

**UNIVERSITY OF KWAZULU-NATAL  
CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH  
AFRICA  
(REGISTRATION NUMBER: 2002/024027/08)**

**ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2009**

UNIVERSITY OF KWAZULU-NATAL  
CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA  
REGISTRATION NUMBER: 2002/024027/08

ANNUAL FINANCIAL STATEMENTS  
for the period ended 31 December 2009

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#### **DIRECTORS' RESPONSIBILITY STATEMENT**

The directors are responsible for the preparation and fair presentation of the annual financial statements of the Centre for the Aids Programme of Research in South Africa ("CAPRISA"), comprising the statement of financial position at 31 December 2009, the statement of comprehensive income, statement of changes in accumulated funds, statement of cash flows for the period then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS).

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these annual financial statements that are free from material misstatement, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of CAPRISA's ability to continue as a going concern and have no reason to believe that the business will not be a going concern in the foreseeable future.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

UNIVERSITY OF KWAZULU-NATAL  
CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA  
REGISTRATION NUMBER: 2002/024027/08

ANNUAL FINANCIAL STATEMENTS  
for the period ended 31 December 2009

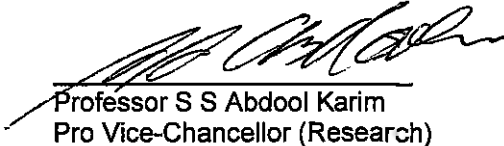
**DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS**

The annual financial statements for the period ended 31 December 2009 set out on pages 4 to 20 were approved on **15 November 2010** by the CAPRISA Board of Directors and signed on its behalf by:



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Mr R H Clarkson  
UKZN Chief Finance Officer



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Professor S S Abdool Karim  
Pro Vice-Chancellor (Research)

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA

We have audited the annual financial statements of the Centre for the Aids Programme Of Research in South Africa ("CAPRISA") which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, the statement of changes in accumulated funds and statement of cash flows for the period then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 4 to 20.

### Directors' Responsibility for the Annual financial statements

The Directors of CAPRISA are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these annual financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Audit Opinion

In our opinion the annual financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2009 and the financial performance and the cash flows for the period then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



Deloitte & Touche  
Registered Auditor  
Per M Luthuli  
Partner

15 November 2010

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit  
DL Kennedy Risk Advisory NB Pader Tax & Legal Services L Geeringh Consulting L Bzm Corporate Finance  
JK Mazzocco Human Resources CR Beukman Finance TJ Brown Clients IJT Mtoba Chairman of the Board  
MJ Comber Deputy Chairman of the Board  
Regional Leader: GC Brazier

A full list of partners and directors is available on request

B-BBEE rating: Level 2 contributor/AAA (certified by Empowerdex)

Member of Deloitte Touche Tohmatsu Limited

**UNIVERSITY OF KWAZULU-NATAL  
CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA**

**REPORT OF THE DIRECTORS**  
for the period ended 30 December 2009

The directors have pleasure in presenting their annual report which forms part of the annual financial statements of the company for the year ended 31 December 2009.

**NATURE OF BUSINESS**

During the year the company continued to conduct HIV Research, financed by grants received from various donors both local and International. The grants are held by the University of KwaZulu-Natal.

**FINANCIAL RESULTS**

The financial results for the year ended 31 December 2009 are disclosed in the attached annual financial statements.

**PROPERTY, PLANT AND EQUIPMENT**

Additions to property, plant and equipment for the year amounted to R 2 317 405 (2008: R 2 096 109).

**RELATED PARTIES**

Related party relationships exist between the company, and the University of KwaZulu-Natal, and all fellow subsidiaries of the University. Related party transactions have been disclosed in note 9 to the annual financial statements.

**GOING CONCERN**

The directors consider that the company has adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the company's financial statements. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient funding facilities to meet its foreseeable cash requirements.

**AUDITORS**

Deloitte & Touche will continue in office in accordance with Section 270(2) of the Companies Act.

