TIMBALI TECHNOLOGY INCUBATOR

ANNUAL REPORT 2016-2017








Why Timbali?

VISION

To be the recognised leader in enabling smallholder commercial farmers to create sustainable wealth through a scalable model which provides market access to emerging smallholder farmers.

MISSION

To identify market opportunities for smallholder farming enterprises and to create and support an enabling environment within which they are able to successfully serve these markets.

Whom do we serve?

First and foremost the smallholder farmers. We ensure that owner-operated agri-businesses are commercially viable and sustainable through our services as a value chain incubator.

The local rural communities in which our farmers operate benefit from the jobs created, the income generated, and the empowerment of community members enabling support of as many as 8 dependants per farmer.

We serve social development organisations through development of new models in small-scale agribusiness, and assist to influence systemic change in the spheres of skills development, job creation, sustainability and enterprise development.

Our incubator is in pursuit of the national agenda and fully aligned with the National Development Plan for South Africa. We serve government through active and successful public-private-partnerships.

We serve the wider business community and provide them with access to smallholder farmers assisting them to meet their own B-BBEE procurement targets.

We share our model openly with the international community through publications, international conferences and forums to address solutions for food security, farming for the future, sustainability, environmental and human development.

What do we offer ?

Agri-related incubation & value-added services
A contribution towards building the R&D Base in incubation services
An enabling environment for smallholder farmers and their communities.
Facilitate access to finance
Audit compliance for legal and other professional services
Training, development & mentoring
Incubation-related consulting

Why do we matter ?

Timbali has developed a model for connecting low-skilled unemployed young farmers to sophisticated Global GAP Certified Markets. We use a "Cluster" model to improve economies of scale for small-scale start-up farmers. Our model borrows from tried and trusted franchise principles to provide a business format enabling ordinary people to deliver a repetitive, predictable high quality product. The agri-business cluster model of Timbali is a ground-breaking endeavour that is creating a platform for sustainable development of small-scale agriculture in South Africa.

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Innovating a job-creation process that meets markets needs by expanding strategically to specialise on grass-roots level

Report from Chair – Mr Bheki Mamphaga

Introduction

It gives me great pleasure to provide the following report on the activities of Timbali Technology for the past financial year.

2016/17 was a year which will be probably be remembered as 'the year of the drought'. However, despite the difficulties this caused our farmers, it would be more appropriate to remember it as the year in which our farmers became 'big in baby-veg'. After having established the two new agri-estates of Rietfontein and Helena, which were funded by the Jobs Fund 3 project, the complex planning, production and marketing processes were further perfected, and many more aspirant small scale farmers moved into their second year of training.

Having built our training and development of farmers on the production of flowers, where the amaBlom brand is now well recognised and respected in SA, we have some way to go to achieving the same status with the amaVeg brand. But we have made a strong start, and the size of the local and export market for these products provides Timbali with the opportunity to give many small scale farmers a sustainable livelihood.

Governance

Timbali's governance structure and processes are strong, with the Board meeting quarterly and Board committees functioning effectively. Two new directors were appointed. Mr Mashiba Kgole and Mr TP Maepa, both of whom bring highly relevant skills and expertise. We welcome both of them. The Board reviews skills development, management and financial accounts and ensures implementation of the appropriate King IV recommendations, holding Timbali's management to account.

The Audit, Procurement and Technical committees meet quarterly. These committees oversee the risk profile of Timbali in accordance with risks recognised in the risk-register. They ensure that Timbali complies with statutory, regulatory and funder requirements. Reports from both the external and internal auditors are reviewed, both of whom have unrestricted access to the Chairman of the Audit Committee. The technical committee reviews production and market performance.

The HR committee reports to the Board on farmer and staff skills development. Guidance and support is provided to the CEO in matters pertaining to staff matters. Remuneration levels are routinely reviewed as is the performance of the CEO against agreed targets.

The Fund Raising committee reports to the Board on strategic and new stakeholder issues. They assist the CEO in identifying potential funders and in raising the funds required to finance Timbali's development activities.

Both Board and Audit Committee carry out self-assessment exercises annually, identifying shortcomings and taking corrective action. As Chair, I am satisfied with Timbali's governance structure, and that the Board and its Committees are functioning effectively.

Strategy

During the year, a high-level strategic plan was developed with Board members, management and staff participation, along the theme, 'Face adversity with diversity to achieve success. This plan provides a sustainable path for the future by taking advantage of all three of the Timbali incubation models – Model A, the traditional intensive franchise style agri-park model, with Timbali as 'franchisor' and landlord. Model B, where farmers operate on their own land, but are subject to the intensive franchise-style discipline imposed by Timbali. And Model C, where farmers on their own land are supported with skills development and inclusion in existing supply chains as out-growers.

Our partners

While Timbali's purpose is to develop sustainable small scale farming enterprises generating sufficient revenue to fund ongoing support in making a success of their businesses, without the support of our partners, not only with funding, but also with their wide expertise, we would not be able to grow and extend our activities. We deeply appreciate their support, and cherish our relationships with them.

During the past year, our CEO organised a series of highly successful 'business breakfasts' to which all our funders, present, past and, hopefully future, were invited. Presentations were given not only by Timbali, but also by some of our funders, and an overview of our activities was provided. In a national environment where most transformation projects in agriculture have been failures, Timbali's development model has proven to successfully transfer agricultural and business skills to aspirant small-scale farmers, and we look forward to expanding and broadening our range of funders.

Appreciation

Timbali is deeply committed to transformation in agriculture through the means of public-private-partnerships. We extend a word of grateful appreciation to our funders, the Small Enterprises Development Agency (SEDA), the Jobs Fund (JF), the Limpopo Department of Agriculture and Rural Development (LDARD) and Syngenta. I would like to take this opportunity to thank my fellow directors, Mr Peter Hughes, and Dr Madime Mokoena for their contribution and commitment, and we welcome Mr TP Maepa and Mr Mashiba Kgole to the Board and wish them well in the interesting and challenging times that lie ahead.

I would like to thank our CEO, Mrs Louise De Klerk, management and staff for their dedication and support, always acting in the best interests of Timbali. We commend management for leading by example in a year of great growth and a most difficult year for agriculture.

Bheki Mamphaga
Chairman

CEO's report

Report from CEO – Mrs Louise De Klerk

Innovating efficiencies

Inspired by the wisdom of politician Benjamin Disraeli who coined the phrase "The secret of success is constancy to purpose" and consultant Scott Jacobs who wrote "Because the problem of a poor business environment is systemic, genuine solutions must also be systemic", the past year was a year of learning from experience and adapting systems and procedures in seeking greater efficiencies.

Growth statistics

In the report above by our Chair, mention is made of the growth in baby-veg production experienced by Timbali over the past year. Growth was however concurrently experienced in all areas of our activities.

'Easy to grow, difficult to sell'

2017 will be long remembered at Timbali as the year of the Jobs Fund 3 project coming into production, making Timbali one of the major players in the baby-veg business. A well-known cliché in farming circles is 'easy to grow, difficult to sell', and as a result, Timbali's primary focus has been on developing a more systemic-approach to opening up markets for its farmers.

Demand patterns were tracked more precisely, and progress has been made in developing appropriate responses. The key insight from this year's activities was that our preoccupation with the short-term symptoms of falling short of market expectations, such as not meeting weekly sales targets, was distracting us from addressing the longer- term root causes of the problem.

In seeking systemic solutions to these problems, an important innovation, amongst others, has been the introduction of an inclusive weekly detailed and formal review process. As a result of this and other initiatives, amaVeg market penetration improved and targets were consistently met. The export market segment, with significantly higher prices, received 34% (by weight) of our products; the local retail segment, delivering the next highest returns, 46%; and the wholesale segment, the fresh produce commission markets and the lowest priced market took the balance.

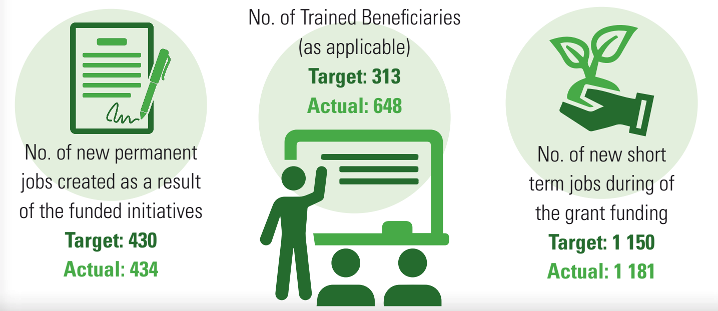
Given the progress made in matching weekly production with market demands, targets set for 2018 have been set at 60% for the export segment, 30% retail and 10% wholesale. If we are able to achieve these ambitious figures, average prices will be lifted significantly and profitability for farmers will be much improved.

Linking small scale farmers to the market

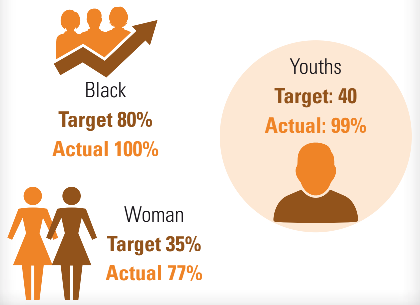
The primary objective of the Timbali 'franchise-style' model is the creation of a sustainable link between rural youths producing high quality agricultural products, and the market. The achievement of this goal requires careful selection of a product range for which there is (a) a strong market, and (b) a product where small scale labour intensive farmers are able to achieve a competitive advantage.

