Notes to the annual financial statements

for the year ended 31 March 2007

		2007 R'000	2006 R'000
1.	**Research revenue**		
	Rendering of services:		
	Private sector	**2 943**	9 613
	Public corporations	**4 636**	4 297
	Public sector	**45 306**	31 672
	International funding agencies	**68 047**	66 152
	National funding agencies	**2 675**	722
	Professional services	**998**	1 440
	Total	**124 605**	113 896
2.	**Parliamentary grants**		
2.1.	Total Parliamentary grants allocation:		
	Parliamentary grants	**97 038**	84 458
	VAT portion	**12 335**	12 335
	Parliamentary grants ring-fenced	**10 500**	4 500
		119 873	101 293
2.2.	Grant allocation as per statement of financial performance		
	Parliamentary grants	**96 979**	85 130
	Parliamentary grants received	**96 214**	84 458
	Plus: Transferred from deferred income	**765**	672
2.3.	Special Parliamentary grants	**10 500**	5 000
	Special Parliamentary grants	**10 500**	4 500
	Plus/(Less): Rolled over portion	**–**	500
	Total	**107 479**	90 130
3.	**Other income**		
	Rental income	**7 034**	6 067
	Product sales	**798**	718
	Interest	**2 483**	1 191
	Non-research related income	**3 161**	5 001
	Total	**13 476**	12 977
4.	**Research cost**		
	Direct labour expense	**17 096**	17 211
	Direct research cost	**32 715**	36 476
	Total	**49 811**	53 687

The HSRC's rental income is derived from rental of office space and parking to the Department of Social Development as well as from rental of conference facilities.

Notes to the annual financial statements

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for the year ended 31 March 2007

		2007 R'000	2006 R'000
5.	**Administrative expenses**		
	General expenses	**65 859**	50 723
	Auditor's remuneration	**802**	1 093
	Audit fees – external	**265**	593
	– internal	**537**	500
	Net foreign exchange losses/(gains)	**(186)**	37
	Total	**66 475**	51 853
6.	**Staff costs**		
6.1.	Wages and salaries	**96 260**	87 609
	Defined benefit pension plan expense	**93**	95
	Defined contribution plan	**7 164**	7 164
	Social contributions (employer's contributions)	**60**	64
	Official unions and associations	**60**	64
	Post-retirement medical benefit	**480**	480
	Total	**104 057**	95 412
6.2.	Non-benefit portion of salaries (direct labour expense refer to Note 4)	**17 096**	17 211
	Total	**121 153**	112 623

Notes to the annual financial statements

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for the year ended 31 March 2007

6. Staff costs (continued)

	Council members and executive management remuneration			
		Services fees	Managerial services	
	Council members	Projects	Basic salary	Total
2007	**R**	**R**	**R**	**R**
Council members				
Ms PN Gasa*		207 330	–	207 330
Professor GJ Gerwel *(Chair)*	19 345	–	–	19 345
Dr P Gobodo-Madikizela	3 844	–	–	3 844
Professor WE Morrow	26 943	–	–	26 943
Mr ME Motala	14 390	–	–	14 390
Mr SM Pityana	11 101	–	–	11 101
Mr MV Sisulu	1 879	–	–	1 879
Professor EC Webster	13 809	–	–	13 809
Ms P Ntombela-Nzimande	12 442	–	–	12 442
Mr T Makwetu	12 950	–	–	12 950
Executive member				
Dr O Shisana *(President and CEO)*	–	–	1 484 000	1 484 000
Senior management				
Executive directors **	–	–	8 234 890	8 234 890
Total	**116 703**	**207 330**	**9 718 890**	**10 042 923**
2006 – Total	194 037	258 136	11 727 957	12 180 130

* *Ms PN Gasa was contracted as an external service provider to a specific project at the time of her appointment as a member of Council. Her contracted obligations to that project will continue until project conclusion.*

** *Executive directors of the HSRC as on 31 March 2006 and 31 March 2007 respectively are listed below:*

2007

Dr M Altman
Mr MJ de Klerk
Prof. AM Habib
Prof. MJ Kahn
Dr A Kanjee
Dr T Masilela
Dr U Pillay
Prof. LM Richter
Dr L Rispel
Dr AH Kraak (01/04/06 to 30/04/06)
Prof. S Makoni (01/07/06 to 30/11/06)

2006

Dr M Altman
Mr MJ de Klerk
Prof. AM Habib
Prof LM Richter
Prof. M Kahn
Dr A Kanjee
Dr R Maharaj
Dr U Pillay
Dr L Rispel
Dr AH Kraak
Dr O Shisana (01/04/2005 – 31/07/2005)
Dr XMT Mangcu (01/01/2005 – 31/12/2005)

Notes to the annual financial statements

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for the year ended 31 March 2007

