape Wools during the past year. Without this contribution from people that represent the whole wool industry in South Africa, Cape Wools would not be able to deliver the level of service that it does.

# CEO REVIEW OF OPERATIONS

The 2014/2015 season was a good one, and it is a pleasure to report on the operations of Cape Wools after this positive period. The industry is upbeat about its future and industry confidence, as well as prices, ended this season on an all-time high.

The Cape Wools Board of Directors, under the leadership of its Chairman, Mr. Geoff Kingwill, did an outstanding job of promoting industry goodwill and achieving cross-organisational cooperation from all the different parties representing their constituent's interests.

In keeping with its mandate, the Board also diligently managed the company's risks through attending to its risk register and paying attention to its strategic plan. This year saw a reduced requirement for major policy adjustments and the Board was unencumbered to focus its energies on directing the affairs of Cape Wools.

The industry expressed a need for a cohesive cross-cutting goal and embarked on an ambitious plan for growth. We are encouraged by the initial acceptance of the plan and the support received. There seems to be a general consensus and understanding of the currently untapped potential held in reserve by the industry. We remain resolute in our conviction that the wool industry has the power to greatly benefit South Africa.

The public tender for the delivery of industry production advisory services to the wool industry for a period of two years was again put out to public tender at the latter part of the 2014/2015 season. The tender was again awarded to the National Wool Growers' Association of South Africa (NWGA) under the guidance of Dr. Louis du Pisani, who is responsible to deliver on the tender with his team. We are pleased to report a most improved work plan and ethic since Dr. Du Pisani's appointment and we look forward to the future successes during his tenure.

Cape Wools accepted the responsibility of chairing the Biosecurity Working Group of the IWTO. The Board expressed its appreciation of all the efforts from the South African delegation involved with the IWTO. The local support for the IWTO is an indication of the value placed on the good work

done at the IWTO. Ms Joanne Radway was appointed as the IWTO's policy monitoring officer, and we congratulate Mr. Peter Ackroyd and Ms Elisabeth van Delden on a job well done. The Wool Round Table in Brussels and the Wool Congress in Zhangjiagang were of a high standard and contributed positively to the fortunes of the wool industry globally. We look forward to experiencing the renewed interest in wool as expressed by both Adidas and Nike at the Congress.

Cape Wools donated R800 000 of its 2015 IWTO Congress revenue to the Wool Industry Bursary Fund. The Bursary Fund this year awarded bursaries to 14 students to the value of R380 000. This is a 60% increase in the amount awarded year-on-year. The industry benefits from its involvement with Cape Wools early on in the selection process. Two bursaries were awarded to bursars enrolled at the Sheep Shearer Training Academy of BKB, run at Kroonstad - a first for the industry.

The wool industry's Production Advisory Services Committee was placed with Cape Wools as secretariat with Mr. Clarence Friskin appointed as Chairman. The committee will be expanded to include the participation of the two largest wool brokers. A major focal point at the committee was the discussions around the recently completed industry survey and how best to adapt the service to the changing needs of the wool growing community. Tangible proposals were received from the industry experts and for this we note Mr. André Fourie's invaluable contribution to the debate on a professionalised paid service which we have agreed to implement. The industry will undergo an extensive survey on a bi-annual basis with the next repeat survey scheduled for 2016.

South Africa maintains its status as a Mules free producer of wool. A revised certification procedure reinforcing the authenticity of the processors' Mules status claims was developed. The desire to validate the provenance and origin of the source of their wool product within retail will continue to develop. The debate will expand as the larger retail brands like Adidas and Nike include wool into their product ranges. Woolworths launched a predator-friendly meat campaign this season and although this will always be a contentious debate, the opportunity

# CEO REVIEW OF OPERATIONS

exists for meaningful collaboration with our retail partners who are most effective at influencing the public perception to the benefit of the wool industry.

Animal health and welfare, as well as domestic biological threats, remain a concern of the industry. South Africa regained its Foot-and-Mouth free-zone status in February 2014, following the 2011 outbreak. Onderstepoort Biological Products (OBP) and its distribution and logistics partner, Bayer (Pty) Limited, are responsible to ensure the efficacy and availability of vaccines to protect the national flock from disease. The industry has been involved in regular discussions with both parties and has received constant assurances. However, the producers' experience on the ground has not always corroborated these assurances. The Minister of Agriculture, Forestry and Fisheries is aware of the industry's concerns. OBP is a private institution with the South African government as the only shareholder. We welcome the recent capital investment that was injected for the upgrade of the facilities. We expect the operational teething problems experienced by Dr. Steven Cornelius and his personnel to be a thing of the past now and we expect uninterrupted and efficient service.

Mr. David Cother, Wool Services Manager at the Australian Wool Exchange, delivered calibration and standards training to the wool appraisers of the industry. The training was invaluable and we are most grateful to AWEX for their support of this initiative. Cape Wools foresees a future shortage of qualified wool appraisers available to the industry and has embarked on a programme to assist industry in training up young aspirant wool appraisers.

The avoidance of contamination of the South African wool clip is of a high priority at Cape Wools. The levels of contamination experienced this season were reduced particularly through the clever initiative at broker stores to install metal detectors. The impact of polypropylene contamination is significant per occurrence and industry has this year agreed on a penalty system to motivate producers not to include polypropylene into their deliveries.

Cape Wools supplies the wool industry located in the communal areas with wool handling equipment in an effort to support wool producers of that area. This is an ongoing project that ticks over annually without stealing any spotlights, but one that makes a huge difference to the lives of the rural communities. We do this in solidarity with the ram project and the shearing shed revitalisation project of the Eastern Cape government, knowing that we are making a tangible difference to the quality and quantity of wool produced in the Eastern Cape. This season we supplied a particular request received from the Zulukama area for 8 wool presses, 13 hanging scales, 10 bin sets and 13 wool sorting tables. Cape Wools experienced wonderful success through the activities of the Zulukama wool producer youth cooperatives in partnership with the remarkable results achieved at the Mceula Village through the adoption of holistic land management practices that have transformed their grazing landscape. The gallant efforts of Messrs Shane Brody and Ayanda Mrwebi have infused us with optimism for the achievable potential contained in the pastures of the Eastern Cape. We have seen this potential released and this forms the basis of our assumption that exponential growth is achievable from these areas.

The Story of Wool Book donation of 20 000 books offered for supply over a period of three years was met with disappointing ambivalence by the National Department of Education. We are now in the process of translating the publication to Xhosa and identifying alternative channels of distribution.

A special word of thanks to the Cape Wools staff who undertook the challenging tasks of moving offices from premises where they had worked for longer than most of us care to remember. We also thank Mr. Wolf Edmayr and his team at BKB for their commitment to the industry through the successful renovation of the Wool Exchange. The wool industry is proud of their new premises and we are convinced that this will only be good for wool sales.

# INDUSTRY STATISTICS

## GENERAL

Written approval from the members of the Wool Forum endorsing Cape Wools' application for the renewal of the statutory measures has been received and Cape Wools will apply for its reinstatement for another period of four years effective from 1 July 2016.

