

# **Satrix FINI Trust**

**Annual Financial Statements**

**for the year ended 31 December 2005**

# **Satrix FINI Trust**

(Masters reference No. IT 6429/01)

## **Annual Financial Statements**

*for the year ended 31 December 2005*

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## **Report of the independent auditors**

### **To the trustee of the Satrix FINI Trust**

We have audited the annual financial statements of the Satrix FINI Trust set out on pages 3 to 17 for the year ended 31 December 2005. These annual financial statements are the responsibility of the trustee. Our responsibility is to express an opinion on these annual financial statements based on our audit.

We conducted our audit in accordance with statements of International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust at 31 December 2005 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Collective Investment Schemes Act.

### **KPMG Inc.**

*Registered Accountants and Auditors  
Chartered Accountants (SA)*

Per VT Yuill  
*Director*

2006

# Satrix FINI Trust

## Trustee's report

*for the year ended 31 December 2005*

The trustee has pleasure in presenting its report for the year ended 31 December 2005.

### **Nature of business**

The Satrix FINI Trust (the Trust) was established on 21 August 2001. The Trust was a special purpose vehicle established to enable Indexco II Limited (Indexco II) to hedge its exposure to holders of the Satrix FINI Index Securities. Subsequent to the registration of Satrix as a Collective Investment Scheme on 1 August 2004, the rights and obligations of Indexco II had been ceded to the Trust. The investment objective of the Trust is to track the price and yield performance of FTSE/JSE Financial 15 Index (FINI 15 Index).

The underlying portfolio is held by the Satrix FINI Trust and holders of Satrix FINI Index Securities will have rights against the Satrix FINI Trust, this includes rights to the income earned from those assets. Prior to conversion to a Collective Investment Scheme, the Satrix FINI Trust operated solely to provide Indexco II with a means of hedging its contractual obligations to holders. The relationship between the Satrix FINI Trust and Indexco II did not confer any rights on holders. The contractual rights embodied in Satrix FINI Index Securities were exercisable solely against Indexco II itself. Consequently neither Indexco II nor the Satrix FINI Trust were unit trusts as defined in the Unit Trust Control Act of 1981 and investors did not, as a result, qualify for any protection in terms of that Act.

Satrix FINI Index Securities are securities listed and traded on the JSE in much the same way as any listed shares. By owning Satrix FINI Index Securities an investor will obtain market exposure to the constituent companies included in the FTSE/JSE Financial 15 Index (FINI 15 Index).

### **Risk Analysis**

Exposure to investment, index, credit, secondary trading and operational risk arises in the normal course of investment activities in listed index securities. A brief description of the respective risks and means utilised to mitigate these risks is given below –

#### *Investment risk*

- There can be no assurance that the Trust will achieve its investment objectives of replicating the price and yield performance of the Index.

The following factors could impact negatively on the investment performance of the Trust:

- Certain cost and expenses incurred by the Trust could cause the underlying portfolio to mistrack the Index;
- Temporary unavailability of securities in the secondary market or other extraordinary circumstances could cause deviations from the exact weightings of the Index; and
- In circumstances where securities comprising the Index are suspended from trading or other market disruption events occur, it may be impossible to rebalance the portfolio of securities held by the Trust and this may lead to tracking error.

# Satrix FINI Trust

## Trustee's report

for the year ended 31 December 2005 (continued)

### Risk Analysis (continued)

#### Index risk

- There is no assurance that the Index will continue to be calculated and published on the same or similar basis indefinitely. The Index was created by the JSE as a measure of market performance and not for the purposes of trading Trust Index Securities; and
- The past performance of the Index is not necessarily a guide to its future performance.

#### Secondary trading risk

- There can be no guarantee that the Trust Index Securities will remain listed on the JSE; and
- Despite the presence of market makers, the liquidity of the Trust Index Securities cannot be guaranteed.

#### Credit risk

- The trustee of the Trust gives power to the manager to lend or offer to lend securities with a value not exceeding 50% of the market value of all securities included in the portfolio. The manager has proceeded to engage in securities lending in respect of the securities held by the Trust. If a borrower fails to perform its obligations, the Trust may be unable to recover the loaned securities.

