

**FINANCIAL STATEMENTS**

**The Cayman Islands Stock Exchange Ltd.**

**June 30, 2010**

# **The Cayman Islands Stock Exchange Ltd.**

## **Financial Statements**

Years Ended June 30, 2010 and 2009

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## The Cayman Islands Stock Exchange Ltd.

### Statement of responsibility for financial statements

These financial statements have been prepared by the CSX in accordance with the provisions of the Public Management and Finance Law (2010 Revision). The financial statements comply with generally accepted accounting practices as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the Public Management and Finance Law (2010 Revision).

To the best of our knowledge the statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at June 30, 2010 and performance for the financial year ended June 30, 2010; and
- (c) comply with generally accepted accounting practice.



Anthony B Travers  
Chairman



Valia Theodoraki  
CEO

August 3, 2011

## AUDITOR GENERAL'S REPORT

### **To the Board of Directors and Shareholder of the Cayman Islands Stock Exchange Ltd.**

I have audited the accompanying financial statements of The Cayman Islands Stock Exchange Ltd. (the "Company"), which comprise the statement of financial position as at June 30, 2010, and the statement of comprehensive income, and retained earnings, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 3 to 14 in accordance with the provisions of Section 60(a)(ii) of the *Public Management and Finance Law (2010 Revision)*.

### **Management's Responsibilities 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.

### **Auditor General's Responsibility and Basis of Opinion**

My 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 upon the auditor's 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, the auditor considers 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.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion. In rendering my opinion on the Company's financial statements, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

**Opinion**

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Cayman Islands Stock Exchange Ltd. as at June 30, 2010, the results of its comprehensive income and retained earnings and cash flows for the year then ended, in accordance with International Financial Reporting Standards.



Alastair Swarbrick, MA(Hons), CPFA  
Auditor General

Cayman Islands  
August 3, 2011

## The Cayman Islands Stock Exchange Ltd.

### Statements of Comprehensive Income and Retained Earnings (Stated in Cayman Islands Dollars)

	<b>Years Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>		
Operations <i>(Note 3)</i>	CI\$ 1,031,360	CI\$ 986,687
CUSIP <i>(Note 3)</i>	434,600	505,947
Miscellaneous	17,492	39,324
Amortisation of Government capital grant <i>(Note 6)</i>	423	1,218
Interest	387	10,138
	1,484,262	1,543,314
 <b>Operating expenses</b>		
Personnel <i>(Note 10)</i>	828,283	802,368
CUSIP	81,426	69,100
Lease of office <i>(Note 5)</i>	71,562	69,862
Legal and professional fees	57,934	61,014
Utilities	45,398	44,257
Bad debts and provision for bad debts	39,079	13,510
Technology	36,773	28,078
Marketing, travel and subsistence <i>(Note 12)</i>	36,286	20,626
Memberships, subscriptions and publications	31,658	30,559
Depreciation <i>(Note 4)</i>	20,846	34,357
Lease of Bloomberg terminals	19,841	20,825
Other office and miscellaneous	13,968	14,135
Training	11,975	15,918
Disaster recovery	10,398	12,191
Printing, postage, courier and stationery	8,670	14,791
Insurance	4,092	3,508
Donations	1,500	300
	1,319,689	1,255,399
Net operating income for the year	164,573	287,915
 Dividends <i>(Note 9)</i>	(215,936)	(497,426)
 Retained earnings at beginning of year	1,084,899	1,294,410
Retained earnings at end of year	CI\$ 1,033,536	CI\$ 1,084,899

*See accompanying notes.*

# The Cayman Islands Stock Exchange Ltd.

## Statements of Financial Position (Stated in Cayman Islands Dollars)

	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Current assets</b>		
Cash and cash equivalents ( <i>Note 7</i> )	CI\$ 975,025	CI\$ 1,050,508
Accounts receivable (net of \$18,831 (2009: \$4,000) of bad debt provision)	302,785	308,012
Prepayments and other receivables	15,060	21,107
Total current assets	<u>1,292,870</u>	<u>1,379,627</u>
<b>Long-term assets</b>		
Fixed assets ( <i>Note 4</i> )	43,568	43,872
<b>Total assets</b>	<u>CI\$ 1,336,438</u>	<u>CI\$ 1,423,499</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	CI\$ 122,222	CI\$ 152,937
Deferred annual fees	8,754	13,314
Current portion of deferred Government capital grant ( <i>Note 6</i> )	–	423
Total current liabilities	<u>130,976</u>	<u>166,674</u>
Total liabilities	<u>130,976</u>	<u>166,674</u>
<b>Shareholder's equity</b>		
Share capital ( <i>Note 9</i> )	100,000	100,000
Additional paid-in capital	71,926	71,926
Retained earnings	1,033,536	1,084,899
Total shareholder's equity	<u>1,205,462</u>	<u>1,256,825</u>
Total liabilities and shareholder's equity	<u>CI\$ 1,336,438</u>	<u>CI\$ 1,423,499</u>

