



Annual Report 2018

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Industry Overview

A significant contributor to current employment and potential employment creation in South Africa, is the furniture industry. The sector employs just over 20 000 individuals, a drop from +- 29 000 jobs in the past two years and has approximately 2 200 registered companies involved in manufacturing of furniture, bedding and upholstery. The furniture industry is labour-intensive and contributes 0.95% to manufacturing GDP and 1.6% to manufacturing employment¹. A big influence on the performance of local furniture manufacturers is a lack of higher-skilled workers, rising production costs, and poor domestic demand.²



Source: Economic Intelligence Unit (includes Lounge and Sleep retail market)

(1) Market is expected to recover after a period of consolidation. Refer to page 6 for further details on the consolidation period ³

The South African furniture industry was characterised by consolidation between the period 2014-2017 which saw a decline in manufacturing output and retail sales. We believe that the industry has since normalised and we expect a recovery through 2022.

The recovery will be subject to the following:

- Strong macro-economic underpin with real GDP forecast growth at an average of 2% per annum to 2022 (Source Bloomberg and IMF);
- Conducive political environment resulting in improved consumer and business confidence;
- Tangible implementation of government policy to support various subsectors of the industry;
- Continued growth in the independent retail furniture stores to improve access to the low income consumer market segment, and;
- Growth in the social housing market.⁴

¹ DTI IPAP 2015, 2018:104

² Who own whom, 2018:3

³ Economic Intelligence Unit

⁴ Bloomberg and IMF P Lunga, 2018.

Company Profile

Through its design and manufacturing capabilities, the South African Furniture Industry aims to be recognised locally and internationally in specific market segments by 2025.

To support the realisation of the South African furniture industry's vision, the South African Furniture Initiative "SAFI" was created as a joint initiative of Industry, Labour and Government for the benefit of all the stakeholders to:

- provide market and industry information;
- facilitate training, mentoring and support services;
- Position the industry to penetrate domestic and international markets;
- facilitate the development of strategic relationships throughout the furniture value chain and
- promote effective manufacturing and design

With the common interest of promoting employment growth, value addition and transformation across the furniture value chain.

