**APPENDIX 1**

# Seychelles Pension Fund

# Financial Statements

# Year ended December 31, 2011

SEYCHELLES PENSION FUND

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## REPORT OF THE BOARD OF TRUSTEES

The Board is pleased to present its report together with the audited financial statements of the Group and the Fund for the year ended December 31, 2011.

### THE FUND

The Seychelles Pension Scheme was established under the Seychelles Pension Scheme Act, 1990, CAP 220 and commenced with effect on January 1, 1991. In August 2005, the Seychelles Pension Scheme Act, 1990 was repealed and it was replaced by the Seychelles Pension Fund Act, 2005 under which the scheme became a body corporate and was renamed as Seychelles Pension Fund.

### PRINCIPAL ACTIVITIES

The principal activities of the Fund comprise provision of financial security to retiring members which include payment of accumulated contributions, monthly pension to the members, financial security to the dependents of the deceased members and other benefits under various schemes as more fully described under Section 4 of the Act and applicable Regulations.

### THE GROUP

The Group comprises the Fund, a subsidiary company Opportunity Investment Company Limited and two Associated Companies Seychelles Breweries Limited and SACOS Group Limited. Details regarding the subsidiary company and the associated companies are as per notes 8 and 9 to these financial statements.

### RESULTS

| | | December 31, 2011 | |
|---|---|---|---|
| | | THE GROUP | THE FUND |
| | | SR | SR |
| Surplus for the year | | 40,561,739 | 18,770,970 |
| Retained surplus brought forward | | 207,382,730 | 198,522,972 |
| **Retained surplus carried forward** | SR | **247,944,469** | **217,293,942** |

### INTEREST ON MEMBERS' FUND

The Board recommended interest of 4% to be credited to members on their contributions for the year under review (2010: 4%).

### PROPERTY AND EQUIPMENT

The Fund acquired property and equipment amounting to SR 1.2 million during the year comprising equipment, furniture and fittings and motor vehicle. In 2011, there was no revaluation of freehold land and buildings on freehold and leasehold land (2010 : SR 2.6m).

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## PROPERTY AND EQUIPMENT (CONT'D)

The Board is of the opinion that the fair value of the property and equipment at December 31, 2011 does not differ materially from their carrying amounts as per the statements of net assets available for benefits at that date.

## INVESTMENT PROPERTIES

The Fund has invested substantial amounts in properties purchased for rental and capital appreciation purposes. At December 31, 2011, these totalled **SR 455m** (2010: SR 408m). During the year, additions amounted to **SR 46.9m** (2010: SR 47.5m) and there was no increase in fair value in 2011 (2010: SR 27.3m).

The Board of Trustees since the date of the last report and the date of this report are:

## REPORT OF THE BOARD OF TRUSTEES (CONT'D)

### STATEMENT OF BOARD OF TRUSTEES' RESPONSIBILITIES

The Board of the Fund is responsible for the overall management of the affairs of the Fund including the operation of the Fund and making investment decisions. The Chief Executive Officer of the Fund is, as defined in the Seychelles Pension Fund Act, 2005, responsible for the day to day administration of the Fund, including the collection of contributions, payment of pensions and other benefits, investment of surplus moneys of the Fund and accounting for all moneys collected, paid or invested by the Seychelles Pension Fund. The Board shall also ensure that proper accounts and other books and records in relation thereto in which all its financial transactions shall be recorded and maintained. In preparing those financial statements, the Board has a general responsibility to:-

- ensure that the financial statements are on the going concern basis unless it is inappropriate to assume
- select suitable accounting policies and then apply them consistently;
- make judgment and estimates that are reasonable and prudent; and
- disclose and explain any material departures from applicable accounting standards.

The Board and the Chief Executive Officer also have the general responsibility for taking reasonable steps to safeguard the assets of the Fund and detect fraud and other irregularities.

The Board and the Chief Executive Officer consider they have met their aforesaid responsibilities.

### AUDITOR

The Auditor General of Seychelles is mandated to carry out the audit of the Fund by Section 53 (2) of the Seychelles Pension Fund Act, 2005.

Signed in accordance with the authorisation of the Board by

Willy Confait

Sitna Cesar
Chairperson

Willy Confait
Chief Executive Officer

Dated: 10th April 2012
Victoria, Seychelles

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## REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE THE SEYCHELLES PENSION FUND

### Scope

Pursuant to the powers conferred on me by Section 53 (2) of the Seychelles Pension Fund Act, 2005, I have caused BDO Associates (Chartered Accountants) to audit on my behalf the financial statements of the Seychelles Pension Fund and its subsidiary (The Group) for the year ended 31 December 2011 as set out on pages 3 to 35.

### The Board of Trustees Responsibility for the Financial Statements

The Board of Trustees is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Seychelles Pension Fund Act, 2005 and the Public Enterprise Monitoring Act, 2009. 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 policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

My responsibility is to express an opinion on these financial statements based on our audit and report it to the Minister for Finance. The audit was conducted in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustees, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion:

- the financial statements on pages 3 to 35 give a true and fair view of the financial position of the Group and of the Fund at 31 December 2011, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Seychelles Pension Fund Act, 2005;
- proper accounting records have been kept by the Fund as far as it appears from my examination of those records; and
- I have obtained the information necessary for the purpose of the audit and am satisfied with the information received.

**Emphasis of matter**

Without qualifying my opinion, I draw attention that the Fund's Actuary in his report based on 2008 results recommended that contributions from members had to be charged from a fixed amount to a percentage of salary basis in order to meet future pension liabilities and proposed a rate of at least 5.5%. Subsequently, during 2009, there was an increase in contribution but still on a fixed basis. The 2010 budget announced an increase in contribution based on a percentage basis of 1.5% by employee and employer respectively which, with effect from January 1, 2011 was finalized at 1%. The government took a commitment for the remaining 1% thus bringing the total contribution to 3% of salary.

The recent actuarial valuation based on the 2011 results shows that the Fund is sustainable up to the year 2027 with a target level of 2 times the benefit outflow. However, an additional contribution of 3.5% will be required to sustain the Fund in the long run up to 2037 to be spread out over the years to minimise the impact it may have on take home pay of workers and employers' budgets. The orderly transition to long term rate of pension contribution is: 1% of earnings in 2014, 1.5% of earnings in 2024 and 2% of earnings in 2029.

**Marc Benstrong**
**Auditor General**

**12 April 2012**
**Victoria, Seychelles**

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS - DECEMBER 31, 2011

| | Notes | THE GROUP | | THE FUND | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| **ASSETS** | | SR | SR | SR | SR |
| **Non-current assets** | | | | | |
| Property and equipment | 6 | **29,115,969** | 31,283,393 | **29,115,969** | 31,283,393 |
| Investment properties | 7 (a) | **454,618,559** | 407,678,517 | **454,618,559** | 407,678,517 |
| Deposit on leasehold land | 7 (c) | **40,813,493** | 42,930,761 | **40,813,493** | 42,930,761 |
| Investment in subsidiary company | 8 | - | - | **5,100** | 5,100 |
| Investment in associated companies | 9 | **103,223,777** | 83,259,462 | **59,662,908** | 59,662,908 |
| Investment in financial assets | 10 | **169,327,243** | 230,659,934 | **169,327,243** | 230,659,934 |
| Loans and receivables | 11 | - | - | **5,417,168** | 5,417,168 |
| | | **797,099,041** | 795,812,067 | **758,960,440** | 777,637,781 |
| **Current assets** | | | | | |
| Investment in financial assets | 10 | **167,123,028** | 42,851,279 | **167,123,028** | 42,851,279 |
| Loans and receivables | 11 | **12,670** | 27,137,035 | - | 27,124,365 |
| Receivables and prepayments | 12 | **72,661,168** | 50,873,437 | **72,992,089** | 51,173,163 |
| Cash and cash equivalents | 23(b) | **94,162,630** | 88,139,693 | **93,798,856** | 87,831,314 |
| | | **333,959,496** | 209,001,444 | **333,913,974** | 208,980,121 |
| **Total assets** | | **1,131,058,537** | 1,004,813,511 | **1,092,874,413** | 986,617,902 |
| **Current liability** | | | | | |
| Payables and accruals | 13 | **5,778,587** | 5,886,890 | **5,732,748** | 5,854,051 |
| **Non-current liability** | | | | | |
| Retirement benefit obligations | 2 (k) | **538,064** | 466,071 | **538,064** | 466,071 |
| **Net assets available for benefits** | SR | **1,124,741,887** | 998,460,550 | **1,086,603,602** | 980,297,780 |
| **Made up as follows:** | | | | | |
| Members' fund | 14 | **723,712,659** | 664,330,620 | **723,712,659** | 664,330,620 |
| Other funds | 15 | **113,908,778** | 82,919,211 | **113,908,778** | 82,919,211 |
| Reserve funds | 16 | **14,568,591** | 14,568,591 | **14,568,591** | 14,568,591 |
| Other reserves | 17 | **21,228,854** | 24,065,609 | **17,119,632** | 19,956,386 |
| Retained earnings | Page 5 | **246,121,228** | 207,382,730 | **217,293,942** | 198,522,972 |
| | | **1,119,540,110** | 993,266,761 | **1,086,603,602** | 980,297,780 |
| Non-controlling interest | 18 | **5,201,776** | 5,193,789 | - | - |
| | SR | **1,124,741,887** | 998,460,550 | **1,086,603,602** | 980,297,780 |

The financial statements have been approved for issue by the Board of Trustees on 10th April 2012

Sitna Cesar
Chairperson

Willy Confait
Chief Executive Officer

The notes on pages 7 to 35 form an integral part of these financial statements.
Auditors' report on pages 2 and 2(a).

## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS - YEAR ENDED DECEMBER 31, 2011

| | Notes | THE GROUP 2011 | THE GROUP 2010 | THE FUND 2011 | THE FUND 2010 |
|---|---|---|---|---|---|
| | | SR | SR | SR | SR |
| Compulsory contributions: | | | | | |
| - by employees | | **32,218,825** | 21,072,572 | **32,218,825** | 21,072,572 |
| - by employers | | **32,390,240** | 21,056,063 | **32,390,240** | 21,056,063 |
| Voluntary contributions | | | | | |
| - by employees | | **3,499,798** | 3,457,904 | **3,499,798** | 3,457,904 |
| - by employers | | **1,546,488** | 1,742,688 | **1,546,488** | 1,742,688 |
| | | **69,655,350** | 47,329,227 | **69,655,350** | 47,329,227 |
| Interest received by members | | **28,253,340** | 26,381,766 | **28,253,340** | 26,381,766 |
| Net change in fair value on financial assets | 17 | **(2,836,754)** | 2,194,487 | **(2,836,754)** | 2,194,487 |
| Net change in other funds | | **30,989,568** | - | **30,989,568** | - |
| Revaluation of property and equipment | 17 | **-** | 2,579,187 | **-** | 2,579,187 |
| Net surplus/(deficit) for the year after non-controlling interest (page 5) | | **343,382** | 33,792,937 | **18,770,970** | 42,784,824 |
| | | **56,749,537** | 64,948,377 | **75,177,125** | 73,940,264 |
| Benefit payments : | | | | | |
| - Normal Retirement | | **64,474,887** | 50,868,633 | **64,474,887** | 50,868,633 |
| - Death before Normal Retirement | | **1,171,439** | 934,301 | **1,171,439** | 934,301 |
| - Permanent Incapacity | | **8,722,019** | 6,789,246 | **8,722,019** | 6,789,246 |
| - Pre-Migration Retirement | | **212,986** | 485,271 | **212,986** | 485,271 |
| - Death after Normal Retirement | | **-** | - | **-** | - |
| - Surviving Spouse | | **2,185,607** | 1,882,740 | **2,185,607** | 1,882,740 |
| - Children Pension | | **1,093,074** | 878,139 | **1,093,074** | 878,139 |
| - Post retirement surviving spouse | | **774,652** | 518,820 | **774,652** | 518,820 |
| - Post- retirement children pension | | **135,897** | 53,304 | **135,897** | 53,304 |
| - Early Retirement Benefits | | **43,228** | - | **43,228** | - |
| - Special Pension | | **(34,235)** | (3,400) | **(34,235)** | (3,400) |
| - Refunds | | **366,484** | 571,655 | **366,484** | 571,655 |
| - Unpresented cheques | | **3,356** | (10,290) | **3,356** | (10,290) |
| Less: | | | | | |
| - Arrears for Social Security Fund Pension | | **(7,243,309)** | (5,815,303) | **(7,243,309)** | (5,815,303) |
| - Social Security Fund Pension | | **(33,379,433)** | (27,041,974) | **(33,379,433)** | (27,041,974) |
| | | **38,526,652** | 30,111,142 | **38,526,652** | 30,111,142 |
| Net increase in Members' Fund | 23(a) | **87,878,234** | 82,166,462 | **106,305,822** | 91,158,349 |
| Share of results of associated companies | 9 | **38,395,115** | 31,245,646 | **-** | - |
| *Net assets available for benefits:* | | | | | |
| Balance at January 1, | | **993,266,761** | 879,854,653 | **980,297,780** | 889,139,431 |
| **Balance at December 31,** | SR | **1,119,540,110** | 993,266,761 | **1,086,603,602** | 980,297,780 |

The notes on pages 7 to 35 form an integral part of these financial statements.
Auditors' report on pages 2 and 2(a).

SEYCHELLES PENSION FUND

## INCOME AND EXPENDITURE ACCOUNT- YEAR ENDED DECEMBER 31, 2011

| | Notes | THE GROUP | | THE FUND | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | | SR | SR | SR | SR |
| **INCOME** | | | | | |
| Interest income | 19 | **17,550,456** | 22,465,548 | **17,550,456** | 22,465,548 |
| Investment income | 20 | **2,389,473** | 4,978,587 | **19,000,119** | 12,496,064 |
| Rental income | | **25,707,131** | 21,850,278 | **25,707,131** | 21,850,278 |
| Other income | | **241,012** | 339,058 | **211,062** | 339,058 |
| Increase in fair value of investment properties | 7(a) | **-** | 27,342,281 | **-** | 27,342,281 |
| | | **45,888,071** | 76,975,752 | **62,468,767** | 84,493,229 |
| **EXPENDITURE** | | | | | |
| Interest credited to members | 21 | **28,253,341** | 26,381,766 | **28,253,341** | 26,381,766 |
| Administrative expenses | 22 | **15,139,313** | 12,857,709 | **15,115,663** | 12,821,850 |
| Property management expenses | | **4,908,971** | 4,082,238 | **4,908,971** | 4,082,238 |
| Depreciation of property and equipment | 6 | **3,357,249** | 3,076,241 | **3,357,249** | 3,076,241 |
| Amortisation of deposit on lease | 7(c) | **2,117,268** | 2,094,909 | **2,117,268** | 2,094,909 |
| Auditors' remuneration | | **230,000** | 200,005 | **230,000** | 200,005 |
| Profit on disposal of fixed assets | | **(128,000)** | - | **(128,000)** | - |
| Profit on disposal of available-for-sale financial assets | | **(4,235,034)** | (545,364) | **(4,235,034)** | (545,364) |
| | | **49,643,108** | 48,147,504 | **49,619,458** | 48,111,645 |
| | | **(3,755,037)** | 28,828,248 | **12,849,309** | 36,381,584 |
| Gain on exchange differences | | **5,921,661** | 6,403,241 | **5,921,661** | 6,403,240 |
| | | **2,166,624** | 35,231,489 | **18,770,970** | 42,784,824 |
| Share of results of associated companies | 9 | **38,395,115** | 31,245,646 | **-** | - |
| Surplus for the year | | **40,561,739** | 66,477,135 | **18,770,970** | 42,784,824 |
| Surplus from prior years brought forward | | **207,382,730** | 142,344,147 | **198,522,972** | 155,738,148 |
| Net Surplus for the year | SR | **247,944,469** | 208,821,282 | **217,293,942** | 198,522,972 |
| Attributable to: | | | | | |
| The Fund (page 3) | | **246,121,228** | 207,382,730 | **217,293,942** | 198,522,972 |
| Non-controlling interest | 18 | **1,823,241** | 1,438,552 | **-** | - |
| | SR | **247,944,469** | 208,821,282 | **217,293,942** | 198,522,972 |

The notes on pages 7 to 35 form an integral part of these financial statements.
Auditors' report on pages 2 and 2(a).

