

JAMAICA SELECT INDEX FUND LTD

FINANCIAL STATEMENTS

MARCH 31, 2008



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INDEPENDENT AUDITORS' REPORT

To the Members of
JAMAICA SELECT INDEX FUND LTD.

We have audited the accompanying financial statements of Jamaica Select Index Fund Ltd. (the Fund), which comprise the balance sheet as at March 31, 2008, and the income statement, statement of changes in net assets attributable to holders of redeemable shares and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


June 24, 2008


JAMAICA SELECT INDEX FUND LTD.

Balance Sheet
March 31, 2008
(Stated in Jamaica dollars)

	<u>Notes</u>	<u>2008</u> J\$	<u>2007</u> J\$
ASSETS			
Loans and receivables			
Cash and cash equivalents	4, 9	5,236,487	3,631,865
Subscriptions receivable	5	10,516	10,460
Other receivables	6	<u>2,653,179</u>	<u>2,058,858</u>
Total loans and receivables		7,900,182	5,701,183
Financial assets at fair value through profit or loss			
<i>Designated upon initial recognition:</i>			
Equity investments			
[Cost: \$293,788,588 (2007: \$349,788,795)]	7	<u>222,886,571</u>	<u>259,000,537</u>
Total assets		<u>230,786,753</u>	<u>264,701,720</u>
LIABILITIES			
Financial liabilities measured at cost:			
Redemptions payable	8	121,651	374,901
Other payables		2,580,760	1,532,850
Due to Fund Manager	9	<u>5,589,273</u>	<u>10,298,479</u>
Total liabilities (excluding net assets attributable to holders of redeemable shares)		<u>8,291,684</u>	<u>12,206,230</u>
Net assets attributable to holders of redeemable shares		<u>222,495,069</u>	<u>252,495,490</u>
Number of outstanding redeemable shares	10	<u>28,549,206</u>	<u>35,662,358</u>
Net asset value per share		<u>7.79</u>	<u>7.08</u>

The financial statements on pages 2 to 18 were approved for issue by the Board of Directors of Jamaica Select Index Fund Ltd. on June 24, 2008 and signed on its behalf by:

 Director
 Archibald Campbell

 Director
 Keith Duncan

The accompanying notes form an integral part of the financial statements.

JAMAICA SELECT INDEX FUND LTD.

Income Statement
 Year ended March 31, 2008
 (Stated in Jamaica dollars)

	<u>Notes</u>	<u>2008</u> J\$	<u>2007</u> J\$
Income			
Interest	11	694,512	1,020,217
Dividends	11	10,696,731	11,218,249
Gains on investments, net	11	23,603,612	25,149,602
Other		<u>33,951</u>	<u>23,825</u>
Total income		<u>35,028,806</u>	<u>37,411,893</u>
Expenses			
Administration:			
Administrator fees:			
- related party	9	847,440	212,500
- other		-	793,800
Other		6,356,131	6,862,282
Custodian fees		675,000	675,599
Investment management fees	9	4,589,728	6,100,597
Advertising and selling expenses		<u>1,821,584</u>	<u>1,445,500</u>
Total expenses		<u>14,289,883</u>	<u>16,090,278</u>
Change in net assets attributable to holders of redeemable shares resulting from operations		<u>20,738,923</u>	<u>21,321,615</u>

The accompanying notes form an integral part of the financial statements.

JAMAICA SELECT INDEX FUND LTD.Statement of Changes in Net Assets Attributable to Holders of Redeemable Shares
Year ended March 31, 2008*(Stated in Jamaica dollars)*

	<u>Notes</u>	<u>2008</u> J\$	<u>2007</u> J\$
Opening net assets		252,495,490	284,732,623
Change in net assets attributable to holders of redeemable shares for the year resulting from operations		20,738,923	21,321,615
Issue of redeemable shares during the year	10	15,487,284	13,702,590
Redemption of redeemable shares during the year	10	(66,226,628)	(67,261,338)
Balance as at March 31		<u>222,495,069</u>	<u>252,495,490</u>

The accompanying notes form an integral part of the financial statements.

JAMAICA SELECT INDEX FUND LTD.