## THE WOOL MARKET

The 2014/2015 season consolidated its gains from the previous season and continued its sterling performance to see the Cape Wools Merino Indicator end the season at an all-time record high of R141,20/kg (clean).

Export earnings of R2 946-million was achieved, slightly down by 4,9% year-on-year.

The South African producers' market exposure to our largest trading partner China, increased by 9,5% to 69,8% with a combined value of R2 060-million. Chinese processors were obliged to upgrade their effluent plants and this cash flow constraint, combined with constrained fiscal policies, exerted pressure on the importers specifically at the start of the season. The devaluation of the Yuan occurred after the end of the season and should not have impacted trade. However, the news of an imminent devaluation would have given rise to larger speculative purchases. Shortages of supply as reported by both South Africa and Australia also assisted in drawing prices to record levels.

The 2014/2015 season opened to a good start with the Cape Wools Merino Indicator down by only 1,1% to the closing sale of the previous season to close at R111,63c/kg (clean). Throughout the season the market moved sideways around the R112,50c/kg (clean) mark until the middle of April when the market broke through the support level to rapidly increase over the next 11 weeks by 27% to end the season 26,5% up year-on-year.

Buyers consistently indicated throughout the season that there was good demand for good quality long, well-grown Merino wool.

The rand weakness also supported the market throughout the season with the currency losing 15,6% of its value to the US dollar throughout the season.

The first half of the season closed before the Christmas recess at R110,82c/kg (clean) having averaged slightly below the previous season's levels at R112,55c/kg (clean) with 48,24% (152 313 bales) of annual volume traded at the market.

Grease wool exports to China for the first six months of the season (July to December 2014) were 8,4% up year-on-year whilst exports to the Czech Republic, the second largest importer, had decreased by 49%. India had also imported considerably less grease wool and were down by 27,6% year-on-year for the first six months.

January 2015 held no surprise and the market put up a dismal performance after the Christmas recess to close at R107,93 c/kg (clean) due to the reported larger percentage of low quality wool on offer, combined with the expectation of larger quantities of the same yet to come.

The second half of the season saw the indicator continue its sideways movement until mid-April whereafter it raced to a record high.

China was the largest importer of South African wool with R2 060-million, the Czech Republic a long way off in second place at R293-million and in third place Italy with purchases of R275,9-million worth of wool. Other noteworthy importers of South African wool included India, Egypt, Germany, UK, USA, Mauritius and France.

# PRODUCTION AND SALES

<b>BROKER RECEIPTS AND BUYER RETURNS (Kg greasy)</b>			
<b>Source</b>	<b>2014/2015</b>	<b>2013/2014</b>	<b>Change (%)</b>
Eastern Cape	16 141 395	15 529 348	+ 3,9
Western Cape	9 120 053	9 051 541	+ 0,8
Northern Cape	5 945 549	6 043 433	- 1,6
Free State	10 112 388	10 326 986	- 2,1
Mpumalanga	2 438 164	2 627 280	- 7,2
Limpopo	7 841	16 569	- 52,7
Gauteng	304 805	262 683	+ 16,0
North West	601 419	679 581	- 11,5
KwaZulu Natal	769 491	758 802	+ 1,4
Lesotho	4 175 618	4 911 439	- 15,0
Namibia	3 755	6 902	- 45,6
Direct Purchases	167 961	291 566	- 42,4
<b>TOTAL</b>	<b>49 788 439</b>	<b>50 506 130</b>	<b>- 1,4</b>

## CLIP PROFILE

An analysis of the characteristics of the clip delivered during this season and in comparison to the previous season showed that of the bulk of good fleece wool deliveries only 40,8% was good topmaking or better.

Deliveries tested as follows: Superfine: (<17,6 $\mu$ ) 4%; Fine (17,6 – 18,9 $\mu$ ) 12%; Medium (<19,0 $\mu$  - 22 $\mu$ ) 75%; and Strong (>22 $\mu$ ) 9%.

Vegetable matter (VM) tested very low as was the case during the 2013/2014 season with 76,2% of wool on offer testing lower than 2% VM.

Yields were lower this season as 55,6% tested 60% and higher compared with 56,8% in 2013/2014. The overall quality of the clip for 2014/2015 was good.

# EARLY-STAGE PROCESSING AND FIBRE EXPORT PROFILE

The total mass of wool received for processing was 7 781 030kg which was 12,6% down on receipts the previous season.

The mass returned from processing per class was scoured 468 044kg (+27,9%); carbonising 1 576 903 kg (-2,1%); top 2 058 442kg (-17,8%); noil 293 077 (-15,6%), waste 37 772 (-3,1%).

An analysis of fibre exports again confirmed the ongoing trend of growth in greasy wool exports. During the 2014/2015 season South Africa exported 87,6% in weight and 87,7% in value.

The total value of fibre exported amounted to R2 946 634 259, down 6,2% from R3 141 923 468 in 2013/2014.

## EXPORTS BY MAJOR DESTINATION, ON VALUE, 2014/2015 (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	2 056 145 440	97,5	1,4	1,1	69,8
Czech Republic	293 495 744	100,0	0,0	0,0	10,0
Italy	275 947 650	33,0	19,3	47,7	9,4
India	132 854 796	93,9	6,1	0,0	4,5
Egypt	73 954 684	94,0	3,7	2,3	2,5
Germany	44 060 020	0,0	73,0	27,0	1,5
U.K.	26 956 563	2,3	0,0	97,7	0,9
OTHER	15 578 737	5,1	59,8	35,1	0,5
U.S.A.	13 238 938	0,0	22,4	77,6	0,4
Mauritius	7 662 051	0,0	0,0	100,0	0,3
France	6 739 636	0,0	0,0	100,0	0,2
<b>TOTAL</b>	<b>2 946 634 259</b>	<b>87,7</b>	<b>4,7</b>	<b>7,6</b>	<b>100,0</b>

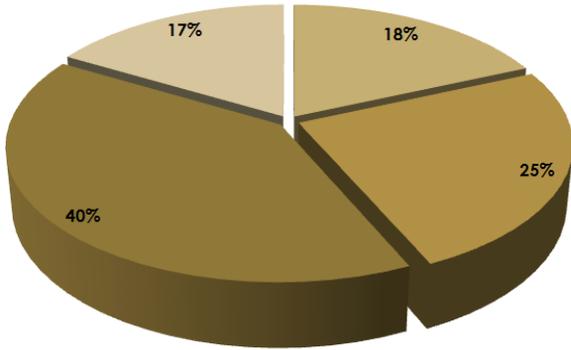
# EARLY-STAGE PROCESSING AND FIBRE EXPORT PROFILE

## EXPORTS BY MAJOR DESTINATION, ON WEIGHT, 2014/2015 (CLEAN)

Country	Clean Weight (kg)	% Contributions by Product Type			% of Total Weight, All Destinations
		Grease	Scoured	Combed	
China/Macau	22 189 656	97,8	1,1	1,1	72,0
Italy	3 005 691	27,2	19,5	53,3	9,8
Czech Republic	2 687 317	100,0	0,0	0,0	8,7
India	1 384 457	91,0	9,0	0,0	4,5
Egypt	568 390	92,5	5,4	2,1	1,8
Germany	499 575	0,0	82,6	17,4	1,6
U.K.	249 154	5,3	0,0	94,7	0,8
OTHER	161 346	2,0	67,5	30,5	0,5
U.S.A.	94 619	0,0	25,9	74,1	0,3
Mauritius	66 185	0,0	0,0	100,0	0,2
France	58 072	0,0	0,0	100,0	0,2
<b>TOTAL</b>	<b>30 803 116</b>	<b>87,6</b>	<b>4,6</b>	<b>7,7</b>	<b>100,0</b>