**DIRECTORS AND SECRETARY**

The directors in office at the year end and at the date of this report are:

SS Abdool Karim  
JM Van Bever Donker  
DA Clark  
NM Ijumba  
DP Visser  
L Fried  
AC Bawa  
BD Schoub

**UNIVERSITY OF KWAZULU-NATAL  
CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA**

**REPORT OF THE DIRECTORS  
for the period ended 30 December 2009**

**REGISTERED OFFICE**

Doris Duke Medical Research Institute  
University of KwaZulu-Natal  
719 Umbilo Road  
Congella  
4013

**PHYSICAL ADDRESS**

Doris Duke Medical Research Institute  
University of KwaZulu-Natal  
719 Umbilo Road  
Congella  
4013

**POSTAL ADDRESS**

Private Bag X7  
CONGELLA  
4013

**MATERIAL EVENTS AFTER YEAR-END**

No material events have taken place in the affairs of the company between the end of the financial year and the date of this report which require disclosure in the annual financial statements.

UNIVERSITY OF KWAZULU-NATAL  
CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA  
(REGISTRATION NUMBER: 2002/04027/08)

STATEMENT OF FINANCIAL POSITION  
as at 31 December 2009

	<u>Note</u>	<u>2009</u> R	<u>2008</u> R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	7 860 421	8 835 735
<b>Current assets</b>			
Receivables	4	68 426 380	30 318 489
Amount owing by the University of KwaZulu-Natal	13	19 092 587	20 621 927
Cash and cash equivalents	5	4 420 035	-
		44 913 758	9 696 562
<b>TOTAL ASSETS</b>		<u>76 286 801</u>	<u>39 154 224</u>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds</b>			
Accumulated surplus		13 721 432	20 085 594
<b>Current liabilities</b>			
Deferred grant income	6	62 565 369	19 068 630
Payables	7	54 102 300	8 964 662
Provisions	8	6 570 926	5 490 204
Amount owing to the University of KwaZulu-Natal	13	1 892 143	1 576 272
		-	3 037 492
<b>TOTAL FUNDS AND LIABILITIES</b>		<u>76 286 801</u>	<u>39 154 224</u>

UNIVERSITY OF KWAZULU-NATAL  
 CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA  
 (REGISTRATION NUMBER: 2002/024027/08)

STATEMENT OF COMPREHENSIVE INCOME  
 for the period ended 31 December 2009

	<u>Note</u>	<u>2009</u> R	<u>2008</u> R
<b>INCOME</b>			
<b>Grants</b>			
- Donations and grants		104 263 642	108 859 647
- Sundry income		<u>700 000</u>	<u>321 182</u>
<b>Total income</b>		<u>104 963 642</u>	<u>109 180 829</u>
<b>EXPENDITURE</b>			
Personnel costs		(51 646 373)	(44 015 019)
Rent of premises		(1 653 096)	(1 152 098)
Other operating expenses		(48 229 110)	(44 484 986)
Depreciation		<u>(3 292 719)</u>	<u>(3 711 264)</u>
<b>Surplus before indirect costs</b>		142 344	15 817 462
Indirect costs		<u>(7 195 682)</u>	<u>(5 708 684)</u>
<b>Operating (deficit)/surplus</b>	11	(7 053 338)	10 108 778
Foreign exchange gains/(losses)		273 885	(350 890)
Finance income		<u>415 291</u>	<u>93 552</u>
<b>Net (deficit)/surplus for the year</b>		<u>(6 364 162)</u>	<u>9 851 440</u>



UNIVERSITY OF KWAZULU-NATAL  
CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA  
(REGISTRATION NUMBER: 2002/024027/08)

STATEMENT OF CHANGES IN ACCUMULATED FUNDS  
for the period ended 31 December 2009

	<u>Total</u> R
Opening balance at 1 January 2007	10 234 154
Net surplus for the year	<u>9 851 440</u>
Closing balance at 31 December 2008	20 085 594
Net deficit for the year	<u>(6 364 162)</u>
Closing balance at 31 December 2009	<u><u>13 721 432</u></u>

UNIVERSITY OF KWAZULU-NATAL  
 CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA  
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STATEMENT OF CASH FLOWS  
 for the period ended 31 December 2009

	Notes	<u>2009</u> R	<u>2008</u> R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash (utilised in)/generated from operations	A	(834 686)	16 028 028
Finance income		415 291	93 552
Foreign exchange gains/(losses)		273 885	350 890
		<u>                    </u>	<u>                    </u>
Net cash flow (utilised in)/generated from operating activities		<u>(145 510)</u>	<u>15 770 690</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(2 317 405)	(2 096 109)
Proceeds from sale of assets		-	61 405
		<u>                    </u>	<u>                    </u>
Net cash flow utilised in investing activities		<u>(2 317 405)</u>	<u>(2 034 704)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in deferred grant liability		45 137 638	3 688 707
Decrease in amount owing by the University of KwaZulu-Natal		(7 457 527)	(10 322 611)
		<u>                    </u>	<u>                    </u>
Net cash flow generated from financing activities		<u>37 680 111</u>	<u>(6 633 904)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		35 217 196	7 102 082
Cash and cash equivalents at beginning of the year		<u>9 696 562</u>	<u>2 594 481</u>
		<u>                    </u>	<u>                    </u>
<b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>B</b>	<u><u>44 913 758</u></u>	<u><u>9 696 562</u></u>