		2007 R'000	2006 R'000
7.	**Other operating expenses**		
	Staff training and development	**2 156**	1 033
	Legal fees	**328**	532
	Maintenance, repairs and running costs	**9 689**	5 942
	– Property and buildings	**(247)**	1 400
	– Machinery and equipment	**1 361**	3 460
	– Other maintenance, repairs and running costs	**8 575**	1 082
	Entertainment expense	**378**	277
	Fruitless and wasteful expenditure (fraud)	**57**	3
	Loss on disposal of assets	**842**	–
	Non-research related expenses	**2 709**	1 363
	Total	**16 159**	9 150
8.	**Depreciation**		
	Lifts	**158**	87
	Telephone system	**72**	38
	Fixtures	**3**	2
	Building	**651**	373
	Leasehold property	**321**	321
	Motor vehicles	**185**	159
	Office equipment	**(443)**	144
	Computer and other equipment	**2 767**	2 944
	Software	**80**	37
	Library books and manuscripts	**0**	0
	Total	**3 794**	4 105

9. Operating lease income

The operating lease undertaken between the HSRC, as the lessor, and the Department of Public Works, as the lessee, is conducted currently on a monthly basis. The rental amount (refer to Note 3) is not fixed between the parties, but is negotiated and thereby determined on a monthly basis. No contract has as yet been signed between the parties as the negotiations are still underway. Improvements to be incurred in terms of the contract are contingent upon the signing of a binding, non-cancellable operating lease agreement (refer to Note 31).

10. Operating lease expense

The operating lease undertaken between Standard Bank, as the lessor, and the HSRC, as the lessee, provides for a monthly rental amount of R2 662,11 excluding VAT. The operating lease payments cannot be equalised due to the contingent clause contained in the lease agreement, which states that the rentals in terms of the operating lease agreement are subject to variation and are linked to variations in the prime interest rate.

Notes to the annual financial statements

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for the year ended 31 March 2007

11. Non-current assets

11.1 Property, plant and equipment

2007	Total R'000	Land R'000	Lifts R'000	Telephone systems R'000	Fixtures R'000	Buildings R'000	Leasehold property R'000	Artwork R'000	Motor vehicles R'000	Office furniture R'000	Computer and other equipment R'000	Library books R'000
Opening net carrying amount	**89 352**	**5 138**	**3 160**	**689**	**47**	**67 967**	**950**	**240**	**891**	**2 744**	**7 526**	**–**
Gross carrying amount	121 304	5 138	3 334	765	51	68 712	1 436	240	1 263	6 688	28 951	4 726
Accumulated depreciation	(31 952)	–	(174)	(76)	(4)	(745)	(486)	–	(372)	(3 944)	(21 425)	(4 726)
Revaluation	–	–	–	–	–	–	–	–	–	–	–	–
Additions	2 348	–	–	–	–	–	13	–	–	371	1 964	–
Disposal and adjustments	**(42)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42)**	**–**
Carrying amount	(76)	–	–	–	–	–	–		–		(76)	–
Accumulated depreciation	34	–	–	–	–	–	–	–			34	–
Depreciation	(3 714)	–	(158)	(72)	(3)	(651)	(321)	–	(185)	443	(2 767)	–
Closing net carrying amount	**87 944**	**5 138**	**3 002**	**617**	**44**	**67 316**	**642**	**240**	**706**	**3 558**	**6 681**	**–**
Gross carrying amount	123 576	5 138	3 334	765	51	68 712	1 449	240	1 263	7 059	30 839	4 726
Accumulated depreciation	(35 632)	–	(332)	(148)	(7)	(1 396)	(807)	–	(557)	(3 501)	(24 158)	(4 726)
2006												
Opening net carrying amount	**56 699**	**2 986**	**1 835**	**403**	**27**	**39 212**	**667**	**240**	**767**	**2 406**	**8 156**	**–**
Gross carrying amount	84 896	2 986	1 922	441	29	39 584	832	240	1 046	6 206	26 881	4 729
Accumulated depreciation	(28 197)	–	(87)	(38)	(2)	(372)	(165)	–	(279)	(3 800)	(18 725)	(4 729)
Revalution	32 991	2 152	1 412	324	22	29 081	–	–	–	–	–	–
Additions	3 958	–	–	–	–	47	604	–	429	482	2 396	–
Disposal and adjustments	(228)	–	–	–	–	–	–	–	(146)	–	(82)	–
Carrying amount	(541)	–	–	–	–	–	–	–	(212)	–	(326)	(3)
Accumulated depreciation	313	–	–	–	–	–	–	–	66	–	244	3
Depreciation	(4 068)	–	(87)	(38)	(2)	(373)	(321)	–	(159)	(144)	(2 944)	–
Closing net carrying amount	**89 352**	**5 138**	**3 160**	**689**	**47**	**67 967**	**950**	**240**	**891**	**2 744**	**7 526**	**–**
Gross carrying amount	121 304	5 138	3 334	765	51	68 712	1 436	240	1 263	6 688	28 951	4 726
Accumulated depreciation	(31 952)	–	(174)	(76)	(4)	(745)	(486)	–	(372)	(3 944)	(21 425)	(4 726)

Notes to the annual financial statements

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for the year ended 31 March 2007

11. Property, plant and equipment (continued)

The land is registered as Stand 3242 Pretoria, measuring 7 655m^2, Registration division JR, Transvaal and is situated at 134 Pretorius Street, Pretoria. The building consists of a reception area, offices, parking area, conference centre and a cafeteria built on land as mentioned above. The valuation was conducted in March 2006 by an independent valuer, Mr Nico Fenwick of Fenwick Valuations, using the income capitalisation method. Transactions involving the sale of other buildings were investigated as an alternative basis of valuation but were not used because of uncertain comparability. Under the income capitalisation method, the market value is determined from the ability of the property to produce a rental income, taking into account the expense to produce the rental income, capitalised at a market-related rate, taking into account the risk, age and condition of the property with existing buildings.