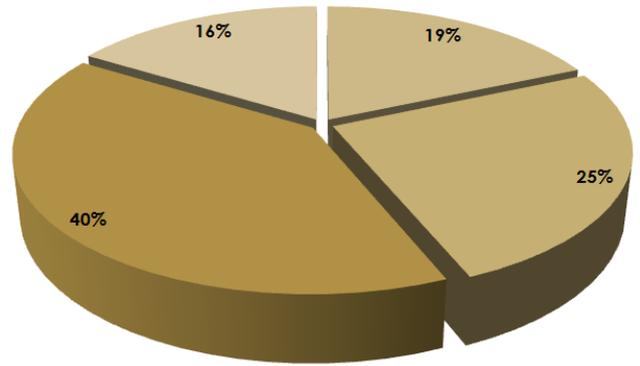
# CLIP YIELD DISTRIBUTION

Yield Distribution 2013/2014



■ <50% ■ 50 - 60% ■ 60 - 70% ■ >70%

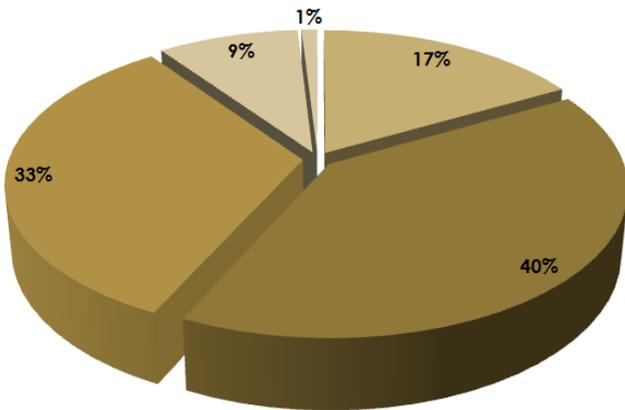
Yield Distribution 2014/2015



■ <50% ■ 50 - 60% ■ 60 - 70% ■ >70%

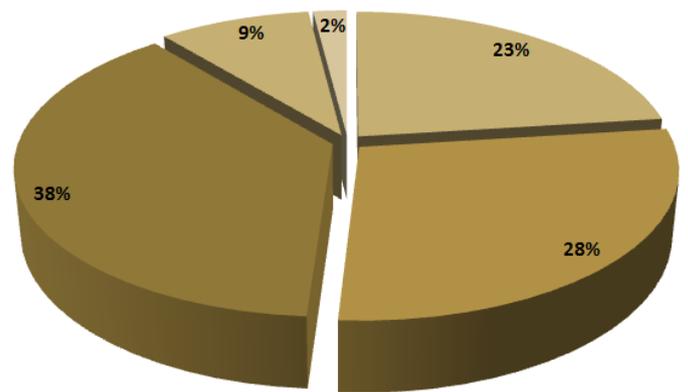
# CLIP MICRON DISTRIBUTION

Micron Distribution 2013/2014



■ <19μ ■ 19 - 20μ ■ 20 - 22μ ■ 22 - 24μ ■ >24μ

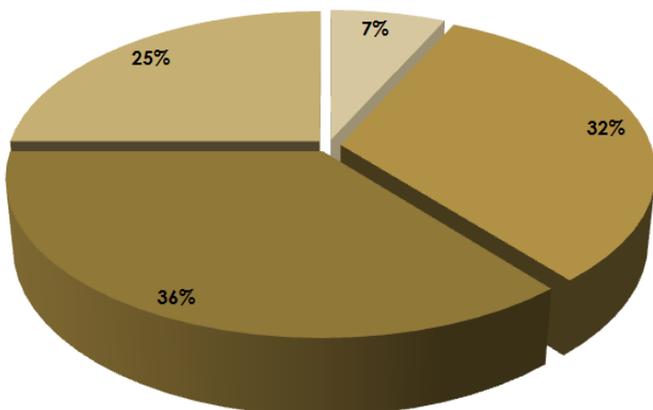
Micron Distribution 2014/2015



■ <19μ ■ 19 - 20μ ■ 20 - 22μ ■ 22 - 24μ ■ >24μ

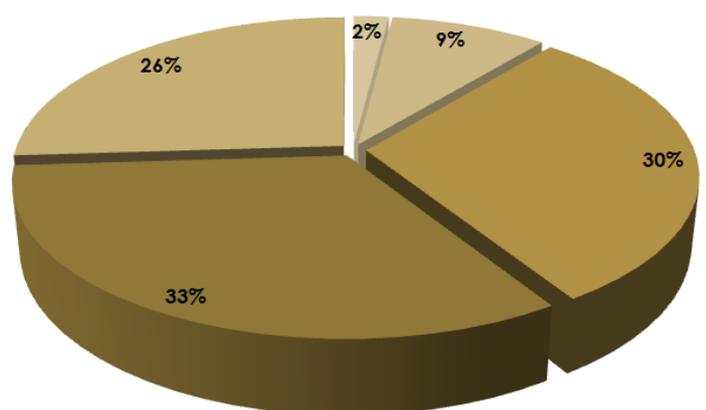
# STYLE DISTRIBUTION - FLEECE WOOLS

Style Distribution 2013/2014



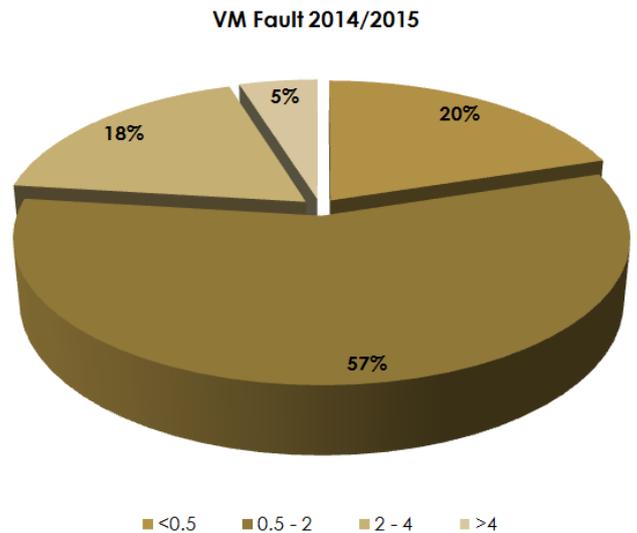
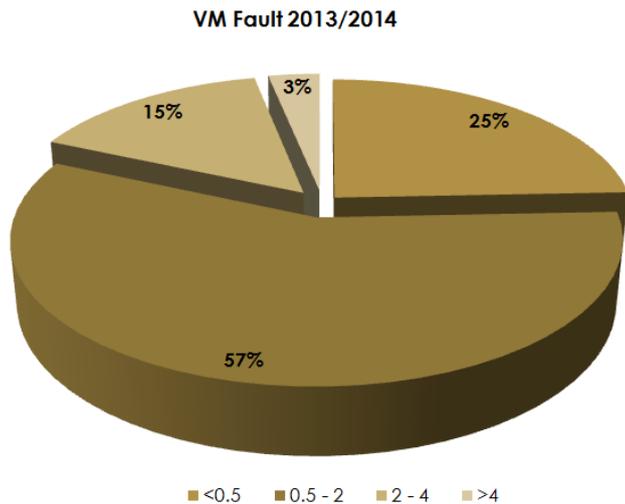
■ ≤3 ■ 4 ■ 5 ■ 6 ■ ≥7

Style Distribution 2014/2015



■ ≤3 ■ 4 ■ 5 ■ 6 ■ ≥7

## VM VAULT (%)



## PROMOTION

Throughout the 2014/2015 season the value of and need for the promotion of wool, and the activities of the wool industry, were emphasized through our experiences with the retail consumer. The increased rate of urbanisation is estranging the retail consumer from agriculture to the point of near complete ignorance to all things wool.

This year we found ourselves confronted by animal rights activists spewing their propaganda to the public and in most instances for their own personal welfare more so than for the welfare of any animals. We understood that the wool industry is a leader on the animal welfare field of play with producers practicing responsible farming practices, guided by the industry's Code of Best Practice.

It is the task of Cape Wools to refute activists' sensationalistic propaganda and to protect us from the untruths they so easily spread to influence public perception against our industry. The best way to do this is through an active, honest engagement directly with the public.

This year Wool Week was hosted in Cape Town's V&A Waterfront where Ms Dalena White and her Deep Design team set up a striking wool display at Centre Court that was supported by a beautiful yarn bombed wool trail rounded off with a weeklong wool workshop that included various wool speakers who delivered interesting talks on an array of wool topics. Cape Wools also collaborated closely with 67 blankets for Mr. Mandela whereafter the blankets were donated to the Red Cross Hospital.

The industry also enjoyed using this opportunity to display its cycling skills during the Wool Ride to the delight of the V&A shoppers. Fortunately, everyone arrived unscathed and on time for breakfast in preparation for the exciting display of live sheep at the V&A Waterfront Amphitheatre where the industry proudly displayed its sheep shearing competencies, as well as wool handling abilities to the public. A special word of thanks to Dr. Gininda Msiza without whom this display would not have been possible.

The South African Wool and Mohair Buyers Association and the National Wool Growers' Association of South Africa again confirmed the annual contribution calculated at 10c/kg of greasy wool sold to promote wool.

Cape Wools allocated R6,196-million to specifically agreed promotional activities of which R4,895-million was allocated towards international promotion and R1,3-million to domestic promotion.

The international marketing efforts revolved around the successful Campaign for Wool of which His Royal Highness The Prince of Wales is patron. The Wool Week rolled out across Europe, including the Netherlands, Belgium, Germany, France, as well as Japan, USA, New Zealand and Australia.

Domestically, Agri Mega Week was held in Bredasdorp and Cape Wools sponsored three wool designers to exhibit their wool products and

# PROMOTION

present wool craft workshops to visitors during the week.

Cape Wools also initiated and led Visi media exposé of the successful emerging farmer of the Eastern Cape. Some wonderful images were released of emerging farmers on their farms and in their communal shearing sheds. These images also formed the backdrop to the theme 'From the Source' for both the Design Indaba and Wool Week displays.