*See accompanying notes*

Approved on behalf of Council:

Anthony B Travers  
Chairman

Valia Theodoraki  
CEO

## The Cayman Islands Stock Exchange Ltd.

### Statements of Cash Flows (Stated in Cayman Islands Dollars)

	<b>Years Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Net operating income for the year	CI\$ 164,573	CI\$ 287,915
Adjusted for:		
Depreciation	20,846	34,357
Amortisation of Government capital grant	(423)	(1,218)
	184,996	321,054
Decrease in accounts receivable	5,227	214,259
Decrease in prepayments and other receivables	6,047	4,743
(Decrease) in accounts payable and accrued liabilities	(30,715)	(88,985)
(Decrease) in deferred annual fees	(4,560)	(11,860)
Net cash from operating activities	160,995	439,211
<b>Investing activities</b>		
Purchase of fixed assets	(20,542)	(21,322)
Net cash used in investing activities	(20,542)	(21,322)
<b>Financing activities</b>		
Dividend paid	(215,936)	(497,426)
Net cash used in financing activities	(215,936)	(497,426)
Net decrease in cash and cash equivalents for year	(75,483)	(79,537)
Cash and cash equivalents at beginning of year	1,050,508	1,130,045
Cash and cash equivalents at end of year	CI\$ 975,025	CI\$ 1,050,508
<b>Supplementary information on cash flow from operating activities</b>		
Interest received	CI\$ 397	CI\$ 10,854

*See accompanying notes.*

# **The Cayman Islands Stock Exchange Ltd.**

## **Notes to Financial Statements** *(Stated in Cayman Islands Dollars)*

June 30, 2010 and 2009

### **1. Incorporation and General Information**

The Cayman Islands Stock Exchange Ltd. (the “Company”) was incorporated as a private company limited by shares on September 26, 1996 as CSX Ltd. pursuant to the Cayman Islands Companies Law. The Company changed its name to The Cayman Islands Stock Exchange Ltd. on December 23, 1996.

In accordance with the powers conferred by the Cayman Islands Stock Exchange Company Law, 1996 the Company is engaged in carrying on the business of establishing and operating a securities market for the listing and trading of securities. This business includes the admission of persons as exchange members entitled by reason of membership of the exchange to engage in the listing and trading of securities through the facilities made available by the Company for such purposes.

The Company is wholly owned by the Stock Exchange Authority (the “Authority”) on behalf of the Government of the Cayman Islands (the “Government”).

### **2. Significant Accounting Policies**

#### **Statement of Compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The significant accounting policies adopted by the Company are as follows:

#### **Cash and Cash Equivalents**

The Company considers cash and short-term deposits with an original maturity of three months or less to be cash or cash equivalents.

#### **Revenue Recognition**

Revenue is recognised as earned. Membership and listing fees are non refundable.

# The Cayman Islands Stock Exchange Ltd.

## Notes to Financial Statements (continued)

(Stated in Cayman Islands Dollars)

### 2. Significant Accounting Policies (continued)

#### Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Provisions are established when the Company determines amounts are doubtful of collection.

#### Translation of Foreign Currencies

Assets and liabilities denominated or accounted for in currencies other than Cayman Islands dollars are translated into Cayman Islands dollars at the applicable exchange rate ruling at the statement of financial position date. Foreign currency income and expense transactions are translated at the appropriate exchange rate ruling at the transaction date. Realised and unrealised gains and losses arising from such transactions are included in the statements of comprehensive income and retained earnings.

#### Depreciation

Fixed assets are depreciated using the straight-line method over their estimated useful lives as follows:

<u>Type of Fixed Asset</u>	<u>Estimated Useful Life</u>
Leasehold improvements	Remainder of current lease term
Computer hardware and software	2 to 3 years
Office furniture and equipment	5 to 10 years

#### Government Grant

Government grants relating to fixed assets are shown as a deferred income liability on the statements of financial position and are recognised in the statements of comprehensive income and retained earnings over the life of such depreciable assets and presented as amortisation of Government capital grant.

# The Cayman Islands Stock Exchange Ltd.

## Notes to Financial Statements (continued) (Stated in Cayman Islands Dollars)

### 2. Significant Accounting Policies (continued)

#### Fair Value of Financial Instruments

The fair value of financial instruments approximates their carrying value principally due to the short-term nature of such instruments.