The rental income is based on the ability of the building to produce market-related income stream, based on market-related rentals, and it is determined on a five-year lease period with an escalation of 10% per year.

	2007	2006
	R'000	R'000
11.2 Intangible assets		
Software		
Opening net carrying amount	**1 072**	324
Gross carrying amount	**1 157**	372
Accumulated depreciation	**(85)**	(48)
Revaluation	**0**	0
Additions	**484**	785
Disposal and adjustments	**0**	0
Carrying amount	**0**	0
Accumulated depreciation	**0**	0
Depreciation	**(80)**	(37)
Closing net carrying amount	**1 476**	1 072
Gross carrying amount	**1 641**	1 157
Accumulated depreciation	**(165)**	(85)

12. Inventories

Finished goods	**3 268**	2 023
Total	**3 268**	2 023

13. Trade and other receivables

Trade receivables	**34 112**	21 565
Less: Allowance for doubtful debts	**(2 609)**	(1 261)
Trade receivables	**31 503**	20 304
VAT input	**1 944**	–
Total	**33 447**	20 304

14. Prepayments and advances

Prepayments	**946**	1 162
Total	**946**	1 162

Notes to the annual financial statements

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for the year ended 31 March 2007

	2007 R'000	2006 R'000
15. Cash and cash equivalents		
Cash and cash equivalents comprise cash and short-term, highly liquid investments, that are held with registered banking institutions with maturities of three months or less and that are subject to insignificant interest rate risk. The carrying amount of these assets approximates to their fair value.		
Cash at bank	**1 470**	1 644
Cash on hand	**30**	30
Short-term investments	**27 893**	14 229
Total	**29 393**	15 903
Included in the short-term investments are the following funds invested on behalf of donors:		
Conflict and governance facility	**339**	503
Ford Foundation	**490**	338
Department of Social Development	**854**	808
Canadian International Development Agency	**450**	880
WK Kellogg Foundation	**4 941**	7 601
Other	**13 224**	–
	20 298	10 130
Short-term investments	**7 595**	4 099
Total short-term investment	**27 893**	14 229
Cash at bank	**1 470**	1 644
Cash on hand	**30**	30
Total cash and cash equivalents	**29 393**	15 903

As required in Section 7(2) and 7(3) of the Public Finance Management Act, the National Treasury has approved the local bank where bank accounts are held.

16. Pension funds

Pension benefits are provided by membership of the Associated Institutions Pension Fund (AIPF), the Government Employees Pension Fund (GEPF) and the HSRC Pension Fund (HSRCPF). The AIPF and GEPF are government institutions. The state has assumed responsibility for any under-funding of these funds. The HSRCPF is a defined benefit and a defined contribution retirement fund that provides lump-sum payments and pensions to retiring staff and/or their dependants as well as death and disability benefits. The HSRCPF is registered in terms of the Pension Funds Act 1956 (as amended).

The administrators of the fund, ABSA Consultants and Actuaries, completed an additional interim valuation of the fund to coincide with the HSRC financial year-end. For the purpose of this valuation, the assets in respect of the defined contribution members (216 members) were taken into account at full market value as these members are now entitled to the full market value of their investments achieved under the HSRCPF. The total value of the assets of the defined contribution members, as at the valuation date, amounted to R64,790 million.

With regard to the pensioners and the three members entitled to defined benefits, the assumptions made regarding the expected trajectory of the HSRCPF included number of deaths, withdrawals or early retirements. These assumptions as well as expected rates of salary increase, return on investment and operational costs, were used to calculate the discounted value of the accrued liabilities for all of the defined benefit members on the interim valuation date for comparison with the available assets of the HSRCPF (See table below). On this basis, the accrued liability of the HSRCPF to these members as at the additional interim valuation date amounted to R1,516 million.

	Defined benefit pension fund 2007 R'000	2006 R'000
16. Pension funds (continued)		
16.1. Pension fund valuation		
Present value of funded liabilities	**1 729**	1 516
Fair value of plan assets	**(9 962)**	(7 955)
Funded status	**(8 233)**	(6 439)
Actuarial gains	**1 285**	1 637
Net asset	**(6 948)**	(4 802)
Number of members	**3**	5

The apportionment of the surplus will be completed with the finalisation of the statutory valuation of the fund for October 2005, therefore the asset cannot be determined at 31 March 2007.

