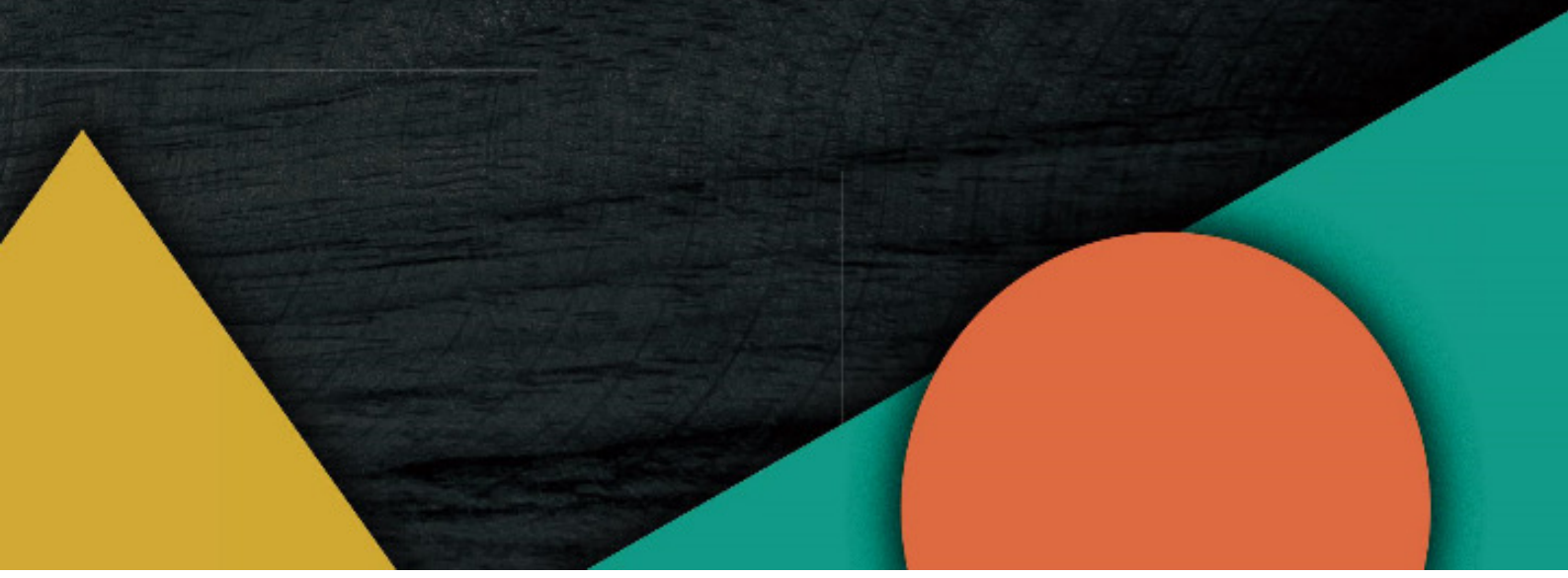


Annual Report 2019

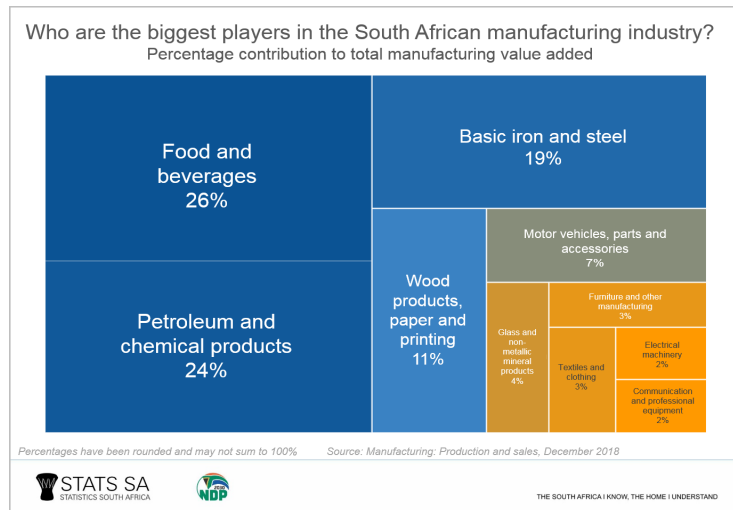


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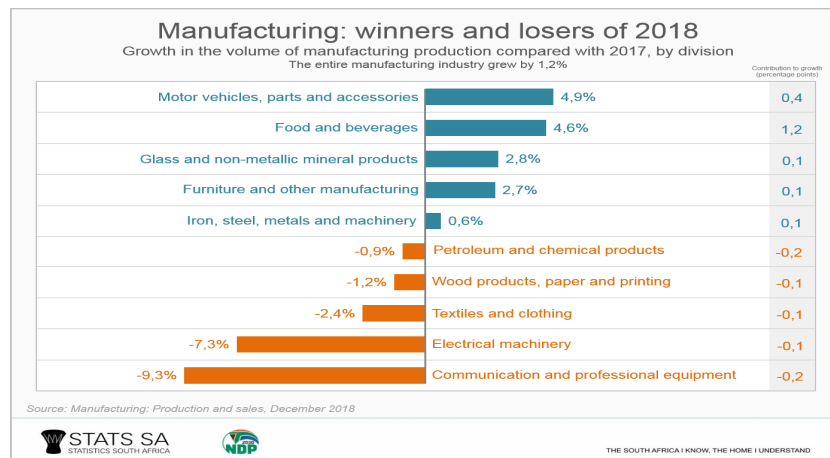
Industry Overview

The furniture manufacturing industry remains a significant contributor to current and potential employment and currently contributes 3% to the total manufacturing activity in South Africa according to Stats SA (end 2018).



Source: Stats SA

In 2018 furniture showed marginal growth of 2.7% despite tough economic conditions. This is in contrast to many other manufacturing sectors that recorded a decline, over the same period.



Source: Stats SA

Despite the marginal growth, the market share and market position of the local manufacturing industry within the furniture retail market and in other markets have been negatively impacted by the import of various furniture products and raw materials used in the manufacturing of furniture.

Traditionally furniture manufacturers have relied on economies of scale, low input costs and capacity utilisation to be competitive. The negative impact of this strategy has been that these manufacturers have lost their cost competitive advantage and market share against Asian imports.

In 2018, South Africa imported R11.9 billion worth of furniture¹ - mainly from China. This means that local manufacturers have lost their market share against the Chinese imports. As a result, many

businesses in the furniture value chain have experienced closures and job losses which have not only affected the sector but also the furniture value chain.

Note: Market trends show that China is not the most cost competitive option anymore with increasing labour costs, shipping costs and currency challenges³

The Furniture Retail Market

The DTI Furniture industry strategy of 2008 estimated that 80% of the retail market was shared between the JD Group, Elleries, Lewis and Shoprite. The structure of the furniture retail market has, however, drastically changed based on the following:

- Liquidation of the Elleries Group (1000 stores);
- Restructuring resulting in store closures by the JD Group (300 stores);
- The entrance of new role players (Mr. Price Home, Foschini Group etc.);
- Market consolidation (Lewis reducing stores and acquiring UFO Furniture);
- Growth in the independent retail market (e.g. Fair Price);
- Market entry by informal (sometimes foreign) traders in small towns.

The result has led to a general contraction of the local furniture retail market, and replacement of the formal retail market by informal traders.

The sector has seen a very small increase in employment within the furniture manufacturing industry of only 0.2% from 26348 to 26411 jobs². We are faced with a lack of employment growth and opportunities.

The low end consumer market has migrated to the informal market largely serviced by cash informal traders. We have also seen a significant growth of illegal imports.

