CDS

CENTRAL DEPOSITORY
& SETTLEMENT Co. ltd.

ANNUAL REPORT 2019

CENTRAL DEPOSITORY & SETTLEMENT CO. LTD

ANNUAL REPORT 2019

The board of directors of the Central Depository & Settlement Co. Ltd (CDS) is pleased to present the Annual Report of the Company for the year ended 30th June 2019. The report was approved by the board of directors of CDS on 22nd August 2019.

The board of directors wishes to thank all the stakeholders of the Company (including Ministry of Financial Services and Good Governance; Financial Services Commission; The Stock Exchange of Mauritius Ltd; Bank of Mauritius; Investment Dealers; Custodian Banks; Listed Companies; and Registries) for their continued support and collaboration.

The board of directors expresses its appreciation to the management and staff for their dedicated efforts and commitment to the Company.

Nitish Benimadhu
Chairperson

Vipin Y.S Mahabirsingh
Managing Director

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CORPORATE INFORMATION

Company Profile

The core business of the CDS is to provide centralised depository, clearing and settlement services to securities markets. The objective of the Company is to provide its services in line with the Principles for Financial Market Infrastructures (PFMIs) issued by the Committee on Payment and Market Infrastructure (CPMI) of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO), with particular emphasis on safety, efficiency and financial stability. The disclosure regarding the compliance of the CDS with the CPMI-IOSCO PFMIs is published on the website of the Company. The Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007 provide the legal framework for the operations of the CDS. The CDS is licensed by the Financial Services Commission and is guided in its day-to-day activities by its Rules and Procedures. The CDS also provides consultancy services to African exchanges and depositories as well as IT outsourcing services and registry software as a service, and allocates International Securities Identification Numbers to financial instruments issued by issuers that are registered in Mauritius.

Board of Directors

Mr Nitish Benimadhu	Chairperson
Ms Aruna Radhakeesoon	Vice-Chairperson
Mrs Reedhee Bhuttoo	
Mr André Chung Shui	
Mr Steve Leung Sock Ping	
Dr Ashwin Moheeputh	
Mr Vipin Y.S. Mahabirsingh	Managing Director
Mr Rishianandsingh Moorut	
Mr Kevin Rangasami	
Mr Jaiyansing Soobah	

Company Secretary

Mr Chaitanand Jheengun (FCIS)

Management Team

Mr Vipin Y.S. Mahabirsingh	Managing Director
Mr Manoven Sadayen	Systems Manager
Mr Joseph How Tien Fat	Finance & Administration Manager

Registered Office

4th Floor, One Cathedral Square Building
16 Jules Koenig Street
Port Louis
Mauritius

Website: www.stockexchangeofmauritius.com/cds

Legal Adviser

Sir Hamid Moollan Q.C
PCL Building
Sir William Newton Street
Port Louis

Bankers

The Mauritius Commercial Bank Limited
Sir William Newton Street
Port Louis

SBM Bank (Mauritius) Ltd
SBM Tower
1, Queen Elizabeth II Avenue
Port Louis

ABC Banking Corporation Ltd
7, Duke of Edinburgh Avenue
Place D'Armes
Port Louis

BCP Bank (Mauritius)
9th Floor, Maeva Tower
Cnr Bank Street / Silicon Avenue
Ebene

Afrasia Bank Limited
Bowen Square
10, Dr Ferrière Street
Port Louis

Bank One Limited
16, Sir William Newton Street
Port Louis

Independent Auditors

PKF (Mauritius)
5 Duke of Edinburgh Avenue
Port Louis

CHAIRPERSON'S AND MANAGING DIRECTOR'S REPORT

Over the past decade, the CDS has participated actively in the development of a number of African stock exchanges and central depositories by providing consultancy services for the implementation of automated trading and settlement systems at these exchanges and central depositories. The CDS is now becoming more and more visible at the global level. In April 2019, the Managing Director of CDS was selected to moderate a panel on blockchain at the biennial conference of the Word Forum of Central Securities Depositories (WFC) that was held in Morocco. The WFC conference brings together central securities depositories (CSDs) and market participants from all around the world to discuss latest technological, regulatory and strategic developments that are shaping the future of the securities industry. There has been a lot of exciting developments around blockchain over the past two years but along with this there has also been some hype. The challenge is to distinguish between the hype and the tangible benefits of blockchain in the securities industry, and identify threats and opportunities for CSDs.

In August 2018, the global research and advisory firm Gartner asserted that blockchain has entered the "trough of disillusionment" with regards to the technology's lifecycle of hype and adoption. The "trough of disillusionment" means that interest in the technology wanes as experiments and implementations fail to deliver. Producers of the technology shake out or fail. Investments continue only if the surviving providers improve their products to the satisfaction of early adopters". According to the Gartner Trend Insight Report, blockchain technical capabilities are evolving, but fail to match the extreme hype and are not yet sufficient for mission-critical enterprise use. The market will traverse the Trough of Disillusionment before significant value is realized. Gartner expects this to happen within the next 5 to 10 years.

With the current market structure which comprises issuers, exchanges, CSDs, market intermediaries and investors, it is difficult to identify problems that cannot be solved by existing systems in a more cost-effective manner than blockchain-based systems. For example some of benefits of using blockchain for securities settlement like having a golden source and addressing reconciliation issues can be achieved by having securities registered at beneficial owner level at the CSD. Similarly, with pre-funding, near real-time settlement can be achieved with existing systems but this is not favored by investors because of asset commitment and other risks. Yet, this is how certain blockchain-based systems are achieving near real-time settlement. The system ensures that the necessary cash and securities are reserved in the smart contract system before transmitting the orders to the trading system.

That being said, blockchain has the potential to change the market structure by eliminating some intermediaries between issuers and investors. Some private companies in the venture capital space are already issuing security tokens on blockchain to investors (rather than dematerialized shares) to raise capital. These security tokens are known as digital assets that can only be transacted on public or permissioned blockchain-based systems. In August 2018, the Financial Services Act was amended to allow the Financial Services Commission (FSC) to issue licenses for digital asset marketplaces and custodian services for digital assets. The FSC subsequently issued guidance notes on "Recognition of Digital Assets as an asset-class for investment by Sophisticated and Expert Investors" and on "Securities Tokens Offerings". It is in this context that the CDS signed a joint venture agreement with the Stock Exchange of Mauritius (SEM) and Citdex Corporation (Cidex) to launch a platform to list, trade, settle and custodies digital assets. The new platform will apply to the Financial Services Commission of Mauritius for the relevant licenses in due course. Citdex is a US-based venture investment firm focused on innovative technologies and funds. Citdex has invested in fintech, financial services, blockchain, artificial intelligence, big data, blended reality, cyber security, IoT, Healthcare and funds, and has launched the Citdex Impact Fund to invest in emerging technologies. Citdex also advises national governments on developing legislation and regulatory frameworks, so that they can be early adaptors of new digital economies while building innovation hubs.

The CDS achieved a Total Comprehensive Income of MUR 38.136 M for 2018-2019. This represents a decreased of 17.4 % compared to last year when the company recorded the second all-time high Total Comprehensive Income since inception. The significant decline in profits is mainly due to market turnover going down by 23.2% compared to 2017-2108. Nevertheless, it is important to note that the Company earned an amount of MUR 14.521 M which represents around 20% of total revenue, from sources other than the depository, clearing and settlement services which is our core business. These other sources of income include investment income, fees from international projects, IT outsourcing services, fees on issue of International Securities Identification Numbers and provision of registry software as a service.

On the market development front, we made changes to the trading system and the CDS system to allow the SEM to introduce the SEM Africa Index (SEM-AFRIDEX) to track the time-series performance of all equity products listed on the Africa Board which showcases SEM's listed issuers and products that have an Africa-centric orientation. We also assisted the SEM to develop its new fully-responsive website with mobile compatibility which retains the key features of the previous one, and introduces new content and modern interactive investor services. SEM's new website contains a number of new value-add features which facilitate navigation and provide added benefits to stakeholders.

The SEM has initiated a project to replace its Automated Trading System (ATS) which was implemented in 2001. We drafted the Request for Proposal for the replacement of SEM's automated trading system. We evaluated the proposals received and submitted an Evaluation Report to SEM. It should be noted that the current ATS complies with international standards and includes many new functionalities that have been added by the CDS IT team to meet various market development requirements. Both the ATS and the CDS systems are maintained entirely by the IT team of CDS. The current trading system is working well and has a number of functionalities that even new systems do not have. The only missing feature is a FIX order gateway to enable interconnectivity via order routing networks. A thorough cost benefit analysis must be done before taking the decision to go ahead with the replacement of the ATS.

The CDS sends statements of accounts to investors by electronic mail since 2008. We send around 16,500 statements by electronic mail every month. To further protect the confidentiality of information relating to CDS accounts, we made changes to the CDS system to encrypt and password protect statements of accounts that are sent by electronic mail to investors.

On the operational front, 70,100 trades with a total value of MUR 15.8 Billion were cleared and settled by CDS during 2018-2019 without any single failure. Our risk management framework operated effectively and there were no defaults, operational issues nor systems downtime. We have provided our services smoothly in accordance with the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007, under the regulatory oversight of the Financial Services Commission. We have continued to comply with international standards, with a particular focus on the Principles for Financial Market Infrastructures (PFMIs) issued by the Committee for Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS), and the International Organisation of Securities Commissions (IOSCO). The disclosure regarding our compliance with the PFMIs is published on our website

In April - June 2019, PricewaterhouseCoopers conducted a security audit of the IT systems of the CDS. In their report, the auditors stated that the IT infrastructure of SEM / CDS have been well designed to protect against both internal and external threats. They performed internal vulnerability assessment and external penetration testing (attacks such as dictionary attack, password cracking, denial of service among others on the web facing application,) but were not able to penetrate inside SEM / CDS network. Furthermore, the auditors noted that the recommendations made during their past assessments have been implemented to further enhance the security posture of the SEM / CDS IT environment. As part of their review, they also performed configuration review of operating systems, databases and network equipment which have been appropriately configured in line with leading practices. The report also concluded that the IT security policy and disaster recovery plan are well documented. The disaster recovery procedures are tested regularly to ensure a timely resumption of services following a major incident or disaster. The auditors also recommended improvements to the existing information security framework that can lower the risk of security compromises. The recommendations made by the auditors will be implemented by CDS.