Despite the daunting challenges of building a sustainable living for our farmers, we do now have the big four SA retailers, and a number of leading international retail chains with our products – flowers and baby veg – on their shelves. The support functions provided and discipline required by being part of the Timbali system, delivers the enabling environment where our farmers – 100% black, 99% youths and 77% women – are able to meet the high standards required from these buyers. Improvement in productivity and higher quality agricultural output are a work-in-progress, and continuous improvement is part of the Timbali culture.

Jobs created in newly established Agri-Parks 2015–2017



Timbali Model A – demographics



Milestones

Main achievements by Timbali during 2017 were the following:

- Erection and commission of three Global Gap accredited packhouses and export supply chains.
- Baby veg deliveries exceeding market orders by 7% in retail and export markets.
- Sales in the low priced wholesale markets limited to 20% of production.
- Freshmark increasing their Timbali placed growing program by 120%
- Overall growing programmes for 2017 increased by 179%

Dashboards

While Timbali's 'franchise-style ' environment demands order, control and discipline, we also pay homage to clergyman John Newman's famous quotation – "To live is to change, to be perfect is to change often". Regular perusal – weekly and monthly – of a range of carefully designed simple dash-boards, give farmers details of production, sales and financial performance of their units. The dash-boards facilitate management control and provide a sense of 'ownership' of the production units, and assist in the process of making sound data-driven decisions.

Franchise principles and cluster concepts deliver success

A key objective of the Timbali Model is to lower the cost and risk in small scale agriculture, and in so doing develop sustainable jobs amongst rural youths. The Jobs Fund 3 contract has provided us with the opportunity to establish a project which will deliver these results.

Key elements in establishing the JF 3 project, and required to make it a long term success are the following:

Three GlobalGAP accredited packhouses

Friedenheim

Helena

Rietfontein

CEO's report (continued)

Such has been the success of the JF 3 project, that Timbali was invited by LDARD to submit a Jobs Fund proposal for Round 5, initiating a similar project in Nwanedi, Limpopo.

- Delivering a wide range of consistently high quality products 12 months of the year.
- Meeting orders placed and accepted with little or no shortfalls.
- Matching the growing requirements of specific products with the each agri-park, taking into account the micro-climate and agronomic characteristics of each.

JF 3 baby-veg milestones in 2017:

- The production and sale of baby veg to the value of R54m.
- Simplifying the complex production technology.
- Producing a basket comprising 27 different products.
- Producing most of these lines for 12 months of the year.
- While achieving the above, successfully meeting the requirements of funders.

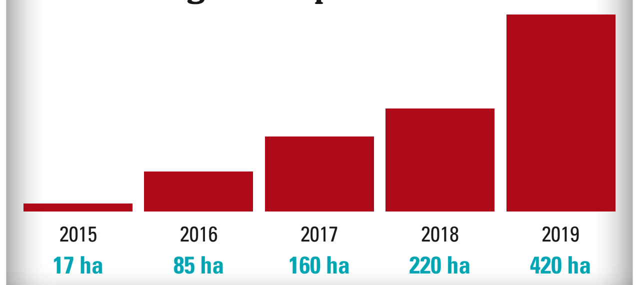
Such has been the success of the JF 3 project, that Timbali was invited by LDARD to submit a Jobs Fund proposal for Round 5, initiating a similar project in Nwanedi, Limpopo. The project involves not only Timbali and LDARD, but draws in other stakeholders such as local cooperatives, the local community property association and municipality. A project steering committee involving all these parties has been established, which, at the conclusion of the JF5 contract, will take over the management function

Risk mitigation

Mention has been made above by the Chair of the role of the Audit Committee in risk management. The Board instituted the development of a risk-register, which was developed bottom-up, with farmers and staff throughout the organisation involved and as a result becoming sensitised to the range and scale of risks to farmers and Timbali. Risks were identified, ranked and mitigation steps prioritised. The risk-register exercise has the added benefit of resulting in identification of priority areas for investment and capacity building. We thank SEDA for their valuable input in conducting a risk management workshop.

It must be appreciated that an incubator such as Timbali faces a double menu of risks. It operates in an environment that serves job creation, involving markets and enterprise development. But it also has to manage risks on behalf of its client, the small scale farmer, and develop their risk management skills.

Land under intensive baby vegetable production



The drought

Mention has been made above of risks, and the role of the Audit Committee and Board in managing these. Climatic risk is one to which our farmers and Timbali is highly exposed, and in this regards 2017 will be a year we wish to forget. The widespread drought, recognised as the worst in 50 years, impacted Timbali's agri-estates severely.

The drought experienced in 2017 impacted agriculture over large areas of Sub-Saharan Africa. All Timbali's agri-estates were affected to a greater or lesser extent, and the impact was most severe on our baby-veg exports over the mid-summer season. Dam levels at Rietfontein dropped to zero, while salinity increased to high levels at Helena (which is dependent on bore holes) and in Nwanedi. All possible steps to mitigate the effects of water shortage were instituted as far as possible. In addition to water stress, the drought exacerbated pest and disease pressures. Additional preventative spray programs had to be followed.

Market risk

A characteristic of vegetable production is the occasional short-term glut when realised market prices do not reach levels capable of making a contribution towards overheads. In other words, prices are such that the cost of harvesting, packing, transporting to market and selling cannot be recovered. When such a situation arises, farmers must be capable of making an informed decision to leave product on the land and plough it in, known as 'dumping'. Timbali keeps track of these 'dumping prices' for each product on an ongoing basis, and shares this information with farmers.

Capital access risk

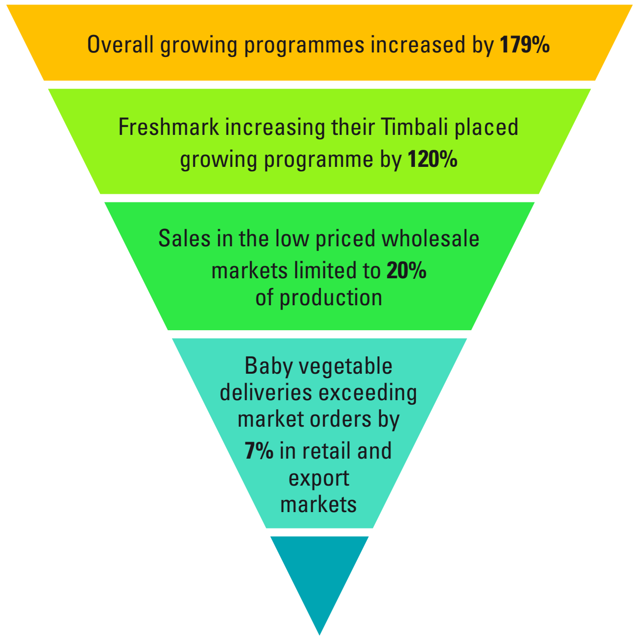
Access to capital for stand-alone small businesses poses great difficulty. Funding organisations are far more comfortable providing funds to small scale farmers who have successfully graduated through Timbali's incubation system, which in addition to production and marketing, provides services such as book-keeping and management training. Farmers with Timbali develop the credibility and track records to access external capital.

Appreciation

The Chair has recorded his appreciation to our funders, his co-directors and Timbali management and staff.
I wish to record my appreciation to him, his board, and my fellow managers and staff. Last but not least, I wish to express my appreciation to and admiration of our many farmers – incubatees and graduates – whose successes make all our hard work worthwhile.

Louise de Klerk
CEO

Market access milestones achieved



Future Outlook: Timbali will have prototype agri-parks in five provinces by 2020.

Sustainability strategy –> Moving from 40% self-sustainability to 90% self-sustainability by 2027

Becoming a social entrepreneur to generate income through delivering strategically aligned commercial services in partnership with the agri-incubation services, to subsidise and guarantee the sustainability of Timbali whilst providing development services through agri-incubation. The cost of development to reach the social impact, require an extended amount of cost. In order to ensure sustainability of the development services without continued grant funding, Timbali needs to develop and commercially viable income generation portfolio using the existing assets (infrastructure, staff, etc.) to ensure sustainable income.

Timbali will aim to have a self-sustainability strategy extending its services into income generating activities that are not solely focussing on agri-incubation, but sharing existing tools and techniques that can deliver to clients whilst generating income to sustain the assets.

Environmental influences

The importance of the macro-environment

The small, medium, and micro-enterprises represent an important vehicle to address the challenges of job creation, economic growth, and equality in South Africa. SME's is a solution to poverty alleviation, given that small businesses help to drive economic growth, and are sources of innovation and new ideas. Timbali is a successful vehicle to assist with this solution, in line with the National Agenda. A number factors influences their macro-environment.

Wage increases

During the Jobs fund 3 negotiations and plans, the minimum wage in the budget for agriculture was R1 500 per person per month. Due to legislation, the minimum wage increased to R3 300 in 2017. Timbali was able to reach their initial job targets, but with half the budget to work with. This implies that the Timbali sales achieved was significantly more to be able to reach the targets.