Statement of Cash Flows
Year ended March 31, 2008
(Stated in Jamaica dollars)

	<u>2008</u> J\$	<u>2007</u> J\$
Cash flows from operating activities		
Change in net assets attributable to holders of redeemable shares resulting from operations	20,738,923	21,321,615
Adjustments for:		
Net unrealised gains on investments	(31,908,919)	(37,390,262)
Net realised losses on investments	8,305,307	12,240,660
Changes in operating assets and liabilities		
Other receivables	(179,137)	2,527,693
Other payables	1,047,910	(1,038,473)
Due to Fund Manager	(4,709,206)	5,199,323
Dividends receivable	(415,184)	3,490,345
Net cash (used)/provided by operating activities	<u>(7,120,306)</u>	<u>6,350,901</u>
Cash flows from investing activities		
Proceeds of sale of investments	65,766,004	77,901,085
Purchase of investments	(6,048,426)	(34,141,538)
Net cash provided by investing activities	<u>59,717,578</u>	<u>43,759,547</u>
Cash flows from financing activities		
Proceeds of issue of redeemable shares	15,487,284	13,702,590
Payments on redemption of redeemable shares	(66,226,628)	(67,261,338)
Subscriptions receivable	(56)	(10,460)
Redemptions payable	(253,250)	(954,122)
Net cash used in financing activities	<u>(50,992,650)</u>	<u>(54,523,330)</u>
Net change in cash and cash equivalents	1,604,622	(4,412,882)
Cash and cash equivalents at beginning of year	<u>3,631,865</u>	<u>8,044,747</u>
Cash and cash equivalents at end of year	<u>5,236,487</u>	<u>3,631,865</u>
Cash flows from operating activities include:		
Interest received	694,512	1,020,217
Dividends received	10,281,547	14,708,594
Dividend income	(10,696,731)	(11,218,249)
Interest income	<u>(694,512)</u>	<u>(1,020,217)</u>

The accompanying notes form an integral part of the financial statements.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements

March 31, 2008*(Stated in Jamaica dollars)*1. Identification

Jamaica Select Index Fund Ltd, (the “Fund”) is an open-ended investment company incorporated with limited liability as an exempt company under the Companies Law of the Cayman Islands on November 1, 2001. The Fund registered under The Mutual Funds Law of the Cayman Islands on April 26, 2004. The registered office of the Fund is located at Elizabethan Square, George Town, Grand Cayman, Cayman Islands.

The objective of the Fund is to invest in, and carry on the business of the acquisition, possession, management and disposal of, equity instruments and money market securities. The Fund aims to achieve this objective mainly by investing in a highly diversified portfolio of Jamaica’s most liquid and actively traded stocks on the Jamaica Stock Exchange – the Select Index (usually referred to as ‘blue chip companies’). The Fund commenced trading operations on January 1, 2004. It is not the intention of the Fund to pay dividends; it is expected that all profits will be reinvested.

The Fund has no employees. The investment activities of the Fund are managed by JMMB Securities Limited (“Investment Manager”); the administration of the Fund was delegated to JMMB Securities Fund Services Limited. The custodian activities are performed by Pan Caribbean Financial Services Limited.

2. Statement of compliance and basis of preparation(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board.

Adoption of new and revised IFRS and interpretations:

During the year, certain new and revised IFRS and interpretations which were in issue became effective. Those which were relevant to the Fund were adopted, as follows:

- *IFRS 7 Financial Instruments: Disclosures and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* require disclosures about the significance of financial instruments for an entity’s financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks, as well as the management of its capital. The additional disclosures with respect to the Fund’s financial instruments are included in the financial statements.
- *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment, an equity instrument or a financial asset carried at cost. IFRIC 10 has no impact on the Fund’s financial statements.

New standards and interpretations not yet effective:

Certain new standards, amendments to standards and interpretations which are in issue, are not yet effective, and have therefore not been applied in preparing these financial statements. Management considers that none of them will have any impact on the financial statements.

JAMAICA SELECT INDEX FUND LTD.2. Statement of compliance and basis of preparation (cont'd)

(b) Basis of preparation:

The financial statements are prepared on the fair value basis for financial assets and liabilities designated at fair value through profit or loss. Other financial assets and financial liabilities are stated at amortised cost or redemption amount. The financial statements are presented in Jamaica dollars (J\$).

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the balance sheet date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

There are no significant assumptions and judgements applied in these financial statements giving rise to a risk of material adjustment in the next financial year.

3. Significant accounting policies:

The accounting policies below have been applied consistently by the Fund and are consistent with those of the previous period.

(a) Investments:

Investments in quoted equities are designated as financial assets at fair value through profit or loss and are initially recognised at cost. Subsequent to initial recognition investments are measured at fair value with changes in their fair value being recognised in the income statement as unrealised gains/losses on investments. The fair values of the securities are based on their bid prices quoted on the Jamaica Stock Exchange as at the balance sheet date. Equity transactions are accounted for on a trade date basis.