The public and retail received the message fondly and commented positively on the contribution the communal farmers make to the wool industry of South Africa's success story.



V&A Waterfront—Wool Week 2015



Ayanda—Visi shoot



Wool Week 2015



Sheep shearing demo—Wool Week 2015

# RESEARCH & DEVELOPMENT

2014/15 Illustrated how difficult it is to create research capacity in a particular field. Three projects (Rift Valley Fever, Scientific assessment and PCR validation) were approved and budgeted for, but could not commence, because the institutions contracted lacked the research capacity (personnel or additional funding) to get going. A fourth project (Lucerne and Medics) can at present not continue because the researcher involved reached retirement age and finding an institution to continue with the work, has so far been unsuccessful. On the other hand, projects conducted at established, well supported institutions under the guidance of renowned scientists, tend to generate additional research opportunities in related fields. In the year under review, 21 projects were supported, of which 2 were completed (Comfort properties of wool, Effect of Xray radiation) whilst a further two (Caracal pheromones and Pathogenic blowfly bait) should run to completion in 2015/16 without further financial support. Two research projects initiated by Cape Wools are still ongoing but without our financial support (Automated Worm Control and Maintenance of research flocks). R1 730 100 was initially approved for research and development, but because of lack of capacity, only R857 500 was spent. During the year however additional projects were approved by the Cape Wools Board to the amount of R1 224 505 for a total of R2 954 605. Of this R1 067 500 went to projects proposed and executed by the NWGA.

The Research and Development Committee met on the 9<sup>th</sup> of February 2015 and reviewed and made recommendations to the Cape Wools Board on the following 16 research projects. It was recommended by the Board that progress and final reports on all projects should in future be submitted to the Research Committee for discussion at its annual meeting.

Projects 1 – 4 are new projects that were scheduled to start in July 2015.

Ovine Johne's Disease (OJD) diagnostic procedure evaluation under South African conditions using individual and pooled faecal samples and subjugating such samples to PCR. Support for this project was approved with recommendations that other industry stakeholders (notably the red meat

producers) should be co-funders.

Although the Gudair Vaccine (against OJD infection) has been registered for use in South Africa for more than 10 years, no research has been done in South Africa to monitor the effect of long-term vaccination on the disease in an infected flock. A new project aimed at addressing the above was approved. The researchers will also investigate if there is a natural resistance amongst certain sheep to the infection.

During the IWTO congress in Cape Town (April 2014) a presentation was made by Allan Savory on the benefits to grasslands of very high short duration stocking rates. However very little research has been done to prove his claims. A new project proposed by Dr. Heidi Hawkins will investigate the impact of high intensity short term grazing on veld and animal conditions in the grassveld region of the Eastern Cape (communal and commercial).

Another new project that was recommended to the Board will look at the historical impact of drought conditions on the quality and quantity of wool production. It will also look at key indicators to predict the onset of short or long-term droughts. This project is under the leadership of Dr. Andries Jordaan (UFS).

The Committee also recommended continued support of the Agri benchmark project. A comprehensive report by the project leader was presented at the June Cape Wools Special Members meeting. The data gathered is also incorporated in the Bureau for Food and Agriculture Policy documents.

