

HOUSING FINANCE COMPANY LIMITED

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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, 2010.

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	14,499,961
Tax charge	(5,000,000)
Profit for the year	<u>9,499,961</u>
Retained earnings brought forward	18,819,175
Retained earnings carried forward	<u><u>28,319,136</u></u>

DIVIDENDS

The Directors did not recommend any dividend for the financial year under review (2009: Nil).

PROPERTY AND EQUIPMENT

Additions to property and equipment of SR 377,875 during the year comprised computers and equipment. A motor vehicle at nil book value was disposed during the year.

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, 2010.

DIRECTORS AND DIRECTORS' INTEREST

The Directors of the Company holding office as at December 31, 2010 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.

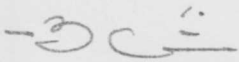
The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Standards in Seychelles and in compliance with the Seychelles Companies Act, 1972. This responsibility includes: designing, implementing and maintaining 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.

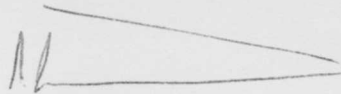
AUDITORS

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

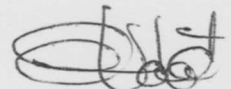
BOARD APPROVAL



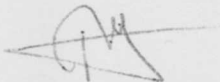
Charles Bastienne
Director



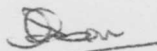
Christian Lionnet
Director



Olsen Vidot
Director



Patrick Lablache
Director



Sitna Cesar
Director

Date:
Victoria, Seychelles

HOUSING FINANCE COMPANY LIMITED

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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, 2010, 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

3(a)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS (CONT'D)

Basis of opinion

Investment properties and finance leases

Properties held for sale and rental are granted by the Ministry of Land Use and Housing without any adequate written documentation to substantiate the transactions. Moreover, valuations of these properties was subsequently effected in 2009 based on Directors' best estimates.

We were unable to perform proper audit procedures to ensure completeness of properties received by the Company as well as accuracy as to their proper valuation. We have, however, received written representations from the Directors that the valuation of these properties do not materially differ from their fair values.

Provision for credit impairment

Loans and advances and finance leases

The Financial Institutions (Credit Classification and Provisioning) Regulations, 2010 gives guidance on classification of credit and minimum provisioning requirements. In assessing the minimum provisioning requirements, the net realisable value of eligible collateral used by the Company has been based on Directors' best estimate.

We could not ensure accuracy of the net realisable value of collaterals used in assessing the adequacy of provision for credit impairment due to unavailability of appropriate reports on collaterals held by the Company.

Rental receivable

The amount of provision for credit impairment booked in the financial statements in respect of rental receivable is based on management experience and Directors' best estimate. We could not substantiate the adequacy of this provision as at December 31, 2010.

Opinion

In our opinion, except for the financial effects, if any, of matters listed in the basis for qualified opinion paragraph above and those financial statement areas had we been able to obtain sufficient appropriate audit evidence, the financial statements on pages 4 to 26 give a true and fair view of the financial position of the Company at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Standards in Seychelles, the provisions of the Seychelles Companies Act, 1972 and the Financial Institutions (Application of Act) Regulations, 2010.



HOUSING FINANCE COMPANY LIMITED

3(b)

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.

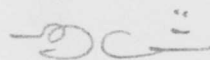
BDO Associates
BDO ASSOCIATES
Chartered Accountants

Date:
Victoria, Seychelles

BALANCE SHEET - DECEMBER 31, 2010

	Notes	2010	Re-stated 2009
ASSETS		SR	SR
Cash and bank balances	5	30,849,357	1,567,408
Loans and advances	6	421,021,710	411,883,808
Finance lease receivable	7	214,035,088	206,867,042
Investment properties	8	140,893,920	102,791,341
Property and equipment	9	951,265	797,093
Current tax asset	10(a)	-	159,894
Trade and other receivables	11	13,097,392	13,670,979
TOTAL ASSETS		820,848,732	737,737,565
LIABILITIES			
Borrowings	12	195,807,556	160,030,253
Payable to Government of Seychelles	13	-	43,384,547
Other payables and accruals	14	25,255,806	5,220,224
Current tax liability	10(a)	4,201,984	-
Retirement benefit obligations	15(a)	395,981	42,406
TOTAL LIABILITIES		225,661,327	208,677,430
SHAREHOLDERS' FUND			
Share capital	16	20,000,000	20,000,000
Capital reserve		529,433,455	475,213,517
Retained earnings		28,319,136	18,819,175
		577,752,591	514,032,692
Contingency reserve	17	17,434,814	15,027,443
TOTAL SHAREHOLDERS' FUNDS		595,187,405	529,060,135
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		820,848,732	737,737,565

These financial statements have been approved for issue by the Board of Directors on



Charles Bastienne
Director



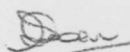
Christian Lionnet
Director



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(b).

