

## Financial Review



“CHILDREN ARE THE WORLD’S MOST VALUABLE  
RESOURCE AND ITS BEST HOPE FOR THE FUTURE”

– JOHN F. KENNEDY –

### JOHN BESTER, FEBRUARY 2008 TREASURER, THE CHILDREN’S HOSPITAL TRUST

The Children’s Hospital Trust has for the year ending 31 December 2007, recorded its most successful year since its inception in 1994. Donations received amounted to R41,0 million (2006: R27,2 million). Interest income received totalled R8,5 million (2006: R5,2 million). Further gains arising during the year included the realised gain on the disposal of available for sale investments in the amount of R26,3 million (2006: R4,8 million). Thus the total income received by the Trust during 2007 amounted to R78,6 million (2006: R38,1 million). This is a truly remarkable achievement and far surpasses any of the preceding years.

The administrative and other operating expenses were kept within budget and amounted to R5,6 million (2006: R4,5 million). An amount of R19,9 million (2006: R14,7 million) was expended on capital projects on behalf of the Red Cross War Memorial Children’s Hospital as the Beneficiary of the Trust. This was mainly paid in respect of the O.P.E.R.A.T.I.O.N Theatre campaign. A cost to income ratio of 11,2% (2006: 14,0%) was achieved during the year. In the previous year, the higher ratio was attributable to capacity building expenditure which was expended to expand the Trust’s fundraising capability in future years. The result of this investment is now being seen in the increase in donations received by the Trust. The funds under management are managed on the same stringent controls that have been implemented throughout the history of the Trust.

The Trust continues to operate on the basis that all donations received are applied to the development initiatives and that none of the donated money is used to cover any of the office and administrative expenses. These expenses continue to be funded out of the efficient management of the funds received and from separate investments established for this purpose.

The Children’s Hospital Trust donated the assets under management, arising from prior bequests received in previous years which were not designated to any specific project in the Hospital nor asked for by the Hospital, to the newly-created Foundation Trust. The original bequest of R11 million and two more, accumulated over the years to R58,6 million, which was transferred to the Foundation Trust. This Annual Report does not include the Annual Financial Statements of the Foundation Trust, which are available upon request.

The Trust maintains the principles of Good Corporate Standards as advocated in terms of Good Corporate Governance for South Africa and conducts its business with discipline, transparency, integrity, responsibility and accountability to ensure a justifiable long-term future for the Trust and that this is in the best interest of all of its stakeholders. The Board of Trustees retains the effective control over the Trust, assuming the ultimate responsibility and accountability for the proper management of risks and opportunities as well as the performance of the Trust. The Board of Trustees is chaired by an Independent Non-Executive Trustee and has thirteen Independent Trustees all appointed in terms of the Trust Deed. The Trust Charter is regularly reviewed.

The Executive Committee of the Trust, comprising of the CEO and a number of Trustees, meets every second week and reviews, inter alia, the Financial Reports of the Trust on a monthly basis, as well as the various other operations. The Systems and Controls within the Trust are regularly reviewed.

John Bester  
Treasurer

## Independent Auditor's Report TO THE TRUSTEES OF THE CHILDREN'S HOSPITAL TRUST

We have audited the annual financial statements of the Children's Hospital Trust, which comprise, the balance sheet as at 31 December 2007, the income statement, the statement of changes in trust funds and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on page 25.

### TRUSTEES' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Trustee's are responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. Except as described in the qualification paragraph, 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

In common with similar organisations, it is not feasible for the Trust to institute accounting controls over cash collections from donations and fundraising activities prior to the initial recording of this income in the accounting records. Accordingly, it was impractical for us to extend our examination beyond the receipts actually recorded.

### OPINION

In our opinion, except for the effect of such adjustments, if any, as might have been determined necessary had we been able to satisfy ourselves as to the completeness of cash collections, the financial statements present fairly, in all material respects, the financial position of the Trust as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice.

### SUPPLEMENTARY INFORMATION

The supplementary schedule set out on page 25 does not form part of the annual financial statements and is presented as additional information. We have not audited this schedule and accordingly we do not express an opinion thereon.