UNIVERSITY OF KWAZULU-NATAL  
 CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA  
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NOTES TO THE STATEMENT OF CASH FLOWS  
 for the period ended 31 December 2009

A	<u>2009</u>	<u>2008</u>
Cash (utilised in)/generated from operations	R	R
Net surplus for the period	(6 364 162)	9 851 440
Adjusted for non-cash items		
Depreciation	3 292 719	3 711 264
Loss on disposal of asset	-	27 538
Profit on disposal of asset	-	(29 286)
	<u>(3 071 443)</u>	<u>13 560 956</u>
Adjusted for separately distributable items:		
Finance income	(415 291)	(93 552)
Foreign exchange losses	273 885	350 890
Movements in working capital		
Decrease in receivables	1 529 340	1 419 083
Increase in payables	<u>1 396 593</u>	<u>790 651</u>
Cash (utilised in)/generated from operations	<u>(834 686)</u>	<u>16 028 028</u>
<b>B</b>		
<b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		
Cash in bank	44 800 348	9 623 671
Cash on hand	<u>113 410</u>	<u>72 891</u>
	<u>44 913 758</u>	<u>9 696 562</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the period ended 31 December 2009

1. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) for the IASB that are relevant to its operations.

At the date of authorisation of these annual financial statements, the following relevant Standards and Interpretations were considered but are not yet applicable:

- IFRS 2 (revised) Share-based payment (amendments): Vesting conditions and cancellations
- IFRS 3 (revised) Business combinations (amendments)
- IFRS 5 Non-current assets held for sale and discontinued operations
- IFRS 7 Financial instrument disclosures
- IFRS 8 Operating segments
- IAS 1 (revised) Presentation of Financial Statements
- IAS 23 (revised) Borrowing costs
- IAS 27 (revised) Consolidated and separate financial statements (amendments)
- IAS 28 (revised) Investment in associate
- IAS 31 (revised) Interest in joint ventures
- IAS 32 Financial instruments: Presentation – amendments relating to potable instruments and obligations arising on liquidation
- IAS 39 (revised) Financial Instruments: Recognition and Measurement
- IFRIC 13 Customer Loyalty Programs
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- SAICA ED 265 Exposure Draft on Proposed Circular in respect of Headline Earnings

The company is in the process of evaluating the effects of these new standards and interpretations but they are not expected to have a significant impact on the company's results and disclosures.

2. ACCOUNTING POLICIES

2.1 Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Financial Reporting Board using historic cost except for certain financial instruments that are stated at fair value.

2.2 Basis of preparation

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. The basis of preparation is consistent with prior years, except for new and revised standards and interpretations adopted during the period.

2.3 Income recognition

Grants are recognised as income in the financial year to which they relate. Grants for specific purposes are brought into the appropriate fund as income at the time that they are available to finance the expenditure for the purpose provided. However, if funding is provided in advance of the specified requirement, the relevant amounts are disclosed as current liabilities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the period end 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.4 Foreign currency transactions

Foreign currency transactions are accounted for at spot rates, being the exchange rates prevailing at the dates of the respective transactions. Gains and losses arising from the settlement of such transactions are recognised in the income statement in the year in which they arise. Assets and liabilities designated in foreign currencies at the balance sheet date are translated at exchange rates ruling at the balance sheet date.

2.5 Financial instruments

Financial assets and liabilities are recognised in the company's balance sheet when the company has become a party to the contractual provision of the instrument.

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

Receivables are stated at their nominal values reduced by appropriate allowances for estimated irrecoverable amounts.

Significant financial liabilities include finance lease obligations, interest-bearing bank loans, interest-bearing shareholders' loans, overdrafts and trade and other payables.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities, other than trading financial liabilities and derivatives, are subsequently measured at amortised cost being the original obligation less principal payments and amortisations. Trading financial liabilities are subsequently measured at fair value.

