



ANNUAL



REPORT

2007 - 2008



“...Technological Innovation is key in responding to the challenge of climate change...”

OUR VISION

The Innovation Fund's vision is that of a globally competitive and prosperous South Africa, with a high standard of living for all its citizen

This flows from the government's National Research and Development Strategy which states that " effective innovation has a direct impact on the reduction of poverty and the improvement of the quality of life of our people . It is critical, therefore, to increase the rate and quality of innovation in South Africa."

OUR MISSION

The Innovation Fund's mission is to promote the economic competitiveness of our country by investing in technological innovation that lead to the establishment of new enterprises and the expansion of existing industrial sectors to the benefit of all South Africans

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FOREWORD BY THE VICE PRESIDENT OF THE NRF



DR ALBERT VAN JAARVELD
VICE PRESIDENT NRF & MD RISA

The Innovation Fund ranks as one of the most successful agencies set up by the Department of Science and Technology to promote technological innovation. Its success is a powerful example of how technological innovations can, through focused investments from public funds, develop into products and services that enter and compete successfully in the market place.

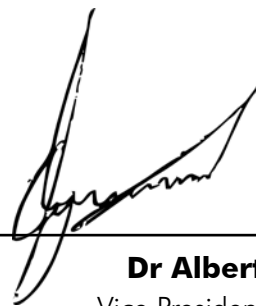
Since its inception in 1999, the Innovation Fund has continued to break new ground in the promotion of technological innovations. Over this period the Innovation Fund has invested over R1 billion on some 232 projects in sectors such as health, agriculture,

manufacturing, mining, education, transportation, tourism, ICT and biotechnology. There is no doubt that the Innovation Fund's catalytic role of making strategic interventions along the innovation value chain has made a meaningful contribution to our collective efforts to improve South Africa's technological and economic competitiveness. The projects highlighted in this report clearly show this and they stand to benefit South Africa by launching context-responsive products that will have global demand.

The National Research Foundation (NRF), through the promotion and support of research in order to facilitate the creation of knowledge, innovation and development in all fields of science and technology, will continue to build and grow the synergistic relationship that exists between itself and the IF. We are confident that this synergy will grow even stronger as the NRF implements its strategic plan to achieve its vision 2015. It is worth highlighting that one of the key objectives of the strategic plan is, through research funding and human capital development, to provide cutting edge research, technology and innovation platforms. It is our hope that through the Innovation Fund, and its planned successor the Technology Innovation Agency (TIA), outcomes of these research and innovation platforms will be turned into products and services that will compete successfully in the market place.

In the previous annual report, it was anticipated that the Innovation Fund will merge with other agencies to form the Technology Innovation Agency. During the period under review concrete steps were taken towards the migration of the Innovation Fund and formation of the

TIA. The NRF will, in the intervening period, continue to take pride in managing the Innovation Fund and in ensuring that it succeeds in its endeavours to make South Africa economically competitive for the good of all its citizens.



Dr Albert van Jaarsveld

Vice President NRF & MD RISA:
National Research Foundation



DR EUGENE LOTTERING
EXECUTIVE DIRECTOR

INTRODUCTION

Since its inception nine years ago, the Innovation Fund has pursued its mandate of promoting technological innovation in South Africa. In line with this mandate, the Innovation Fund has made investments in the development and commercialisation of novel and inventive South African technologies that aim to improve South Africans' quality of life and enhance the country's global economic competitiveness. This has included the establishment of new enterprises, the expansion of existing ones and the licensing of South African developed intellectual property for both social and economic good.

Over the years, the Innovation Fund has refined its strategy and business processes in line with its mandate to identify and invest in technological innovations that rank highly on novelty, inventiveness, market and commercial viability (both social and economic), and the strengths of the team developing the technology. This has been to ensure that these technologies have an optimum competitive position, especially in light of the increased global focus on intellectual property as a tool to develop and maintain competitiveness. The question of national benefit is another key criterion in guiding the Innovation Fund's investment decisions. The Innovation Fund strives to invest in technologies that meet all of these criteria.

Highlighted in this report are three such projects or technological innovations. These projects exemplify several of the Innovation Fund's core objectives since they promote the key issues of competitiveness, improving quality of life and environmental sustainability. These projects stand to make a positive contribution to the challenge of climate change facing South Africa and the global community.

CLIMATE CHANGE

The challenges posed by climate change have become increasingly evident and more pronounced, particularly in the developing world.

Conveying this realisation President Thabo Mbeki, speaking at the 62nd United Nations General Assembly in 2005 observed that "Today, we all understand that the costs of doing nothing about climate change far outweigh those of taking concrete measures to address

this challenge. It is clear that delaying action on this matter of climate change will hit poor countries and communities hardest”.

The 2004 South African National Climate Change Response Strategy also observes that “There is now more confidence that global climate change is a threat to sustainable development, especially in developing countries, and could undermine global poverty alleviation efforts and have severe implications for food security, clean water, energy supply, environmental health and human settlements.”

The extent of this challenge is further revealed in the United Nation’s advisory body, the Intergovernmental Panel on Climate Change’s (IPCC) Climate Change 2007: Synthesis Reports, which observes: “Warming of the climate system is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice and raising global average sea level”.

The IPCC notes “eleven of the last twelve years (1995 – 2006) rank among the twelve warmest years in the instrumental record of global surface temperature (since 1850).”

The IPCC further observes that global emissions of green house gases (GHGs) due to “human activities have grown since pre-industrial times, with an increase of 70% between 1970 and 2004 ... [and] the largest growth in GHG emissions between 1970 and 2004

has come from energy supply, transport and industry.” The increase in particular of carbon dioxide, an important anthropogenic GHG has been “due primarily to fossil fuel use,” according to the IPCC.

While the implications of climate change to the ecosystem are global, South Africa has specific vulnerabilities that, according to the South African National Climate Change Response Strategy, are in human health, maize production, plant and animal biodiversity, water resources, and rangelands.

Responses to climate change are at this stage compromised by the world’s reliance on technologies that are dependent on fossil fuels. Breaking this dependency on fossil fuels and increasing the efficiency of existing technologies so that less GHGs are released into the atmosphere are both crucial in the response to climate change.

The Innovation Fund is of the firm belief that technological innovation is key in responding to climate change and that South Africans have the necessary inventiveness,

“There is now more confidence that global climate change is a threat to sustainable development, especially in developing countries, and could undermine global poverty alleviation efforts and have severe implications for food security, clean water, energy supply, environmental health and human settlements.”

scientific prowess and technological ability to invent technologies that can mitigate climate change. The projects highlighted in this report certainly show both an awareness of the challenge of responding to climate change and the technological inventiveness that has led to technologies that will have a positive impact on our ecosystem.

The impact that a technological innovation has on the environment is, and will continue to be, a major contributing factor to its global competitiveness. This fact will gain importance as more and more countries adopt policies that require technologies to have a positive or neutral impact on the environment. In this respect South Africa is vulnerable as the South African National Response to Climate Change Strategy explains: “the South African economy is vulnerable to the possible response measures implemented by developed countries, since the economy is highly dependent on income generated from the production, processing, export and consumption of coal. This vulnerability extends across virtually all facets of the mining and energy sectors.”

FEATURED PROJECTS

The Innovation Fund’s 2006/7 Annual Report highlighted two projects that displayed strong intellectual property portfolios directed towards a response to climate change challenges. The crux of the solutions provided by these projects is provision of alternative low carbon sources of energy that are not fossil fuel dependant. The featured projects were the thin film photovoltaic cell technology developed by a consortium led by the University of Johannesburg and the low power

consumer source project directed towards a printable flexible silicon photovoltaic product being developed by the University of Cape Town.

Through the thin film photovoltaic cell project, new non-silicon thin film semiconductor materials were synthesised using an innovative production technology developed to produce photovoltaic cells. These cells aim to be more affordable than current silicon based cells and could therefore have wide scale application. The intellectual property underpinning this technology should contribute to the production of high quality photovoltaic modules at a lower cost thereby making them affordable to many South Africans. This should also reduce the use of carbon intensive energy technologies thereby contributing to the reduction of GHG emission. The printable flexible silicon photovoltaic project has developed intellectual property directed to the crushing of silicon into very small particles - a fraction of the diameter of a human hair and mixing the fine particles with a binder to produce solar cells printed onto paper in an affordable and simple manner.

It is evident from these projects that intellectual property, particularly patents, can be a catalyst to creating and deploying low-carbon technologies directed towards meeting climate change objectives.

In the year under review, the Innovation Fund has focussed on and invested in a number of projects, three of which will contribute significantly to the effort of protecting our ecosystem and in reducing GHG emission. These projects form the highlight of this year’s Annual Report.

The first of these projects, namely Industrial Plant



Simulator is a technology that will, through making electricity power stations more efficient, reduce the levels of GHG released into the atmosphere. The second project, Aircraft Laser Paint Stripper, uses laser technology to reduce the amount of environmentally harmful chemicals that are used in the stripping of paint during the inspection and maintenance of aircraft. The third and flagship project, Optimal Energy, is an investment into the development of an electric car which will be South Africa's first fully battery operated multi-purpose vehicle which is bound to shake up the South African and global motor industry, whilst reducing the emission of GHG even when using South African Eskom generated electricity.

DEPARTMENTAL HIGHLIGHTS

In the year under review, eight projects were approved for investment through the Technology Advancement Programme (TAP). The total financial commitment for these projects is R80.8 million. In addition to these new projects, the Research and Development Funding Office managed 35 ongoing projects.

The Seed Fund increased the number of emerging SMMEs that directly received an investment from the Innovation Fund by four. This has led to total Seed Fund investment payouts of R71.6 million for the financial year under review.

In the same period, the Innovation Fund made its first successful exit from its Seed Fund Portfolio, this being Red Five Labs (Pty) Ltd (previously MetaSharp (Pty) Ltd). The exit was achieved at an annualised IRR of 65% on a total investment of R781,545.00.

During 2007/8, the mandate of the Intellectual Property Management Office's (IPMO) Patent Support Fund - Institutions was extended beyond patents to include other forms of intellectual property such as design registrations, plant breeders' rights and trademarks that support commercialisation of South African innovations.

In the year under review, two new candidates, namely Ntanganedzeni Ranwedzi (MSc (Wine Biotechnology)) and Lethukuthula Mbatha (BSc (Botany); LLB) joined the Innovation Fund patent attorney development program that is aimed at increasing the pool of intellectual property management skills in the public sector. IPMO, through secondment of personnel to the Department of Science and Technology, supported the drafting and further development of the Intellectual Property Rights from Publicly Financed Research and Development Bill and associated regulations.

OPERATIONAL HIGHLIGHTS

During the course of the Innovation Fund's existence, one of our key realisations was that there is a need to encourage development of a culture of technological innovation. To this end the Innovation Fund previously extended its operational footprint to include promotion of technological innovation by launching the National Innovation Competition (NIC) that targets both students at publicly funded higher education institutions and the institutions themselves.

In the financial year under review, the National Innovation Competition - Student Business Plan made significant progress since the first competition by registering a 50% increase in the number of business plans submitted and a marked improvement in the quality of the submissions.

Through running the NIC, it became evident that there is a need to inculcate a culture of technological innovation at school level. In the financial year under review, plans were finalised to launch a national innovation competition for learners in grades 9 to 12. This initiative will be launched in the next financial year.

In keeping with the objectives of the National Research and Development Strategy, 2002, the Innovation Fund has concluded discussions with Emory University of Atlanta, Georgia USA, to run a national biotechnology business plan competition and executive education programme in the financial year 2008/09 on behalf of the SA biotechnology sector. Through this programme, the Innovation Fund hopes to increase the ability of those within the biotechnology sector to start successful businesses.

In the financial year under review, the operational capacity of the Innovation Fund improved significantly with the appointment of two commercialisation managers, a contracts attorney, a marketing manager and two research analysts. Dr. Carol Nonkwelo, who left the Innovation Fund to manage the National Research Foundation's PhD programme, was replaced by Dr. Janine Chantson who now heads-up the Research and Development Funding Office.