## STATEMENTS OF CASH FLOWS - YEAR ENDED DECEMBER 31, 2011

| | | THE GROUP | | THE FUND | |
|---|---|---|---|---|---|
| | Notes | 2011 | 2010 | 2011 | 2010 |
| **Cash flows from operations** | | SR | SR | SR | SR |
| Net cash generated from operations | 23(a) | 87,886,222 | 82,148,891 | 106,305,822 | 91,158,349 |
| *Adjustments for:* | | | | | |
| Depreciation of property and equipment | 6 | 3,357,249 | 3,076,241 | 3,357,249 | 3,076,241 |
| Amortisation of deposit on lease | 7(c) | 2,117,268 | 2,094,909 | 2,117,268 | 2,094,909 |
| Profit on disposal of property and equipment | | (128,000) | - | (128,000) | - |
| Profit on disposal of available-for-sale financial assets | | (4,235,034) | (545,364) | (4,235,034) | (545,364) |
| Retirement benefit obligations | | 71,993 | (417,341) | 71,993 | (417,341) |
| Revaluation of property and equipment | 6 | - | (2,579,187) | - | (2,579,187) |
| Fair value gains on investment properties | 7(a) | - | (27,342,281) | - | (27,342,281) |
| Net change in fair value on financial assets | 17 | 2,836,753 | (2,194,487) | 2,836,753 | (2,194,487) |
| Interest receivable | 19 | (17,550,456) | (22,465,548) | (17,550,456) | (22,465,548) |
| Interest accrued | 10(a) | 7,095,384 | 4,792,086 | 7,095,384 | 4,792,086 |
| Dividend income | 20 | (2,389,473) | (4,978,587) | (19,000,119) | (12,496,064) |
| | | 79,061,906 | 31,589,332 | 80,870,860 | 33,081,313 |
| *Changes in working capital:* | | | | | |
| - Increase in receivables and prepayments | | (21,787,731) | (36,009,825) | (21,818,925) | (36,184,037) |
| - (Decrease)/Increase in payables and accruals | | (108,302) | (3,990,354) | (121,303) | (3,914,447) |
| **Net cash (outflow)/inflow from operations** | | 57,165,872 | (8,410,847) | 58,930,631 | (7,017,171) |
| **Cash flows from investing activities** | | | | | |
| Purchase of property and equipment | 6 | (1,189,826) | (1,393,214) | (1,189,826) | (1,393,214) |
| Purchase of investment properties | 7 | (46,940,042) | (47,478,315) | (46,940,042) | (47,478,315) |
| Proceeds from disposal of property and equipment | | 128,000 | - | 128,000 | - |
| Purchase of financial assets | 10 | (239,963,167) | (78,377,558) | (239,963,167) | (78,377,558) |
| Proceeds from disposal/redemption of financial assets | | 171,327,007 | 124,715,700 | 171,327,007 | 124,715,700 |
| Interest received | | 17,550,456 | 22,465,548 | 17,550,456 | 22,465,548 |
| Dividend received | | 20,820,273 | 13,952,187 | 19,000,119 | 12,496,064 |
| Refund of loans granted | | 27,124,365 | 26,489,702 | 27,124,365 | 26,489,702 |
| **Net cash (outflow)/inflow from investing activities** | | (51,142,935) | 60,374,050 | (52,963,089) | 58,917,927 |
| **Net increase in cash and cash equivalents** | | 6,022,937 | 51,963,203 | 5,967,542 | 51,900,756 |
| Cash and cash equivalents at January 1, | | 88,139,693 | 36,176,490 | 87,831,314 | 35,930,558 |
| **Cash and cash equivalents at December 31,** | 23(b)SR | 94,162,630 | 88,139,693 | 93,798,856 | 87,831,314 |

The notes on pages 7 to 35 form an integral part of these financial statements.

Auditors' report on pages 2 and 2(a).

## 1. GENERAL INFORMATION

Seychelles Pension Fund (SPF) was established by the "Seychelles Pension Fund Act, 2005". The Fund is domiciled in the Republic of Seychelles and the address of its registered office is P.O.Box 576, Caravelle House, Victoria, Mahé, Seychelles.

A description of the Pension Fund and its funding policy is detailed under note 3. There have been no changes in the Fund or its funding policy during the year.

The latest actuarial report detailing significant actuarial assumptions, the actuarial present value of promised retirement benefits and methods used to calculate the present value are available to members upon written request, at the Fund's registered office.

Investments of the Pension Fund as required by Part VII of the "Seychelles Pension Fund Act, 2005" are disclosed in notes 8, 9 and 10.

These financial statements will be laid before the National Assembly and published in the Official Gazette in accordance with Section 55 of the Seychelles Pension Fund Act, 2005.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

### (a) Basis of preparation

The financial statements of Seychelles Pension Fund comply with the "Seychelles Pension Fund Act, 2005" and have been prepared in accordance with International Financial Reporting Standards (IFRS). 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) land and buildings are at revalued amounts;
(ii) investment properties are stated at fair value;
(iii) available-for-sale financial assets are stated at their fair value; and
(iv) loans and receivables and relevant financial assets and financial liabilities are carried at amortised cost.

**Standards, Amendments to published Standards and Interpretations effective in the reporting period**

Amendment to IAS 32, "Classification of rights issues", addresses the accounting for rights issues that are denominated in a currencyother than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilitie. The amendment is not expected to have any impact on the Group's financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (a) Basis of preparation (cont'd)

**Standards, Amendments to published Standards and Interpretations effective in the reporting period**

Amendment to IFRS 1 Limited Exemption from Comparatives IFRS 7 Disclosures for First-time Adopters provides first-time adopters relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment is not expected to have any impact on the Group's financial statements.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. This IFRIC will not have any impact on the Group's financial statements.

IAS 24, 'Related Party Disclosures' (Revised 2009), clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group has disclosed transactions between its subsidiaries and its associates.

Amendments to IFRIC 14, 'Prepayments of a Minimum Funding Requirement' correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. These amendments are not expected to have any impact on the Group's financial statements.

IAS 1 (Amendment), 'Presentation of Financial Statements', clarifies that an entity may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. This amendment is not expected to have any impact on the Group's financial statements.

IAS 27 (Amendment), 'Consolidated and Separate Financial Statements', clarifies that the consequential amendments to IAS 21, IAS 28 and IAS 31 resulting from the 2008 revisions to IAS 27 are to be applied prospectively. This amendment is unlikely to have an impact on the Group's financial statements.

IAS 34 (Amendment), 'Interim Financial Reporting', emphasises the disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. This amendment is not expected to have any impact on the Group's financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (a) Basis of preparation (cont'd)

**Improvements to IFRs (Issued May 6,2010)**

IFRS 1 (Amendment), 'First-time Adoption of International Financial Reporting Standards', clarifies that a first-time adopter is exempt from all the requirements of IAS 8 for the interim financial report it presents in accordance with IAS 34 for part of the period covered by its first IFRS financial statements and for its first IFRS financial statements. It also allows an entity to recognise an event-driven fair value measurement as deemed cost when the event occurs, provided that this is during the periods covered by its first IFRS financial statements. This amendment is not expected to have any impact on the Group's financial statements.

IFRS 3 (Amendment), 'Business Combinations', clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. This amendment is unlikely to have an impact on the Group's financial statements.

IFRS 7 (Amendment), Financial Instruments: Disclosures', clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosures regarding renegotiated loans. The Group has provided the required disclosures.

IFRIC 13 (Amendment), 'Customer Loyalty Programmes' clarifies that when the fair value of award credits is measured on the basis of the value of the awards for which they could be redeemed, the fair value of the award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. This amendment is unlikely to have an impact on the Group's financial statements.

**Standards, Amendments to published Standards and Interpretations issued but not yet effective**

Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after January 1, 2012 or later periods, but which the Group has not early adopted.

At the reporting date of these financial statements, the following were in issue but not yet effective:

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS1) (effective July 1, 2011)

Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)
Disclosures - Transfers of Financial Assets (Amendments to IFRS 7) (effective July 1, 2011)

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
IFRS 9 Financial Instruments
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
IAS 19 Employee Benefits (Revised 2011)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (a) Basis of preparation (cont'd)

**Standards, Amendments to published Standards and Interpretations issued but not yet effective (cont'd)**

Where relevant, the Group is still evaluating the effect of these Standards, amendments to published Standards and Interpretations issued but not yet effective, on the presentation of its financial statements.

### (b) Property and equipment

Land and buildings, held for use in the production or supply of goods or for administrative purposes, are stated at their fair value, based on bi-annual valuations, by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Group and the cost of the item can be measured reliably.

Increases in the carrying amount arising on revaluation are credited to revaluation surplus in the statements of net assets available for benefits. Decreases that offset previous increases of the same asset are charged against revaluation surplus in the statements of net assets available for benefits directly; all other decreases are charged to the Income and Expenditure Account.

Depreciation is calculated on the straight-line method to write off their cost to their residual values over their estimated useful lives as follows:

| | Years |
|---|---|
| - Buildings | 50 |
| - Improvement to buildings | 15 |
| - Equipment | 5 |
| - Furniture & Fittings | 10 |
| - Motor Vehicles | 5 |

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 disposals of property and equipment are determined by comparing proceeds with carrying amount and are included in the Income and Expenditure Account. On disposal of revalued assets, the amounts included in revaluation surplus are transferred to retained earnings.

### (c) Investment properties

Properties held to earn rentals/or for capital appreciation or both are classified as investment properties. Investment properties are carried at fair value, representing open-market value determined bi-annually by external valuers and subject to yearly reviews by the valuers. Changes in fair values are recognised in the Income and Expenditure Account and subsequently in net assets available for benefits.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (d) Investment in subsidiary company

*Separate financial statements of the Fund*

Investments in subsidiaries are carried at cost. The carrying amount is reduced to recognise any impairment in the value of individual investments.