¹ CH94 imports

² FBC

³ Tralac (2016) Intra-African Trade in Africa's Regional Economic Communities

Company Profile

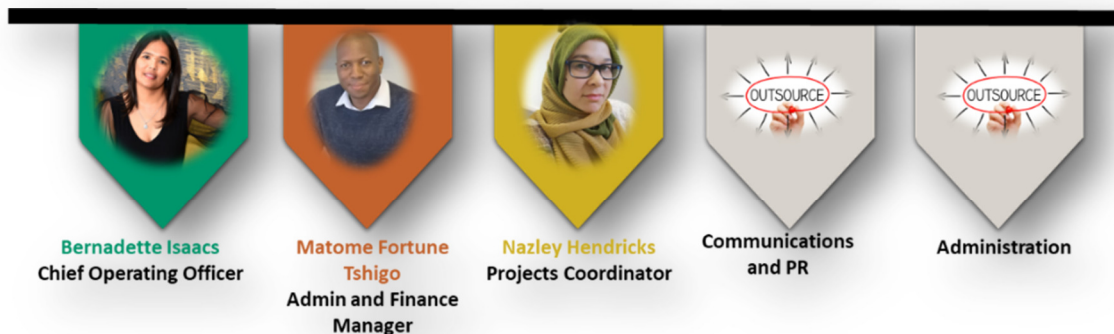
Through its design and manufacturing capabilities, the South African Furniture Industry aims to be recognised locally and internationally in specific market segments by 2025.

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:

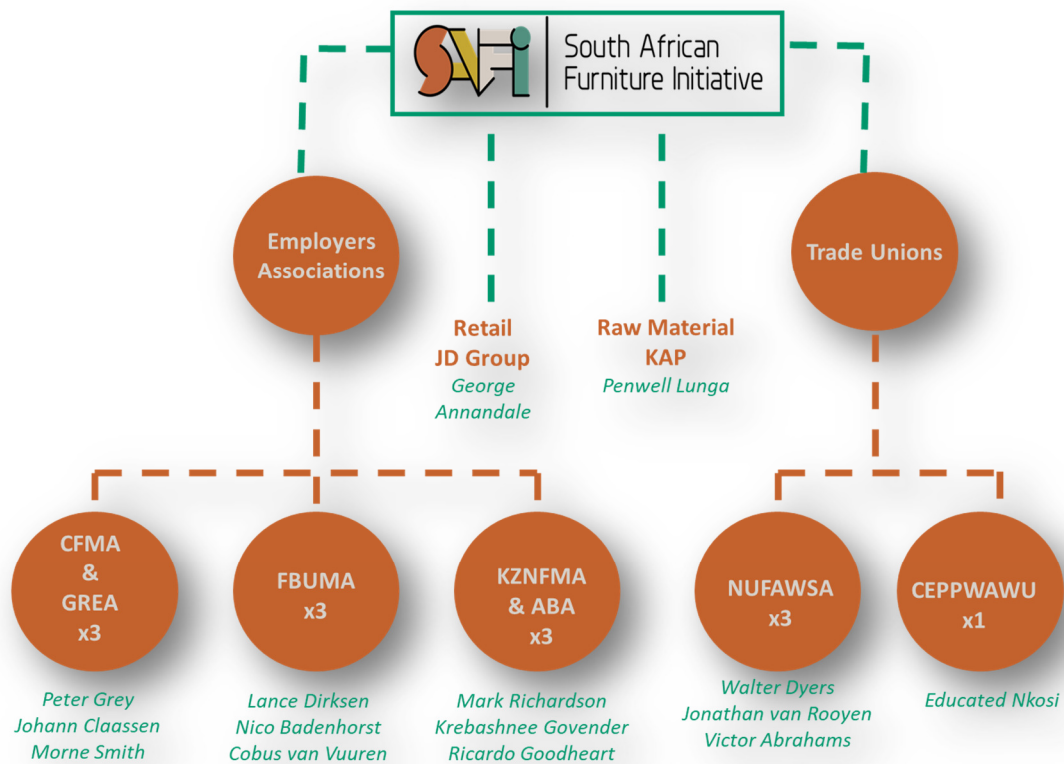
- provide market and industry information;
- facilitate training, mentoring and support services;
- Position the industry to penetrate domestic and international markets;
- facilitate the development of strategic relationships throughout the furniture value chain and
- promote effective manufacturing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

