

HOUSING FINANCE COMPANY LIMITED

Directors' Report and Financial Statements

Year ended December 31, 2011

HOUSING FINANCE COMPANY LIMITED

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CORPORATE INFORMATION

DIRECTORS	: Patrick Lablache (Chairperson) Charles Bastienne (Chief Executive Officer) Christian Lionnet Olsen Vidot Sitna Cesar
SECRETARY	: Denise Fred Petit Paris, Mahé, Seychelles
REGISTERED OFFICE	: 1st Floor, Victoria House, P O Box 1112 Victoria, Mahé, Seychelles
PRINCIPAL PLACE OF BUSINESS	: 1st Floor, Victoria House, Victoria, Mahé, Seychelles
AUDITORS	: BDO Associates Chartered Accountants Seychelles
BANKERS	: Nouvobanq Barclays Bank (Seychelles) Ltd The Mauritius Commercial Bank (Seychelles) Ltd Habib Bank Limited Seychelles Savings Bank Ltd Bank of Baroda Ltd

DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited financial statements of the Company for the year ended December 31, 2011.

PRINCIPAL ACTIVITIES

The Company is engaged in the provision of finance to the housing sector. It also operates in sales, leasing and rental of flats and houses.

RESULTS

SR

Profit before tax	17,176,075
Tax charge	(2,620,802)
Profit for the year	<u>14,555,273</u>
Retained earnings brought forward	28,319,136
Retained earnings carried forward	<u><u>42,874,409</u></u>

DIVIDENDS

The Directors did not recommend any dividends for the financial year under review (2010: Nil).

PROPERTY AND EQUIPMENT

Additions to property and equipment of SR 1,327,027 during the year comprised computers, motor vehicles, furniture and fittings and equipment.

The Directors are of the opinion that the carrying amount of property and equipment does not materially differ from its fair value as at December 31, 2011.

DIRECTORS AND DIRECTORS' INTEREST

The Directors of the Company holding office as at December 31, 2011 are:

Patrick Lablache (Chairperson)
Charles Bastienne (Chief Executive Officer)
Christian Lionnet
Olsen Vidot
Sitna Cesar

None of the Directors held an interest in the shares of the Company during the year under review.

DIRECTORS' REPORT (CONT'D)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the overall management of the affairs of the Company including the operations of the Company and making investment decisions.

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Standards in Seychelles and in compliance with the Seychelles Companies Act, 1972. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The Directors have the general responsibility of safeguarding the assets, both owned by the Company and those that are held in trust and used by the Company.

The Directors consider they have met their aforesaid responsibilities.

AUDITORS

The auditors, Messrs. BDO Associates, Seychelles retire and being eligible offer themselves for re-appointment.

BOARD APPROVAL



Charles Bastienne
Director



Christian Lionnet
Director



Olsen Vidot
Director



Patrick Lablache
Director



Sitna Cesar
Director

March 29, 2012
Victoria, Seychelles

HOUSING FINANCE COMPANY LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

This report is made solely to the members of the Company, as a body, in terms of our engagement to conduct the audit on their behalf. Our audit work has been undertaken so that we might state to the members those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on the Financial Statements

We have audited the attached financial statements of Housing Finance Company Limited set out on pages 4 to 26 which comprise the Balance Sheet at December 31, 2011, the Income Statement, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and explanatory notes.

Board's Responsibility for the Financial Statements

As stated on page 2(a) of the Director's Report, the Board of Directors are responsible for preparation of the financial statements.

Auditors' Responsibility

Our responsibility is to express an opinion on those financial statements based on our audit. We conducted our audit in accordance with Generally Accepted Standards on Auditing in Seychelles. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditors consider internal control relevant to the Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the financial statements.

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

HOUSING FINANCE COMPANY LIMITED**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS (CONT'D)****Report on Other Legal Regulatory Requirements*****Companies Act, 1972***

We have no relationship with, or interests, in the Company other than in our capacity as auditors, tax and business advisers and dealings in the ordinary course of business.

We have obtained all information and explanations we have required.

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

Public Enterprise (Monitoring Act), 2009

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

We have obtained all the information necessary for the purpose of our audit and are satisfied with the information received.

Financial Institutions Act, 2004

The Financial Institutions Act, 2004 requires that in carrying out our audit, we consider and report to you the following matters. We confirm that:

- In our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with certain provisions of the Financial Institutions Act, 2004 as applicable.
- The explanations or information called for or given to us by the employees of the Company were satisfactory.
- The Company did not carry out any fiduciary duties for the year under review.

A handwritten signature in black ink that reads 'BDO Associates' in a cursive, stylized script.