*Consolidated financial statements*

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income and expenditure accounts.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

*Transactions and non-controlling interests*

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (e) Investment in associated company

*Separate financial statements of the Fund*

In the separate financial statements of the investor, investments in associated companies are carried at cost (or at fair value). The carrying amount is reduced to recognise any impairment in the value of individual investments.

*Consolidated financial statements*

An associate is an entity over which the Group has significant influence but not control, or joint control. Investments in associates are accounted for by the equity method except when classified as held-for-sale. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Investments is associates are initially recognised at cost as adjusted by post acquisition changes in the Group's share of the net assets of the associate less any impairment in the value of individual investments.

When the Group's share of losses exceeds its interest in an associate, the Group discontinues recognising further losses, unless it has incurred legal or constructive obligation or made payments on behalf of the associate.

Unrealised profits and losses are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, appropriate adjustments are made to the financial statements of associates to bring the accounting policies used in line with those adopted by the Group.

The Group classifies its financial assets into the following categories: loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the investments at initial recognition and re-evaluates this at every reporting date.

### (f) Financial instruments

**Financial assets**

(i) <u>Loans and receivables</u>

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. They are included in current assets when maturity is within twelve months to the end of the reporting period or non-current assets for maturities greater than twelve months.

(ii) <u>Held-to-maturity investments</u>

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (f) Financial instruments (cont'd)

**Financial assets (cont'd)**

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the end of the reporting period. Purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recorded at fair value plus transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at their fair values.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the statement of net assets available for benefits and the fair value reserves until the security is disposed of or found to be impaired, at which time the cumulative gain or loss previously recognised in fair value reserves is included in the Income and Expenditure Account.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flows analysis, and net assets basis.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, which is measured as the difference between acquisition cost and the current fair value, less any impairment loss previously recognised, is removed from the fair value reserve and recognised in the Income and Expenditure Account.

If there is evidence of impairment loss on loans carried at amortised cost, the amount of loss is measured as the difference between the asset's carrying amount and present value of estimated cashflows, discounted at the asset's original effective interest rate. The amount of loss is recognised in the Income and Expenditure Account.

(iv) Contributions receivable

Contributions receivable are recognised when due. Contributions receivable are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(v) Benefits payable

Benefits payable are stated at their nominal value.

The nominal value of contributions receivable and benefits payable are assumed to approximate their fair values.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (f) Financial instruments (Cont'd)

**Financial assets (Cont'd)**

(vi) Trade receivables

Trade 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 Group will not be able to collect all amounts due according to the original terms of receivables.

The carrying amounts of trade receivables and payables and other receivables and payables are assumed to approximate their fair values.

(viii) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

### (g) Foreign currencies

(i) *Functional and presentation currency*

Items included in the financial statements are measured using Seychelles rupees, the currency of the primary economic environment in which the Group operates ("functional currency"). The consolidated financial statements are presented in Seychelles rupees, which is the Group's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Changes in Net Assets Available for Benefits.

### (h) 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).

### (i) Leases

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rental charges are charged to the Income and Expenditure Account on a straight-line-basis over the period of lease. The amount paid at inception by the Fund to acquire lease interest on land has been capitalised and accounted as deposit on leasehold land and depreciated over the lease term.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (j) Contributions, interest and income

Revenue after eliminating revenue within the Group comprises:

- Employeers' and employees' contributions to the Pension Fund.
- Interest income - on a time-proportion basis using the effective interest method. When a receivable is impaired,
- Interest income - on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate, and continues unwinding the discount as interest income. interest income on impair loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.
- Dividend income - when the shareholder's right to receive payment is established.
- Rental income - as it accrues based on the terms of the rental contract.

### (k) Retirement benefit obligations

Post-retirement benefits comprise of end-of-contract gratuities and Labour Act length of service compensation. The Fund computes this liability in respect of eligible employees at the end of each year based on the current salaries of those employees. Excess or shortfall to the provision is adjusted to the Income and Expenditure Account.

### (l) Tax

The Fund is exempt from tax.

### (m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources, that can be reliably estimated, will be required to settle the obligation.

## 3. DESCRIPTION OF THE PENSION FUND AND FUNDING POLICY

### 3.1 The Fund

The Seychelles Pension Scheme was established under the Seychelles Pension Scheme Act, 1990, CAP 220" and commenced with effect on 1 January 1991. In August 2005, the Seychelles Pension Scheme Act, 1990 was repealed and it was replaced by the Seychelles Pension Fund Act, 2005 under which the body was renamed as Seychelles Pension Fund.

The Fund is under the administration of the Board made up of twelve (12) Trustees.

The Fund is a defined contribution scheme which accumulate funds to build up reserve for the payment of pension to its members. The principal activities of the Fund comprise of providing financial security to the retiring members which include payment of accumulated contributions, monthly pension to the members, financial security to the dependents of the deceased members and other benefits under various schemes as fully described in Part II, Section 4 of the Act and applicable Regulations. Membership is mandatory for every worker who is a citizen of Seychelles. A self-employed person or other person citizen of Seychelles can become a member of the Fund and pay contributions.

### 3.2 Funding policy

The overriding principle of the funding policy is that investment must yield maximum returns to strengthen the financial position of the Fund to be able to meet its objectives. Funds which are not required for current benefit payments or administration expenses must be invested to provide return to assist in sustaining the Fund in the medium to long-term.

The main objective of the funding policy is to invest the assets so as to ensure that the Fund will always be able to meet its obligations to its members, without any increase to current contribution rates. Subject to this primary objective, the Board of Trustees aims to optimise returns to its members so as to protect their purchasing power against price inflation. Contribution rates and interest payable decisions are determined by the Minister upon recommendation of the Board.

Investments are in bank deposits, treasury bills and bonds, other government bonds, shares, commercial, resident and industrial properties, housing and direct lending provided the Board is satisfied that there is sufficient security.

### 3.3 Valuation of the Fund

Under Section 55 of the Seychelles Pension Fund Act 2005, the Board is required to make an actuarial investigation of its assets and liabilities at intervals of not more than 3 years. The last actuarial review report as at December 31, 2011 was issued on February 7, 2012 and the next one due for the year ending December 31, 2014.

The recent actuarial review has shown that the Fund is sustainable up to the year 2027 with a target level of 2 times the benfit outgo. However an additional contribution of 3.5% will be required to sustain the Fund in the long-run up to 2037 to be spread out over the years to minimise the impact it may have on take home pay of workers and employers' budgets. The orderly transition to long term rate of pension contribution is as follows : -

- 1% of earnings in 2014
- 1.5% of earnings in 2024
- 2% of earnings in 2029

## 4. RISK MANAGEMENT

The Group's activities expose it to a variety of financial and non-financial risks. A description of the significant risk factors is given below together with the risk management policies applicable.

### 4.1 Investment risk

The various risks directly linked to the investments constitute by far the main threat to the Fund's activities. Sustained poor performance would lead to returns to members and ultimately to benefit reduction or to increased employer contributions. Traditionally the contributions are fixed according to pre-established rates. In general, therefore, the option to increase contributions is to be considered as a risk measure of last resort and the Fund prefers a prudent approach to asset management that is likely to generate moderate, regular returns. The primary control measure is the regular appraisal of the Fund's assets and investment strategy by the Board of Trustees upon the advice of the Actuary and other external advisors as appropriate.

The following types of investment risk can be identified:

(i) *Interest rate risk*

The risk that falling interest rates will reduce investment income on the assets, or that rising interest rates will increase debt servicing costs or lead to falling values of fixed income instruments.

The Fund finances its operations through operating cash flows which are principally denominated in Seychelles Rupee.

Several specific risk measures may be cited:

- The Fund's primary interest rate risk relates to interest-bearing investments. The information on maturity dates and effective interest rates of financial assets are disclosed.
- The Fund does not generally borrow, so the cost of borrowing is nil and unaffected by rate rises.
- The loan portfolio is composed mainly of loans at "fixed" rates; although these rates are adjusted where the spread between the SPF rates and bank rates becomes too significant, there is a certain inertia that tends to protect the Fund from sudden or temporary falls. Additionally, penalties apply on early repayments to discourage clients from switching loan provider.

(ii) *Market risk*

The risk that a sudden fall in asset values restricts the Fund's ability to pay benefits.

There are several ways in which the Fund manages this risk:

- Diversfication - the assets are held in a wide range of different investments, thus limiting the probability of all assets falling in value simultaneously. However, there are few investment mediums.
- Liquidity - great care is taken to ensure that the Fund should not need to realise potentially volatile assets when their values are depressed.

The Fund is exposed to equity securities price risk because of investments held by the Fund and classified on the statement of net assets available-for-sale.