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

Team Structure

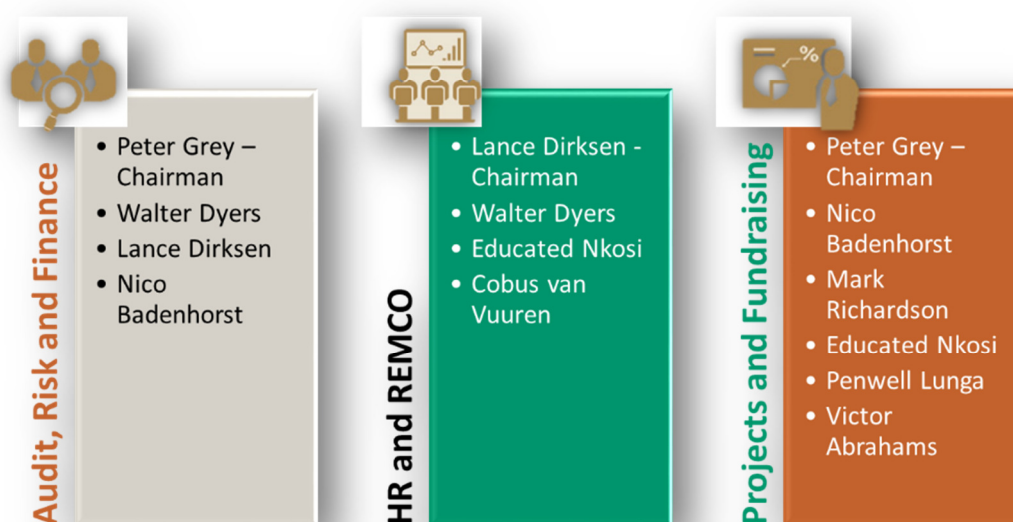


Board of Directors 2018/2019



Board Subcommittees

SAFI SUBCOMMITTEES



Chairman's Report

It has been a busy, albeit a very challenging year for the furniture manufacturing sector.

During the year in question, we started implementing the directors' proposal to grow our reach to new markets, including corporate buyers, architects and developers, procurement officers, general industry buyers and the export market.

We engaged with many of these new markets in partnership with organisations such as Proudly South African, the Department of Trade and Industry (DTI), Trade and Investment South Africa (TISA) and others.

Some of our many initiatives of the last year include a very successful maiden Furniture Sector Forum, hosted in Johannesburg with the help of Proudly South African and the DTI, several initiatives to drive, and monitor compliance, of our local purchasing by government entities and our work with the DTI and TISA to offer local market protection on certain raw materials and manufactured furniture.

Over this time, the furniture sector's contribution to GDP has grown, despite a slowing economy. It remains to be seen if the current and next calendar years will deliver a more conducive economic environment and more opportunities for our members to sell to local buyers.

This year, we have also successfully launched the consultation process that will eventually lead to the creation of our Furniture Industry Master Plan (FIMP). Our FIMP will become the roadmap for future planning and for government support and we hope to have a working version of the Master Plan ready by the end of March 2020.

In step with our work on the industry Master Plan, we have launched an application for the creation of an Export Council. This Council, once approved, will have deep access to the DTI and other organs of government and will help SAFI to grow the reach of its members in Africa and further abroad.

Looking ahead, there are no shortage of challenges and opportunities. The recently ratified African Continental Free Trade Agreement (AfCFTA) holds the promise of new export markets on the continent and duty-free sources of inputs, such as wood.