(b) Derecognition:

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. The Fund uses the weighted average method to determine realised gains and losses on derecognition. A financial liability is derecognized when the obligation specified in the contract is discharged or cancelled or when it expires.

(c) Cash and cash equivalents:

Cash is comprised of demand and short-term deposits. Cash equivalents are highly liquid short-term investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment purposes. Cash equivalents include interests in a pooled money market fund.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*3. Significant accounting policies (cont'd):

(d) Taxation:

The Fund is exempt from income tax in the Cayman Islands. However, by virtue of, *inter alia*, its operations in Jamaica, it is liable to income tax on any taxable income arising in Jamaica.

(e) Dividend income:

Dividend income relating to exchange-traded equity investments is recognized in the income statement on the record date.

(f) Expenses:

All expenses, including management fees and custodian fees, are recognised in the income statement on the accrual basis.

(g) Redeemable shares:

All redeemable shares issued by the Fund provide the investors with the right to require redemption for cash at the value proportionate to the investor's share in the Fund's net assets at the redemption date. Such instruments give rise to a financial liability for the present value of the redemption amount.

(h) Other receivables:

Other receivables are stated at their amortised cost, less impairment losses.

(i) Other payables:

Other payables and accrued charges are stated at cost.

(j) Income recognition:

Income is recognised in the income statement as it accrues.

(k) Impairment:

The carrying amounts of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

(i) Calculation of recoverable amount:

The recoverable amount of the Fund's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*3. Significant accounting policies (cont'd):

(k) Impairment (cont'd):

(i) Calculation of recoverable amount (cont'd):

The recoverable amount of the Fund's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

An impairment loss in respect of receivables is reversed if the subsequent increase in recoverable amounts can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. Cash and cash equivalents

	<u>2008</u>	<u>2007</u>
	J\$	J\$
Cash	120,953	92,804
Cash equivalents – Share of money market fund, managed by parent of Fund Manager [effective rate at which interest was earned:9.59% (2007: 10.45%)]	<u>5,115,534</u>	<u>3,539,061</u>
	<u>5,236,487</u>	<u>3,631,865</u>

5. Subscriptions receivable

Subscriptions receivable are in respect of purchases of participating shares in the Fund.

6. Other receivables

	<u>2008</u>	<u>2007</u>
	J\$	J\$
Dividend income receivable	1,323,300	908,116
General Consumption Tax recoverable	36,071	30,562
Withholding tax recoverable	<u>1,293,808</u>	<u>1,120,180</u>
	<u>2,653,179</u>	<u>2,058,858</u>

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*7. Equity investments

- (a) The Fund's portfolio of investments at the balance sheet date comprised the following quoted equities:

No. of stock units		Description	2008	2007
2008	2007		Quoted market value J\$	Quoted market value J\$
-	2,507,273	The Bank of Nova Scotia Jamaica Ltd.	-	60,425,279
5,613,830	7,526,808	Cable and Wireless Jamaica Ltd.	4,322,649	7,451,540
409,566	549,145	Capital and Credit Merchant Bank Ltd.	3,890,877	6,589,740
543,697	728,994	Caribbean Cement Company Ltd.	5,333,668	5,963,171
310,346	415,790	Carreras Ltd.	22,813,534	20,623,184
270,332	264,876	Dehring, Bunting and Golding Ltd.	6,515,001	6,092,148
1,794,468	2,411,224	Desnoes and Geddes Ltd.	12,848,391	18,976,333
-	1,037,266	Gleaner Company Ltd.	-	1,918,942
211,243	203,475	GraceKennedy Ltd.	16,899,440	16,668,330
766,085	1,027,144	Jamaica Broilers Group Ltd.	3,217,557	4,581,062
934,796	1,253,404	Jamaica Money Market Brokers Ltd.	10,488,411	13,085,538
61,324	82,226	Lascelles DeMercado & Company Ltd.	29,742,140	19,495,784
2,394,252	3,196,417	Life of Jamaica Ltd.	18,962,476	24,740,268
767,281	-	Mayberry Investments Ltd.	3,376,036	-
1,575,741	2,112,874	National Commercial Bank Jamaica Ltd.	34,036,006	45,849,366
110,852	148,663	Pan Jamaican Investment Trust Ltd.	5,598,026	6,539,852
1,987,639	-	Scotia Group Jamaica Ltd.	44,721,878	-
<u>80,321</u>	<u>-</u>	The Bank of Nova Scotia Jamaica Ltd (Preference Shares)	<u>120,481</u>	<u>-</u>
Total quoted equities			<u>222,886,571</u>	<u>259,000,537</u>