4. RISK MANAGEMENT

4.1 Investment risk (Cont'd)

Sensitivity analysis

The table below summarises the impact of increases/decreases in the fair value of the investments on the fund's increase in fair value of financial assets. The analysis is based on the assumption that the fair value had increased/ decreased by 5%.

| | | 2011 | 2010 |
|---|---|---|---|
| Categories of investments: | | SR | SR |
| Available-for-sale | SR. | 40,282 | 133,687 |

(iii) *Liquidity risk*

The risk that cash flow requirements will force the Fund to realise an investment on poor terms, either through the investment's unmarketability (a loan) or illiquidity (a building), or simply because the asset value is temporarily depressed (a share).

The Fund controls this risk primarily via a detailed annual budget to ensure that the investment strategy will generate positive cash flows, including where necessary the proceeds of the sale of certain assets. Cash flow forecasts help the fund to take appropriate actions.

The Fund also has a portfolio of liquid assets, the maturities of which falls either before or concurrent to the maturity of its obligations.

Procedures have also been established throughout the Fund so that all users channel their requirements to the finance function. This ensures that budget exercise is carried out in an effective manner.

Management monitors rolling forecasts of the Fund's liquidity reserve on the basis of expected cash flow and does not foresee any major liquidity risk over the short to medium term.

(iv) *Credit risk*

The risk that a member defaults on his contributions or a possible default by a tenant.

The risk is minimised by the fact that contribution to the Fund by active workers are mandatory and contributions are deducted directly from employees salaries and remitted to the Fund. There is no history of material bad debts. The Fund has established procedures to ensure that rental agreements are made with tenants with an appropriate credit history.

(v) *Currency risk*

The Fund's activities are not exposed to currency risk. However, the Fund requires foreign exchange for developing its investment policies which are met through requests with financial institutions.

Only a small percentage of the portfolio is invested in the overseas stock market. The Fund's portfolio in key holdings yielded higher returns in 2011 compared to 2010.

## 4. RISK MANAGEMENT (CONT'D)

### 4.1 Investment risk (cont'd)

(vi) *Counter-party risk*

The risk that an external fund manager defaults on its contractual responsibilities.

This risk is mitigated via the following measures:

- All fund managers are subject to rigorous assessment prior to appointment, and to regular appraisal thereafter,
- Overseas fund managers are generally large, well-established organisations with sound reputations and track records,
- The Fund seeks independent professional advice on overseas fund managers.
- There is presently only one fund manager with whom the Fund has entrusted with investing in the Mauritian market.
- The fund manager provides regular reports to the Fund based on an established investment policy.

### 4.2 Economic risk

This corresponds to the risk that external economic events (other than those specifically related to investments) will weaken the Fund's financial position. Two examples of such risk are apparent:

(i) *Industry risk*

The risk that the economy collapses, leading to redundancies, early retirements and cessation of contributions, amongst other wider social, political and economic effects in Seychelles. The primary likely effect on the Fund of such an outcome would be an increase in benefits outgo (early retirements) and an accelerated shift from positive net cash flow to negative net cash flow. Cash flow analysis of this kind of scenario suggests that realisation of assets of fund would provide the necessary liquidity to counter the cash flow need.

(ii) *Inflation risk*

Whilst the Central Bank does pursue a policy of price stability, one cannot assume that a small isolated country such as Seychelles will always be able to control inflation. Inflation would not necessarily be a problem for the Fund if it was accompanied by compensatory increases in investment returns. The smallness and inefficiency of the local market, however, suggest that one could not necessarily always count on the alignment of inflation and yields.

The Fund protects itself in the following ways:

- Real assets (shares, property) would be expected to appreciate in value both in terms of capital and income growth,
- Overseas holdings would tend to buoy up returns since one might expect local inflation to be closely linked to Rupee depreciation,
- When considering the purchase of government debt instruments, the Fund demands a significant yield compensation for inflation risk on longer term instruments.

## 4. RISK MANAGEMENT

### 4.3 Operational risk

The risk that the Fund may incur financial losses due to negligence or fraud.

Operational risk is, however, remote since the company's operations are supported by a strong management structure and controls in place. These activities are under close supervision of management, in turn monitored by the Board.

There is also an internal auditor who assesses the existing situation and reinforce any shortfalls that he could come across.

### 4.4 Legal risk

The risk that the Fund commits an act that is subsequently deemed illegal and that the Fund pays some penalty.

This risk is somewhat limited since the Fund is governed principally under a single, clear piece of legislation: The "Seychelles Pension Fund Act, 2005". All the actions of the Fund are regulated by the Act, and the Fund's procedures are all based on strict observance of the Act's provisions. The Board of Trustees is accountable to the Minister of Finance and the National Assembly.

### 4.5 Disaster recovery risk

The risk that a disaster wipes out the Fund's capacity to continue its operations.

The most obvious example is that the offices burn down, destroying all written and electronic records.

The written records would be lost if the entire offices were destroyed. Such loss is not considered to be significant, although it would represent an inconvenience. This is because all major files are stored electronically and centrally, and are subject to rigorous external backup procedures. In particular, the backups are also held off-site. On a related note, internet security issues have also been addressed: a single, isolated PC is dedicated to internet, and all external disks must be scanned on this machine prior to contact with the network. The presence of an IT Officer adds to the security of the back-ups of electronic information.

As to the risk to the Fund of death of one or more of its staff, it is our view that there is no "key man" such that this would materially affect the Fund.

### 4.6 Reputational risk

The risk that some act of the Fund be badly perceived by the public, thus damaging the Fund's capacity to operate.

It is to be hoped that the Fund's corporate governance framework will protect it from this risk. Although reputation is a fragile quality, the Fund has established a sound reputation, and has promoted transparence in its dealings with members, notably via the dissemination of explanatory literature and through the clarity and completeness of its annual report and financial statements.

The Fund also plans to introduce a culture of best practice in every segment of its activities by benchmarking on whatever appropriate procedures are applied by enterprises around the world (e.g. custodians, independent fund managers, application of International Accounting Standards, etc.

## 5. 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.

### 5.1 Critical accounting estimates and assumptions

The Group 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 are discussed below.

**(a) Held-to-maturity investments**

The Group follows the guidance of International Accounting Standard (IAS) 39 - "Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

**(b) Impairment of available-for-sale financial assets**

The Group follows the guidance of IAS 39 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

**(c) Impairment of other assets**

At each balance sheet date, management reviews and assesses the carrying amounts of the other assets and where relevant writes them down to their recoverable amounts based on best estimates.

**(d) Fair value estimation**

The fair value of financial instruments traded in active markets is based on quoted market prices. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

### 5.1 Critical accounting estimates and assumptions (Cont'd)

#### (d) Fair value estimation (Cont'd)

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of their value hierarchy:

| | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| | | SR | SR | SR | SR |
| **2011** | | | | | |
| **Available-for-sale** | SR | **15,317,451** | **-** | **-** | **15,317,451** |
| 2010 | | | | | |
| Available-for-sale | SR | 16,136,622 | - | - | 16,136,622 |

#### (e) Limitations of sensitivity analysis

Sensitivity analysis in respect of market risk demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results.

Sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Other limitations include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's views of possible near-term market changes that cannot be predicted with any certainty.

## 6. PROPERTY AND EQUIPMENT - THE GROUP AND THE FUND

| 2011 | | Freehold land and buildings | Leasehold buildings & improvements | Equipment | Furniture & fittings | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | | SR | SR | SR | SR | SR | SR |
| **COST AND VALUATION** | | | | | | | |
| At January 1, 2011 | | 7,137,805 | 26,969,024 | 3,770,365 | 2,405,897 | 462,897 | 40,745,988 |
| Additions | | - | - | 796,201 | 215,625 | 178,000 | 1,189,826 |
| Disposals | | - | - | (20,850) | - | (65,396) | (86,246) |
| At December 31, 2012 | | | | | | | |
| COST | | 3,176,645 | 18,347,674 | 4,545,716 | 2,621,522 | 575,501 | 29,267,058 |
| VALUATION | | 3,961,160 | 8,621,350 | - | - | - | 12,582,510 |
| | | 7,137,805 | 26,969,024 | 4,545,716 | 2,621,522 | 575,501 | 41,849,568 |
| **DEPRECIATION** | | | | | | | |
| At January 1, 2011 | | 217,408 | 6,764,629 | 1,332,435 | 801,822 | 346,302 | 9,462,596 |
| Charge for the year | | 93,556 | 2,433,914 | 523,235 | 243,225 | 63,319 | 3,357,249 |
| Disposal adjustments | | - | - | (20,850) | - | (65,396) | (86,246) |
| At December 31, 2011 | | 310,964 | 9,198,543 | 1,834,820 | 1,045,047 | 344,225 | 12,733,599 |
| **NET BOOK VALUE** | | | | | | | |
| At December 31, 2011 | SR | 6,826,841 | 17,770,481 | 2,710,896 | 1,576,474 | 231,276 | 29,115,969 |

**Note :** No revaluation was carried out in 2011, the next one is expected in 2012. The Board of Trustees is of the opinion that the carrying amounts of Property and Equipment approximate their fair values at the end of the reporting period.