#### Operational risks

- If shares in the underlying companies are suspended or cease trading for any reason, the suspended shares will not be delivered to a holder exercising its right to take delivery of the underlying shares until the suspension on the trading in respect of those shares is lifted;
- If the computer facilities or other facilities of the JSE malfunction, calculation and trading in the Trust Index Securities may be suspended for a period of time; and
- Issues, redemptions and adjustments to rebalance the underlying portfolio of shares in the Trust could affect the value of the underlying shares constituting the Index and thereby also impact on the value of the Trust Index Securities.

### Trustee

The trustee at the date of this report is ABSA Bank Limited (appointed 30 July 2004).

## **Satrix FINI Trust**

### **Trustee's approval of the annual financial statements**

The annual financial statements for the year ended 31 December 2005 set out on pages 3 to 17 were approved by the trustee on 29 March 2006 and are signed on its behalf by:

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**Trustee**

# Satrix FINI Trust

## Balance sheet

at 31 December 2005

	<i>Notes</i>	<b>2005</b> <b>R</b>	2004 <b>R</b>
<b>Assets</b>			
<b>Investments at market value</b>			
Listed equities	2	<b>1 485 866 360</b>	1 153 713 738
<b>Current assets</b>			
Accounts receivable	3	<b>421 873</b>	277 436
Cash and cash equivalents	2	<b>11 077 968</b>	10 404 212
<b>Total assets</b>			
		<b>1 497 366 201</b>	1 164 395 386
<b>Equity and liabilities</b>			
<b>Non-current liabilities</b>			
Liability to unitholders	4	<b>1 486 012 749</b>	1 160 114 367
<b>Current liabilities</b>			
Loans from associated entities	5	<b>–</b>	151 110
Accounts payable	6	<b>294 529</b>	244 938
Unitholders for distribution	8	<b>11 058 923</b>	3 884 971
<b>Total equity and liabilities</b>			
		<b>1 497 366 201</b>	1 164 395 386

# Satrix FINI Trust

## Income statement

for the year ended 31 December 2005

	<i>Note</i>	<b>2005</b> <b>R</b>	<b>2004</b> <b>R</b>
<b>Income</b>			
Dividends		<b>47 467 145</b>	35 982 540
Fair value adjustment	7	<b>318 984 865</b>	369 949 824
Fee income: Securities lending		<b>1 717 046</b>	1 147 652
Interest earned		<b>439 100</b>	534 881
		<b>368 608 156</b>	407 614 897
<b>Expenses</b>			
Fair value adjustment	7	<b>(325 706 258)</b>	(381 317 682)
Management and administrative expenses	10	<b>(2 050 020)</b>	(1 737 897)
<b>Income available for distribution</b>			
		<b>40 851 878</b>	24 559 318
<b>Distributions</b>			
	8	<b>(40 659 753)</b>	(30 727 410)
<b>Undistributed income before taxation</b>			
		<b>192 125</b>	(6 168 092)
Taxation	11	<b>—</b>	—
<b>Undistributed income/(loss) for the year</b>			
		<b>192 125</b>	(6 168 092)

# Satrix FINI Trust

## Statement of changes in equity

*for the year ended 31 December 2005*

	Undistributed income R
<b>Balance at 1 January 2004</b>	8 825 097
Undistributed loss for the year	(6 168 092)
Capital award to founding beneficiaries relating to period prior to the Collective Investment Scheme conversion	<u>(2 654 585)</u>
<b>Balance at 31 December 2004</b>	2 420
Undistributed income for the year	192 125
Classified as a non-current liability to unitholders	<u>(194 545)</u>
<b>Balance at 31 December 2005</b>	<u>–</u>