- (b) Reconciliation of investment valuation at bid price as required by IFRS to valuation at last sale price in accordance with the Prospectus:

	2008 J\$	2007 J\$
Investment valuation at bid price	222,886,571	259,000,537
Portion of gain on revaluation arising from different pricing approaches	<u>1,405,789</u>	<u>1,795,046</u>
Investments at last sale price	<u>224,292,360</u>	<u>260,795,583</u>
Net asset value per share based on last sale price	<u>7.84</u>	<u>7.13</u>

8. Redemption payable

Redemption payable includes amounts that were owed as at March 31, 2008, in respect of sales of participating shares of the Fund.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*9. Related party balances and transactions

(a) Related party:

A party is related to the Fund, if:

- (i) directly, or indirectly through one or more intermediaries, the party:
 - (a) controls, is controlled by, or is under common control with, the Fund (this includes parents, subsidiaries and fellow subsidiaries);
 - (b) has an interest in the Fund that gives it significant influence over the Fund; or
 - (c) has joint control over the Fund;
- (ii) the party is an associate of the Fund;
- (iii) the party is a joint venture in which the Fund is a venturer;
- (iv) the party is a member of the key management personnel of the Fund or any entity that controls it;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is a Fund that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Fund resides with, directly or indirectly, any individual referred to in (iv) or (v); or

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(b) Identity of related parties:

The Fund has a related party relationship with the Fund Manager, related funds, and the subsidiary, parent and fellow subsidiaries of the Fund Manager, as well as with its directors, and the directors, senior officers and executives of the Fund Manager. As the Fund has no employees, its directors as well as the directors, senior officers and executives of the Fund manager are collectively referred to as “key management personnel”.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*9. Related party balance and transactions (cont'd)

- (c) (i) The Fund appointed JMMB Securities Limited ("Fund Manager") to implement the investment strategy as specified in the prospectus and to provide administrative services. Under the Investment Management Agreement, the Investment Manager receives a management fee quarterly in arrears at a rate not exceeding two percent (2%) per annum of the net assets attributable to holders of redeemable shares on each valuation day as defined in the Offering Memorandum.

The balance due to the Fund Manager is made up as follows:

	<u>2008</u>	<u>2007</u>
	J\$	J\$
Management fees - owed at beginning of year	8,034,101	3,470,261
- earned by Fund Manager	4,589,728	6,100,597
- paid by Fund	<u>(8,034,101)</u>	<u>(1,536,757)</u>
- owed at end of year	4,589,728	8,034,101
Transaction charges (for the selling and purchasing of participating shares) collected on behalf of Fund Manager, not yet remitted	<u>999,545</u>	<u>2,264,378</u>
	<u>5,589,273</u>	<u>10,298,479</u>

- (ii) The Fund appointed JMMB Securities Fund Services Limited ("Administrator"), a wholly-owned subsidiary of the Fund Manager, to act as Administrator for the Fund. Under the Administration Agreement, the Administrator is entitled to a management fee equal to 0.08% per annum of the Net Asset Value of the Fund (based on calculations made on the last business day of each calendar quarter) subject to a minimum of US\$12,500 per year for the first year, to be reviewed annually.

The balance due to the Administrator is made up as follows:

	<u>2008</u>	<u>2007</u>
	J\$	J\$
Administrator fees - owed at beginning of year	212,500	-
- earned by the Administrator	<u>847,440</u>	<u>212,500</u>
- owed at end of year	<u>1,059,940</u>	<u>212,500</u>

- (d) The balance sheet includes related party balances, arising in the ordinary course of business, as follows:

	<u>2008</u>	<u>2007</u>
	J\$	J\$
Parent of the Fund Manager (see note 4)		
- cash and cash equivalents	<u>5,115,534</u>	<u>3,539,061</u>

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*10. Capital account

The Fund capital is represented by the redeemable shares outstanding.

The objective of to Fund is to provide shareholders with above average returns over the medium to long-term through both capital growth and income. The Fund aims to deliver this objective mainly through investing in a highly diversified portfolio of equities listed on Jamaica Stock Exchange.

The Fund strives to invest in the subscriptions of redeemable shares in investments that meet the Fund's investment objectives while maintaining sufficient liquidity to meet shareholder redemptions.