CONCLUSION

Through the work that the Innovation Fund has

undertaken in the year under review, considerable progress has been made to ensure continued development of a culture of technological innovation in South Africa. The Innovation Fund has continued to ensure that the issues of intellectual property protection and management are brought to the fore. Its continued mantra of "protect then publish" seems to be gaining a foothold in the academic and research community. Increasingly, results from the Innovation Fund's efforts to encourage South African researchers and inventors to seriously consider commercial prospects for their inventions leading to economic and social good are starting to show.

The Innovation Fund remains steadfast in its belief in the inventiveness of South Africans, their ability to invent technologies and to apply them to solving real life problems. The projects highlighted in this report are demonstrative of this technological inventiveness that is key in dealing with the global challenge of climate change.

The successes that the Innovation Fund has achieved in the year under review are in no small measure due to the support that the Innovation Fund has received from the Department of Science and Technology and the National Research Foundation.

I invite you to peruse this annual report of the Innovation Fund for the financial year 2007/08.

"...The Innovation Fund is of the firm belief that technological innovation is key in responding to climate change..."



FUNDING HIGHLIGHTS



2007/2008 NEW CONTRACTS

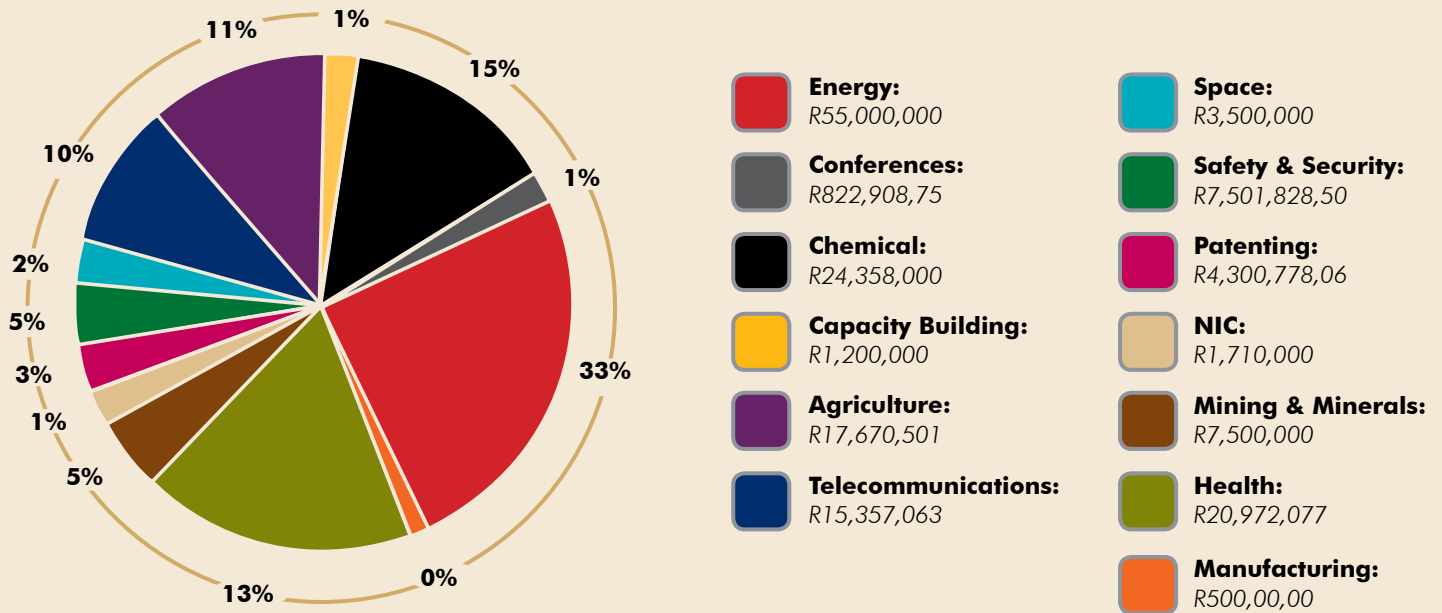


Figure 1: 2007/ 2008 New Contracts

TOTAL 2007/2008 FUNDING

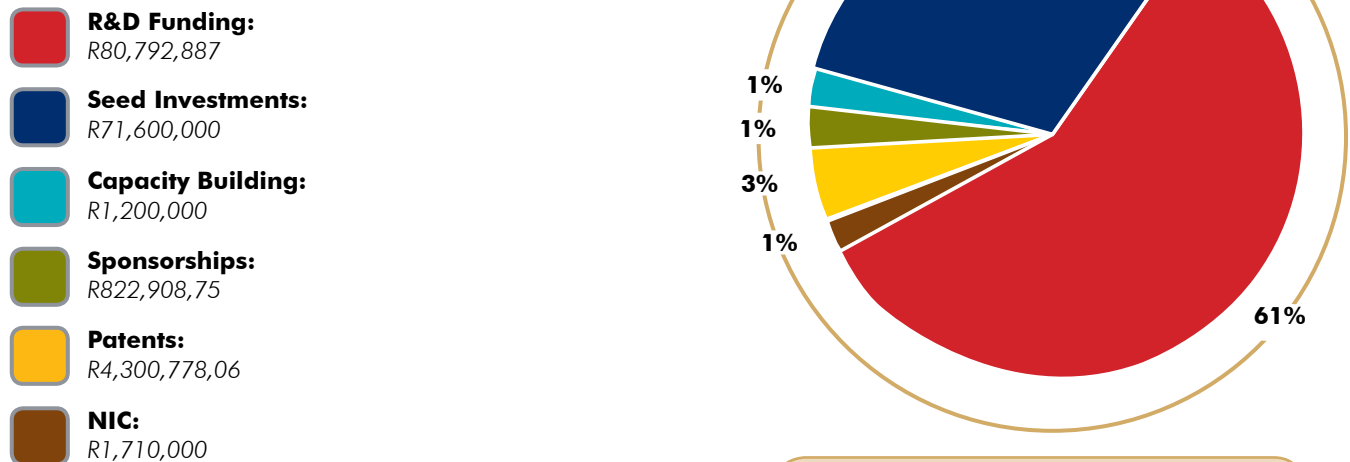


Figure 2: Total 2007/ 2008 Funding

INCOME GENERATED FROM INVESTMENT IN PROJECTS

Profit on sale of shares Services Rendered Royalties

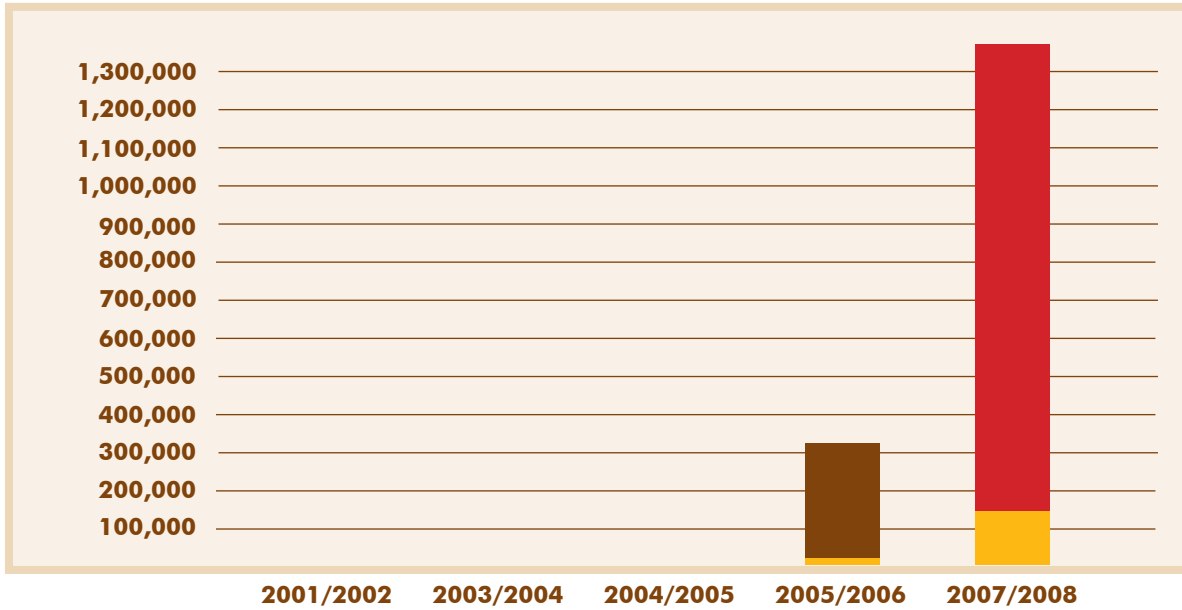


Figure 3:
Income Generated From Investment In Projects

STATE FUNDING (RANDS)