### 3. Operating Revenues

Operating revenues are as follows:

	<b>2010</b>		<b>2009</b>
Listing fees:			
Debt securities	CI\$ 283,606	CI\$	238,057
Mutual funds	377,241		401,062
Eurobonds	100,204		110,618
International companies	15,170		4,920
Domestic companies	11,480		11,480
Listing document updates	25,092		10,250
	<u>812,793</u>		<u>776,387</u>
Listing agents fees	164,000		147,600
Broker membership fees	49,610		51,250
Crossing fees	4,957		11,450
	<u>CI\$ 1,031,360</u>	<u>CI\$</u>	<u>986,687</u>

The Company is the exclusive Committee on Uniform Security Identification Procedures (CUSIP) International numbering agent for issuing CUSIP numbering system identifiers for securities of issuers registered in the Cayman Islands and the British Virgin Islands.

## The Cayman Islands Stock Exchange Ltd.

### Notes to Financial Statements (continued) (Stated in Cayman Islands Dollars)

#### 4. Fixed Assets

	<b>Leasehold Improvements</b>	<b>Computer Hardware &amp; Software</b>	<b>Office Furniture &amp; Equipment</b>	<b>Total</b>
<b>Cost</b>				
At July 1, 2009	CI\$ 143,138	CI\$ 1,166,189	CI\$ 156,330	CI\$ 1,465,657
Additions	–	17,402	3,140	20,542
At June 30, 2010	143,138	1,183,591	159,470	1,486,199
<b>Depreciation</b>				
At July 1, 2009	143,138	1,136,745	141,902	1,421,785
Charge for the year	–	18,025	2,821	20,846
At June 30, 2010	143,138	1,154,770	144,723	1,442,631
Net book value at June 30, 2010	CI\$ –	CI\$ 28,821	CI\$ 14,747	CI\$ 43,568
Net book value at June 30, 2009	CI\$ –	CI\$ 29,444	CI\$ 14,428	CI\$ 43,872

#### 5. Commitments

Effective January 1, 2009, the Company signed a new lease for its existing office premises on the 4th floor of Elizabethan Square for a one year period with a further one year option in place. The lease payments for the twelve months to June 30, 2010, were \$71,562 (2009: \$69,862). From December 31, 2009, the Company has moved to a rolling monthly contract for the foreseeable future and as such does not have any lease commitments for the year ended June 30, 2010 (2009: \$35,779). The 2009 commitments of the Company comprised of non-cancellable accommodation leases of one year or less.

## The Cayman Islands Stock Exchange Ltd.

### Notes to Financial Statements (continued) (Stated in Cayman Islands Dollars)

#### 6. Government Grant

The deferred Government grant was used for the purchase of long-term assets. The deferred Government grant will be amortised to the statements of comprehensive income and retained earnings as follows:

	2010		2009	
Within one year	CI\$	–	CI\$	423
Between one and two years		–		–
	CI\$	–	CI\$	423

#### 7. Cash and Cash Equivalents

	2010		2009	
Current and call accounts	CI\$	332,465	CI\$	408,345
Short-term fixed deposits maturing within one month		642,560		642,163
	CI\$	975,025	CI\$	1,050,508

#### 8. Financial Instruments and Associated Risks

The Company's operating activities expose it to various types of financial risks that are associated with the financial instruments and markets in which it invests. These financial risks include credit and counterparty risk, liquidity risk and market risk (including currency risk and interest rate risk). The Company's overall risk management program focuses on minimizing potential adverse effects on the Company's operations resulting from these financial risks. The exposure to, and management of, these risks are summarized below.

##### Credit and Counterparty Risk

Credit and counterparty risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable.

# **The Cayman Islands Stock Exchange Ltd.**

## **Notes to Financial Statements (continued)**

*(Stated in Cayman Islands Dollars)*

### **8. Financial Instruments and Associated Risks (continued)**

#### **Credit and Counterparty Risk (continued)**

The Company mitigates its exposure to credit risk by placing cash with major international institutions. As the Company provides listing services its revenue is made up of small fees from many customers. As such, any failure of a customer to pay their fees would not have a significant impact on the financial statements of the Company. The Company's policy is to provide for an allowance of doubtful debts that represents a scaled percentage of outstanding accounts receivable based on their age and assessed collectibility.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company's primary financial liabilities are accounts payable and accrued liabilities. The Company monitors current assets and liabilities to ensure that it has sufficient liquid assets to be able to meet its future expected cash outflows. All the Company's liabilities are expected to be paid within one year.