BDO ASSOCIATES
Chartered Accountants

March 29, 2012
Victoria, Seychelles

HOUSING FINANCE COMPANY LIMITED

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BALANCE SHEET - AS AT DECEMBER 31, 2011

	Notes	2011 SR	2010 SR
ASSETS			
Cash and bank balances	5	5,130,261	30,849,357
Loans and advances	6	510,603,312	421,021,710
Finance lease receivable	7	339,974,481	214,035,088
Investment properties	8	161,572,048	140,893,920
Property and equipment	9	1,849,204	951,265
Trade and other receivables	10	15,528,230	13,097,392
TOTAL ASSETS		1,034,657,536	820,848,732
LIABILITIES			
Borrowings	11	175,656,020	195,807,556
Other payables and accruals	12	40,658,700	25,255,806
Current tax liability	13(a)	5,738,376	4,201,984
Retirement benefit obligations	14(a)	186,187	395,981
TOTAL LIABILITIES		222,239,283	225,661,327
SHAREHOLDERS' FUND			
Share capital	15	20,000,000	20,000,000
Capital reserve	2(f)(vi)	730,066,543	529,433,455
Retained earnings		42,874,409	28,319,136
		792,940,952	577,752,591
Contingency reserve	16	19,477,301	17,434,814
TOTAL SHAREHOLDERS' FUNDS		812,418,253	595,187,405
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		1,034,657,536	820,848,732

These financial statements have been approved for issue by the Board of Directors on March 29, 2012


Charles Bastienne
Director


Christian Lionnet
Director


Patrick Lablache
Director


Olsen Vidot
Director


Sitna Cesar
Director

The notes on pages 8 to 26 form an integral part of these financial statements.
Auditors' Report on pages 3 to 3(a).

INCOME STATEMENT - YEAR ENDED DECEMBER 31, 2011

	Notes	2011 SR	2010 SR
Interest income		46,878,824	43,004,840
Interest expense		(10,946,838)	(12,210,908)
Net interest	17	<u>35,931,986</u>	<u>30,793,932</u>
Fee and commission income		1,646,017	637,484
Fee and commission expense		(2,189,962)	(3,408,554)
Net fee and commission	18	<u>(543,945)</u>	<u>(2,771,070)</u>
Net interest, fee and commission		35,388,041	28,022,862
Rental income		11,373,674	11,325,561
Other income	19	885,250	8,089,525
Operating expenses	20	(36,708,124)	(30,376,740)
Write back of / (Provision for) credit impairment		<u>6,237,234</u>	<u>(2,561,247)</u>
Profit before tax		17,176,075	14,499,961
Tax expense	13(b)	(2,620,802)	(5,000,000)
Profit for the year		<u><u>14,555,273</u></u>	<u><u>9,499,961</u></u>

The notes on pages 8 to 26 form an integral part of these financial statements.
Auditors' Report on pages 3 to 3(a).

STATEMENT OF CHANGES IN EQUITY - YEAR ENDED DECEMBER 31, 2011

	Notes	Share capital SR	Capital Reserve SR	Retained earnings SR	Total SR
At January 1, 2011		20,000,000	529,433,455	28,319,136	577,752,591
Profit for the year		-	-	14,555,273	14,555,273
Movement in finance lease					
- Additions	7	-	128,406,967	-	128,406,967
- Repayments	7	-	(15,962,769)	-	(15,962,769)
Movement in investment properties					
- Additions	8	-	28,222,453	-	28,222,453
- Amortisation for the year	8	-	(7,544,325)	-	(7,544,325)
Grants received		-	50,000,000	-	50,000,000
Receipt on condominium scheme	6(ii)	-	506,750	-	506,750
Others		-	17,004,012	-	17,004,012
At December 31, 2011		<u>20,000,000</u>	<u>730,066,543</u>	<u>42,874,409</u>	<u>792,940,952</u>
At January 1, 2010					
- As previously stated		20,000,000	475,510,555	24,792,387	520,302,942
- Effect of adjusting provision for credit impairment		-	(297,038)	(5,973,212)	(6,270,250)
- As re-stated		<u>20,000,000</u>	<u>475,213,517</u>	<u>18,819,175</u>	<u>514,032,692</u>
Profit for the year		-	-	9,499,961	9,499,961
Movement in finance lease					
- Additions	7	-	16,808,530	-	16,808,530
- Repayments	7	-	(11,650,527)	-	(11,650,527)
Movement in investment properties					
- Additions	8	-	44,517,998	-	44,517,998
- Amortisation for the year	8	-	(6,415,419)	-	(6,415,419)
Receipt on condominium scheme	6(ii)	-	10,226,607	-	10,226,607
Others		-	732,749	-	732,749
At December 31, 2010		<u>20,000,000</u>	<u>529,433,455</u>	<u>28,319,136</u>	<u>577,752,591</u>

The notes on pages 8 to 26 form an integral part of these financial statements.
Auditors' Report on pages 3 to 3(a).