The Fund does not have any externally imposed capital requirements.

As at March 31, 2008, the Fund had capital as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Number of shares</u>	<u>J\$</u>	<u>Number of shares</u>	<u>J\$</u>
Authorised share capital:				
Ordinary share of J\$1.00	1	1	1	1
Redeemable shares of J\$1.00 each	<u>399,999,999</u>	<u>399,999,999</u>	<u>399,999,999</u>	<u>399,999,999</u>
	<u>400,000,000</u>	<u>400,000,000</u>	<u>400,000,000</u>	<u>400,000,000</u>
Issued and fully paid:				
Redeemable shares				
Opening balance	35,662,358	280,000,545	43,348,915	333,559,293
Issued during the period	2,141,765	15,487,284	1,962,970	13,702,590
Redeemed during the period	(9,254,917)	(66,226,628)	(9,649,527)	(67,261,338)
Balance as at March 31	<u>28,549,206</u>	<u>229,261,201</u>	<u>35,662,358</u>	<u>280,000,545</u>
Ordinary share	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

The ordinary share entitles the holder to receive notice of, attend, and vote at, general meetings of the Fund. Ordinary shares do not carry any right to redemption, or to distribution of any kind, except in a winding-up. In the event of a winding-up of the Fund, a holder of an ordinary share is entitled to receive a pro-rata share, up to the share's par value, of the Fund's assets. JMMB Securities Limited is the holder of the only ordinary share.

Redeemable shares carry the right to receive notice of, attend, and vote at, meetings only:

- where a special resolution is proposed by a holder of ordinary shares to wind up the Fund or to amend its Memorandum and Articles of Association, or
- where a resolution is proposed to amend the Fund's investment policy, or
- where a resolution is proposed in general meeting to issue shares other than as ordinary shares or redeemable shares.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*10. Capital account (cont'd)

After the initial offering period, redeemable shares are available for subscription and redemption on each day that is a business day in Jamaica at a price equal to the net asset value per share.

In the event of a winding-up of the Fund, holders of redeemable shares are entitled to receive a pro-rata share up to their par value if there are sufficient assets available. In the event of any surplus assets, they are entitled to a further pro-rata share of the assets.

11. Income

	<u>2008</u>	<u>2007</u>
	J\$	J\$
Interest income for financial assets that are not at fair value through profit or loss:		
Cash and cash equivalents	<u>694,512</u>	<u>1,020,217</u>
Income for financial assets designated at fair value through profit or loss:		
Equity investments:		
Dividends	<u>10,696,731</u>	<u>11,218,249</u>
Realised losses on sale of investments	(8,305,307)	(12,240,660)
Unrealised gains on revaluation of investments	<u>31,908,919</u>	<u>37,390,262</u>
Total gains	<u>23,603,612</u>	<u>25,149,602</u>

12. Financial instruments and associated risks

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets include cash and cash equivalents, subscriptions receivable, other receivables and equity investments. Financial liabilities include redemptions payable, other payables, and due to Fund Manager.

Fair values:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

The fair values of cash and cash equivalents, subscriptions receivable, other receivables, due to Fund Manager, redemptions payable and other payables approximate their carrying values, due to their relatively short-term nature. The fair value of quoted equities is equal to their quoted market values based on quoted market prices which are readily available (see note 7).

There are no major assumptions used in the estimation of fair values for the Fund's financial assets and liabilities.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*12. Financial instruments and associated risks (cont'd)

Financial instrument risk management:

The Fund maintains positions in a variety of non-derivative financial instrument as dictated by its investment management strategy. The Fund's objective is to seek superior returns through capital appreciation over time. The Fund's investment portfolio comprises quoted equity investments which it intends to hold for an indefinite period of time.

Asset allocation is determined by the Fund's Investment Manager who manages the distribution of the assets to achieve the investment objectives. Divergence from target asset allocation and the composition of the portfolio is monitored by the Fund's Investment Manager. In the instances where the portfolio has diverged from the target asset allocations, the Fund's Investment Manager will rebalance the portfolio to fall in line with the target asset allocations.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Fund are discussed below.

Exposure to market, credit and liquidity risks arises in the ordinary course of the Fund's operations. Derivative instruments are not presently used to manage, mitigate or eliminate financial instrument risks.

(a) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Fund is exposed to market risk as the financial instruments subject to this risk represent a significant portion of investments.