# Satrix FINI Trust

## Cash flow statement

for the year ended 31 December 2005

	<i>Note</i>	<b>2005</b> <b>R</b>	2004 <b>R</b>
<b>Cash generated/(utilised) by operations</b>	<i>14</i>	<b>13 402 414</b>	(422 755)
Capital award to founding beneficiaries		–	(2 654 585)
Interest income		<b>439 100</b>	534 881
<b>Net cash inflow/(outflow) from operating activities</b>		<b>13 841 514</b>	(2 542 459)
<b>Cash (outflow)/inflow from investing activities</b>		<b>(13 167 758)</b>	4 635 422
Purchases of equities		<b>(183 076 840)</b>	(60 375 951)
Proceeds from sale of equities		<b>169 909 082</b>	103 662 763
In specie creations and liquidations		–	(38 651 390)
<b>Net increase in cash and cash equivalents</b>		<b>673 756</b>	2 092 963
Cash and cash equivalents at the beginning of year		<b>10 404 212</b>	8 311 249
<b>Cash and cash equivalents at the end of year</b>		<b>11 077 968</b>	10 404 212

# Satrix FINI Trust

## Notes to the financial statements

for the year ended 31 December 2005

### 1. Accounting policies

The financial statements incorporate the principal accounting policies set out below, which are consistent with those adopted in the previous financial year.

#### 1.1 Basis of preparation

The financial statements are prepared on a historic cost basis, except for financial instruments, which are accounted for as set out in note 1.3.

#### 1.2 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and in accordance with the Collective Investment Schemes Control Act.

#### 1.3 Financial instruments

##### *Measurement*

Financial instruments are initially measured at cost at transaction date, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

##### *Investments*

Listed investments are shown at fair value, as represented by the closing market value at year end as published in the financial press.

##### *Trade and other receivables*

Trade and other receivables originated by the Trust are stated at amortised cost less impairment charges.

##### *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value at balance sheet date.

# Satrix FINI Trust

## Notes to the financial statements

for the year ended 31 December 2005 (continued)

### 1. Accounting policies (continued)

#### 1.3 Financial instruments (continued)

##### *Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of financial instruments are included in net profit or loss in the period in which the change arises.

##### *Offset*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 1.4 Revenue

Revenue comprises fee income from securities lending activities and investment income.

#### 1.5 Investment income

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Trust.

Dividends are recognised when the right to receive payment is established. Scrip dividends have been accounted for as income.

#### 1.6 Taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are the differences between the carrying values of assets and liabilities for financial reporting purposes and their tax base.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.

# Satrix FINI Trust

## Notes to the financial statements

for the year ended 31 December 2005 (continued)

### 2. Investments

#### Listed equities

No. of shares at 31 December 2005	Name of company	Cost R	Current price R	Market value R	% of equities	% of fund
	<b>Banks</b>					
	African Bank Investments Ltd	16 329 990	24.50	32 584 755	2.19	2.18
	Absa Group Ltd	898 870	101.00	90 785 870	6.11	6.06
	FirstRand Ltd	11 344 296	18.45	209 302 261	14.09	13.98
	Investec Ltd	119 771	276.00	33 056 796	2.22	2.21
	Investec plc	200 001	276.15	55 230 276	3.72	3.69
	Nedbank Group Ltd	597 376	100.00	59 737 600	4.02	3.99
	RMB Holdings Ltd	2 401 614	27.90	67 005 031	4.51	4.48
	Standard Bank Group Ltd	3 644 022	75.81	276 253 308	18.59	18.45
	<b>Insurance</b>					
	Santam Ltd	157 162	80.50	12 651 541	0.85	0.85
	<b>Life Assurance</b>					
	Discovery Holdings Ltd	442 641	23.40	10 357 799	0.70	0.69
	Liberty International plc	372 623	75.50	28 133 037	1.89	1.88
	Old Mutual plc	11 019 201	17.95	197 794 658	13.31	13.21
	Sanlam Ltd	6 709 743	15.19	101 920 996	6.86	6.81
	<b>Investment Companies</b>					
	Remgro Ltd	1 311 514	122.00	160 004 708	10.77	10.69
	VenFin Ltd	1 202 545	47.70	57 361 397	3.86	3.83
	<b>Listed Property</b>					
	Liberty International plc	867 466	108.00	93 686 328	6.31	6.26
	<b>Total Equities</b>	<b>836 329 990</b>		<b>1 485 866 360</b>	<b>100.00</b>	<b>99.26</b>
	<b>Cash and cash equivalents</b>	<b>11 077 968</b>		<b>11 077 968</b>		<b>0.74</b>
	<b>Total assets excluding accounts receivable</b>	<b>847 407 958</b>		<b>1 496 944 328</b>		<b>100.00</b>

Comparative information is available upon request from the Company Secretary.  
Refer to note 12 for details of those securities subject to scrip lending arrangements.