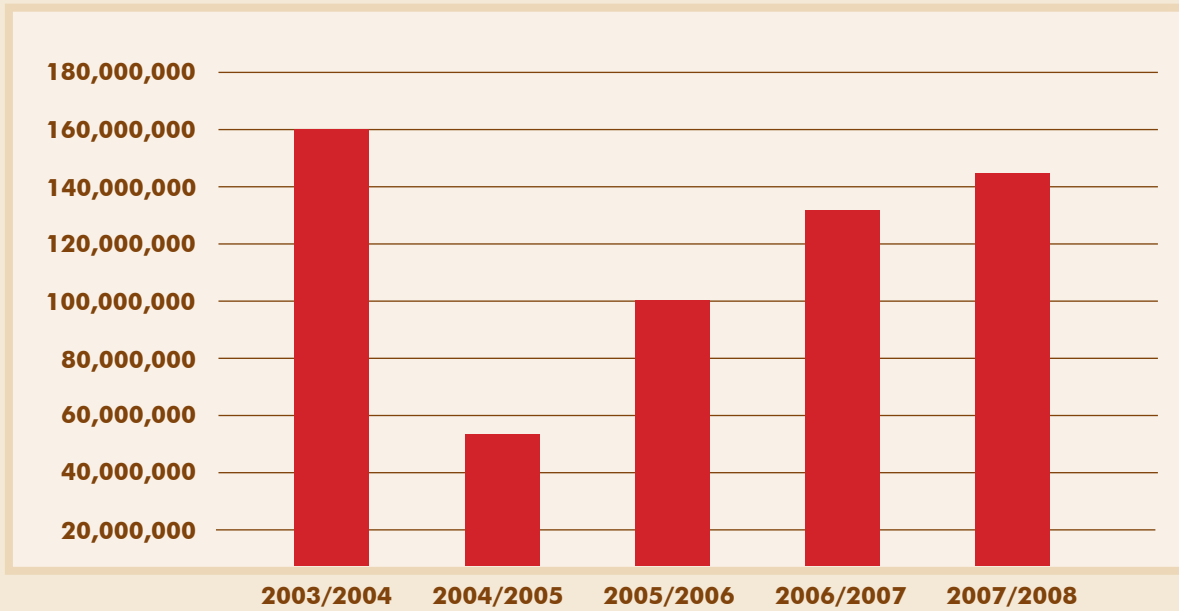



Figure 4:
State Funding

ACCRUED INTEREST ON LOANS TO ASSOCIATES

 Interest Receivable

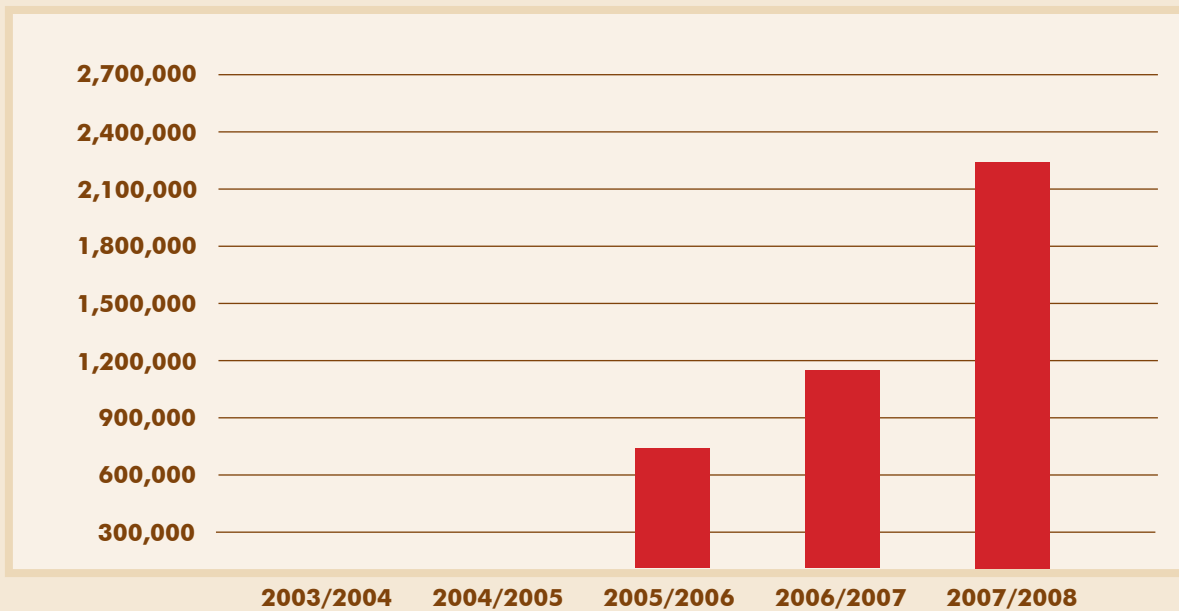


Figure 5:
Accrued Interest
On Loans To
Associates

TOTAL FUNDS AWARDED PER ORGANISATION (RM)

Since 1999

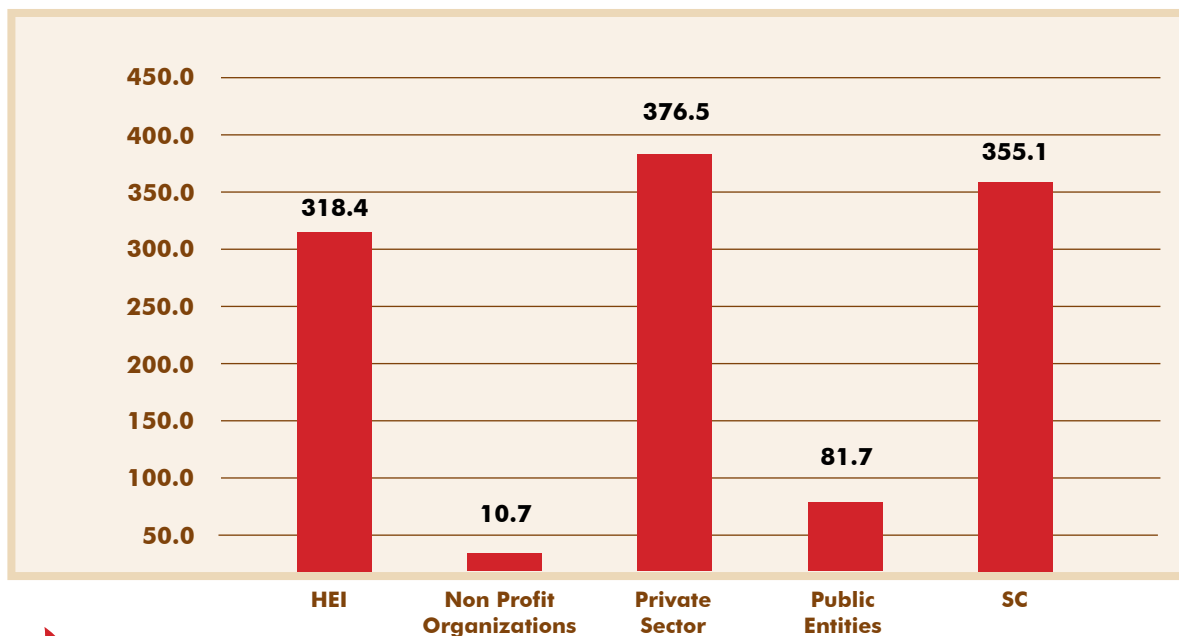


Figure 6:
Total Funds
Awarded Per
Organisation

PROFILED PROJECTS





ENVIRONMENTALLY FRIENDLY LASER PAINT STRIPPER

Ensuring passenger safety without damaging the environment has been one of the challenges facing both military and commercial airlines. However, with the environmentally friendly laser paint stripper, this challenge will soon be a thing of the past.

Aircraft are frequently paint-stripped for inspection, maintenance and non-destructive evaluation work. Moreover, Aircraft are paint-stripped and repainted for corrosion protection, airline identification, branding and durability. The frequency and some of the reasons for aircraft paint stripping differ between military and civilian or commercial Aircraft. Military Aircraft spend up to 95% of their time on the ground and consequently the primary threat to performance is corrosion. Additionally, military aircraft are paint-stripped and repainted for survivability (visual appearance, infrared signature). Civilian and Commercial aircraft, on the other hand spend up to 30% of their time in flight and therefore their primary threat to performance is mainly structural fatigue. In addition to being paint stripped for checking structural fatigue, civilian and commercial aircraft are paint-stripped and repainted for corrosion protection, airline identification and branding.

Traditionally, aircraft maintainers have used hazardous chemicals

and waste generating processes to perform surface cleaning and coat removal. These hazardous chemicals and the hazardous waste generated are not only harmful to the environment; they also pose a significant occupational health risk for workers. With the growing awareness of the environmental impact and safety concerns arising from the use of toxic methylene chloride paint stripping processes, internationally the search has been on for a while to find an environmentally acceptable alternative method. Another reason that has led to this search is the fact that aircraft are increasingly being manufactured from composite materials, which should not be damaged during paint removal neither must its protective conductive layer.

Traditionally, aircraft maintainers have used hazardous chemicals and waste generating processes to perform surface cleaning and coat removal. These hazardous chemicals and the hazardous waste generated are not only harmful to the environment, they also pose a significant occupational health risk for workers.

The above situation became clear to a consortium comprising SDILasers, a division of Klydon (Pty) Ltd (a SMME), Laser Research Institute (LRI) Stellenbosch and Industrial Metals and Minerals Research Institute (University of Pretoria) after they conducted an investigation on laser paint stripping.

Francois Prinsloo, the project coordinator, recounts that "The idea to develop a laser based paint stripping system for the stripping of commercial aircraft arose in 2004 after we had been approached by Raytheon Missile Systems to build a system with which they could strip paint off their missiles.

On the successful completion and implementation of this system, we decided to investigate the field of laser based paint stripping. Our investigation showed that laser based paint stripping had been investigated since 1987 but its success had been limited by the non-availability of reliable high power laser sources. We decided to tackle this project since our expertise lie in the development of such high power lasers.”

Through their investigations the consortium realised that a laser based method can be tailored to remove a single layer of coating or paint while others layers remain intact and this ability of the laser method allowed it to de-coat composite materials. This ability of lasers is its major distinguishing benefit and a major cost saver.

A decision that the team had to make was on which type of laser will be most suitable for the paint stripping application. The candidate lasers were the carbon dioxide (CO₂) laser, the Neodymium-doped yttrium aluminium garnet(Nd:YAG) laser and the diode laser. These candidate lasers were well known with the CO₂ and the Nd:YAG lasers having been invented in 1964 at the Bell Laboratories, while the diode laser was demonstrated for the first time in 1962 at General Electric Research Centre. To choose between these lasers the team developed criteria on the basis of which they would select the best laser. The criteria were:

1. The radiation absorption characteristics of the specific laser wavelength must be high for the paint layer but negligible for the substrate.

Taking into consideration the fact that aircraft frames are manufactured from aluminium alloys it

was found that the laser absorption of aluminium alloys is ~2% for the CO₂ laser, ~6% for the Nd:YAG laser and ~12-13% for the diode laser. In testing which laser is absorbed the most by paint, the CO₂ laser had a distinct advantage of ~92%, Nd:YAG laser~11%; and ~11% for the diode laser.

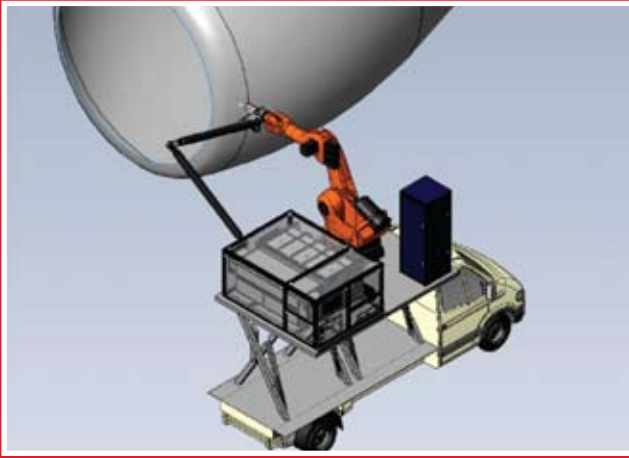
2. As the efficiency of the laser pulse to remove the paint layer is greatly determined by the energy in the pulse and the temporal shape (intensity in time), the candidate lasers were tested for this quality.

The CO₂ laser was found to be dominant in this area in that the pulse shape can be tailored. Based on the work conducted on this aspect, the consortium has already filled a patent application that forms part of the intellectual property that arises from this project.

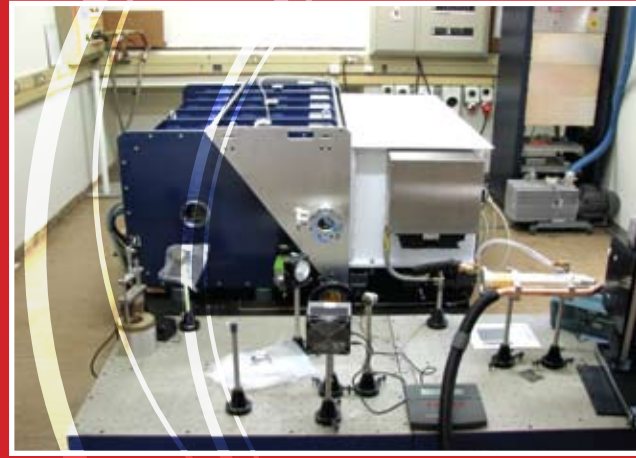
The next challenge faced by the consortium was to find a way of ensuring that the output of the laser can be transported from the source to the optical scanner at the work piece with minimal losses and in a controlled fashion.

“We decided to purchase an off-the-shelf robot system from one of the major manufacturers. With this decision the complexity was in marrying the laser output parameters and monitoring system outputs with the movement of the robot. The marrying of these systems is essential to ensuring that the stripping process is optimised and does not damage or alter the characteristics of the fuselage materials,” said Prinsloo.

Having made the decision to purchase the robot



Schematicre presentation of mobile paint stripping system



High power CO₂ laser testbed

the team had to write a program in the robot's control software to regulate the actions of the robot. An additional challenge arose out of the fact that the high power CO₂ laser cannot be propagated down an optical fibre that can be twisted and turned easily. The CO₂ laser beam has to be propagated through the atmosphere in an enclosed system with metal mirrors directing the beam as needed. Therefore, the team "made use of an articulated arm system that will be attached to the robot system to deliver the beam to the desired position. Contained within this articulated optical system are four 3D mirror assemblies that allow the laser beam to be propagated anywhere within a designated volume constrained only by the movement of the robot," explained Prinsloo.

Since the project's inception a lot of research and development work has been done and progress has been achieved in all components of the project. According to Dr Einar Ronander, the consortium's chief executive officer, the project is "progressing well and we have achieved both the technical and commercial goals we have set ourselves. On the technical front we have achieved stripping rates of ~11m².hr⁻¹ and we have initiated contact with several parties in the US and Europe that are interested in laser based paint stripping." For this progress Prinsloo attributes the investment made by the Innovation Fund and states that, "Without this type of funding any small company like us would never have been able to bring an idea like this to fruition".



