

*Annual Report 2005/06*







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## ORGANISATIONAL INSIGHT

### ***Mandate***

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To promote, foster and develop small enterprises in Gauteng thereby implementing the policy of the Gauteng Provincial Government for small enterprise development.

This includes the design and implementation of small enterprise development support programmes within Gauteng, strengthening their capacity to compete successfully domestically and internationally and; promoting a support network in order to increase the contribution of small enterprises to the economy, which will in turn contribute to economic growth, job creation and equity.

### ***Vision***

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Africa's leading enterprise and business support agency

### ***Mission***

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To enable entrepreneurs



## *Values*

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### PROFESSIONAL

Efficient, knowledgeable, full spectrum service

### ACCOUNTABLE

Responsive, reliable, work with integrity

### FOCUSED

SMME sector, sector specialists, trained staff

### ACCESSIBLE

Location, language, customer service

## *Goal*

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To facilitate increased SMME participation in the mainstream economy, as well as their contribution to economic growth, development and employment in Gauteng.





## ***BOARD OF DIRECTORS***

Sitting from left right: Ms Kgami Mahura (Board secretary), Dr. Anna Mokgokong, Dr. Danisa Baloyi (Board Chairperson), Mrs. Pamela Mgulwa.

Standing from left to right: Mr. Fikile Mbalula, Mr. Keith Khoza, Mr. David Morobe (CEO), Mr. Linda Mngomezulu (Board Deputy Chairperson), Absent Mr. David Moshapalo and Mr. T. Sokutu



## Chairperson's Review

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In his address at the opening of the Gauteng Legislature on 21 February 2005 Premier Mbhazima Shilowa announced that the province was ready to launch the new Gauteng SMME agency in April 2005 which would provide financial and non-financial support to SMMEs. The agency was duly launched by MEC Paul Mashatile in April 2005 under the name Gauteng Enterprise Propeller (GEP).

The brief from MEC Mashatile was for GEP to incorporate and build on the resources developed by the Gauteng Manufacturing Advisory Centre (GAUMAC) since 2001. The service offering would be expanded to cater not only for SMMEs in manufacturing, but also those in the commercial and service sectors of the economy.

In the year under review, GEP's first challenge was to lodge an application with National Treasury for listing of this organisation as a public entity as required by the Public Finance Management Act (PFMA). However, it subsequently transpired that National Treasury had placed a moratorium on the listing of section 21 Companies as public entities. This necessitated the lengthy process of drafting legislation to establish GEP as a public entity. The legislation was passed by the Gauteng Legislature in December 2005 and promulgated by the Premier on 26 January 2006. To ensure that service to SMMEs continues while these processes were underway, GEP sought and obtained permission from Provincial Treasury and the Office of the Auditor General to use GAUMAC's processes and accounting systems. Without this authority, the staff members of GAUMAC that were taken over by GEP, as well as its liabilities and operations in general would not have been paid as NAMAC had taken a decision to wind-up all the manufacturing advisory councils throughout the country.

The lengthy process of legislation for GEP resulted in significant delays in the allocated budget being transferred to GEP to enable it to deliver on its mandate. The organisation nevertheless focused on implementing the non-financial support programmes, including training for SMMEs. Two additional offices were established to enhance accessibility of GEP services, bringing the total to five regional offices throughout Gauteng Province.

The SMME sector is a critical vehicle for poverty reduction, creation of job opportunities, and contribution to transformation through meaningful participation of black people, women, and people with disabilities, youth and other marginalised sectors in our society as outlined in the province's broad based black economic empowerment strategy. I would like to thank MEC Mashatile for his vision and leadership that led to the establishment of GEP as one of the mechanisms to ensure that the second economy is integrated into the mainstream economy and the benefits of growth are shared.

Furthermore, I would like to thank all my colleagues in the Board of Directors, management and staff for their dedication, commitment and support during the founding year of GEP in the face of all the teething challenges. The Board and staff also express deepest sorrow for the untimely passing of the former chairperson of GAUMAC and founding deputy chairperson of GEP - Mr Musa Soni - in March 2005. May his soul rest in peace.

I am confident that the management and staff of GEP will make a substantial contribution towards achieving our national goal of halving poverty and reducing poverty levels through growing and prosperous communities.

Dr DE Baloyi  
Chairperson of the Board



## THE CHIEF EXECUTIVE OFFICER'S REPORT

In launching the Gauteng Enterprise Propeller (GEP) in April 2005, the Gauteng Provincial Government through the Department of Finance and Economic Affairs (DFEA) irrevocably embarked on a path of guaranteeing government support to Small, Medium and Micro Enterprises (SMMEs). GEP was established on the fundamental premise that SMMEs are a key role player in growing the economy and reducing poverty and unemployment.

For the year under review, the focus was primarily on establishing the new entity, including the incorporation of GAUMAC; implementing the expanded non-financial support programmes to SMMEs; ensuring compliance with all relevant legislation, including the adoption of the GEP Act; revising the organisational structure and recruiting suitable professionals; increasing our geographic reach to all metropolitan cities and district municipalities in Gauteng; and engaging as well as building all the necessary partnerships with relevant stakeholders.

Despite the technical challenges encountered in establishing GEP as a listed public entity, our dedicated team of professionals managed to assess 541 SMMEs and provide 494 non-financial assistance projects which include business planning, financial advice, taxation advice and access to procurement opportunities earmarked for SMMEs in the province. Over the same period, 2 200 aspirant and existing entrepreneurs were trained on how to start and/or improve their own businesses. Seventy-four percent of the existing SMMEs assisted are black owned while thirty-seven percent belong to women entrepreneurs. These interventions remain important because the majority of institutions perceive that most small businesses with viable concepts do not have the management necessary for success. The long process involved in legislating GEP, application for listing with National Treasury, and late transfers of the allocated budget - the bulk of the funds received in March 2006 - resulted in the financial support service being delayed. This service will commence in earnest during the 2006/2007 financial year. The full activity matrix for the period April 2005 to March 2006 is outlined in the programme related section of this report.

It is this premise that has informed the goal and strategic priorities of GEP for the 2006-2009 period. These are:



- Provision of efficient and timely financial support for SMMEs towards facilitating their development.
- Provision of efficient and timely business development support to SMMEs towards increasing their professionalism and sustainability.
- Contribute to the creation of an enabling environment for SMMEs' growth and sustainability.
- Identify business opportunities and enhance business facilitation and business partnerships for, and between SMMEs.
- Facilitate increased SMME participation, including of women, youth and people with disabilities, in the province's economic growth sectors and GPG's priority socio-economic development projects.
- Ensure effective and efficient management of GEP.

Our goal is to facilitate increased SMME participation in mainstream economy, and their contribution to economic growth and development and employment in Gauteng. This goal will be primarily achieved through the provision of financial and business development support. However, GEP recognises that successful impact of this support, and the future sustainability and growth of the SMME sector, is dependent on an enabling environment, business opportunities, business facilitation, business partnerships and increased participation in the GDS growth sectors. Thus, GEP's strategic priorities for the next three years include these critical elements.

Our approach will be to empower SMMEs, optimise their capacity, performance and effectiveness and promote sharing of best practice and benchmarking. We will do so by improving accessibility of support interventions to SMMEs, integrating government procurement to accredited SMMEs and where possible, and feasible, ensuring alignment of SMME focus areas to those of the GDS. We understand that the relevance and applicability of the support we provide rests on our ability to offer sectoral knowledge that is tailored to suit business needs. We commit to providing such assistance, either through full-time specialists and/or carefully selected and accredited service providers. As a government agency we will ensure improved monitoring of government impact on SMMEs. We will also ensure that we adhere to the King Code and the PFMA.

Our support will include:

- Innovative finance for SMMEs operating in GDS growth sectors;
- Facilitating access to capital from banking and other institution;
- Designing and implementing support programmes; including provision of regulatory, accounting, legal services, marketing, etc;
- Developing and piloting an Incubator Strategy;
- Contributing to the improvement of the SMME regulatory framework; and
- Establishing, coordinating and promoting an SMME support network.

The collective experience, knowledge and commitment of the Board and staff members of GEP guarantees that we will deliver on the above. Through our focused and targeted support, SMMEs will not only prosper in their own right but they will take their rightful place in growing our provincial economy, move into mainstream economic activities and contribute to reducing poverty and unemployment.

Mr. David Morobe  
Chief Executive Officer



## BUSINESS DEVELOPMENT SUPPORT PROGRAMMES



The focus of operations during this establishment phase of the agency has been more geared towards business development support. Key emphasis and concern was to ensure that through GEP's interventions, the enterprises that were supported remain sustainable and their access to resources has been enhanced.

### PROGRAMME RELATED OPERATIONS

The assistance meted out has the classification breakdown in the chart below. The full activities matrix for the period April 2005 to March 2006 is outlined in the following table:

No	BUSINESS SUPPORT	ANNUAL	MONTHLY	YEAR TO DATE	
		Target	Target	Actual	Variance
				YTD	% YTD
1	SMMEs Contacted	1 750	167	2 174	24%
2	SMMEs Assessed	700	67	541	-23%
3	Projects Awarded	700	67	494	-29%
4	HDI SMEs	60%	60%	74%	14%
5	Female-owned SMMEs	30%	30%	37%	7%
6	Entrepreneurs trained	2 100	250	2 199	5%
7	Jobs Facilitated /Sustained			3 451	
8	Total BDS projects approved			R5 680 305	
9	Special Projects* (reported on in detail below)				
	Jozi H			R2 800 000	
	BSSA			R450 000	
	Finscope Survey			R500,000	
	Kaya FM SMME forum			R600,000	
	<b>TOTAL PROGRAMME EXPENDITURE</b>			<b>R10 030 305</b>	

**SMMEs contacted** refers to initial contact with potential or existing SMMEs through walk-ins, portal or telephone.

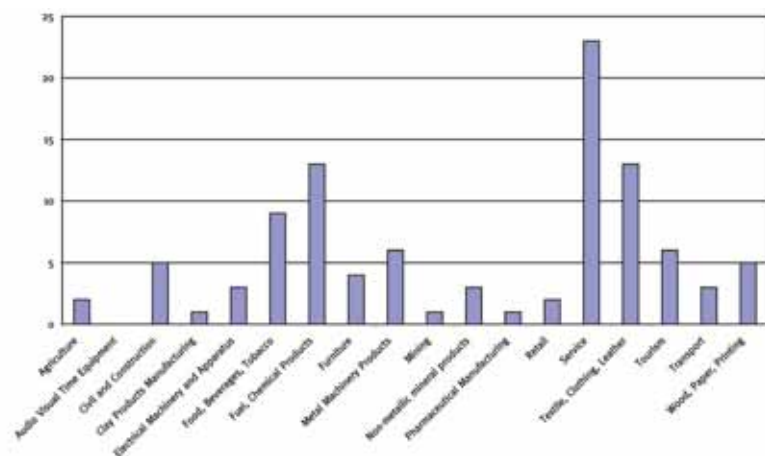
**SMMEs assessed** refers to those SMMEs where a diagnosis has been performed to determine adequate assistance.