*Ernst & Young Inc.*

Ernst & Young Inc.  
REGISTERED AUDITOR

August 2008  
Cape Town

## Balance Sheet FOR THE YEAR ENDED 31 DECEMBER 2007

|  | Note(s) | 2007              | 2006               |
|--|---------|-------------------|--------------------|
|  |         | R'                | R'                 |
| <b>Assets</b>                                      |         |                   |                    |
| <b>NON-CURRENT ASSETS</b>                          |         |                   |                    |
| Available-for-sale investments                     | 4       | -                 | 49 781 185         |
| Property, plant and equipment                      | 3       | 130 921           | -                  |
| Investment in Children's Hospital Foundation       | 14      | 1 000             | -                  |
| <b>CURRENT ASSETS</b>                              |         |                   |                    |
| Related party loan                                 | 14      | 339 196           | -                  |
| Trade and other receivables                        | 5       | 1 150 268         | 195 968            |
| Cash and cash equivalents                          | 6       | 83 893 564        | 64 044 884         |
| <b>TOTAL ASSETS</b>                                |         | <b>85 514 949</b> | <b>114 022 037</b> |
| <b>Funds and Liabilities</b>                       |         |                   |                    |
| <b>FUNDS</b>                                       |         |                   |                    |
| Capital donations                                  |         | 69 509 093        | 82 771 823         |
| Fair value reserve - available-for-sale investment |         | -                 | 18 653 619         |
| Accumulated funds                                  |         | 15 507 910        | 12 151 695         |
| <b>CURRENT LIABILITIES</b>                         |         |                   |                    |
| Trade and other payables                           | 7       | 497 946           | 444 900            |
| <b>TOTAL FUNDS AND LIABILITIES</b>                 |         | <b>85 514 949</b> | <b>114 022 037</b> |

**Income Statement** FOR THE YEAR ENDED 31 DECEMBER 2007

|  | Note(s) | 2007<br>Beneficiary | 2007<br>Operating  | 2007<br>Total       | 2006                |
|--|---------|---------------------|--------------------|---------------------|---------------------|
|  |         | R'                  | R'                 | R'                  | R'                  |
| REVENUE  |         | 40 045 836          | 8 833 560          | 48 879 396          | 33 308 952          |
| Donations received   | 8       | 39 430 356          | 1 575 945          | 41 006 301          | 27 203 560          |
| Dividends received   |         | -                   | 430 715            | 430 715             | 918 014             |
| Interest received  | 8       | 615 480             | 6 826 900          | 7 442 380           | 5 187 378           |
| OTHER INCOME   |         | 27 280 133          | -                  | 27 280 133          | 4 802 304           |
| Profit on disposal of available-for-sale investments                                 |         | 1 016 411           | -                  | 1 016 411           | 4 802 304           |
| Realised gain on disposal of available-for-sale investments reclassified from equity |         | 26 263 722          | -                  | 26 263 722          | -                   |
| <b>TOTAL INCOME</b>  |         | <b>67 325 969</b>   | <b>8 833 560</b>   | <b>76 159 529</b>   | <b>38 111 256</b>   |
| EXPENSES   |         |                     |                    |                     |                     |
| Beneficiaries expenses   |         | (19 950 975)        | -                  | (19 950 975)        | (14 694 658)        |
| Operating expenses   |         | -                   | (5 477 345)        | (5 477 345)         | (4 481 900)         |
| Finance cost   |         | -                   | -                  | -                   | (176 367)           |
| Donation to the Children's Hospital Foundation Trust                                 | 14      | (60 637 724)        | -                  | (60 637 724)        | -                   |
| <b>TOTAL EXPENSES</b>  |         | <b>(80 588 699)</b> | <b>(5 477 345)</b> | <b>(86 066 044)</b> | <b>(19 352 925)</b> |
| <i>(Deficit)/surplus for the year</i>  | 9       | (13 262 730)        | 3 356 215          | (9 906 515)         | 18 758 331          |

