CHIEF FINANCIAL OFFICER'S REPORT

FOR THE YEAR ENDED 31 MARCH 2016

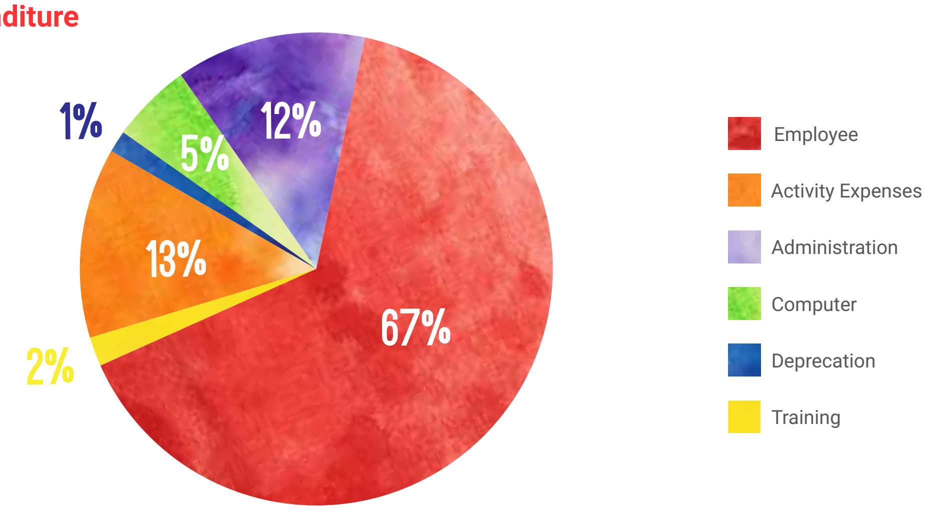
ALTHOUGH THE 2015/2016 FINANCIAL YEAR HAS SEEN A SUBDUED PERFORMANCE IN THE ACHIEVEMENT OF REVENUE TARGETS, THE PPECB HAS SUSTAINED PROGRESS IN DELIVERING ON ITS MANDATE BY PROVIDING REGULATORY QUALITY INSPECTIONS AND FOOD SAFETY CERTIFICATION SERVICES.

This review is intended to provide our stakeholders with further insight into the financial performance and position of the PPECB.

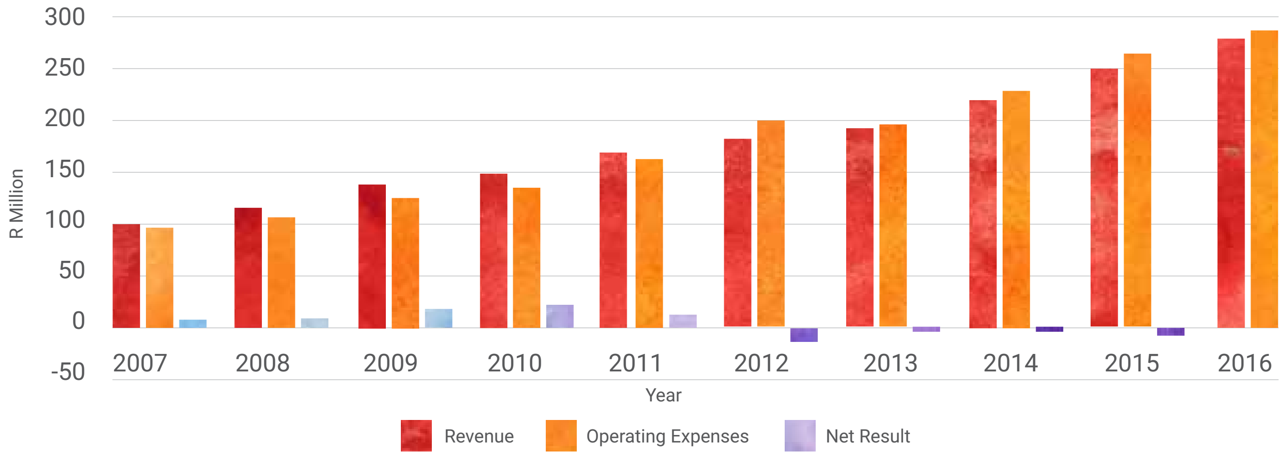
The salient figures for the 2014/2015 and 2015/2016 financial years are as follows:

	2015/2016 R'000	2014/2015 R'000	Change R'000/%
Net result	**R1 805**	(R10 953)	R12 758
Net assets	**R83 357**	R81 552	2.2%
Non-current assets	**R25 918**	R22 746	13.9%
Receivables	**R37 012**	R32 548	13.7%
Cash and investments	**R57 458**	R66 780	(14.0%)
Revenue	**R281 435**	R247 262	13.8%
Investment revenue	**R4 647**	R4 223	10.0%
Operating expenditure	**R284 276**	R262 438	8.3%