**Projects awarded** refers to the various interventions approved enabling market access, business plan and operational improvement.

## Project classification

Projects awarded by industry for Apr '05 - Mar '06:

Industry	Percentage
Agriculture	2
Audio Visual Time Equipment	0
Civil and Construction	5
Clay Products Manufacturing	1
Electrical Machinery and Apparatus	3
Food, Beverages, Tobacco	9
Fuel, Chemical Products	13
Furniture	4
Metal Machinery Products	6
Mining	1
Non-metallic mineral products	3
Pharmaceutical Manufacturing	1
Retail	2
Service	23
Textile, Clothing, Leather	13
Tourism	6
Transport	3
Wood, Paper, Printing	5



## New portal registration

	TOTAL	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
EKURHULENI	244	48	46	38	21	29	15	13	8	1	5	12	8
JOBURG	953	136	182	103	51	37	22	86	83	36	51	50	116
METSWEDING	8		2	3			1	1			1		
SEDIBENG	136	22	13	6	3	2	2	6	31	10	12	16	13
TSHWANE	211	44	45	23	17	6	5	9	11	10	12	16	13
WEST RAND	503	10	41	83	74	81	64	16	31	8	32	26	37
	2055												

Projects awarded by category for Apr '05 - Mar '06: SMMs on Portal Apr '05 - Mar '06:





## SPECIAL PROJECTS

### 1. Fin scope Small Business Survey

The objective of the study is to obtain as much relevant information about the SMME market in South Africa. Finmark Trust and GEP decided to launch a pilot study in the Gauteng province, together with other stakeholders with interest in the SMME field. Extensive fieldwork is to be carried out since a household study will be conducted to gather the required information. Door-to-door interviews will be conducted with approximately 6 000 houses being visited. The research house, African Response, has been commissioned to conduct the research. The fieldworkers will make use of a system known as CAPI (Computer Assisted Personal Interviewing) which is a cost effective and time saving method of capturing the information given by interviewees. Some objectives which the study hopes to detail are the size and nature of the SMME market and the difficulties encountered with regard to obtaining finance. Other stakeholders involved in this process are the dti, Standard Bank, Absa, FNB, Khula and TransUnion ITC.

### 2. Sanlam/Umsobomvu/Business Partners

This project is a collaboration between GEP, Sanlam, Umsobomvu Youth Fund and Business Partners in which prospective entrepreneurs will receive the training they require to start and run their own businesses. The partnership is still in the discussion stage and will be formalised once further discussions have taken place. Thereafter the entrepreneurs will be sourced and training will commence.

### 3. Business Skills South Africa (BSSA) & National Productivity Institute (NPI)

GEP entered into a partnership with both institutions to create employment opportunities for unemployed graduates. These are pilot projects that aim to transfer critical competencies to emerging entrepreneurs. The overall purpose is to foster continuous performance improvement, profitability and growth among emerging enterprises. We are targeting unemployed graduates who have studied economics, business management and accounting (including marketing) courses.

For the NPI project, at least 20 unemployed graduates will be trained by NPI to become trainers of existing SMMEs so the latter can have the skills to improve the productivity of their enterprises; each will train a group of ten SMMEs over five days, thereafter



monitor the 10 SMMEs for three months, to ensure that they implement what they have learned from the five day training. The process will be repeated after every three months and the initial target is 200 SMMEs. For the BSSA project, at least 30 candidates will be selected and taken on a course that will be both classroom-based and a lot of field work (research and implementation) of what has been learned in the classroom. The objective of this course is to empower these unemployed graduates to become business consultants. On successfully completing the course, GEP will consider using them as service providers.

#### 4. JOZI H Television Series

"Jozi-H" is a unique, South African/Canadian dramatic television series which promises unparalleled training opportunities for many disadvantaged communities in Johannesburg. It is anticipated that over a period of one year, training will be provided to over 800 individuals from Alexandra, Soweto and a number of disadvantaged communities in the province. The aim of the project is to contribute to the development of a viable and sustainable film and television infrastructure within Gauteng. All partners in this venture aim to train individuals who are not only capable of improving their material circumstances, but go on to train others in the skills they have acquired through their professional and individual development in television production. It is also anticipated that over and above the 800 individuals who will be trained, Jozi-H will create 1 300 local jobs. This accounts for an expenditure of R6-million and many of these newly created jobs and skills will be highly transferable to other industries.

The production for the "Jozi-H" television series is underway. This venture is co-funded by the Canadian government (R38-million) and the Industrial Development Corporation (R55-million). GEP will contribute R2,8-million to support the SMMEs involved in various aspects of the production. A jointly controlled account has been opened so that GEP can monitor expenditure on the project to benefit SMMEs.

#### 5. Demilitarisation of Ex-combatants

The project is a joint partnership between GEP and the Ekurhuleni Metropolitan Municipality. A need has been identified to provide ex-combatants with life skills and vocational qualifications so that they are able to be absorbed into the formal job market and / or set up successful business ventures of their own. The key objective is to



demilitarise ex-combatants from across the political and racial spectrum by providing them education and training opportunities that will enable them to access employment opportunities or establish new ventures including the establishment of co-operatives. This project will be launched in the next financial year.

## Regional Operational Centres

GEP has five functional operational centres in Johannesburg, Sedibeng, West Rand, Ekurhuleni and Tshwane. The Tshwane centre is however in the early stage of set-up, having only started in February 2006 following an agreement with the Tshwane Metropolitan Council to use their premises in Centurion. Head Office relocated to Newtown on 1 October, 2005. The plan is to establish satellite offices in areas like Soweto, Thembu, Tsakane and Ekangala in the 2006/2007 financial year to better service communities that are characteristic of the second economy challenges.

### Sedibeng Regional Office

The Sedibeng region is one of the low economic activity regions. For decades the region relied on the large industrial organisations such as Mittal Steel and Sasol to provide income to most of the population of the community. Since Mittal Steel downsized and retrenched approximately 20 000 people over a period of 10 years, a very large portion of the region's population were left unemployed and without an income. The unemployment rate in Sedibeng is very high, and therefore impacting on the buying power of the consumer which tends to be very much less than other regions. With the newly developed Vaal Mall a number of jobs were created, and that on itself is a good sign that development in the region is active.

There are quite a number of challenges existing in the Region. Most of the SMMEs in the region were established as survivalist operations and not necessarily to satisfy entrepreneurial needs. This created a challenge of lack of basic business skills, financial and working capital to grow their businesses. There is also lack of information about the services of GEP, even though road shows were conducted by GEP. Most of the business community is not aware of the services offered by GEP. Accessibility was another challenge as the initial GEP offices were located in the centre of Vanderbijlpark. The Sedibeng office has since relocated its office to more accessible premises in August 2005 with sufficient parking and near public transport roads.

### Tshwane Regional Office

The Tshwane region is one of the economically active regions in Gauteng after Johannesburg. With no significant mineral resources, and no major internal airport and sea port, the ranking is even more significant.

The city has the highest literacy rate in Africa; the highest disposable income; the highest concentration of education facilities; the best developed medical facilities; excellent professional services and is the centre for government head offices. Government intends investing more than R20-billion to upgrade these offices.

There is an ever increasing participation of SMMEs in the ICT sector following the establishment of the Gauteng Provincial government initiative, the Innovation Hub. In the north-western part of the City lies the Gauteng Automotive Cluster which is an aggregation of automotive assemblers, component manufacturers and material suppliers in the same location that are together responsible for some 40% of the country's production. The cluster is also the main employer in the region. SMMEs are positioned to benefit on the procurement spending of the cluster.

The Tshwane Regional office started its operations in the last quarter of the financial year (February 2006) and is operating from temporary offices which were made available by the Tshwane Metropolitan Municipality. The offices are situated in Centurion which is not easily accessible by communities from the broader regions of the city. There are a lot of survivalist SMMEs who operate in the informal businesses. This poses a huge challenge as most of the SMMEs in the region lack business skills and management to adequately run professional and formal businesses. With the unemployment rate of 20,4% the city faces challenges in addressing job creation and poverty alleviation issues.

Another challenge is marketing of GEP services in the area. Most people are not aware of the GEP Tshwane office because of its office positioning and information communication that will enhance awareness of the office and services. Roadshows and community awareness programmes are planned for the next financial year and relocation to more accessible offices will enhance the awareness of GEP's services in the region.





Tandeka Nkomo, owner of Udonga Brick Manufacture's with her staff members

#### Ekurhuleni Regional Office

This is a region with a significant potential in SMME development as it has almost all types of SMMEs. While it remains the manufacturing mainstay of Gauteng, it also boasts a large percentage of SMMEs in both retail/commercial and service categories of GEP.

The marketing efforts of GEP since its inception ensured that a lot of time was fruitfully spent in addressing the needs of the SMMEs instead of going out to look for clients.

Challenges have been varied. The biggest challenge has been concentrating on the manufacturing sector while there are SMMEs in the commercial/retail and service categories. But there was recognition of this challenge as shown by the shift to the commercial/retail and services sector in the latter part of the financial year. We have also identified a need for the Local Economic Development department of the Ekurhuleni Metropolitan Council to have a clear partnership with GEP as a provincial SMME development agency. There is lot of potential that can be harnessed by such a closer cooperation.

The Chamber of Commerce has also been approached to facilitate and bolster business intra sector and inter-sector business networking opportunities. This will lead to preferential procurement potential that exists from the large concentration of big corporates in this region.

GEP in Ekurhuleni will also have to ensure that other sectors are identified and harnessed for the benefit of SMMEs in the region. There is a lot of potential for developing tourism, arts and crafts, artists and musicians, small scale mining, and all elements within the general services sector especially in the construction sector, as well as personal service (cosmetology), ending with the recycling of materials.

#### West Rand Regional Office

GEP's Regional office in the West Rand District Municipality began to align itself with the region's dominant sectors and related industries during the third quarter of the financial year, allowing the region to effectively utilise its resources and meet the ever-growing demand for small business support. In addition, all stakeholders within the realm of SMME development were approached in order to forge the necessary relationships and co-ordinate the efforts for SMME support. The West Rand District has three dominant sectors that are able to support SMME-based development and are as follows:

- Tourism - The Cradle of Humankind is a strong draw card in the area supported by the beautiful Magaliesberg. The world heritage site, since attaining its status supports approx. 220 SMMEs in the sector - a growth of 70%. A joint initiative was launched by Blue IQ and supported by GEP and other stakeholders aimed at addressing the grading of all tourism-based establishments in the cradle.

- Construction - Discussions held with Local Government to support emerging contractors have allowed GEP to identify a "vehicle" to support the emerging contractors from the region. The programme will be launched in the next financial year.
- Mining Supply chain - The supply chain for services and goods to the mining operations within the region has been identified as a key opportunity for SMME development and support. The mining charter has also provided additional support to leverage opportunities for SMMEs. The "Diamond beneficiation support programme" has been created as a vehicle to provide PDIs (predominantly women) the opportunity to participate in the diamond industry through a co-op arrangement. The programme also includes support from the Department of Labour. The pilot programme is to be launched in the new financial year.