Our stock market did not perform very well in the first semester of 2019 with the all shares index (SEMDEX) losing 4.06%. On the other hand, the MSCI Frontier Market Index and the MSCI Emerging Markets Index posted gains of 11.9% and 10.2% respectively during the same period. The global markets also performed better than the local market with the CAC 40, FTSE 100, Dow Jones Industrial Average and NASDAQ

Composite gaining 17.09%, 10.37%, 14.03% and 20.66% respectively, during the same period. The weak performance of the local market could be mainly due to the difficulties faced by the traditional sectors of the Mauritian economy, namely: sugar; manufacturing; and tourism. It is expected that the implementation of the measures announced in the 2019-2020 National Budget will help to improve the situation in these traditional sectors of our economy.

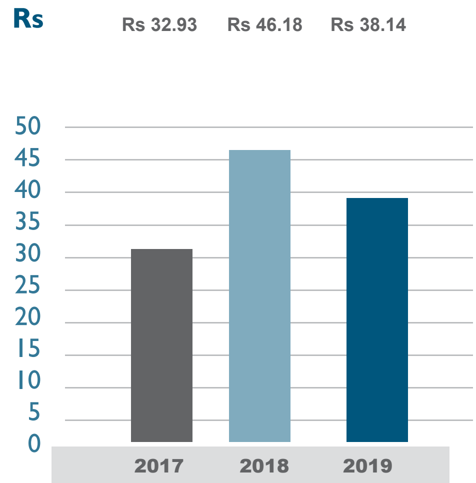
The above achievements of the Company would not have been possible without the guidance and support of the Board. We wish to thank all directors for their active participation and contribution to the success of the Company. We also wish to express our gratitude to the staff of the Company for the sense of belonging that they have demonstrated and for the excellent team work.

Nitish Benimadhu
Chairperson

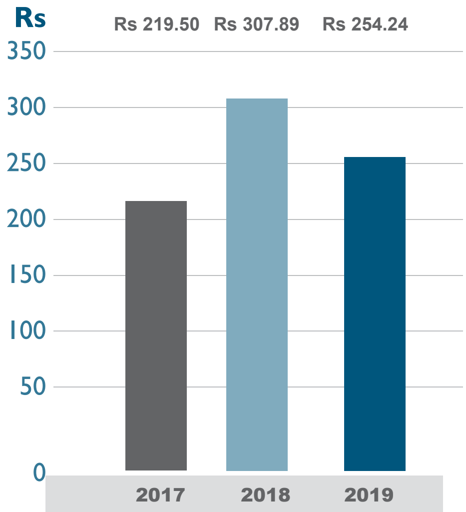
Vipin Mahabirsingh
Managing Director

FINANCIAL HIGHLIGHTS

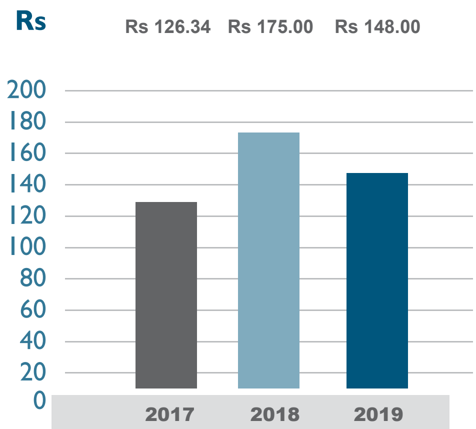
TOTAL COMPREHENSIVE INCOME (IN MILLION)



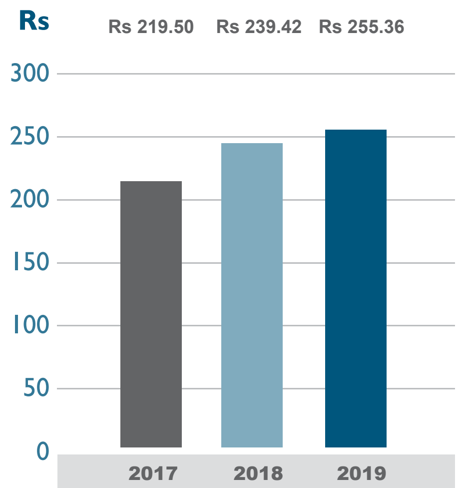
EARNINGS PER SHARE



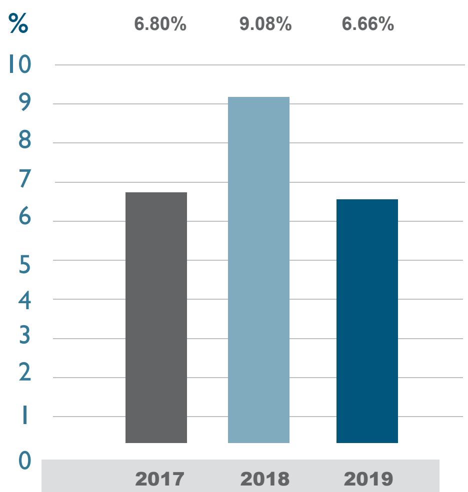
DIVIDENDS PER SHARE



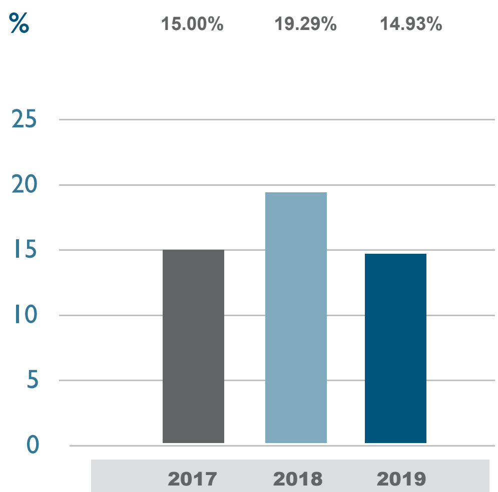
NET ASSET VALUE (in Million)



GROWTH IN NET ASSET VALUE



RETURN ON EQUITY



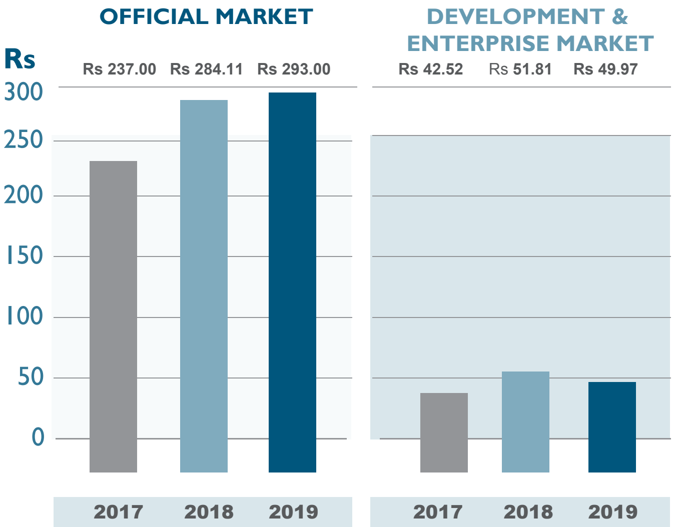
FINANCIAL HIGHLIGHTS (CONT'D)

VALUE ADDED STATEMENT

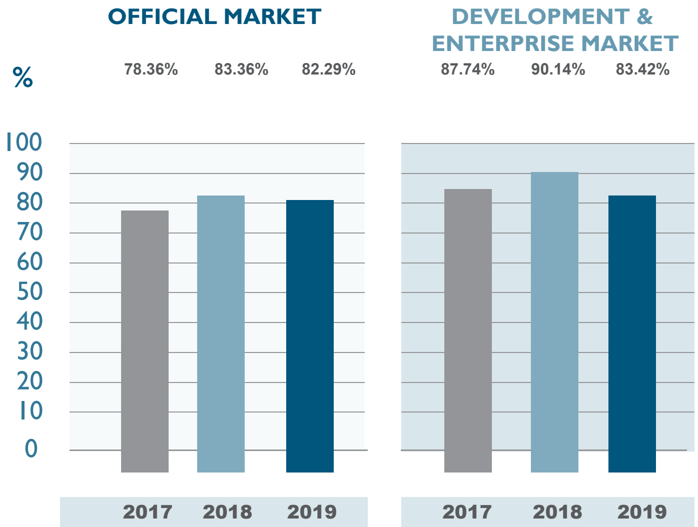
	As at 30th June 2019		As at 30th June 2018	
	Rs ' 000	%	Rs ' 000	%
Turnover	59,512		67,363	
Other Income	14,521		17,275	
Administrative Expenses	(8,917)		(7,927)	
Total Wealth Created	65,116	100	76,711	100
Distributed as follows				
Members of Staff	17,221	26	19,081	24
Salaries and other Benefits				
CDS Guarantee Fund	222	1	302	1
Contributions made by the Company				
Providers of Capital	22,200	34	26,250	34
Dividends to Ordinary Shareholders				
	39,643	61	45,633	59
Government - Taxation	6,724	10	8,377	11
Corporate Social Responsibility	974	2	821	1
Wealth reinvested in the Company				
Profit Retained	15,936	24	19,934	26
Depreciation	1,839	3	1,946	3
	17,775	27	21,880	29
Total Wealth Distributed and Retained	65,116	100	76,711	100

STATISTICS ON OPERATIONS

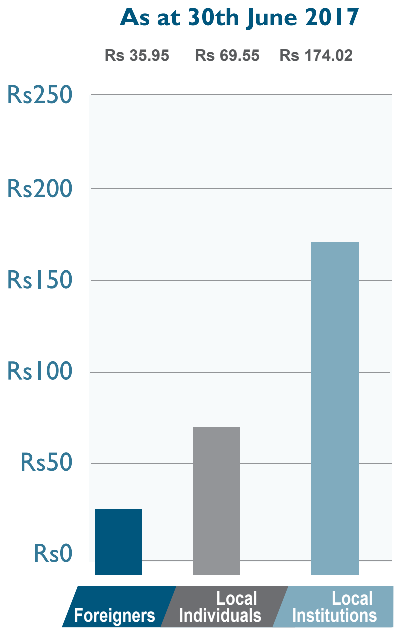
AGGREGATE VALUE OF SECURITIES HELD IN CDS (in Billion)