CASH FLOW STATEMENT - YEAR ENDED DECEMBER 31, 2011

	Notes	2011 SR	2010 SR
Cash flows from operating activities			
Net Cash used in operations	21	(69,190,913)	(4,031,944)
Tax paid	13(a)	(1,084,410)	(638,122)
Retirement benefit obligation paid	14	(434,730)	-
Net cash outflow from operating activities		<u>(70,710,053)</u>	<u>(4,670,066)</u>
Cash flows from investing activities			
Purchase of property and equipment	9	(1,327,027)	(377,875)
Proceeds from disposal of property and equipment		-	60,000
Net cash outflow from investing activities		<u>(1,327,027)</u>	<u>(317,875)</u>
Cash flow from financing activities			
Loans received		-	75,000,000
Repayment of borrowings	12	(24,156,026)	(39,157,862)
Repayment of loan from GOS		-	(23,384,547)
Net finance lease received	7	15,962,769	11,650,527
Grants received		50,000,000	-
Receipt in respect of condominium scheme	6(ii)	506,750	10,226,607
Net cash inflow from financing activities		<u>42,313,493</u>	<u>34,334,725</u>
Net (decrease)/increase in cash and cash equivalents		<u>(29,723,587)</u>	<u>29,346,784</u>
Movement in cash and cash equivalents			
At January 1,		26,135,903	(3,210,881)
(Decrease)/increase		<u>(29,723,587)</u>	<u>29,346,784</u>
At December 31,	5	<u>(3,587,684)</u>	<u>26,135,903</u>

The notes on pages 8 to 26 form an integral part of these financial statements.
Auditors' Report on pages 3 to 3(a).

HOUSING FINANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

1. GENERAL INFORMATION

The Company is a limited liability company, incorporated and domiciled in Seychelles and is involved in providing finance to the housing sector. Its objectives are to ensure the equitable provision of living accommodation to the people of Seychelles by sale, lease or rental of flats and houses in accordance with the policy of the Government; to manage and maintain buildings and other property on behalf of the Government; and to ensure the provision of utility services for the rental of flats and houses.

The principal place of business is situated at the Victoria House, Mahé, Seychelles.

The financial statements will be submitted for consideration and approval at the forthcoming Annual General Meeting of Shareholders of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise

(a) Basis of preparation

The financial statements of the company comply have been prepared in accordance with Generally Accepted Accounting Standards in Seychelles. Where necessary, comparative figures have been amended to conform with change in presentation in the current year. The financial statements are prepared under the historical cost convention, except that:

- (i) Vehicles are stated at deemed cost.
- (ii) Finance Lease receivables from lessees under the House Purchase Scheme are stated at fair values and includes cost of houses including discounts and capitalised interest.
- (iii) Investment properties are stated at their fair values.

(b) Property and equipment

The cost of an asset comprises its purchase price and any attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs is charged to the income statement.

Land is stated at cost. Vehicles are stated at deemed cost less accumulated depreciation. All other equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

HOUSING FINANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Property and equipment (Cont'd)

Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Properties in the course of construction for operation purposes are carried at cost less any recognised impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalised. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is calculated on the straight line method to write off the cost of the assets, to their residual values over their estimated useful life. The principal annual rates applied for depreciation are as follows:

	Years
Leasehold improvements	3 - 5
Furniture and fittings	3 - 5
Computer equipment	3
Office equipment	3 - 5
Motor vehicles	3

Land is not depreciated

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with carrying amount and are included in the Income Statement.

(c) Loans and advances and provision for credit impairment

Loans originated by the Company by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Company and are carried at amortised cost.

HOUSING FINANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Loans and advances and provision for credit impairment (Cont'd)

Loans taken over from Seychelles Housing Development Corporation (SHDC) are stated at the amount stated by that Corporation and interest accrued by them from the date of transfer reduced by the repayments received by the Company during the year.

All loans and advances are recognised when cash is advanced to the borrowers. The Company also follows the regulations on credit policy, credit classification for provisioning and Income Recognition issued by the Central Bank of Seychelles. An allowance for credit impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the contractual terms of the loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loans.

If the amount of the impairment subsequently decreases due to an event occurring after a write down, the release of the provision is credited as a reduction of the provision for credit impairment in the income statement.

(d) Investment properties

Investment properties comprising flats and houses rented out are amortised over 25 years over their fair value.

Costs associated with developing or maintaining investment properties are recognised as an expense as incurred.

(e) Finance lease receivables

Receivable for finance leases from lessees under the House Purchase Scheme are stated at the values agreed with the lessees for cost of the house including capitalised interest, if any. This is a House Purchase Scheme offered to the lessees. Risks and rewards are vested and the ownership passed to the lessees upon repayment of full amount due to the Company.