**Changes in Trust Funds** FOR THE YEAR ENDED 31 DECEMBER 2007

|  | Capital<br>donations | Fair value reserve<br>– available-for-<br>sale investments | Accumulated<br>funds | Total        |
|--|----------------------|--|----------------------|--------------|
|  | R'                   | R'   | R'                   | R'           |
| BALANCE AT 01 JANUARY 2006   | 64 312 546           | 11 193 989   | 11 852 641           | 87 359 176   |
| Surplus for the year   | 18 459 277           | -  | 299 054              | 18 758 331   |
| Realised gain on available-for-sale investments reclassified to the income statement | -                    | (4 802 304)  | -                    | (4 802 304)  |
| Unrealised fair value gains on available-for-sale investments                        | -                    | 12 261 934   | -                    | 12 261 934   |
| BALANCE AT 01 JANUARY 2007   | 82 771 823           | 18 653 619   | 12 151 695           | 113 577 137  |
| (Deficit)/surplus for the year   | (13 262 730)         | -  | 3 356 215            | (9 906 515)  |
| Realised gain on available-for-sale investments reclassified to the income statement | -                    | (26 263 722)   | -                    | (26 263 722) |
| Unrealised fair value gains on available-for-sale investments                        | -                    | 7 610 103  | -                    | 7 610 103    |
| BALANCE AT 31 DECEMBER 2007  | 69 509 093           | -  | 15 507 910           | 85 017 003   |

**Cash Flow Statement** FOR THE YEAR ENDED 31 DECEMBER 2007

|  | Note(s) | 2007               | 2006               |
|--|---------|--------------------|--------------------|
|  |         | R'                 | R'                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>            |         |                    |                    |
| Cash generated from operations                         | 12      | 13 700 318         | 6 135 654          |
| Interest income  |         | 7 442 380          | 5 187 378          |
| Dividends received                                     |         | 430 715            | 918 014            |
| Finance costs  |         | -                  | (176 367)          |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>              |         | <b>21 573 413</b>  | <b>12 064 679</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>            |         |                    |                    |
| Purchase of property, plant and equipment              |         | (58 389)           | -                  |
| Loans advanced to related party                        |         | (339 196)          | -                  |
| Acquisition of available-for-sale investments          |         | (3 565 830)        | (22 725 878)       |
| Proceeds on disposal of available-for-sale investments |         | 2 246 128          | 19 189 396         |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>              |         | <b>(1 717 287)</b> | <b>(3 536 482)</b> |
| <b>TOTAL CASH MOVEMENT FOR THE PERIOD</b>              |         |                    |                    |
| Cash at the beginning of the period                    |         | 64 044 884         | 55 380 185         |
| Effect of exchange rate movement on cash balances      |         | (7 446)            | 136 502            |
| <b>TOTAL CASH AT END OF THE PERIOD</b>                 | 6       | <b>83 893 564</b>  | <b>64 044 884</b>  |

**Notes to the Annual Financial Statements** AT 31 DECEMBER 2007**1 PRESENTATION OF ANNUAL FINANCIAL STATEMENTS**

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous year except as follows:

The Trust adopted the following new and amended interpretations during the year. Adoption of these revised standards and interpretations did not have an effect on the financial performance or position of the Trust. They did however give rise to additional disclosure, including in some cases, revision to accounting policies.

- IFRS 7 Financial Instruments: Disclosure
- IAS 1 Amendments – Presentation of financial statements

**1.1 SIGNIFICANT JUDGEMENTS**

In preparing the annual financial statements, the Trustees are required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgements are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

*Depreciation rates*

Plant and equipment are depreciated on a straight line basis over the expected useful lives, taking into account residual values.

**1.2 PROPERTY, PLANT AND EQUIPMENT**

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Trust; and

- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. Assets donated are initially recognised at a deemed cost, being the fair value of the asset on the date of acquisition.

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

Depreciation is provided on all property, plant and equipment, to write down the cost, less residual value, on a straight line basis over their useful lives as follows:

| Item                   | Average useful life |
|------------------------|---------------------|
| Computers              | 3 years             |
| Furniture and fittings | 6 years             |

The residual value and the useful life of each asset is reviewed at each financial year-end. The depreciation charge for each period is recognised in profit or loss. An item of property, plant and equipment is derecognised on disposal, or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

**1.3 IMPAIRMENT OF NON FINANCIAL ASSETS**

The Trust assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment test for an asset is required, the Trust estimates the recoverable amount. An asset's recoverable amount is the higher of an assets fair value less cost to sell and its value in use. Where the

## Notes to the Annual Financial Statements CONTINUED

carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in profit and loss.