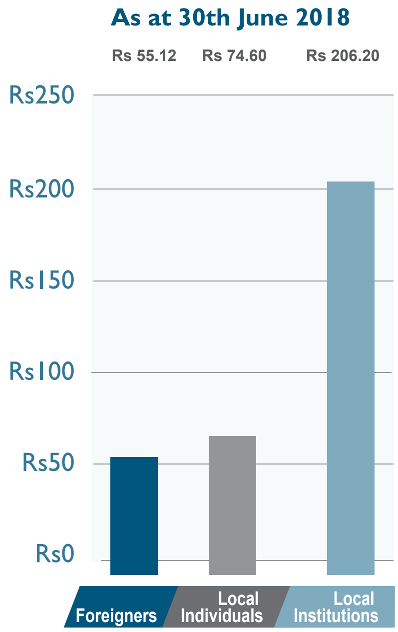


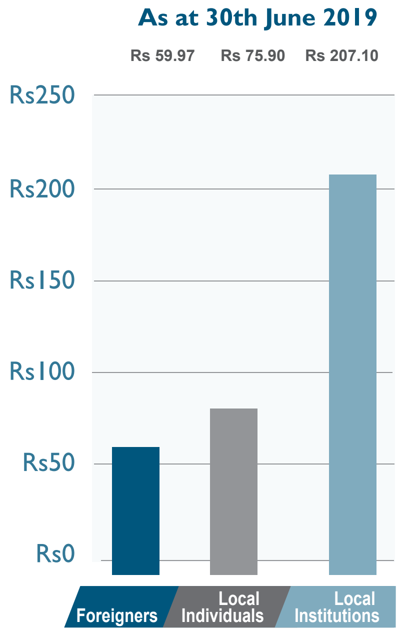
PERCENTAGE OF TOTAL NUMBER OF SECURITIES ISSUED HELD IN CDS



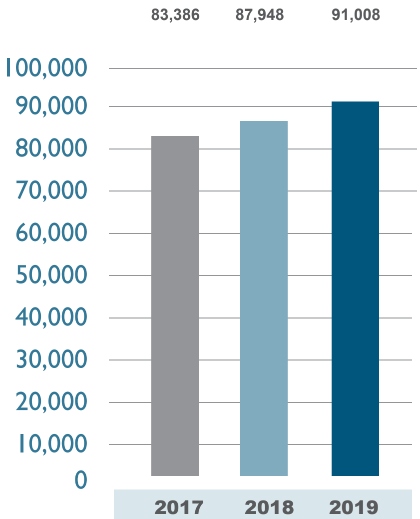
BREAKDOWN OF AGGREGATE VALUE HELD IN CDS (in Billion)



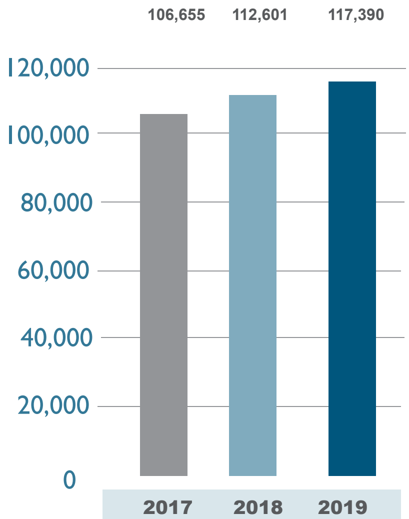




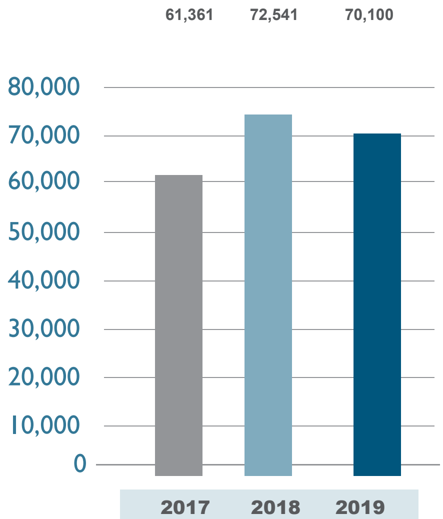
NUMBER OF INVESTORS REGISTERED WITH CDS



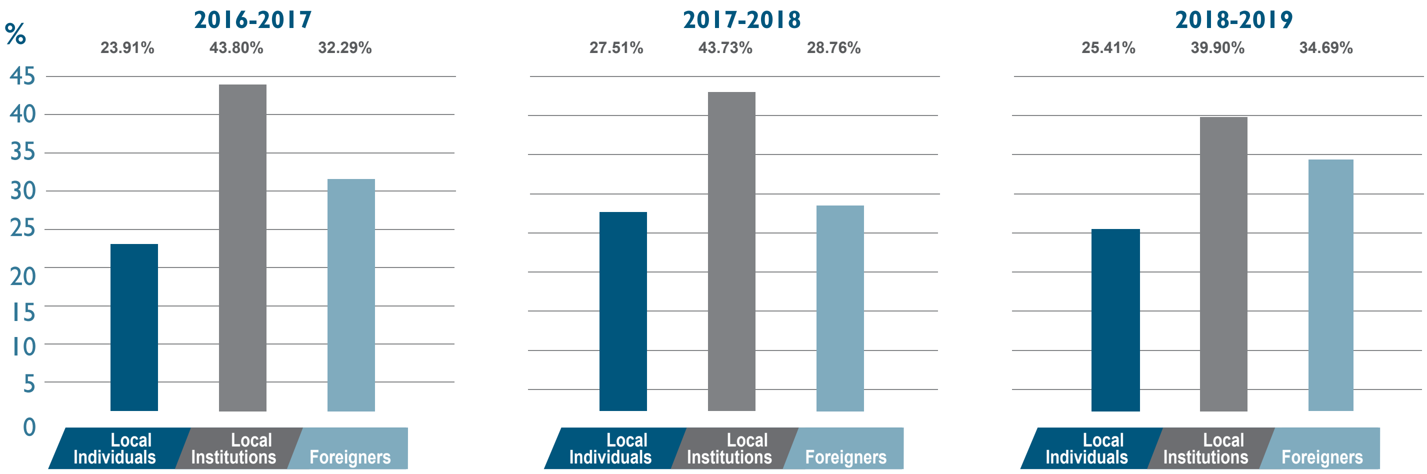
NUMBER OF CLIENTS ACCOUNTS IN CDS



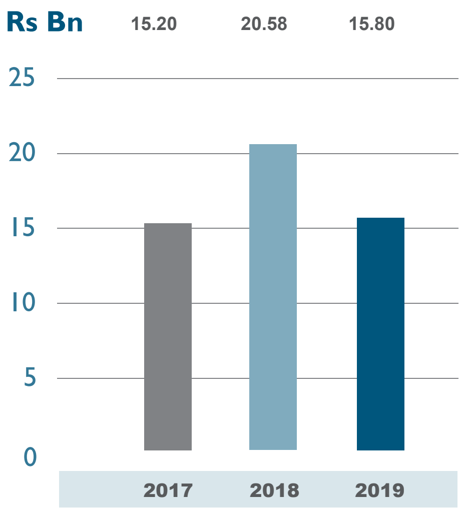
NUMBER OF TRADES CLEARED AND SETTLED



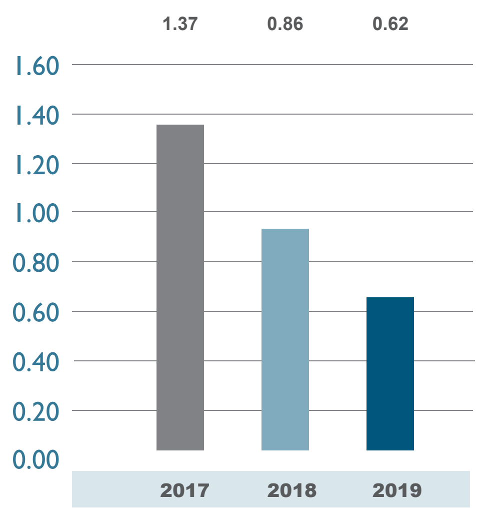
BREAKDOWN OF VALUE OF TRADES CLEARED AND SETTLED



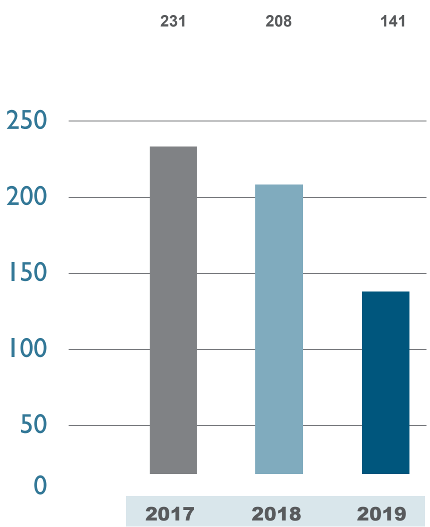
VALUE OF TRADES CLEARED AND SETTLED (in Billion)



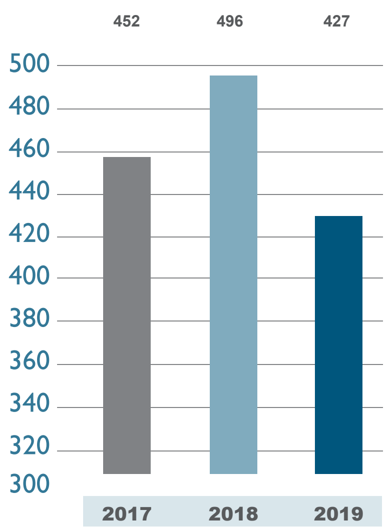
VOLUME OF SECURITIES CLEARED AND SETTLED (in Billion)



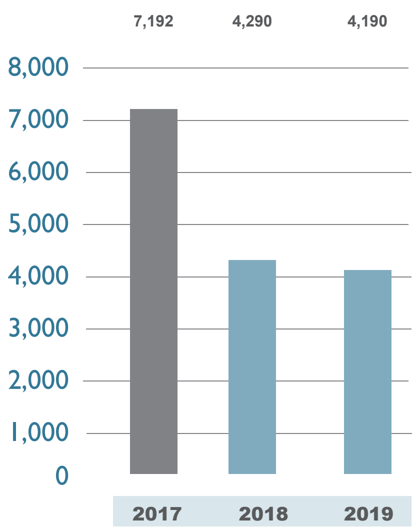
NUMBER OF WITHDRAWALS PROCESSED



NUMBER OF PLEDGES PROCESSED



NUMBER OF DEPOSITS PROCESSED



CORPORATE GOVERNANCE REPORT

1.0 STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR MAURITIUS (2016)

This report describes the governance measures that have been implemented by the Central Depository & Settlement Co. Ltd (CDS) during the financial year 2018-2019 and complies with the requirements of Section 20(1)(a) of the Securities Act 2005. Throughout the year ended 30th June 2019, to the best of the Board's knowledge the Company has complied with the Code of Corporate Governance for Mauritius (2016) in the manner set out in this report. The Company has applied all of the principles set out in the Code and explained how these principles have been applied. Matters relating to risk management, internal control and audit are covered in the Risk Management Report and the Directors' Report.