#### **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company comprises two types of risk: currency risk and interest rate risk. The Company is not exposed to any other market risks.

#### **Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company operates in the Cayman Islands and the main currencies of its operations are the Cayman Islands dollar and the United States dollar.

# **The Cayman Islands Stock Exchange Ltd.**

## **Notes to Financial Statements (continued)** *(Stated in Cayman Islands Dollars)*

### **8. Financial Instruments and Associated Risks (continued)**

#### **Currency Risk (continued)**

The Cayman Islands dollar has a fixed exchange rate against the United States dollar so no currency risk or translation gains/losses arise from fluctuations between the currencies, and as such no currency risk sensitivity analysis has been prepared. The Cayman Islands dollar to United States dollar exchange rate used by the Company is 0.82.

The only foreign currency monetary assets or liabilities held at June 30, 2010, were United States dollars as part of cash and cash equivalents in the amount of CI\$938,781 (2009: CI\$982,825).

#### **Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The only financial instrument upon which changes in interest rates could have an impact is a fixed deposit, renewed monthly, in the amount of CI\$642,561 (2009: CI\$642,163) which is shown on the statement of financial position as a part of cash and cash equivalents. As the financial instrument is short term in nature and a fixed rate is set at each monthly renewal of the fixed deposit, interest rate fluctuations would not significantly impact the Company's future cash flows. As such, no sensitivity analysis for interest rate risk has been prepared.

### **9. Share Capital**

The authorised and issued share capital of the Company is CI\$100,000 divided into 100,000 shares of CI\$1 each. All of the shares were exclusively subscribed on behalf of the Government by the Authority in 1996 in accordance with the Cayman Islands Stock Exchange Company Law, 1996.

The Stock Exchange Council is projected to approve a dividend payment for the year ended June 30, 2010 of CI\$1.2343 per share (2009: CI\$2.15936), totalling CI\$123,430 (2009: CI\$215,936). The present dividend policy is for the Company to pay 75.00% of net operating income to the Government. The Government is the 100% shareholder and the dividend policy is reviewed on an annual basis.

# **The Cayman Islands Stock Exchange Ltd.**

## **Notes to Financial Statements (continued)**

*(Stated in Cayman Islands Dollars)*

### **10. Personnel**

Included within personnel expenses are the salary, pension and healthcare payments made to and on behalf of the eight members of staff employed during the year. For the year ended June 30, 2010 total personnel expenses amounted to \$828,283 (2009: \$802,368). Total remuneration for the Company's three key management personnel was \$464,663 for the year ended June 30, 2010 (2009: \$452,157). At June 30, 2010 and 2009, key management personnel consisted of the Chief Executive Officer, Head of Markets and Compliance and the Head of Listings. As at October 1, 2009, the Deputy Head of Listings was promoted to Head of Listings.

### **11. Capital Risk Management**

The Company manages its capital to ensure that the Company will be able to continue as a going concern without additional funding from the Cayman Islands Government. The Company's overall strategy remains unchanged from the year ended June 30, 2009. The capital structure of the Company consists of issued shares and retained earnings.

### **12. Marketing, Travel and Subsistence**

Marketing, travel and subsistence largely consists of amounts spent on conferences and international trade events.

### **13. Pension Scheme**

As required by the Pensions Law of the Cayman Islands, the Company has established for its employees a defined contribution pension scheme with a third party pensions provider based in the Cayman Islands up to a maximum of CI\$250/month. The mandatory contribution rate under the law is 10% of the employee's salary, borne equally by the employer and employee. The Company contributions are borne 5.00% by the employer and 5.00% by the employee. The total pension cost recorded during the year ended June 30, 2010, was CI\$22,432 (2009: CI\$22,150). This represents the employer's portion and is included in personnel expenses.

### **14. Related Party Transactions**

In addition to the related party balances and transactions disclosed elsewhere in these financial statements, the Government did not make any payments on behalf of the Company for the year ended June 30, 2010 (2009: CI\$15,284) in relation to marketing and advertising expenses.

# **The Cayman Islands Stock Exchange Ltd.**

## **Notes to Financial Statements (continued)**

*(Stated in Cayman Islands Dollars)*

### **15. Subsequent Events**

Management has evaluated the possibility of subsequent event existing in the Company's financial statements through August 3, 2011, the date the financial statements were available to be issued. Management has determined that there are no material events that would require disclosure in the Company's financial statements.

### **16. Approval of Financial Statements**

The financial statements were approved by the Stock Exchange Council and authorized for issue on August 3, 2011.