INCOME STATEMENT - YEAR ENDED DECEMBER 31, 2010

	Notes	2010 SR	Re-stated 2009 SR
Interest income		43,004,840	48,703,650
Interest expense		(12,210,908)	(31,067,305)
Net interest	18	<u>30,793,932</u>	<u>17,636,345</u>
Fee and commission income		637,484	74,528
Fee and commission expense		(3,408,554)	(2,729,031)
Net fee and commission	19	<u>(2,771,070)</u>	<u>(2,654,503)</u>
Net interest, fee and commission		28,022,862	14,981,842
Rental income		11,325,561	9,287,253
Other income	20	8,089,525	5,683,373
Operating expenses	21	(30,376,740)	(23,461,208)
Provision for credit impairment		(2,561,247)	(2,428,870)
Profit before tax		<u>14,499,961</u>	4,062,390
Tax expense	10(b)	(5,000,000)	(1,950,000)
Profit for the year		<u><u>9,499,961</u></u>	<u><u>2,112,390</u></u>

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

STATEMENT OF CHANGES IN EQUITY - DECEMBER 31, 2010

	Notes	Share capital SR	Capital Reserve SR	Retained earnings SR	Total SR
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		20,000,000	475,213,517	18,819,175	514,032,692
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
- Release to the income statement	8	-	(6,415,419)	-	(6,415,419)
Receipt on condominium scheme	6(ii)	-	10,226,607	-	10,226,607
Adjustments		-	732,749	-	732,749
At December 31, 2010		20,000,000	529,433,455	28,319,136	577,752,591
At January 1, 2009					
- As previously stated		20,000,000	136,964,855	2,170,700	159,135,555
- Effect of adjusting provision for credit impairment		-	(297,038)	(5,832,939)	(6,129,977)
- As re-stated		20,000,000	136,667,817	(3,662,239)	153,005,578
Transfer from PMC		-	300,895,436	20,369,024	321,264,460
Profit for the year		-	-	2,112,390	2,112,390
Movement in finance lease					
- Additions	7	-	42,169,434	-	42,169,434
- Repayments	7	-	(6,854,641)	-	(6,854,641)
Movement in investment properties					
- Additions	8	-	8,121,801	-	8,121,801
- Release to the income statement	8	-	(4,248,482)	-	(4,248,482)
Discounts on loans to customers	6(i)	-	(1,537,848)	-	(1,537,848)
At December 31, 2009		20,000,000	475,213,517	18,819,175	514,032,692

The notes on pages 8 to 26 form an integral part of these financial statements.

Auditors' Report on pages 3 to 3(b).

CASH FLOW STATEMENT - YEAR ENDED DECEMBER 31, 2010

	Notes	2010 SR	Re-stated 2009 SR
Cash flows from operating activities			
Cash (used in)/generated from operations	22	(4,031,944)	2,378,179
Tax paid	10	(638,122)	(937,082)
Net cash (outflow)/inflow from operating activities		<u>(4,670,066)</u>	<u>1,441,097</u>
Cash flows from investing activities			
Purchase of property and equipment	9	(377,875)	(175,895)
Proceeds from disposal of property and equipment		60,000	40,000
Transfer from PMC, net of cash acquired		-	9,450,260
Net cash (outflow)/inflow from investing activities		<u>(317,875)</u>	<u>9,314,365</u>
Cash flow from financing activities			
Loans received	12	75,000,000	-
Repayment of borrowings	12	(39,157,862)	(32,348,362)
Repayment of loan from GOS	13	(23,384,547)	-
Net finance lease received	7	11,650,527	6,854,641
Receipt in respect of condominium scheme	6(ii)	10,226,607	-
Net cash inflow/(outflow) from financing activities		<u>34,334,725</u>	<u>(25,493,721)</u>
Net increase/(decrease) in cash and cash equivalents		<u>29,346,784</u>	<u>(14,738,259)</u>
Movement in cash and cash equivalents			
At January 1,		(3,210,881)	11,527,378
Increase/(decrease)		29,346,784	(14,738,259)
At December 31,	5	<u>26,135,903</u>	<u>(3,210,881)</u>

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

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

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 stated.