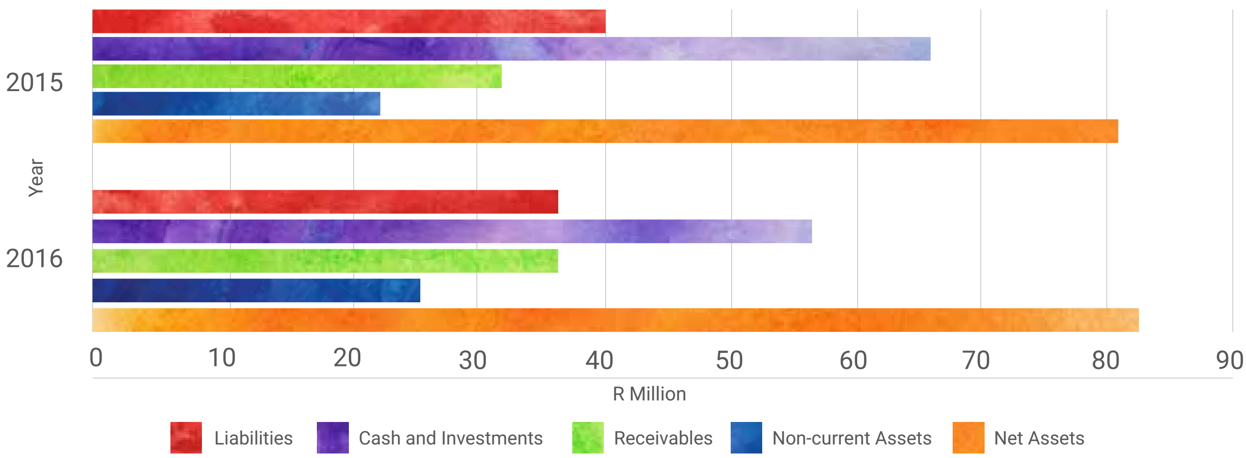
Composition of Expenditure



10-Year Operating Results



Assets and Liabilities



Operating Results

The net financial result for the financial year ended 31 March 2016 reflects a surplus of R1.8 million. This is a R12.8 million improvement on the net deficit of last year and R7.8 million on the budgeted deficit of R6 million. The improved result can mainly be attributed to the containment of expenditure in relation to the increase in revenue, the latter mainly as a result of inflation adjustments to levies.

Total income at R286.1 million increased by 14% on last year (R251.5 million), which includes average fee increases of 11% for the year, mainly as a result of levy adjustments to the PPECB Cold Chain fees in order to recover costs. The continued drought and heat conditions resulted in a subdued growth in overall production and export volumes. Revenue from statutory operations increased by 12% to R262.6 million.

Total expenses for the year were R284.3 million, an 8% increase compared to the R262.4 million incurred in the previous year. This is attributable to the increased personnel costs of R14.1 million (7.9%) to R190.9 million and computer expenditure of R3.8 million (35%). The growth in personnel cost is driven by a market-related salary adjustment and an increase in manpower to execute the PPECB's inspection mandate. The upgrade of the Information and Communications Technology (ICT) infrastructure and development of mobile applications to improve operational efficiencies resulted in the increased computer expenditure.

Depreciation and impairment cost is up by 46% to R3.5 millzion (2015: R2.4 million), which was driven by increased capital expenditure on the upgrade and replacement of computer and Laboratory equipment.

Net Assets

The net current assets position strengthened from R81.6 million in March 2015 to R83.4 million in March 2016.

The capital expenditure for the year amounted to R6.7 million (2015: R4.6 million). Investments were made into the upgrade of information technology, implementation of electronic export certification and new Laboratory equipment, which is in line with the renewal strategy of the PPECB.

All capital expenditure was funded from accumulated reserves. The PPECB has thus no outstanding borrowings and there are no plans to borrow in the near future.

Trade receivables increased by only 8.4% despite the 13% growth in revenue. Trade receivable days outstanding at 48 days and bad debts of R1 258 remained at very low levels when compared to operating revenue of R279 million.

Cash resources were placed under pressure due to the utilisation of cash for increased operating expenditure and investment into the upgrade of the ICT infrastructure as well as replacement of Laboratory equipment. Cash and cash equivalents reduced by 15% to R21.2 million and investments by 13% to R36.3 million in the current financial year.

Cash generated from operations, before working capital changes, was R4.2 million compared to an outflow of R6.4 million reported in the previous year. This improved cash generation followed mostly from higher receipts from rendering of services for the year. However, during the year under review, working capital absorbed R6.8 million of cash compared to the cash absorption of R2.2 million in the prior year. This increased utilisation of cash-to-fund working capital is attributable to a decrease in trade and other payables of R4 million and an increase in trade receivables of R0.5 million. Final cash absorbed by operations, including changes in working capital, is R2.6 million, which improved by R5.9 million (70%) on the previous year.

Financial Management Imperatives

The PPECB financial management practices remain sound. The priorities for the year ahead are informed by strategic imperatives and include:

- Developing and implementing mobile technology applications for cold chain and food safety services
- Extending the industries' participation in electronic data transfer and export certification processes
- Active management of operating costs in line with government's cost-saving initiatives and ensuring the future financial sustainability of the PPECB
- Embedding LIMS and completing the Laboratory turnaround strategy focused on increasing the proportion of laboratories whose revenue is sufficient to meet all their overheads and are therefore able to reinvest in their own long-term growth
- Continued focus on improving cash flow and working capital management

Prospects

The PPECB is a non-profitable yet financially self-sustainable entity. Weak volume performance in some exported product categories during the year underscored the effect of continued upward pressure on the PPECB's capability to recover operational expenditure.

Against the backdrop of lower volumes and increased costs such as personnel costs, utilities, maintenance and travelling in the next financial year, the PPECB endeavours to mitigate financial risks by exercising tight cost-control measures and working capital management.

MR J SCHWIEBUS
Chief Financial Officer, the PPECB