## 6. PROPERTY AND EQUIPMENT - THE GROUP AND THE FUND

| 2010 | | Freehold land and buildings | Leasehold buildings & improvements | Equipment | Furniture & fittings | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | | SR | SR | SR | SR | SR | SR |
| **COST AND VALUATION** | | | | | | | |
| At January 1, 2010 | | 6,369,350 | 25,151,292 | 2,541,596 | 2,248,452 | 462,897 | 36,773,587 |
| Additions | | - | 7,000 | 1,228,769 | 157,445 | - | 1,393,214 |
| Revaluation (note 17) | | 768,455 | 1,810,732 | - | - | - | 2,579,187 |
| At December 31, 2010 | | | | | | | |
| COST | | 3,176,645 | 18,347,674 | 3,770,365 | 2,405,897 | 462,897 | 28,163,478 |
| VALUATION | | 3,961,160 | 8,621,350 | - | - | - | 12,582,510 |
| | | 7,137,805 | 26,969,024 | 3,770,365 | 2,405,897 | 462,897 | 40,745,988 |
| **DEPRECIATION** | | | | | | | |
| At January 1, 2010 | | 125,886 | 4,533,541 | 897,385 | 573,639 | 255,903 | 6,386,354 |
| Charge for the year | | 91,522 | 2,231,088 | 435,050 | 228,183 | 90,399 | 3,076,241 |
| At December 31, 2010 | | 217,408 | 6,764,629 | 1,332,435 | 801,822 | 346,302 | 9,462,595 |
| **NET BOOK VALUE** | | | | | | | |
| At December 31, 2010 | SR | 6,920,397 | 20,204,395 | 2,437,930 | 1,604,075 | 116,595 | 31,283,393 |

**Note :** Land and Buildings of the Fund were revalued in 2010 (Refer note 7(b) on page no. 25)

## 7. INVESTMENT PROPERTIES

| | | THE GROUP AND THE FUND | |
|---|---|---|---|
| | | 2011 | 2010 |
| (a) Fair value | | SR | SR |
| At January 1, | | 407,678,517 | 332,857,921 |
| Additions | | 9,902,440 | 32,104,688 |
| Work in progress | | 37,037,602 | 15,373,627 |
| Increase in fair value | | - | 27,342,281 |
| **At December 31,** | SR. | **454,618,559** | 407,678,517 |

(b) The value of the investment properties was subject to a bi-annual review at December 31, 2010 by Mr. Bryan J.K.Felix of Baseline Surveys & Co. (Pty) Ltd and Mr. Lester J.W Quatre of Lester J.W Quatre & Co, independent professionally qualified valuers, on an open-market basis with existing tenancies. The next valuation is expected to be performed in 2012. The Board of Trustees are of the opinion that the carrying amounts of Investment Properties approximate their fair values at the end of the reporting period.

(c) The investment properties are on leasehold land from Mascareignes Properties Limited. The initial deposit on the lease amounting to SR. 50million is being amortised over the term of the lease, i.e., 99 years.

| | | THE GROUP AND THE FUND | |
|---|---|---|---|
| | | 2011 | 2010 |
| | | SR | SR |
| **Deposit on Leasehold land** | | | |
| ***Cost*** | | | |
| **At January 1 and December 31,** | SR. | **50,000,000** | 50,000,000 |
| ***Amortisation*** | | | |
| At January 1, | | 7,069,239 | 4,974,330 |
| Charge for the year | | 2,117,268 | 2,094,909 |
| **At December 31,** | SR. | **9,186,507** | 7,069,239 |
| ***Net Book Value*** | | | |
| **At December 31,** | SR. | **40,813,493** | 42,930,761 |

## 8. INVESTMENT IN SUBSIDIARY COMPANY

| | | THE FUND |
|---|---|---|
| | | 2011 & 2010 |
| | | SR |
| COST | | |
| **At January 1, and December 31,** | SR. | **5,100** |

(a) Details of the Fund's subsidiary, Opportunity Investment Company Limited are given below:

| | THE FUND |
|---|---|
| | 2011 & 2010 |
| Opportunity Investment Company Limited | |
| Class of shares held | Ordinary |
| Year end | December 31, |
| Proportion of ownership interest and voting power held - direct | 51% |
| Country of incorporation and residence | Seychelles |

The subsidiary is engaged in investment holding.

## 9. INVESTMENT IN ASSOCIATED COMPANIES

(a) THE FUND - AT COST

| | | THE FUND 2011 & 2010 |
|---|---|---|
| | | SR |
| At January 1, and December 31, | SR | 59,662,908 |

(b) THE GROUP

| Group's share of net assets | | 2011 | 2010 |
|---|---|---|---|
| | | SR | SR |
| At January 1, | | 83,259,462 | 60,987,416 |
| Share of results for the year | | 38,395,115 | 31,245,646 |
| Dividends | | (18,430,800) | (8,973,600) |
| At December 31, | SR | 103,223,777 | 83,259,462 |

(c) The Group's interest in the associated companies was as follows:

| Name | Year end | Assets | Liabilities | Revenues | Profit / (Loss) | Proportion of ownership interest and voting rights (Direct) | Proportion of ownership interest and voting rights (Indirect) |
|---|---|---|---|---|---|---|---|
| | | SR | SR | SR | SR | % | % |
| 2011 | | | | | | | |
| Seychelles Breweries Ltd | June 30 | 386,848,761 | 155,740,674 | 465,868,965 | 83,464,822 | 26 | - |
| SACOS Group Limited (previously known as State Assurance Co. Ltd) | December 31 | 567,776,821 | 439,047,441 | 112,849,675 | 25,228,289 | - | 18.87 |
| 2010 | | | | | | | |
| Seychelles Breweries Ltd | June 30 | 358,215,045 | 139,785,069 | 422,295,434 | 103,855,915 | 26 | - |
| SACOS Group Limited (previously known as State Assurance Co. Ltd) | December 31 | 256,838,787 | 116,575,578 | 66,497,419 | 39,141,600 | - | 18.87 |

(d) Shares in SACOS Group Limited (previously known as State Assurance Co. Ltd) are held by the Fund through its subsidiary, Opportunity Investment Company Limited, and the Directors consider that significant influence exist to recognised SACL as an associated company.

(e) Where necessary, appropriate adjustments have been made to the financial statements of associated companies to bring the accounting policies used in line with those adopted by the Group.

(f) Management accounts to December 31st have been used for consolidating the results of Seychelles Breweries Limited.

## 10. INVESTMENT IN FINANCIAL ASSETS

| | | 2011 | | | | 2010 |
|---|---|---|---|---|---|---|
| | | Unquoted | | Listed | | |
| | | Money markets | Held-to-Maturity | Available-for-sale | Total | Total |
| | | SR | SR | SR | SR | SR |
| (a) THE GROUP AND THE FUND | | | | | | |
| At January 1, | | 123,754,967 | 133,619,624 | 16,136,622 | 273,511,213 | 321,901,590 |
| Additions | | 141,801,971 | 93,005,000 | 5,156,196 | 239,963,167 | 78,377,558 |
| Increase in fair value (note 17) | | - | - | 805,646 | 805,646 | 2,673,744 |
| Disposals/redemptions | | (148,953,358) | (15,000,000) | (6,781,012) | (170,734,371) | (124,649,593) |
| Accrued interest | | - | (7,095,384) | - | (7,095,384) | (4,792,086) |
| **At December 31,** | SR | 116,603,580 | 204,529,240 | 15,317,451 | 336,450,271 | 273,511,213 |
| *Analysed as follows :* | | | | | | |
| Non-current | | | | | 169,327,243 | 230,659,934 |
| Current | | | | | 167,123,028 | 42,851,279 |
| | | | | | 336,450,271 | 273,511,213 |

(b) Investment in money markets represent term deposits with banks with interest rates ranging from **3% to 7%** p.a (2010: 2.8% to 7%).

(c) Held-to-maturity investments comprise treasury bonds with interest rates ranging from **6% to 8% p.a** (2010: 7% to 8.25%) and treasury bills from **5.50% to 6.1%** p.a (2010:5.35% to 10.87%).

(d) Available-for-sale investments comprise foreign securities quoted on overseas stock markets.

(e) None of the financial assets are either past due or impaired.