Payments made by the lessees under finance leases are treated as repayment over the period of the lease is recognised in the Income Statement.

Interest on the House Purchase Scheme varies according to the social housing scheme of the Government which determines the instalment based on the income and repayment capacity of the lessees.

Instalments received are recognised on a cash basis.

HOUSING FINANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Finance lease receivables (Cont'd)

Provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the lease. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

(f) Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument. The Company's accounting policies in respect of the main financial instruments are set out below.

(i) *Loans and advances and provision for credit impairment*

Funds originated from the Branch and provided directly to the borrower are categorised as loans and advances and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate these loans and advances as is determinable by reference to market prices at origination date.

(ii) *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

(iii) *Trade and other payables*

Trade and other payables are stated at fair value and subsequently measured at amortised cost using the effective interest method.

(iv) *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, cash at bank and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(v) *Borrowings*

Borrowings are recognised initially at their fair value being their issue proceeds net transactions costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

HOUSING FINANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (Cont'd)

(vi) Share capital

Ordinary shares are classified as equity

(vii) Capital reserve

The capital reserve arose from the contra credit entry to net assets transferred from SHDC to the Company at nil consideration in 2005. Subsequent movements represent further additions to properties transferred from the Government of Seychelles also at nil consideration as well as valuations by Directors of assets previously transferred. It also includes cash grants from the Government. Releases to Income Statement are in respect of the followings:

- (i) Investment properties - based on corresponding amortisation charge; and
- (ii) Finance lease receivables - based on repayment amounts by lessees

(g) Inventories

Inventories comprising detached houses are stated at discounted present values and adjusted for discount schemes granted by the Government of Seychelles in the year 2005.

(h) Retirement benefit obligation

At October 31, 2010 all staff were paid their gratuity and compensation for length of service according to the Seychelles Employment Act and a new 'salary structure' was introduced based on fixed term contracts.

(i) Defined contribution plans

A defined contribution plan is a pension plan under which the Corporation pays a fixed contribution into a separate entity, i.e. the Seychelles Pension Fund. The Corporation has no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employees service in the current and prior periods.

(ii) Gratuity

At October 31, 2010, all staff were paid their gratuity and no provision has been made under the new salary structure in that respect.

(iii) Provision for length of service

As from November 1, 2010, the company introduced a new 'salary structure' where compensation payment is made every two years as follows:

- a) Staff below management level, compensation equals 5% - 10% of total salaries for two years.
- b) Staff above management level, compensation equals 10% - 15% of total salaries for two years.

HOUSING FINANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(j) Revenue recognition

Revenue comprises interest on loans and advances, finance leases and income from rental and sale of property and other related income. Rental of flats is accounted on accrual basis and sale of property and other related income are accounted on a cash basis.

(k) Provisions

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

(l) Taxation

Current tax is the expected amount of business taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date. No provision is made for deferred taxation.

(m) Interest income and expense

Interest income and expense are recognised in the income statement for interest bearing instruments on an accrual basis using the effective yield method based on actual purchase price. Proceeds from finance lease is accounted on a cash basis.

(n) Fees and commission income

Fees and commissions are generally recognised on an accrual basis. Commissions and fees arising from negotiating, or participating in the negotiations of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

HOUSING FINANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

3. FINANCIAL RISK MANAGEMENT

(a) Interest rate risk

The Company takes term loans at floating rates and for various periods and seeks to earn interest margins by providing finance to the housing sector. The Company seeks to increase interest margins by rolling over short-term funds and lending for longer periods at higher rates.

Fluctuations of interest rates are closely monitored by management and movements in interest rates on borrowings are immediately replicated on loans and advances.

(b) Credit risk

Substantial portion of loans and advances are secured by mortgage over the properties of the borrowers. For unsecured loans, the Company is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk ranges from SR.40,000 up to a maximum of SR.500,000 per customer depending on the scheme under which credit was obtained. These schemes are per Government of Seychelles policy and are approved by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these limits where appropriate. Exposure to credit risk is also managed by obtaining collateral and personal guarantees.

The Company does not have a significant concentration of credit risk, with exposure spread over a large number of customers. However, the Company has policies in place to ensure that collections are made on a timely basis.

(c) Cash flow and fair value interest rate risk

The Company is exposed to the effects of mismatch in tenure on term loans obtained from commercial banks and loans advanced to customers. Increase in interest rates would result in increasing the interest rates on loans advanced to customers resulting in no overall increase in interest margins. However, decrease in interest rates would result in lower interest expense on term loans obtained. Increase and decrease in market interest rates would not have substantial effect on interest margins as the Company reserves the right to increase interest rates on loans and advances reducing the Company's exposure due to changes in interest rates.

