

JAMAICA SELECT INDEX FUND LTD.

FINANCIAL STATEMENTS

MARCH 31, 2011



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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 statement of financial position as at March 31, 2011, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable shares and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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 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 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 audit opinion.



## INDEPENDENT AUDITORS' REPORT (Continued)

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 2(e) of the financial statements. The Board of Directors resolved to wind up the Fund, subject to approval by the shareholders. No provision has been made in the financial statements for any effects this uncertainty might have on the carrying values of assets and liabilities as at the reporting date.

A handwritten signature of the KPMG firm, written in black ink, appearing as 'KPMG' in a stylized, cursive font.

May 31, 2011

JAMAICA SELECT INDEX FUND LTD.


## Statement of Financial Position


March 31, 2011

*(Stated in Jamaica dollars)*

	<u>Notes</u>	<u>2011</u> J\$	<u>2010</u> J\$
<b>ASSETS</b>			
<b>Loans and receivables</b>			
Cash and cash equivalents	4, 9(d)	10,288,947	14,350,205
Subscriptions receivable	5	-	18,852
Other receivables	6	<u>3,248,145</u>	<u>2,343,854</u>
<b>Total loans and receivables</b>		13,537,092	16,712,911
<b>Financial assets at fair value through profit or loss</b>			
<i>Designated upon initial recognition:</i>			
Equity investments			
[Cost: J\$179,004,998 (2010: J\$183,251,745)]	7	<u>139,517,695</u>	<u>140,789,594</u>
<b>Total assets</b>		<u>153,054,787</u>	<u>157,502,505</u>
<b>LIABILITIES</b>			
<b>Financial liabilities measured at cost:</b>			
Redemptions payable	8	525,830	6,401
Other payables	9(c)	2,719,262	2,953,739
Due to Fund Manager	9(c)	<u>3,005,758</u>	<u>2,635,448</u>
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>		<u>6,250,850</u>	<u>5,595,588</u>
<b>Net assets attributable to holders of redeemable shares</b>		<u>146,803,937</u>	<u>151,906,917</u>
<b>Number of outstanding redeemable shares</b>	10	<u>24,683,266</u>	<u>25,768,516</u>
<b>Net asset value per redeemable share</b>	7(b)	<u>5.95</u>	<u>5.90</u>

The financial statements on pages 3 to 20 were approved for issue by the Board of Directors of Jamaica Select Index Fund Ltd. on May 31, 2011 and signed on its behalf by:

  
 \_\_\_\_\_ Director  
 Dr. Noel Lyon

  
 \_\_\_\_\_ Director  
 Keith Duncan

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

JAMAICA SELECT INDEX FUND LTD.

## Statement of Comprehensive Income

Year ended March 31, 2011*(Stated in Jamaica dollars)*

	<u>Notes</u>	<u>2011</u> J\$	<u>2010</u> J\$
<b>Income</b>			
Interest	11	593,689	442,948
Dividends	11	9,905,026	9,483,335
(Losses) /gains on investments, net	11	( 1,096,210)	39,554,462
Other	11	<u>495</u>	<u>167</u>
Total income		<u>9,403,000</u>	<u>49,480,912</u>
<b>Expenses</b>			
Administration:			
Administrator fees - related party	9(c)(ii)	1,033,000	1,115,266
Other		3,444,000	5,244,257
Custodian fees		675,000	675,000
Investment management fees	9(c)(i)	2,889,531	2,513,866
Advertising and selling expenses		<u>220,737</u>	<u>-</u>
Total expenses		<u>8,262,268</u>	<u>9,548,389</u>
<b>Change in net assets attributable to holders of redeemable shares resulting from operations</b>		<u>1,140,732</u>	<u>39,932,523</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, 2011*(Stated in Jamaica dollars)*