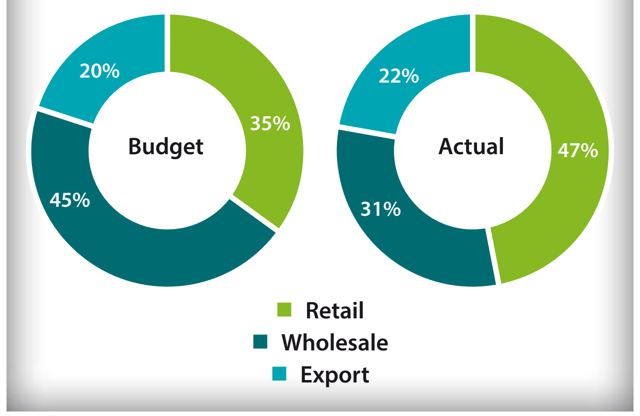
Access to capital

Small medium entities (SMEs) are the building blocks of an economy. Access to capital for small businesses remains a major stumbling block for SMME's and Timbali is looking into partnered with organisations like MEGA and NYDA to access funding for the SME's. By being part of an environment where services are delivered such as financial book keeping and management, the farmers are enabled to apply for funding from these organisations because they have the credibility and records to access external capital.

Produce

Timbali's fresh produce includes yellow patty pans, baby marrows, green patty pans, grean beans, baby corn, sweet corn cobs, chillies (5 types), baby brinjals, baby gem, manage tout, sugar snaps, cauliflowers, romanesco, leek, carrots, turnips, beetroots, fennel, red cabbage, green cabbage.

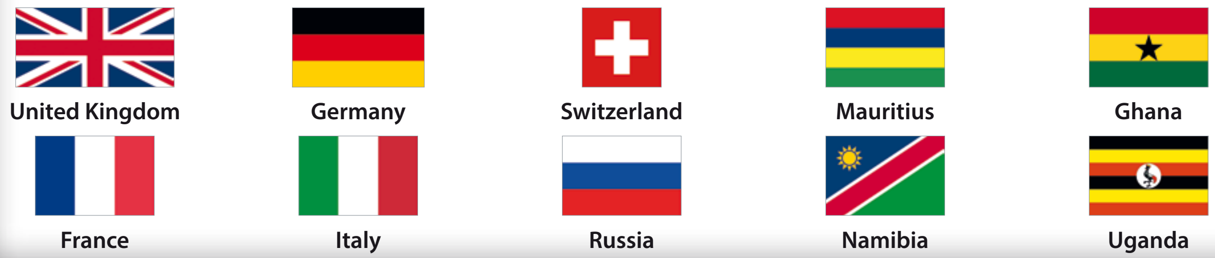
Market mix



Retail clients through agents

Checkers, Pick n Pay, Spar
Woolworths through Freshtogo

Countries exported too



About Timbali

Timbali Technology Incubator (Timbali) set up small-scale farmers in sustainable businesses since 2002. Timbali's vision to be leaders in creating sustainable wealth for all agriculture enterprises is made possible through public and private funding. Timbali, a non-profit organisation, provide business development services including but not limited to business management, accounting and sales. The Tactics Table shows the three different application of the model.

Why are we sharing all this with you? We would like you to:

- •Tell people about Timbali. The more awareness we create about the work we do and the services we offer, the better. Also don't hesitate to ask us critical questions about our model – we are happy to share and grow.
- •Contact Timbali to provide you with enterprise development services. Becoming a funding partner of Timbali grows our footprint and capacity, and provides you with solid return on investment, B-BBEE scorecard points, and a tax-deduction.
- •Share with us how we can work with you, or you can work with us.

The Timbali Tactics Table

Tactics Defined	Agri Park Model A	Satellite Agri Park Model B	Effective Skills Development Model C
1. Timbali's role and relationship with farmers	Timbali prescribes quality supply chain procedures and enforces peer reviewed adherence. Timbali is the farmer's landlord	Timbali is in a full-time consultation role The farmers on their land tenure units and heavily influence the progress and adherence to quality standards`	Timbali is in a part-time consultation role The farmers access the land and heavily influence the progress with skills development
2. Characteristics of the model	• High infrastructure cost & capital investment • High return • Low risk • Medium to high job creation potential • Highest SMME sustainability • Highest Incubation sustainability though rent & levies	• Medium infrastructure cost • High return • High risk • High job creation potential • Medium SMME sustainability • Medium incubation sustainability through levies	• Low infrastructure cost • Medium return • High risk • Medium to low job creation potential • Medium to low farmer sustainability • Low incubation sustainability
3. Benefits	• Full Global Gap certification • Guaranteed market off-take • Full supply-chain support • Mitigate the external weather risks through covering • Monitoring scientific farming practices • Quality Management • Business management and admin services	• Co-ordinated production leads to large impact on bottom-line for farmers • Economy of scale • Access to scientific farming practices • Improved quality awareness • Awareness of business management & Admin • Weekly interaction with the farmers • Less spatial growth limitations	• Access to scientific farming practices • Improved quality awareness • Awareness of business management & Admin • Awareness of potential through clustering and co-ordinated production • Less spatial growth limitations

Learn more about Timbali by visiting www.timbali.co.za, or call us on 013 752 4247.

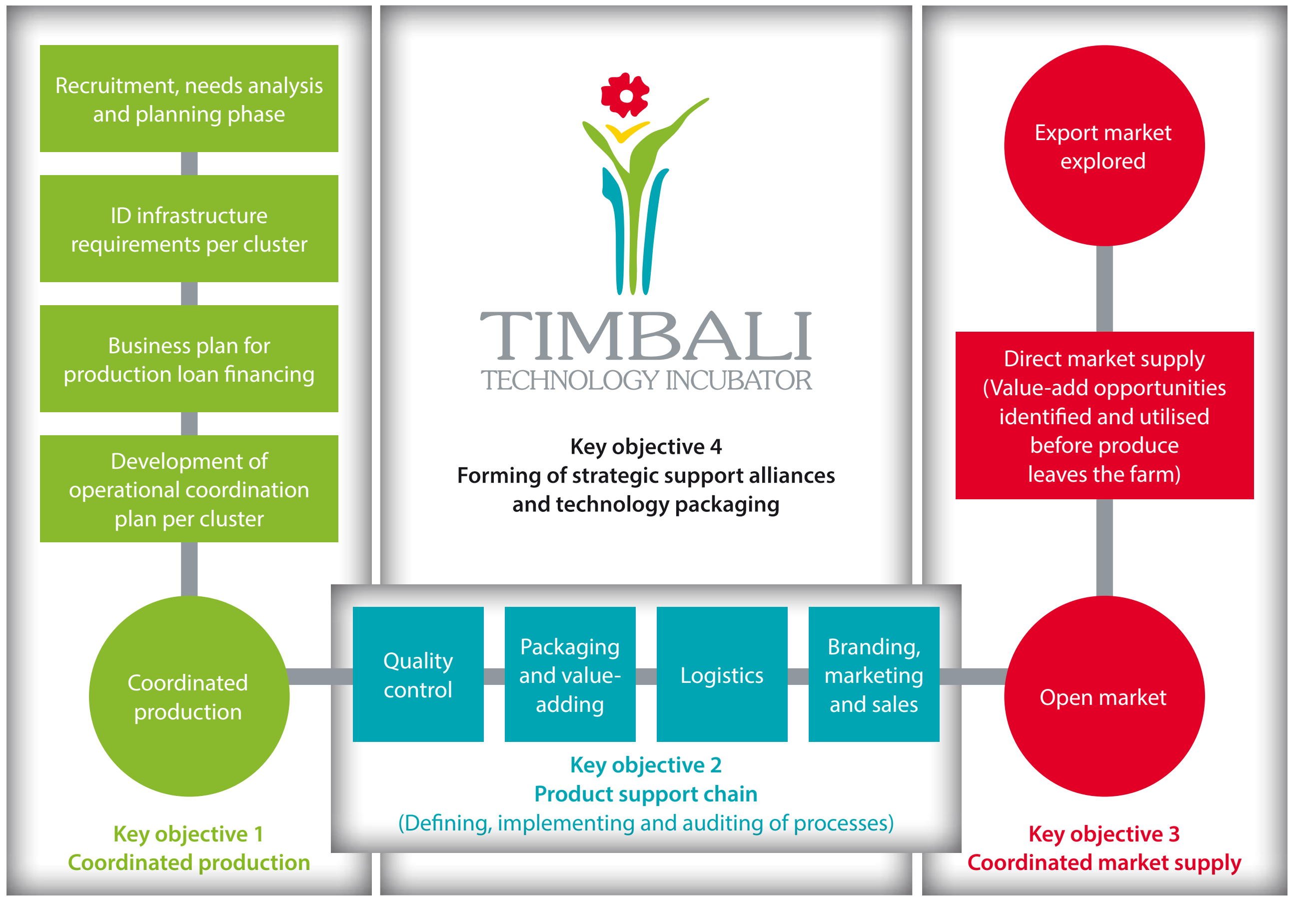
Our model

The key elements of the Timbali model are:

1. **Coordination of Production** Objective is aimed at recruiting, planning, establishing infrastructure, product development and acquiring production loan financing whereby production is coordinated within the cluster to satisfy market demand.
2. **Extension of the product support chain** Objective is aimed at consistently delivering a quality product to the market through quality control, logistics, marketing and sales.
3. **Regulation and Coordination of market supply** Objective is aimed at consistently meeting market demand with predictable high quality products.
4. **Forming of strategic support alliances and technology packaging** Objective is aimed to develop well informed, globally-competitive small-scale farmers through continuous skills development, training, communication, technology packaging and accessibility to information.