THE INDUSTRIAL PLANT SIMULATOR

Five to ten years ago, it was difficult for South African companies to acquire power plant simulators. The primary reason was the cost of these simulators which were developed in the United States and Europe. The fact that simulators were not produced locally also had an impact on the level and quality of product support received by South African companies. Over the years purchasing costs for simulators have remained relatively high and companies have had to live with the fact that they have to purchase an engineering and training simulator separately. The reason being the non-existence of a simulator that could be used for both engineering (i.e. design and optimisation) and training purposes. Since very few plants had the resources to acquire two simulators, this situation had a negative effect on plant design and optimization, as well as the training of staff.

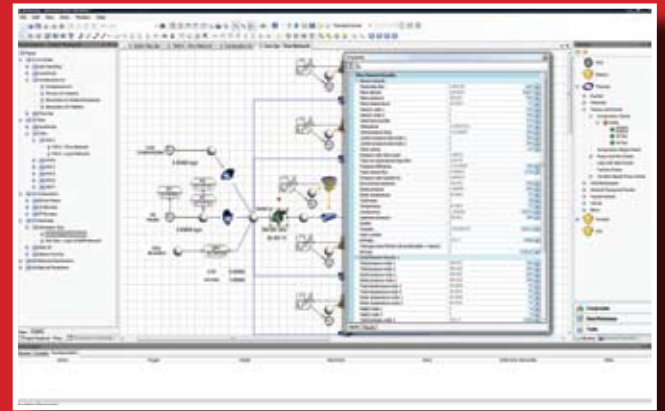
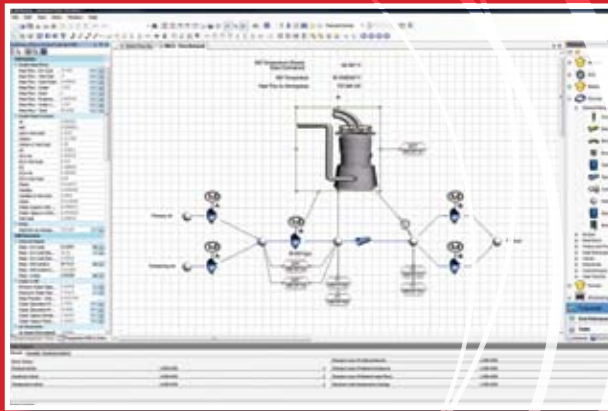
In the design of power plants, the ability to simulate its operation is important as it gives designers the opportunity to model and test complex systems and their behaviour under various control scenarios without having to build expensive experiments, or worse, to start construction without fully understanding the plant's behaviour. Whereas with plants that are already operational, running them optimally is often hampered by the fact that certain variables in the running of the plant must be tested off line. Shutting down a power plant to test certain variables is impractical both from a

cost and customer satisfaction perspective. Running a plant optimally is also greatly influenced by the training of its operators. A simulator with a training module provides plant instructors with an excellent training platform to prepare operators for both normal and abnormal operating conditions before they operate the actual plant.

The benefits of a simulator, particularly in the optimisation of already running plants, have become crucial due to the increased demand of electricity and the ever growing need to reduce CO₂ emissions. Faced with a growing demand for electricity, Eskom in its 2007/08 annual report acknowledges that "The amount of CO₂ that we emit will increase in the short to medium term". Eskom attributes this to high demand and the fact that coal fired power stations account for close to 90% of their power generation mix.

The benefits of a simulator, particularly in the optimisation of already running plants, have become crucial due to the increased demand of electricity and the ever growing need to reduce CO₂ emissions.

Realising the needs of South African companies (specifically plant designers and power generators), M-Tech, a company specializing in systems development and integration, as well as the design, analysis and optimisation of complex thermal-fluid systems such as coal, gas and nuclear power plants, started a "research project that looked extensively at the needs of South African power plant designers and power generators. On the basis of the findings we started working on developing a world class simulation software platform,



“The Industrial Plant Simulator...allows engineers to develop new mathematical solvers, customise existing ones, or use third party specialised solvers and integrate these with the IPS. This then allows simulation engineers to have a multitude of options to simulate the generation and distribution of electricity in as much detail as they require”

that is cost effective and would also provide a training module,” said Willie Landman M-Tech’s project group manager. The outcome of this research and continued development is the Industrial Plant Simulator (IPS) software platform.

In developing the IPS, Abrie Venter, the project’s coordinator said they sought to develop a robust simulation software platform. “This is the reason why we chose to use a simulation engine based on Flownex, which is a state of the art dynamic systems Computational Fluid Dynamics solver that is

recognised as one of the best in the world. The added advantage of Flownex is that it is the only software currently capable of modelling High Temperature Gas Reactor power plants accurately and efficiently. It is because of this ability that Flownex is used for design and analysis of the Pebble Bed Modular Reactor and therefore the code is tested, verified and validated according to nuclear quality assurance standards.”

With South Africa’s 2007 CO₂ emissions amounting to 208.9 million tons and with a likely increase in 2008 as per Eskom’s estimate, Venter believes that the IPS can assist by “enabling the increase of plant efficiency

through engineering analysis and optimization, while also increasing operator efficiency as a result of hands-on training.” The increased efficiency will have the result of “lowering input costs per kilowatt hour, since less fossil fuels will be used to generate the same amount of usable energy, and emissions will be lowered due to optimized emission reduction systems and increased operator awareness of such systems.”

The Industrial Plant Simulator also has the advantage of being able to grow with the needs of simulation engineers as “it allows engineers to develop new mathematical solvers, customise existing ones, or use third party specialised solvers and integrate these with the IPS. This then allows simulation engineers to have a multitude of options to simulate the generation and distribution of electricity in as much detail as they require” said Venter.

To date the project is on track and, according to Landman, will be completed three months ahead of its original schedule. In terms of commercialisation

of the technology, the first commercial project was secured in January 2008. This commercial project will see IPS being used in delivering both a full-scope unit and outside plant simulator for one of Eskom’s Power Stations.

Landman notes that “This will not only be the first time a South African software package is used in the development of a power plant unit training simulator, but it will also be used to develop the first full-scope outside plant simulator for a power plant in South Africa”. In addition several other tenders have been submitted for the IPS to be applied to develop simulators and training systems in South Africa and abroad.

“The technical and commercialisation successes that we have been able to achieve in such a short time have been thanks to the investment made by the Innovation Fund which allowed us to put more resources into our development work and commercialisation,” said Landman.



“Joule is Optimal Energy’s solution to the energy issues facing the globe today, capitalising on the opportunity presented by the exponential increase in oil costs and the dramatic improvement in battery price, life and performance...”

SOUTH AFRICA'S FIRST ELECTRIC CAR

Ever since the release of Al Gore's film 'An Inconvenient Truth', the focus on climate change, pollution and renewable energy sources has grown exponentially. With more than half the population of the earth living in cities, urban transport remains a major factor in the ongoing global warming debate.

The related issue of the world's reliance on finite fossil fuel resources clearly demands attention post-haste. With these imperatives in mind, it is vital that humanity begins to seek alternatives that are both clean and renewable.

Entrepreneur Kobus Meiring, CEO of Cape Town-based Optimal Energy, has always been interested in sustainable energy - particularly electricity, which he feels is the most versatile form of energy available. With the tremendous advances in battery technology made over that past decade, coupled with the steady rise in the oil price, he believes that electric cars have now become a viable option for urban transport.

Meiring, whose résumé includes positions such as programme manager for Denel's Rooivalk helicopter and the Southern African Large Telescope (SALT) development in Sutherland, in the Northern Cape, founded Optimal Energy in 2005 with Mike Lomborg, Jian Swiegers and Gerhard Swart.

Capitalised from idea to prototype by an investment from the Innovation Fund, Optimal Energy aims to bring to market South Africa's first fully electric car, the Joule, by 2010.

"Joule is Optimal Energy's solution to the energy issues facing the globe today, capitalising on the opportunity presented by the unavoidable increase in oil costs and the dramatic improvement in battery price, life and performance," says Meiring.

More to the point, Joule is not just another 'jump on the energy crisis bandwagon' solution, says Meiring. "It is a product which aligns with Optimal Energy's vision to establish and lead the electric vehicle industry in South Africa and to leverage its success in this market as a springboard for global expansion."

The vehicle's chassis has been designed to accommodate two large-cell lithium-based battery packs that employ chemistry similar to that used in mobile phones and laptop computers. This makes the vehicle inherently safe while the batteries are fully recyclable and do not contain any heavy metals.

Since studies indicate that some 99% of urban drivers travel less than 150 km per day, the 200-kilometre range of each battery pack makes it ideal for city and town transport. A normal 220-volt home outlet and Joule's onboard charger can fully replenish the batteries within seven hours. An optional fast charger that runs on three-phase power will be available that will enable the Joule to be recharged within half an hour.

Given that South Africa's electricity is generated from fossil fuels, an obvious question is whether electric vehicles genuinely reduce carbon emissions, or simply shift engine exhaust gases to the electricity generating plant. The fact of the matter is that electric vehicles are around five times more energy efficient than petrol or diesel cars.

As a result only 20% as much energy is required, which Meiring says translates into a very substantial reduction of greenhouse gases released into the atmosphere. Also, electricity generated by any means can be used to power the Joule; the vehicle even has an optional solar panel that can be incorporated into its roof, providing energy for accessories or for a few bonus kilometres.

Meiring points out that the batteries will be leased separately. "Optimal Energy retains ownership of the batteries to ensure that the batteries are maintained in the best possible condition, and that any battery actions do not concern the customer," he says. Battery cost is declining as volumes increase and more and more battery suppliers enter the market. But at this stage, battery cost is still substantial, and an out-right purchase could be equated to buying 2 years of petrol up-front.

Each battery pack, provided it is properly maintained, is expected to last for 200 000km or ten years. In other words, the battery pack will match the useful life of the vehicle. With ongoing development of battery technology, performance and longevity is anticipated to constantly increase.

The potential owner of an electric vehicle is unlikely to want to compromise on looks, performance or practicality. Historically, electric cars have been small, slow

and unsightly although in recent years, a few high performance two-seaters have been developed. These, however, have been both expensive and unsuitable for families.

The Joule, on the other hand, is a six-seater urban vehicle which has set out to match efficiency and performance with a design which is elegant and stylish. The intention is to deliver optimal design, maximum interior space and a minimal exterior, along with all modern safety requirements.

Safety specifications include: a regenerative ABS braking system, front and rear crumple zones, steel space frame and side impact protection, two dynamic drive train options, airbags and excellent ride, handling and dynamics because of the inherently low centre of gravity.

"...electric vehicles are around five times more energy efficient than petrol or diesel cars. As a result, only 20% as much energy is required..."

Because a Joule contains substantially fewer parts than a petrol/diesel vehicle, reduced maintenance is anticipated with increased service intervals. Presently, Optimal Energy predicts that maintenance costs of the Joule are expected to be less than half that of petrol or diesel vehicles.

Both the interiors and exteriors of the vehicle were styled by South African born Keith Helfet. His pedigree is reflected in a career which includes the position of chief stylist at Jaguar, where he was responsible for iconic designs such as the XJ220, the XK and the F180.



The Joule...is a six-seater urban vehicle which has set out to match efficiency and performance with a design which is elegant and stylish. The intention is to deliver optimal design, maximum interior space and a minimal exterior, along with all modern safety requirements.

Meiring says he is excited by the Joule's potential. He further points out that design and development for Joule is done in South Africa - and while the supplier list is not final at this point, it is expected that local content will be comprise more than 50% of the vehicle.

He also indicates that as South Africa is the launch market, the Joule assembly plant will be located close to the initial market. Optimal Energy is evaluating all of the country's major cities or economic hubs as a

potential destination for its first assembly plant.