(d) Liquidity risk

The Company is exposed to call back of term loans from commercial banks. The Company is supported by the Government of Seychelles to meet the call backs. The Board sets limits on the ratio of borrowing for loans and advances.

HOUSING FINANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Fair values

The carrying amounts of financial assets and liabilities of the Company at balance sheet date approximate their fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

(a) Revaluation of investment properties

The Company carries its investment properties at fair value with changes recognised in equity under capital reserve. The Company does not appoint a professional valuer to perform the valuations which instead are based on Directors' best estimates.

(b) Impairment of loans and advances

The Bank reviews its loans and advances portfolio on a regular basis to assess whether any allowance for credit impairment losses for loans and advances should be recognised in the income statement. In particular, judgement is made about the amount and timing of future cash flows when determining the level of allowance required. The allowance for credit impairment losses is based on the best estimates available. However, the actual amount of impairment may differ from amount provided resulting in higher or lower charges to the income statement.

(d) Useful lives and residual values of property and equipment

Determining the carrying amounts of equipment requires the estimation of the useful lives and residual values of these assets which carry a degree of uncertainty. The Directors have used historical information relating to the Company and the relevant industry in which it operates in order to best determine the useful lives and residual values of equipment.

(d) Capital Reserve

Investment properties and cash were granted to the Company by the Government of Seychelles. The corresponding credits have been accounted under Capital Reserve.

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

5. CASH AND CASH EQUIVALENTS

	2011 SR	2010 SR
Cash and bank balances	5,130,261	30,849,357
Bank overdrafts (note 11)	(8,717,945)	(4,713,454)
	<u>(3,587,684)</u>	<u>26,135,903</u>

All cash and bank balances are denominated in Seychelles Rupees.

6. LOANS AND ADVANCES

Gross loans taken over from Seychelles Housing Development Corporation (SHDC) (Notes (i) & (iv))	70,391,759	74,599,982
Loans advanced by the Company (Notes (ii) & (v))	447,625,492	360,157,181
	<u>518,017,251</u>	<u>434,757,163</u>
Provision for credit impairment (Note (iii))	(7,413,939)	(13,735,453)
	<u>510,603,312</u>	<u>421,021,710</u>

(i) Movement in loans taken over from SHDC

At January 1,	74,599,982	82,158,250
Interest charged during the year	2,293,224	4,142,687
Insurance charges	599,250	1,041,249
	<u>77,492,456</u>	<u>87,342,186</u>
Repayments	(7,100,697)	(12,742,204)
At December 31,	<u>70,391,759</u>	<u>74,599,982</u>

(ii) Loans granted by the Company

At January 1,	360,157,181	341,946,210
Condominium loan disbursed	506,750	10,226,607
Other loans disbursed	160,553,193	51,182,880
Interest charged	25,922,466	24,475,501
Repayments	(99,514,098)	(67,674,017)
At December 31,	<u>447,625,492</u>	<u>360,157,181</u>

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

6. LOANS AND ADVANCES (CONT'D)

(iii) Movement in provision for credit impairment

	2011 SR	2010 SR
At January 1,		
- As previously stated	13,735,453	8,259,903
- Prior Year Adjustment (See note below)	-	3,960,749
As re-stated	13,735,453	12,220,652
(Reversal)/Charge for the year	(6,321,514)	1,514,801
At December 31,	7,413,939	13,735,453

Note:

"Prior Year Adjustment" represented provision for credit impairment for previous year's receivables which arose upon first time application of the requirements of the Financial Institutions (Credit Classification and Provisioning) Regulations, 2010.

- (iv) Loans taken over from SHDC represents outstanding balances due from ex clients of SHDC transferred to HFC upon liquidation of former net of discounts (note (vi) below)
- (v) Loans advanced by the Company are issued from its own funds and interest rates varies from 3% to 10%. (2010: 3% to 10%).
- (vi) Discounts granted to ex SHDC borrowers were based on the applicable terms as per the Discount Scheme announced in 2005 by the Government of Seychelles.
- (vii) It was not possible to have a breakdown of loans and receivables into their current and non current portions due to the unavailability of adequate information from the Company's records.

7. FINANCE LEASE RECEIVABLE

	2011 SR	2010 SR
At January 1,	214,035,088	206,867,042
Granted during the year	128,406,967	16,808,530
Repayments	(15,962,769)	(11,650,527)
Interest charged	13,495,195	2,724,528
	339,974,481	214,749,573
Provision for credit impairment	-	(714,485)
At December 31,	339,974,481	214,035,088

- (a) The carrying amount of finance lease receivable approximate their fair value.