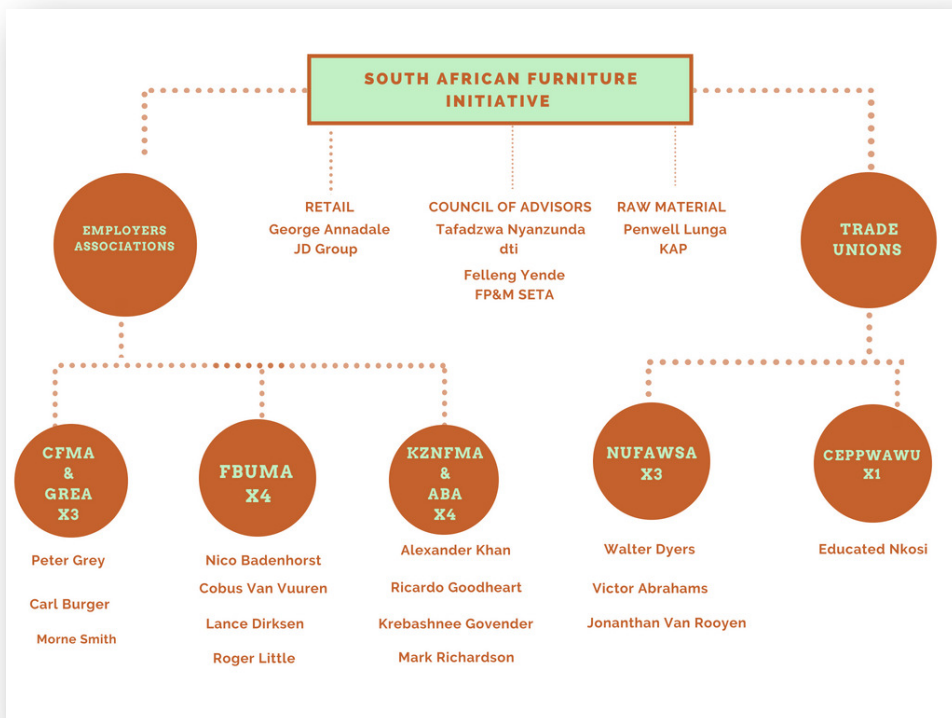


Team Structure



South African
Furniture Initiative

Board of Directors 2017/2018



Board Sub-Committees

SAFI COMMITTEES

Finance Risk and Audit

- Peter Grey
Chairman
- Walter Dyers
- Lance Dirksen
- Nico
Badenhorst

HR and REMCO

- Lance Dirksen
Chairman
- Walter Dyers
- Educated Nkosi
- Cobus Van
Vuuren

Projects and Fundraising

- Peter Grey
Chairman
- Nico
Badenhorst
- Mark
Richardson
- Educated Nkosi
- Penwell Lunga
- Victor Abrahams

Chairman's Report

If there is one word that epitomises the actions of SAFI in the reporting period, that word would have to be **FOCUS**.

In as much as there has now been general acceptance of the four strategic thrusts (4 pillars) of SAFI, the board saw it fit to drill down these four pillars and isolate critical areas of focus for the business. This refocus on concomitantly necessitated that the limited resources of the business were channelled into the '**need to have**' areas of business.

Principally the business model was also critically evaluated in light of the funding sources demanding at a minimum a qualitative return on investment, due financial pressures of their own. SAFI, has twice its inception adopted a cost conservative approach and this ethos has permeated all facets of the business. We remain a going concern with the express intention of ensuring alternate. income streams and revenue generation.

From an oversight point of view, the actions of the Board and its various subcommittees, continue to augur well with the spirit and intent of the Corporate Governance Code and the King code of good practice. In this period following a skills gap analysis, the board was strengthened with the arrival of



seasoned campaigners in the industry who have added tremendous value to the board.

We are pleased to report that SAFI's gravitas and has grown significantly with government as the legitimate, accepted and accessible mouthpiece of the industry. This has been evidenced in the collaborative efforts of SAFI with the various tiers of the government but also the respective departments in government. Extending the foot point and growing the SAFI brand remains a strategic priority and will receive further impetus going forward.

in order for SAFI to deliver on its mandate to its various stakeholders,

SAFI relies on information about the furniture sector in general. This information we have discovered is dated and accordingly as business we may need to embark on an in-depth and comprehensive research initiative.

The purpose of the aforementioned would be to collect, mine and interpret the data and convert it into intelligence, for the furniture industry to act upon.

On behalf of my fellow board members we wish to welcome the new members of the board and thank them in advance for strengthening the board in general and the subcommittees in particular.

To our executive and operational team, thank you for your continued diligence, drive, commitment an uncompromising approach of putting SAFI first.

To our various partners from government, labour, bargaining councils and the private sector thank you for sharing our vision .

I thank you


A handwritten signature in black ink, appearing to read 'Penwell Lunga', written over a horizontal dotted line. The signature is stylized with loops and a long horizontal stroke extending to the right.

Penwell Lunga
Chairman

Success Stories: Support Services

OBJECTIVES

Empowerment and sustainability of entrepreneurship through imparting knowledge that strengthens and transforms businesses

A yellow rectangular graphic with a diagonal line and the text "Support Services" in black.

PUM Mentorship Programme

SAFI in collaboration with PUM presented a Mentorship Programme for the furniture industry.

PUM believes that small and medium-sized enterprises (SMEs) are the backbone of sustainable economic development and as a catalyst of innovation, job creation and growth.

M+F The Furniture Group was approved to participate in the programme.

The programme was over a period of two weeks, where an expert engaged with all M+F stakeholders, from senior management through to labourers; familiarising himself with the products, processes, systems and technology; exploring challenges, strengths and opportunities for improvement.

"It ended up being a profoundly valuable and enjoyable experience, both personally and professionally. I'm very grateful that I had the opportunity to benefit from this service." - Steven Fish MD M+F The Furniture Group

Two more companies have been approved and will commence the 19th August 2018 and the 14th September 2018 on the PUM Mentorship programme.