16.2. Principal actuarial assumptions

	%	%
Valuation rate	**7,7**	7,4
Inflation rate	**5,0**	4,6
Salary increase rate	**6,0**	5,6
Expected investment return rate	**9,0**	8,4

16.2.1. Valuation rate of interest

IAS 19 requires to be determined by the current market yield of government bonds. The discount rate was based on the yield of the R186 government bond.

16.2.2. General inflation rate

The difference between the yield on a fixed interest government bond and the yield on an index linked government bond will give an indication of the inflation expectation in the market. For this purpose the yield on the R186 fixed interest government bond and the R197 index-linked government bond as at each of the given valuation dates were used.

16.2.3. Salary inflation

It is the opinion of the actuary that over the long term salary inflation will exceed general inflation by 1,0% per annum. Allowance was also made for the merit increases used in the statutory valuation of the HSRCPF.

16.2.4. Expected investment return

The expected rate of return was determined by referring to the expected long-term rate of return on the different asset classes. It was assumed that investment returns will exceed general inflation by 4,0% after allowing for investment related expenses.

16.2.5. Pension increases

Provision for future increases in pension payments were made to the extent that the investment return exceeds a rate of 6% per annum and is consistent with the provision made during the previous statutory valuation of the HSRCPF.

16.2.6. Demographic assumptions

The demographic assumptions used are consistent with those used in the previous statutory valuation of the HSRCPF. These assumptions are not affected by market conditions but rather by the actual experience under the fund.

Notes to the annual financial statements

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for the year ended 31 March 2007

	2007 R'000	2006 R'000
	HSRC defined benefit pension fund %	HSRC defined contri-bution fund %

16. Pension funds (continued)

16.3. Pension fund members

	2007	2006
Members as a percentage of total employment	**0,82**	59,18
Contribution rate	**28,30**	22,66
Member's contribution (% of pensionable salary)	**8,00**	7,50
Employer contribution (% of pensionable salary)	**20,30**	15,16

16.4. Active members

	2007 Females	**2007 Total**	2006 Females	2006 Total
16.4.1. Defined benefit members				
Number of members	**3**	3	**3**	3
Annual salary (R'000)	**366**	366	**345**	345
Salary weighted average age	**58,6**	58,6	**57,6**	57,6
Salary weighted average service	**12,7**	12,7	**11,8**	11,8
16.4.2. Pensioners				
Number of pensioners	**2**	2	**2**	2
Annual pension (R'000)	**21**	21	**20**	20
Salary weighted average service	**65,5**	65,5	**64,5**	64,5

16.5. Valuation of assets and obligations

The value placed on the assets of the Fund for valuation purposes should be determined on a basis which is consistent with the valuation basis used to determine the obligations of the Fund. The value placed on the assets of the Fund in respect of the defined benefit category was calculated by increasing the assets of R7 955 000 as at 31 March 2006, plus contributions less benefits paid, all inclusive with investment return of 24,5% per annum. The investment return of 24,5% per annum was the net return earned on the Balanced portfolio managed by Advantage.

Cash flows and membership data as provided by the administrators of the Fund was used. A summary of the membership data used is set out below.

The method used to place a value on the Fund's future obligations (the Projected Unit Credit Method) is consistent with the requirements of IAS19.

Notes to the annual financial statements

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for the year ended 31 March 2007

	2007 **R'000**	2006 R'000
## 16. Pension funds (continued)		
### 16.5. Valuation of assets and obligations (continued)		
The results of the calculations as at 31 March 2007 compared with the results as at 31 March 2006 were as follows:		
Total obligations	***1 729**	*1 516
Value placed on assets	**(9 962)**	(7 955)
Surplus/(shortfall)	**8 233**	6 439
Funding level (%)	**576,2**	524,7

* *Excludes defined contribution members' equitable shares to the amount of R50 569 000 as at 31 March 2006.*

The economic benefit available to the employer in respect of assets in the Fund is subject to the terms and conditions of the Pension Funds Act. These results should therefore be read in conjunction with the Act, the rules of the Fund and the previous actuarial valuation report.

Furthermore, the utilisation of any surplus for the benefit of the employer is subject to the provisions of the Pension Funds Second Amendment Act of 2001.

During the period the surplus apportionment scheme was submitted to the Financial Services Board. An amount of approximately R2 224 000 was set aside as at 1 October 2004 to be allocated to former members. This amount increased with investment return to approximately R4 106 000 as at 31 March 2007. A Surplus Apportionment Cost Reserve Account of approximately R525 000 as at 1 October 2004 was furthermore also set aside for the potential cost of the surplus apportionment. This reserve increased to approximately R970 000 as at 31 March 2007. These amounts are included in the surplus shown above but could be seen as additional obligations as at 31 March 2007.