(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.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

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 Corporation 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.

All loans and advances are recognised when cash is advanced to the borrower.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

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) 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.

(ii) Trade and other payables

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

(iii) 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.

(iv) 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.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****(v) Share capital**

Ordinary shares are classified as equity

(vi) 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. Releases to Income Statement are in respect of the followings:

- (i) Investment properties - based on corresponding amortisation charge; and
- (ii) Finance lease receivables - based in 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, 2009 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, 2009, 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, 2009, 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.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

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.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

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 Corporation does not have a significant concentration of credit risk, with exposure spread over a large number of customers. However, the Corporation 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 takes on exposure to 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.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

3. FINANCIAL RISK MANAGEMENT (CONT'D)**(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.

(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 are discussed below.

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.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

5. CASH AND CASH EQUIVALENTS

	2010	2009
	SR	SR
Cash and bank balances	30,849,357	1,567,408
Bank overdrafts (note 12)	(4,713,454)	(4,778,289)
	<u>26,135,903</u>	<u>(3,210,881)</u>

All cash and bank balances are denominated in Seychelles Rupees.

6. LOANS AND ADVANCES

	2010	Re-stated 2009
	SR	SR
Gross loans taken over from Seychelles Housing Development Corporation (SHDC) (Notes (i) & (iv))	74,599,982	82,158,250
Loans advanced by the Company (Notes (ii) & (v))	360,157,181	341,946,210
	<u>434,757,163</u>	<u>424,104,460</u>
Provision for credit impairment (Note (iii))	(13,735,453)	(12,220,652)
	<u>421,021,710</u>	<u>411,883,808</u>

(i) Movement in loans taken over from SHDC

	2010	2009
	SR	SR
At January 1,	82,158,250	89,334,561
Interest charged during the year	4,142,687	3,440,915
Insurance charges	1,041,249	637,592
Discounts provided (Note (vi))	-	(1,537,848)
	<u>87,342,186</u>	<u>91,875,220</u>
Repayments	(12,742,204)	(9,716,970)
At December 31,	<u>74,599,982</u>	<u>82,158,250</u>

(ii) Loans granted by the Company

	2010	2009
	SR	SR
At January 1,	341,946,210	346,109,806
Condominium loan disbursed	10,226,607	-
Other loans disbursed	51,182,880	41,625,118
Interest charged	24,475,501	37,797,434
Repayments	(67,674,017)	(83,586,148)
At December 31,	<u>360,157,181</u>	<u>341,946,210</u>

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

6. LOANS AND ADVANCES (CONT'D)

(iii) Movement in provision for credit impairment

	2010	2009
	SR	SR
At January 1,		
- As previously stated	8,259,903	5,212,352
- Prior Year Adjustment **	3,960,749	5,832,939
As re-stated	12,220,652	11,045,291
Charge for the year	1,514,801	1,175,361
At December 31,	<u>13,735,453</u>	<u>12,220,652</u>

** The above "Prior Year Adjustment" represents 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.

(v) Loans advanced by the Company are issued from its own funds and interest rates varies from 3% to 10%.

(vi) Discounts granted to ex SHDC borrowers are 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

	2010	Re-stated 2009
	SR	SR
At January 1,	206,867,042	-
Transfer from Property Management Corporation (PMC)	-	172,671,793
Granted during the year	16,808,530	42,169,434
Repayments	(11,650,527)	(6,854,641)
Interest charged	2,724,528	601,993
	<u>214,749,573</u>	<u>208,588,579</u>
Provision for credit impairment	(714,485)	(1,721,537)
At December 31,	<u>214,035,088</u>	<u>206,867,042</u>

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

7. FINANCE LEASE RECEIVABLE (CONT'D)

(a) Movement in provision for credit impairment

	2010	2009
	SR	SR
At January 1,		
- As previously stated	-	-
- Prior Year Adjustment (see note 6(iii) (a) above)	1,721,537	758,954
As restated	1,721,537	758,954
Charge for the year	714,485	962,583
At December 31,	<u>2,436,022</u>	<u>1,721,537</u>

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

8. INVESTMENT PROPERTIES

	2010	2009
	SR	SR
COST		
At January 1,	115,867,679	-
Transfer from PMC	-	107,745,878
Additions	44,517,998	8,121,801
At December 31,	<u>160,385,677</u>	<u>115,867,679</u>
AMORTISATION		
At January 1,	13,076,338	-
Transfer from PMC	-	8,827,856
Charge for the year (Note 21)	6,415,419	4,248,482
At December 31,	<u>19,491,757</u>	<u>13,076,338</u>
NET BOOK VALUE		
At December 31,	<u>140,893,920</u>	<u>102,791,341</u>