Success Stories: Market Access

OBJECTIVES

To promote design as one of the key tools for a furniture manufacture to improve its competitive edge and stimulate economic growth, both locally and internationally.

Furniture Design Competition

SAFI in collaboration with the dti announced the winners at Homemakers Expo on the 23rd February 2018 where the participants had the opportunity to showcase their designs.

Lwazi Mshibe a Bachelor of Technology Interior Design Degree student of Durban University of Technology, was announced as the student category winner alongside with the winner of the established category, Beaunard Jansen from Desseign Pty Ltd for his Snooze Cot concept at the 5th annual furniture design.



017/2018 Design Competition winners and runner-ups

Success Stories: World Class Manufacturing

OBJECTIVES:

Aimed at reducing retrenchments and creating new jobs.

Turnaround Solutions programme

SAFI in collaboration with Productivity SA presented the TAS (Turnaround Solution) programme for the furniture industry. The programme was fully funded by the Department of Labour to build and strengthen the functional and operational processes of businesses, through practical implementation of successful technical business strategies.

Libra Joiners and Interiors was one of the approved companies that participated in the programme where business specific issues were addressed by industrial engineers and subject matter experts. An improvement agenda was developed in conjunction with the management and staff of the business to assist with executing the agenda through shop floor involvement from Productivity SA.

"The programme assisted with implementing a structure where everyone is accountable, works as a team and these elements contribute to being efficient and productive. What we have learnt from the programme is invaluable."- Adnaan Achmat CEO Libra Joiners and Interiors



World Class
Manufacturing

Audit Committee Report

The Audit and Risk Committee is pleased to present its report for the financial year ended 31 March 2018 to the Furniture Industry.

This report is in compliance with the requirements of the Companies Act of South Africa, No. 71 of 2008 (the Act), and the King Code of Governance for South Africa 2009 (King III).

AUDIT COMMITTEE PURPOSE

The purpose of the Audit and Risk Committee is to assist SAFI to fulfil its role and obligations in terms of its corporate governance duties in relation to risk management, internal control and financial reporting. In addition, the Audit and Risk Committee shall be responsible for overseeing the professional and other business risks affecting SAFI.

The Audit and Risk Committee shall also be responsible for the management of those risks (including ethics and independence) to ensure that it remains appropriate and effective. This includes the assessment of the effectiveness of the various risks, independence and compliance of policies within SAFI.

COMMITTEE COMPOSITION AND ATTENDANCE AT MEETINGS

The committee comprised of two Employer representatives and one Trade Union representative and the Chairman of the committee is not the Chairman of the board.

The following SAFI directors served on the committee during the year under review:

- ✓ H Borchers - Chairman
- ✓ LG Dirksen FBUMA
- ✓ NJ Badenhorst FBUMA
- ✓ WW Dyers NUFAWSA WC

Meeting attendance

The committee held two (2) formal meetings during the 2017/2018 financial year.

<i>Name</i>	<i>04 April 2017</i>	<i>21 November 2017</i>
H Borchers - Chairman	✓	✓
LG Dirksen FBUMA	✓	✓
NJ Badenhorst FBUMA	✓	✓
WW Dyers NUFAWSA WC		✓

All members are recommended by the Board of Directors and are not remunerated for their role on the committee.

The Chief Operating Officer and the Administration and Finance Manager attended meetings of the committee by regular invitation.

In addition, other SAFI directors are invited to attend various meetings on an ad hoc invitational basis. The Chairman of SAFI has an open invitation to attend meetings of the audit committee.

COMMITTEE EVALUATION

SAFI may review the Committee's terms of reference from time to time, to ensure that the Committee is operating efficiently and effectively.

The Committee may also recommend to SAFI that its terms of reference be amended, if the Committee deems it necessary.

ELECTION OF COMMITTEE MEMBERS

The following members made themselves available for election to the committee. Such election was recommended by the Board of Directors and will be proposed to members at the upcoming annual general meeting:

- ✓ PC Grey CFMA
- ✓ LG Dirksen FBUMA
- ✓ NJ Badenhorst FBUMA
- ✓ WW Dyers NUFAWSA WC

INTERNAL FINANCIAL CONTROL AND INTERNAL AUDIT

Based on the information and

explanations given by management and discussions held with the external auditor on the results of their audit, the committee is of the opinion that SAFI's system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements in respect of the year under review. In addition, during the 2017/2018 financial year, the committee was not made aware of any:

- material breaches of any laws or regulations;
- or material breaches of internal controls or procedures.