"The Joule is an attractive vehicle, it garnered a fantastic response at the recent Paris International Automobile Show, and it proves once again that a car is an emotional, passionate object. Cars remain something that people relate to on much more than just a functional level and the Joule delivers against this emotional aspect," he says.

With the car expected to be available by the end of 2010, the price is not yet fully established.

However, Meiring says it is expected to retail in the ~ R200 000 segment in the local market. In addition to the Joule passenger vehicle, he adds that development has commenced on a utility/cargo vehicle based on the same platform – given the popularity of such vehicles

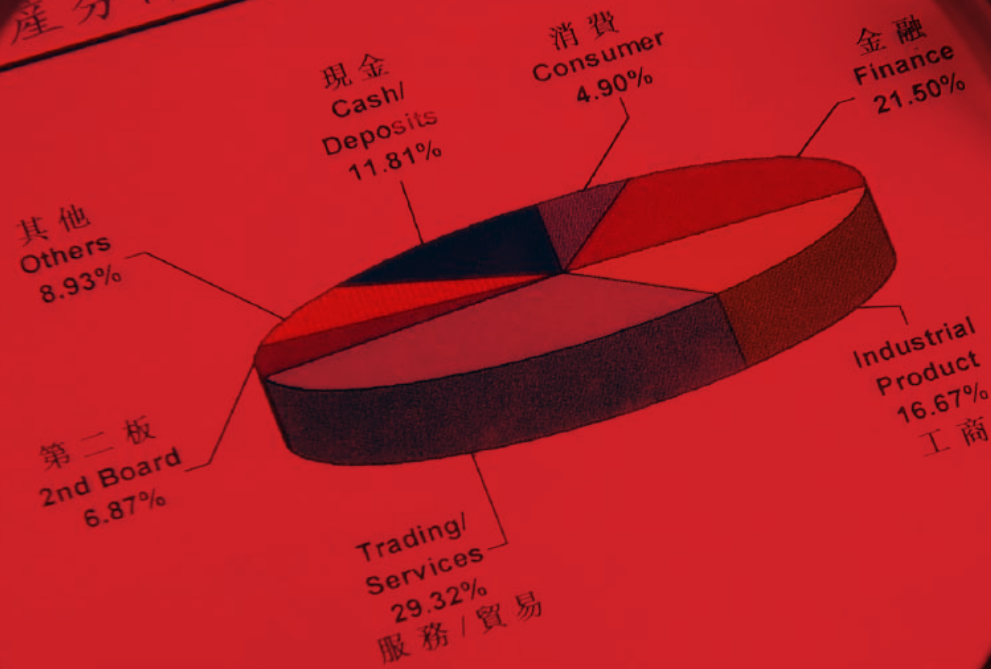
in this country.

Energy efficiency, 'green' technology and a move away from fossil fuels are the tenets upon which Optimal Energy is based. These are not just the buzzwords du jour, but are the way of a sustainable future.

YEAR IN REVIEW

道...同時...
張...同時...
於外資數量。這將是第二板...
理

ASSET ALLOCATION 資產分佈



Performance Record

Calendar year return %

Year	Fund	Benchmark
YTD	31.33	14.61
Since Inception	127.91	64.25
	53.77	23.79
	18	-5.05
		8.91
		23.19



AGEMENT 343

INNOVATION FUND'S COMMERCIALISATION OFFICE



DUNCAN RAFTESATH
SNR COMMERCIALISATION MANAGER

The Innovation Fund's Commercialisation Office (IFCO) has as its mission the facilitation of the steps required to take a novel South African technology product or service to the market. IFCO plays a key role in supporting the R&D Funding programmes by the assessment of R&D projects for potential impact. It assists in negotiating the investment structures of R&D projects and guides the development of a commercialisation strategy during the course of the R&D project. In all these activities, it strives to maximise the economic and social outcomes of an Innovation Fund investment.

In addition IFCO manages the Seed Fund, an instrument aimed at facilitating the journey between R&D and

functioning capital markets. IFCO also drives the process of structuring and negotiating commercial outcomes and returns due to the Innovation Fund from R&D investments, where such commercial structures and returns may only become explicitly clear once the technology is proven and commercialisation commences.

To give full effect to its role in light of the breadth and complexities of IFCO support within the Innovation Fund, IFCO has doubled its management capacity during 2007/08, with a further 33% growth in capacity planned for the ensuing year. In recognition of the dearth of appropriate skills in the public sector system specifically, IFCO has finalised conceptualisation of the CHUMA Commercialisation Manager Development Programme, a mentored apprenticeship based intervention aiming to grow the number of black candidates who have the skills and experience to facilitate in the translation of novel technologies to successful products and services in the market. This programme is expected to have its first intake of candidates in the first half of the next financial year. As part of awareness generation and capacity building of future Innovation Fund applicants and investees, IFCO continues to manage the Innovation Fund's National Innovation Competition that is run in public South African universities.

There are early indications that the interventions of IPMO and IFCO within the Innovation Fund have created an appropriate outcomes focus in R&D investments made through the TAP instrument. Examples of TAP Projects starting to produce commercial outcomes even before the R&D is complete include:

- The conclusion of an exclusive supply arrangement

between Goodyear's subsidiary Veyance Inc. and Advanced Imaging Technologies (Pty) Ltd (AIT), roughly 18 months before the IF TAP Project was completed by AIT.

- The establishment of a black empowered commercial vehicle and securing of a first contract for use of M-Tech Industrial's Industrial Plant Simulator, an IF TAP Project due for completion in 2009.

THE SEED FUND

The Seed Fund is the main instrument deployed by IFCO to target the commercialisation of innovative technologies. It operates on the basis of encouraging investment from capital markets and where possible co-investing to share risk with the capital market. Furthermore, the Seed Fund considers opportunities which in terms of financial returns potential will not meet venture capital criteria, but whose social and

economic impacts may be critical with regards to driving national priorities, where financial sustainability can be secured.

IFCO manages the footprint of the Seed Fund dynamically, seeking to build a bridge across the actual gap on a per investment opportunity basis. This involves ongoing relationship and interaction with those elements of the capital market that have some interest in early stage investing. Accordingly, IFCO is an associate member of the South African Venture Capital and Private Equity Association (SAVCA) and was instrumental in the development of the SAVCA discussion document on Venture Capital development, where the focus is on developing early stage venture capital. It has also supported SAVCA's engagement with the National Treasury to define the details of tax incentives proposed to increase the capital investment into this asset class.

COMPANY	IF SEED FUND INVESTMENT: ZAR
ACTIVE	
Cerdak (Pty Ltd)	275,000.00
Geratech Investments (Pty) Ltd	57,001,577.01
Eyeborn (Pty) Ltd	4,798,088.42
Vibol Systems (Pty) Ltd	3,000,000.00
Tenacent SA (Pty) Ltd	750,000.00
Justick International (Pty) Ltd	1,847,944.50
Justick IP (Pty) Ltd	50.00
Blue Cube Systems (Pty) Ltd	3,000,000.00
Blue Cube Systems Intellectual Property (Pty) Ltd	333.28
Sunspace and Information Systems (Pty) Ltd	3,500,000.00
Nkomazi (Pty) Ltd	500,000.00
Optimal Energy	40,000,000.00
Safe Eggs (Pty) Ltd	500,000.00

Table 1



During the period under review, IFCO negotiated the Seed Fund's first successful exit, being Red Five Labs (Pty) Ltd (previously MetaSharp (Pty) Ltd). The sale of shares agreement reached with the purchaser constituted an annualised IRR of 65% on a total investment of R781,545.00.

START-UP COMPANIES CAPITALISED

During the year under review the Innovation Fund increased the number of emerging SMMEs directly receiving funding by four, bringing the total to 14. A further in-principle investment was approved, but agreements were still being reviewed by the parties at the end of March. Three of the concluded investments involved further commercialisation steps of prior R&D investments, namely:

NKOMAZI (PTY) LTD

This is a start-up company emanating from an Innovation Fund TAP Project that was led by a subsidiary of Chamotte Holdings (Pty) Ltd (www.chamotte.co.za), set up to establish volume scale processing facility for the production of hydrotalcite from magnesite. The technology process underpinning the facility is cost effective and environmentally friendly and is a means of benefiting local magnesite.

OPTIMAL ENERGY (PTY) LTD

Optimal Energy was established under an Innovation Fund TAP Project, to develop and commercialise a South African electric vehicle (www.optimalenergy.co.za). This opportunity received the largest single first round Seed Fund investment of R40m made to date. Significant further capitalisation will be required in the next year or two to take the vehicle to production. Major effort

has been put into attracting further investors, with the Industrial Development Corporation's Venture Capital Business Unit undertaking a full due diligence during February and March 2008.

SAFE EGGS (PTY) LTD

This is a start up formed to commercially exploit the egg pasteurisation technology developed in an Innovation Fund TAP Project. The pasteurised eggs are sold under the brand of 'safe eggs' as they are safe with regard to bacterial infections and have a longer shelf life. The company was initially set up as an intellectual property licensing entity, but was transformed into an operating entity selling pasteurised eggs directly in early 2008.

The Innovation Fund has through management of a growing portfolio of investments come to appreciate the level of management effort needed to nurture start-up companies, negotiate additional financing requirements and to successfully negotiate appropriate exits from investments. This challenge grows in-line with the growth of the portfolio.

Of the active investments: Geratech, Vibol, Blue Cube and Justick required additional finance which was implemented through rights issues, or through special arrangements for further funding agreed at the time of concluding the original Seed Fund investments. Geratech required intensive management intervention on a weekly basis throughout the year to assist in moving the business towards reliable production and a cash positive position. The exit from Red Five Labs, though providing a return, provided important lessons in respect of shareholder relationships. As each start-up company in the portfolio matures, IFCO needs to actively engage

¹*SunSpace investment of a convertible loan was made as result of a special request from Department of Defence for bridging finance to the company, after a positive financial and business due diligence.*

with potential investors, giving preference to BEE entities to facilitate exits commensurate with its mandate.

THE NATIONAL INNOVATION COMPETITION

The Innovation Fund aims to catalyse innovation by students at Higher Education Institutions (HEIs) through the Student Business Plan Competition and Institutional Innovation Competition.

The Student Business Plan Competition is the Innovation Fund's competition for technological innovations in the form of business plans from teams of students who are registered at South African HEIs. The competition was run for the second time during 2007/08 and the progress made since the first

competition was most encouraging. Participation by students from designated groups improved significantly and the overall number of business plans submitted increased by 50%. In order to improve the quality of business plans competing for the top awards, interventions in the form of a week long workshop facilitated by practitioners from a number of disciplines and mentoring of each entrant team were introduced. The awards were made to the top three business plans as follows:

- 1st Place: Mr Robert Bosch, "The replacement of zinc oxide in vulcanisation", from NMMU;
- 2nd Place: Mr Ernst Thompson, "Biobalsam", from Rhodes University;
- 3rd Place: Mr Retief Gerber, "Scryer Imaging", from University of Stellenbosch.