The lucerne and clover cultivar evaluation projects will not be continued due to the retirement of Dr. Johann van Heerden in August 2015. The Committee did however recommend that research on cultivated pastures in the Western Cape be continued and discussions have been held with the Department of Agriculture in the Western Cape to find and fund a researcher to continue with this work. A recommendation was made that funds be made available to contract Dr. Van Heerden to summarise his findings in a practical farmer's handbook.

# RESEARCH & DEVELOPMENT

The floral composition of the Karoo is a determining factor on the amount of wool produced per hectare in that area. To determine the effect of the climate as well as grazing and management practices on the plant composition is therefore important. A recommendation was made to continue supporting this project. Key factors that have an impact on floral composition are invasive plants, fire, stocking practices, as well as climate change. The effects of the above are being monitored at various locations (Grootfontein, Carnarvon, Upington and Koopmansfontein). Results of this project have been published in peer reviewed scientific journals and presented at conferences. A PhD study is currently also making use of data generated.

The genomics research is continuing as planned with the short-term goal to establish a reference population. This is the first step towards the genomic selection of traits. Traits that are particularly suited to genomic selection are ones that 1) are limited to one sex only, 2) are measurable only late in an animal's life, 3) can only be measured on dead animals 4) can only be measured after the animals have been challenged by pathogens or other stressors.

Subjecting wool to X-ray treatment does have a sterilising effect, but with the unfortunate side-effect of discolouration of the wool. Dr. Hunter is currently investigating if microwave radiation has a similar effect and we are expecting a report on that by the end of 2015.

The development of a lethal fungal bait to use in blowfly traps has met some setbacks this past year as the experimental population of blowflies were decimated by a parasitic wasp. Culturing of the lethal fungus proved more successful and will be stored until the blowfly culture has been restored.

Studying the comfort related properties of fabrics using the permatest method indicated that fabric mass and thickness were more important than fibre type, blend or structure on the measured comfort properties, including thermal comfort. These findings were to be tested using a different method (sweating manikin) and a final report on this is due. More importantly, this project has contributed to building capacity for future research on the comfort properties of garments. An example of this

is that The Cape Peninsula University of Technology has approved R200 000 to get its sweating manikin functional again.

The analysis of caracal urine has been completed and the researcher is optimistic that the volatile substances used for chemical communication between males and females can be produced synthetically. This would then be used as a tool to manage these animals. This project should run to completion in the year 2015/16. No additional funding is required.

The scientific assessment into stock predation was delayed due to difficulties the researcher had in finalising funding agreements with parties other than Cape Wools.

Prof. Swanepoel could not start his research on the survivability of mosquito eggs due to his relocation from the medical to the veterinary faculty of the University of Pretoria. We are confident that the project will commence in the year 2015/16. It is essential that research capacity in the field of contagious ovine disease is created at the veterinary faculty and it is our hope that this project will add to that.

A report was received from Dr. Willem Olivier on the work done with the two state owned Merino flocks held at Cradock and Grootfontein respectively. Although Cape Wools stopped giving financial support to the maintenance of these two flocks, the committee still feels that it has a role to play in guiding the researchers on how to utilise these experimental animals to the maximum benefit of the wool industry.

A report was also received from Dr. Jan van Wyk on his project to develop an automated worm control program. This project has attracted sufficient funds from elsewhere and proceeded successfully in 2014/2015 without Cape Wools funds. Five projects were also funded by Cape Wools that were not subjected to scrutiny by the Research Committee. These were to determine the temperature of baled wool during storing, prevention of wool contamination, screening of wool clips for chemical residues and for dark and medullated fibres (two separate projects) and the Zulukama co-operative initiative.

# RESEARCH & DEVELOPMENT

The Board of Cape Wools would yet again like to thank all the members of the Committee for their time and insight. A special mention should be made of the contribution made by Dr. Derick Swart who wished to retire after serving on the Committee since its inception.

## WOOL PRODUCTION ADVISORY SERVICES

The second term of the two-year Production Advisory Services contract has been successfully completed by the National Wool Growers' Association of South Africa. The successful delivery of this service is vital in ensuring an efficient and profitable wool industry for South Africa.

The economic study groups are still regarded as a vital component of extension services in gaining and transferring knowledge. The procedures to deliver these actions were restructured during 2014 to make it easier for wool producers to participate. So far this effort has not succeeded in increasing the number of participants to this service. It is anticipated that participation will increase as the ease of participation improves and as the benefits to producers permeates to the wool grower community. It is interesting to note that the survey results ranked economic study groups the lowest of all the needs explored. The production advisory services are paying special attention to improving this service delivery.

Training of farm labour has been identified again as crucial to sustaining the industry. Spiralling costs and onerous labour legislation press upon producers the need to realise productivity gains from their labour force. The use of discussion forums is a new methodology that was introduced to the service delivery model this year. It is anticipated that as the production advisors

become more accustomed to this new addition to their extension methodology that uptake will improve.

Despite predation stock losses having been reported as a national disaster, we found the trend for reduced demand for predation control training continuing. This has resulted in a steadily declining number of predation courses conducted over the past five years. We maintain that the level of understanding of the control measures have increased partly due to the successful efforts of Mr. Neil Viljoen and agree that we should continue addressing this producer concern as predation remains a serious threat to the viability of wool sheep farming and combined with losses from stock theft, remains the greatest deterrent to agriculturalists from participating in small stock farming.

The production advisory services survey results were analysed and discussed at length over this period. The results were used to give direction to the delivery requirements for this service. In this regard, flock competitions were identified as of lesser importance than was previously considered and information days were identified as being more important than previously considered. Service delivery was adjusted to accommodate these gleaned nuances.

Demonstration farms were introduced to the service delivery model as an improved

# WOOL PRODUCTION ADVISORY SERVICES

method of extension. This model means to demonstrate the value of implementing best management practices. Initial results have fuelled our optimism that this methodology has the ability to make a significant positive change to the profitability of the premises selected. Of the seven premises identified, only two did not show a marked improvement to its bottom line.

The Cape Wools Board is frustrated by the requirements of the Natural Scientific Professions Act that requires all natural scientists to register as professionals in order for the implementation of the paid professional advisory services to commence in earnest. It still foresees this service as being of utmost importance to ensure the efficacy and viability of the service.

Knowledge of wool sheep farming was again identified as the single biggest impediment to the expansion of wool sheep farming within the communal areas of the Eastern Cape. The delivery of extension services to these areas mean to address this. The requirement, however, far outstrips the abilities of the existing team who are stretched to achieve their goals. We foresee the personnel requirement developing as a serious stumbling block to service delivery if not addressed timeously. Two seasoned advisors retire within the foreseeable future.

95% Of the clip is currently declared Mules free, whilst the Code of Best Practice is endorsed by over 70% of the national wool producers regarded as co-signatories. Efforts in educating the rest of the producers still to sign the Code are ongoing. The target of 95% of the national clip remains in force. Declaring the Mules status of lots auctioned is in line with international best practice and of immense value to the industry. The industry continues to support this system.