At the same time, the industry faces a challenge to increase its output and reach, which it will do through the upskilling of staff, by sharing market intelligence and opportunities through the SAFI platform and by creating opportunities for multiple suppliers to showcase their capabilities and participate in large-scale contracts.

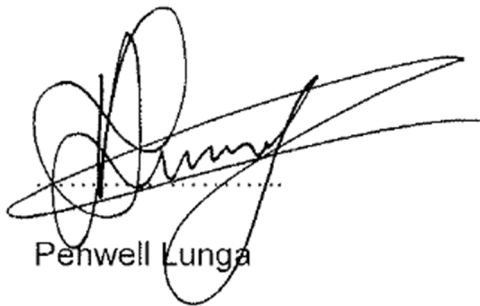


We believe that these goals are within our scope as SAFI and within our reach as an industry and we look forward to a successful new year, where we expand our reach across South Africa's borders and we offer stability and growth opportunities through our FIMP and our Export Council.

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 and 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.



Penwell Lunga

Chairman



New hope for furniture manufacturing sector after successful industry forum

The scene is set for greater inter-industry collaboration following the inaugural Furniture Sector Forum in Fourways, Johannesburg, on 17th July 2019.

The forum was hosted by the South African Furniture Initiative (SAFI), Proudly South African, PG Bison and the Department of Trade and Industry and it brought together role players from across the industry and from other industrial sectors.

“With such wide representation and an open discussion among manufacturers, the government, buyers and industry experts, we quickly found that the solution to many of the challenges facing the industry is available in our midst,” says Penwell Lunga, chairman of SAFI.








The furniture manufacturing industry employs over 26 000 people and last year accounted for R3.9 billion in export earnings and 1% of the country’s gross domestic product. It faces many of the same challenges as other manufacturing sectors, such as competing with cheap imports, investing in new technologies and accessing global markets, but in some ways, it faces more risks.



“This sector is, by its very nature, more exposed to global competition and low economic growth than other manufacturing sectors, and we have seen employment drop from approximately 80 000 people in 1995 to less than 27 000 people today. In the last 20 years, the number of manufacturing facilities has dropped from 3 500 plants to just over 2 200 plants,” says Mr Lunga.

At the Forum, the South African Department of Trade and Industry shared information on its industry incentive schemes, including the Agro Processing Support Scheme (APSS), which has identified the furniture manufacturing sector as one of the core sectors for future growth and support. The DTI and Proudly South African, the anchor sponsor of the Forum, also shared their efforts to encourage local procurement initiatives. This includes efforts to enforce compliance with new government rules on local-only procurement of furniture and equipment by government departments and related sectors.

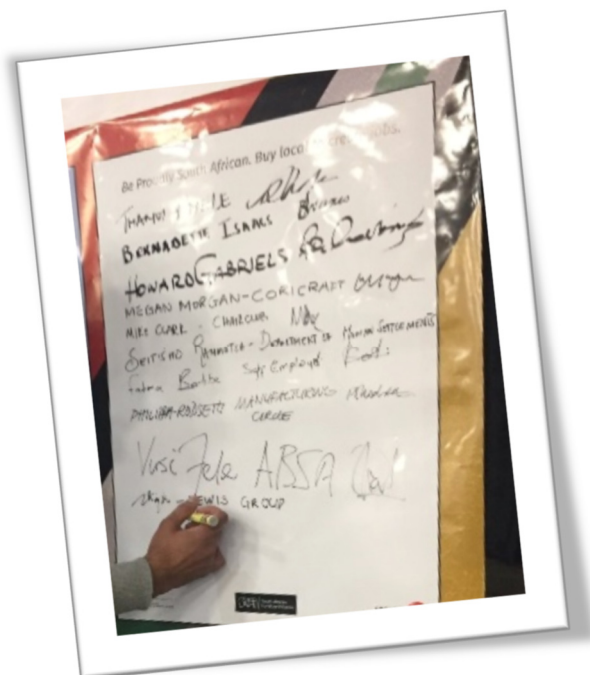
SAFI and Proudly South African have extended the call for local procurement to the private sector and have received a commitment from several large corporations and industrial sectors:

-  Absa
-  Chairclub
-  Coricraft
-  Department of Human Settlements
-  F. F. Meinala Mkribe
-  Manufacturing Circle
-  Lewis Group

“Proudly South African has made sure that buying locally produced goods and supporting local employment and economic growth are firmly on the national agenda. It has become a national imperative, and the furniture manufacturing sector is poised to benefit from it,” says Mr Lunga.

Following a successful Forum, SAFI’s Strategic priorities for 2019/2020

- ✚ Create market access opportunities for local manufacturers
- ✚ Focus on facilitating investment in technology to drive innovation and productivity
- ✚ Invest in both design and technological skills
- ✚ Increase research and development to support an industry that is part of a global market
- ✚ Policy Intervention and accelerated industry recapitalisation
 - ✓ Furniture Industry Master plan
- ✚ Trade Remedies and Custom Enforcement
 - ✓ Anti-Dumping & Safeguard Applications
 - ✓ SARS Custom enforcement strategy
- ✚ Market Access Programme
 - ✓ Designation status, sub-sector forums and partnerships
- ✚ Export Council
 - ✓ Export Council Application



Industry commits to finalising Furniture Industry Master Plan by end-2020

The South African furniture manufacturing industry will soon be guided by an industry master plan, which will focus on the development and support of the local industry.

The Furniture Industry Master Plan (FIMP) will set clear guidelines and targets for the furniture manufacturing industry and guide public sector procurement as part of the government's efforts to support and stimulate the industry.

This process will include industry-wide consultation with manufacturers, labour unions, government, raw material suppliers and buyers, ranging from the retail sector to architects, interior designers and property developers.



Many large manufacturing industries, including the textile and automotive manufacturing industries, have a master plan that was co-created by the DTI and industry representatives.

A Master Plan brings together all the policy instruments and government incentives that are available to a manufacturer and it combines that with clear manufacturing targets and timelines. This in turn creates a stable environment for manufacturers to invest in their plants and equipment and plan for future export contracts.

SAFI, the DTI and Proudly South African also agreed to combine their resources and initiatives to drive and monitor local government procurement towards South African furniture manufacturers.

We believe that the political will exists, and we will do everything in our power to assist with the facilitation of translating the buy local commitments made by the public and private sector into tangible orders for the local manufacturing industry.

Audit Committee Report

The Audit and Risk Committee is pleased to present its report for the financial year ended 31 March 2019 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 IV Report on Corporate Governance for South Africa 2016 (King IV) on 1 November 2016. King IV is effective in respect of financial years commencing on or after 1 April 2017. King IV replaces King III in its entirety.

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:

- ✓ P Grey - Chairman (CFMA)
- ✓ LG Dirksen (FBUMA)
- ✓ NJ Badenhorst (FBUMA)
- ✓ WW Dyers (NUFAWSA)

Meeting attendance

The committee held three (3) formal meetings during the 2018/2019 financial year.

<i>Name</i>	<i>01 June 2018</i>	<i>16 October 2018</i>	<i>6 March 2019</i>
P Grey - 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 2018/2019 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

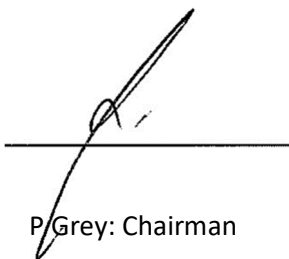
The committee reviewed the financial statements of the company and is satisfied that they comply with International Financial Reporting standards (IFRS) for SME's and the requirements of the Companies Act of South Africa.

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.