Notes to the annual financial statements

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for the year ended 31 March 2007

16. Pension funds (continued)

16.6. Cost of benefits accruing

The calculation relating to the cost and benefits that were paid or accrued in respect of employees during the financial period 1 April 2006 to 31 March 2007 are as follows:

	R'000
Cost of service-related benefits	**104**
Cost of death benefits	**19**
Operational expenses	**2**
Total current service cost	**125**
Benefits paid in respect of this period	**20**
Cost of death benefits	**19**
Operational expenses	**2**
Less: Reassurance recoveries	**(0)**
Net benefits	**41**
Employer contributions paid during the period (currently 20,3% of salaries)	**67***
Employee contributions paid during the period (currently 8% of salaries)	**26***
Total contributions	**93**

**The above contributions exclude contributions in respect of members in the defined contribution category.*

Based on the above information the actuarial gains/ losses were calculated and the build-up of obligations and assets over the period are as follows:

	R'000
Obligation as at 31 March 2006 (excluding defined contribution members' equitable shares)	**1 516**
Interest cost	**115**
Current service cost	**125**
Benefits period	**(41)**
Actuarial loss/(gain) on obligation	**14**
Obligation as at 31 March 2007	**1 729**
Actual return on assets	**1 955**
Less: Expected return	**(670)**
Actuarial gain on assets	**1 285**
Fair value of assets as at 31 March 2006 (excluding defined contribution members' equitable shares)	**7 955**
Expected return	**670**
Contributions	**93**
Benefits paid	**(41)**
Actuarial gain/(loss) on assets	**1 285**
Fair value of assets as at 31 March 2007	**9 962**

In calculating the liability under the Fund, standard actuarial methodologies have been applied, all based on the information provided to the actuaries.

The salary weighted average future working lifetime of the active members entitled to benefits on a defined, was calculated as 1,3 years.

Notes to the annual financial statements

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for the year ended 31 March 2007

17. Post-retirement medical benefits

17.1. Defined contribution plan

As from 1 August 1997, post-retirement medical benefits are provided by membership of a Provision Fund administered by Liberty Group Limited.

The HSRC, for staff who did not belong to the medical aid scheme on 1 August 1997, contributes a monthly amount of R100 to the Fund on behalf of the members. The HSRC, for staff who joined the service of the HSRC after 1 April 1998, irrespective of whether they joined the medical aid scheme or not, contributes an amount of R100 per month to the Fund on behalf of the members. The Fund value as at 31 March 2007 was R9,872 million.

17.2. Voluntary contributions

Currently the HSRC contributes voluntarily to the current continuation members (97 members) an average amount of R482 per month. There is one member in active employment who is entitled to this contribution after continuation as at 31 March 2007. If this contribution was guaranteed by the HSRC, the actuarial accrued liability would have been R4,340 million.

17.3. Liabilities

The liabilities for HSRC with regard to subsidies in respect of continuation member health care costs can reasonably be regarded as the following:

- The liability in respect of existing continuation members
- The liability in respect of members in active employment

For the members in active employment, the total liability is normally assumed to accrue evenly over the full potential period of active membership starting from the date of joining the HSRC up to the date of death, disability or retirement.

The result of these calculations is an estimate of the cost of these subsidies, based on assumptions regarding the future experience, and does not influence the actual cost of these subsidies. The actual cost will be determined by the actual experience in the future.

The previous assessment of the liability with regard to subsidies in respect of continuation member health care costs was done on 31 March 2007. The next assessment of the liabilities needs to be performed at the next financial year-end.

17.4. Particulars of the liabilities

In respect of the members in active employment, the employer subsidises 50% of the subscription (excluding contributions towards a medical savings account) to the applicable Discovery Health Comprehensive Plan at retirement. The subsidy amount will not increase after retirement. However, at death of the member or the member's spouse, whichever occurs first, the subsidy will reduce to the same percentage of the subscription for a single life as at the date of retirement. It has been assumed that this member will belong to the Discovery Health Comprehensive Essential Plan at retirement.

Continuation members of the HSRC do not receive a certain percentage subsidy of each member's medical aid premium after retirement, but receive a fixed amount based on an actuarial calculation when the member retires. This amount does not increase annually and the full subsidy is payable to the member's dependant on death of the member or to the member on death of the member's dependant, if any.

17. Post-retirement medical benefits (continued)

17.4. Particulars of the liabilities (continued)

The membership details of the members in active employment and who are entitled to a subsidy after continuation as at reporting date:

	Number of members		Average past service – years	
	2007	2006	**2007**	2006
Male members	**1**	1	**16,3**	15,3
Female members	**–**	1	**–**	10,5
Total/weighted average	**1**	**2**	**16,3**	**12,9**

The average age of these members was 39,6 years as at reporting date, compared to 38,5 years in respect of the active members as at 31 March 2006.

Details of the continuation members as at reporting date:

	Number of members		Average subsidy pm R		Average weighted age – years	
	2007	2006	**2007**	2006	**2007**	2006
Male members	40	42	593	565	71,8	73,0
Female members	50	55	411	419	74,5	74,0
Total/weighted average	***90**	**97**	**492**	**482**	**73,1**	**73,5**

** Included are two new members which were not included in the data provided as at 31 March 2006*

17.5. Valuation results

The results of the current valuation compared to the results as at 31 March 2006 are as follows:

	2007	2006
	R'000	R'000
17.5.1. Accrued liabilities		
Liabilities in respect of:		
Members in active employment	**82**	114
Current continuation members	**4 258**	4 548
Total	**4 340**	4 662

The calculation of liabilities is based on the subsidies that are to be paid in the future, and not based on the expected medical utilisation. Assuming that the current level of cross subsidisation between active and continuation members under the medical scheme will continue into the future, the calculated liability represents the employer liability in this regard.