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

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	
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	
NET BOOK VALUE														
At December 31, 2010	-		430,329		22,612		127,167		371,157		-		951,265	
At December 31, 2009	10,512		430,329		45,908		106,930		203,414		-		797,093	

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

10. CURRENT TAX (LIABILITY)/ASSET

(a) Balance sheet

	2010	2009
	SR	SR
At January 1,	159,894	1,172,812
Charge to the income statement	(5,000,000)	(1,950,000)
Payments effected during the year	638,122	937,082
At December 31,	<u>(4,201,984)</u>	<u>159,894</u>
<i>Classified under:</i>		
Current tax liability	(4,201,984)	-
Current tax asset	-	159,894
	<u>(4,201,984)</u>	<u>159,894</u>

(b) Income statement

	2010	2009
	SR	SR
Current tax based on taxable profit for the year	<u>(5,000,000)</u>	<u>(1,950,000)</u>

(c) Applicable tax rates are as follows:

Taxable income	Tax rates - %
<u>At December 31, 2010</u>	
≤ SR. 1,000,000	25%
> SR. 1,000,000	33%
<u>At December 31, 2009</u>	
≤ SR. 250,000	Nil
> SR. 250,000	40%

11. TRADE AND OTHER RECEIVABLES

	2010	Re-stated 2009
	SR	SR
Rent receivable	14,761,618	14,179,463
Provision for credit impairment (Note 11(a))	(3,519,925)	(3,187,964)
	<u>11,241,693</u>	<u>10,991,499</u>
Other debtors and prepayments	1,855,699	2,679,480
	<u>13,097,392</u>	<u>13,670,979</u>

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

11. TRADE AND OTHER RECEIVABLES (CONT'D)

(a) Movement in provision for credit impairment	2010	2009
	SR	SR
At January 1,		
- As previously stated	2,600,000	-
- Prior Year Adjustment (see note 6(iii) (a) above)	587,964	297,038
As restated	3,187,964	297,038
Transfer from PMC	-	2,600,000
Charge for the year	331,961	290,926
At December 31,	3,519,925	3,187,964

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

12. BORROWINGS

	2010	2009
	SR	SR
Current		
Bank borrowings (note (i) below)	24,132,415	49,798,727
Bank overdraft (Note (ii) below and Note 5)	4,713,454	4,778,289
	28,845,869	54,577,016
Non current		
Bank borrowings (note (i) below)	166,961,687	105,453,237
	195,807,556	160,030,253

(i) The above bank borrowings comprised three (3) loans from Nouvobanq, which were merged during the year into a single loan (repayable on monthly instalments) and a loan of SR75M from Seychelles Savings Bank (repayable in 48 monthly instalments of SR. 1,744,235, with 36 months grace period) bearing variable interest ranging from 5.5% to 10.25% per annum. The loans are all secured by guarantees from the Government of Seychelles.

(ii) Bank overdraft bear variable interest ranging from 10% to 12% during the year. It is secured by the assets of the Company.

13. PAYABLE TO GOVERNMENT OF SEYCHELLES

	2010	2009
	SR	SR
At January 1,	43,384,547	-
Advance by Government of Seychelles	-	185,624,562
Offset against amount receivable from the Government of Seychelles	-	(142,240,015)
Repayments	(23,384,547)	-
Transferred to other payables and accruals	(20,000,000)	-
At December 31,	-	43,384,547

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

13. PAYABLE TO GOVERNMENT OF SEYCHELLES (CONT'D)

The above represents amounts advanced by the Government of Seychelles to repay the term loans obtained by the Company from Nouvobanq and set off against advances receivable from the Government of Seychelles during the financial year under review. The amount due is interest free and has no fixed repayment term. The loan was fully cleared during the year under review through an actual cash repayment and a transfer to project commitments (accounted under other payables, note 14)

14. OTHER PAYABLES AND ACCRUALS

	2010	2009
	SR	SR
Amounts payable on sale of land	247,500	3,788,602
Project commitments	17,126,561	-
Deposit on Home Saving Scheme	7,810,294	-
Other payables	71,451	1,431,622
	<u>25,255,806</u>	<u>5,220,224</u>