Cape Wools' vision of improving the communal clip produced from communal flocks and maintained in the traditionally communal areas of South Africa, continues to guide programmes including flock improvement through genetic improvement. We re-

main convinced that opportunity still knocks for improvements to both quality and quantity. During this period we saw a decline in the average price received by communal sheds as a percentage of the national average. We also saw an increase to the number of producers that produced wool directly via the auction system. It is understood that these shifts are attributed to re-trenched mine workers returning to the communal areas and that as a result, these newer entrants delivered wool of a poorer quality than that of the resident farmers, thereby lowering the average price received. Cash flow pressures due to declining income from family members working on mines, as well as the regional drought experienced, go a long way in explaining shifts in wool deliveries to auction and value of wool delivered. We did experience an increase in the number of registered shearing sheds marketing through the formal auction system.

During the period under review 291 new recruits were trained in the skill of blade shearing while 223 existing shearers received intermediate and advanced blade shearer training. 114 New recruits received machine shearing training while 157 persons received intermediate and advanced machine shearing training. These trainings achieved exceed the tender targets set and will greatly contribute to delivering a pool of trained shearers from which growers, shearing contractors and brokers are then able to source labour for harvesting the wool. As the winds of change blow, emphasis has been placed on training up South African machine shearers.

The Springbok Head training course is accredited by the Agri Seta and training is done at certain agricultural schools and colleges assisted by the production advisors. 115 Springbok Head certificates were issued for this year.

Contamination has remained a top priority for the production advisory services and the clip fault report was used to monitor and inform the advisors and producers alike. 2014/2015 Saw a decline in the amount of overall faults reported,

# WOOL PRODUCTION ADVISORY SERVICES

decline in the amount of overall faults reported, the first decline in the last six measured periods. There seems to have developed a consistency in the reporting of the faults from the inspecting buyers. The clip fault reporting system affords the industry a mechanism of communicating the continual improvement of the clip with a means to maintaining South Africa's impeccable international reputation.

**ANNUAL  
FINANCIAL  
STATEMENTS**

Cape Wools SA NPC  
(Registration number 1997/003450/08)  
Annual Financial Statements  
for the year ended 30 June 2015

**Index**

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

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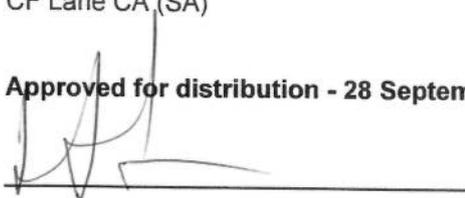
**Level of assurance**

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)

**Approved for distribution - 28 September 2015**



Chief Executive Officer  
LMJ de Beer

## 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 2016 and, in the 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 6.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of the members, the board of 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 set out on pages 3 to 20, which have been prepared on the going concern basis, were approved by the directors on 28 September 2015 and were signed on its behalf by:



Chairman



Vice Chairman

## Directors' Report

The directors submit their report for the year ended 30 June 2015.

### 1. Review of activities

#### Main business and operations

The main business of the company is to promote the group's interest involved in the production and consumption of wool.

Full details of the financial results are set out on pages 7 to 20.

### 2. Staff complement

At 30 June 2015, the company employed 5 staff members.

### 3. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 4. Events after the reporting period

No matter which is material to the financial affairs of the company has occurred between the reporting date and the date of approval of the financial statements.

### 5. Directors' interest in contracts

No material contracts in which the directors have a direct, personal interest were entered into in the current year.

### 6. Directors

The directors of the company during the year and to the date of this report are as follows:

Name	Designation	Changes
Kingwill GEJ	Chairman	
Pape DJ	Vice-chairman	
De Kock GE	Non-executive	
Edmayr W	Non-executive	
Makinana SK	Non-executive	
Manqindi MG	Non-executive	
Stucken JP	Retired	Retired 21 November 2014
Friskin CF	Non-executive	
Lynch PA	Non-executive	
Prinsloo JH	Non-executive	
Kirsten RA	Non-executive	Appointed 21 November 2014

Cape Wools SA NPC  
(Registration number 1997/003450/08)  
Annual Financial Statements for the year ended 30 June 2015

## **Directors' Report**

### **7. Secretary**

The secretary of the company is LMJ de Beer of:

Business address

16 Grahamstown Road  
North End  
Port Elizabeth  
6056

Postal address

PO Box 2191  
North End  
Port Elizabeth  
6056

### **8. 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**

We have audited the financial statements of Cape Wools SA NPC set out pages 7 to 20, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### *Directors' Responsibility for the Financial Statements*

The company's directors are responsible for the preparation and fair presentation of these 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cape Wools SA NPC as at 30 June 2015 and its financial performance and its 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.

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*PricewaterhouseCoopers Inc., Ascot Office Park, 1 Ascot Road, Greenacres, Port Elizabeth 6045*  
*P O Box 27013, Greenacres 6057*  
*T: +27 (41) 391 4400, F: +27 (41) 391 4500, www.pwc.co.za*

Chief Executive Officer: T D Shango  
Management Committee: T P Blandin de Chalain, S N Madikane, P J Mothibe, C Richardson, A R Tilakdari, F Tonelli, C Volschenk  
The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.  
Reg. no. 1998/012055/21, VAT reg.no. 4950174682



*Other reports required by the Companies Act*

As part of our audit of the financial statements for the year ended 30 June 2015, we have read the Directors' Report, for the purpose of identifying whether there are material inconsistencies between the report and the audited financial statements. The report is the responsibility of the directors. Based on reading the report we have not identified material inconsistencies between the report and the audited financial statements. However, we have not audited the report and accordingly do not express an opinion thereon.

*PricewaterhouseCoopers Inc*

**PricewaterhouseCoopers Inc.**

**Director: S Williams**

**Registered Auditor**

**Port Elizabeth**

**28 September 2015**

Cape Wools SA NPC  
 (Registration number 1997/003450/08)  
 Annual Financial Statements for the year ended 30 June 2015

**Statement of Financial Position as at 30 June 2015**

	Notes	2015 R	2014 R
<b>Assets</b>			
<b>Current Assets</b>			
Trade and other receivables	2	7,163,911	7,145,833
Cash and cash equivalents	3	7,711,806	5,783,675
		<u>14,875,717</u>	<u>12,929,508</u>
<b>Non-Current Assets</b>			
Property, plant and equipment	4	120,795	75,758
Non-current receivables	5	1,703,492	735,001
		<u>1,824,287</u>	<u>810,759</u>
<b>Total Assets</b>		<u>16,700,004</u>	<u>13,740,267</u>
<b>Equity and Liabilities</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	6	655,232	887,053
<b>Equity</b>			
Members' interest	7	100	100
Non-distributable retained surplus		1,995,174	2,060,033
Reserve arising on receipt of assets from Wool Trust		190,687	190,687
Wool Promotion Reserve		6,516,897	5,916,148
Research and Development Reserve		7,468,378	3,573,213
IWTO Conference Reserve		-	867,609
Shearing Shed Reserve		(126,464)	245,424
		<u>16,044,772</u>	<u>12,853,214</u>
<b>Total Equity and Liabilities</b>		<u>16,700,004</u>	<u>13,740,267</u>