Payables are stated at their nominal values. Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Long-term borrowings are initially recorded at the fair value of the consideration received, net of issue costs. They are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated taking into account any issue costs or any discount or premium on settlement. Gains and losses are recognised in net profit and loss when the liabilities are extinguished.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

Financial instruments are initially measured at cost, including transaction costs, when the company becomes a party to their contractual arrangements. The subsequent measurement of financial instruments is dealt with below.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the period end 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the company loses the contractual rights or extinguishes the obligations associated with such an instrument.

On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in income.

On derecognition of a financial liability, the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in income.

2.6 Accounting for Leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the respective periods of the leases.

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that are directly attributable to the acquisition of the asset.

Assets costing less than R5 000 are written off in the year of acquisition.

Depreciation is calculated on the straight-line method, at rates calculated to write off the cost of assets over their estimated useful lives, or in the case of leasehold improvements over the terms of the lease, as follows:

Laboratory, computer and office equipment	5 years
Office furniture	5 years
Motor vehicles	5 years
Leasehold improvements	
- Vulindlela Clinic	10 years
- CDC Clinic	5 years

No depreciation is charged on capital work in progress in respect of leasehold improvements.

When parts of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Depreciation methods, useful lives and residual values are reassessed annually at the reporting date.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the period end 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment (continued)

No business economic changes occurred during the period to lead management to believe that the useful lives and residual values of the plant and equipment had changed.

2.8 Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

2.9 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

2.10 Provisions

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

2.11 Key sources of estimation uncertainty

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that management have assessed as having a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

2.12 Judgements made by management

The preparation of annual financial statements in accordance with IFRS requires estimates and assumptions that affect reported amounts and related disclosures. No accounting policies have been identified as involving particularly complex or subjective judgements or assessments.

UNIVERSITY OF KWAZULU-NATAL  
CENTRE FOR THE AIDS PROGRAMME OF RESEARCH IN SOUTH AFRICA  
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the period ended 31 December 2009

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
	R	R	R
<u>2009</u>			
Leasehold improvements	7 576 314	(4 715 703)	2 860 611
Motor vehicles	1 935 046	(997 097)	937 949
Furniture and equipment	12 461 168	(8 399 307)	4 061 861
	<u>21 972 528</u>	<u>(14 112 107)</u>	<u>7 860 421</u>
<u>2008</u>			
Leasehold improvements	7 091 599	(3 421 708)	3 669 891
Motor vehicles	1 604 840	(681 048)	923 792
Furniture and equipment	10 958 684	(6 716 632)	4 242 052
	<u>19 655 123</u>	<u>(10 819 388)</u>	<u>8 835 735</u>

Reconciliation of property, plant and equipment:

	Opening Net Book Value	Additions	Disposals	Depreciation	Closing net book value
	R	R	R	R	R
<u>2009</u>					
Leasehold improvement	3 669 891	484 714	-	(1 293 995)	2 860 610
Motor vehicles	923 791	330 207	-	(316 049)	937 949
Furniture and equipment	4 242 053	1 502 484	-	(1 682 675)	4 061 862
	<u>8 835 735</u>	<u>2 317 405</u>	<u>-</u>	<u>(3 292 719)</u>	<u>7 860 421</u>
<u>2008</u>					
Leasehold improvements	4 430 028	388 560	-	(1 148 697)	3 669 891
Motor vehicles	856 566	359 390	-	(292 165)	923 791
Furniture equipment	5 223 951	1 348 159	(59 655)	(2 270 402)	4 242 053
	<u>10 510 545</u>	<u>2 096 109</u>	<u>(59 655)</u>	<u>(3 711 264)</u>	<u>8 835 735</u>



UNIVERSITY OF KWAZULU-NATAL  
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)  
 for the period ended 31 December 2009

	<u>2009</u> R	<u>2008</u> R
<b>4. RECEIVABLES</b>		
Consortium funds	15 883 430	19 487 685
Other receivables	<u>3 209 157</u>	<u>1 134 242</u>
	<u>19 092 587</u>	<u>20 621 927</u>

The carrying amount of accounts receivable is considered to approximate fair value.

Receivables - credit risk

The entity does not have any trade receivables, but the receivables recorded relate to accrued grants that had not been received at year-end. Therefore, its exposure to the credit risk is limited to these receivables.

To the extent that the receivables amounts are estimated to be less than their associated carrying values, impairment changes have been recorded and the carrying values have been written down to their recoverable amounts.