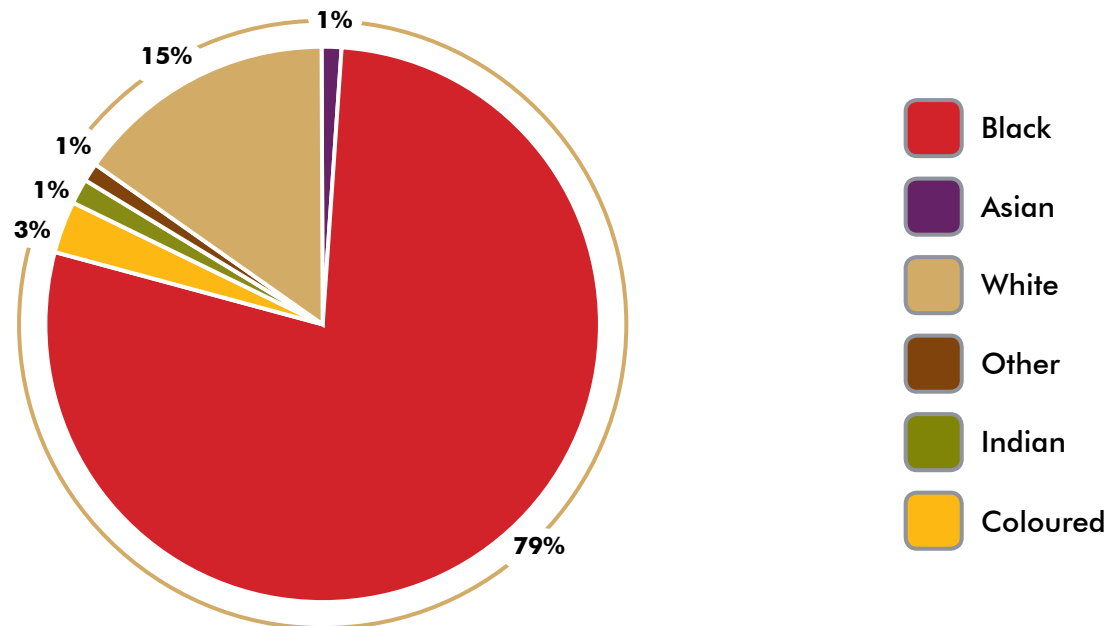


Figure 7: Pie diagram outlining demographics of 2007/8 NIC participants in phase 1

INTELLECTUAL PROPERTY MANAGEMENT OFFICE

The Innovation Fund Intellectual Property Management Office (“IPMO”) now manages several funding instruments aimed at supporting intellectual property protection both within the private and public sector. The following instruments are exclusively for publicly financed research institutions:

- Patent Support Fund – Institutions, and
- Patent Incentive Fund; Whereas the
- Patent Support Fund (Small Medium Enterprises), and
- Patent Support Fund – Techno-entrepreneur, have been established to support private sector inventions, with a view of increasing intellectual property’s contribution to South Africa’s technological innovation and competitiveness.

During 2007/8, the mandate of the Patent Support Fund – Institutions was extended beyond patents, to include other forms of intellectual property such as design registrations, plant breeders’ rights and trade marks that support the commercialisation of South African innovations. The distribution per institution of the total subsidies of R18 599 466 provided to publicly financed institutions under this instrument since its inception, is provided in Figure 1:

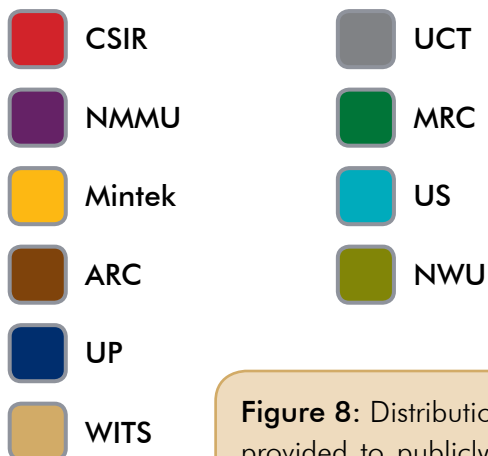
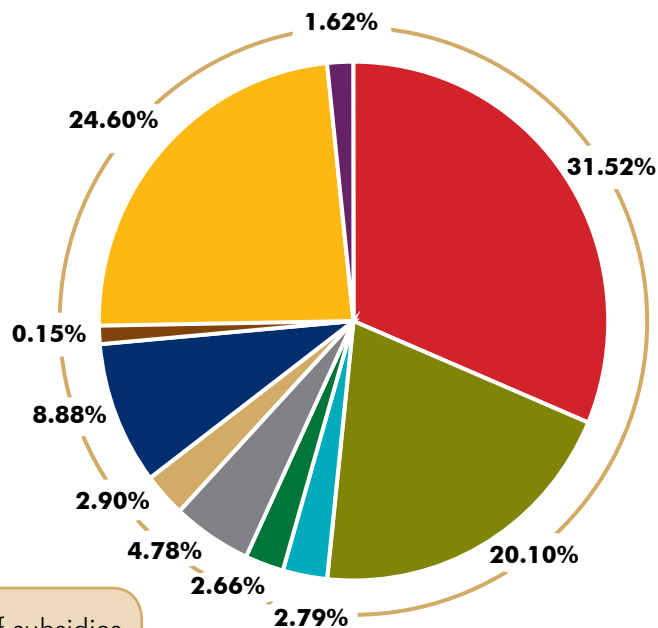


Figure 8: Distribution per institution of subsidies provided to publicly financed institutions in the period 2003 – 2008.



MCLEAN SIBANDA
SENIOR PATENT ATTORNEY



The Patent Support Fund – Institutions is expected to be folded into and form the foundation for the Intellectual Property Fund to be established when the Intellectual Property Rights from Publicly Financed Institutions Bill becomes law.

Although the uptake of the Patent Incentive Fund has been slow, it is expected to grow in the foreseeable future due to increased provisional patent application filings as evidenced by the data from the institutions and the increasing amount of subsidies under the patent Support Fund – Institutions.

In 2008/9, focus will be placed on marketing the Patent Support Fund-SME and Techno-entrepreneur instruments to the private sector, to ensure that they indeed contribute to improved intellectual property protection and utilisation to the benefit of South Africa.

IPMO, through secondment of personnel to the Department of Science and Technology, supported the drafting and further development of the Intellectual Property Rights from Publicly Financed Research and Development Bill and associated regulations. The IPR Bill is expected to come into law before the end of 2008/9 financial year.

The year also saw an increased focus on patent awareness, with the Innovation Fund publishing the State of Patenting in South Africa 2007 Special

Report, which clearly indicates that South Africa has a low patenting rate and publicly financed institutions contribute around five percent of all patenting abroad by South Africans. This report provides a basis for reviewing the impact of the IPR Bill in the future. The roadshows held in Bloemfontein, Cape Town, Durban, and Johannesburg to launch this report, also focused on dispelling the myth that patenting and publication were mutually exclusive.

During the year, two new candidates, namely Ntanganedzeni Ranwedzi (MSc (Wine Biotechnology)) and Lethukuthula Mbatha (BSc (Botany); LLB) joined the Innovation Fund patent attorney development program aimed at increasing the pool of intellectual property management skills in the public sector. The first candidate to enter the program, Ms Teresiah Malatji (MSc (Microbiology), LLB) will complete her articles of clerkship with Messrs Adams & Adams in September 2008, and take the Attorney Admission Examinations, after having completed the Practical Legal Training Course. Six new candidates will be recruited into the program during 2008/9 financial year.

IPMO continued to support the various business units of the Innovation Fund with intellectual property reviews and novelty assessments of new and funded projects. IPMO's contract management capacity was enhanced with the recruitment of Malesela Lekoto from the private sector as a commercial contracts attorney.

R & D FUNDING UNIT

The Technology Advancement Programme (TAP) is the primary funding instrument of the innovation fund. It funds proof-of-science to proof-of-concept research and development carried out by start-up companies, SMMEs, HEIs and Science Councils or a consortium of these entities. TAP serves to feed the Seed Fund with commercialisation opportunities from intellectual property created or developed during the TAP projects.

Overall, 130 projects have been approved since the inception of the Innovation Fund in 1999. This represents a total R&D investment of R986 249 529.

Eight new TAP projects were approved for funding in the financial year under review, resulting in a total commitment of R80.8 million of new funding over a three-year period (please refer to table).



DR JANINE CHANTSON
R&D MANAGER

PROJECT TITLE	TECHNOLOGY SECTOR	LEAD ORGANISATION AND PROJECT LEADER	CONSORTIUM MEMBERS
Nitrogen Metabolism in Nguni Cattle	Agriculture	ARC - Hans Van Zyl	University of Pretoria, CSIR, Taurus Sock Improvement Cooperative Ltd
Solid Polymer Electrolyser	Energy	University of the Western Cape – Prof Vladimer Linkov	CSIR
Pavettamine based HIV protease inhibitors	Drug development	CSIR – Dr Moira Bode	University of Pretoria, ARC
Energy Optimiser	Mining	Stoner (Pty) Ltd – Joe Felix	CSIR, Paterson and Cooke Consulting Engineering (Pty) Ltd

Table 2

PROJECT TITLE	TECHNOLOGY SECTOR	LEAD ORGANISATION AND PROJECT LEADER	CONSORTIUM MEMBERS
Novel Drug Development Platform (Malaria)	Drug development	MRC – Prof Peter Folb	CSIR, University of Cape Town, University of KwaZulu-Natal, South African National Biodiversity Institute
Flexible Body Armour	New Materials	UCJ Investments Ltd – Roelf Mostert	JasMeg Investments (Pty) Ltd, University of Pretoria, Bullet Proofing Technologies (Pty) Ltd
Bandwidth Adaptive Real-Time Video Broadcasting over Internet	ICT	CSIR – Dr Keith Ferguson	East Coast Access (Pty) Ltd, University of Cape Town
Indigenous Botanical Adjuvant Technologies	Agriculture	University of the Western Cape – Dr Jeremy Klaasen	ARC, Experico (Pty) Ltd

In addition to these eight new projects, the R&D Funding Office is actively managing approximately 35 running projects in which R&D activities are still being actively pursued or where the projects are in the process of being completed.

The number of new TAP applications received during the year under review is down from seventy in 2006/7 to fifty-three in 2007/8. Of the fifty-three new applications, twenty-three were submitted in response to special closed calls that were issued in the following specific focus areas:

- Specific Niche Products Minerals Beneficiation;
- Minerals Beneficiation Technologies;

- Bio-fuel Production;
- Information and Communication Technologies.

Gauteng remains the region from which most applications are generated (60%), followed by the Western Cape (15%) and KwaZulu-Natal (13%). A positive development this year has been an increased number of applications from the Eastern Cape (9%), as well as one application from the Northern Cape. No applications were received from Free State, Limpopo, Mpumalanga and North-West Provinces.

The majority of the new applications were received from the private sector (66%), followed by Science Councils (19%) and Higher Education Institutions (13%). One application

was submitted by a Non-Governmental Organisation.

R1:R1 from an industry partner.

MITECH

The Missions in Technology programme (MiTech) was created to develop economic sector technology requirements with participation from large industry players. MiTech projects require matching funding of

No new MiTech applications were received, but a dedicated programme manager for MiTech was appointed towards the end of the 2007/8 financial year with the aim of developing a more focused strategy to attract industry partners to co-invest in MiTech projects and in so doing, to grow the MiTech project portfolio.

GROUP ANNUAL FINANCIAL STATEMENTS

The group financial statements set out on pages 39 to 67 were approved by the National Research Foundation (NRF) and the Department of Science and Technology (DST) on 27 June 2008 and are signed on its behalf by:



Dr B Mehlomakulu
Deputy Director-General
Department of Science and Technology



Dr Albert van Jaarsveld
Vice President NRF:
National Research Foundation

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE INNOVATION FUND FOR THE YEAR ENDED 31 MARCH 2008

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the accompanying group financial statements of the Innovation Fund which comprise the consolidated and separate statement of financial position as at 31 March 2008, consolidated and separate statement of financial performance, consolidated and separate statement of changes in the DST account and the consolidated and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

RESPONSIBILITY OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South Africa Statements of Generally Accepted Accounting Practice (SA statements of GAAP) and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). 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

- making accounting estimates that are reasonable in the circumstances.
- Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)], my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. 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.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used

- reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Innovation Fund and Group as at 31 March 2008, its financial performance and cash flows for the year then ended, in accordance with the South African statements of Generally Accepted Accounting Practice as set out in accounting policy note 1 and in the manner required by the PFMA.