The green column represents coordinated production of specific market-driven crops that are supplied to both the open- and direct markets. Coordinated market supply is a critical success factor that Timbali provides to the farmers to be able to access loan financing. The next critical success factor that Timbali provides is the product support chain depicted by the blue blocks that critically links the farmers to the markets. Timbali's holistic support services that create an enabling environment through market linkages are depicted in Figure 1.

Figure 1. Schematic representation of Timbali's enabling environment to successfully link small-scale farmers to markets in order to increase sustainability.



Risks addressed under CEO Report

The incubator as a business face a double amount of risks – not only does it have to mitigate risks in it environment that the incubator serves i.e. job creation and enterprise development, it also have to manage risks on behalf of its clients and pass these risk management skills on to clients effectively.

Roadshow success

Successful partners invite new corporate and government peers to join the success party – scaling up the Timbali model.

From left – Antonie Delport, Syngenta; Louise de Klerk, Timbali; Najwah Allie-Edries, Jobs Fund; Tervern Jaftha, SEDA.

Timbali is on a mission to scale up its reach and impact. The successful implementation of two Jobs Fund projects and numerous other partners' goals, ensured that the system is robust and ready to duplicate in all the provinces in South Africa, and expanding into Africa.

With these partners at our side, Timbali had the opportunity to host three business breakfast events as 2016 ended. In order to display the value of successful public-private partnerships with their high profiled funders, including SEDA, the Jobs Fund, European Union, LDARD and Syngenta. These partners endorsed the Timbali model and explained why Timbali is a good partner for reaching Enterprise Development and Innovation goals.

Timbali CEO, Louise de Klerk, joined by keynote speakers from long-term partners, Syngenta, SEDA and the Jobs Fund to discuss both a private and public perspective highlighting the importance of sustainable inclusive growth in agriculture and the long-term partnerships needed for businesses in the agri-incubation space to grow. The European Union, as Timbali's latest partner, was also represented at the events.

The first event was held in Nelspruit at the original Timbali Agri-Park – Friedenheim, where guests had the opportunity to meet the Timbali team and beneficiaries. The guests were treated to a farm visit, taking in all that Timbali is and represents. The second and third event was held in Midrand and Cape Town.

Timbali was joined by 30 retail and corporate guests at each event and made use of the opportunity to display the difference Timbali makes in the lives of their beneficiaries. The breakfast event also served to invite these companies and organisations to be part of the change and they were invited to join hands with Timbali on enterprise development.

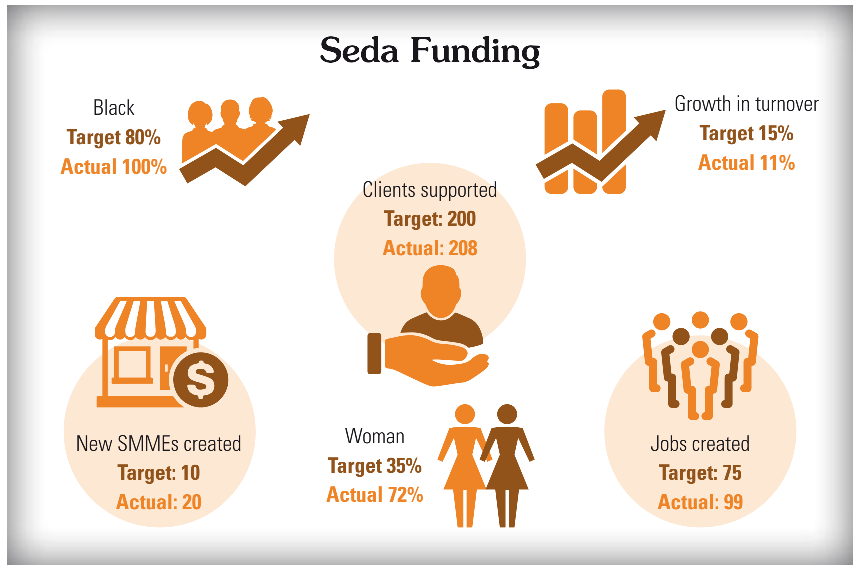
Thank you to everyone that attended the events, we are looking forward to future collaboration. Partners and funders can be on the lookout for further communication and continued relationship building in 2017.

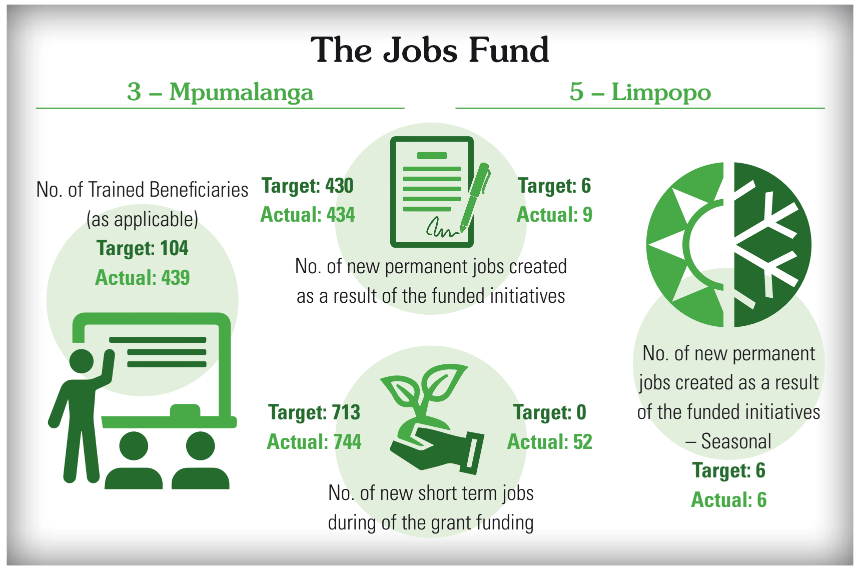
2016/2017 Incubation Performance

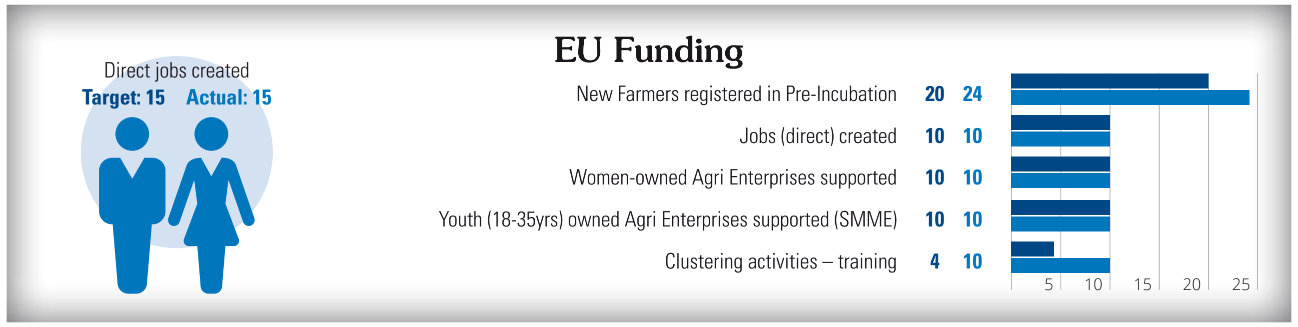
Timbali continues to deliver on targets, whilst growing by 300% in the 2016/2017 financial year. It's often said that more than half of new businesses fail during the first year. According to the Small Business Association (SBA), this is not necessarily true. The SBA states that only 30% of new businesses fail during the first two years of being open, 50% during the first five years and 66% during the first 10. Businesses are more likely to fail during their growth phases, than in start-up phase.

Timbali was very aware of this risk whilst scaling and duplicating the model during 2016/2017. Timbali's staff and goals increase multi-fold. Our delivery, however, was at the same gold standard as always. When we meet our funder's goals, we also meet our clients (farmers) goals, and vice versa. Only when all of these goals are met, can we claim success for a period in time.

We implemented four new contracts during 2016/2017 and continued to deliver for our founding partner SEDA, exceeding our targets for the year by 135%. We scaled up to deliver on the Jobs Fund 3 contract in Mpumalanga, and continued to deliver on our contract with the EU. In addition to this, we contracted for a new period in Limpopo with Jobs Fund 5.







The Timbali Board

Mr Bheki Mamphaga
(Chair) (Mpumalanga Economic Growth Agency – MEGA)

Ms Louise de Klerk
(CEO) (Timbali) ex officio

Ms Ntokozo Majola
(Seda)
Resigned 27 June 2016.

Mr Peter Hughes
(Industry Specialist)

Dr Madime Mokoena
(DAFF)

Ms Karin Hannweg
(Secretary) (ARC-ITSC)

Mr Kenneth Duncan
(SSACI)
Resigned 27 June 2016.