(f) Investments in financial assets are denominated in the following currencies:

| | | THE GROUP AND THE FUND | |
|---|---|---|---|
| | | 2011 | 2010 |
| | | SR | SR |
| Seychelles Rupee | | 321,132,820 | 257,374,591 |
| Mauritian Rupee | | 13,946,671 | 14,572,776 |
| United States Dollar | | 1,370,780 | 1,563,846 |
| | SR | 336,450,271 | 273,511,213 |

## 11. LOANS AND RECEIVABLES

| | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | SR | SR | SR | SR |
| Loan and receivables | 12,670 | 27,137,035 | - | 27,124,365 |
| Loan to subsidiary company | - | - | 5,417,168 | 5,417,168 |
| | 12,670 | 27,137,035 | 5,417,168 | 32,541,533 |
| Classified as follows: | | | | |
| - Non current | - | - | 5,417,168 | 5,417,168 |
| - Current | 12,670 | 27,137,035 | - | 27,124,365 |
| | 12,670 | 27,137,035 | 5,417,168 | 32,541,533 |

(a) Loans and receivables have been granted to third parties under following terms:

A loan totalling USD 7.5m was disbursed between September 2008 and October 2011 which was fully recovered by October 2011. This loan bore interest at 9% per annum (2010: 9% per annum) and was repayable in monthly installments of USD 250k until full repayment in October 2011. This loan was secured by a deed of suretyship.

(b) The loan to subsidiary company is interest free with no fixed repayment terms.

(c) The carrying amounts of loans and receivables have been assumed to approximate their fair values.

(d) The loans and receivables are denominated in the following currencies:

| | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | SR | SR | SR | SR |
| USD | - | - | 5,417,168 | 5,417,168 |
| Seychelles Rupees | 12,670 | 27,137,035 | - | 27,124,365 |
| SR | 12,670 | 27,137,035 | 5,417,168 | 32,541,533 |

## 12. RECEIVABLES AND PREPAYMENTS

| | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | SR | SR | SR | SR |
| Contributions receivable | 5,126,794 | 2,347,150 | 5,126,794 | 2,347,150 |
| Receivable from the Government | 15,274,763 | 10,419,392 | 15,274,763 | 10,419,392 |
| Interest receivable | 1,840,795 | 641,718 | 1,840,795 | 641,718 |
| Rental income receivable | 3,281,925 | 1,994,090 | 3,287,025 | 1,994,090 |
| Receivable from subsidiary company | - | - | 123,514 | 123,514 |
| Advance payment on construction works | 44,217,472 | 33,465,975 | 44,217,472 | 33,465,975 |
| Other receivables | 2,919,420 | 2,005,112 | 3,121,727 | 2,181,324 |
| SR | 72,661,168 | 50,873,437 | 72,992,089 | 51,173,163 |

(a) The carrying amount of receivables and prepayments are denominated in Seychelles rupees and approximate their fair value.

(b) None of the above receivables and prepayments were past due or impaired.

(c) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 13. PAYABLES AND ACCRUALS

| | | THE GROUP | | THE FUND | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | | **SR** | SR | **SR** | SR |
| Rental deposits | | **2,564,071** | 2,492,127 | **2,564,071** | 2,492,127 |
| Advance on rent | | **130,148** | 171,464 | **130,148** | 171,464 |
| Interest received in advance | | **1,500,224** | - | **1,500,224** | - |
| Accrued expenses | | **977,093** | 1,187,659 | **977,093** | 1,187,659 |
| Retention payable for construction works | | **348,370** | 1,977,121 | **348,370** | 1,977,121 |
| Other payables | | **258,681** | 58,519 | **212,842** | 25,680 |
| | SR | **5,778,587** | 5,886,890 | **5,732,748** | 5,854,051 |

(a) The carrying amounts of payables and accruals and denominated in Seychelles rupees and approximate their fair value.

## 14. MEMBERS' FUND

Up to the year 2005, Members' Fund represented the balance of fund due to members who have not attained retirement age. However, with the introduction of the Seychelles Pension Fund Act 2005 which came into effect from January 1, 2006, new benefits were introduced to the members including monthly payment of pension if the members meet the eligibility criteria set under the new Act and Regulations.

The Members' Fund balances up to December 31, 2011 are reduced with the new benefits paid under the new scheme. The Members' Fund also includes accumulated balance of members who have reached the retirement age and are eligible for monthly pension. However, the accounts of the retirees should have been separated from the active members fund and reflected in the other fund created for this purpose. With the commissioning of the new computer system, the management is still in the process of segregating these amounts from the active Members' Fund in the next financial year.

## 15. OTHER FUNDS

| | **2011** | 2010 |
|---|---|---|
| | **SR** | SR |
| THE GROUP AND THE FUND | | |
| Contributions from Social Security Division (Note (a) below) | **141,855,643** | 101,232,901 |
| Payments made for Social Security Pension | **(130,151,708)** | (89,528,966) |
| | **11,703,935** | 11,703,935 |
| Receipt from National Provident Fund (Note (b) below) | **71,215,276** | 71,215,276 |
| SPF contribution from Govt (Note ('c) below) | **30,989,567** | - |
| | **113,908,778** | 82,919,211 |

(a) Under the new scheme of benefits payable to the members, the Social Security Fund refunds the whole of the social security pension to the Seychelles Pension Fund for payment of Social Security and Benefits to the members eligible for monthly pension.

## 15. OTHER FUNDS (CONT'D)

(b) The National Provident Fund Act was repealed and after refunding the contributions to the persons entitled under that Act, the balance was transferred to Seychelles Pension Fund as required under Section 73 (2) of the Seychelles Pension Fund Act, 2005.

('c) The SPF contribution from Government are funds received from government @1% on the gross salary of members for the year 2011(2010 : Nil)

## 16. RESERVE FUND

| | | 2011 & 2010 |
|---|---|---|
| | | SR |
| THE GROUP AND THE FUND | | |
| **At January 1, and December 31,** | SR | **14,568,591** |

The Chief Executive Officer, acting on the advice of the Board of Trustees has not made any annual transfer which up to the year 2005 was 30% of the difference between the interest earned by the Fund and the interest paid to the members as there was no immediate need to do so.

The transfer to the Reserve Fund was made in order to provide for future liabilities arising as a result of the need to pay pensions to members living beyond the average life expectancy.

## 17. OTHER RESERVES

### (a) THE GROUP

| | | 2011 | | | 2010 |
|---|---|---|---|---|---|
| | Revaluation reserve | Fair Value reserve | Associates' reserve | Total | Total |
| | SR | SR | SR | SR | SR |
| At January 1, | 12,582,572 | 7,373,815 | 4,109,223 | 24,065,609 | 19,291,935 |
| Revaluation of property and equipment (note 6) | - | - | - | - | 2,579,187 |
| Net change in fair value of financial assets (note 10) | - | 805,646 | - | 805,646 | 2,673,744 |
| Reversal of fair value reserve on disposal of available-for-sale financial assets | - | (3,642,398) | - | (3,642,398) | (479,257) |
| **At December 31,** SR. | 12,582,572 | 4,537,062 | 4,109,223 | 21,228,854 | 24,065,609 |

### (b) THE FUND

| | 2011 | | | 2010 |
|---|---|---|---|---|
| | Revaluation reserve | Fair Value reserve | Total | Total |
| | SR | SR | SR | SR |
| At January 1, | 12,582,572 | 7,373,815 | 19,956,386 | 15,182,712 |
| Revaluation of property and equipment (note 6) | - | - | - | 2,579,187 |
| Net change in fair value of financial assets (note 10) | - | 805,646 | 805,646 | 2,673,744 |
| Reversal of fair value reserve on disposal of available-for-sale financial assets | - | (3,642,398) | (3,642,398) | (479,257) |
| **At December 31,** SR. | 12,582,572 | 4,537,062 | 17,119,632 | 19,956,386 |

## 18. NON-CONTROLLING INTEREST

| | | 2011 | 2010 |
|---|---|---|---|
| | | SR | SR |
| At January 1, | | **5,193,789** | **5,211,360** |
| Share of results (page 5) | | **1,823,241** | **1,438,552** |
| Share of dividends | | **(1,815,254)** | **(1,456,123)** |
| **At December 31, (page 3)** | SR | **5,201,776** | 5,193,789 |

## 19. INTEREST INCOME

| | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **SR** | SR | **SR** | SR |
| Interest on held-to maturity financial ass | **13,233,073** | 15,911,397 | **13,233,073** | 15,911,397 |
| Interest on investments in money market | **3,028,445** | 2,528,728 | **3,028,445** | 2,528,728 |
| Interest on investments available for sale | **265,232** | 0 | **265,232** | 0 |
| Interest on bank balances | **65,191** | 47,362 | **65,191** | 47,362 |
| Interest on loans to third parties | **885,887** | 3,940,056 | **885,887** | 3,940,056 |
| Interest on staff loans | **72,628** | 38,005 | **72,628** | 38,005 |
| SR | **17,550,456** | 22,465,548 | **17,550,456** | 22,465,548 |

## 20. INVESTMENT INCOME

| | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **SR** | SR | **SR** | SR |
| Dividends on local securities | **2,164,261** | 4,604,819 | **18,774,907** | 12,122,296 |
| Dividends on foreign securities | **225,212** | 373,768 | **225,212** | 373,768 |
| SR | **2,389,473** | 4,978,587 | **19,000,119** | 12,496,064 |

## 21. INTEREST CREDITED TO MEMBERS

Interest credited to Members' Fund at 4% for the year ended December 31, 2011, amounted to SR **28.3m** to the Fund (2010: 4% per annum - SR 26.4m). However, only **SR 3.4m** (2010 : SR 3.4m) were actually paid towards retiring members, death gratuities and migration allowance for the year under review. The remaining surplus balance is booked every year as a liability in the Members' Fund Account to be used for settlement of future obligations towards existing members.