Cape Wools SA NPC  
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 Annual Financial Statements for the year ended 30 June 2015

**Statement of Comprehensive Income**

	Notes	2015 R	2014 R
Revenue	8	27,062,197	26,065,078
Other income		56,977	220,239
Operating expenses		(18,148,000)	(17,420,251)
Administrative expenses		(6,472,349)	(5,625,452)
<b>Operating surplus</b>	9	<b>2,498,825</b>	<b>3,239,614</b>
Finance income	10	692,733	501,743
<b>Surplus for the year</b>		<b>3,191,558</b>	<b>3,741,357</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>3,191,558</b>	<b>3,741,357</b>

**Statement of Changes in Equity**

	Note	2015 R	2014 R
<b>Members interest</b>	7	<u>100</u>	<u>100</u>
<b>Non-distributable reserves</b>			
<i>Non-distributable retained surplus</i>			
At beginning of year		2,060,033	1,623,115
Surplus for the year		3,191,558	3,741,357
Transfer from/(to) Wool Promotion Reserve		(600,749)	(2,031,809)
Transfer to Research and Development Reserve		(3,895,165)	(413,088)
Transfer from/(to) IWTO Conference Reserve		867,609	(867,609)
Transfer from Shearing Shed Reserve		371,888	8,067
At end of year		<u>1,995,174</u>	<u>2,060,033</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		5,916,148	3,884,339
Transfer (to)/from non-distributable retained surplus		600,749	2,031,809
Distribution received from SAWAMBA		5,906,418	5,506,511
Interest earned on promotion reserve		249,891	179,166
Wool promotion expenses paid		(5,555,560)	(3,653,868)
At end of year		<u>6,516,897</u>	<u>5,916,148</u>
<i>Research and Development Reserve</i>			
At beginning of year		3,573,213	3,160,125
Transferred from non-distributable retained surplus		3,895,165	413,088
Gross project funding allocated		5,520,758	1,500,000
Gross project funding allocated – contracted projects		872,600	-
Notional interest income		352,014	217,042
Present value adjustment		(704,794)	(78,796)
Expenses paid		(2,145,413)	(1,225,158)
At end of year		<u>7,468,378</u>	<u>3,573,213</u>
<i>IWTO Conference Reserve</i>			
At beginning of year		867,609	-
Transfer (to)/from non-distributable retained surplus		(867,609)	867,609
Gross project funding allocated		-	3,224,973
Expenses paid		(867,609)	(2,357,364)
At end of year		<u>-</u>	<u>867,609</u>
<i>Shearing Shed Reserve</i>			
At beginning of year		245,424	253,491
Transfer to non-distributable retained surplus		(371,888)	(8,067)
Gross project funding allocated		-	1,256,710
Expenses paid		(371,888)	(1,264,777)
At end of year		<u>(126,464)</u>	<u>245,424</u>
<b>Total</b>		<u>16,044,672</u>	<u>12,853,114</u>

Cape Wools SA NPC  
 (Registration number 1997/003450/08)  
 Annual Financial Statements for the year ended 30 June 2015

**Statement of Cash Flows**

	Notes	2015 R	2014 R
<b>Cash flows from operating activities</b>			
Cash receipts from customers		26,484,619	21,115,123
Cash paid to suppliers and employees		(24,797,345)	(22,689,299)
Cash generated from (used in) operations	13	1,687,274	(1,574,176)
Finance income		340,719	284,701
<b>Net cash from operating activities</b>		<b>2,027,993</b>	<b>(1,289,475)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(99,862)	(38,844)
<b>Total cash movement for the year</b>		<b>1,928,131</b>	<b>(1,328,319)</b>
Cash at the beginning of the year		5,783,675	7,111,994
<b>Total cash at end of the year</b>	3	<b>7,711,806</b>	<b>5,783,675</b>

## **Accounting Policies**

### **1. Presentation of Annual Financial Statements and General Information**

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 represented 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.

#### **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**

Debt instruments, 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 the end of 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 so, an impairment loss is recognised.

##### **Trade and other 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.

##### **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.

## Accounting Policies

### 1.3 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, for rental to others or for administrative purposes; and
- are expected to be used during more than one period.

Cost includes all costs incurred to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs include expenditure 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. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

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

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, which is 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

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

The residual value, depreciation method and useful life of each asset are reviewed and adjusted prospectively, if appropriate, if there are indicators present that there has been a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss in the period.

### 1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. 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 except in cases where another systematic basis is representative of the time pattern of the benefit from the leased liability, even if the receipt of payments is not on that basis, or where the payments are structured to increase in line with expected general inflation.

## **Accounting Policies**

### **1.5 Impairment of non-financial assets**

Assets that are subject to depreciation are assessed at each reporting date to determine whether there is any indication that they are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or CGU to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that suffered an impairment, are reviewed for possible reversal of the impairment at each reporting date.

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 profit or loss.

### **1.6 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 paid vacation leave and 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.

### **1.7 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.

### **1.8 Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the ordinary course of the company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Revenue from registration fees are recognised on date of receipt.

Interest is recognised, in profit or loss, using the effective interest rate method.

## **Accounting Policies**

### **1.9 Translation of foreign currencies**

#### **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 profit or loss in the period in which they arise.

## Notes to the Annual Financial Statements

	2015 R	2014 R
<b>2. Trade and other receivables</b>		
Trade receivables	1,317,268	1,304,529
Prepayments	1,978,927	4,090,099
Project funding distribution from Wool Trust	3,847,582	1,730,100
Other receivables	20,134	21,105
	<b><u>7,163,911</u></b>	<b><u>7,145,833</u></b>

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	234,370	336,594
Call accounts	7,475,436	5,445,081
	<b><u>7,711,806</u></b>	<b><u>5,783,675</u></b>

### 4. Property, plant and equipment

	2015			2014		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fittings	25,891	(18,803)	7,088	25,891	(13,625)	12,266
Motor vehicles	15,938	(15,937)	1	15,938	(15,937)	1
Office equipment	83,733	(69,699)	14,034	72,230	(67,557)	4,673
Computer equipment	164,905	(95,785)	69,120	142,802	(90,045)	52,757
Computer software	203,868	(173,316)	30,552	175,023	(168,962)	6,061
<b>Total</b>	<b>494,335</b>	<b>(373,540)</b>	<b>120,795</b>	<b>431,884</b>	<b>(356,126)</b>	<b>75,758</b>

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fittings	12,266	-	-	(5,178)	7,088
Motor vehicles	1	-	-	-	1
Office equipment	4,673	11,845	(176)	(2,308)	14,034
Computer equipment	52,757	56,217	-	(39,854)	69,120
Computer software	6,061	31,800	-	(7,309)	30,552
	<b>75,758</b>	<b>99,862</b>	<b>(176)</b>	<b>(54,649)</b>	<b>120,795</b>