15. RETIREMENT BENEFIT OBLIGATIONS

	2010	2009
	SR	SR
(a) Amounts recognised in the Balance Sheet		
- Compensation for length of service (note (c) below)	<u>395,981</u>	<u>42,406</u>
Income statement charge/(release):		
- Gratuity (note (b) below)	-	(12,391)
- Compensation for length of service (note (c) below)	<u>353,575</u>	<u>83,368</u>
	<u>353,575</u>	<u>70,977</u>

(b) Movement in the gratuity provision:

	2010	2009
	SR	SR
At January 1,	-	177,544
Amalgamation adjustment	-	85,333
Total amount released to the income statement (note (a) above)	-	(12,391)
Paid during the year	-	(250,486)
At December 31,	<u>-</u>	<u>-</u>

(c) Movement in the compensation for length of service provision:

	2010	2009
	SR	SR
At January 1,	42,406	374,741
Amalgamation adjustment	-	247,724
Total expense charged in the income statement (note (a) above)	353,575	83,368
Paid during the year	-	(663,427)
At December 31,	<u>395,981</u>	<u>42,406</u>

16. SHARE CAPITAL

	2010 & 2009
	SR
Authorised, issued and paid up:	
20,000 ordinary shares of SR. 1,000 each	<u>20,000,000</u>

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

17. CONTINGENCY RESERVE

	2010	2009
	SR	SR
At January 1,	15,027,443	15,036,782
Charged for the year	2,407,371	913,507
Refunded during the year	-	(922,846)
At December 31,	17,434,814	15,027,443

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.

18. NET INTEREST

	2010	2009
	SR	SR
Interest income		
Loans and advances	28,629,786	41,247,016
Finance leases - Upon repayment	11,650,526	6,854,641
- Charged	2,724,528	601,993
	<u>43,004,840</u>	<u>48,703,650</u>
Interest expense		
Bank loans	(12,210,908)	(31,067,305)
Rental income		
Investment properties	11,325,561	9,287,253
	<u>42,119,493</u>	<u>26,923,598</u>

19. NET FEE AND COMMISSION

	2010	2009
	SR	SR
Fee income		
Processing fee on loans and advances	637,484	74,528
Fee expense		
Portfolio management fee	(3,408,554)	(2,729,031)
Net fee and commission	<u>(2,771,070)</u>	<u>(2,654,503)</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.

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

20 OTHER INCOME

	2010	2009
	SR	SR
Condominium scheme receipts	7,839,425	-
Grant from Government of Seychelles for shortfall in interest rates	-	4,800,000
Profit on disposal of property and equipment	60,000	40,000
Profit on sale of land	-	60,000
Refund from insurance	-	527,467
Sundry income	190,100	255,906
	<u>8,089,525</u>	<u>5,683,373</u>

21. OPERATING EXPENSES

	2010	2009
	SR	SR
Administration costs	7,795,459	4,664,698
Auditor's remuneration	287,500	185,000
Amortisation of investment properties (Note 8)	6,415,419	4,248,482
Depreciation (Note 9)	223,703	461,386
Release from capital reserve	(6,415,419)	(4,248,482)
Maintenance costs	15,819,868	12,811,487
Rent	1,242,152	1,343,003
Staff costs (see note (a) below)	5,008,058	3,995,634
	<u>30,376,740</u>	<u>23,461,208</u>

(a) Staff costs

	2010	2009
	SR	SR
Salaries and wages	3,448,198	2,822,939
Directors' emoluments (see note (i) below)	367,709	250,660
Social security costs	299,375	602,014
Pension costs - statutory contribution	24,300	23,450
Gratuity and length of service provision	474,411	70,978
Other staff costs	394,065	225,593
	<u>5,008,058</u>	<u>3,995,634</u>

NOTES TO THE FINANCIAL STATEMENTS - DECEMBER 31, 2010

21. OPERATING EXPENSES (CONT'D)

(i) Directors' emoluments

	2010	2009
Directors' fees:	SR	SR
Christian Lionnet	18,064	10,800
Patrick Lablache	26,749	13,000
Olsen Vidot	18,064	10,800
Sitna Cesar	18,064	10,800
	<u>80,941</u>	<u>45,400</u>
Other emoluments:		
Charles Bastienne	286,768	205,260
	<u>367,709</u>	<u>250,660</u>