#### **Johannesburg Regional Office**

The Johannesburg Regional Office opened its doors for operation from 1 October 2005. Johannesburg is the economic hub of the province and thus has a huge prevalence of both commercial as well as services businesses. The rollout of operational activities aimed at developing SMMEs are closely aligned with existing economic development programmes by the City of Joburg's (CoJ) and various SMME representative structures.

The stakeholders within the regions have been identified with a view to ensure that there is proper coordination of effort and effective use of resources. Regional Stakeholder Forums will serve as interface to monitor the implementation of critical developmental programmes for the benefit of both existing entrepreneurs and aspirant entrepreneurs. The concern is that most SMME representative bodies either represent the same people or offer the same type of support to their general membership. There is therefore the danger that effort is currently duplicated and this leads to failure of optimising opportunities available amid competition and rivalry. The proposed stakeholder forums would facilitate cohesion amongst and within the various stakeholders.

The primary sectors identified are smart industries (ICT, Pharmaceutical, etc), tourism, construction and manufacturing. Through our various business development initiatives, we will ensure that the potential of SMMEs in the identified sectors is unleashed.

#### **7. Capacity Building**

An independent service provider was commissioned to develop GEP's new range of services. The company, Enterprise Support was awarded the tender. The company conducted visits to the regional offices in order to evaluate the quality of the intervention deliverables. Interviews were also conducted with selected Service Providers (SPs) and SMMEs, which assisted with the development of the necessary criteria for the accreditation of service providers. The new range of services includes various financial, operational, human resources, technical, planning, and legal interventions. A description of the expected outcomes, benefits, description and work scope of each intervention was also part of the SP's product. These new interventions were expanded for GEP to make informed decisions with regard to the selection of reputable service providers for the SMMEs. The SP accreditation guidelines included the minimum qualifications, years experience, affiliations, and resources which the SP should have in order for them to be able to service GEP's clients.

In order to assist with the accreditation process a new Service Provider registration document has been developed which incorporates the new range of services. All interested SPs have been asked to complete and return this form to GEP.

#### **8. Training**

A task team was established in order to set up the proposed guidelines for conducting SMME training. All required documentation has been adjusted in order to accommodate the training Service Providers. The new Training SP Registration form was sent out to all training SPs to update and verify their information. Only SETA accredited SPs will be used by GEP for training.

#### **9. Diagnostic tools**

An open tender process was used to find a service provider who could develop a new diagnostic tool in order to analyse the operations of the SMMEs and to determine their needs. The process did not reach the stage of selecting a service provider due to the fact that it was felt that the capacity building intervention should first be completed. This would ensure that the new range of services would be incorporated into the new diagnostic tool. Nothing further has happened to this intervention due to the fact that the capacity building intervention is not yet completed.

Cynthia Motau, owner of  
TsAfrica Catering with her staff



## SMME SUCCESS STORIES - UNLEASHED SMMES

### 1. TsAfrika Catering CC

Cee Mee Catering CC trading as TsAfrika in Randburg specialises in African cuisine and it draws its customers from far and wide. The company specialised in functions of any size with menus ranging from breakfasts to deluxe lunch buffets with emphasis on ethnic dishes. The company approached GEP at a time when they needed to upgrade the facility to a better-equipped process facility to cater for growing demand.

GEP, after assessing the company's operations assisted TsAfrika with the drafting of a Business Plan to define and plan activities associated with the intended upgrading and expansion of the entity. A loan amount of R640 000 was raised to support the expansion programme and address challenges such as:

- The business needed to expand its customer base - create awareness in the market.
- The business needed to network, identify and create beneficial partnerships necessary for the business growth.

The business has since approaching GEP been able to relocate to new premises (factory of 1400 square metres), increased staff members from 12 to 30 and increased annual sales by 28%.

Participating in an appropriate trade exhibition has also assisted in:

- Compiling of a database of potential clients
- Attaining a suitable supplier of vegetables and packaging material
- Identifying a demand/interest from the market for a skills development programme for this type of operation.

### 2. JTM Woodwork cc

JTM Woodwork cc is a small manufacturer of sleeper-wood doors and furniture, based in the Industrial Park of Zone 3, Sebokeng. At the time of the SMME's first encounter with GEP, there were only two employees. The business suffered from a lack of finance to enable it to grow to a relatively stable financial position. It did not have adequate equipment, only hand tools that made the manufacturing process much more time con-



suming. Other challenges faced by the business were that it was not registered with CIPRO, it did not have a bank account, it did not have any trade credit from their suppliers, and it lacked access to its markets.

The first intervention done by GEP was to enlist the owners into a training programme on basic business skills that GEP was running at the time. GEP also assisted the company to be registered with CIPRO as a close corporation, and after registration the business was able to open a business bank account. This made it easier for the business to trade with potential clients since most businesses (especially their suppliers) were reluctant to deal with them if they are not formally incorporated.

GEP also noted that JTM Woodwork's products were of high quality and value, and hence were relatively expensive for the market they were operating in. This led to the next intervention, which was the development of a marketing strategy mainly to define their target market and strategies to be adopted to best secure a share of the market. The project also included the development of brochures. During the course of these developments the SMME was also invited to exhibit at the Absa Soweto Festival. This helped the company to further exposure to a much wider market. The company made a number of contacts at the festival that resulted in an increase of approximately 10% in turnover, and the turnover has stabilised at the increased level up to date. The business has increased its employees from two to five.

### 3. KM COSMETICS CC

KM Cosmetics was established by Mr. Patrick Makhsha, who first obtained a BSc degree in chemistry and later qualified as a pharmacist. Before he established this company, he worked as a technical pharmacist for several companies where he gained experience in research and development.

He started off the company with manufacturing hair shampoo, oil moisturiser, scalp treatment, spray for braids and dreads, conditioner, gel and hair food under the brand name of African Image. This business was started from his spare bedroom, until it became too small and moved to his garage.

There were a number of challenges that were faced by the company's lack of business



Jabu Mbatha, owner of JTM Woodwork



Patrick Makheshe of KM Cosmetics

plan, lack of exposure to the market and lack of equipment and manufacturing facility. After a thorough diagnosis of the business operations, the recommended necessary interventions / improvement projects, the company and GEP appointed service providers, with subsidies by GEP, to commission the following improvement projects for KM Cosmetics:

- Development of a business plan, as a guide of business operations.
- Developed marketing tools including a website.

- GEP assisted KM Cosmetics to participate in the Nafcoc exhibition.
- Made an application to National Technology Transfer Centre (DTI) on behalf of the company to acquire equipment grant.

After all interventions, a business plan was developed and the development of marketing material enabled KM Cosmetics to promote its products at the Nafcoc exhibition. Further to that an equipment grant by NTTC at a value of R489 500 enabled the company to buy necessary equipment. The acquisition of equipment has necessitated that KM Cosmetics move from the residential area and Mr. Makhesha's garage to a formal industrial area in a proper manufacturing facility.

#### 4. Udonga Bricks Manufacturers

Thandeka Nkomo was able to secure R200 000 in funding from a local finance agency after GEP assisted her in drafting a business plan. Nkomo used the finance to buy a mixing machine for her Hammanskraal-based business, Udonga Bricks Manufacturers. With her business plan in hand, she approached Khethani Business Finance, where she received R200 000 in finance.

GEP is presently helping her to access support which includes a course in financial management and support to print pamphlets and to erect billboards outside her business place.

Nkomo says she entered the male-dominated sector of construction because she wanted to prove herself as a woman, "I wanted to challenge these men who said I couldn't make it." After working in the corporate sector for six years, she resigned from her position as an operations manager, sold her house and set up her own business. She says with government's focus on infrastructure development and on creating opportunities for women in business, she saw the opportunity for starting out alone. Nkomo is a member of Women for Housing which focuses on women in construction.

Her business has 30 employees and Nkomo is keen to develop ways to retain her staff members. She is also looking at supplying local contractors and developers with bricks and is busy with several deals. Nkomo's clients include the Department of Housing, Cash Build and the City of Tshwane.



## ***BUSINESS UNITS REPORTS***

### **HUMAN RESOURCES**

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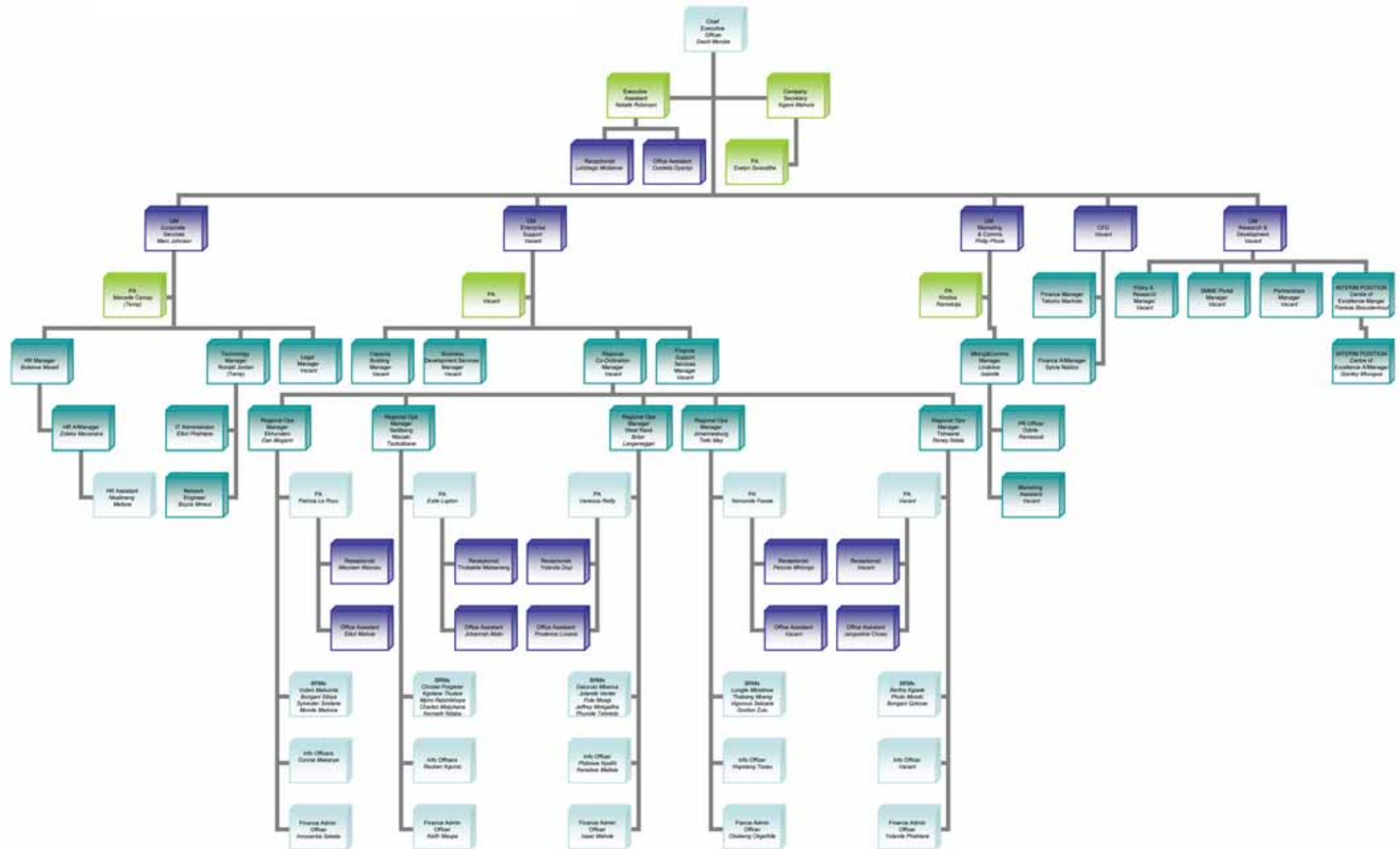
The period under review was an establishment year for GEP, having been launched on 1 April 2005. From an HR perspective, most activity revolved around incorporating the existing GAUMAC staff into GEP in the first quarter of operation; developing an organisational structure to enable GEP to meet its strategic priorities, which was finalised in the fourth quarter; and growing the staff complement, which increased from 35 employees at the beginning of the period to 71 at the end of March.