### 1.4 FINANCIAL INSTRUMENTS

#### *Initial recognition*

The Trust classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. For measurement purposes the Trust classifies investments as available-for-sale; all other financial assets are classified as loans and receivables. Financial liabilities are held at amortised cost. Financial assets and financial liabilities are recognised on the Trust's balance sheet when the Trust becomes party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus transaction costs that are directly attributable to acquisition or incurral of the financial asset or liability. Subsequent to initial recognition, these instruments are measured as set out below.

#### *Trade and other receivables*

Trade receivables subsequently measured at amortised cost using the effective interest method.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, current accounts and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are subsequently recorded at amortised cost.

#### *Available-for-sale financial assets*

Available-for-sale investments are those non derivative financial assets that are designated as

available-for-sale or which do not fall into any other classification of financial asset.

All purchases and sales of investments are recognized at fair value on the trade date, which is the date that the Trust commits to purchase or sell the asset. Costs of purchases include transaction costs.

Available-for-sale financial assets are subsequently measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the balance sheet date.

#### *Trade and other payables*

Trade payables are subsequently measured at amortised cost, using the effective interest method.

### 1.5 IMPAIRMENT OF FINANCIAL ASSET

#### *Available-for-sale investments*

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence, such as a significant or prolonged decline in the fair value of the investment below its costs that the asset is impaired, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in profit and loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit and loss is the difference between acquisition costs, current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

#### *Other financial assets (loans and receivables)*

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount

and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The impairment is recorded directly against the carrying amount of the asset. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest would be significant.

#### *Derecognition of financial instruments*

A financial asset or portion of a financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired.
- the Trust retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without any material delay to a third party under a pass through arrangement, or
- The Trust has transferred its rights to receive cash flows from the asset and either (i) have transferred substantially all rights and rewards of the asset or (ii) has neither transferred nor retained substantially all the rights and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired.

#### *Off setting of financial instruments*

Financial assets and liabilities are off set and the net amount reported in the balance sheet when there is a legally enforceable right to off set the recognised amounts and there is an intention on a net basis to realise the asset and settle the liabilities

### 1.6 EMPLOYEE BENEFITS

#### *Short-term employee benefits*

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

The expected cost of compensated absences is recognised as an expense as the employees render

services that increase their entitlement or, in the case of non accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### *Revenue*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Trust and can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

Donations are recognised on receipt.

Contract income is recognized when the Trust is legally entitled to receive the funds. Interest is recognised, in profit or loss, using the effective interest rate method.

Dividends are recognised, in profit or loss, when the Trust's right to receive payment has been established.

### 1.7 TRANSLATION OF FOREIGN CURRENCIES

#### *Foreign currency transactions*

Transactions in foreign currencies are initially recorded in the foreign functional currency rate ruling at the date of the transaction. Monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date. Non monetary items are translated using exchange rates at the date of transaction.

The Trust's functional and presentation currency is Rands and all amounts are stated in Rands. Items included in the financial statements are measured using the currency of the primary economic environment in which the Trust operates. All exchange differences are taken to profit or loss.

## 2 STANDARD ISSUED NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the following standards which is relevant to the Trust was in issue but not yet effective

## Notes to the Annual Financial Statements CONTINUED

and has not been early adopted in the financial statements.

| Standard, interpretation or amendment                  | Effective date* |
|--|-----------------|
| • IAS 1 Presentation of Financial Statements (Revised) | 1 Jan 2009      |
| • IAS 23 Borrowing cost                                | 1 Jan 2009      |
| • Annual improvements to IFRS                          | 1 Jan 2009      |

\*Effective for year ends commencing on or after this date

The Trust will adopt the above standard on the effective date. The Trustees do not expect that the adoption thereof will have a material impact on the financial performance and position of the Trust. It will give rise to changes in the financial statement disclosure.