	<u>Notes</u>	<u>2011</u> J\$	<u>2010</u> J\$
Opening net assets		151,906,917	114,241,086
Change in net assets attributable to holders of redeemable shares for the year resulting from operations		1,140,732	39,932,523
Issue of redeemable shares during the year	10	1,281,380	1,614,514
Redemption of redeemable shares during the year	10	( 7,525,092)	( 3,881,206)
Balance as at March 31		<u>146,803,937</u>	<u>151,906,917</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, 2011  
*(Stated in Jamaica dollars)*

	<u>2011</u> J\$	<u>2010</u> J\$
<b>Cash flows from operating activities</b>		
Change in net assets attributable to holders of redeemable shares resulting from operations	1,140,732	39,932,523
Adjustments for:		
Net unrealised gains on investments	( 2,974,848)	(43,906,506)
Net realised losses on investments	4,071,058	4,352,044
Changes in operating assets and liabilities		
Other receivables	( 148,343)	( 105,132)
Other payables	( 234,477)	343,498
Due to Fund Manager	370,310	( 1,350,096)
Investments	175,689	11,744,717
Dividends receivable	( 755,948)	376,862
Net cash provided/(used) by operating activities	<u>1,644,173</u>	<u>11,387,910</u>
<b>Cash flows from financing activities</b>		
Proceeds of issue of redeemable shares	1,281,380	1,614,514
Payments on redemption of redeemable shares	( 7,525,092)	( 3,881,206)
Subscriptions receivable	18,852	( 18,853)
Redemptions payable	<u>519,429</u>	<u>74</u>
Net cash used in financing activities	<u>( 5,705,431)</u>	<u>( 2,285,471)</u>
<b>Net change in cash and cash equivalents</b>	( 4,061,258)	9,102,439
<b>Cash and cash equivalents at beginning of year</b>	<u>14,350,205</u>	<u>5,247,766</u>
<b>Cash and cash equivalents at end of year</b>	<u>10,288,947</u>	<u>14,350,205</u>
<b>Cash flows from operating activities include:</b>		
Interest received	593,689	442,948
Dividends received	<u>9,149,078</u>	<u>9,860,197</u>

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

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements

March 31, 2011*(Stated in Jamaica dollars)*1. Identification

Jamaica Select Index Fund Ltd, (“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 16, 2001. The Fund was registered under the Mutual Funds Law of the Cayman Islands on April 26, 2004. The registered office of the Fund is located at Atlantic Star Building, 128 Lawrence Blvd, Grand Cayman, KYI-1203, 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 (“Fund Manager”) [(note 9(b)); the administration of the Fund was delegated to JMMB Securities Fund Services Limited (“Administrator”) [note 9(c)(ii)]. The custodian activities are performed by Pan Caribbean Financial Services Limited.

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.

2. Statement of compliance and basis of preparation

## (a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

**New and revised standards and interpretations effective during the year:**

Certain new and revised standards and interpretations which were in issue came into effect during the current financial year. None of those standards and interpretations had any significant effect on the Fund’s financial statements.

**New and revised standards and interpretations that are not yet effective:**

At the date of authorisation of the financial statements, certain new and revised standards and interpretations have been issued which are not yet effective and which the Fund has not early-adopted. The Fund has assessed their relevance with respect to its operations and has determined that the following may be relevant:

- IAS 24, *Related Party Disclosures* (Revised), which is effective for annual reporting periods beginning on or after January 1, 2011, amends the definition of a related party and also expands the list of transactions that require disclosure. The Fund is assessing the impact, if any, that the amendment will have on its financial statements.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*2. Statement of compliance and basis of preparation (cont'd)