The Fund's strategy on the management of market risk is driven by the Fund's investment objective. The Fund's objective is to seek superior returns through capital appreciation over time.

The Fund's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures approved by the board and placed in operation. These policies require the Investment Manager to invest only in stocks that are in the composition of the Jamaica Stock Exchange Select Index. The Fund employs a buy and hold strategy to meet its investment objective of capital appreciation. The Fund's overall market positions are monitored on a monthly basis by the board of directors.

Market risk embodies the potential for both gains and losses and includes currency risk, interest rate risk and price risk, each of which is considered below:

(i) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund has no significant exposure to foreign currency risk as all financial assets and liabilities are in the Jamaican currency.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*12. Financial instruments and associated risks (cont'd)

Financial instrument risk management (cont'd):

(a) Market risk (cont'd):

(ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This risk is not considered significant as the majority of the Fund's financial assets are non-interest bearing with the exception of its interest in a money market fund at Jamaica Money Market Brokers Limited. At the balance sheet date, this interest in the fund, which matures within three months (2007: within three months) from the balance sheet date represented 2.30% (2007: 1.39%) of the Fund's net assets.

All financial liabilities are non-interest bearing.

Sensitivity analysis

An increase of 100 basis points in interest rates at the reporting date would have increased the net assets available to holders of redeemable shares and the changes in net assets available to holders of redeemable shares by J\$43,292 (2007:J\$57,656); an equal change in the opposite direction would have decreased the net assets available to holders of redeemable shares by an equal but opposite amount.

(iii) Other price risk:

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting instruments traded in the market. As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognized in the income statement, all changes in market conditions will directly affect profit or loss.

Price risk is managed by the Fund's Investment Manager by constructing a diversified portfolio of instruments traded on the Jamaica Stock Exchange.

The Fund's exposure to price risk is represented by the total carrying value of equity investments on the balance sheet of J\$222,886,571 (2007: J\$259,000,537).

Sensitivity analysis

All of the Fund's equity investments are listed on the Jamaica Stock Exchange. A 5% increase in stock prices at March 31, 2008, would have increased the net assets available to holders of redeemable shares and the changes in net assets available to holders of redeemable shares by J\$11,144,329 (2007:J\$12,950,027); an equal change in the opposite direction would have decreased the net assets available to holders of redeemable shares by an equal but opposite amount.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*12. Financial instruments and associated risks (cont'd)

Financial instrument risk management (cont'd):

(b) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund has no significant credit risk as most of its financial assets are investments which are in quoted equities.

The carrying amount of the financial assets best represents the maximum credit risk exposure at the balance sheet date. Significant concentrations of credit risk are with related parties in regards to cash and cash equivalents. At the reporting date, the Fund's financial assets exposed to credit risk include cash and cash equivalents, subscriptions receivable and other receivables, as follows:

	<u>2008</u>	<u>2007</u>
	J\$	J\$
Cash and cash equivalents	5,236,487	3,631,865
Subscriptions receivable	10,516	10,460
Other receivables	<u>2,653,179</u>	<u>2,058,858</u>
	<u>7,900,182</u>	<u>5,701,183</u>

(i) Cash and cash equivalents:

Substantially all of cash and cash equivalents are held with related parties, which the Fund considers to be financially strong and of high credit quality.

(ii) Subscriptions receivable:

Subscriptions receivable are in respect of purchases of participating shares in the Fund and represents transactions which are awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved.

(iii) Other receivables:

Other receivables represent amounts recoverable from the Government of Jamaica (GOJ) for General Consumption Tax and Withholding Tax, and dividend receivable. Risk of default for GOJ amounts is considered low. Risk relating to dividend receivable is mitigated by investing primarily in Blue Chip companies of the Jamaica Stock Exchange.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2008*(Stated in Jamaica dollars)*12. Financial instruments and associated risks (cont'd)

Financial instrument risk management (cont'd):

(c) Liquidity risk:

The Fund's constitution provides for the daily creation and cancellation of shares and it is therefore exposed to the liquidity risk of meeting shareholder redemptions at any time. Liquidity problems may result from an inability to sell a financial asset quickly at, or close to, its fair value.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed facilities.

The Fund's quoted investments are considered fairly readily realisable as they are the most liquid stocks on the Jamaica Stock Exchange. This risk is further mitigated by the Fund maintaining a maximum of 10 percent of the net asset value in money market fund accounts that are readily realisable.

The residual contractual maturities of the Fund's financial liabilities are within one to three months (2007: within one to three months).