Costs for the period 1 April 2006 to 31 March 2007:	**Interest cost**	**Service cost**
	R'000	R'000
Members in active employment	8	9
Current continuation members	337	0
Total	**345**	**9**

Notes to the annual financial statements

continued

for the year ended 31 March 2007

17. Post-retirement medical benefits (continued)

17.5. Valuation results (continued)

17.5.1. Accrued liabilities (continued)

The accrued liabilities of active members decreased, by approximately 28%, during the current period. This increase is as a net result of the following factors:

- The members that resigned reduced the liabilities in respect of the active members by approximately 51%.
- The change in the average age and average accrued service of the active members qualifying for the subsidy led to additional liabilities of approximately 16%.
- The liabilities have increased by approximately 8% due to higher than expected increases in the monthly subsidies.
- The net change in the assumption in respect of the discount rate and the medical inflation rate has decreased the liabilities by approximately 1%.

The decrease observed in respect of the accrued liabilities of current continuation members of approximately 6% is the net result of the following factors:

- The change in the assumption in respect of the discount rate has decreased the liabilities by approximately 2%.
- Two new members were not included in the data provided as at 31 March 2006. The inclusion of these members led to an increase in accrued liabilities of approximately 6%.
- The ageing of the continuation member population as well as the higher than expected decrease in the continuation members led to a reduction in accrued liabilities of approximately 10%.

In order to show the sensitivity of the key assumption used in calculating the liabilities in respect of the active members, the effect was calculated on an increase or decrease of 100 basis points in the medical inflation assumption. The results are as follows:

Accrued liabilities

Assumption	Variation	Accrued liability in respect of active members R'000	% change in total accrued liability %
Medical inflation	+ 100 basis points	100	22,0
	– 100 basis points	67	(18,3)

The liability in respect of current continuation members remains R4 258 000 under both scenarios, since it is not affected by medical inflation.

The effect of assumed future subsidy increases of 1%, 3% and 5% annually was calculated in order to show the sensitivity of this key assumption. The results are as follows:

Accrued liabilities	1% increase	3% increase	5% increase
Liabilities in respect of:	R'000	R'000	R'000
Members in active employment	90	111	141
Current continuation members	4 545	5 250	6 212
Total	**4 635**	**5 361**	**6 353**

17. Post-retirement medical benefits (continued)

17.6. Valuation assumptions

17.6.1. Mortality

No mortality rates have been used in respect of the period before retirement. In respect of the period after retirement, the published PA90 (ultimate) mortality tables for males and females respectively were used.

17.6.2. Interest and inflation rate

The basis for the valuation should be based on current market conditions. The future investment return assumption, taking into account the average term of the liabilities, should be based on the yield of the R186 government bond, as at 31 March 2007. The inflation rate is based on the difference between an appropriate index-linked bond, the R197, and the R186 government bond. Medical inflation is expected to exceed general inflation by 3% per annum and no provision for future increases in respect of continuation members are allowed for.

The following valuation assumptions were used compared to the assumptions as at 31 March 2006 which are consistent with the requirements of IAS19:

	2007	2006
	% per annum	
Discount rate	**7,7**	7,4
Expected investment return	**9,0**	8,4
General inflation rate	**5,0**	4,6
Medical inflation rate	**8,0**	7,6
Subsidy increase rate, in respect of continuation members	**0,0**	0,0

17.6.3. Withdrawals

No withdrawal assumptions were used for the valuation.

17.6.4. Early retirements

An average age was assumed at retirement of 60 years in respect of all members and that the full subsidy will be paid irrespective of the number of years' service.

18. Uncovered foreign currency monetary items

At 31 March 2007 the HSRC had the following foreign exchange currency transactions not covered by forward exchange contracts.

	British pound		**Euro**		**US dollar**		**Canadian dollar**
	2007 '000	2006 '000	**2007 '000**	2006 '000	**2007 '000**	2006 '000	**2007 '000**
	0,29	20	**10**	27	**302**	175	**5**
				Rand			
	3	220	**97**	198	**2 202**	1 077	**31**

Notes to the annual financial statements

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for the year ended 31 March 2007

	2007 R'000	2006 R'000
19. Deferred income		
Government grants received, to be recognised in future accounting periods		
Balance at the beginning of the year	**4 331**	5 003
Portion of grant used to acquire depreciable assets	**2 335**	2 879
	6 666	7 882
Less: Allocated to income statement	**(3 100)**	(3 551)
Portion deferred at year end	**3 566**	4 331
20. Trade and other payables		
Trade creditors	**9 125**	2 707
Accruals	**10 363**	4 386
VAT input	**–**	954
Deposits	**116**	116
Total	**19 604**	8 163

The Council considers that the carrying amount of trade and other payables approximates to their fair value.