## (a) Statement of compliance (cont'd):

**New and revised standards and interpretations that are not yet effective (cont'd):**

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2013, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The standard includes guidance on classification and measurement of financial liabilities designated at fair value through profit or loss and incorporates certain existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, on the recognition and de-recognition of financial assets and financial liabilities. The Fund will be assessing the impact that the standard will have on its financial statements.
- *Improvements to IFRS (2010)* contain amendments to six standards and to one interpretation and are effective for annual reporting periods beginning on or after July 1, 2010 or January 1, 2011. The main applicable amendments are as follows:
  - IFRS 7, *Financial Instruments: Disclosures*, has been amended, effective for annual reporting periods beginning on or after January 1, 2011, to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial statements. Existing disclosures, relating to maximum exposure to credit risk, financial effect of collateral held as security and other enhancements, in respect of a financial instrument, have been amended. Certain disclosures relating to the carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated and description of collateral held as security for financial assets that are past due have been removed.
  - IAS 1, *Presentation of Financial Statements*, which is effective for annual reporting periods beginning on or after January 1, 2011, has been amended to state that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity, showing separately changes arising from items recognised in profit or loss, in other comprehensive income and from transactions with owners acting in their capacity as owners.

The Fund is assessing the impact, if any, that these amendments may have on its financial statements.

## (b) Basis of measurement:

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.

## (c) Functional and presentation currency:

The financial statements are presented in Jamaica dollars (J\$), which is the functional currency of the Fund.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*2. Statement of compliance and basis of preparation (cont'd)

## (d) Use of estimates and judgements:

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 reporting 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.

## (e) Going concern:

The preparation of the financial statements in accordance with IFRS assumes that the Fund will continue in operational existence for the foreseeable future. This means, *inter alia*, that the statements of financial position and comprehensive income assume no intention or necessity to liquidate the Fund or curtail the scale of its operations. This is commonly referred to as the going concern basis.

The Board of Directors resolved to wind up the Fund, subject to approval by the shareholders. No provision has been made in the financial statements for any effects this uncertainty might have on the carrying values of assets and liabilities as at the reporting date.

3. Significant accounting policies:

The accounting policies below have been applied consistently by the Fund.

## (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 profit or loss 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 financial year-end. Equity transactions are accounted for on a trade date basis.

## (b) Derecognition:

The Fund derecognises 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 derecognised when the obligation specified in the contract is discharged, cancelled or when it expires.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*3. Significant accounting policies (cont'd):

## (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.

## (d) Dividend income:

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

## (e) Expenses:

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

## (f) Redeemable shares:

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Fund has ordinary shares and one class of redeemable participating shares in issue. The ordinary shares are non-redeemable, have no entitlements to dividends and are the most subordinate class in issue. Consequently, ordinary shares are classified as equity in accordance with IAS 32. The redeemable shares issued by the Fund provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at the redemption date and also in the event of the Fund's liquidation. Because the ordinary shares are subordinate to the redeemable shares, the redeemable shares are classified as financial liabilities and are measured at the present value of the redemption amounts.

## (g) Other receivables:

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

## (h) Other payables:

Other payables are stated at cost.

## (i) Income recognition:

Income is recognised in profit or loss as it accrues.

## (j) Impairment:

The carrying amounts of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each reporting 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 profit or loss.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*3. Significant accounting policies (cont'd):

## (j) Impairment (cont'd):

## (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.

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>2011</u>	<u>2010</u>
	J\$	J\$
Cash	106,340	106,601
Cash equivalents – Share of money market fund, managed by parent of Fund Manager [effective rate at which interest was earned: 4.38% (2010: 5.16%)]	<u>10,182,607</u>	<u>14,243,604</u>
	<u>10,288,947</u>	<u>14,350,205</u>

5. Subscriptions receivable

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

6. Other receivables

	<u>2011</u>	<u>2010</u>
	J\$	J\$
Dividend income receivable	1,622,201	866,253
General Consumption Tax recoverable	399	478
Withholding tax recoverable	<u>1,625,545</u>	<u>1,477,123</u>
	<u>3,248,145</u>	<u>2,343,854</u>

JAMAICA SELECT INDEX FUND LTD.

## Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*7. Equity investments

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

No. of stock units		Description	Quoted market value	
2011	2010		2011	2010
			J\$	J\$
5,147,230	5,147,230	Cable and Wireless Jamaica Ltd.	1,286,808	2,264,781
-	498,507	Caribbean Cement Company Ltd.		2,522,445
266,902	276,850	Carreras Ltd.	16,147,571	13,427,225
1,544,523	1,602,094	Desnoes and Geddes Ltd.	3,892,198	7,401,674
709,757	709,757	Gleaner Company Ltd.	1,398,221	1,135,611
182,377	189,175	GraceKennedy Ltd.	9,483,604	12,485,550
659,380	702,411	Jamaica Broilers Group Ltd.	4,285,970	4,635,913
804,591	857,099	Jamaica Money Market Brokers Ltd.	3,781,578	3,428,396
703,508	703,508	Mayberry Investments Ltd.	1,287,420	1,969,822
1,356,262	1,406,815	National Commercial Bank Jamaica Ltd.	27,464,305	23,282,788
299,944	-	Pan Caribbean Financial Services Limited	5,698,936	-
95,412	101,626	Pan Jamaican Investment Trust Ltd.	4,579,776	4,653,455
2,067,848	2,144,925	Sagicor Life Jamaica Ltd	15,550,217	13,963,462
232,679	241,352	Scotia DBG Investment Ltd	4,856,011	5,309,744
1,710,788	1,774,556	Scotia Group Jamaica Ltd.	36,781,942	40,548,605
<u>1,504,049</u>	<u>1,504,049</u>	Supreme Ventures Limited	<u>3,023,138</u>	<u>3,760,123</u>
Total quoted equities			<u>139,517,695</u>	<u>140,789,594</u>

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

	<u>2011</u> J\$	<u>2010</u> J\$
Investment valuation at bid price	139,517,695	140,789,594
Portion of gain on revaluation arising from different pricing approaches	<u>196,523</u>	<u>243,598</u>
Investments at close price	<u>139,714,218</u>	<u>141,033,192</u>
Net asset value per share based on bid price	5.95	5.90
Net asset value per share based on close price	( <u>5.96</u> )	( <u>5.47</u> )
Difference in net asset value per share arising from different pricing approaches	( <u>0.01</u> )	<u>0.43</u>

8. Redemptions payable

Redemptions payable include amounts that were owed as at March 31, 2011 in respect of sales of participating shares of the Fund.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(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 [note 9(c)(i)], 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”.

- (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 Fund 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.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*9. Related party balance and transactions (cont'd)

(c) (i) (cont'd)

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

	<u>2011</u>	<u>2010</u>
	J\$	J\$
Management fees - owed at beginning of year	2,513,866	3,681,090
- earned by Fund Manager	2,889,531	2,513,866
- paid by Fund	<u>(2,513,866)</u>	<u>(3,681,090)</u>
- owed at end of year	2,889,531	2,513,866
Transaction charges (for the selling and purchasing of participating shares) collected on behalf of Fund Manager, not yet remitted	<u>116,227</u>	<u>121,582</u>
	<u>3,005,758</u>	<u>2,635,448</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 an administration 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>2011</u>	<u>2010</u>
	J\$	J\$
Administrator fees - owed at beginning of year	1,117,375	1,115,234
- paid during the year	<u>(1,080,000)</u>	<u>(1,113,125)</u>
- earned by the Administrator	<u>1,033,000</u>	<u>1,115,266</u>
- owed at end of year	<u>1,070,375</u>	<u>1,117,375</u>

The amount owing is included in other payables in the statement of financial position.

(d) The statement of financial position includes related party balances, arising in the ordinary course of business, as follows:

	<u>2011</u>	<u>2010</u>
	J\$	J\$
Parent of the Fund Manager (see note 4)		
- cash and cash equivalents	<u>10,182,607</u>	<u>14,243,604</u>

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*10. Share capital

The Fund's capital is represented by the redeemable shares outstanding.