At the beginning of the Financial Year, GEP had three Regional Offices, located in Ekurhuleni, Sedibeng and the West Rand, and the Head Office in Johannesburg. At the end of the financial year there were additional Regional Offices in Johannesburg and Tshwane, and a new Head Office in Newtown.

As a service organisation, GEP is committed to developing its staff to address the challenges of SMME development in Gauteng; and this year represented the first step in that direction.

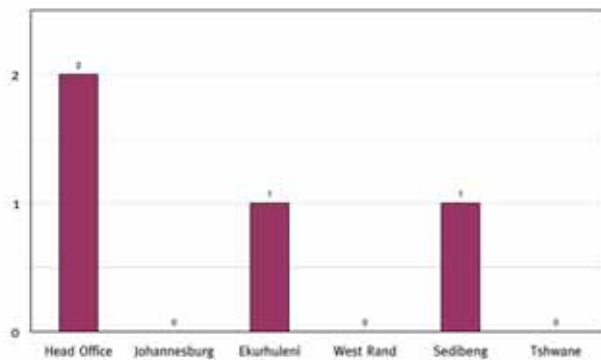


### Organisational Structure (as of 31 March 2006)



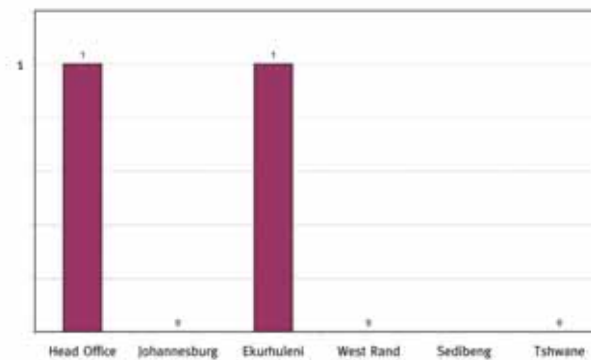
Terminations : 01 APRIL 2005-31 MARCH 2006

	Gender			Race				Disabled
	Total	M	F	B	W	A	C	
Head Office	2	0	2	2	0	0	0	0
Johannesburg	0	0	0	0	0	0	0	0
Ekurhuleni	1	1	0	1	0	0	0	0
West Rand	0	0	0	0	0	0	0	0
Sedibeng	1	1	0	0	0	1	0	0
Tshwane	0	0	0	0	0	0	0	0
	4	2	2	3	0	1	0	0



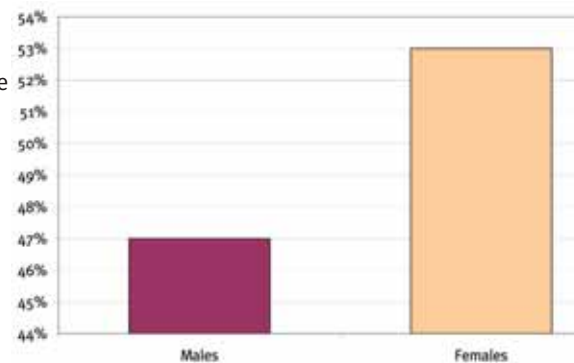
Promotions : 01 APRIL 2005-31 MARCH 2006

	Gender			Race				Disabled
	Total	M	F	B	W	A	C	
Head Office	1	0	1	1	0	0	0	0
Johannesburg	0	0	0	0	0	0	0	0
Ekurhuleni	1	1	0	1	0	0	0	0
West Rand	0	0	0	0	0	0	0	0
Sedibeng	1	0	0	0	0	0	0	0
Tshwane	0	0	0	0	0	0	0	0
	2	1	1	1	1	1	0	0



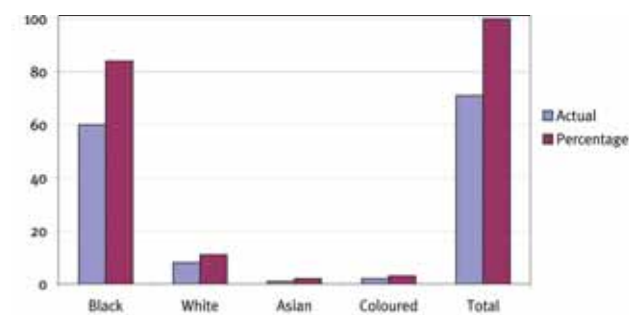
### Males vs Females

Gender	Actual	Percentage
Males	34	47
Females	37	53
<b>Total</b>	<b>71</b>	<b>100</b>



### Employment Equity

Race	Actual	Percentage
Black	60	84
White	8	11
Asian	1	2
Coloured	2	3
<b>Total</b>	<b>71</b>	<b>100</b>



### Employee Status and Training Development

#### Employment

	Employed		Position		Nature of Employment		
	Actual	Top Mng	Mid Mng	Other	Perm	Temp	Consult
Employed	71	5	18	48	69	2	0
Vacancies	14	3	8	3	14	0	0
Excess	0	0	0	0	0	0	0

#### Training and Development (Bursaries)

Occupation				Race				Gender			
Actual	Top Mng	Mid Mng	Other	Black	White	Coloured	Asian	Female	Male	Disabled	
17	1	8	8	16	0	0	1	10	7	0	
<b>Total cost</b>		<b>R 175 574.00</b>									



### **1 Launch of the Gauteng Enterprise Propeller**

The GEP launch event was a success. There was an overwhelming response, further highlighting the need for such an agency in the province as was motivated in the steering committee document. GEP was well received by the majority of players in the SMME sector, including Chambers of Commerce; all major banks; Business Partners Ltd, the SMME Forum, the media and other agencies such as the Business Place, Khula, GEDA and Umsobomvu. Many people called to congratulate and propose cooperation and/or collaboration with GEP in one form or another in meeting its service challenge. More people than anticipated visited all the GEP offices, particularly the Johannesburg office which the majority of SMMEs found easily accessible and convenient to reach.

The launch overall was well received. Editorial coverage was vast and very positive.

### **2 GEP KAYA FM SMME Forum**

GEP entered into a partnership with Kaya FM, a Gauteng-based radio station, on a project called the "GEP Kaya FM SMME Forum". This was a six-month long campaign, with key objectives being:

- To enable entrepreneurs in Gauteng;
- To create a knowledge sharing and learning platform for SMMEs;
- To provide SMMEs an opportunity to sell their products and services as well as share their experiences with other SMMEs;
- To empower SMMEs and aspirant business owners with information that will assist them to increase their sustainability and profitability.
- To provide an opportunity to key industry players to share their knowledge and expertise with SMMEs across the industries on various topics that impact on business development



The overall aim of the project was to empower Gauteng based SMMEs by providing a platform for them to share their expertise with others, thereby acknowledging GEP's help to them. The project had two elements in it. The first one was around topical issues that impact on SMME performance. GEP solicited specialists in various fields to share their knowledge and expertise with SMMEs. The second one was showcasing successful SMMEs so that they could be an inspiration to potential entrepreneurs and those already in business. The topics discussed were:

1. The role of the Gauteng Enterprise Propeller and objectives for SMME development;
2. Challenges faced by SMMEs in terms of access to finance and funding opportunities;
3. The implications of the budget for SMMEs and what informs the budget;
4. Creating effective business linkages and networking opportunities;
5. Franchising; and
6. The challenges faced by the Youth in Business and how they can access opportunities available to them;

### 3 Absa Soweto Festival

The Absa Soweto Festival originates from the Soweto Homemakers Expo which was held in 1983 as a joint venture between Adele Lucas Promotions and the Soweto Chamber of Commerce. This event returned to Soweto in 2005 at the Elkah Stadium from 28th September to 2 October as the Absa Soweto Festival to highlight and celebrate Soweto's hundredth birthday and to pave way for a new era of tourism in Soweto. The festival's mission is to contribute to the long term development of greater Soweto's economy and community. The festival provides a vehicle for businesses in Soweto, to reclaim their rightful share of the spending by placing local enterprises and SMMEs side by side with some of the country's leading brands.

GEP participated in the festival through sponsorship of 15 SMMEs who were given an opportunity to showcase their products and services to potential investors, partners, financial intermediaries and the general public. SMMEs were empowered through networking, co-exhibiting, sponsorship and mentoring opportunities with established blue chip corporates.

With the Soweto Small Business Executive Council (SOBEC) assistance, a seminar was arranged at the Region 6 council offices on September 19. The aim of this seminar was to provide the SMMEs with training on how to run an exhibition stand (most of them had not participated in an exhibition before) and tips on entrepreneurship and running a small business. This seminar proved to be immensely popular with the SMMEs and attracted over 100 participants. The atmosphere was very upbeat and there was a great anticipation for the coming festival.



## CORPORATE GOVERNANCE

### Board Charter of the Board of Directors

The King Report on Corporate Governance in South Africa 2002 (King II) recommends that every Board should have a charter setting out its responsibilities.

The Board of Directors has adopted the following guidelines in pursuit of its continuing efforts to enhance and adhere to corporate governance principles. This Charter will be reviewed by the Board annually or when necessary.

### Introduction

This charter is intended to provide a concise overview of:

The demarcation of the roles, functions, responsibilities and powers of the Board, the Shareholder, Individual Directors and the officials and executives of GEP;

- Powers delegated to various Board committees;
- Matters reserved for final decision-making or pre-approval by the Board;
- The policies and practices of the Board, such as declarations and conflicts of interest, Board meeting documentation, procedures and the nomination, appointment, induction, training and evaluation of directors and members of Board committees.

### Board Composition

- Board membership shall consist of not less than 4 (four) and not more than 12 (twelve) Directors;
- 8 (eight) non-executive members;
- 2 (two) executive members, viz. the CEO and CFO;
- 2 (two) ex officio members, viz. the Deputy Director General - Governance and the Deputy Director General for Economic Development and Policy both from the Gauteng Department of Economic Development. These Directors will play an advisory role and will have no voting powers
- The Chairman of the Board will always be nominated from the non-executive members. The non-executive member of the Board holds office for three years and may be re-appointed for one further term, and
- GEP's management members attend Board meetings per invitation.