2.0 GOVERNANCE STRUCTURE

The Board of the CDS assumes responsibility for leading and controlling the Company and meeting all legal and regulatory requirements. The Board Charter, Code of Corporate Behaviour, Position Statements of Chairperson and Company Secretary, Job Description of Management Team, and Organisational Chart have been approved by the Board. These documents and the constitution of the company are available on the website of the CDS.

The Managing Director performs the following main duties:

a) Lead the management team;
b) Make recommendations to the Board regarding strategic issues;
c) Oversee management activities and human resources;
d) Responsible for overall operations, cost control, risk management and development of the company;
e) Manage legal and regulatory issues;
f) Responsible for the implementation of Board decisions and policies;
g) Interact with government and relevant institutions in the financial sector;
h) Promote the Company on the international scene;
i) Provide consultancy services to African stock exchanges and depositories.

3.0 THE STRUCTURE OF THE BOARD AND ITS COMMITTEES

3.1 SIZE AND COMPOSITION OF THE BOARD

The Company has a unitary Board composed of 10 directors as follows:

- 5 directors appointed by the SEM;
- 1 director appointed by the Minister to whom the responsibility of Financial Services is attributed;
- 1 director appointed by the Bank of Mauritius;
- 2 directors appointed by ordinary resolution at the annual meeting of shareholders (and where the SEM is not entitled to vote on any resolution appointing such 2 directors);
- 1 Managing Director.

The title, function and role of the Chairperson is separate from that of the Managing Director. The status of directors and their attendance at Board meetings during the year under review are provided in the Table below.

Table 1

Name	Status	No. of meetings attended
Mr Nitish Benimadhu	Chairperson, Non-Executive (appointed by SEM)	5/5
Ms Aruna Radhakeesoon	Vice-Chairperson, Non-Executive (appointed at annual meeting)	4/5
Mrs Reedhee Bhuttoo	Non-Executive (appointed by SEM)	2/5
Mr André Chung Shui	Non-Executive (appointed by SEM)	5/5
Mr Steve Leung Sock Ping	Non-Executive (appointed at annual meeting)	5/5
Dr Ashwin Kumar Madhou	Independent (appointed by Bank of Mauritius)	0/1 *(up to 27/09/2018)*
Mr Vipin Y.S Mahabirsingh	Executive	5/5
Dr Ashwin Moheeput	Independent (appointed by Bank of Mauritius)	4/4 *(as from 28/09/2018)*
Mr Rishianandsingh Moorut	Independent (appointed by Minister of Financial Services and Good Governance)	5/5
Mr Kevin Rangasami	Non-Executive (appointed by SEM)	5/5
Mr Jaiyansing Soobah	Non-Executive (appointed by SEM)	4/5

The Company has only one executive director. The Board is of the view that due to the relative small size of the Company, there is no need to appoint a second executive director. Moreover, directors may have access to departmental managers.

The Corporate Governance Committee of CDS has in the past reviewed the blend of skills and experience needed by the CDS so that the Board can discharge its responsibilities effectively and has assessed the availability of these skills with respect to the composition of the Board. The blend of knowledge, skills and experience identified include the following: IT; Company Secretary; Investment Dealer; Legal; Risk Management; Banking; Finance/Investment; Accountancy; and Economics. The members of the Board and of the Board Committees do have the appropriate balance of skills, experience and knowledge of the organization to enable them to discharge their respective duties and responsibilities effectively.

There is diversity, including gender, on the Board and Board committees of CDS. In line with section 9 of the Equal Opportunity Act 2008 and the Guidelines issued by the Equal Opportunities Commission pursuant to Section 27(3)(f) of the Act, CDS has adopted an Equal Opportunity Policy with a view to minimizing the risks of discrimination and to promoting recruitment, training, selection and employment on the basis of merit.

The number of directors of CDS was previously reduced from 15 to 10 after an assessment of the optimal size of the Board. Based on the size of the organisation, turnover and the activities carried out by CDS, a Board comprising 10 members is sufficient to meet the requirements of the business.

The secretary of the Company is Mr Chaitanand Jheengun (F.C.I.S). The Position Statement for the Company Secretary has been approved by the Board.

3.2 BOARD COMMITTEES

The Board of CDS is ultimately responsible and accountable for the performance and affairs of the organization. Board committees have been established to assist the Board to discharge its duties effectively and there are transparent procedures for committees to report to the Board. The Board has constituted the following committees to facilitate efficient decision making and to assist it in the execution of its duties and responsibilities: Business Conduct Committee; Audit Committee; Corporate Governance Committee; Remuneration Committee and Investment Committee. The terms of reference of these Committees have been determined and approved by the Board and are posted on the website of the Company. The Corporate Governance Committee also has the responsibilities of a Nomination Committee. A separate Risk Committee has not been set up since the Business Conduct Committee, which was set-up at the inception of CDS in accordance with its Rules, already covers the functions of the Risk Committee. The work done by the Business Conduct Committee is covered in the Risk Management Report.

AUDIT COMMITTEE

The composition of the Audit Committee as at 30th June 2019 was as follows:

Chairperson:	Mr André Chung Shui
Members:	Mrs Reedhee Bhuttoo
	Mr Kevin Rangasami
Secretary:	Mr Chaitanand Jheengun

The main responsibility of the Audit Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The attendance of members at the meetings of the Audit Committee for the year under review is given in Table 2 below.

CORPORATE GOVERNANCE COMMITTEE

The composition of the Corporate Governance Committee as at 30th June 2019 was as follows:

Chairperson: Ms Aruna Radhakeesoon
Members: Mr Steve Leung Sock Ping
Mr Kevin Rangasami
Secretary: Mr Chaitanand Jheengun

The Corporate Governance Committee makes recommendations to the Board on all corporate governance measures to be adopted so that the Board remains effective and complies with prevailing corporate governance principles. It also oversees the CSR activities of the Company. The Committee ensures that the reporting requirements with regard to corporate governance, whether in the annual report or on an ongoing basis, are in accordance with the principles of the Code of Corporate Governance. Last year, a Joint SEM/CDS Committee was set up under the leadership of the Chairperson of the Corporate Governance Committee of CDS to assess the compliance of CDS and SEM with new Code of Corporate Governance for Mauritius (2016) and to facilitate the implementation of the principles of the Code at CDS and SEM.

The attendance of members at the meeting of the Corporate Governance Committee for the year under review is given in Table 2 below.

REMUNERATION COMMITTEE

The composition of the Remuneration Committee as at 30th June 2019 was as follows:

Chairperson: Mr Nitish Benimadhu
Members: Ms Aruna Radhakeesoon
Mr Steve Leung Sock Ping

The Remuneration Committee determines the annual salary increases and the performance bonus of employees of the Company. The Committee makes recommendations to the Board regarding the remuneration of the Managing Director and Non-Executive Directors.

The attendance of members at the meeting of the Remuneration Committee for the year under review is given in Table 2 below.

INVESTMENT COMMITTEE

The composition of the Investment Committee as at 30th June 2019 was as follows:

Chairperson: Mr Nitish Benimadhu
Members: Mr André Chung Shui
Mr Vipin Mahabirsingh

The Investment Committee sets investment guidelines within which funds generated by the Company are invested. Investment decisions are then made by management based on the guidelines. The decisions of management do not need to be approved by the Investment Committee as long as they comply with the investment guidelines. Any proposed deviation from the Investment Guidelines must be approved by the Committee. The Investment Committee is kept informed of the investment decisions taken via electronic mail.

The attendance of members at the meeting of the Investment Committee for the year under review is given in Table 2 below.

Table 2: Attendance at Meetings of Board Committees

NAME	AUDIT COMMITTEE	CORPORATE GOVERNANCE COMMITTEE	REMUNERATION COMMITTEE	INVESTMENT COMMITTEE
Mr Nitish Benimadhu			1/1	0/1
Ms Aruna Radhakeesoon		1/1	1/1	
Mrs Reedhee Bhuttoo	3/3			
Mr André Chung Shui	3/3			1/1
Mr Steve Leung Sock Ping		1/1	1/1	
Mr Kevin Rangasami	2/3	1/1		
Mr Vipin Mahabirsingh				1/1

4.0 DIRECTOR APPOINTMENT PROCEDURES

The Board assumes responsibility for succession planning and for the appointment and induction of new directors to the Board. With the exception of the Managing Director, all directors have a term of office of one year. The non-executive directors are elected/ re-elected/ appointed/ re-appointed every year at the Annual Meeting, pursuant to the provisions of the Constitution of the Company. Before the Annual Meeting a letter is addressed to all shareholders, other than SEM, requesting them to nominate a candidate as prospective director for the election of directors at the next Annual Meeting. A resolution for the election of directors is forwarded to all shareholders with the notice of the Annual Meeting, together with a brief of prospective directors. The Annual Report contains details of each director. The election of non-executive directors, if the need arises, is carried out by ballot pursuant to the provisions of the Constitution. The SEM does not vote for the election of directors. Other non-executive directors, nominated by SEM, Bank of Mauritius and the Minister of Financial Services and Good Governance as per the Constitution of the company, are re-appointed/ appointed at the Annual Meeting following a review of their short biography by the Corporate Governance Committee.

An induction pack including an overview of CDS and the latest annual report is provided to new directors.

Succession planning for senior management positions is discussed annually at the level of the Remuneration Committee.

A short profile of each director is provided in the table below.