EMPHASIS OF THE MATTER

Without qualifying my audit opinion, I draw attention to the following matter

RESTATEMENT OF CORRESPONDING FIGURES

9. As disclosed in note 10 to the financial statements, the accounting treatment for grant income and expenses was changed in order to comply with IAS 20, Accounting for government grants and disclosure of government assistance. This resulted in a retrospective adjustment being recorded.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matter that relates to my responsibilities in the audit of the financial statements;

MATTERS OF GOVERNANCE

10. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Table 3

MATTER OF GOVERNANCE	YES	NO
AUDIT COMMITTEE		
The Innovation Fund had an audit committee in operation throughout the financial year.	✓	
The audit committee operates in accordance with approved, written terms of reference.	✓	
The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.	✓	
INTERNAL AUDIT		
The Innovation Fund had an internal audit function in operation throughout the financial year.	✓	
The internal audit function operates in terms of an approved internal audit plan.	✓	
The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2.	✓	
OTHER MATTERS OF GOVERNANCE		
The annual financial statements were submitted for audit as per the legislated deadlines section 40 of the PFMA for public entities	✓	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	✓	
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
The prior year's external audit recommendations have been substantially implemented.	✓	

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

11. I was engaged to review the performance information

RESPONSIBILITY OF THE ACCOUNTING OFFICER FOR THE PERFORMANCE INFORMATION

12. The accounting officer has additional responsibilities as required by section 40(3) (a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the Innovation Fund.

RESPONSIBILITY OF THE AUDITOR-GENERAL

13. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

14. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the

auditor's judgement.

AUDIT FINDINGS (PERFORMANCE INFORMATION)

15. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

16. The assistance rendered by the staff of the Innovation Fund and National Research Foundation during the audit is sincerely appreciated.

Auditor-General

Auditor-General

Pretoria

14 November 2008



A U D I T O R - G E N E R A L

EXECUTIVE DIRECTOR'S REPORT

31 MARCH 2008

INTRODUCTION

The Executive Director has the pleasure of presenting his report on the activities of the Innovation Fund for the year ended 31 March 2008.

PRINCIPAL ACTIVITIES OF THE INNOVATION FUND

The principal activities of the Innovation Fund are to fund research and development activities and fund the commercialization thereof. The Innovation Fund is managed and administered by the National Research Foundation (NRF) on behalf of the Department of Science and Technology (DST).

FINANCIAL RESULTS

The financial results of the Innovation Fund are set out in the group financial statements.

AMOUNTS RECEIVED FROM DST

Contributions received and allocated from DST for the funding of projects and the commercialization thereof amounted to R176 818 000.

EVENTS SUBSEQUENT TO YEAR-END

Dr Eugene Lottering the Innovation Fund Executive Director resigned from his position with effect from the 28 of July 2008. Subsequent to Dr Lottering resignation, the NRF appointed Messrs D. C Raftesath and M. Sibanda as Acting Executive Directors.

The Acting Executive Directors are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, that would affect the operations of the Innovation Fund, or the results of operations, significantly.

PRIOR YEAR ADJUSTMENTS

An adjustment has been made to prior year figures to remove the provision for current and non-current liabilities relating to project funding. The change was occasioned by the interpretation of whether future contractual commitments are to be disclosed as a liability in the statement of financial position (being the accepted disclosure in prior years), or whether such contractual commitments are merely disclosed as a commitments note. Our technical consultants advised a change of disclosure as a note. This is disclosed as note 21.

CONTACT PERSONS

The NRF has appointed the Acting Executive Directors of the Innovation Fund, Mr D Raftesath & Mr M Sibanda, as the official contact persons.

The registered address of Innovation Fund is:
PO Box 2600
Pretoria
0001

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2008

	NOTES	GROUP		INNOVATION FUND	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
DST income	2	178,508	108,501	178,508	108,501
Other income	3	1,270	304	1,270	304
Investment income	4	11,638	10,504	11,638	10,504
TOTAL INCOME		191,416	119,309	191,416	119,309
Project funding expenditure	5	(90,435)	(81,709)	(90,435)	(81,709)
Donations and sponsorships	9	(7,262)	(9,132)	(7,262)	(9,132)
Impairment of investments	6	(62,183)	(1,000)	(62,183)	(1,000)
Share of loss of associates		(5,917)	(401)	-	-
Operating expenditure		(18,628)	(16,660)	(18,628)	(16,660)
SURPLUS FOR THE YEAR	7	6,991	10,407	12,908	10,808

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2008

	NOTES	GROUP		INNOVATION FUND	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
ASSETS					
Non current assets		46,366	35,659	57,092	40,469
Investment in associates	11	46,366	30,424	57,092	35,234
Loans and receivables	12	-	2,802	-	2,802
Available-for-sale investments	13	-	2,433	-	2,433
Current assets		114,396	118,221	114,396	118,221
Trade and other receivables	14	39,038	21,087	39,038	21,087
Current portion of loans receivable	12	-	230	-	230
Cash and cash equivalents	15	75,358	96,904	75,358	96,904
TOTAL ASSETS		160,762	153,880	171,489	158,690
LIABILITIES					
Funds					
The DST account		130,940	123,665	141,667	128,475
Non-current liabilities					
Deferred Income	16	27,065	28,755	27,065	28,755
Current liabilities					
Project funding	17	-	284	-	284
Provisions	18	634	429	634	429
Trade and other payables	19	2,123	747	2,123	747
TOTAL LIABILITIES		160,762	153,880	171,489	158,690

STATEMENT OF CHANGES IN THE DST ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2008

		GROUP	INNOVATION FUND
	NOTE	R'000	R'000
Balance as at 31 March 2006		(3,020)	(3,020)
Net surplus for the year		10,407	10,808
Decrease in project funding liabilities		120,687	120,687
Reversal of prior year project funding accruals		120,971	120,971
Accrual of current and non current liabilities		(284)	(284)
Share of loss of associates		(4,409)	-
Balance at 31 March 2007		123,665	128,475
Net surplus for the year	7	6,991	12,908
Decrease in project funding liabilities		284	284
Balance at 31 March 2008		130,940	141,667



CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2008

	NOTE	GROUP		INNOVATION FUND	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
OPERATING ACTIVITIES					
Cash receipts		179,778	108,805	179,778	108,805
Cash paid to projects		(112,277)	(74,635)	(112,277)	(74,635)
Cash used in operations	A	67,501	34,170	67,501	34,170
Cash from investment income		8,157	8,975	8,157	8,975
Cash paid to suppliers and employees		(18,628)	(16,660)	(18,628)	(16,660)
Net cash used in operating activities		57,030	26,485	57,030	26,485
FINANCING ACTIVITIES					
Loans and receivables		2,802	(521)	2,802	(521)
Investment in associates		(84,041)	(10,718)	(84,041)	(10,718)
Available-for-sale investments		2,663	(2,494)	2,663	(2,494)
Net cash used in investing activities		(78,576)	(13,733)	(78,576)	(13,733)
Net increase / (decrease) in cash and cash equivalents		(21,546)	12,752	(21,546)	12,752
Cash and cash equivalents at the beginning of the year		96,904	84,152	96,904	84,152
Cash and cash equivalents at the end of the year		75,358	96,904	75,358	96,904

NOTE TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2008

	GROUP		INNOVATION FUND	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
RECONCILIATION OF DEFICIT FOR THE YEAR TO CASH USED IN OPERATIONS				
Net surplus for the year	6,991	10,407	12,908	10,808
Adjusted for :				
Impairment	62,183	1,000	62,183	1,000
Share of loss of associates	5,917	401	-	-
Operating expenditure paid	8,628	16,660	18,628	16,660
Investment income	(11,638)	(10,504)	(11,638)	(10,504)
Net funds before working capital changes	82,081	17,964	82,081	17,964
Working capital	(14,580)	16,206	(14,580)	16,206
(Increase) in trade and other receivables	(14,471)	(11,890)	(14,471)	(11,890)
Increase / (decrease) in deferred income	(1,690)	28,755	(1,690)	28,755
Increase / (decrease) in trade and other payables	1,581	(659)	1,581	(659)
Cash used in operations	67,501	34,170	67,501	34,170



NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

1. PRINCIPAL ACCOUNTING POLICIES

The group annual financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies, which have been consistently applied in all material respects unless stated otherwise. The group annual financial statements comply with South African Statements of Generally Accepted Accounting Practice in all material respects, and the Public Finance Management Act, Act 1 of 1999 as amended.

1.1 GOVERNMENT TRANSFERS AND CONTRIBUTIONS

Government transfers and contributions are recognized in the statement of financial performance in the period to which the grant or contribution relates.

1.2 REVENUE RECOGNITION

Revenue is recognized when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably.

1.3 PROJECT FUNDS AND GRANTS

Project funds, donations and sponsorships are recognized in the statement of financial position in the period in which the expense is incurred.

1.4 INVESTMENT IN ASSOCIATES

The Group's investment in its associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

1.5 IMPAIRMENT OF INVESTMENT IN ASSOCIATES

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in profit or loss.

1.6 TAXATION

The Innovation Fund is exempt from paying normal taxation.

1.7 FINANCIAL INSTRUMENTS

Recognition

Financial assets and financial liabilities are recognized on the Fund's statement of financial position when the Fund becomes a party to the contractual obligations of the instrument.

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

- **Trade receivables**
Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
- **Investments and other financial assets**
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation

at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

- **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit or loss.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

- **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

- **Available-for-sale financial investments**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the

investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

- **Fair value**

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

- **Amortised cost**

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

- **Impairment of financial assets**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

- **Assets carried at amortised cost**

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are

assessed as uncollectible.

- **Available-for-sale financial investments**

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

- **Financial liabilities**

The Fund's principal financial liabilities are accounts payable and project funding.

All financial liabilities are measured at amortized cost, comprising original debt less principal payments and amortizations.

- **Interest bearing loans and borrowings**

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'. After initial recognition,

interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

- **Trade payables**

Trade payables are shown at their nominal value

- **Project funding**

Project funding liabilities are only disclosed if it is probable that such liability will be

paid in the appropriate period.

- **Prior year adjustments / errors**

Material prior year adjustments are done retrospectively in the first set of financial statements authorised for issue after their discovery by:

- a) restating the comparative amounts for the prior period presented in which the error occurred; or
- b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented

	GROUP		INNOVATION FUND	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2. DST INCOME				
Funding received from DST	176,818	137,256	176,818	137,256
Deferred Income	1,690	(28,755)	1,690	(28,755)
	178,508	108,501	178,508	108,501
3. OTHER INCOME				
Consultation & Services Rendered	-	295	-	295
Royalties received	133	9	133	9
Profit on sale of shares	1,137	-	1,137	-
	1,270	304	1,270	304
4. INVESTMENT INCOME				
Interest received from banks	9,433	9,327	9,433	9,327
Interest received from loans	2,205	1,177	2,205	1,177
	11,638	10,504	11,638	10,504
5. PROJECT FUNDING EXPENDITURE				

Project funding represents monies paid relating to the current financial year for Research and Development projects.

	2008 R'000	2007 R'000	2008 R'000	2007 R'000
6. IMPAIRMENT OF INVESTMENTS				
Impairment of investments in associates	50,326	1,000	50,326	1,000
Impairment of loans and receivables	8,532	-	8,532	-
Impairment of available-for-sale investments	1,848	-	1,848	-
Impairment of interest receivable on loans	1,477	-	1,477	-
	62,183	1,000	62,183	1,000

GROUP

INNOVATION FUND

7. SURPLUS FOR THE YEAR

Net surplus for the year amounted to R12 908 (Group: R6 991). The total amount of cash on hand has been committed as project funding expenditure to be paid in future financial years.