The Timbali Team

Cassandra Bessenger, Human Resouce and KPI Coordinator
Sydney Chauke, BUM: Nwanedi
Lourenso Chirugo, Maintanace Assistant
Jooma Chitenje, Cluster Coordinator
Jonathan Ryno De Bruin, BUM: Rietfontein
Louise De Klerk, CEO
Pietro Di Bernardino, Systems Developer
Brian Hlatshwayo, PSF Officer
Joseph Khoza, Monitoring Costing & Coordinator Officer
Xolile Khumalo, BDM Finances
Patience Letswele, Human Resouce and KPI Coordinator 2
David Magagula, PSF Officer
Sinenhlanhla Memory Makanya, PSF Officer
Lydia Malapane, General Office Cleaner & Receptionist Assistant
Kgotlelelo Iris Malele, Credit Clerk
Howard Malope, Cluster Coordinator
John Mangani, BUM: HELENA
Salom Maphanga, Accounting clerk
Mxolisi Mashaba, Driver
Tshepo Clifford Mashego, Driver
Tinyiko Debra Mathebula, Receptionist
Bright Matimbe, BUM: Friedenheim
John Milanzi, Tractor Driver
Busisiwe Mkhize, BDO
Rhulisani Mkhonto, Junior Accounting clerk
Samson Mlimi, Driver
Maria Sylvia Mokgalabone, PSF Officer
Tshifhiwa Benny Mphidi, Secondary Co-Op Administrator
Tshifhiwa Ernest Musandiwa, Senior PSF
Khuliso Musweswe, PSF Officer
Kurhula Betty Ndlovu, Packhouse Supervisor
Aluwani Nengovhela, PSF Officer
Pfunzo Ashley Netshivhera, PSF Officer
Rofhiwa Nevhulaulauzi, PSF Officer
Annie Ngomane, PackHouse Supervisor
Zweli Ngomane, Filing Clerk & Assistant to BDM
Hendrick Nkosi, Tractor Driver
Samuel Nkosi, Tractor Driver
Simon Nkosi, PSF Officer
Masungi Eleck Nkuna, Cluster Coordinator
Bethwell Bheki Ntimande, Junior Accountant clerk
Davhula Phethani Emmanuel, PSF Officer
Rendani Ramagwa, PSF Officer
Bridget Sedibe, Marketing officer
Kate Shekwa, PackHouse Supervisor
Alinda Compion, Marketing Officer
Renee Swarts, Budget Controller
Mylene Torres, BDM: Marketing
Susann Van Heerden, Sales, Admin, HR Manager
Debbie Van Hoffen, Business Intelligence Coordinator
Jason Van Huyssteen, BDM: Technical

Annual Financial Statements

for the year ended 31 March 2017

Contents

Timbali Flower Growers NPC
(Registration number 2002/006905/08)

These annual financial statements were prepared by:
Vusi Mathe, Business development manager: Finance

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

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 auditor's is 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 board sets 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 audit committee reviewed the annual financial statements and going concern assumptions. The committee concluded that the disclosures were appropriate. The committee further concluded that the company's cash flow forecast for the year to 31 March 2018 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 page 23.

The annual financial statements set out on pages 25 to 42, which have been prepared on the going concern basis, were approved by the board on 29 June 2017 and were signed on its behalf by:

Approval of financial statements

BG Mamphaga
Chairperson of the board

JP Hughes
Audit Committee Chair

L de Klerk
Chief Executive Officer

Independent Auditor's Report

To the Directors' of Timbali Flower Growers NPC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Timbali Flower Growers NPC set out on pages 25 to 42, which comprise the statement of financial position as at 31 March 2017, and the statement of income and retained fund and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of South Africa, and the supplementary information set out on pages 41 to 42. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with the funding requirement of the SEDA Technology Programme, DAFF and Jobs Fund, we report the following:

1. The statement furnished to the SEDA Technology Programme, DAFF and Jobs Fund in terms of section 38(1)G) of the Public Finance Management Act is fair in all material aspects.
2. All transactions which came to our attention in the course of our examination were in our opinion in accordance with the applicable laws and instructions.
3. All transactions which came to our attention in the course of our examination were in our opinion in accordance with the mandatory functions of the company determined by law or otherwise.

In accordance with the funding requirement of the SEDA Technology Programme, DAFF and Job Funds read with the Public Finance Management Act (section 51(1)(a)(i)), we include below our findings on the annual performance report, a summary of which is set out on page 40.

Predetermined objectives

No material findings to report

A2A Kopano Incorporated
Proforum Building
5 van Rensburg Street
Nelspruit
1200

Per: FRL Eksteen
Registered Auditor
Director
29 June 2017

Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Timbali Flower Growers NPC for the year ended 31 March 2017.

1. Nature of business

The principal activity of the company is creating an enabling environment for predominantly previously disadvantaged individuals to develop and establish technology based agricultural industry and related SMME's within South Africa and there were no major changes herein during the year.

Timbali has assisted in establishing successful small businesses in the cut flower industry and are currently venturing into enterprise development in vegetable and herb farming in various provinces. Current projects include the establishment of agribusiness parks at Nwanedi in Limpopo.

The operating results and statement of financial position of the company are fully set out in the attached financial statements and do not in our opinion require any further comment. There have been no material changes to the nature of the company's business from the prior year.

2. Review of financial results and activities

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

The company recorded a surplus for the year ended 31 March 2017 of R23 454 864. This represented an increase of 16% from the surplus of the prior year of R20 207 595.

The company recorded a gross deficit of R6 515 586 (2016: R1 097 380), this gross deficit is mainly caused by the training costs associated with the incubation farming system. Included in the costs of sales is a significant amount of salaries and wages paid to incubatees in the various incubation stages, this is a significant cost in relation to the total cost of sales.

Company revenue increased by 18% from R8 350 554 in the prior year to R9 871 916 for the year ended 31 March 2017.

Company cash flows from operating activities increased by 219% from R11 188 022 in the prior year to R35 641 795 for the year ended 31 March 2017.

Section 4 of the Companies Act expects directors to perform solvency and liquidity tests.

Solvency

Assets, fairly valued, exceed liabilities by R63 627 654 (2016: R40 172 790). The equity to asset ratio is 80% (2016: 83%)

Liquidity

The current ratio is 1.93:1 (2016: 2.51:1). Funds used as bridging finance until grant funding is received and for monthly cash expenses totals R4 644 241 (2016: R486 728). The number of months operating expenditure is covered by free cash flows is (2016: 0.22)

The company remains dependent on grant funding to meet monthly overheads. The adherence by donors to payment of the grants on the contractually agreed upon dates assists management to better achieve agreed upon performance criteria.

3. Share capital

The company is incorporated as a Non-Profit Company under the Companies Act, and therefore has no authorised or issued share capital.

4. Dividends

The company is incorporated as a Non-Profit Company under the Companies Act, and therefore is not allowed to declare or pay dividends.

5. Directors

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

B.G. Mamphaga	Chairperson of the board Non-executive Independent
J.P. Hughes	Non-executive Independent
K.F. Duncan	Non-executive Independent Resigned 27 June 2016
P.N. Majola	Non-executive Independent Resigned 27 June 2016
M.R. Mokoena	Non-executive Independent

Included in the board are two additional ex-officio attendees:

L. de Klerk	Chief Executive Officer
K. Hannweg	Board secretary

In accordance with good governance practices, the company has appointed certain directors to form various committees. These committees and members are as follows:

Human Resources

B.G Mamphaga	Chairperson of the board
M.R. Mokoena	
L. de Klerk	

Audit Committee

T.P. Maepa	
J.P. Hughes	Audit commitee Chairperson
L. de Klerk	Chief Executive Officer
B.G. Mamphaga	Chairperson of the board of directors

Technical Committee

J.P. Hughes
K.F. Duncan
L. de Klerk

Fundraising committee

M.R. Mokoena
P.N. Majola
L. de Klerk

6. Directors' interests in contracts

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

7. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

8. 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.

As stated above, the directors have a reasonable expectation that the company has, with the continued grant funding, adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt a going concern basis in preparing the financial statements.

9. Auditors

A2A Kopano Incorporated continued in office as auditors for the company for 2017.

At the AGM, the board of directors will be requested to reappoint A2A Kopano Incorporated as the independent external auditors of the company and to confirm FRL Eksteen as the designated audit partner for the 2018 financial year.

10. Secretary

The company secretary is K Hannweg.

11. Date of authorisation for issue of financial statements

The annual financial statements have been authorised for issue by the directors on 29 June 2017. No authority was given to anyone to amend the financial statements after the date of issue.

12. Income tax

The company has received income tax exemption in terms of section 10(1)(cN) of the applicable act on 26 September 2011, is a registered Public Benefit Organisation, and is authorised to issue donation receipts in terms of section 18A of the applicable act as from 7 November 2011.