## 22. ADMINISTRATIVE EXPENSES

| | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **SR** | SR | **SR** | SR |
| Salaries, wages and other related exps | **9,831,725** | 8,856,707 | **9,831,725** | 8,856,707 |
| Administration costs | **2,961,799** | 2,088,606 | **2,938,149** | 2,088,606 |
| Motor vehicles running expenses | **205,845** | 174,868 | **205,845** | 174,868 |
| Other expenses | **2,139,944** | 1,737,528 | **2,139,944** | 1,701,670 |
| SR. | **15,139,313** | 12,857,709 | **15,115,663** | 12,821,850 |

## 23. NOTES TO CASH FLOW STATEMENTS

| | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | SR | SR | SR | SR |
| **(a) Cash generated from operations** | | | | |
| Net increase in net assets available for benefits (page 4) | 87,878,234 | 82,166,462 | 106,305,822 | 91,158,349 |
| Net change in non-controlling interest (note 18) | 7,988 | (17,571) | - | - |
| SR | 87,886,222 | 82,148,891 | 106,305,822 | 91,158,349 |

| **(b) Cash and cash equivalents** | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | SR | SR | SR | SR |
| Cash at bank | 92,527,984 | 87,109,983 | 92,248,729 | 86,886,123 |
| Short term bank deposits | 84,519 | 84,519 | | - |
| Cash in hand | 12,600 | 10,979 | 12,600 | 10,979 |
| Bank balance with fund managers | 1,537,527 | 934,212 | 1,537,527 | 934,212 |
| SR | 94,162,630 | 88,139,693 | 93,798,856 | 87,831,314 |

## 24. RELATED PARTY TRANSACTIONS

| | THE GROUP | | THE FUND | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | SR | SR | SR | SR |
| **Subsidiary company:** | | | | |
| - Investment | - | - | 5,100 | 5,100 |
| - Loan receivable | - | - | 5,417,168 | 5,417,168 |
| - Dividends receivable | - | - | | |
| -Other receivable | - | - | | 123,514 |
| **Enterprises on which the Company exerts significant influence:** | | | | |
| - Investment | 103,223,777 | 83,259,462 | 59,662,908 | 59,662,908 |
| - Dividends | 18,430,800 | 8,973,600 | 18,430,800 | 8,973,600 |
| **Key management personnel:** | | | | |
| - Gross salaries | 647,136 | 593,208 | 647,136 | 593,208 |
| - Gratuity accumulated | 325,759 | 237,283 | 325,759 | 237,283 |
| **Board of Trustees remuneration** | 550,080 | 466,014 | 550,080 | 466,014 |

## 24. RELATED PARTY TRANSACTIONS (CONT'D)

Transactions with related parties are made at normal market prices.

Outstanding balances at the end of the reporting period are unsecured and interest-free. There has been no guarantees provided or received for any related party payables or receivables. For the year ended December 31, 2011, the Fund has not recorded any impairment of receivables relating to amounts owed by related parties (2010: Nil). This assessment is undertaken at the end of each financial year through examining the financial position of the related party and the market in which the latter operates.

## 25. BOARD OF TRUSTEES REMUNERATIONS

These are detailed as follows:

| | THE GROUP & THE FUND | |
|---|---|---|
| | 2011 | 2010 |
| | SR | SR |
| S Cesar | 48,960 | 44,880 |
| M Afif | 41,760 | 38,280 |
| G Beaudoin | 41,760 | 38,280 |
| R Weber | 41,760 | 38,280 |
| R Spiro | 41,760 | 38,280 |
| L Woodcock | 41,760 | 38,280 |
| M Felix | 41,760 | 38,280 |
| S Labrosse | 41,760 | 38,280 |
| A Mousbe | 41,760 | 38,280 |
| J Esparon | 41,760 | 38,280 |
| M Stravens | 41,760 | 38,280 |
| A. Lucas | 41,760 | 14,490 |
| G D'Offay | - | 23,844 |
| Mrs. Marie-Ange Waye-Hive (Secretary) | 41,760 | - |
| SR | 550,080 | 466,014 |

## 26. COMMITMENTS

| | THE GROUP & THE FUND | |
|---|---|---|
| | 2011 | 2010 |
| | SR | SR |
| **Capital commitments:** | | |
| Approved and contracted for | 136,677,021 | 111,813,669 |
| Approved but not contracted for | 56,655,346 | 14,000,000 |
| SR | 193,332,367 | 125,813,669 |

## 27. CONTINGENT LIABILITIES

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

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

## FINANCIAL SUMMARY

| | | THE GROUP | | | | THE FUND | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2011** | 2010 | 2009 | 2008 | **2011** | 2010 | 2009 | 2008 | 2007 |
| | | **SR'000** | SR'000 | SR'000 | SR'000 | **SR'000** | SR'000 | SR'000 | SR'000 | SR'000 |
| Interest income | | **17,550** | 22,466 | 46,208 | 22,832 | **17,550** | 22,466 | 46,023 | 22,750 | 22,229 |
| Dividend income | | **2,389** | 4,979 | 1,920 | 1,610 | **19,000** | 12,496 | 8,853 | 8,529 | 7,918 |
| Increase in fair value of investment properties | | **-** | 27,343 | - | 91,661 | **-** | 27,342 | - | 91,661 | 14,456 |
| Rental and other income | | **25,948** | 22,189 | 17,334 | 13,029 | **25,918** | 22,189 | 17,334 | 13,029 | 11,759 |
| | | **45,888** | 76,977 | 65,462 | 129,132 | **62,469** | 84,493 | 72,210 | 135,969 | 56,362 |
| Interest credited to members | | **(28,253)** | (26,382) | (29,446) | (30,514) | **(28,253)** | (26,382) | (29,446) | (30,514) | (23,454) |
| Expenditures | | **(21,390)** | (21,767) | (20,235) | (13,551) | **(21,366)** | (21,731) | (20,030) | (13,498) | (9,825) |
| Gain/(Loss) on exchange differences | | **5,921** | 6,404 | (40,481) | 50,428 | **5,922** | 6,403 | (40,481) | 50,428 | - |
| Surplus/(Deficit) for the year | | **2,166** | 35,232 | (24,700) | 135,495 | **18,771** | 42,783 | (17,747) | 142,385 | 23,083 |
| Share of results of associates | | **38,395** | 31,246 | (10,354) | 8,525 | **-** | - | - | - | - |
| Surplus from prior years | | **207,383** | 142,344 | 178,845 | 35,932 | **198,523** | 155,740 | 173,487 | 31,102 | 8,019 |
| | | **247,944** | 208,822 | 143,791 | 179,952 | **217,294** | 198,523 | 155,740 | 173,487 | 31,102 |
| Minority Interest | | **(1,823)** | (1,439) | (1,447) | (1,107) | **-** | - | - | - | - |
| **Surplus carried forward** | SR | **246,121** | 207,383 | 142,344 | 178,845 | **217,294** | 198,523 | 155,740 | 173,487 | 31,102 |
| **FUNDS** | | | | | | | | | | |
| Members' fund | | **723,713** | 664,331 | 620,731 | 571,282 | **723,713** | 664,331 | 620,731 | 571,282 | 511,808 |
| Reserve fund | | **14,569** | 14,568 | 14,568 | 14,568 | **14,569** | 14,568 | 14,568 | 14,568 | 14,568 |
| Other fund | | **113,909** | 82,919 | 82,919 | 82,919 | **113,909** | 82,919 | 82,919 | 82,919 | 78,155 |
| Retained surplus | | **246,121** | 207,383 | 142,344 | 178,845 | **217,294** | 198,523 | 155,740 | 173,487 | 31,102 |
| Other reserves | | **21,229** | 24,066 | 19,292 | 17,859 | **17,120** | 19,956 | 15,182 | 13,750 | 3,358 |
| | SR | **1,119,540** | 993,267 | 879,854 | 865,473 | **1,086,604** | 980,297 | 889,140 | 856,006 | 638,991 |

Note: For reasons of practicability, comparative figures for the Group have not been disclosed for years prior to 2008.