8. INVESTMENT PROPERTIES

	2011 SR	2010 SR
COST		
At January 1,	160,385,677	115,867,679
Additions	28,222,453	44,517,998
At December 31,	<u>188,608,130</u>	<u>160,385,677</u>
AMORTISATION		
At January 1,	19,491,757	13,076,338
Charge for the year (Note 21)	7,544,325	6,415,419
At December 31,	<u>27,036,082</u>	<u>19,491,757</u>
NET BOOK VALUE		
At December 31,	<u>161,572,048</u>	<u>140,893,920</u>

Note:

Investment properties were granted to the Company by the Government of Seychelles. The corresponding credits have been accounted under Capital Reserve.

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

9. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Freehold Land	Furniture and fittings	Office equipment	Computers	Motor Vehicles	Total
	SR	SR	SR	SR	SR	SR	SR
COST							
At January 1, 2010	1,419,409	430,329	979,946	1,102,344	949,107	160,000	5,041,135
Write offs	-	-	(32,638)	-	-	-	(32,638)
Additions	-	-	-	82,703	295,172	-	377,875
Disposal	-	-	-	-	-	(70,000)	(70,000)
At December 31, 2010	1,419,409	430,329	947,308	1,185,047	1,244,279	90,000	5,316,372
Additions	-	-	72,205	306,350	151,408	797,064	1,327,027
At December 31, 2011	1,419,409	430,329	1,019,513	1,491,397	1,395,687	887,064	6,643,399
ACCUMULATED DEPRECIATION							
At January 1, 2010	1,408,897	-	934,038	995,414	745,693	160,000	4,244,042
Write offs adjustment	-	-	(32,638)	-	-	-	(32,638)
Charge for the year	10,512	-	23,296	62,466	127,429	-	223,703
Disposal adjustment	-	-	-	-	-	(70,000)	(70,000)
At December 31, 2010	1,419,409	-	924,696	1,057,880	873,122	90,000	4,365,107
Charge for the year	-	-	19,658	95,701	186,447	127,282	429,088
At December 31, 2011	1,419,409	-	944,354	1,153,581	1,059,569	217,282	4,794,195
NET BOOK VALUE							
At December 31, 2011	-	430,329	75,159	337,816	336,118	669,782	1,849,204
At December 31, 2010	-	430,329	22,612	127,167	371,157	-	951,265

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

10. TRADE AND OTHER RECEIVABLES

	2011 SR	2010 SR
Rent receivable	15,233,607	14,761,618
Provision for credit impairment (Note 10(a))	(3,604,205)	(3,519,925)
	<u>11,629,402</u>	<u>11,241,693</u>
Other debtors and prepayments	3,898,828	1,855,699
	<u>15,528,230</u>	<u>13,097,392</u>

(a) Movement in provision for credit impairment

At January 1,		
- As previously stated	3,519,925	2,600,000
- Prior Year Adjustment	-	587,964
As restated	<u>3,519,925</u>	<u>3,187,964</u>
Charge for the year	84,280	331,961
At December 31,	<u>3,604,205</u>	<u>3,519,925</u>

(b) The carrying amounts of 'trade and other receivables' approximate their fair value.

11. BORROWINGS

Term loan		
- Nouvobanq (Note (b))	91,938,075	116,094,102
- Seychelles Savings Bank (Note c))	75,000,000	75,000,000
Bank overdraft (Note (d) below and Note 5)	8,717,945	4,713,454
	<u>175,656,020</u>	<u>195,807,556</u>

(a) *Analysed as :*

Amounts due after one year	<u>139,808,169</u>	<u>166,961,687</u>
Amounts due within one year:		
- Term Loan	27,129,906	24,132,415
- Bank overdraft (Note (d) below)	8,717,945	4,713,454
	<u>35,847,851</u>	<u>28,845,869</u>
	<u>175,656,020</u>	<u>195,807,556</u>

(b) Term loan from Nouvobanq is secured by guarantee from the Government of Seychelles, bears interest at 5.50% per annum and is repayable in monthly instalment of SR 2,492,940.

(c) Term loan from Seychelles Savings Bank is secured by guarantee from the Government of Seychelles, bears interest at 5.50% per annum and is repayable in 48 monthly instalment of SR 1,744,235 commencing from July 30, 2013.

(d) Bank overdraft bear variable interest ranging from 12% to 16% during the year under review (2010: 10% to 12%) and renewable in year 2012.