22. NOTES TO THE CASH FLOW STATEMENT

	Notes	2010	Re-stated 2009
		SR	SR
Profit before tax		14,499,961	4,062,390
<i>Adjustments for:</i>			
Amortisation of investment properties	8	6,415,419	4,248,482
Depreciation	9	223,703	461,387
Release from stated capital to income statement			
- Amortisation of Investment properties		(6,415,419)	(4,248,482)
- Receipt from finance lease	7	(11,650,527)	(6,854,641)
Profit on disposal of property and equipment		(60,000)	(40,000)
Provision for credit impairment		2,561,247	2,428,870
Discount granted on loans		-	(1,537,848)
Adjustment		732,749	-
		<u>6,307,133</u>	<u>(1,479,842)</u>
<i>Changes in working capital</i>			
- Loans and advances to customers		(10,652,703)	12,593,416
- Trade and other receivables		(2,482,902)	(12,220,308)
- Retirement benefit obligation		353,575	(509,879)
- Other payables and accruals		35,582	4,004,131
- Contingency reserve	17	2,407,371	(9,339)
Net cash (used in)/generated from operations		<u>(4,031,944)</u>	<u>2,378,179</u>

23. CONTINGENT LIABILITIES

There were no contingent liabilities at December 31, 2010 (2009: Nil).

24. CAPITAL COMMITMENTS

Capital commitments amounting to SR.35M, were approved but not disbursed during the year (2009: Nil).

FIVE YEAR FINANCIAL SUMMARY - DECEMBER 31, 2010

	2010	Re-stated 2009	2008*	2007*	2006*
	SR'000	SR'000	SR'000	SR'000	SR'000
Profit/(Loss) before tax	14,500	4,062	(1,012)	3,249	2,434
Tax charge	(5,000)	(1,950)	-	(1,419)	(1,100)
Profit/(Loss) for the year	<u>9,500</u>	<u>2,112</u>	<u>(1,012)</u>	<u>1,830</u>	<u>1,334</u>
Retained earnings brought forward:					
- Housing Finance Company Limited	18,819	(3,662)	3,183	1,353	19
- Transfer from PMC	-	20,369	-	-	-
Retained earnings carried forward	<u>28,319</u>	<u>18,819</u>	<u>2,171</u>	<u>3,183</u>	<u>1,353</u>
SHAREHOLDERS' FUNDS:					
Share capital	20,000	20,000	20,000	20,000	20,000
Capital reserve	529,433	475,214	136,964	144,103	155,630
Retained earnings	28,319	18,819	2,171	3,183	1,353
Contingency reserve	17,435	15,027	15,037	12,092	8,064
	<u>595,187</u>	<u>529,060</u>	<u>174,172</u>	<u>179,378</u>	<u>185,047</u>

* 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, 2010

	2010	2009
	SR	SR
Interest on loans	43,004,840	48,703,650
Rental income	11,325,561	9,287,253
Commission and other income	8,727,009	5,757,901
	<u>63,057,410</u>	<u>63,748,804</u>
Interest and commission expense	(15,619,462)	(33,796,336)
	<u>47,437,948</u>	<u>29,952,468</u>
EXPENDITURE		
Advertising and publicity	258,945	8,297
Audit fee	287,500	185,000
Bank charges	200,365	244,001
Cleaning supplies and consumables	51,491	59,987
Communication costs	393,336	463,944
Computer costs	198,000	236,600
Depreciation	223,529	461,387
Electricity and water	431,326	297,169
Equipment maintenance and rental	284,114	422,283
Write off of Equipment	32,638	84,170
Fuel, car hire and local conveyance	724,630	555,046
GST on expatriates houses	174,975	264,938
Insurance	2,174,679	96,500
Legal and professional fee	415,866	455,133
Pension contribution	24,300	23,450
Properties maintenance	12,826,373	9,929,831
Ground maintenance	2,278,055	2,162,204
Rent	1,207,967	1,343,003
Salaries and wages	3,716,903	2,988,511
Social housing rent	1,560,052	1,228,973
Social security	299,374	602,014
Staff gratuity	97,504	86,772
Staff compensation	353,575	83,369
Staff welfare and other costs	493,069	211,518
Stationery and postage	712,347	542,401
Surcharge and penalties	-	8,617
Sundries and security services	955,827	416,090
Provision for credit impairment	2,561,247	2,428,870
	<u>32,937,987</u>	<u>25,890,078</u>
Profit before tax	<u>14,499,961</u>	<u>4,062,390</u>


BDO Associates

P.O. Box 18
The Creole Spirit
Quincy Street, Mahe
Victoria
SEYCHELLES

Tel: +248 612612

e-mail: bdoseychelles@bdo.sc

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