# Satrix FINI Trust

## Notes to the financial statements

for the year ended 31 December 2005 (continued)

	2005 R	2004 R
<b>3. Accounts receivable</b>		
Value added taxation	155 641	120 190
Interest receivable	42 270	44 684
Scrip lending fee receivable	223 962	112 562
	<u>421 873</u>	<u>277 436</u>
<b>4. Liability to unitholders</b>		
Opening balance	1 160 114 367	817 445 655
Current year movement	325 706 258	342 666 292
In specie creations and liquidations	–	(38 651 390)
Revaluation	325 706 258	381 317 682
Total units in issue	220 736 990	220 736 990
Net asset value per Satrix Fini Index Security	6.73117	5.25563
Liability for distribution– 2004	(2 420)	2 420
– 2005	194 544	–
	<u>1 486 012 749</u>	<u>1 160 114 367</u>
<b>5. Loans from associated entities</b>		
Indexco Managers (Proprietary) Limited	–	151 110
	–	151 110
	<u>–</u>	<u>151 110</u>
The loan from Indexco Managers (Proprietary) Limited was in respect of expenses incurred on behalf of the Trust.		
<b>6. Accounts payable</b>		
Expense accruals	258 793	244 929
Dividend accrual	–	9
Value added taxation	35 736	–
	<u>294 529</u>	<u>244 938</u>

# Satrix FINI Trust

## Notes to the financial statements

for the year ended 31 December 2005 (continued)

	2005 R	2004 R
<b>7. Net income before tax</b>		
Included in net income before tax are the following significant amounts –		
Fair value adjustment on assets	(318 984 865)	(369 949 824)
Fair value adjustment on liabilities	<u>325 706 258</u>	<u>381 317 682</u>
Net fair value liability	<u>6 721 393</u>	<u>11 367 858</u>

### 8. Distributions

The index securities will effect quarterly distributions. All distributions are made out of the income of the Satrix FINI Trust. The record dates are 31 March, 30 June, 30 September and 31 December.

During the period under review the following distributions were effected per Satrix FINI Index Security –

	2005 R	2004 R
2.68 cents per security declared 24 March 2005 and paid 15 April 2005	5 915 751	
6.80 cents per security declared 24 June 2005 and paid 18 July 2005	15 010 115	
3.93 cents per security declared 30 September 2005 and paid 24 October 2005	8 674 964	
5.01 cents per security declared 301 December 2005 and paid 23 January 2006	<u>11 058 923</u>	
1.6 cents per security declared 26 March 2004 and paid 23 April 2004		3 483 423
6.3 cents per security declared 25 June 2004 and paid 03 August 2004		14 046 062
4.2 cents per security declared 01 October 2004 and paid 25 October 2004		9 312 954
1.8 cents per security declared 31 December 2004 and paid 24 January 2005		<u>3 884 971</u>
	<u>40 659 753</u>	<u>30 727 410</u>

#### *Adjustment to December dividend*

The adjustment to the December 2004 dividend is in respect of a capital award received from Remgro of R2 584 856 was paid to unit holders during the September 2004 distribution. The dividend was intended to be re-invested in the portfolio, but was paid out in error. The December 2004 distribution was reduced to take this into account.

# Satrix FINI Trust

## Notes to the financial statements

for the year ended 31 December 2005 (continued)

### 9. Creation and liquidation of Satrix FINI Index Securities

Nil (2004 – NIL) Satrix FINI Index Securities were created during the year (2004 value – NIL).