### Board Independence

The Board is responsible for ensuring that its composition is sufficient to protect the interests of the organisation. Directors will discharge their duties in the best interest of the organisation.

The Board will review its composition annually to ensure that the Board:

- a) Has a proper understanding of, and competence to deal with, the current and emerging issues of the business of GEP; and
- b) Can effectively review the performance of management and exercise independent judgement.

### Role of the Board

1. Establishment and maintenance of the organisational structure;
2. Maintain balance between conforming to governance constraints and performing in an entrepreneurial way;
3. Review and approve the financial objectives, plans and actions of the organisation, including significant capital allocations and expenditure;
4. Exercise leadership, integrity and judgement, based on fairness, transparency and accountability;
5. Provide strategic direction to GEP;
6. Advise the MEC on the suitable candidate to be appointed by the MEC as the Chief Executive Officer;
7. Ensures that a succession plan for critical positions (key capabilities) is in place;
8. Ensures prompt communication with the shareholder;
9. Ensure compliance with the relevant laws, regulations and codes of best practice;
10. Identify and manage key risk areas;
11. Have unrestricted access to all organisational information, records, documents and property;
12. Define levels of materiality, reserving specific powers to itself and delegating other matters with the necessary written authority to management;
13. Consider whether its size, diversity and skills mix makes it function effectively and advise the MEC accordingly;
14. Establish sub-committees to facilitate efficient decision-making. At a minimum, it





will establish the Executive Committee, an Audit Committee, Human Resources Committee, Investment Committee and a Nomination Committee. Ongoing Committees shall have written terms of reference as approved by the Board. The Board will clearly define the parameters of ad hoc sub-committees appointed.

15. Assess its own effectiveness in fulfilling its responsibilities through Board Committees.

### The Gauteng Enterprise Propeller Committees

All the committees do not relieve the Board of its duties and responsibilities but assist the Board in discharging its duties relating to the reviewing of processes, systems and structures in compliance with all applicable legal requirements and accounting standards.

1. *Risk & Audit Committee*

The overall objective of the Committee is to see that management has created and maintained an effective risk management, control and governance environment in the organisation, and that management demonstrates and stimulates the necessary respect for risk management, internal control and governance structures amongst all parties.

2. *Investment Committee*

The objective of this committee is to assist the Board in discharging its duty to

fund SMMEs in the Gauteng Province. This will be done by developing an investment policy for GEP and advise the Board on the best services that can be procured from financial institutions for the benefit of SMMEs. The Committee also serves as a conduit between the Board and financial institutions.

3. *Personnel and Remuneration Committee*

The objective of this committee is to assist the Board in discharging its responsibilities as an employer of choice. This will be done by ensuring that GEP is able to attract, develop and retain the required staff competencies, reviewing any major structural change proposed by management, monitoring the skills and training of staff members and approval of salary increase guidelines for GEP. The Committee also acts as the final appeal mechanism for grievance and disciplinary actions.

4. *Executive Committee*

The Executive Committee consists of two Board Members and the Chief Executive Officer, who is a non-voting member of the executive committee. The Committee has power to perform all the functions of the Board between meetings of the Board and does not have the power to set aside or amend any decision of the Board.

### Board Members Attendance Register

Name	Number of Board Meetings attended
1. Dr. DE Baloyi	5
2. Mr. L Mngomezulu	5
3. Mr. David Morobe	5
4. Mr. Keith Khoza	3
5. Mr. David Moshapalo	2
6. Mr. F Mbalula	2
7. Ms. P Mgulwa	5
8. Dr. A Mokgokong	3
9. Mr. T Sokutu	0

## GAUTENG MANUFACTURING ADVISORY CENTRE ANNUAL FINANCIAL STATEMENTS

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(Registration number: 2001/000262/08)

31 March 2006

### Approval of the Annual Financial Statements

for the year ended 31 March 2006

The financial statements set out in this annual report have been prepared in accordance with statements of Generally Recognised Accounting Practice in South Africa where such statement has been issued and, where there is no such statement, in accordance with Generally Accepted Accounting Practice in South Africa and are based on appropriate accounting policies, which are supported by reasonable and prudent judgements and estimates. The accounting policies are consistent with those adopted in the previous financial year, except for the fact that Generally Recognised Accounting Practice policies were not used in the previous financial year.

The directors are responsible for the preparation of the financial statements and related financial information that fairly present the state of affairs and results of the company.

The financial statements have been prepared on a going concern basis with certain adjustments required as the assets of the company will be transferred on dissolution of this company to Gauteng Enterprise Propeller. In terms of IFRS 5 the non current assets are shown as "Assets held for sale". In terms of the legislated arrangement all assets will be transferred to the new company. The assets will be transferred at fair value, which equates to book value as the directors are of the opinion that the current values of assets recorded in the Financial Statements are at fair value and that no impairment adjustment is required. All outstanding liabilities remaining at the date of dissolution will be settled out of the available bank balance simultaneously with transfer of the assets at the time of dissolution of the company.

Accordingly, no adjustments have been made to the valuation of assets or liabilities, which may have been necessary if the company had been unable to continue as a going concern.

The annual financial statements set out on pages 30 to 39 were approved by the board of directors on 23 August, 2006 and are signed on its behalf by:



D. Morobe  
Chief Executive Officer



J.L. Mngomezulu  
Vice Chairperson

## FINANCIAL STATEMENTS

**Report of The Auditor-General to The Gauteng Provincial Legislature on the  
Financial Statements of the Gauteng Manufacturing Advisory Centre**  
for the Year ended 31 March 2006

**1. Audit Assignment**

The financial statements as set out on pages 30 to 39, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. Scope**

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette No. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette No. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- assessing the accounting principles used and significant estimates made by management.
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

**3. Basis of Accounting**

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1 to the financial statements.

**4. Audit Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Gauteng Manufacturing Advisory Centre at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in the accounting policy to the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

**5. Emphasis of Matter**

Without qualifying the audit opinion expressed above, attention is drawn to the following matter:

**BUSINESS ACTIVITIES OF THE GAUTENG MANUFACTURING ADVISORY CENTRE**

The promulgation of the Gauteng Enterprise Propeller Act, 2005 (Act No. 5 of 2005) on 26 January 2006 resulted in Gauteng Enterprise Propeller becoming the successor in law of the Gauteng Manufacturing Advisory Centre. In terms of section 37(4) of the said act the Gauteng Manufacturing Advisory Centre should be dissolved and its assets transferred to the Gauteng Enterprise Propeller within six months after the promulgation of the Gauteng Enterprise Propeller Act. A resolution was taken by the Board on 12 July 2006 to start with the liquidation process of the Gauteng Manufacturing Advisory Centre. As the Gauteng Manufacturing Advisory Centre ceased its business activities the financial statements have been prepared on the liquidation basis.

**6. Appreciation**

The assistance rendered by the staff of the Gauteng Enterprise Propeller on behalf of the Gauteng Manufacturing Advisory Centre during the audit is sincerely appreciated.

Ms. MA Masemola for Auditor-General

Johannesburg, 22 August 2006





## Gauteng Manufacturing Advisory Centre

### Directors' Report

for the Year ended 31 March 2006

The directors have pleasure in presenting their report on the activities of the company for the year ended 31 March 2006.

#### NATURE OF THE BUSINESS

The Enterprise substantially ceased to operate with effect from 1 April, 2005, when Gauteng Enterprise Propeller took over the running of the activities formerly undertaken by the Enterprise. In terms of the Gauteng Enterprise Propeller Act, No. 5 of 2005, the assets of the Enterprise will be transferred to the new entity on winding up of the Section 21 company, which is in process at present and is expected to be finalised shortly.

#### GENERAL REVIEW

During the year of operation the company received grants totalling R3 000 000 (2005: R9 000 000). As the company was not operating in effect, a substantial proportion of the funds were not spent.

#### SUBSEQUENT EVENTS

There have been no facts or circumstances of a material nature that have occurred between the accounting date and the date of this report, other than mentioned above.

#### DIRECTORS

The directors in office at the financial year end and date of this report, were as follows:

J.L. Mngomezulu(Vice Chair)

G.Y.Y. Ditodi

S.N. Goba

R. Bean

C.M. Kulla

M.A. Mohoto

M.I. Molotse

C.M. Morolo

M.L. Ramafolo

T.J.C. Slabbert

#### BUSINESS AND POSTAL ADDRESS

Business address

Postal address

First Floor

1 Central Place

Cnr Jeppe and Henry Nxumalo Streets

Johannesburg

2001

P O Box 238

Newtown

Johannesburg

2113

#### SECRETARY

Mr. J.V. Mokwena CA(SA) is the secretary for the Enterprise

#### CONTINGENT LIABILITIES

The company has no contingent liabilities at the year end (2005 - R2 867 992)

Gauteng Manufacturing Advisory Centre  
Statement of Financial Performance  
for the Year ended 31 March 2006

	Notes	2006 R	2005 R
Revenue - Provincial Grants		3 000 000	10 589 661
Depreciation		(469 680)	(589 680)
Loss on trade in of fixed assets		(22 241)	-
Staff costs		-	(8 649 497)
Other operating costs		(143 745)	(9 266 784)
<b>Operating (deficit) surplus</b>	1	<b>2 364 334</b>	<b>(7 916 300)</b>
Income from investments	2	-	298 910
<b>Net (deficit) surplus before taxation</b>		<b>2 364 334</b>	<b>(7 617 390)</b>
Taxation	3	-	2 282 489
<b>Net (deficit) surplus for the year</b>		<b>2 364 334</b>	<b>(5 334 901)</b>

Gauteng Manufacturing Advisory Centre  
Statement of Financial Position  
31 March 2006

	Notes	2006 R	2005 R
<b>ASSETS</b>			
<b>Non current assets</b>			
Equipment	4	-	1 025 430
<b>Current assets</b>			
Trade and other receivables	5	292 267	1 514 981
Assets held for sale	4	513 509	-
Cash and cash equivalents		3 614 306	2 177 718
Due by Gauteng Enterprise Propeller		139 922	-
<b>TOTAL ASSETS</b>		<b>4 560 004</b>	<b>4 718 129</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Contributions from owners</b>			
Accumulated surplus		4 560 004	1 629 170
<b>Non current liabilities</b>			
Deferred taxation liability	6	-	556 554
<b>Current liabilities</b>			
Trade and other payables	7	-	2 532 405
Provisions	8	-	1 954 157
Taxation payable		-	568 302
		-	9 946
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4 560 004</b>	<b>4 718 129</b>

Gauteng Manufacturing Advisory Centre  
Statement of Changes in Net Assets  
for the Year ended 31 March 2006