As the entity does not have any trade receivables, no assessment of past due receivable balances recoverability has been performed.

**5. CASH AND CASH EQUIVALENTS**

	<u>2009</u> R	<u>2008</u> R
Cash in bank	44 800 348	9 623 671
Cash on hand	<u>113 410</u>	<u>72 891</u>
	<u>44 913 758</u>	<u>9 696 562</u>

**6. DEFERRED GRANT INCOME**

Opening balance	8 964 662	5 275 955
Capital grant utilised	-	(49 263)
Grants received	51 489 103	8 637 651
Grant utilised	<u>(6 351 465)</u>	<u>(4 899 681)</u>
	<u>54 102 300</u>	<u>8 964 662</u>

**7. PAYABLES**

Trade payables	<u>6 570 926</u>	<u>5 490 204</u>
	<u>6 570 926</u>	<u>5 490 204</u>

All trade payables are classified as current, and are expected to be fully repaid within 12 months. Their carrying value is equal to their fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)  
for the period ended 31 December 2009

8. PROVISIONS

	<u>2009</u> R	<u>2008</u> R
Provision for audit fees	209 000	235 000
Leave pay provision	<u>1 683 143</u>	<u>1 341 272</u>
	<u>1 892 143</u>	<u>1 576 272</u>

Key management judgement

Leave pay provision: the provision is based on the number of days leave owing to the employees multiplied by the total cost of employment daily rate.

9. RELATED PARTY TRANSACTIONS

The company takes care to avoid conflicts of interest and, accordingly, has adopted a policy requiring declarations of interest – actual or potential - by members of its Board, senior management and other permanent staff. In terms of this policy, transactions with third parties in which a Board or staff member has a direct or fiduciary interest are required to be disclosed and, consequently, must be entered at arm's length and be in accordance with approved procurement policy. During the period under review and subsequently, no transactions were identified with third parties controlled by one or more Board or staff members.

All transactions with the University of KwaZulu-Natal are defined as related party transactions. Details of the amounts transacted with UKZN are contained in note 11.

10. FINANCIAL RISK MANAGEMENT

The company's operating activities expose it to various financial risks that, if left unmanaged, could adversely impact on current or future earnings. Although not necessarily mutually exclusive, these financial risks are categorised separately according to their different generic risk characteristics and include market risk (foreign currency risk and cash flow interest rate risk), credit risk and liquidity risk. The company is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the company's financial performance.

The company does not take positions on derivative contracts speculatively and only enters into contractual arrangements with counterparties that have investment grade credit ratings.

Exchange rate risk

Foreign currency transactions constitute a risk, especially as the entire grant is denominated in United States Dollars, the receipt of which, by way of a series of tranches, is spread over an extended period of time.

**Market risk**

The company activities are exposed to primarily foreign exchange and cash flow interest rate risk. Both risks are actively monitored on a continuous basis and managed through the use of various CFC accounts. Although the company's cash flows are exposed to movements in key input and output prices, such movements represent economic rather than residual financial risk inherent in commodity payables and receivables. Consequently, the company is not substantively exposed to commodity price risk as defined in IFRS 7.

**Foreign currency sensitivity analysis**

Foreign exchange risk sensitivity analysis has been performed on the foreign currency exposures inherent in the company's financial assets and financial liabilities at the reporting dates presented. The sensitivity analysis provides an indication of the impact on the company's reported earnings of reasonably possible changes in the currency exposures embedded within the functional currency environments that the company operates in. Reasonably possible changes are based on an analysis of historic currency volatility, together with any relevant assumptions regarding near term future volatility.

**Cash flow interest rate risk**

The company holds cash and cash equivalents. Consequently, it is exposed to cash flow interest rate risk. The company's accounting policy stipulates that all borrowings are held at amortised cost.

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10. FINANCIAL RISK MANAGEMENT (continued)

*Management of cash and cash equivalents*

Cash comprises cash on hand, and short term deposits. Arrangements are in place, to ensure that cash is utilised most efficiently for the ongoing working capital needs of the company and that the company earns the most advantageous rates of interest available.

Net variable rate debt sensitivity analysis

The net variable rate exposure represents variable rate debt less cash and cash equivalents. Reasonably possible changes in interest rates have been applied to net variable rate exposure, in order to provide an indication of the possible impact on the income statement.