There were no cancellations during the year. (2004 – 10 000 000, valued at R38 651 390)

### 10. Management and administrative expenses

For the period ending 31 July 2004, Indexco Managers (Proprietary) Limited (Manco) performed all management and administrative services in respect of both the Satrix FINI Trust (the Trust) and Indexco II Limited (Indexco). Indexco Managers (Proprietary) Limited was reimbursed on a quarterly basis for all expenses plus a management fee. Indexco Managers (Proprietary) Limited was replaced by Satrix Managers (Proprietary) Limited effective 1 August 2004.

	2005 R	2004 R
Management and administrative expenses comprise –		
<i>Management fee</i>	<b>14 208</b>	43 936
<i>Operating expenditure –</i>	–	883 737
Asset management fee	–	649 473
Audit fees	–	91 167
Bank charges	–	22 001
Legal fees	–	7 472
License fee	–	41 817
Listing fees	–	(19 062)
Running costs	–	20 869
Trustees fees	–	70 000
<i>Indirect and other taxes</i>	–	77 703
Penalty interest	–	–
Regional Service Council Levy	–	1 107
Value Added Taxation not claimable	–	76 596
<i>Direct Trust expenses – subsequent to Collective Investment Scheme conversion</i>	<b>2 035 812</b>	732 521
Trustee and custodian fee	<b>206 100</b>	–
Bank charges	–	38 803
Asset management fee	<b>1 461 790</b>	544 757
Audit fees	<b>53 025</b>	50 000
Listing fees	<b>126 482</b>	49 913
License fees	<b>188 415</b>	49 048
	<b>2 050 020</b>	1 737 897

# Satrix FINI Trust

## Notes to the financial statements

for the year ended 31 December 2005 (continued)

	2005 R	2004 R
<b>11. Taxation</b>		
South African normal tax		
Current taxation	—	—
	<u>—</u>	<u>—</u>

Any residual taxable income in the Trust is taxable in the hands of the vested income beneficiaries. Therefore, there is no income tax due by the Trust.

### 12. Scrip lending

The trustees of the Satrix FINI Trust are permitted to engage in securities lending in respect of the securities held by the Satrix FINI Trust as envisaged in the offering circular. The Collective Investment Scheme Act 2002 also permits scrip lending in the trust, subject to the following limitations:

- Not more than 50% of the market value of all the securities in the portfolio can be lent;
- The securities that can be lent to one borrower are limited to 30% of the value of all securities in the portfolio; and
- The collateral security for the securities loaned must have an aggregate value that exceeds the market value of the securities loaned by not less than 5%.

If a borrower fails to perform its obligations, the Satrix FINI Trust may be unable to recover the loaned securities.

At balance sheet date significant concentrations of credit risk existed as significant securities lending had been engaged with ABSA Bank Limited and Standard Bank Limited. The market value of scrip lending exposure as at 31 December 2005 is as follows –

	2005 R	2004 R
ABSA Bank Limited	307 009 905	301 421 093
Standard Bank Limited	<u>235 707 888</u>	<u>126 929 940</u>
	<u>542 717 793</u>	<u>428 351 033</u>

### 13. Post balance sheet event

The FSB has approved a higher level of scrip lending. This is now up to 70% of the market value of all the securities in the portfolio that can be lent out.

# Satrix FINI Trust

## Notes to the financial statements

for the year ended 31 December 2005 (continued)

	2005 R	2004 R
<b>14. Cash generated/(utilised) by operations</b>		
Loss before interest and taxation	(246 975)	(6 702 973)
Adjust for:		
Net fair value adjustment on the equity investments and the liability to unitholders	6 721 393	11 367 858
Adjusted for changes in working capital:		
(Increase)/decrease in accounts receivable	(144 437)	900 932
(Decrease)/increase in loans from associated entities	(151 110)	(2 295 251)
Increase/(decrease) in accounts payable	49 591	(79 340)
Increase/(decrease) in unitholders for distribution	7 173 952	(3 613 981)
	<b>13 402 414</b>	<b>(422 755)</b>

## 15. Quarterly review of Satrix FINI Index Security Prices (cents per unit)

	High	Low	Close
<i>Quarter ended</i>			
31 December 2004	532	532	532
31 March 2005	549	493	526
30 June 2005	554	504	542
30 September 2005	623	532	606
31 December 2005	693	561	673