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

12. OTHER PAYABLES AND ACCRUALS

	2011	2010
	SR	SR
Amounts payable on purchase of land	119,000	247,500
Project commitments	13,168,463	17,126,561
Deposit on Home Saving Scheme	22,565,626	7,810,294
Other payables	4,805,611	71,451
	<u>40,658,700</u>	<u>25,255,806</u>

13. CURRENT TAX LIABILITY

(a) Balance sheet

At January 1,	4,201,984	(159,894)
Charge to the income statement	2,620,802	5,000,000
Payments effected during the year		
- For Current year	-	(638,122)
- For previous year	(1,084,410)	-
At December 31,	<u>5,738,376</u>	<u>4,201,984</u>

(b) Income statement

Current tax on adjusted profit for the year at applicable tax rates (see note (c))	2,250,000	5,000,000
Under provision in previous year	370,802	-
	<u>2,620,802</u>	<u>5,000,000</u>

(c) Tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2011	2010
	SR	SR
Profit before tax and allowance for credit impairment	<u>17,176,075</u>	<u>17,061,208</u>
Tax calculated at applicable tax rates (see note (iii) below)	5,588,105	5,550,199
Income not subject to tax	(2,547,941)	(19,800)
Expenses deductible for tax purposes	(52,449)	(116,680)
Excess of capital allowance over depreciation	(682,647)	(276,276)
Tax cushion	(55,068)	(137,443)
	<u>2,250,000</u>	<u>5,000,000</u>

(d) Applicable tax rates are as follows:

	2010 & 2011
<u>Taxable income threshold</u>	<u>Tax rates - %</u>
≤ SR. 1,000,000	25%
> SR. 1,000,000	33%

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

14. RETIREMENT BENEFIT OBLIGATIONS

	2011	2010
	SR	SR
Movement in the compensation for length of service provision:		
At January 1,	395,981	42,406
Total expense charged in the income statement (note (a) above)	224,936	353,575
Paid during the year	(434,730)	-
At December 31,	<u>186,187</u>	<u>395,981</u>

15. SHARE CAPITAL

	2011 & 2010
	SR
Authorised, issued and paid up:	
20,000 ordinary shares of SR. 1,000 each	<u>20,000,000</u>

16. CONTINGENCY RESERVE

	2011	2010
	SR	SR
At January 1,	17,434,814	15,027,443
Charged for the year	2,042,487	2,407,371
At December 31,	<u>19,477,301</u>	<u>17,434,814</u>

Contingency reserve is in respect of an extra 4% - 5% on all mortgage loans sanctioned to borrowers whose lives are not insured. The reserve is to be used as recovery against future losses in the event of the sudden death of the borrowers.

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

17. NET INTEREST

	2011 SR	2010 SR
Interest income		
Loans and advances	28,853,223	28,629,786
Finance leases - Upon repayment	15,962,770	11,650,526
- Charged	2,062,831	2,724,528
	<u>46,878,824</u>	<u>43,004,840</u>
Interest expense		
Bank loans	(10,946,838)	(12,210,908)
	<u>35,931,986</u>	<u>30,793,932</u>

18. NET FEE AND COMMISSION

Fee income		
Processing fee on loans and advances	<u>1,646,017</u>	<u>637,484</u>
Fee expense		
Portfolio management fee	<u>(2,189,962)</u>	<u>(3,408,554)</u>
Net fee and commission	<u>(543,945)</u>	<u>(2,771,070)</u>

A management fee calculated at 1% of loans advanced during the year is charged by Nouvobanq for the provision of administration services covering disbursement, recording, computing of interest and collection of loan repayments. The loans were transferred to the Company in October 2011 and management agreement was terminated.

19 OTHER INCOME

	2011 SR	2010 SR
Condominium scheme	-	7,839,425
Profit on disposal of property and equipment	-	60,000
Other income	885,250	190,100
	<u>885,250</u>	<u>8,089,525</u>

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

20. OPERATING EXPENSES

	2011	2010
	SR	SR
Administration costs	8,560,820	7,795,459
Auditor's remuneration	345,000	287,500
Amortisation of investment properties (Note 8)	7,544,325	6,415,419
Depreciation (Note 9)	429,088	223,703
Release from capital reserve	(7,544,325)	(6,415,419)
Maintenance costs	20,366,192	15,819,868
Rent	1,338,576	1,242,152
Staff costs (see note (a) below)	5,668,448	5,008,058
	<u>36,708,124</u>	<u>30,376,740</u>

(a) Staff costs

Salaries and wages	4,260,154	3,448,198
Directors' emoluments (see note (i) below)	579,137	367,709
Social security costs	-	299,375
Pension costs - statutory contribution	42,832	24,300
Gratuity and length of service provision	224,936	474,411
Other staff costs	561,389	394,065
	<u>5,668,448</u>	<u>5,008,058</u>
Directors' fees:		
Christian Lionnet	27,529	18,064
Patrick Lablache	41,294	26,749
Olsen Vidot	27,529	18,064
Sitna Cesar	27,529	18,064
	<u>123,882</u>	<u>80,941</u>
Other emoluments:		
Charles Bastienne	455,255	286,768
	<u>579,137</u>	<u>367,709</u>