DIRECTORS	KEY POSITION AND MAIN DIRECTORSHIP
Nitish Benimadhu *BSc (Hons.) Economics* *MA Economics*	Chief Investment Officer, SWAN Group Director, The Stock Exchange of Mauritius Ltd Director of a number of companies in various sectors of the economy
Aruna Radhakeesoon (Ms) *Attorney-at-law, Mauritius* *Solicitor, England & Wales (NP)* *BA (Hons) Jurisprudence, Oxon* *F.MIoD*	Executive Director & Chief Legal and Compliance Executive, Rogers and Company Limited Director: Mauritius Development Investment Trust Company Limited Chairman: National Committee on Corporate Governance Member: MIoD Forum The Law Society of England & Wales The Mauritius Law Society
Reedhee Bhuttoo (Mrs) *BA (Hons.) Economics*	Head, SBM Capital Markets Ltd Director, The Stock Exchange of Mauritius Ltd
André Chung Shui *BSc (Economics)* *Fellow of the Institute of Chartered Accountants in England & Wales* *F.MIoD*	Director, The Stock Exchange of Mauritius Ltd Director, Klumph Consultants Ltd
Steve Leung Sock Ping *Fellow of the Institute of Chartered Secretaries & Administrators (FCIS)* *F.MIoD*	Head of Quality Assurance, The Mauritius Commercial Bank Ltd
Ashwin Moheeput *BSc (First Class Hons) Economics* *MSc Economics* *PhD Economics*	Chief, Financial Stability Division, Bank of Mauritius

DIRECTORS	KEY POSITION AND MAIN DIRECTORSHIP
Vipin Y.S. Mahabirsingh *B.Tech (First Class, Hons) Electronic Engineering* *M.Phil Microelectronic Eng.* *MBA (with distinction)* *F.MIoD*	Managing Director, CDS Trustee, Metropolitan (Mauritius) Private Pension Plan
Rishianandsingh Moorut *MBA (Finance)* *BA (Hons) in Banking with Economics and Law*	Senior Administrator, Alexander Management Services Ltd Director, SICOM Ltd
Kevin S. Rangasami *Fellow of the Association of Chartered Certified Accountants* *MBA*	Managing Director, MCB Stockbrokers Ltd Director, The Stock Exchange of Mauritius Ltd
Jaiyansing S. Soobah *Fellow of the Association of Chartered Certified Accountants* *MBA*	Group Company Secretary, Swan Group Director: The Stock Exchange of Mauritius Ltd Director of a number of companies of Swan Group

5.0 DIRECTOR DUTIES, REMUNERATION AND PERFORMANCE

Directors of the CDS are aware of their legal duties. A Code of Corporate Behaviour that sets out the standards of behaviour that all directors and employees of CDS are expected to uphold in conducting the company's business, is in place at CDS. As per its Terms of Reference, the Corporate Governance Committee is responsible for reviewing any statements on ethical standards or requirements for the company and assisting in developing such standards and requirements and for the identification of any violations of ethical conduct. The Code of Corporate Behaviour contains procedures for reporting breaches of the Code and complaints regarding behaviour of directors or employees to the Corporate Governance Committee. The Board also monitors and evaluates compliance with the Code of Corporate Behaviour and no breach was observed during the year under review.

The conflicts of interest policy of the company is incorporated in the Board Charter, Code of Corporate Behaviour and Terms of Reference of the Corporate Governance and Audit Committees. As per its Terms of Reference, the Corporate Governance Committee can give recommendations on any potential conflict of interest and the Audit Committee has the responsibility of directing and supervising investigations into matters relating to conflicts of interest. The letter of appointment for non-executive directors also contains a specific clause to draw the attention of new directors on the disclosure of conflicts of interest. The Company Secretary maintains an interests register that is available for consultation to shareholders.

An Information Security Policy approved by the Board, has been implemented at CDS. This document defines the responsibilities relating to the management of the Information Technology (IT) systems of the CDS and the procedures to be followed by employees as well as by remote users (investment dealers, custodian banks, Financial Services Commission, Bank of Mauritius and registries) when using the IT systems of the company. The IT Security Policy is based on the ISO 27001:2013 standard and the document was last reviewed in March 2019. The documents relating to the IT systems of the CDS (including the Disaster Recovery Plan) that should be maintained by the company are set out in the IT Security Policy.

All significant expenditures on information technology are provided for in the annual budget that has to be approved by the Board before the start of the financial year.

Board meetings are generally held every two months and are convened by formal notice. A detailed agenda together with a comprehensive board pack are circulated to directors at least a week before board meetings. Management accounts are circulated to directors by email on a monthly basis and directors can request information regarding the affairs of the company, from the management at any time.

As per section 3(7) of the Securities (Central Depository, Clearing and Settlement) Act 1996, all the directors and employees of the CDS have taken an oath of confidentiality.

A directors' and officers' liability insurance policy has been subscribed to by the Company. This policy provides cover for the risks arising out of acts or omissions of the directors and officers of the Company but excludes claims for any deliberately fraudulent act or omission or any wilful violation of any statute or regulation

Related Party Transaction

CDS has a contract with its holding company (SEM) for the technical management of the Automated Trading System and for other IT services. The fees for the IT outsourcing services provided to the SEM for the year ended 30th June 2019 amount to Rs 1,341,000 plus VAT.

Performance

In accordance with section 3.5 of the CDS Board Charter, a survey was carried out among directors of CDS to evaluate the overall performance of the Board. The Board Self-Evaluation Questionnaire was sent to all non-executive directors of CDS on 28th August 2018. Directors were requested to return the completed questionnaire by 25th September 2018. The questionnaire covered the following main areas:

A Board Meetings
B Board Structure And Composition
C Leadership Of The Board
D Board Functions
E Board Committees
F Planning And Objectives
G Risk Assessment
H Human Resources And Succession Planning
I Financial And Operational Reporting
J Compliance And Ethical Framework

7 out of 9 directors have responded to the questionnaire and the response to all 25 questions was either "meets objectives" or "exceeds objectives" for a majority of the 7 directors who responded.

The Board Self-Evaluation exercise is conducted once every two years as per section 3.5 of the CDS Board Charter.

Remuneration

The Remuneration Committee makes recommendations to the Board regarding the remuneration of the Managing Director and Non-Executive Directors A fixed monthly fee as well as an attendance fee is paid to directors of the Company. An additional fee is paid to directors who are members of Board Committees for each meeting of the respective Board committee that they attend. The Managing Director is not remunerated for attending Board and Committee meetings. The remuneration received by each director during the year under review are provided in the table below

NAME	REMUNERATION RECEIVED (RS)
Mr Nitish Benimadhu	250,800
Ms Aruna Radhakeesoon	178,200
Mrs Reedhee Bhuttoo	103,000
Mr André Chung Shui	163,600
Mr Steve Leung Sock Ping	135,400
Dr Ashwin Kumar Madhou	13,200
Dr Ashwin Moheeput	93,200
Mr Vipin Y.S Mahabirsingh	5,460,000 *
Mr Rishianandsingh Moorut	119,800
Mr Kevin Rangasami	143,200
Mr Jaiyansing Soobah	106,400

* For the Managing Director, the total remuneration consists of Short Term Benefits of Rs 4,757,000 and Post Employment Benefits of Rs 703,000.

Dealing in Shares by the Directors

There was no dealing in the shares of the Company by the directors for the year under review.

Common directors and their percentage shareholding

The table below gives the names of the common Directors of CDS and its holding Company (SEM), together with the shareholding percentages of the shareholders they represent:

NAME OF DIRECTORS	SHAREHOLDERS' NAMES	% Holding in CDS	% Holding in SEM
Mr Nitish Benimadhu	Swan Life Ltd	-	15.0%
Mr Jayansing Soobah	Swan General Ltd	3.33%	7.5%
Mrs Reedhee Bhuttoo	SBM Capital Markets Ltd	3.33%	4.83%
Mr André Chung Shui	Newton Securities Ltd	-	5.76%
Mr Kevin Rangasami	MCB Stockbrokers Ltd	-	5.44%

6.0 RISK GOVERNANCE AND INTERNAL CONTROL

The Board is responsible for the governance of risk and for determining the nature and extent of the principal risks it is willing to take in achieving its objectives. Given the specific nature of the activities of the CDS and the requirements of Section 20(4) of the Securities Act 2005, the risk management and internal control framework of the company is set out in the Risk Management Report that forms part of the Annual Report.

7.0 REPORTING WITH INTEGRITY

Company law requires directors to prepare financial statements for each financial year which present fairly the financial position, financial performance, changes in equity and cash flows of the Company. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2001. They are also responsible for safeguarding the assets of the Company and hence for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and errors, as well as an effective risk management system.

The five latest annual reports of the CDS are published on the website of the Company.

7.1 CORPORATE SOCIAL RESPONSIBILITY

The CDS has been supporting the Association of Disability Service Providers (ADSP) under its CSR programme since 2007. ADSP operates a specialised school for disabled children and thanks to our support it has significantly improved its infrastructure and the services it offers to its students over the years. This year, the Corporate Governance Committee of CDS decided to support other NGOs registered with the National CSR Foundation as ADSP has other sources of income that allow it to cover its expenses.

Li Zie Dans La Main, Union Des Aveugles De L'Ile Maurice

This NGO provides facilities for the education of visually impaired persons. It aims to ensure that visually impaired children have access to the appropriate education depending on their needs so that they are integrated in the society as per the Sustainable Development, which promote the inclusion of the disabled persons. CDS donated Rs 202,224 to Li Zie Dans la Main to provide allowances for four educators and one administrative staff, and vehicle children to and from their home to school for a period of three months.

Friends in Hope

This NGO operates a day care and rehabilitation centre where necessary therapies, activities and workshops are delivered in view of improving the life of mentally ill people. CDS donated Rs 248,848 to Friends in Hope to cover the costs for employing one Registered Mental Nurse (RMN) for a period of three months as from March 2019.

The CSR Fund of CDS for the financial year 2018-2019 amounted to Rs 974,145 and a maximum of Rs 487,073 could be donated to NGOs registered with the National CSR Foundation.

7.2 PROTECTION OF THE ENVIRONMENT

The Company has implemented the following actions to contribute to the protection of the environment by minimizing the use of paper:

i. Sending statements of accounts by electronic mail rather than by post to account holders who choose this option (around 16,500 statements were sent by e-mail for the month of June 2019);
ii. Sending Board and Committee papers by electronic mail to directors who choose this option;
iii. Making efficient use of paper by printing on both sides; and
iv. Sensitising employees to use consumables efficiently and print mails and documents only when necessary.

7.3 POLITICAL DONATIONS

No political donation was made by the Company for the year under review.

7.4 HR ISSUES

Labour cost represented about 56% of the Company's total operating expenses for 2018 -2019. The Company recognizes the importance of its human capital in sustaining its smooth operations and growth. The Company's remuneration philosophy is to pitch its pay policy at the market average. The Company has a stable workforce with very low turnover.

The Company has also implemented a number of measures to promote the welfare of its staff. These include car grant scheme, car loan scheme and soft loans to cater for specific needs. Training courses are provided to employees on a regular basis to enhance their skills. Financial assistance is also given to staff taking professional or tertiary courses. Managers and executives are given the opportunity to attend international conferences and training programmes.

The Company complies with the provisions of the Occupational Safety and Health Act 2005 regarding the safety and health of its employees. There was no complaint on this matter for the year under review.