### 3 PROPERTY, PLANT AND EQUIPMENT

|                        | 2007             |                          | Carrying value | 2006             |                          | Carrying value |
|------------------------|------------------|--------------------------|----------------|------------------|--------------------------|----------------|
|                        | Cost / valuation | Accumulated depreciation |                | Cost / valuation | Accumulated depreciation |                |
|                        | R'               | R'                       | R'             | R'               | R'                       |                |
| Furniture and fittings | 32 785           | (2 721)                  | 30 064         | -                | -                        | -              |
| Computer equipment     | 119 604          | (18 747)                 | 100 857        | -                | -                        | -              |
| <b>TOTAL</b>           | <b>152 389</b>   | <b>(21 468)</b>          | <b>130 921</b> | <b>-</b>         | <b>-</b>                 | <b>-</b>       |

#### Reconciliation of property, plant and equipment – 2007

|                        | Opening Balance | Additions | Depreciation | Total   |
|------------------------|-----------------|-----------|--------------|---------|
|                        | R'              | R'        | R'           | R'      |
| Furniture and fittings | -               | 32 785    | (2 721)      | 30 064  |
| Computer equipment     | -               | 119 604   | (18 747)     | 100 857 |
|                        | -               | 152 389   | (21 468)     | 130 921 |

Included in additions above are donated assets which has been recognised at a fair value of R94 000.

### 4 AVAILABLE-FOR-SALE INVESTMENTS

The investments were transferred to the Foundation during the current year. Refer to note 14 for more information.

|                        | 2007     |                                   |                            | 2006              |                                   |                            |
|------------------------|----------|-----------------------------------|----------------------------|-------------------|-----------------------------------|----------------------------|
|                        | Cost     | Cumulative fair value adjustments | Carrying value at year end | Cost              | Cumulative fair value adjustments | Carrying value at year end |
|                        | R'       | R'                                | R'                         | R'                | R'                                | R'                         |
| Listed ordinary shares | -        | -                                 | -                          | 32 095 961        | 16 599 733                        | 48 695 694                 |
| Bonds                  | -        | -                                 | -                          | 1 159 054         | (73 563)                          | 1 085 491                  |
| <b>TOTAL</b>           | <b>-</b> | <b>-</b>                          | <b>-</b>                   | <b>33 255 015</b> | <b>16 526 170</b>                 | <b>49 781 185</b>          |

#### Reconciliation of available-for-sale financial assets – 2007

|                        | Opening balance   | Additions        | Disposals           | Revaluation to fair value | Closing balance |
|------------------------|-------------------|------------------|---------------------|---------------------------|-----------------|
|                        | R'                | R'               | R'                  | R'                        | R'              |
| Listed ordinary shares | 48 695 694        | 3 565 830        | (59 900 595)        | 7 639 071                 | -               |
| Bonds                  | 1 085 491         | -                | (1 056 523)         | (28 968)                  | -               |
| <b>TOTAL</b>           | <b>49 781 185</b> | <b>3 565 830</b> | <b>(60 957 118)</b> | <b>7 610 103</b>          | <b>-</b>        |

#### Reconciliation of available-for-sale financial assets – 2006

|                        | Opening balance   | Additions         | Disposals           | Revaluation to fair value | Closing balance   |
|------------------------|-------------------|-------------------|---------------------|---------------------------|-------------------|
|                        | R'                | R'                | R'                  | R'                        | R'                |
| Listed ordinary shares | 32 823 714        | 22 725 878        | (14 387 091)        | 7 533 193                 | 48 695 694        |
| Bonds                  | 1 159 054         | -                 | -                   | (73 563)                  | 1 085 491         |
| <b>TOTAL</b>           | <b>33 982 768</b> | <b>22 725 878</b> | <b>(14 387 091)</b> | <b>7 459 630</b>          | <b>49 781 185</b> |

### 5 TRADE AND OTHER RECEIVABLES

|                             | 2007             | 2006           |
|-----------------------------|------------------|----------------|
|                             | R'               | R'             |
| Trade and other receivables | 135 924          | 159 298        |
| PGWC                        | 1 014 344        | 36 670         |
|                             | <b>1 150 268</b> | <b>195 968</b> |

The amount outstanding from PGWC (Provincial Government of the Western Cape) has been invoiced before year end. PGWC therefore has a contractual obligation to pay this amount. There are no receivables that are past due or impaired.

### 6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

|                         | 2007              | 2006              |
|-------------------------|-------------------|-------------------|
|                         | R'                | R'                |
| Current accounts        | 464 011           | 171 175           |
| Call accounts           | 83 429 553        | 62 599 778        |
| Portfolio call accounts | -                 | 1 273 931         |
|                         | <b>83 893 564</b> | <b>64 044 884</b> |

Interest rate received on bank balances varied between 5% and 10%.