A handwritten signature in black ink, appearing to be 'P. Grey', is written over a horizontal line. The signature is stylized and slanted upwards to the right.

P. Grey: Chairman

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

	2019	2018
INCOME AND EXPENDITURE year ending 31 March	R	R
Income	4 144 652	4 848 996
Bargaining Council funding	3 858 786	4 650 033
Interest	285 866	198 963
Overhead expenses	-3 940 037	-2 622 212
Taxation	50 733	-58 075
Surplus for the year	255 348	2 168 709
Retained income at the beginning of the year	3 330 345	1 161 636
Retained income at the end of the year	<u>3 585 693</u>	<u>3 330 345</u>

Annual Financials continued

ASSETS AND LIABILITIES	as at 31 March	2019 R	2018 R
Receivables and prepayments		104 532	56 471
Cash and cash equivalents		6 031 228	6 003 650
less Payables		-117 817	-144 619
less Project liabilities		* -2 432 250	-2 585 157
		<u>3 585 693</u>	<u>3 330 345</u>

PROJECTS	2018 R	Payments Recognised			2019 R
	Balance	Receipts	to 3rd parties	as SAFI income	Balance
Qualifications development	2 037 830		-173 733	-	1 864 098
RPL / to be initiated	562 500	0	0	-	562 500
Skills, learnership, internship	-69 973	550 000	-474 374	-	5 653
Growth strategy	54 800	23 980	-78 780		0
	* <u>2 585 157</u>	<u>573 980</u>	<u>-726 887</u>	<u>-</u>	<u>2 432 250</u>

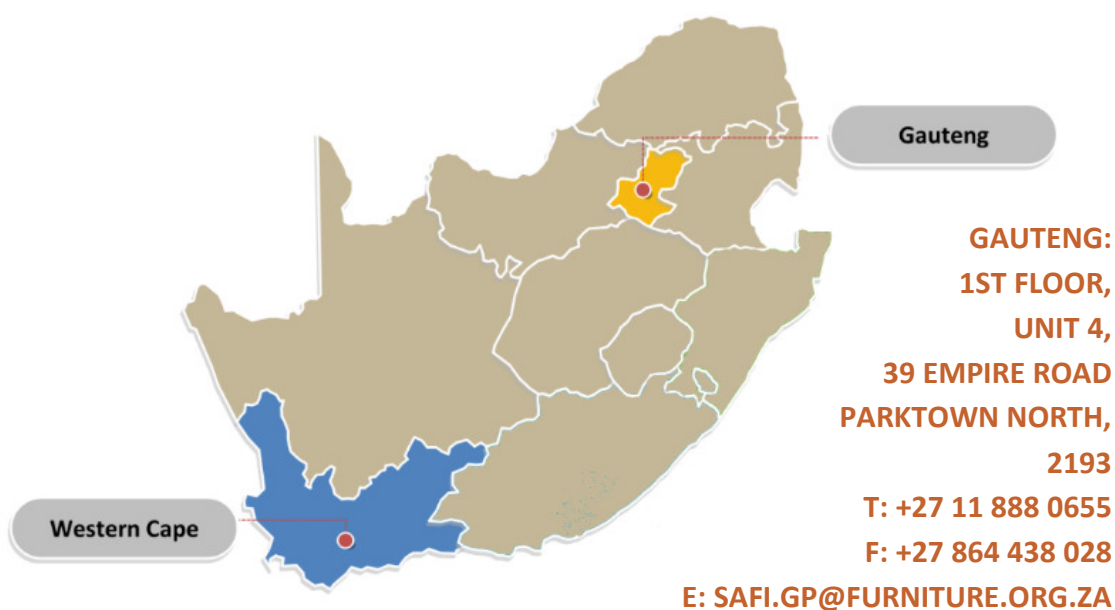
The complete set of audited annual financial statements can be obtained from the SAFI office.

Acknowledgements



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

Contact Details



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Notes:



South African
Furniture Initiative

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