7.5 EQUAL OPPORTUNITY POLICY

In line with section 9 of the Equal Opportunities Act 2008 and the Guidelines issued by the Equal Opportunities Commission pursuant to Section 27(3)(f) of the Act, CDS has adopted an Equal Opportunity Policy with a view to minimizing the risks of discrimination and to promoting recruitment, training, selection and employment on the basis of merit. There was no complaint on these matters for the year under review.

8.0 AUDIT

Matters relating to internal and external audit are dealt with in the Risk Management Report and the Directors' Report that form part of the Annual Report.

9.0 RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS

The shareholders of CDS are listed in the table below.

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE HOLDING
The Stock Exchange of Mauritius Ltd	76,500	51.00%
The Mauritius Commercial Bank Ltd	25,000	16.67%
Rogers and Company Ltd	20,000	13.33%
Promotion & Development Limited	10,000	6.67%
SBM Capital Markets Ltd	5,000	3.33%
Swan General Ltd	5,000	3.33%
United Docks Ltd	2,500	1.67%
Harel Mallac & Co. Ltd	2,500	1.67%
State Investment Corporation Ltd	2,000	1.33%
Automatic Systems Ltd	1,000	0.67%
Harel Mallac Technologies Ltd	500	0.33%
	150,000	100%

Any change in the ownership of shares of the Company is subject to restrictions and limitations set out in the Constitution of the Company.

Annual meetings are held within 3 months from the end of the financial year and the notice of the annual meeting is sent to shareholders at least 14 days before the meeting in accordance with the Companies Act 2001.

The key stakeholders of the Company are as follows: Ministry of Financial Services, Good Governance and Institutional Reforms; Financial Services Commission; Stock Exchange of Mauritius Ltd; Bank of Mauritius; Investment Dealers; Custodian Banks; and Company Registries. Regular meetings are held with stakeholders to discuss matters of common interest. Investment Dealers, Custodian Banks, Company Registries and SEM are consulted prior to amendments to Rules and Procedures. Such consultations take place by email as well as discussions at the level of the Consultative and Informative Committee and the Clearing and Settlement Advisory Committee. Regular meetings are also held with the Financial Services Commission to discuss market development initiatives.

10.0 DIVIDEND

The dividend policy of the CDS is to distribute around 60% of its Profit after Tax as dividend. The objective of the Company is to provide an acceptable return to its shareholders whilst at the same time continuing to build up its reserves to ensure business continuity and provide a shock absorber to cover the ultimate risk of default in the event that the resources of the Guarantee Fund are exhausted.

The Board maintained the above dividend policy and declared a dividend equal to Rs 22.2 M (Rs 148 per share) for the year ended 30th June 2019.

Chaitanand Jheengun (FCIS)
Company Secretary

Risk Management Report

RISK MANAGEMENT FRAMEWORK

The ability to identify, monitor, measure and manage risks on an ongoing basis is crucial for a central depository, clearing and settlement organisation. Over the years, the Central Depository & Settlement Co. Ltd (CDS) has developed a comprehensive risk management framework to manage the different types of risks that arise in or are borne by a central depository, clearing and settlement organisation, namely: legal risk; credit (counterparty) risk; liquidity risk; systemic risk; general business risk; investment risk; and operational risk. The Board of the CDS is responsible for the governance of risk and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. This report describes the risk management and internal control policies, procedures and systems that are in place at the CDS and their application during 2018-2019, and complies with the requirements of Section 20(4) of the Securities Act 2005.

The main pillars of the risk management framework implemented by the CDS are as follows:

- Clear, transparent and enforceable rules and procedures that are consistent with the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007
- The Business Conduct Committee
- Capital Adequacy Requirements for Participants
- Settlement on a strict delivery versus payment basis
- Prevention of Settlement Failures and Guarantee Fund Mechanism
- Securities Lending and Borrowing
- System of Internal Controls
- External Audit of the System of Internal Controls
- Internal Audit of Operations and Systems Departments
- Disaster Recovery Plan
- IT Security Audit
- Financial Controls
- Investment Committee
- Strong and liquid balance sheet

ELIGIBLE SECURITIES DEPOSITORY UNDER US INVESTMENT COMPANY ACT

The CDS qualifies as an Eligible Securities Depository under the US Investment Company Act Rule 17f-7. This rule requires US registered investment companies to hold their securities only in Eligible Securities Depositories to reduce risks associated with offshore investments. Rule 17f-7 of the US Investment Company Act sets forth the following six criteria for the determination that a depository is "eligible" to hold assets of a U.S. or Canadian domiciled investment company:

1. Acts as or operates a system for the central handling of securities or equivalent book-entries in the country where it is incorporated, or a transnational system for the central handling of securities or equivalent book-entries;
2. Is regulated by a foreign financial regulatory authority;

3. Holds assets for the custodian that participates in the system on behalf of the fund under safekeeping conditions no less favourable than the conditions that apply to other participants;

4. Maintains records that identify the assets of each participant, and segregate the system's own assets from the assets of participants;

5. Provides periodic reports to its participants with respect to its safekeeping of assets, including notices of transfers to or from any participant's account; and

6. An eligible securities depository must undergo periodic examination by regulatory authorities or independent accountants.

The CDS meets the above six criteria.

THE BUSINESS CONDUCT COMMITTEE

Since its inception in 1997 and in accordance with section 1.4 of the CDS Rules, the CDS has set up a Business Conduct Committee (BCC) with the following mandate:

1. Recommend the adoption of a risk management policy to the Board of Directors
2. Monitor the operations relating to risk management issues
    - 2.1 Ensure enforcement of the risk management policy being adopted
    - 2.2 Ensure compliance with the requirements of Rule 3.8.7 with regard to the review of internal control
3. Monitor the operations relating to the Guarantee Fund
4. Hear complaints from aggrieved Participants who claim to be adversely affected by any decision of CDS with respect to CDS operations in accordance with Rule 2.4
5. Make recommendations to the Board of Directors of CDS with respect to Participation Applications in accordance with Rule 2.2.4 and to Termination in accordance with Rule 2.3.3.

As per section 1.4.2 of the CDS Rules, the Business Conduct Committee is composed of a majority of members who are not members of the Board of CDS, nor Participants or related to Participants, and not employed by a Participant. The quorum for meetings of the Business Conduct Committee is three with at least two independent members. The composition of the Business Conduct Committee as at 30th June 2019 was as follows:

Chairperson: Mr Tega Appavou
Members: Mr Ashish Jagarnath
Mr James Leung Yin Kow
Mr Vikash Tulsidas

The Finance & Administration Manager of CDS is the Secretary of the Business Conduct Committee which meets on a monthly basis to review and discuss the following issues:

- Financial Resource Requirements returns submitted by Participants
- Statement of assets and liabilities of the Guarantee Fund
- Settlement Limits of Participants
- Internal audit report
- Audited and unaudited accounts of Participants
- Statistics on operations

The attendance of members at the meetings of the BCC held during the year under review was as follows:

NAME	NO. OF MEETINGS ATTENDED
Mr Tega Appavou	10/11
Mr Pierre Dinan	6/6 *(up to 31.01.2019)*
Mr Ashish Jagarnath	11/11
Mr James Leung Yin Kow	5/5 *(as from 01.02.2019)*
Mr Raj Tapesar	10/10 (from 01.07.2018 to 31.05.2019)
Mr Vikash Tulsidas	10/11

CHANGE IN PARTICIPANTS

During the year under review, Redwood Finance Ltd (RFL) submitted its application to become a Participant of CDS as an investment dealer. The application was submitted together with certified true copies of the relevant documents. RFL holds an Investment Dealer (Full Service Dealer excluding Underwriting) issued by the Financial Services Commission. Given that RFL satisfied the eligibility criteria and standards of participation set out in CDS Rule 2.1, the Board approved its participation application as recommended by the Business Conduct Committee in accordance with CDS Rule 2.2.4. RFL started operating as a CDS Participant in April 2019.

Prime Securities Limited (PSL) ceased to be a Participant of CDS as from 14th July 2019 after giving thirty days' notice to in accordance with section 2.3.5 of the CDS Rules. The securities accounts of all clients of PSL were transferred to another investment dealer prior to that date. PSL's contribution to the Guarantee Fund was returned to it in accordance with section 6.2.3.1 of the CDS Rules.

CAPITAL ADEQUACY REQUIREMENTS FOR PARTICIPANTS

The CDS has set up capital adequacy requirements for its Participants as a first line of defence against risk. An assessment of the stability and financial health of Participants in the clearing and settlement services provides an important indication of potential trouble. The CDS has implemented a set of rules on conditions for participation called Financial Resource Requirements. These rules require each investment dealer to have sufficient adjusted liquid capital to cover its fixed expenditure base requirements and risk (position, counter party and foreign exchange) requirements. Investment dealers are required to submit monthly returns so that CDS can monitor compliance with the Financial Resource Requirements (FRR). These returns are analysed by the BCC at its monthly meetings. Copies of the FRR returns are also filed with the Financial Services Commission.

All the FRR returns submitted by investment dealers during the year 2018 – 2019 showed Capital Surpluses.

DELIVERY VERSUS PAYMENT

The CDS has eliminated principal risk with respect to transactions effected on the Stock Exchange of Mauritius, by performing the settlement of transactions on a strict delivery versus payment basis. There is no risk that a CDS Participant delivers securities but does not receive payment or vice-versa. Trades executed on the Automated Trading System (SEMATS) are automatically fed into the CDS system and the relevant securities accounts are updated on a real-time basis. On trade day, the seller's securities account shows a Sale-in-Suspense and the traded securities are blocked in this account. The buyer's securities account shows a Purchase-in-Suspense but the securities are not transferred to this account. On settlement date, funds transfer between the seller's and buyer's Participants takes place at a cut-off time on a net basis through the Participants' settlement banks and the Bank of Mauritius. When funds settlement is completed by final and irrevocable transfer in the books of the Bank of Mauritius, the latter sends a confirmation message to CDS which then immediately transfers the securities by debiting the seller's securities account and crediting the buyer's securities account. The securities are delivered to the buyer if and only if the CDS receives confirmation of settlement of the cash leg from the central bank. Conversely, if the buyer makes payment, the delivery of the securities is guaranteed since the securities have already been blocked in the securities account of the seller.