RISK MANAGEMENT

While the board is ultimately responsible for the maintenance of an effective risk management process, the committee, together with the risk committee, assists the board in the assessment of the adequacy of the risk management process. The committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as they relate to financial reporting.

EXTERNAL AUDITORS

SAFI's external auditors are Valentine Sargeant and designated auditor Mr Richard Ernest Broome is afforded unrestricted access to the SAFI's records

and management, and present any significant issues arising from the annual audit to the committee.

The committee gave due consideration to the independence of the external auditors and is satisfied that Valentine Sargeant is independent of the group and management and therefore able to express an independent opinion on the group's annual financial statements.

The committee nominated, for approval at the annual general meeting, Valentine Sargeant as the external auditor and Richard Ernest Broome as designated auditor for the 2018/2019 financial year, having satisfied itself that the audit firm is an accredited firm.

FINANCIAL STATEMENTS

The committee reviewed the financial statements of the company and is satisfied that they comply with International Financial Reporting standards (IFRS) for SME's and the requirements of the Companies Act of South Africa.

EXPERTISE OF ADMINISTRATION AND FINANCE MANAGER AND FINANCE FUNCTION

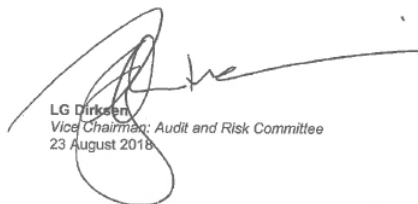
The committee considers the appropriateness of the expertise and experience of the Administration and Finance Manager and finance function on an annual basis.

In respect of the above requirement, the committee believes that Mr MF Tshigo, the Administration and Finance Manager, possesses the appropriate expertise and experience to meet his responsibilities in that position.

The committee further considers that the expertise, resources and experience of the finance function are appropriate based on the nature, complexity and size of the SAFI's operations.

APPROVAL

The committee recommended the approval of the annual financial statements and the integrated annual report to the board.



LG Dirksen
Vice Chairman: Audit and Risk Committee
23 August 2018

The complete audit report can be obtained from the SAFI office.

Annual Financials

SOUTH AFRICAN FURNITURE INITIATIVE NPC

Registration number 2009/003078/08

FINANCIAL INFORMATION

	2018	2017
INCOME AND EXPENDITURE	R	R
Income	4 848 996	4 272 007
Bargaining Council funding	4 650 033	4 184 997
Interest	198 963	87 010
Overhead expenses	-2 622 212	-3 492 018
Taxation	-58 075	-
Surplus for the year	2 168 709	779 988
Retained income at the beginning of the year	1 161 636	381 648
Retained income at the end of the year	<u>3 330 345</u>	<u>1 161 636</u>

Annual Financials continued

ASSETS AND LIABILITIES	as at 31 March	2018	2017
		R	R
Receivables and prepayments		56 471	91 899
Cash and cash equivalents		6 003 650	2 851 506
less Payables		-144 619	-159 236
less Project liabilities	*	-2 585 157	-1 622 533
		<u>3 330 345</u>	<u>1 161 636</u>

PROJECTS	2017				2018
	R				R
		Payments Recognised			
			to 3rd	as SAFI	
	Balance	Receipts	parties	income	Balance
Qualifications development RPL / to be initiated	1 077 830	960 000	-	-	2 037 830
	562 500	-	-	-	562 500
Skills, learnership, internship	-17 797	409 200	-406 576	-	-15 173
	*	<u>1 622 533</u>	<u>1 369 200</u>	<u>-406 576</u>	<u>- 2 585 157</u>

The complete set of audited annual financial statements can be obtained from the SAFI office.

Acknowledgements



Thank you to all Industry Associations, Members and Stakeholders for your support.

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South African
Furniture Initiative

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