	Accumulated Funds R	Total R
Balance at 31 March, 2004	6 964 071	6 964 071
Net deficit for the year	(5 334 901)	(5 334 901)
<b>Balance at 31 March, 2005</b>	<b>1 629 170</b>	<b>1 629 170</b>
<b>Prior year adjustment (Note 10 )</b>		
Deferred tax liability no longer required	556 554	556 554
Income tax liability no longer required	9 946	9 946
	566 500	566 500
Adjusted balance at 1 April, 2005	2 195 670	2 195 670
Net surplus for the year	2 364 334	2 364 334
<b>Balance at 31 March, 2006</b>	<b>4 560 004</b>	<b>4 560 004</b>

Gauteng Manufacturing Advisory Centre  
Cash Flow Statement  
for the Year ended 31 March 2006

	Notes	2006 R	2005 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		4 082 792	10 345 638
Cash paid to suppliers and employees		(2 666 204)	(18 157 671)
<b>Cash (utilised in) generated from operations</b>	9	<b>1 416 588</b>	(7 812 033)
Interest received		-	298 910
Taxation paid		-	(121 718)
<b>Net cash (outflow) inflow from operating activities</b>		<b>1 416 588</b>	(7 634 841)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of equipment		-	(197 506)
Equipment traded in		20 000	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>20 000</b>	(197 506)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>1 436 588</b>	(7 832 347)
<b>Cash and cash equivalents at beginning of the year</b>		<b>2 177 718</b>	10 010 065
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>3 614 306</b>	2 177 718



**Gauteng Manufacturing Advisory Centre**  
**Accounting Policies**

for the Year ended 31 March 2006

**Basis of Preparation**

The annual financial statements are prepared on the historical cost basis, except for certain financial instruments, which are carried at fair value or amortised cost as appropriate and incorporate the following principal accounting policies, which have been consistently applied in all material respects. The financial statements comply with statements of Generally Accepted Accounting Practice in South Africa. The financial statements have been prepared on a liquidation basis with certain adjustments required as the assets of the company will be transferred on dissolution of this company to Gauteng Enterprise Propeller. The accounting policies have been applied consistently throughout the financial year.

**Revenue**

Revenue or contributions consist of grants received from the Gauteng Provincial Government.

**Equipment**

All items of equipment are stated at historical cost, less accumulated depreciation. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method.

The depreciation rates in respect of the various categories are as follows:

Office equipment and furniture	16,67%
Computer equipment	33,33%

Major improvements to plant and equipment are capitalised. Repairs and maintenance are expensed when incurred.

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected cash flows are discounted to their present values.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

**Impairment of assets**

The carrying amounts of assets stated in the Statement of Financial Position, other than inventories and deferred tax assets, are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated as the higher of the net selling price and its value in use. An impairment loss is recognised in the Statement of Financial Performance whenever the carrying amount exceeds the recoverable amount.

In assessing value in use, the expected future cash flows are discounted to their present value that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the recoverable amount; however, not to an amount higher than the carrying amount than would have been determined (net of depreciation and amortisation) had no impairment loss been recognised in previous years.

**Taxation**

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the Statement of Financial Position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding basis used in the computation of taxable income. In general, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if

## **Gauteng Manufacturing Advisory Centre**

### **Accounting Policies (continued)**

for the Year ended 31 March 2006

the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities, which affects neither the tax profit nor the accounting profit at the time of the transaction.

#### **Provisions**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### **Financial instruments**

Financial assets and financial liabilities are recognised on the company's Statement of Financial Position when the company has become a party to contractual provisions of the instrument. All financial instruments are recorded at cost, including transaction costs, at initial recognition date. Subsequent to initial recognition these instruments are measured as set out below.

#### **Financial assets**

The company's principal financial assets are bank and cash balances and trade and other receivables:

- Bank and cash balances  
Cash on hand is measured at its face value.  
Bank borrowings, consisting of interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.
- Trade and other receivables  
Trade receivables originated by the company are stated at their amortised cost less

a provision for impairment. An estimate of doubtful debts is made based on a review of all outstanding amounts at Statement of Financial Position date. Bad debts are written off during the year in which they are identified. Due to the short term nature of the company's receivables, amortised cost represents its fair value.

#### **Financial liabilities**

The company's principal financial liabilities are trade and other payables:

- Trade and other payables  
Trade and other payables are stated at amortised cost. Due to the short-term nature of the company's trade and other payables, the cost approximates its fair value.

#### **Contingencies and commitments**

Transactions are classified as contingencies where the company's obligation depends on uncertain future events. Items are classified as commitments where the company commits itself to future transactions or if the items will result in the acquisition of assets.

**Gauteng Manufacturing Advisory Centre**  
**Notes to the Annual Financial Statements**  
for the Year ended 31 March 2006

	2006 R	2005 R
<b>1. OPERATING (DEFICIT) SURPLUS</b>		
Operating (deficit) surplus is arrived at after taking the following items into account:		
Auditor's remuneration:		
Audit fees	-	67 000
Prior year under provision	12 500	13 100
	<u>12 500</u>	<u>80 100</u>
Depreciation:		
Office equipment and furniture	248 924	311 872
Computer equipment	220 756	277 808
	<u>469 680</u>	<u>589 680</u>
Operating lease payments:		
Properties	-	871 702
Revenue		
Grants received - Gauteng Province	3 000 000	9 000 000
	<u>3 000 000</u>	<u>9 000 000</u>
<b>2. INCOME FROM INVESTMENTS</b>		
Interest received: Call deposits	-	298 910
	<u>-</u>	<u>298 910</u>
<b>3. TAXATION</b>		
SA normal taxation comprising:		
Current taxation - prior year	-	21 920
Deferred taxation - current year	-	(2 208 010)
Deferred taxation - rate change	-	(19 192)
Deferred taxation- assessed loss utilised	-	(77 207)
	<u>-</u>	<u>(2 282 489)</u>

**Gauteng Manufacturing Advisory Centre**  
**Notes to the Annual Financial Statements (continued)**  
for the Year ended 31 March 2006

	2006 R	2005 R
<b>3. TAXATION (continued)</b>		
Reconciliation of rate of taxation:	%	%
South African normal rate of taxation	-	(30,00)
Prior year under provision of current taxation	-	0,29
Rate change	-	(0,25)
	<u>-</u>	<u>(29,96)</u>

There is no provision for current or deferred taxation as the company has no income of a taxable nature.

**4. EQUIPMENT**

Cost	Opening balance (R)	Additions R	Disposals R	Closing bal. (R)
Office equipment and furniture	1 376 649		138 600	1 238 049
Computer equipment	1 575 471		32 451	1 543 020
	<u>2 952 120</u>		<u>171 051</u>	<u>2 781 069</u>
<b>Accumulated depreciation</b>	<b>Opening balance</b>	<b>Current Year</b>	<b>Disposals</b>	<b>Closing balance</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Office equipment and furniture	692 756	220 756	105 166	808 346
Computer equipment	1 233 934	248 924	23 644	1 459 214
	<u>1 926 690</u>	<u>469 680</u>	<u>128 810</u>	<u>2 267 560</u>
<b>Net carrying amount</b>		<b>2006 (R)</b>		<b>2005 (R)</b>
Office equipment and furniture		429 703		683 893
Computer equipment		83 806		341 537
		<u>513 509</u>		<u>1 025 430</u>

Fixed assets are shown in the Statement of Financial Position as "Held for sale"



Gauteng Manufacturing Advisory Centre

Notes to the Annual Financial Statements (continued)

for the Year ended 31 March 2006

	2006 R	2005 R
<b>5. TRADE AND OTHER RECEIVABLES</b>		
Trade debtors	371 006	1 479 767
Less: Impairment of debtors	(78 739)	(231 182)
Net trade debtors	292 267	1 248 585
VAT	-	176 974
Prepayments	-	9 120
Other receivables	-	80 302
	<b>292 267</b>	<b>1 514 981</b>
<b>6. DEFERRED TAXATION LIABILITY</b>		
Balance at beginning of the year	556 554	2 860 963
Movement in the current year	(556 554)	(2 285 217)
Rate change	-	(19 192)
Balance at end of the year	-	556 554
Comprising :		
Provision for leave pay	-	(42 437)
Provision for bonus	-	(122 371)
Prepayments	-	2 646
Section 24C allowance	-	793 350
Accumulated taxation loss	-	(74 634)
	-	556 554
<b>7. TRADE AND OTHER PAYABLES</b>		
Trade creditors	-	1 609 071
Other payables - accrued expenses	-	345 086
	-	1 954 157

Gauteng Manufacturing Advisory Centre

Notes to the Annual Financial Statements (continued)

for the Year ended 31 March 2006

**8. PROVISIONS**

	Opening balance R	Increase in provisions R	Amounts utilised R	Closing balance R
Bonus provision	421 969	-	421 969	-
Leave pay provision	146 333	-	146 333	-
	<b>568 302</b>	<b>-</b>	<b>568 302</b>	<b>-</b>

The bonus provision is based on bonuses due to employees at year end. The leave pay provision is based on the number of leave days due to employees at year end.

**9. RECONCILIATION OF NET (DEFICIT) SURPLUS BEFORE  
TAXATION TO CASH (UTILISED IN) GENERATED FROM OPERATIONS**

	2006 (R)	2005 (R)
Net (deficit) surplus before taxation	2 364 334	(7 617 390)
Adjusted for:	(76 381)	(400 765)
Depreciation	469 680	589 680
Loss on assets traded in	22 241	-
Income from investments	-	(298 910)
Provisions	(568 302)	(691 535)
Operating cash flows before changes in working capital	2 287 953	(8 018 155)
Working capital changes	(871 365)	206 122
(Increase) decrease in trade and other receivables	1 082 792	(244 023)
Increase (decrease) in trade and other payables	(1 954 157)	450 145
Cash (utilised in) generated from operations	<b>1 416 588</b>	<b>(7 812 033)</b>

## Gauteng Manufacturing Advisory Centre

### Notes to the Annual Financial Statements (continued)

for the Year ended 31 March 2006

	2006	2005
	R	R
<b>10. PRIOR YEAR ADJUSTMENT</b>		
Income tax provision no longer required	9 946	-
Deferred tax provision no longer required	556 554	-
	<u>566 500</u>	<u>-</u>

### 11. FINANCIAL INSTRUMENTS

The company's financial instruments consist mainly of cash at bank and cash equivalents, trade and other receivables and trade and other payables.

#### Fair values

The carrying amounts of the following financial instruments, approximate their fair value due to the fact that these instruments are mostly of a short term nature:

- Bank balances and cash - deposits with commercial interest rates.
- Trade and other receivables - subject to normal credit terms. Provision is made for long outstanding debts.
- Trade and other payables - subject to normal trade credit terms and a relatively short payment cycle.

#### Trade and other receivables

Trade and other receivables are presented net of the allowance for doubtful receivables. There is a low risk with respect to trade and other receivables due to the nature of the business. The company does not have significant exposure to any individual customer or counter party.

#### Cash at bank and deposits

The company's cash resources are placed with reputable bankers.

#### Other risks

Due to the nature, and extent, of the company's financial instruments, the company is not unduly exposed to price risks, interest rate risks, cash flow risks and liquidity risks. Exposure to foreign currency risk is also limited.