GUARANTEE FUND

In accordance with Section 3(8)(a) of the Securities (Central Depository, Clearing and Settlement) Act 1996, the CDS has set up a Guarantee Fund for the purpose of providing an indemnity against any default in respect of payments for or delivery of securities and of obligations of Participants towards CDS. The Guarantee Fund is used to guarantee the settlement of transactions in the event of a default by a Participant. In such a situation, the Guarantee Fund steps into the net settlement mechanism and makes good the obligation of the defaulting Participant. The Guarantee Fund will seize the unpaid securities and sell these back on the market in order to replenish itself. The Guarantee Fund acts as a shock absorber in the event of a settlement failure and thus prevents the market from collapsing through systemic effect. The Guarantee Fund contributes to maintain confidence in the stock market.

It is important to note that to date there has never been any failed trade in the CDS.

The Fund is constituted of cash contributions by investment dealers and CDS, as well as Letters of Credit/ Deposits provided by investment dealers. The CDS contributed an amount of Rs 221,723 to the Fund in 2018–2019 (Rs 301,557 in 2017-2018). The assets of the Fund are segregated from those of the CDS (separate bank accounts) and are available only for the purpose of the Fund as required by law. The Fund is independently managed by the Business Conduct Committee. The assets of the Fund are only invested in low-risk liquid instruments. The size of the Fund as at 30th June 2019 was as follows:

Cash contributions: Rs 34,044,438 (Rs 33,877,088 as at 30th June 2018).
Letters of Credit/Deposits submitted by investment dealers: Rs 29,970,432 (Rs 28,061,000 as at 30th June 2018)

The Fund can also have recourse to a standby line of credit of Rs 50 M from its banker.

RISK CONTROLS TO ADDRESS FUNDS SETTLEMENT FAILURES

Each investment dealer has a settlement limit that is based on the amount of collateral (cash and letters of credit) submitted to CDS. The minimum amount of the collateral required for an investment dealer is based on the moving average of its cumulative liability over the past 12 months. CDS monitors the settlement obligation of each investment dealer on a daily basis. If at the close of trading, the net cumulative liability (total amount of unsettled obligations over a period of three days) of an investment dealer exceeds its settlement limit, the investment dealer is required to submit additional collateral before being allowed to buy more securities during the next trading session.

During the year 2018–2019, there were 11 cases where the settlement limits of investment dealers were exceeded (14 cases in 2017-2018). In each case, the relevant investment dealer submitted the required collateral on the next business day after the limit was exceeded.

If an investment dealer fails to meet its settlement obligations, the CDS will have recourse to its Letter of Credit and to the Guarantee Fund to meet the investment dealer's obligations and complete the settlement of transactions. The Stock Exchange of Mauritius (SEM) and the Financial Services Commission will be immediately notified of the funds settlement failure.

There was no funds settlement failure during the year under review.

RISK CONTROLS TO ADDRESS SECURITIES DELIVERY FAILURES

When an investment dealer places a sell order for a client on the automated trading system (ATS), the system verifies that the client has previously deposited or purchased the securities that it wishes to sell, before accepting the sell order in the order book. However, the ATS allows an investment dealer to place a bulk order without indicating the clients' accounts. After the execution of the bulk order, the investment dealer will then allocate the trades to its clients. The CDS system automatically checks the securities balance each time a trade is allocated to a client's account. In case of insufficient balance in the client's account, the system will not allow the investment dealer to allocate the sale to that client. In such a situation, the trade is automatically posted to the account of the investment dealer that must now deliver the securities. If the investment dealer does not hold the securities, its proprietary account will show a negative balance.

When an investment dealer buys or sells securities for the client of a custodian bank, the transaction is subject to the confirmation of the latter. A situation that may lead to a negative balance in an investment dealer's account is when a custodian bank does not accept a sale that has been allocated to its client's account by the investment dealer. In such a case, the sale is allocated to the proprietary account of the investment dealer and this account will show a negative balance if the investment dealer does not hold the securities that must be delivered.

CDS monitors whether there are any negative balances in the proprietary accounts of investment dealers on a daily basis. Any negative balance in the securities account of an investment dealer must be rectified before 9:00 a.m on T+3 by re-allocating the trade to another client or by borrowing the securities through the securities loan service of CDS. If the investment dealer still does not have securities in the account at 9:00 a.m on T+3, the trade is temporarily suspended and a buy-in procedure is initiated. The SEM and FSC are immediately notified. The investment dealer is required to make a cash deposit of 50% to CDS and pay a daily fine of 0.20% of the value of the securities (marked to market daily) until the buy-in is completed or the situation is corrected. CDS may abort the buy-in procedure in the following circumstances:

1. The Custodian Bank confirms the trade after T+3, 9:00 a.m and such confirmation is submitted to CDS before T+5, 9:00 a.m.
2. The defaulting investment dealer reports to CDS a loan transaction to settle the trade and the duly completed CDS Loan Forms reach CDS by T+5, 9:00 a.m.

When buy-in is aborted, the original failed trade together with all turnaround trades (see next section) linked to it will be reinstated and will be settled on the next Business Day. In such a situation, CDS will return the cash deposit to the defaulting investment dealer.

When buy-in is completed, notwithstanding whether it is successful or not, the CDS will use the cash deposit to compensate all the buyers involved in each turnaround trade linked to the failed trade, except the buyers involved in the last transaction in each chain of turnaround trades, by paying them an amount equal to 50% of the difference between the price at which they bought the securities and the price at which they subsequently sold the securities.

If after 5 trading sessions the buy-in is unsuccessful, CDS will use the cash deposit to also compensate the buyers in the last transaction in each chain of turnaround trades linked to the failed trade, by paying them an amount equal to 15% of the value of the securities that remain undelivered after the buy-in and CDS will request the SEM to cancel the failed trade together will all turnaround trades linked to it.

There was no securities delivery failure during the year under review.

TURNAROUND TRADING

Following the coming into force of the Securities (Brokerage Fees for Turnaround Trades) Rules 2013, a schedule of reduced transaction fees for turnaround trades was implemented on 12th December 2013. Turnaround trading involves the selling of securities that have been purchased earlier during a trading session or during previous trading sessions before the settlement date of the initial purchase (i.e. between T and T+2 inclusive, where T is the date of the first trade), to take advantage of an upward movement in prices. Similarly an investor may purchase securities that have been sold earlier during a trading session or during previous trading sessions before the settlement date of the initial sale, to take advantage of a downward movement in price, provided that the investor had the securities in its account prior to the initial sale.1,748 turnaround trades for a total amount of Rs 288 M were cleared and settled in 2018-2019 compared to 1,790 trades for a total amount of Rs 230.5 M in 2017-2018.

SECURITIES LENDING

The securities loan service implemented by CDS allows an investment dealer that faces a potential securities delivery failure consequential to the refusal of a sale by a custodian bank, to borrow the securities from a lender (which can be another Participant or its client) and deliver the securities to the buyer/s. The failure of the trade together with any turnaround trades linked to it would thus be avoided with the execution of the loan transaction.

Even with the implementation of the securities loan service, a securities delivery failure may occur if the investment dealer that faces the failure cannot find a willing lender for the securities. In such situations, the CDS Procedures regarding buy-in and compensation described above are applied.

It should again be noted that there was no securities delivery failure during the year under review.

INTERNAL CONTROL

The CDS has implemented a system of internal controls pertaining to:

1. The recording of transactions in securities accounts;
2. The processing of transactions, including clearing and settlement, in accordance with CDS Rules and Procedures; and
3. The integrity and reliability of its data processing facilities.

The system of internal controls is implemented in the Rules and Procedures that govern the day-to-day activities of the CDS and is also integrated in the design of the computer system of CDS. Additional measures have been implemented to ensure the integrity of data and the effectiveness of the internal control system. These measures include the following:

a) Before any entry is made in the system, strict verifications are carried out against source documents and instructions.

b) The list of the authorised personnel of registries and CDS participants together with their specimen signatures and the respective powers conferred to them by their company, are kept up-to-date and are referred to when processing transactions relating to the registries and participants.

c) After posting into the system, verifications are carried out to ensure that balances are correctly updated by new validations or transactions posted. The balances of securities recorded in the system of CDS are reconciled with the figures (balances of securities held in the name of CDS) provided by registries, after the processing of each deposit and withdrawal.

d) All operations like deposits, withdrawals, transfers, pledges and trade amendments involve at least two CDS staff for control purposes. One person executes the function while the other verifies whether the function has been correctly executed.

e) A full concurrent audit is carried out to ensure that all transactions are backed up by relevant instructions and source documents.

f) A series of automated tests are performed by the Systems Department to verify the integrity of the database on a daily basis.

EXTERNAL AUDIT OF THE SYSTEM OF INTERNAL CONTROLS

The suitability and effectiveness of the system of internal controls are reviewed by external independent auditors on an annual basis. The external auditors also conduct a full operational audit at the same time. For the year ended 30th June 2019, the auditors, on the basis of the audit tests carried out, concluded that the system of internal controls of the CDS operated effectively and responded properly to the current environment. No exceptions were found by the auditors. The certificate of the auditors is included in the Annual Report.

INTERNAL AUDIT OF OPERATIONS AND SYSTEMS DEPARTMENTS

The Secretary of the Business Conduct Committee performs monthly internal audits of the functions performed by the Operations and Systems Departments of the CDS. The objective of these internal audits is to verify whether adequate control procedures are in place and also whether the CDS Rules and Procedures are complied with when performing the different functions. The results of these internal audits are reviewed by the Business Conduct Committee. No material exceptions were found by the internal auditor during the year under review.

IT SECURITY POLICY

The CDS ensures that its IT systems are secure (that is, has access controls; is equipped with adequate safeguards to prevent external intrusion; and provides audit trails), reliable and have sufficient capacity to handle expected volume growth. The CDS has implemented an IT Security Policy that defines the responsibilities relating to the management of the IT systems of the CDS and the procedures to be followed by employees of the company as well as by remote users (investment dealers, custodian banks, Financial Services Commission, Bank of Mauritius and registries) when using the IT systems of the company. The IT Security Policy is regularly updated to keep pace with latest developments regarding information security. The CDS system has industry-standard security features like:

- User and Role Based Access Control (users have accessed to the different functions available in the system based on their respective roles)
- Password controls
- Auditing features at application, operating system and database levels

At the application level, the system maintains the history of all transactions carried out. Every event that changes a balance in a securities account is recorded as a ledger entry. These ledger entries are visible in the client balance inquiry screen giving a complete transaction history. In addition any changes made to investor, security and participant details are logged and are viewable in the form of an audit trail.
The system maintains log files that contain an audit trail of all activities and functions performed on the system as well as transactions processed. These log files are verified on a daily basis.