The objective of the 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 the 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, the Fund had capital as follows:

	<u>2011</u>		<u>2010</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	25,768,516	211,215,864	26,235,954	213,482,556
Issued during the year	213,084	1,281,380	308,890	1,614,514
Redeemed during the year	( 1,298,334)	( 7,525,092)	( 776,328)	( 3,881,206)
Balance as at March 31	<u>24,683,266</u>	<u>204,972,152</u>	<u>25,768,516</u>	<u>211,215,864</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, the holder of the ordinary share is entitled to receive a 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 the holder of the 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.

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.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*10. Share capital (cont'd)

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>2011</u> J\$	<u>2010</u> J\$
Interest income for financial assets that are not at fair value through profit or loss:		
Cash and cash equivalents	<u>593,689</u>	<u>442,948</u>
Income for financial assets designated at fair value through profit or loss:		
Equity investments:		
Dividends	<u>9,905,026</u>	<u>9,483,335</u>
Realised losses on sale of investments	( 4,071,058)	( 4,352,044)
Unrealised gains on revaluation of investments	<u>2,974,848</u>	<u>43,906,506</u>
Net (losses)/gain on sale or revaluation	<u>( 1,096,210)</u>	<u>39,554,462</u>
Other	<u>495</u>	<u>167</u>
Total income	<u>9,403,000</u>	<u>49,480,912</u>

12. Financial instruments and associated risks

A financial instrument is any contract that gives rise to 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, accounts receivable, due to Fund Manager, due to Administrator, due to other related parties and accounts payable 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, 2011*(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 instruments 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 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 Manager. In the instances where the portfolio has diverged from the target asset allocations, the Fund 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 reporting 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 Fund Manager in accordance with policies and procedures approved by the Board and placed in operation. These policies require the Fund 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 equity 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 exposure to foreign currency risk as all financial assets and liabilities are denominated in Jamaica dollars.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(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 reporting date, this interest in the Fund, which matures within three months (2010: within three months) from the reporting date represented 6.94% (2010: 9.38%) of the Fund's net assets.

All financial liabilities are non-interest bearing.

Sensitivity analysis

An increase of 100 (2010: 200) 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\$101,826 (2010: J\$284,872); an equal change in the opposite direction would have decreased the net assets available to holders of redeemable shares by an equal amount.

(iii) Equity price risk:

Equity 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 profit or loss, all changes in market conditions will directly affect profit or loss.

Equity price risk is managed by the Fund Manager by constructing a diversified portfolio of instruments traded on the Jamaica Stock Exchange.

The Fund's exposure to equity price risk is represented by the total carrying value of equity investments on the statement of financial position of J\$139,517,695 (2010: J\$140,789,594).

Sensitivity analysis

All of the Fund's equity investments are listed on the Jamaica Stock Exchange. A 15% (2010: 20%) increase in stock prices at March 31, 2011, 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\$20,927,654 (2010: J\$28,157,919); an equal change in the opposite direction would have decreased the net assets available to holders of redeemable shares by an equal amount.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(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 reporting 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>2011</u>	<u>2010</u>
	J\$	J\$
Cash and cash equivalents	10,288,947	14,350,205
Subscriptions receivable	-	18,852
Other receivables	<u>3,248,145</u>	<u>2,343,854</u>
	<u>13,537,092</u>	<u>16,712,911</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 dividends receivable. Risk relating to dividends receivable is mitigated by investing primarily in Blue Chip companies on the Jamaica Stock Exchange.

## (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.

JAMAICA SELECT INDEX FUND LTD.

Notes to the Financial Statements (Continued)

March 31, 2011*(Stated in Jamaica dollars)*12. Financial instruments and associated risks (cont'd)

Financial instrument risk management (cont'd):

## (c) Liquidity risk (cont'd):

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 (2010: within one to three months).

13. 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.

*Determination of fair value and fair value hierarchy*

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy.

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

The Fund's investment securities, classified as fair value through profit or loss, consist of quoted equities listed on the Jamaica Stock Exchange and fall within Level 1 of the valuation hierarchy. No transfers in or out of level 1 were made throughout the year.