## Gauteng Manufacturing Advisory Centre

### Notes to the Annual Financial Statements (continued)

for the Year ended 31 March 2006

	2006	2005
	R	R
<b>12. FUTURE OPERATING LEASE COMMITMENTS</b>		
At the Statement of Financial Position date, the company had outstanding commitments under non-cancellable operating leases, which fall due as follows:		
Within one year	-	336 743
In the second to fifth years inclusive	-	-
After five years	-	-
	<u>-</u>	<u>336 743</u>

Operating lease payments represent rentals payable for the use of its office properties.

### 13. CONTINGENT LIABILITIES

During the year the company entered into contracts with service providers which could lead to expenses being incurred in the next financial year. The company has a potential liability of RNil (2005: R2 867 992) towards future expenditure. This will be financed from accumulated funds.





**Gauteng Enterprise Propeller**  
**Approval of the Annual Financial Statements**  
for the year ended 31 March 2006

The financial statements set out in this annual report have been prepared in accordance with statements of Generally Recognised Accounting Practice in South Africa where such statement has been issued and, where there is no such statement, in accordance with Generally Accepted Accounting Practice in South Africa and are based on appropriate accounting policies, which are supported by reasonable and prudent judgements and estimates.

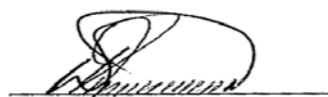
The directors are responsible for the preparation of the financial statements and related financial information that fairly present the state of affairs and results of the company.

The financial statements have been prepared on a going concern basis. This basis presumes that the assets will be realised and the liabilities settled in the normal course of business.

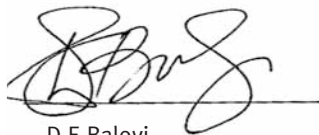
Accordingly, no adjustments have been made to the valuation or classification of assets or liabilities, which may have been necessary if the company had been unable to continue as a going concern.

There are no comparative figures as these are the first financial statements for the company, which started trading on 1 April, 2005.

The annual financial statements set out on pages 42 to 52 were approved by the board of directors on 23 August, 2006 and are signed on its behalf by:



D. Morobe  
Chief Executive Officer



D.E. Baloyi  
Chairperson

**Report of The Auditor-General to The Gauteng Provincial Legislature on the**  
**Financial Statements of the Gauteng Enterprise Propeller**  
for the Year ended 31 March 2006

**1. Audit Assignment**

The financial statements as set out on pages 42 to 52, for the year ended 31 March, 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 30(1)(c) of the Gauteng Enterprise Propeller Act, 2005 (Act No. 5 of 2005). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. Scope**

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette No. 28723 of 10 April, 2006 and General Notice 808 of 2006, issued in Government Gazette No. 28954 of 23 June, 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- assessing the accounting principles used and significant estimates made by management.
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

**3. Basis of Accounting**

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1 to the financial statements.

#### 4. Audit Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Gauteng Enterprise Propeller at 31 March, 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in the accounting policy to the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

#### 5. Emphasis of Matter

Without qualifying the audit opinion expressed above, attention is drawn to the following matter:

##### 5.1 ESTABLISHMENT OF THE GAUTENG ENTERPRISE PROPELLER

The Gauteng Enterprise Propeller was established in terms of section 2 of the Gauteng Enterprise Propeller Act, 2005 (Act No. 5 of 2005), which was promulgated in the Gauteng Provincial Gazette on 26 January 2006 (Provincial Gazette no. 22, Notice no. 2). Although the act was only promulgated during 2006, the Gauteng Enterprise Propeller commenced with business on 1 April 2005 and was already an established company incorporated under section 21 of the Companies Act, 1973 (Act No. 61 of 1973) with registration no. 2004/031868/08.

In terms of section 37 of the Gauteng Enterprise Propeller Act the Member of the Executive Council responsible for Economic Affairs must take all steps necessary to ensure that the Gauteng Enterprise Propeller ceases to be a company incorporated under section 21 of the Companies Act and is listed as a provincial public entity contemplated in section 3 of the Gauteng Enterprise Propeller Act. At the date of this report the Gauteng Enterprise Propeller was not yet listed as a public entity.

As the Gauteng Enterprise Propeller was not yet registered, as a public entity in terms of the Public Finance Management Act, it was uncertain if the entity was exempt from paying income tax. The tax directive from the South African Revenue Services in this regard was still outstanding however, the entity provided for an income tax liability as at year-end.

Section 37 further requires that within six months of the commencement of the Gauteng Enterprise Propeller Act, the Gauteng Manufacturing Advisory Centre, which was also incor-

porated under section 21 of the Companies Act, must dissolve and its assets must be transferred to the Gauteng Enterprise Propeller. The Board took a resolution on 12 July, 2006 to start with the liquidation process of the Gauteng Manufacturing Advisory Centre.

#### 6. Appreciation

The assistance rendered by the staff of the Gauteng Enterprise Propeller during the audit is sincerely appreciated.



Ms. MA Masemola for Auditor-General

Johannesburg, 22 August 2006



AUDITOR-GENERAL

## Gauteng Enterprise Propeller

### Directors' Report

for the Year ended 31 March 2006

The directors have pleasure in presenting their report on the activities of the company for the year ended 31 March 2006.

### NATURE OF THE BUSINESS

The enterprise renders services to provide financial and business development support to SMMEs located in Gauteng. The enterprise started operations on 1 April, 2005 and took over the business previously operated by Gauteng Manufacturing Advisory Centre (Known as GAUMAC ).

### GENERAL REVIEW

The Enterprise was created by the Gauteng Enterprise Propeller Act, No. 5 of 2005. During its first year of operation the company received grants totalling R70 000 000. This money was successfully used to achieve its preliminary objectives excluding financial support, for which permission is still to be obtained.

### SUBSEQUENT EVENTS

There have been no facts or circumstances of a material nature that have occurred between the reporting date and the date of this report.

### DIRECTORS

A Board of Directors was appointed at the first board meeting of the company on 14 February, 2005.

The directors in office at the financial year end and date of this report, were as follows:

D.E.Baloyi (Chair)	F.A. Mbalula
JL Mngomezulu (Vice Chair)	A. Mokgokong
D. Morobe (CEO)	D. Moshapalo
P. Mgulwa	T. M.Sokutu
K.Khoza	(Resigned 22 February, 2006)

## BUSINESS AND POSTAL ADDRESS

### Business address

First Floor, 1 Central Place  
Cnr Jeppe and Henry Nxumalo Streets  
Johannesburg 2001

### Postal address

P O Box 238, Newtown  
Johannesburg  
2113

### SECRETARY

Ms K Mahura is the secretary for the Enterprise

### CONTINGENT LIABILITIES

During the year the company entered into contracts with service providers which could lead to expenses being incurred in the next financial year. The company has a potential liability of R3 880 831 towards future expenditure. There were also staff disputes outstanding, for which the potential liability is R1 319 380. This will be financed from accumulated funds. (Refer to note 12).



**Gauteng Enterprise Propeller**  
**Statement of Financial Performance**  
for the year ended 31 March 2006

	Notes	2006 R
<b>Revenue</b>	14	70 723 780
Depreciation		(175 302)
Staff costs	15	(14 660 084)
Interest paid		(4 311)
Other operating costs		(17 635 667)
<b>Operating (deficit) surplus</b>	1	38 248 416
Income from investments	2	293 702
<b>Net (deficit) surplus before taxation</b>		38 542 118
Taxation	3	11 177 215
<b>Net (deficit) surplus for the year</b>		27 364 903

**Gauteng Enterprise Propeller**  
**Statement of Financial Position**  
31 March 2006

	Notes	2006 R
<b>ASSETS</b>		
<b>Non current assets</b>		
Equipment	4	2 139 105
Deferred tax recoverable	6	508 115
<b>Current assets</b>		39 246 826
Trade and other receivables	5	1 061 633
Cash and cash equivalents		38 185 193
<b>TOTAL ASSETS</b>		41 894 046
<b>EQUITY AND LIABILITIES</b>		
<b>Contributions from owners</b>		27 364 903
Accumulated surplus		27 364 903
<b>Current liabilities</b>		14 529 143
Trade and other payables	7	1 000 137
Provisions	8	1 843 676
Taxation payable	3	11 685 330
<b>TOTAL EQUITY AND LIABILITIES</b>		41 894 046

**Gauteng Enterprise Propeller**  
**Statement of Changes in Net Assets**  
for the year ended 31 March 2006

	Accumulated Funds (R)	Total R
Balance at 31 March 2005	-	-
Net surplus for the year	27 364 903	27 364 903
<b>Balance at 31 March 2006</b>	<b>27 364 903</b>	<b>27 364 903</b>

**Gauteng Enterprise Propeller**  
**Cash Flow Statement**  
for the year ended 31 March 2006

	Notes	2006 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers		69 662 147
Cash paid to suppliers and employees		(29 451 938)
<b>Cash (utilised in) generated from operations</b>	9	<b>40 210 209</b>
Interest received		293 702
Interest paid		(4 311)
Taxation paid		-
<b>Net cash (outflow) inflow from operating activities</b>		<b>40 499 600</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of equipment		(2 314 407)
<b>Net cash outflow from investing activities</b>		<b>(2 314 407)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>38 185 193</b>
Cash and cash equivalents at beginning of the year		-
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>38 185 193</b>

## Gauteng Enterprise Propeller

### Accounting Policies

for the Year ended 31 March 2006

#### Basis of Preparation

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practices (GRAP). Interpretations of such Statements by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

#### Standard of GRAP

**GRAP 1:** Presentation of financial statements

**GRAP 2:** Cash flow statements

**GRAP 3:** Accounting policies, changes accounting estimates and errors

#### Replacement Statement of GAAP

**AC1 01:** Presentation of financial statements

**AC1 18:** Cash flow statements

**AC1 03:** Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statement do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1,2 and 3 has resulted in the following significant changes in the presentation of the financial statements:

#### Terminology differences

##### Standard of GRAP

Statement of financial performance  
Statement of financial position  
Statement of changes in net assets  
Net assets  
Surplus/deficit for the period  
Accumulated surplus/deficit  
Contributions from owners  
Distribution to owners  
Reporting date

##### Replacement Statement of GAAP

Income statement  
Balance sheet  
Statement of changes in equity  
Equity  
Profit/loss for the period  
Retained earnings  
Share capital  
Dividends  
Balance sheet date

The cash flow statement was prepared in accordance with the direct method.

Specific information such as:

- (a) Receivables for non exchange transactions, including taxes and transfers;
- (b) Taxes and transfers payable;
- (c) Trade and other payables from non exchange transactions;

Must be presented separately on the statement of financial position.

The amount and nature of any restrictions on cash balances is required to be disclosed.

Paragraphs 11 to 15 of GRAP 1 have not been implemented as the budget reporting standard is in the process of being developed by international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

#### Revenue

Revenue or contributions consist of grants received from the Gauteng Provincial Government and management fees received from SMMEs.

Grants are accounted for once received.

Management fees are recognised only when it is probable that the economic benefits associated with a transaction will flow to the company.

#### Leases

Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the period of the lease. Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases.