8. EXECUTIVE DIRECTOR'S SALARY			2008 R'000	2007 R'000
E Lottering				
Short term benefits			770	646
Post retirement benefits			69	41
Other benefits			271	112
			1,110	799
9. DONATIONS AND SPONSORSHIPS	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Plantbio Trust				
National biotechnology conference known as "Bio2Biz SA 2006".	-	120	-	120
Bio2Biz				
National biotechnology conference known as "Bio2Biz SA 2007".	120	-	120	-
Wits University				
Promotion at national biotechnology conference known as "Bio2Biz SA 2007".	20	-	20	-
Plant Health Products				
Promotion at national biotechnology conference known as "Bio2Biz SA 2007".	20	-	20	-

	GROUP		INNOVATION	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
9. DONATIONS AND SPONSORSHIPS				
Rural Integrated Engineering Promotion at national biotechnology conference known as "Bio2Biz SA 2007".	20	-	20	-
North West University Promotion at national biotechnology conference known as "Bio2Biz SA 2007".	20	-	20	-
Altis Biologics Promotion at national biotechnology conference known as "Bio2Biz SA 2007".	20	-	20	-
Words' Worth Publishing Consultants The service provider was appointed to showcase the National Innovation Competition (NIC) students' business plans and to co-ordinate the awards ceremony and media campaign.	603	741	603	741
Capacity Building Assisting with salaries and initial set-up costs of Technology Transfer Office at higher education institutions.	2,139	3,270	2,139	3,270
Patent Support Fund Reimbursing publically funded research institutions for patent costs incurred, a year in arrear, to encourage the rate of patenting activity in South Africa.	3,473	4,247	3,473	4,247
Patent Incentive Fund Providing incentives to inventors at publicly funded institutions to file and protect their inventions by getting patents granted at the South African Patents Office.	827	754	827	754
	7,262	9,132	7,262	9,132

10. PRIOR-YEAR ADJUSTMENTS / ERRORS	GROUP		INNOVATION	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000

Share of loss of associates

An associate changed its accounting policy during the current financial year to make provision for deferred tax, back dated to the previous year.

The effect of this adjustment on the 2007 results is as follow:				
Share of loss of associates decreased by	3,923	-	-	-
Investment in associates increased by	3,923	-	-	-

Current and Non-current liabilities

The Innovation Fund typically fund projects that run over more than one year. Previously it disclosed the future contracted amounts as liabilities. It is now reflected as commitments.

The effect of this adjustment on the 2007 results is as follow:

DST Account decreased by		169,290		169,290
Non-current portion of project funding decreased by		65,324		65,324
Current portion of project funding decreased by		103,966		103,966
Deferred Income				

The Innovation Fund previously accounted for grants received from government as Revenue. This treatment has been changed retrospectively to be in line with accounting standards. Funding received from government which has not yet been used to fund projects, are now reflected as Deferred Income.

The effect of this adjustment on the 2007 results is as follow:

Revenue decreased by		28,755		28,755
Deferred Income increased by		28,755		28,755

			GROUP		INNOVATION FUND	
11. INVESTMENT IN ASSOCIATES			2008 R'000	2007 R'000	2008 R'000	2007 R'000
Cost of investments less impairment losses			50,323	28,465	50,323	28,465
Loans to associates			6,769	6,769	6,769	6,769
Accumulated Share of post-acquisition losses			(10,726)	(4,810)	-	-
			46,366	30,424	57,092	35,234
Director's valuation of investments in associates			46,366	30,424	57,092	35,234

The following are details of the significant associate's assets, liabilities, income and expense as at 31 March 2008:

NAME OF ASSOCIATE	PRINCIPAL ACTIVITY	PORTION OF OWNERSHIP INTEREST	PORTION OF VOTING POWER HELD	CARRYING VALUE		FINANCIAL YEAR END
				2008 R'000	2007 R'000	
Adept (Pty) Ltd (152 ordinary shares and 350 class "A" shares which will change into ordinary shares over the life of the project as funds are disbursed)	Development & commercialization of general aviation engine	25%	25%	-	-	February

NAME OF ASSOCIATE	PRINCIPAL ACTIVITY	PORTION OF OWNERSHIP INTEREST	PORTION OF VOTING POWER HELD	CARRYING VALUE		FINANCIAL YEAR END
				2008 R'000	2007 R'000	
Blue Cube Systems (Pty) Ltd (333 280 ordinary shares)	Development & commercialization of high-technology non-contact sensors	25%	25%	-	2,000	December
Blue Cube Systems Intellectual Property (Pty) Ltd (33 328 ordinary shares)	Development of high-technology non-contact sensors	25%	25%	-	-	December
Eyeborn (Pty) Ltd (25 ordinary shares)	Development of orbital implants and orbital implant inserters	25%	25%	-	-	March
Geratech Investments (Pty) Ltd (26 614 ordinary shares)	Production of zirconium chemicals and oxides	48%	48%	39,597	21,655	February
Geratech Investments (Pty) Ltd (Convertible loan)	Production of zirconium chemicals and oxides	n/a	n/a	6,769	6,769	February
Jirehsa Medical (Pty) Ltd (69 ordinary shares)	Development & commercialization of a retainer tube	31%	31%	-	-	February

NAME OF ASSOCIATE	PRINCIPAL ACTIVITY	PORTION OF OWNERSHIP INTEREST	PORTION OF VOTING POWER HELD	CARRYING VALUE		FINANCIAL YEAR END
				2008 R'000	2007 R'000	
Optimal Energy (Pty) Limited (299 ordinary shares of which 99 are warehoused for possible BEE participation)	Development of electric vehicle	60%	60%	-	-	February
Safe Eggs (Pty) Ltd (40 ordinary shares)	Pasteurizing of eggs	20%	20%	-	-	April
Tenacent SA (Pty) Ltd (25 ordinary shares)	Development & commercialization of cargo & container seal	20%	20%	-	-	February
Vibol Systems (Pty) Ltd	Production of Knuckle Joints for exhaust systems	20%	20%	-	-	June
				46,366	30,424	

The Innovation Fund holds 99 shares in Optimal Energy for possible BEE participation, of which 15 shares have already been allocated in principle. Any outstanding shares will revert to the IF if not used by November 2009.



Summary of associates financial statements:

				ASSOCIATES	
				2008 R'000	2007 R'000
Current assets				9,003	3,795
Long term assets				67,271	59,446
Current liabilities				5,960	17,819
Long term liabilities				22,799	23,526
Income				18,973	4,808
Expenses				34,378	13,797

12. LOANS AND RECEIVABLES	GROUP		INNOVATION FUND	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Ostecs Open Systems Technologies (Pty) Ltd The loan accrues interest at a rate of Prime interest rate and is repayable in one lump sum on 30 September 2010.	232	202	232	202
Vibol Systems (Pty) Ltd The loan is repayable to the Innovation Fund in monthly instalments at an interest rate of Prime plus 3% per annum.	4,061	2,975	4,061	2,975
Cerdak (Pty) Ltd The loan is repayable to the Innovation Fund in equal monthly instalments at an interest rate of Prime plus 1% per annum. In the event of default by Cerdak, the Innovation Fund shall be entitled to convert the loan into fully paid-up shares.	346	286	346	286
Blue Cube Systems (Pty) Ltd The convertible loan accrues interest monthly at prime interest rate for the first 30 months, thereafter at prime plus 3%.	1,008	-	1,008	-
Nkomazi Chemicals (Pty) Ltd The loan does not bear interest.	500	-	500	-
Sunspace & Information Systems (Pty) Ltd The loan accrues interest monthly at prime interest rate and is repayable on or before the end of the 12th month.	3,862	-	3,862	-
	10,009	3,463	10,009	3,463

Impairment of loans	(8,532)	-	(8,532)	-
Interest receivable	(1,477)	(431)	(1,477)	(431)
Short term portion of Cerdak (Pty) Ltd	-	(230)	-	(230)
	-	2,802	-	2,802
Director's valuation of loans and receivables	-	2,802	-	2,802
13. AVAILABLE-FOR-SALE INVESTMENTS	GROUP		INNOVATION FUND	
UNLISTED:	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Justick International (Pty) Ltd (5000 ordinary shares, 10% shareholding)	1,648	1,450	1,648	1,450
Justick International (Pty) Ltd (Loan)	200	200	200	200
Justick IP (Pty) Ltd (5000 ordinary shares, 10% shareholding)	-	-	-	-
Red Five Labs (Pty) Ltd (181 ordinary shares, 11.76% shareholding)	-	782	-	782
Electric Genetics (Pty) Ltd (512 ordinary shares, 5.5% shareholding)	-	1,000	-	1,000
	1,848	3,432	1,848	3,432
Less: Provision for impairment	(1,848)	(999)	(1,848)	(999)
	-	2,433	-	2,433
Director's valuation of available-for-sale-investments	-	2,433	-	2,433

14. TRADE AND OTHER RECEIVABLES	GROUP		INNOVATION FUND	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Refunds receivable on cancelled projects	7,087	7,504	7,087	7,504
Less: Provision for bad debts (project number 41239)	(6,854)	(6,854)	(6,854)	(6,854)
	233	650	233	650
Royalties	7	5	7	5
Project advances	34,999	18,424	34,999	18,424
Operating Expenditure over recovered by NRF	155	-	155	-
Interest receivable	5,121	2,008	5,121	2,008
Less: Impairment of Interest receivable	(1,477)	-	(1,477)	-
	39,038	21,087	39,038	21,087

The directors consider that the carrying amount of trade and other payables approximate to their fair value.

15. CASH AND CASH EQUIVALENTS

As required by section 7(2) and 7(3) of the Public Finance Management Act, the National Treasury has approved the local banks where the bank accounts are held. The total amount of cash on hand has been committed as project funding expenditure to be paid in future financial years.

16. DEFERRED INCOME	GROUP		INNOVATION FUND	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Deferred Income in respect of Government funding received				
Opening Balance	28,755	-	28,755	-
Income deferred for future years	(1,690)	28,755	(1,690)	28,755
	27,065	28,755	27,065	28,755

17. PROJECT FUNDING

This amount represents monies payable in terms of contractual obligations for which an acceptable progress report has been received but which has not yet been paid.

18. PROVISIONS

Provisions are recognized when the fund has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be estimated reliably. The present obligation is uncertain in timing.

	GROUP		INNOVATION FUND	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Leave Provision	524	390	524	390
Deferred salary	110	39	110	39
	634	429	634	429
	GROUP		INNOVATION FUND	
ANALYSIS OF 2008:	LEAVE PROVISION	DEFERRED SALARY	LEAVE PROVISION	DEFERRED SALARY
Opening Balance	390	39	390	39
Previous year provision increased by	134	71	134	71
Closing Balance	524	110	524	110

19. TRADE AND OTHER PAYABLES

This balance relates primarily to the balance of a reimbursement of operating expenditure payable to the NRF for the year ended 31 March 2008.

20. CONTINGENT LIABILITIES

Project funding under the Research and Development programme in which further funding is contingent upon further negotiations, are:

	GROUP		INNOVATION FUND	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Payable in next financial year	1,652	5,056	1,652	5,056
	1,652	5,056	1,652	5,056

21. FUTURE COMMITMENTS

Project funding under the Research and Development programme in terms of signed contracts.

	GROUP		INNOVATION FUND	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Funding Commitments for next year	91,462	103,654	91,462	103,654
Funding Commitments for subsequent years	27,229	64,073	27,229	64,073
	118,691	167,727	118,691	167,727



22. FINANCIAL RISK MANAGEMENT

22.1 INTEREST RATE RISK

The Fund's exposure to the risk of changes in market interest rates relates primarily to the Fund's short-term investments with floating interest rates. The Fund adopts a policy of ensuring that its exposure to changes in interest rates is on a floating basis by investing at different reputable banks at best possible rate. Funds not invested into fixed deposits, are kept on call investments.

22.2 LIQUIDITY RISK

The Fund generally awards funding to projects for periods of three to five years. This creates a significant liquidity risk. The fund's management constantly

monitors its liquidity and actively manages its cash resources and ensures it does not exceed its anticipated multi-year MTEF allocation.

22.3 CREDIT RISK MANAGEMENT

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position. This risk is controlled by management through a process of careful evaluation of any possible investment opportunity. The fund generally hedges its risk on loans made by ensuring that the fund has an option of converting to shares in the event of a default.

23. COMPARATIVE FIGURES

No comparative figures have been reclassified.

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The Innovation Fund is an instrument of the
Department of Science and Technology,
managed by the National Research Foundation