	2007 R'000	2006 R'000
21. Income received in advance		
DST	**6 555**	–
RNE	**6 268**	–
DGIS	**1 049**	–
WK Kellogg Foundation	**1 927**	7 601
Other funding agencies	**17 218**	16 360
Total	**33 017**	23 961

Income received in advance relates to research work still to be completed in the new financial year.

	Salary and related expense provision	Legal cost	Total
22. Provisions			
Opening balance	**7 857**	**229**	**8 086**
Provisions made during the year	**1 662**	**–**	**1 662**
Closing balance	**9 519**	**229**	**9 748**

The leave pay and bonus provision relates to the HSRC's estimated liabilities arising as a result of services rendered by employees.

Notes to the annual financial statements

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for the year ended 31 March 2007

	2007 **R'000**	2006 R'000
23. Reconciliation surplus/(loss) for the year to cash generated from/(utilised in) operations		
Surplus for the year	**5 264**	2 796
Adjusted for:		
– Transfer from retained earnings	**–**	(13 400)
– Depreciation on property, plant and equipment	**3 794**	4 105
– Restatement of income	**–**	8 365
– Restatement of income due to prior period error	**–**	36
– Loss/(profit) on disposal of property, plant and equipment	**–**	14
– Investment income	**(2 483)**	(1 191)
– Increase/(decrease) in provisions	**1 662**	614
– Deferred income	**(765)**	(672)
Operating cash flows before working capital changes	**7 472**	667
Working capital changes	**6 325**	(11 802)
– Increase in inventories	**(1 245)**	(549)
– Decrease/(increase) in receivables	**(12 927)**	12 265
– (Decrease)/increase in payables	**20 497**	(23 518)
Cash generated from operations	**13 797**	(11 135)
24. Net cash from/(used in) investing activities		
Interest received	**2 483**	1 191
Proceeds on disposal of property, plant and equipment	**42**	215
Acquisition of property, plant and equipment	**(2 832)**	(4 743)
Cash from/(used in) investing activities	**(307)**	(3 337)

Notes to the annual financial statements

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25. Operating lease arrangements

The HSRC has leased office space from Old Mutual Assurance Company (South Africa) Limited at Plein Street, Cape Town, portions of the 10th, 14th and 16th floors and the entire 12th and 13th floors for a period of seven years, effective from 1 October 2005. The lease payment is R0,126 million per month. The contract is expected to include an annual escalation of 9% in the rental.

	Up to 1 year		**1 to 5 years**		**More than 5 years**	
	2007	2006	**2007**	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000	**R'000**	R'000
Future minimum lease payments	**1 728**	826	**9 885**	10 340	**–**	1 272

The HSRC also leased property in Durban from Alliance Properties. The lease agreement expired on 30 April 2006, the new lease agreement is expected to be signed in June 2006 and it should be effective as from 1 May 2006 and the lease period is expected to be three years. The lease payment is expected to be R0,038 million with a 10% escalation clause.

	Up to 1 year		**1 to 5 years**	
	2007	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000
Future minimum lease payments	**423**	–	**1 106**	–

A lease agreement was signed with Standard Bank for lease of a vehicle; the agreement was made effective from 4 October 2005 and for a period of three years. An amount of R0,123 million (incl. VAT) was paid upfront and the lease payment is R0,003 million over 38 months.

	Up to 1 year		**1 to 5 years**	
	2007	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000
Future minimum lease payments	**36**	–	**55**	–

	2007	2006
	R'000	R'000
26. Capital expenditure		
Approved by management, but not yet contracted	**13 100**	4 100
The capital expenditure is to be financed as follows:		
Internally-generated funds	**13 100**	4 100

Notes to the annual financial statements

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for the year ended 31 March 2007

	2007 R'000	2006 R'000
27. Financial instruments		
Financial instrument asset		
Bank balances	**29 393**	15 903
Trade receivables	**33 447**	20 304
Total financial instrument assets	**62 840**	36 207
Financial instrument liability		
Trade payables	**19 762**	8 163
Other adjustments	**–**	649
VAT liability	**–**	(970)
Total financial instrument liability	**19 762**	7 842

28. Financial risk management

Interest rate risk

The Council invests surplus cash on fixed notice deposits for periods of 32 days. Interest rates on these deposits are fixed for the period of investment. Other funds are kept in the current and call accounts at variable interest rates.

Liquidity risk

The Council maintains sufficient funds available in call and current accounts to meet its three-month cash-flow requirements. Temporary surplus cash is invested in fixed deposits.

Credit risk management

The Council invests temporary cash surpluses with a major South African bank of high standing.

Foreign exchange risk management

The Council does not hedge foreign exchange transactions due to the contractual arrangement which effectively designates transactions in ZAR. Most invoices are processed in ZAR to avoid these differences.

29. Related parties

The HSRC is a schedule 3A National Public Entity in terms of the Public Finance Management Act (Act 1 of 1999 as amended) and therefore falls within the national sphere of government. As a consequence the HSRC has a significant number of related parties being entities that fall within the national sphere of government.