## Notes to the Annual Financial Statements CONTINUED

### 7 TRADE AND OTHER PAYABLES

|                 | 2007           | 2006           |
|-----------------|----------------|----------------|
|                 | R              | R              |
| Accrued bonus   | 184 236        | 139 369        |
| Sundry accruals | 313 710        | 305 531        |
| <b>TOTAL</b>    | <b>497 946</b> | <b>444 900</b> |

### 8 REVENUE

|                                     | 2007             | 2006       |
|-------------------------------------|------------------|------------|
|                                     | R'               | R'         |
| <i>Donations received</i>           | 41 006 301       | 27 203 559 |
| <b>CAPITAL DONATIONS RECEIVED</b>   |                  |            |
| General projects                    | 13 489 707       | 230 848    |
| Clinics                             | 712 877          | 773 457    |
| Building projects                   | 25 227 772       | 26 199 255 |
|                                     | 39 430 356       | 27 203 560 |
| <b>OPERATING DONATIONS RECEIVED</b> | <b>1 575 945</b> | <b>-</b>   |
| <b>INTEREST RECEIVED</b>            |                  |            |
| Available-for-sale investments      | 615 480          | 1 324 438  |
| Cash and cash equivalents           | 6 826 900        | 3 862 940  |
|                                     | 7 442 380        | 5 187 378  |

Included in the above donations received are donated assets. Refer to note 3. In addition to this the benefit of rent free accommodation provided by the Red Cross War Memorial Children's Hospital has not been accounted for.

### 9 OPERATING SURPLUS

The surplus for the year is stated after (charging)/crediting

|  |             |             |
|--|-------------|-------------|
| (Losses)/gain on exchange differences                | (7 446)     | 136 502     |
| Profit on disposal of available-for-sale investments | 1 016 411   | 4 802 304   |
| Depreciation on property, plant and equipment        | (21 468)    | -           |
| Employee costs                                       | (3 105 828) | (2 162 682) |

### 10 TAXATION

The Trust is exempt from normal tax in terms of section 10 (1) (N) of the Income Tax Act No.58 of 1962.

### 11 AUDITORS' REMUNERATION

|                            | 2007   | 2006   |
|----------------------------|--------|--------|
|                            | R'     | R'     |
| Current year               | 41 040 | 48 460 |
| Prior year under provision | 7 000  | 1 540  |
|                            | 48 040 | 50 000 |

### 12 CASH GENERATED FROM OPERATIONS

|  | 2007         | 2006        |
|--|--------------|-------------|
|  | R'           | R'          |
| <i>(Deficit)/surplus for the year</i>  | (9 906 515)  | 18 758 331  |
| <b>ADJUSTMENTS FOR:</b>  |              |             |
| Depreciation and amortisation  | 21 468       | -           |
| Loss/(gain) from exchange differences  | 7 446        | (136 502)   |
| Profit on disposal of available-for-sale investments                                 | (1 016 411)  | (4 802 304) |
| Realised gain on disposal of available-for-sale investments reclassified from equity | (26 263 722) | -           |
| Interest paid  | -            | 176 367     |
| Dividends received   | (430 715)    | (918 014)   |
| Interest received  | (7 442 380)  | (5 187 378) |
| Donations made to the Children's Hospital Foundation                                 | 59 632 401   | -           |
| <b>CHANGES IN WORKING CAPITAL:</b>   |              |             |
| Increase in trade and other receivables  | (954 300)    | 46 058      |
| Increase in trade and other payables   | 53 046       | (1 800 904) |
|  | 13 700 318   | 6 135 654   |

### 13 COMMITMENTS

#### AUTHORISED CAPITAL EXPENDITURE CONTRACTED BUT NOT PROVIDED FOR

|                       |            |           |
|-----------------------|------------|-----------|
| • Capital expenditure | 52 102 127 | 3 772 394 |
|-----------------------|------------|-----------|

This committed expenditure relates to capital expenditure and will be financed by cash generated from donations.

## Notes to the Annual Financial Statements CONTINUED

### 14 RELATED PARTIES

14.1 The Childrens' Hospital Foundation was formed during the current year with the purpose of receiving bequests and donations. The Foundation was established as a non-profit, benevolent and philanthropic institution of a public character, with the Children's Hospital Trust as the beneficiary, and with the sole object of raising funds for the following purposes, namely;

- For the provision and promotion of Health Care Services to poor and needy persons,
- For the provision and promotion of higher education by Higher Education institutions as defined in the Higher Education Act, 1997 as amended.