Statement of Financial Position

Figures in R	Note(s)	2017	2016
Assets			
Non-Current Assets			
Property, plant and equipment	2	**48 327 772**	27 403 455
Biological assets	3	**233 103**	319 191
Intangible assets	4	**13 694**	17 497
		48 574 569	27 740 143
Current Assets			
Inventories	6	**2 067 421**	2 746 932
Trade and other receivables	5	**3 714 164**	3 697 511
Cash and cash equivalents	7	**25 427 725**	14 269 381
		31 209 310	20 713 824
Total Assets		**79 783 879**	48 453 967
Equity and Liabilities			
Equity			
Accumulated surplus		**63 627 654**	40 172 790
Liabilities			
Non-Current Liabilities			
Borrowings	10		14 210
Current Liabilities			
Trade and other payables	9	**5 512 790**	2 333 177
Current portion of long term liabilities	10	**19 687**	58 966
Deferred revenue	11	**10 623 748**	5 874 824
		16 156 225	8 266 967
Total Liabilities		**16 156 225**	8 281 177
Total Equity and Liabilities		**79 783 879**	48 453 967

Statement of Income and Retained Funds

Figures in R	Note(s)	2017	2016
Revenue	12	9 871 916	8 350 554
Cost of sales	13	(16 387 502)	(9 447 934)
Gross deficit		(6 515 586)	(1 097 380)
Other income	14	49 341 647	37 761 624
Operating expenses		(20 192 042)	(17 109 727)
Operating surplus	15	22 634 019	19 554 517
Finance income	16	838 656	668 651
Finance costs	17	(17 811)	(15 573)
Surplus for the year		23 454 864	20 207 595
Opening balance		40 172 790	19 965 195
Accumulated surplus at the end of the year		63 627 654	40 172 790

Statement of Cash Flows

Figures in R	Note(s)	2017	2016
Cash flows from operating activities			
Cash receipts from customers		9 871 916	8 350 554
Cash receipts from funders		47 008 573	36 251 594
Cash paid to suppliers and employees		(22 059 542)	(34 067 204)
Cash generated from operations	20	34 820 950	10 534 944
Interest income		838 656	668 651
Finance costs		(17 811)	(15 573)
Net cash from operating activities		35 641 795	11 188 022
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(24 429 958)	(11 662 571)
Sale of property, plant and equipment	2	–	2
Biological assets acquired	3	–	(w283 702)
Proceeds on disposals of biological assets	3	–	1 777
Net cash from investing activities		(24 429 958)	(11 944 494)
Cash flows from financing activities			
Loans repaid		(53 493)	(75 963)
Total cash movement for the year		11 158 344	(832 435)
Cash at the beginning of the year		14 269 381	15 101 816
Total cash at end of the year	7	25 427 725	14 269 381

Accounting Policies

1. Presentation of annual financial statements

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 Biological assets and agricultural produce

As fair value is not readily determinable without undue cost or effort, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

The company operates as a training institution, and as a result, plants are often used for a longer period than their normal economic life. As the company relies on grant funding, a future cash flow valuation is not practical. No sustainable market exists for the plants once they are in production, and therefore no selling price can be determined for fair value purposes.

Depreciation is provided on biological assets where fair value cannot be determined, to write down the cost, less residual value, by equal installments over their useful lives as follows:

Item	Useful life
Crops in the field	5-10 years
Gerbera plants	5 years

1.2 Property, plant and equipment

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

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

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

Item	Dep. method	Dep. %
Land and Buildings	Straight line	3.33%- 16.67% (Land 0%)
Plant and equipment	Straight line	16.67%
Furniture and fixtures	Straight line	20%
Motor vehicles	Straight line	10%-20%
Office equipment	Straight line	20%
IT equipment	Straight line	33.33%
Clusters/ Tunnels	Straight line	5%

If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, the cost of the asset is allocated to its major components and each such component is depreciated separately over its useful life.

Land is not depreciated.

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

1.3 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Trademarks.

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment deficits.

Research and development costs are recognised as an expense in the period incurred.

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

Item	Useful life
Patents, trademarks and other rights	10 years

The residual value, amortisation period and amortisation method for intangible assets are reassessed when there is an indication that there is a change from the previous estimate.

1.4 Financial instruments

1.5 Tax

Income taxation

The company, which is a non-profit company, is exempt from income tax purposes as they meet the requirements of a Public Benefit Organisation set out in section 30(3) of the Income Tax Act No 58 of 1962. Exemption has been approved in terms of section 10(1)(cN).

The following exemptions apply and are limited to:

- The public benefit organisation has been approved for purposes of section 18A of the Act and donations to the organisation will be tax deductible in the hands of the donors in terms of and subject to the limitations prescribed in section 18A of the Act;
- Donations made to or by the public benefit organisation are exempt from Donations Tax in terms of section 56(1)(h) of the Income Tax Act;
- Exemption from the payment of Estate Duty in terms of section 4(h) of the Estate Duty Act No.45 of 1955. 1955.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. All other leases are operating leases.

Operating leases – lessee

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

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

Any contingent rents are expensed in the period they are incurred.

1.7 Inventories

Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell, on the first-in, first-out (FIFO) basis.

Standing crops, comprising plant material, are valued at the lower of cost and net realisable value.

1.8 Impairment of assets

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

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

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 surplus or deficit.

1.9 Share capital and equity

The company is incorporated as a Non-Profit Company under the Companies Act, and therefore has no authorised or issued share capital.

1.10 Employee benefits

Short-term employee benefits

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

1.11 Funding and deferred income

Funding received is recognised at fair value in surplus or deficit where there is a reasonable assurance that the funding will be received and the company has complied with all attached conditions. Funding received where the company has yet to comply with all attached conditions is recognised as a liability (and included in deferred income) and released to income when all attached conditions have been complied with. Funding received is included in 'other income' in surplus or deficit. Government grants related to assets are recognized in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset.

1.12 Revenue

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

The company recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the company's activities, as described below:

Services revenue
The service rendered is recognised as other income by reference to the stage of completion of the transaction at the balance sheet date. Service income includes transport income and levies charged to graduates.

Rental income
Rental income from property that is leased to a third party under an operating lease is recognised in the statement of comprehensive income on a straight-line basis over the lease term and is included in 'other income.'

Interest income
Interest income is recognised using the effective interest method.

1.13 Borrowing costs
Borrowing costs are recognised on the basis of the effective interest method and is included in finance costs.

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

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

1.16 Borrowings
Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

1.17 Judgements in applying the entity's accounting policies
Useful life of leasehold improvements
The useful life of leasehold improvements has been assessed as 30 years, as it is the intention of the board to obtain a 30 year lease on the property. However, the terms of the lease have not been finalised, and therefore this assessment may need to change once these are finalised.

1.18 Cash and cash equivalents
Cash and cash equivalents includes cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Notes to the Annual Financial Statements

Figures in R

2. Property, plant and equipment

	2017 Cost	2017 Accumulated depreciation	2017 Carrying value	2016 Cost	2016 Accumulated depreciation	2016 Carrying value
Land and Buildings	16 906 318	(2 475 516)	14 430 802	16 005 700	(2 124 774)	13 880 926
Plant and machinery	10 434 908	(3 198 223)	7 236 685	8 561 769	(1 701 613)	6 860 156
Furniture and fixtures	452 672	(118 976)	333 696	445 222	(29 492)	415 730
Motor vehicles	8 284 387	(2 868 143)	5 416 244	3 862 034	(1 748 186)	2 113 848
Office equipment	487 797	(453 330)	34 467	487 796	(442 191)	45 605
IT equipment	760 788	(439 612)	321 176	505 390	(290 861)	214 529
Clusters/ Tunnels	9 680 996	(5 813 080)	3 867 916	9 396 781	(5 524 120)	3 872 661
Capital work in progress	16 686 786	–	16 686 786	–	–	–
Total	63 694 652	(15 366 880)	48 327 772	39 264 692	(11 861 237)	27 403 455

Reconciliation of property, plant and equipment: 2017

	Opening balance	Additions	Depreciation	Total
Land and Buildings	13 880 926	900 618	(350 742)	14 430 802
Plant and equipment	6 860 156	1 873 138	(1 496 609)	7 236 685
Furniture and fixtures	415 730	7 450	(89 484)	333 696
Motor vehicles	2 113 848	4 422 354	(1 119 958)	5 416 244
Office equipment	45 605	–	(11 138)	34 467
IT equipment	214 529	255 397	(148 750)	321 176
Clusters/ Tunnels	3 872 661	284 215	(288 960)	3 867 916
Capital work in progress	–	16 686 786	–	16 686 786
	27 403 455	24 429 958	(3 505 641)	48 327 772

Reconciliation of property, plant and equipment: 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Land and Buildings	9 041 436	5 032 850	–	(193 360)	13 880 926
Plant and equipment	4 327 025	3 757 525	(173 699)	(1 050 695)	6 860 156
Furniture and fixtures	–	445 222	–	(29 492)	415 730
Motor vehicles	2 800 738	–	(12 896)	(673 994)	2 113 848
Office equipment	16 058	38 849	(1)	(9 301)	45 605
IT equipment	169 122	176 104	(28 559)	(102 138)	214 529
Clusters/ Tunnels	1 903 394	2 212 021	–	(242 754)	3 872 661
	18 257 773	11 662 571	(215 155)	(2 301 734)	27 403 455

Property, plant and equipment encumbered as security
The following assets have been encumbered as security for the secured long-term borrowings, refer to note 10:

	2017	2016
Motor vehicles	64 839	116 775

Notes to the Annual Financial Statements (continued)

Figures in R	2017	2016

2. Property, plant and equipment (continued)

Items of property, plant and equipment that will be transferred in the future

Assets purchased under the Jobs Fund contract (JF5) for the development of an agri-business park at Nwanedi, in Limpopo will be transferred to a new entity to be formed, these assets will be transferred as a going concern.