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

21. NOTES TO THE CASH FLOW STATEMENT

	Notes	2011 SR	2010 SR
Profit before tax		17,176,075	14,499,961
<i>Adjustments for:</i>			
Amortisation of investment properties	8	7,544,325	6,415,419
Other movement in capital reserve		17,004,012	732,749
Depreciation	9	429,088	223,703
Release from capital reserve to income statement			
-Amortisation of Investment properties		(7,544,325)	(6,415,419)
Profit on disposal of property and equipment		-	(60,000)
(Reversal of)/Provision for credit impairment	6,7,10	(6,237,234)	2,561,247
- Retirement benefit obligation		224,936	353,575
Charge to Contingency reserve	16	2,042,487	2,407,371
		<u>30,639,364</u>	<u>20,718,606</u>
<i>Changes in working capital</i>			
- Receipt from finance lease	7	(15,962,769)	(11,650,527)
- Loans and advances to customers		(96,755,283)	(10,652,703)
- Trade and other receivables		(2,515,119)	(2,482,902)
- Other payables and accruals		15,402,894	35,582
Net cash used in from operations		<u>(69,190,913)</u>	<u>(4,031,944)</u>

22. CONTINGENT LIABILITIES

There were no contingent liabilities at December 31, 2011 (2010: Nil).

23. CAPITAL COMMITMENTS

Capital commitments amounting to SR.50M for HFC building, were approved by the Board but not yet disbursed during the year (2010: Nil).

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2011

24. FIVE YEAR FINACIAL SUMMARY

	2011	2010	Re-stated 2009*	2008*	2007*
	SR'000	SR'000	SR'000	SR'000	SR'000
Profit/(Loss) before tax	17,176	14,500	4,062	(1,012)	3,249
Tax charge	(2,621)	(5,000)	(1,950)	-	(1,419)
Profit/(Loss) for the year	14,555	9,500	2,112	(1,012)	1,830
Retained earnings brought forward:					
- Housing Finance Company Limited	28,319	18,819	(3,662)	3,183	1,353
- Transfer from PMC	-	-	20,369	-	-
Retained earnings carried forward	42,874	28,319	18,819	2,171	3,183
SHAREHOLDERS' FUNDS:					
Share capital	20,000	20,000	20,000	20,000	20,000
Capital reserve	730,067	529,433	475,214	136,964	144,103
Retained earnings	42,874	28,319	18,819	2,171	3,183
Contingency reserve	19,477	17,435	15,027	15,037	12,092
	812,418	595,187	529,060	174,172	179,378

* Note: For reasons of practicability and due to lack of adequate information, figures prior to year 2009 have not been restated to reflect adjustments following adoption of the requirements of the Financial Institution Act 2004 with respect to provision for credit impairment.

NOTE FOR PUBLICATION

HOUSING FINANCE COMPANY LIMITED

DETAILED INCOME STATEMENT - YEAR ENDED DECEMBER 31, 2011

	2011 SR	2010 SR
Interest on loans	46,878,824	43,004,840
Rental income	11,373,674	11,325,561
Commission and other income	2,531,268	8,727,009
	<u>60,783,766</u>	<u>63,057,410</u>
Interest and commission expense	(13,136,800)	(15,619,462)
	<u>47,646,966</u>	<u>47,437,948</u>
EXPENDITURE		
Advertising and publicity	82,450	258,945
Audit fee	345,000	287,500
Bank charges	94,527	200,365
Cleaning supplies and consumables	87,520	51,491
Communication costs	429,127	393,336
Computer costs	331,890	198,000
Depreciation	429,088	223,529
Electricity and water	472,268	431,326
Equipment maintenance and rental	435,806	284,114
Write off of Equipment	-	32,638
Fuel, car hire and local conveyance	777,580	724,630
GST on expatriates houses	-	174,975
Insurance	1,700,380	2,174,679
Legal and professional fee	1,105,905	415,866
Pension contribution	42,832	24,300
Properties maintenance	17,108,258	12,826,373
Ground maintenance	2,334,861	2,278,055
Accommodation on emergency house	15,000	-
Rent	1,338,576	1,207,967
Salaries and wages	4,688,232	3,716,903
Social housing rent	1,630,176	1,560,052
Social security	-	299,374
Staff gratuity	-	97,504
Staff compensation	224,936	353,575
Staff welfare and other costs	712,448	493,069
Stationery and postage	748,138	712,347
Sundries and security services	1,573,126	955,827
(Reversal of)/Provision for credit impairment	(6,237,234)	2,561,247
	<u>30,470,890</u>	<u>32,937,987</u>
Profit before tax	<u>17,176,076</u>	<u>14,499,961</u>