## Notes to the Annual Financial Statements

2015  
R

2014  
R

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Depreciation	Total
Furniture and fittings	17,444	-	(5,178)	12,266
Motor vehicles	1	-	-	1
Office equipment	2,017	4,570	(1,914)	4,673
Computer equipment	43,810	29,332	(20,385)	52,757
Computer software	3,840	4,942	(2,721)	6,061
	<b>67,112</b>	<b>38,844</b>	<b>(30,198)</b>	<b>75,758</b>

### 5. Non-current receivables

Project funding distribution from Wool Trust	1,703,492	735,001
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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	230,248	320,862
South African Revenue Services - VAT	150,813	134,688
Accruals	274,171	431,503
	<b>655,232</b>	<b>887,053</b>

### 7. Members' interest

Total members interest	100	100
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Total members' interest consists of the following groups:

#### Groups

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 %
	<b>100 %</b>

### 8. Revenue

Distribution funding group interest	15,467,215	14,355,680
Project research funding	5,688,564	2,677,914
Wool promotion funding	5,906,418	5,506,511
IWTO 2014 Conference	-	3,224,973
Merino 2014 conference	-	300,000
	<b>27,062,197</b>	<b>26,065,078</b>

**Notes to the Annual Financial Statements**

	2015 R	2014 R
<b>9. Operating surplus</b>		
Operating surplus for the year is stated after accounting for the following:		
<b>Operating lease charges</b>		
Lease rentals on operating lease		
• Office space	184,502	195,033
Lease rentals on operating lease		
• Office equipment	36,127	42,822
	<u>220,629</u>	<u>237,855</u>
Loss on scrapping of assets	176	27
Depreciation on property, plant and equipment	54,649	30,198
Employee costs	2,457,850	2,458,300
Emoluments as directors	295,083	274,026
	<u>295,083</u>	<u>274,026</u>
<b>10. Finance income</b>		
<b>Interest received</b>		
Bank	340,719	284,701
Notional interest on long term receivable	352,014	217,042
	<u>692,733</u>	<u>501,743</u>
<b>11. Auditors' remuneration</b>		
Audit fees	100,000	94,000
Other services	8,355	6,610
	<u>108,355</u>	<u>100,610</u>
<b>12. Taxation</b>		
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.		
<b>13. Cash generated from (used in) operations</b>		
Surplus before taxation	3,191,558	3,741,357
<b>Adjustments for:</b>		
Depreciation	54,649	30,198
Loss on scrapping of assets	176	-
Finance income	(692,733)	(501,743)
Notional finance income	352,014	217,042
<b>Changes in working capital:</b>		
Trade and other receivables	2,099,404	(5,639,587)
Trade and other payables	(231,821)	105,966
Wool Trust Receivable	(3,085,973)	472,591
	<u>1,687,274</u>	<u>(1,574,176)</u>

**Notes to the Annual Financial Statements**

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**14. Commitments**

**Operating leases – as lessee (expense)**

**Minimum lease payments due**

- Not later than 1 year	208,130	26,148
- Later than 1 year and not later than 5 years	842,421	87,160
<b>Total future cash flows</b>	<b>1,050,551</b>	<b>113,308</b>

**15. 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	15,467,215	14,355,680
- Project funding	5,688,564	1,421,204
- Additional funding	-	1,556,710

**SAWAMBA**

- Wool Promotion Funding	5,906,418	5,506,511
	<b>27,062,197</b>	<b>22,840,105</b>

**Amounts receivable from related parties**

Wool Trust	5,551,074	2,465,101
SAWAMBA	1,265,977	1,249,118
	<b>6,817,051</b>	<b>3,714,219</b>

**16. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

**17. Events after the reporting period**

The annual financial statements were authorised for issue on 28 September 2015 by the board of directors of the company.

No matter which is material to the financial affairs of the company has occurred between the reporting date and the date of approval of the financial statements.

**Notes to the Annual Financial Statements**

**18. Financial instruments by category**

**2015**

	<b>Financial assets at amortised cost</b>	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Trade and other receivables	5,184,984	-	5,184,984
Cash and cash equivalents	7,711,806	-	7,711,806
Non-current receivable	1,703,492	-	1,703,492
Trade and other payables	-	(504,419)	(504,419)
	<u>14,600,282</u>	<u>(504,419)</u>	<u>14,095,863</u>

**2014**

	<b>Financial assets at amortised cost</b>	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Trade and other receivables	3,055,734	-	3,055,734
Cash and cash equivalents	5,783,675	-	5,783,675
Non-current receivable	735,001	-	735,001
Trade and other payables	-	(752,365)	(752,365)
	<u>9,574,410</u>	<u>(752,365)</u>	<u>8,822,045</u>

**Detailed Income Statement**

	Note	2015 R	2014 R
<b>Revenue</b>			
Promotional services		27,062,197	26,065,078
- Distribution funding group interest		15,467,215	14,355,680
- Project research funding		5,688,564	2,677,914
- IWTO 2014 conference		-	3,224,973
- Merino 2014 conference		-	300,000
- Wool promotion funding		5,906,418	5,506,511
Other income		56,977	220,239
Finance income	10	692,733	501,743
		<b>27,811,907</b>	<b>26,787,060</b>
<b>Expenditure</b>			
		<b>(24,620,349)</b>	<b>(23,045,703)</b>
<b>Direct Operational Responsibilities</b>			
		<b>(4,563,179)</b>	<b>(4,018,149)</b>
Board		(602,513)	(426,000)
Wool Forum		(8,546)	(11,367)
International Wool Textile Organisation		(102,984)	(83,505)
Information statistics and communication costs		(482,943)	(358,522)
Public relations costs		(11,120)	(2,500)
Employee costs		(2,457,850)	(2,458,300)
Depreciation		(54,649)	(30,198)
General administrative expenses		(657,896)	(452,697)
Office rental		(184,502)	(195,033)
Loss on scrapping of assets		(176)	(27)
<b>Outsourced IT service costs</b>			
		<b>(1,909,170)</b>	<b>(1,607,303)</b>
<b>Grower Services</b>			
		<b>(9,207,530)</b>	<b>(8,619,084)</b>
<b>Research and Development</b>			
		<b>(1,945,413)</b>	<b>(1,065,158)</b>
<b>Wool promotion expenses</b>			
		<b>(5,555,560)</b>	<b>(3,653,868)</b>
<b>IWTO 2014 conference expenses</b>			
		-	<b>(2,357,364)</b>
<b>Merino 2014 conference expenses</b>			
		-	<b>(300,000)</b>
<b>Training and wool based pilot project</b>			
		<b>(200,000)</b>	<b>(160,000)</b>
<b>Shearing Shed</b>			
		<b>(371,888)</b>	<b>(1,264,777)</b>
<b>Donation – Bursary and Pensions Fund</b>			
		<b>(867,609)</b>	-
<b>Surplus for the year</b>			
		<b>3,191,558</b>	<b>3,741,357</b>