	<u>2009</u> R	<u>2008</u> R
Cash flow interest rate risk exposures and sensitivities		
Total debt	8 463 069	10 103 967
Less: Cash and cash equivalents	<u>(44 913 758)</u>	<u>(9 696 562)</u>
Net variable rate exposure	<u>36 450 689</u>	<u>407 405</u>

Net variable rate debt represents variable rate debt (which excludes deferred grant liabilities) less cash and cash equivalents. Reasonably possible changes in interest rates have been applied to net variable rate debt, in order to provide an indication of the possible impact on the company's income statement.

**Credit risk**

Credit risk is the risk that a contractual counterparty will default on its contractual obligations to the company and that the company would suffer financial loss as a consequence of such a default. The company's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised. Any credit risk arising from cash deposits is deemed to be insignificant on the basis that all relevant counterparties are investment grade entities. Full disclosure of the company's maximum exposure to credit risk is presented in the following table.

**Exposure to credit risk**

	<u>2009</u> R	<u>2008</u> R
Cash and cash equivalents	44 913 758	9 696 562
Receivables	<u>19 092 587</u>	<u>20 621 927</u>
	<u>64 006 345</u>	<u>30 318 489</u>

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10. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the company could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The company manages its liquidity risk by using reasonable and retrospectively assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the business and by maintaining sufficient reserves and committed borrowing facilities.

The maturity profile of the financial instruments is summarised as follows:

	Between 1 – 3 months R	< 1 year R	Total R
<u>2009</u>			
Financial assets			
Receivables	3 209 157	15 883 430	19 092 587
Cash and cash equivalents	<u>44 913 758</u>	<u>-</u>	<u>44 913 758</u>
Financial liabilities			
Deferred grant liability	54 102 300	-	54 102 300
Payables	<u>6 570 926</u>	<u>-</u>	<u>6 570 926</u>
<u>2008</u>			
Financial assets			
Receivables	1 134 242	19 487 685	20 621 927
Cash and cash equivalents	<u>9 696 562</u>	<u>-</u>	<u>9 696 562</u>
Financial liabilities			
Deferred grant liability	8 964 662	-	8 964 662
Payables	<u>5 490 204</u>	<u>-</u>	<u>5 490 204</u>
		<u>2009</u>	<u>2008</u>
		R	R

11. OPERATING (DEFICIT)/SURPLUS

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

Auditors' remuneration		
- External audit	334 000	216 708
- Tax services	188 118	-
Loss on disposal of fixed assets		27 538
Profit on sale of fixed assets		29 286
Legal and other professional fees	941 020	672 681
Repairs and maintenance	<u>1 597 242</u>	<u>905 615</u>

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11. OPERATING (DEFICIT)/SURPLUS (continued)	<u>2009</u> R	<u>2008</u> R
Indirect costs have been funded by the following grants, to the extent that related grant funding has been recognised in terms of the stated accounting policy:		
Supplemental grant - PEPFAR	-	668 152
Microbicide	2 370 227	1 195 041
Clinical Trials Unit	1 536 022	1 431 269
CHAVI	60 214	437 401
CAPRISA Aids Treatment Programme	2 337 250	862 513
Other	891 969	1 114 308
	<u>7 195 682</u>	<u>5 708 684</u>
<b>Total indirect costs</b>		
	<u>7 195 682</u>	<u>5 708 684</u>
<u>Summary of indirect costs</u>		
University (UKZN) administration fees	3 597 841	2 854 342
CAPRISA administration and finance related expenses	3 597 841	2 854 342
	<u>7 195 682</u>	<u>5 708 684</u>
<b>Total indirect costs</b>		
	<u>7 195 682</u>	<u>5 708 684</u>

12. TAXATION

The company is registered as an "association not for gain" in terms of section 21 of the Companies Act of South Africa, and is exempt from taxation in terms of section 10(1)(cN) of the Income Tax Act. Accordingly, no provision for current taxation has been raised.

13. AMOUNTS OWING TO/(BY) THE UNIVERSITY OF KWAZULU-NATAL

	<u>2009</u> R	<u>2008</u> R
Amount owing to the University of KwaZulu-Natal	40 380 313	12 661 163
Short-term deposits	<u>(44 800 348)</u>	<u>(9 623 671)</u>
Closing balance	<u>(4 420 035)</u>	<u>3 037 492</u>

14. COMMITMENTS

The company rents their office premises and laboratories under operating leases. The lease agreements expire in 2012.

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

	<u>2009</u> R
Within 1 year	1 366 404
Later than 1 year but within 5 years	1 994 742
Later than 5 years	