During May 2007 the Children's Hospital Trust donated its investment portfolio to the Foundation. All unrealised gains have been recognised in the Trust's current year's surplus upon derecognition of the investments.

|  | 2007       | 2006 |
|--|------------|------|
|  | R'         | R'   |
| <i>Related party loans</i>                       |            |      |
| LOAN ACCOUNTS – OWING BY RELATED PARTIES         |            |      |
| Children's Hospital Foundation                   | 339 196    | -    |
| The loan is interest free and payable on demand. |            |      |
| DONATIONS TO THE CHILDREN'S HOSPITAL FOUNDATION  |            |      |
| Initial contribution                             | 1 000      | -    |
| Donation from the Children's Hospital Trust      | 60 637 724 | -    |
| Bonds  | 1 056 523  | -    |
| Cash   | 1 005 182  | -    |
| Equities   | 58 576 019 | -    |
|  | 60 638 724 | -    |

14.2 The Treasurer of the Children's Hospital Trust is also a director of Personal Trust International Ltd. Children's Hospital Trust has invested R38 million of its available funds in terms of its investment mandate. No fees on this investment accrue to Personal Trust International Ltd.

14.3 Key management personnel

|                                |         |   |
|--------------------------------|---------|---|
| – Short term employee benefits | 487 224 | - |
|--------------------------------|---------|---|

### 15 FINANCIAL RISK MANAGEMENT

The Trust has various financial assets such as investments in equity securities, trade receivables and cash and short term deposits which arise directly from its operations. The Trust's financial liabilities comprise of trade payables.

Investment decisions are made by the Board of Trustees with the assistance of the investment committee. The Trusts investment policy is to increase the value of the investment by way of a diversified portfolio. Funds were

invested in companies listed on a recognised stock exchange and whose business operations do not conflict with or detract from the objectives of the Trust.

#### Liquidity risk

Liquidity risk is the risk that the Trust will be unable to meet its payment obligations as they fall due. The Trust manages liquidity risk through an ongoing review of future commitments and credit facilities. At year end R83 893 564 of the Trust's assets were invested in cash products to ensure that the Trust can meet its short term liabilities. All financial liabilities are due to be settled at the carrying amounts disclosed within 3 months of the balance sheet date.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Trust only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. The Trust does not have a significant concentration of credit risk. The Trust's maximum exposure to credit risk is represented by the carrying amount of financial assets on the balance sheet. These are no off balance sheet financial commitments.

#### Market risk

The Trust has exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk comprises three types of risks: currency risk, interest rate risk and other price risk which includes equity price risk.

#### Interest rate risk

The Trust is exposed to interest rate risk as it places its funds in both fixed and floating interest rates instruments. Cash and cash equivalents attract interest at rates that vary with prime. The Trust's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on profit/ loss. Bonds attract interest at fixed rates.

The table below summarises the Trust's exposure to interest rate risks, by class and maturity of financial instrument:

|                          | 2007          |              |               |            |
|--------------------------|---------------|--------------|---------------|------------|
|                          | Up to 1 month | 1 – 3 months | Up to 5 years | Total      |
| Bonds                    | -             | -            | -             | -          |
| Cash and cash equivalent | 4 080 596     | 79 812 968   | -             | 83 893 564 |
|                          | 4 080 596     | 79 812 968   | -             | 83 893 564 |

|                                | 2006          |              |               |            |
|--------------------------------|---------------|--------------|---------------|------------|
|                                | Up to 1 month | 1 – 3 months | Up to 5 years | Total      |
| Bonds                          | -             | -            | 1 085 492     | 1 085 492  |
| Available-for-sale investments | 190 154       | 63 854 730   | -             | 64 044 884 |
|                                | 190 154       | 63 854 730   | 1 085 492     | 65 130 376 |

Cash and cash equivalents are subject to floating interest rates, linked to the prime rate. Interest varied between 5% and 10% for the period.

## Notes to the Annual Financial Statements CONTINUED

Bonds are subject to fixed interest rates, which vary between 13% and 14.5%.