Unless specifically disclosed these transactions are concluded on an arm's length basis. There are no restrictions in the HSRC's capacity to transact with any entity.

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for the year ended 31 March 2007

29. Related parties (continued)

Transactions with related entities

The following is a summary of transactions with related parties during the year and balances due at year-end:

	Services rendered		Services received		Amount due from	
	2007	2006	**2007**	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000	**R'000**	R'000
Major public entities						
ARC Roodeplaat	**–**	148	**–**	–	**–**	–
The Development Bank of Southern Africa Limited	**251**	1 400	**50**	–	**1**	100
Educational Labour Relations Council (ELRC)	**100**	–	**–**	–	**–**	–
Eskom	**27**	–	**–**	–	**–**	–
Film & Publications Board	**204**	–	**–**	–	**–**	–
Independent Development Trust	**740**	–	**–**	–	**740**	–
Industrial Development Corp. of South Africa Limited	**1 421**	–	**–**	–	**474**	–
Media Advertising Publishing Printing Packaging SETA	**599**	577	**–**	–	**–**	296
Medical Research Council	**72**	293	**–**	–	**–**	–
MINTEK	**46**	–	**–**	–	**46**	–
National Development Agency	**–**	6	**–**	–	**–**	–
National Heritage Council	**65**	173	**–**	–	**65**	–
National Research Foundation	**–**	–	**–**	–	**–**	–
SABC	**50**	–	**–**	–	**–**	–
SALGA	**–**	6	**–**	–	**–**	–
The SA National Roads Agency	**–**	269	**–**	–	**–**	–
South African Revenue Service	**1 790**	1 122	**–**	–	**–**	995
State Information Technology Agency (SITA)	**76**	–	**–**	–	**76**	–
The Universal Service and Access Agency of SA	**–**	910	**–**	–	**–**	–
The Water Research Commission	**890**	–	**–**		**286**	–
Wholesale and Retail SETA	**699**	–	**–**	–	**–**	–
Total	**7 030**	4 904	**50**	0	**1 688**	1 391

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29. Related parties (continued)

National government business enterprises

	Services rendered		Services received		Amount due from	
	2007	2006	**2007**	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000	**R'000**	R'000
CSIR – African Advanced Institute for Information	**35**	–	**–**	–	**–**	–
CSIR – BioSciences	**20**	–	**40**	–	**–**	–
CSIR – Built Environment Unit	**573**	64	**–**	–	**574**	73
CSIR – Defence, Peace, Safety & Security	**90**	72	**–**	–	**90**	81
CSIR – Environmentech Pretoria	**134**	48	**–**	244	**134**	–
CSIR – Natural Resources and the Environment	**31**	–	**156**	–	**–**	–
Total	**883**	184	**196**	244	**798**	154
Provincial public entities						
Eastern Cape Socio-Economic Consultative Council (ECSECC)	**315**	–	**–**	–	**158**	–
Total	**315**	0	**0**	0	**158**	0
Grand total	**8 228**	5 088	**246**	244	**2 644**	1 545

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for the year ended 31 March 2007

30. Prior period error

The prior year figures have been adjusted with the correction of an error.

The HSRC did not comply with the requirements of IAS16 in previous years, relating to:

- The assessing of useful lives and residual values of property, plant and equipment at the end of each financial year
- Dividing property into major components

The HSRC has now adopted this policy and the comparative figures for 2006 have been restated to reflect the correction of this error.

	R'000
The effect of this error is as follows:	
Adjustment against opening retained earnings 1 April 2005:	7 529
Increase/(decrease) in accumulated depreciation 1 April 2005:	(7 529)
Lifts	87
Telephone system	38
Fixtures	2
Building	(2 655)
Leasehold property	(292)
Motor vehicles	(69)
Office equipment	304
Computer and other equipment	(4 620)
Software	(324)
Increase/(decrease) in depreciation 31 March 2006:	**(1 278)**
Lifts	87
Telephone system	38
Fixtures	2
Building	(527)
Leasehold property	(15)
Motor vehicles	(247)
Office equipment	(708)
Computer and other equipment	245
Software	(153)
Increase/(decrease) in accumulated depreciation 31 March 2006:	**(8 807)**
Lifts	174
Telephone system	76
Fixtures	3
Building	(3 214)
Leasehold property	(275)
Motor vehicles	(316)
Office equipment	(404)
Computer and other equipment	(4 375)
Software	(477)
Disposals and adjustments	1
Increase/(decrease) in revalued values of property 31 March 2006:	**0**
Lifts	1 922
Telephone system	441
Fixtures	29
Building	(3 224)
Leasehold property	832

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for the year ended 31 March 2007

31. Contingent liability

The HSRC and the Department of Public Works are currently negotiating the operating lease for the rental of office space (Refer to Note 9). The related improvements in terms of the operating lease will be determined upon the signing of the binding, non-cancellable operating lease agreement. No reliable estimate is available for the expenditure expected to be incurred in terms of the agreement.