#### Equipment

All items of equipment are stated at historical cost, less accumulated depreciation. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method.

## **Gauteng Enterprise Propeller**

### **Accounting Policies (continued)**

for the Year ended 31 March 2006

The depreciation rates in respect of the various categories are as follows:

Office equipment and furniture	16,67%
Computer equipment	33,33%

Major improvements to plant and equipment are capitalised. Repairs and maintenance are expensed when incurred.

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected cash flows are discounted to their present values.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

#### **Impairment of assets**

The carrying amounts of assets stated in the Statement of Financial Position, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated as the higher of the net selling price and its value in use. An impairment loss is recognised in the Statement of Financial Performance whenever the carrying amount exceeds the recoverable amount.

In assessing value in use, the expected future cash flows are discounted to their present value that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

A previously recognised impairment loss is only reversed if there has been a change in

the estimates used to determine the recoverable amount; however, not to an amount higher than the carrying amount that would have been determined (net of depreciation and amortisation) had no impairment loss been recognised in previous years.

#### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using the tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax is accounted for using the Statement of Financial Position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding basis used in the computation of taxable income. In general, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities, which affects neither the tax profit nor the accounting profit at the time of the transaction.

#### **Provisions**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### **Financial instruments**

Financial assets and financial liabilities are recognised on the company's Statement of Financial Position when the company has become a party to contractual provisions of the instrument. All financial instruments are recorded at cost, including transaction costs, at initial recognition date. Subsequent to initial recognition these instruments are measured as set out on the next page.



**Gauteng Enterprise Propeller**  
**Accounting Policies (continued)**  
for the Year ended 31 March 2006

**Financial assets**

The company's principal financial assets are bank and cash balances and trade and other receivables:

- Bank and cash balances  
Cash on hand is measured at its face value.  
Bank borrowings, consisting of interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.
- Trade and other receivables  
Trade receivables originated by the company are stated at their amortised cost less a provision for impairment. An estimate of doubtful debts is made based on a review of all outstanding amounts at Statement of Financial Position date. Bad debts are written off during the year in which they are identified. Due to the short-term nature of the company's receivables, amortised cost approximates its fair value.

**Financial liabilities**

The company's principal financial liabilities are trade and other payables:

- Trade and other payables  
Trade and other payables are stated at amortised cost. Due to the short-term nature of the company's trade and other payables, the cost approximates its fair value.

**Contingencies and commitments**

Transactions are classified as contingencies where the company's obligation depends on uncertain future events. Items are classified as commitments where the company commits itself to future transactions or if the items will result in the acquisition of assets.

**Gauteng Enterprise Propeller**  
**Notes to the Annual Financial Statements**  
for the year ended 31 March 2006

2006  
R

**1. OPERATING (DEFICIT) SURPLUS**

Operating (deficit) surplus is arrived at after taking the following items into account:

Depreciation:	
Office equipment and furniture	66 526
Computer equipment	108 776
	<u>175 302</u>
Operating lease payments:	
Properties	1 635 750
Equipment	106 320
	<u>1 742 070</u>
Revenue	
Transfers received Gauteng Province	<u>70 000 000</u>

**2. INCOME FROM INVESTMENTS**

Interest received: Call deposits	<u>293 702</u>
----------------------------------	----------------

**3. TAXATION**

SA normal taxation comprising:	
Current taxation - current year	11 685 330
Deferred taxation - current year	(508 115)
	<u>11 177 215</u>

As the company is a Provincial Public Entity, it is contended that there is no liability for taxation and a ruling from SARS to this effect is awaited. Pending the decision of SARS, full provision for current and deferred taxation has been provided.

**Gauteng Enterprise Propeller**

**Notes to the Annual Financial Statements (continued)**

for the year ended 31 March 2006

	2006 R
--	-----------

**3. TAXATION (continued)**

Reconciliation of rate of taxation:	%
South African normal rate of taxation	29.0%
Timing differences	1.6%
	<u>30.6%</u>

**4. EQUIPMENT**

Cost	Opening balance (R)	Additions (R)	Disposals (R)	Closing balance (R)
Office equipment and furniture	-	1 425 532	-	1 425 532
Computer equipment	-	888 875	-	888 875
	-	<u>2 314 407</u>	-	<u>2 314 407</u>

Accumulated depreciation	Opening balance (R)	Current Year (R)	Disposals (R)	Closing balance (R)
Office equipment and furniture	-	66 526	-	66 526
Computer equipment	-	108 776	-	108 776
	-	<u>175 302</u>	-	<u>175 302</u>

**Net carrying amount**

Office equipment and furniture	1 359 006
Computer equipment	780 099
	<u>2 139 105</u>

Annual Report 2005/06

**Gauteng Enterprise Propeller**

**Notes to the Annual Financial Statements (continued)**

for the year ended 31 March 2006

	2006 R
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**5. TRADE AND OTHER RECEIVABLES**

Trade debtors	82 107
Less: Impairment of debtors	(28 903)
Net trade debtors	<u>53 204</u>
VAT	715 393
Prepayments	293 036
	<u>1 061 633</u>

**6. DEFERRED TAX ASSET**

Balance at beginning of the year	-
Movement in the current year	508 115
Balance at end of the year	<u>508 115</u>

Comprising :

Provision for leave pay	124 415
Provision for bonus	410 250
Prepayments	(84 980)
Rent straight-lined	58 430
	<u>508 115</u>

**7. TRADE AND OTHER PAYABLES**

Trade creditors	658 732
Associated company	139 922
Rent straight-lining provision	201 483
	<u>1 000 137</u>

## Gauteng Enterprise Propeller

### Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2006

#### 8. PROVISIONS

	Opening balance (R)	Increase in provisions (R)	Disposals (R)	Closing balance (R)
Bonus provision	-	1 414 656	-	1 414 656
Leave pay provision	-	429 020	-	429 020
	-	1 843 676	-	1 843 676

The bonus provision is based on bonuses due to employees at year end.

The leave pay provision is based on the number of leave days due to employees at year end.

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#### 9. RECONCILIATION OF NET (DEFICIT) SURPLUS BEFORE TAXATION TO CASH (UTILISED IN) GENERATED FROM OPERATIONS

Net (deficit) surplus before taxation	38 542 118
Adjusted for:	1 729 587
Depreciation	175 302
Income from investments	(293 702)
Interest paid	4 311
Provisions	1 843 676
<b>Operating cash flows before changes in working capital</b>	<b>40 271 705</b>
Working capital changes	(61 496)
(Increase) decrease in trade and other receivables	(1 061 633)
Increase (decrease) in trade and other payables	1 000 137
<b>Cash (utilised in) generated from operations</b>	<b>40 210 209</b>

## Gauteng Enterprise Propeller

### Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2006

#### 10. FINANCIAL INSTRUMENTS

The company's financial instruments consist mainly of cash at bank and cash equivalents, trade and other receivables and trade and other payables.

##### Fair values

The carrying amounts of the following financial instruments, approximate their fair value due to the fact that these instruments are mostly of short term nature:

- Bank balances and cash - deposits with commercial interest rates.
- Trade and other receivables - subject to normal credit terms and provision is made for long outstanding debts.
- Trade and other payables - subject to normal trade credit terms and a relatively short payment cycle.

##### Trade and other receivables

Trade and other receivables are presented net of the allowance for doubtful receivables. There is a low risk with respect to trade and other receivables due to the nature of the business. The company does not have significant exposure to any individual customer or counter party.

##### Cash at bank and deposits

The company's cash resources are placed with reputable bankers.

##### Other risks

Due to the nature and extent of the company's financial instruments, the company is not unduly exposed to price risks, interest rate risks, cash flow risks and liquidity risks. Exposure to foreign currency risk is also limited.

## Gauteng Enterprise Propeller

### Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2006

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#### 11. COMMITMENTS

##### OPERATING LEASES

At the Statement of Financial Position date, the company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Within one year	2 063 384
In the second to fifth years inclusive	8 375 736
After five years	-
	<u>10 439 120</u>

Operating lease payments represent rentals payable for the use of its office properties and equipment.

##### CONTRACTS CONCLUDED BEFORE YEAR END

Certain contracts were entered into during the year for the provision of services. At the 31st March, 2006 the outstanding commitment for contracts in progress amounted to:

Programme related contracts	4 051 645
Office refurbishment	339 414
	<u>4 391 059</u>

##### C.C.M.A. DISPUTE

An award of R373 750 for unfair dismissal and reinstatement to the previous position was awarded by the C.C.M.A. to S.J. Mbatha prior to 31 March. This award is being disputed.

## Gauteng Enterprise Propeller

### Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2006

#### 12. CONTINGENT LIABILITIES

##### SERVICE PROVIDERS

During the year the company entered into contracts with service providers which could lead to expenses being incurred in the next financial year once the service providers meet certain criteria. The company has a potential liability of R3 880 831 (2005: NIL) towards future expenditure. This will be financed from accumulated funds.

##### C.C.M.A. DISPUTE

A claim for unfair dismissal was made by P.M. Leping and an award of R40 500 was made by the C.C.M.A. in April, 2006. This award is being disputed.

##### STAFF SUSPENSION

The General Manager: Marketing was suspended from duties prior to the year end. A voluntary settlement of R1 279 080 was reached in June, 2006.

#### 13. COMPARATIVE FIGURES

As this is the first year the company has traded, there are no comparative figures.

#### 14. REVENUE

Provincial Grants	70 000 000
Management Fees	723 780
	<u>70 723 780</u>



**Gauteng Enterprise Propeller**  
**Notes to the Annual Financial Statements (continued)**  
for the year ended 31 March 2006

**15. STAFF COSTS**

Salaries	12 253 829
Leave Gratuity	311 176
Bonus	1 340 953
Acting Allowance	58 500
UIF, SDL and RSC Levies	216 281
Staff Training	360 345
Board members Remuneration	119 000
	<b>14 660 084</b>

**16. REMUNERATION OF MANAGEMENT**

DIRECTORS - fees	
D. Baloyi	48 000
L. Mngomezulu	25 000
P. Mgulwa	20 000
D. Mashapalo	8 000
A. Mokgokong	10 000
F. Mbalula	5 000
T. Sokutu	3 000
	<b>119 000</b>

**Gauteng Enterprise Propeller**  
**Notes to the Annual Financial Statements (continued)**  
for the year ended 31 March 2006

**16. REMUNERATION OF MANAGEMENT (Continued)**

SENIOR MANAGEMENT	Salary	Bonus	13th Cheque	Leave Pay	Expense Allowance
1. D. Morobe Chief Executive Officer	R850 000				R150 000
2. P. Phore: General Manager: Marketing	R426 000	R43 000	R36 000		R110 000
3. M.F.X. Johnson General Manager: Corporate Services	R282 000				R91 000
TOTAL EMOLUMENTS	<u>R1 558 000</u>	<u>R43 000</u>	<u>R36 000</u>		<u>R351 000</u>
<b>GRAND TOTAL</b>					<b><u>R1 988 000</u></b>

# Gauteng Enterprise Propeller Geographical Presentation





*"Unleashing SMME potential"*

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