### *Sensitivity analysis – interest rate risk*

The sensitivity analysis for interest rate risk illustrates the sensitivity to a reasonable possible change in interest rates with all other variables held constant, on the Trust's surplus for the year. An increase or decrease of 1% in interest yields for a full year would result in an increase or decrease in profit/loss of R838 936 (2006: R651 304).

### *Equity price risk*

The Trust is exposed to equity price risk as it invested funds in South African Equities through an asset manager. The Trust appointed a reputable asset manager with a good track record in terms of performance of the portfolio.

### *Sensitivity analysis – equity price risk*

The sensitivity analysis for equity price risk up to the date of the donation illustrates the effect on equity, as a result of a change in fair value of equity instruments held as available-for-sale at 31 December 2007, due to a reasonably possible change in equity indices with all other variables held constant. An increase or decrease of 5% would result in an increase or decrease in reserves by RNil (2006 : R2 489 059). The full amount would be recognised in the Trust's revaluation reserve.

### *Currency risk*

The Trust has a foreign bank account designated in pounds. The Trust is therefore exposed to the movement in foreign currency and is exposed to currency risk. The bank account is used to record any foreign donations received from foreign donors. At year end an amount of GBP 50 627.07 (R693 130) (2006: GBP 48 085.09 – R664 627) was held.

### *Sensitivity analysis – currency risk*

The sensitivity analysis for currency risk illustrates the sensitivity to a reasonably possible change in the GBP/SAR rate, with all other variables held constant, of the Trust surplus for the year. Based on year end exposure, an increase or decrease in the value of the Rand by 5% will result in an increase or decrease in the surplus of R34 657 (2006 : R33 231).

### *Fair value*

The carrying amount of financial instruments approximates fair value.

## 16 CONSOLIDATION OF SPECIAL PURPOSE VEHICLE

A separate set of consolidation financial statements has been prepared for the Children's Hospital Trust and the Children's Hospital Foundation.

## 17 CAPITAL MANAGEMENT

The Trust has appointed an asset manager to manage its invested funds. The Trust manages its accumulated funds as capital and seeks to hold funds in order to finance future projects.

### *Detailed Income Statement Operating*

|   | 2007        | 2006        |
|---|-------------|-------------|
|   | R'          | R'          |
| <b>INCOME</b>   |             |             |
| Dividends received  | 430 715     | 918 014     |
| Realised gain on disposal of available-for-sale investments | -           | 4 802 304   |
| Donations received - operating                              | 1 575 945   | -           |
| Interest received - investments                             | 615 480     | 1 324 438   |
| Interest received - operating                               | 6 826 900   | 3 862 940   |
|   | 9 449 040   | 10 907 696  |
| <b>EXPENSES</b>   |             |             |
| Accounting fees   | (85 482)    | (49 248)    |
| Advertising and sales promotion                             | (1 268 097) | (109 870)   |
| Asset management fees                                       | (88 596)    | (254 108)   |
| Auditors remuneration                                       | (48 040)    | (50 000)    |
| Bank charges  | (48 069)    | (37 800)    |
| Capital development   | -           | (739 347)   |
| Computer expenses   | (170 328)   | (155 245)   |
| Depreciation, amortisation and impairments                  | (21 468)    | -           |
| Employee costs  | (3 105 828) | (2 162 682) |
| (Losses)/ gains on exchange differences                     | (7 446)     | 136 502     |
| General expenses  | (61 831)    | (45 236)    |
| Insurance   | (24 402)    | (13 538)    |
| Legal expenses  | (1 719)     | -           |
| Postage   | (34 569)    | (83 319)    |
| Printing and stationery                                     | (72 651)    | (83 982)    |
| Repairs and maintenance                                     | (13 872)    | (21 839)    |
| Telephone and fax   | (77 199)    | (67 662)    |
| Thank you – Events  | (105 300)   | (83 812)    |
| Training  | (42 258)    | (533 409)   |
| Traveling expense   | (197 155)   | (124 246)   |
| Volunteer costs   | (3 035)     | (3 059)     |
|   | (5 477 345) | (4 481 900) |
| Operating surplus   | 3 971 695   | 6 425 796   |
| Interest paid   | -           | (176 367)   |
| Net operating surplus                                       | 3 971 695   | 6 249 429   |