The book values of the categories of the assets to be transferred are disclosed below:

	2017	2016
Carrying value of IT equipment	193 703	–
Carrying value of plant and equipment	1 357 631	–
Carrying value of Capital work in progress (Plant and equipment)	10 515 205	–
Carrying value of motor vehicles	3 650 443	–
Carrying value of buildings	94 055	–
Carrying value of Capital work in progress (Land and Buildings)	6 171 581	–
	21 982 618	–

Capital work in progress consists of costs incurred as at 31 March 2017 for the development of the Nwanedi agri-business park that is stiff under construction. These costs mainly relate to the construction of a packhouse (R4 522 243), a pumphouse (R1 649 338) and an irrigation system (R10 515 205). The construction project is expected to be completed in the 2017/18 financial year.

Details of properties

Portion 74 Friedenheim Farm 282JT, Nelspruit, 1200

Timbali Flower Growers NPC operates from land and premises (12 hectares) which was previously used by the Agricultural Research Council as a Research Farm in Friedenheim near Nelspruit. The title holder of the property is the ARCITSC, a division of the Agricultural Research Council, which was the initiator of Timbali. Timbali is in the process of attempting to secure a 30 year lease agreement on the property. The useful life of leasehold improvements has been assessed as 30 years which may need to change if the leasehold period is ultimately secured for a period other than 30 years.

	2017	2016
Value	5 212 350	5 212 350

Farm Helena – Portion 2 of Farm Helena 400JU

	2017	2016
Terms and conditions		
• Purchase price: 09 March 2015	13 991 674	13 991 674
• Additions/ improvements since purchase	4 186 107	3 751 305
• Grant applied	(12 148 174)	(12 148 174)
	6 029 607	5 594 805

Farm Rietfontein – Portion 3 and Portion 15 of the Farm Rietfontein 109

	2017	2016
Terms and conditions		
• Purchase price: 20 March 2015	8 743 910	8 743 910
• Additions/ improvements since purchase	1 727 962	1 356 545
• Grant applied	(4 901 910)	(4 901 910)
	5 569 962	5 198 545

Notes to the Annual Financial Statements (continued)

3. Biological assets

	2017 Cost	2017 Accumulated depreciation	2017 Carrying value	2016 Cost	2016 Accumulated depreciation	2016 Carrying value
Biological assets	637 423	(404 320)	233 103	637 423	(318 232)	319 191

Reconciliation of biological assets: 2017

	Opening balance	Amortisation/ Impairment	Total
Biological assets – Gerbera plants	319 191	(86 088)	233 103

Reconciliation of biological assets: 2016

	Opening balance	Additions	Disposals	Amortisation/ Impairment	Total
Biological assets – Gerbera plants	74 853	283 702	(1 777)	(37 587)	319 191

4. Intangible assets

	2017 Cost	2017 Accumulated depreciation	2017 Carrying value	2016 Cost	2016 Accumulated depreciation	2016 Carrying value
Trademarks	38 025	(24 331)	13 694	38 025	(20 528)	17 497

Reconciliation of intangible assets: 2017

	Opening balance	Amortisation	Total
Trademarks	17 497	(3 803)	13 694

Reconciliation of intangible assets: 2016

	Opening balance	Amortisation	Total
Patents, trademarks and other rights	21 299	(3 802)	17 497

Figures in R	2017	2016

5. Trade and other receivables

	2017	2016
Trade receivables	855 303	1 589 928
Deposits	243 544	243 544
VAT	2 615 317	1 864 039
	3 714 164	3 697 511

6. Inventories

	2017	2016
Finished goods	643 529	238 770
Consumable stores	843 271	963 275
Crops in the field	580 621	1 544 887
	2 067 421	2 746 932

Notes to the Annual Financial Statements (continued)

Figures in R	2017	2016
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	**4 212**	3 195
Bank balances	**25 423 513**	14 266 186
	25 427 725	14 269 381
The cash and cash equivalents held by the entity are committed as follows:		
Commitment		
Deferred income commitments	**(10 623 748)**	(5 874 824)
Capital commitments	**(2 630 887)**	(180 000)
Audit fees for annual financial statements	**(81 844)**	(79 500)
Audit fees for performance audit	**(21 756)**	(21 000)
Income committed to specific projects	**–**	(553 460)
Borrowings	**(19 687)**	(73 126)
Crop rotational fund loan – amaVeg	**(797 022)**	(8 365 077)
Trade receivables	**3 714 164**	3 697 511
Trade payables	**(5 512 784)**	(2 333 177)
Value added tax Payable to the Jobs Fund (Jobs Fund 3)	**(270 112)**	–
Value added tax Payable to the Jobs Fund (Jobs Fund 5)	**(3 248 808)**	–
Matched funding	**(1 291 000)**	–
Total commitments	**(20 783 484)**	(13 782 653)
Funds used as bridging finance until next grant disbursement	**4 644 241**	486 728
8. Capital commitments		
Authorised expenditure contracted for but not yet delivered		
Asset replacement and repairs	**180 000**	180 000
New asset acquisitions	**2 630 887**	–
	2 810 887	180 000
9. Trade and other payables		
Trade payables	**4 939 041**	1 805 531
Accrued liabilities	**501 067**	467 114
Sundry payables	**72 682**	60 532
	5 512 790	2 333 177
10. Current portion of long term liabilities		
Non-current liabilities	**–**	14 210
Current liabilities	**19 687**	58 966
	19 687	73 176

Certain motor vehicles were purchased under installment sale agreement.

The loan is secured by a Nissan Qashqai Motor Vehicle, which bears interest at 10.25% – 10.50% (2016: 9.25% – 9.5%) with monthly repayments of R4 990.16. Refer to Note 2 where the vehicle is included under the "Motor Vehicles".

Notes to the Annual Financial Statements (continued)

Figures in R			2017	2016

11. Deferred revenue

Reconciliation of deferred income: 2017

	Opening balance	Funding received	Utilised during the year	Closing balance
Anglo American chairman's fund (Tshikululu)	**125 054**	**–**	**(29 500)**	**95 554**
Department of agriculture, forestry and fisheries funding	**1 216 811**	**–**	**(632 169)**	**584 642**
Swiss-South African Cooperation Initiative	**150 885**	**–**	**–**	**150 885**
Seda technology Programme operating expenses	**–**	**2 500 000**	**(2 500 000)**	**–**
Syngenta	**–**	**425 750**	**(425 750)**	**–**
Seda Technology Programme additional funding	**5 432**	**–**	**–**	**5 432**
Department of trade and industry: Crop rotational fund	**350 000**	**–**	**–**	**350 000**
Industrial development corporation	**69 044**	**–**	**–**	**69 044**
Nedbank Funding	**60 210**	**–**	**–**	**60 210**
European union funding	**1 232 428**	**2 832 479**	**(2 744 010)**	**1 320 897**
Jobsfund Funding (JF3)	**2 664 960**	**9 145 004**	**(10 214 141)**	**1 595 823**
Jobsfund Funding (JF5)	**–**	**16 883 251**	**(14 512 625)**	**2 370 626**
Limpopo Department of Agriculture and Rural Development	**–**	**20 000 000**	**(15 979 365)**	**4 020 635**
Total	**5 874 824**	**51 786 484**	**(47 037 560)**	**10 623 748**

Reconciliation of deferred income: 2016

	Opening balance	Funding received	Utilised during the year	Closing balance
Anglo American chairman's fund (Tshikululu) funding	125 054	–	–	125 054
Department of agriculture, forestry and fisheries funding	967 752	1 825 000	(1 575 941)	1 216 811
Swiss-South African cooperation initiative	155 487	500 000	(504 602)	150 885
Syngenta	–	409 000	(409 000)	–
Seda technology Programme operating expenses	–	2 500 000	(2 500 000)	–
Seda technology Programme additional funding	5 432	–	–	5 432
Department of trade and industry: Crop rotational fund	350 000	–	–	350 000
Industrial development corporation	73 414	–	(4 370)	69 044
Nedbank funding	116 810	–	(56 600)	60 210
European union funding	–	2 917 394	(1 684 966)	1 232 428
Jobsfund funding	12 560 238	19 681 807	(29 577 085)	2 664 960
Total	14 354 187	27 833 201	(36 312 564)	5 874 824

Figures in R	2017	2016
12. Revenue		
Sale of goods	**9 871 916**	8 350 554
13. Cost of sales		
Sale of goods		
Cost of goods sold	**16 387 502**	9 447 934
Total	**16 387 502**	9 447 934

Notes to the Annual Financial Statements (continued)

Figures in R	2017	2016
14. Other income		
Insurance claims	**52 770**	49 751
Sundry other income	**237 116**	–
Seda Technology Programme(SEDA)-Operations funding	**2 500 000**	2 500 000
Rental income	**343 603**	255 259
Nedbank funding used	**–**	56 600
Industrial development corporation funding used	**–**	4 370
Department of Agriculture, Forestry and fisheries (DAFF)	**632 169**	1 575 941
European Union Funding used	**2 744 010**	1 684 966
Employment tax incentive received	**847 054**	387 388
Jobsfund (JF3) funding used	**10 214 141**	29 577 085
Jobsfund (JF5) funding used	**30 491 991**	–
Levies received	**222 050**	257 409
Swiss-South African Cooperation Initiative funding	**–**	504 602
Syngenta funding income	**425 750**	409 000
Transport Income	**630 993**	459 709
	49 341 647	37 722 080

15. Operating surplus

Operating surplus for the year is stated after accounting for the following:

	2017	2016
Operating lease charges		
Premises		
• Contractual amounts	**218 353**	201 667
Equipment		
• Contractual amounts	**68 333**	20 998
	286 686	222 665
Loss on disposal of property, plant and equipment	**–**	215 153
Impairment on biological assets	**–**	1 776
Amortisation of intangible assets	**3 803**	3 803
Depreciation on property, plant and equipment	**3 505 641**	2 301 733
Employee costs	**9 362 272**	7 664 217

Figures in R	2017	2016
16. Finance income		
Interest income		
Bank	**838 656**	668 651
17. Finance costs		
Non-current borrowings	**6 359**	9 247
Current borrowings	**701**	81
Other interest paid	**10 751**	6 245
	17 811	15 573
18. Auditor's remuneration		
Fees	**133 610**	100 600

Notes to the Annual Financial Statements (continued)

19. Operating lease

The entity rents land under operating leases. The leases are for a period of 9 years and 2 years, with fixed rentals over the same period

Figures in R	2017	2016
Operating lease expense		
Minimum lease payments under operating leases recognised as an expense during the year	**221 833**	201 667
Total	**221 833**	201 667

At year-end, the company has outstanding commitments under noncancelable operating leases that fall due as follows:

	2017	2016
Within one year	**166 959**	221 833
Later than one year but within five years	**852 342**	774 856
Later than five years	**–**	244 444
Total	**1 019 301**	1 241 133

20. Cash generated from operations

	2017	2016
Surplus for the period	**23 454 864**	20 207 595
Adjustments for:		
Depreciation and amortisation	**3 595 533**	2 343 124
Loss on sale of assets	**–**	215 153
Interest received	**(838 656)**	(668 651)
Finance costs	**17 811**	15 573
Changes in working capital:		
Inventories	**679 512**	(2 303 353)
Trade and other receivables	**(16 651)**	(1 908 962)
Trade and other payables	**3 179 613**	(7 365 535)
Deferred revenue	**4 748 924**	–
	34 820 950	10 534 944

21. Related parties

Relationships	Entity
The SEDA technology program (SEDA) per agreement has the right to appoint one board member, and therefore it is considered to be a related party.	The SEDA Technology Program (SEDA)

Related party balances and transactions with other related parties

Related party transactions

	2017	2016
Funds received during the financial year		
SEDA Technology program	**2 500 000**	2 500 000

22. Directors' remuneration

Non-executive: 2017

	Committees fees	Total
J.P. Hughes	**26 983**	**26 983**

Non-executive: 2016

	Committees fees	Expense allowance	Total
J.P. Hughes	11 900	1 057	12 957

Reporting of Key Performance Indicators

In accordance with the funding requirement of the SEDA Technology Programme, the European union and Jobs Fund, the auditors reported the following as per the independent auditor's report on page 23:

1. The statement furnished to the SEDA Technology Programme and Jobs Fund in terms of section 38(1)0) of the Public Finance Management Act is fair in all material respects.
2. All transactions which came to our attention in the course of our examination were in our opinion in accordance with the applicable laws and instructions.
3. All transactions which came to our attention in the course of our examination were in our opinion in accordance with the mandatory functions of the company determined by law or otherwise.

In accordance with the funding requirement of the SEDA Technology Programme, the European union and the Jobs Fund read with the Public Finance Management Act (section 51 (1)(a)(i)), we include below our findings on the annual performance report.

Predetermined objectives
No material findings to report

Quantitative measures	Target	Actual
1. SEDA Technology Programme Key Performance Indicators		
New SMMEs established	10	20
Clients supported	200	208
SMMEs supported	105	109
% of Graduations	80%	100%
% black-owned clients in portfolio	80%	100%
% woman-owned clients in portfolio	35%	72%
% Youth Clients in portfolio	40%	40%
Direct jobs created	75	90
Total SMME turnover	14 400 000	13 922 641
% growth in SMME income	15%	11%
2. The Jobs Fund (JF3) Performance Indicators		
Number of farmers trained	104	439
Quarterly reports submitted	4	4
External audited AFS approved by AGM	1	1
Permanent jobs created	357	361
Casual jobs created	713	744
	1 179	1 549
3. The Jobs Fund (JF5) Performance Indicators		
Permanent non-seasonal Jobs created	6	9
Permanent seasonal Jobs created	6	6
Casual jobs created	–	52
	12	67
4. The European Union		
New Farmers registered in Pre-incubation	20	24
Agri Enterprises supported in incubation	10	10
Youth owned Agri Enterprises supported	10	10
Woman owned Agri-enterprises Supported	10	10
Jobs (Direct) Created	10	10
Casual/ Seasonal Jobs created	34	100
Clustering Activities: Training	4	10
Success Stories	1	7
Interactions with Farmers (training, workshops, meetings etc.)	4	6
Knowledge I management system (OPS manuals)	1	3
Interactions with similar organisations e.g. conferences, workshops, meetings, etc.	1	3

Supplementary information

Figures in R	Note(s)	2017	2016
Detailed Income Statement			
Revenue			
Sale of goods		9 871 916	8 350 554
Cost of sales			
Opening stock		(1 202 045)	(443 579)
Purchases		(16 672 257)	(10 206 400)
Closing stock		1 486 800	1 202 045
	13	(16 387 502)	(9 447 934)
Gross deficit		(6 515 586)	(1 097 380)
Other income			
Insurance claims		52 770	49 751
Sundry other income		237 116	–
Seda Technology Programme(SEDA)-Operations funding		2 500 000	2 500 000
Rental income		343 603	255 259
Nedbank funding used		–	56 600
Industrial development corporation funding used		–	4 370
Department of Agriculture, Forestry and Fisheries (DAFF) Funding used		632 169	1 575 941
Employment tax incentive received		847 054	387 389
European Union Funding used		2 744 010	1 684 966
Donations received – in kind services		–	39 544
Jobsfund (JF3) funding used		10 214 141	29 577 085
Jobsfund (JF5) funding used		30 491 991	–
Levies received		222 050	257 409
Swiss-South African Cooperation Initiative funding		–	504 602
Syngenta funding income		425 750	409 000
Interest received	16	838 656	668 650
Transport income		630 993	459 709
		50 180 303	38 430 275
Expenses (Refer to page 42)		(20 192 042)	(17 109 727)
Operating surplus	15	23 472 675	20 223 168
Finance costs	17	(17 811)	(15 573)
Surplus for the year		23 454 864	20 207 595

Supplementary information (continued)

Figures in R	Note(s)	2017	2016
Detailed Income Statement			
Operating expenses			
Advertising, Marketing & communication	18	**(572 368)**	(493 857)
Auditors remuneration		**(133 610)**	(100 600)
Bad debts		**(24 256)**	–
Bank charges		**(29 983)**	(35 308)
Cleaning		**(24 333)**	(42 327)
Computer expenses		**(368 114)**	(145 224)
Consulting and professional fees		**(1 438 297)**	(1 049 027)
Depreciation, amortisation and impairments		**(3 595 533)**	(2 344 900)
Discount allowed		**375**	–
Employee costs		**(9 362 272)**	(7 664 216)
Entertainment		**(37 116)**	(32 020)
Loose equipment		**(52 579)**	(92 286)
Farmer losses		**(10 294)**	(45 871)
Staff uniform		**(637)**	(11 212)
Goods, Services and trials for markets		**–**	(948 802)
Fines and penalties		**–**	(5 875)
Equipment hire		**(24 085)**	(280 736)
Insurance		**(278 535)**	(220 601)
Lease rentals on operating lease		**(286 686)**	(222 665)
Motor vehicle expenses		**(666 911)**	(566 615)
Electricity and water		**(90 190)**	(84 470)
Other expenses		**(116 608)**	–
Postage		**(3 714)**	(6 267)
Printing and stationery		**(315 652)**	(255 288)
Profit and loss on exchange differences		**–**	(218)
Profit and loss on sale of assets and liabilities		**–**	(215 153)
Repairs and maintenance		**(970 621)**	(842 745)
Security		**(152 758)**	(149 817)
Subscriptions and conference fees		**–**	(32 902)
Telephone and fax		**(303 279)**	(227 899)
Training		**(235 949)**	(143 244)
Transport and freight		**(713 674)**	(556 702)
Travel: local		**(384 363)**	(292 880)
		(20 192 042)	(17 109 727)

TIMBALI
TECHNOLOGY INCUBATOR

Postal Address Private Bag X 11208, Nelspruit, 1200
Tel: +27 (0) 13 752 4247 Fax: +27 (0) 13 752 5954 Email: info@timbali.co.za

www.timbali.co.za