The Stock Exchange of Mauritius Ltd (SEM) has outsourced its IT function to CDS since January 2001. This includes the technical management of the Automated Trading System (ATS). SEM and CDS have renewed the IT Outsourcing Agreement where the service provided by CDS is clearly defined in June 2019. The objective of the outsourcing is to achieve costs savings and synergies for both companies.

Investment Dealers, Custodian Banks, the Financial Services Commission and the Bank of Mauritius use the same network and telecommunications lines to access the ATS and CDS systems. Both systems use the same database servers. However, the engine of the Automated Trading System (ATS) runs on three separate servers on the same network.

Software enhancements, modifications and additions are thoroughly tested before implementation in the live environment. A formal Change Management Procedure is in place at CDS.

No breach of the IT Security Policy was observed during the year under review and the Change Management Procedure was followed for all changes that were made to the systems during 2018-2019.

IT SECURITY AUDIT

Independent external auditors with specific expertise in IT security perform a security audit of the IT systems of the CDS and SEM, once every two years. The scope of the security audit is as follows:

- Review of Security Policy
- Review of the network architecture
- Security audit of the network components like routers, firewall, switches, etc.
- Security audit of the Solaris and Windows servers and Oracle databases
- Internal vulnerability assessment
- Verifying the VPN and Wireless connections
- Non-intrusive external penetration testing
- Verification of mySEM web application and mobile app
- Review of Disaster Recovery Planning
- Verifications of PCs on our LAN

The last IT security audit was conducted in April-June 2019 by PricewaterhouseCoopers Ltd (PwC). In their report, the auditors stated that the IT infrastructure of SEM / CDS have been well designed to protect against both internal and external threats. They performed internal vulnerability assessment and external penetration testing (attacks such as dictionary attack, password cracking, denial of service among others on the web facing application,) but were not able to penetrate inside SEM / CDS network. Furthermore, the auditors noted that the recommendations made during their past assessments have been implemented to further enhance the security posture of the SEM / CDS IT environment. As part of their review, they also performed configuration review of operating systems, databases and network equipment which have been appropriately configured in line with leading practices. The report also concluded that the IT security policy and disaster recovery plan are well documented. The disaster recovery procedures are tested regularly to ensure a timely resumption of services following a major incident or disaster. The auditors also recommended improvements to the existing information security framework that can lower the risk of security compromises. The recommendations made by the auditors will be implemented within the next two financial years.

DISASTER RECOVERY PLAN

The CDS has in place a Disaster Recovery Plan (DRP) to cater for various scenarios. The DRP covers both preventive and corrective measures that will enable CDS to deal with various types of disasters that can disrupt normal systems operation. The physical environment includes UPS, backup generator, automatic fire extinguishing system and access control to the computer room. A back up server maintains a mirror image of the database on the main server. In the event of a problem with the main server, the back up server takes over within 10 minutes, without physical intervention at Participants' sites. In the event of a major disaster that causes the CDS site to be unavailable, systems and business operations will be restored at a DR site within 2 hours. Prevention of loss of data is achieved through the implementation of redundant and cyclical backup tapes that are stored both on-site and off-site. Backup to tapes is performed four times a day.

During 2018–2019, three simulations of the DRP were successfully performed on the following respective dates: 19th September 2018; 20th December 2018; and 17th May 2019. The simulation performed on 19th September 2018 involved the participation of investment dealers, custodian banks as well as SEM and CDS personnel. During the last simulation, it took 1 hour and 40 minutes to restore the ATS and CDS systems at the DR site.

There was no systems downtime during 2018 – 2019.

FINANCIAL CONTROLS

The system of internal controls of the Finance and Administration department is made up of a series of regular reports to the Board as well as authorization controls. They are as follows:

- The management presents a detailed capital and expenditure budget as well as revenue estimates for review and approval by the Audit Committee and the Board of Directors prior to the start of the financial year;
- The management presents monthly management accounts with detailed explanations on variances to budgeted figures to the Board;
- Authorised signatories for payments and bank transactions consist of two mandatory signatures (one from each of the following two groups: Managing Director/Finance Manager; and Directors).

The Board controls financial matters by receiving and reviewing detailed management accounts at regular and short intervals (monthly). Payments, banking and other financial transactions for amounts higher than Rs 50,000 cannot be made without the authorization of one non-executive director.

INVESTMENT COMMITTEE

Investments decisions are made within guidelines determined by the Investment Committee. The Company's funds are invested in low-risk fixed income instruments (fixed deposits at banks and other deposit taking institutions; and government securities). The main risks to which such investments are exposed are credit risk (the possibility that the deposit taking institution will default by failing to pay principal and interest in a timely manner) and interest rate risk. The investment guidelines seek to minimize credit risk by limiting the percentage of total funds that can be invested at a specific institution. The investment guidelines provide for investment in other instruments subject to the approval of the Investment Committee.

REVIEW OF FINANCIAL CONTROLS

Given the financial control measures that have been implemented and considering the small size of the Company, the Board decided in the past that it is not necessary to implement an internal financial audit function at the CDS. At the request of the Audit Committee, as from 2013 the external auditors carry out an annual review of the financial controls of the company and submit a report on their findings. In their report for the year under review, the auditors have stated that they are of the opinion that the financial control processes of the company that were reviewed are adequate and that they have not observed any issues of concern.

DIRECTORS' REPORT

FINANCIAL STATEMENTS, INTERNAL CONTROL AND RISK MANAGEMENT

Company law requires directors to prepare financial statements for each financial year which present fairly the financial position, financial performance, changes in equity and cash flows of the Company. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2001. They are also responsible for safeguarding the assets of the Company and hence for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and errors, as well as an effective risk management system.

The Audit Committee has discussed the accounting principles with the auditors in June 2019.

AUDITORS' REMUNERATION

The fees (exclusive of VAT) payable to PKF (Mauritius) for the year ended 30th June 2019 are as follows:

Financial audit	Rs 134,000
Operations audit	Rs 60,000
Audit of Risk Management Report	Rs 29,000
Annual income tax	Rs 20,000
Financial control review	Rs 43,000
Corporate Governance Review	Rs 18,000
TOTAL	Rs 304,000

APPOINTMENT OF AUDITORS

The auditors, PKF (Mauritius), have expressed their willingness to continue in office. In accordance with Section 195 of the Companies Act 2001, a resolution for their re-appointment as auditors of the Company will be proposed at the annual meeting. There was a rotation of audit partner last year.

APPROVAL OF AUDITED FINANCIAL STATEMENTS

The audited financial statements of CDS which are set out from pages 41 to 68 of the Annual Report were approved by the board of directors on 22nd August 2019

Nitish Benimadhu	Vipin Mahabirsingh
Chairperson	Managing Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

This report is made solely to the members of the Company as a body in accordance with Section 205 of the Mauritius Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinion we have formed.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements set out on pages 41 to 68 which comprise the statement of financial position as at 30 June 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of, in all material respects, the financial position of the Company as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the requirements of the Mauritius Companies Act 2001.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Mauritius, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Corporate information, the Chairperson's and Managing Director's report, the Financial highlights, the Statistics on operation, the Certificate from the Secretary, the Directors' report and the Risk management report. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this Auditor's Report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001. They are also responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with requirements of the Mauritius Companies Act 2001, we report as follows:

- we have no relationship with, or any interests in, the Company other than in our capacity as auditors and tax advisors;
- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

Securities Act 2005

In accordance with Section 20(4) of the Securities Act 2005, we have reviewed the Risk Management Report of the Company and in our opinion, it gives a true and fair view of the risk management procedures and their application for the year ended 30th June 2019.

Financial Reporting Act 2004

The directors are responsible for preparing the corporate governance report. Our responsibility is to report on the extent of compliance with the Code of Corporate Governance as disclosed in the annual report and on whether the disclosure is consistent with the requirements of the Code.

In our opinion, the disclosure in the annual report is consistent with the requirements of the Code.

PKF (MAURITIUS)
PUBLIC ACCOUNTANTS

CHRISTINE SEK SUM, CPA
(Licensed by FRC)

Port Louis
MAURITIUS

Date : 22nd August 2019

STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019

ASSETS	NOTES	2019 Rs'000	2018 Rs'000
Non-current assets			
Property, plant and equipment	(5)	16,141	17,068
Investments	(6)	174,377	172,207
Intangible assets	(7)	170	192
Trade & other receivables	(8)	12,460	16,242
Retirement benefit asset	(10)	1,918	836
		205,066	206,545
Current assets			
Inventories		594	373
Trade and other receivables	(8)	16,627	17,845
Deposits and cash balances		69,530	54,401
		86,751	72,619
TOTAL ASSETS		291,817	279,164
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	(9)	15,000	15,000
Retained earnings		240,359	224,423
Total equity		255,359	239,423
Non-current liability			
Deferred tax liability	(11)	1,284	1,089
		1,284	1,089
Current liabilities			
Trade and other payables	(12)	11,598	11,703
Taxation	(11)	1,376	699
Dividend payable	(15)	22,200	26,250
		35,174	38,652
TOTAL LIABILITIES		36,458	39,741
TOTAL EQUITY AND LIABILITIES		291,817	279,164

These financial statements were approved by the Board of Directors & authorised for issue on 22nd August 2019 and signed on its behalf by:

NITISH BENIMADHU
CHAIRPERSON

VIPIN Y.S. MAHABIRSINGH
MANAGING DIRECTOR

The notes on pages 45 to 68 form an integral part of these financial statements. Auditors' Report on pages 37 to 40.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	2019 Rs'000	2018 Rs'000
Revenue	(3(b))	59,512	67,363
Other income	(13(a))	14,521	17,275
		74,033	84,638
Administrative expenses		(29,176)	(29,502)
Operating profit		44,857	55,136
Contribution to guarantee fund		(222)	(302)
Finance costs	(14)	(55)	(40)
PROFIT BEFORE TAXATION		44,580	54,794
Taxation	(11)	(6,724)	(8,377)
Corporate social responsibility		(974)	(821)
PROFIT FOR THE YEAR		36,882	45,596
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension plan	(10)	1,511	708
Deferred tax on actuarial gain	(11)	(257)	(120)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		38,136	46,184
Dividends	(15)	(22,200)	(26,250)
RETAINED COMPREHENSIVE INCOME FOR THE YEAR		15,936	19,934
EARNINGS PER SHARE	(16)	254.24	307.89

The notes on pages 45 to 68 form an integral part of these financial statements. Auditors' Report on pages 37 to 40.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	STATED CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
	Rs'000	Rs'000	Rs'000
BALANCE AT 1st JULY 2017	15,000	204,489	219,489
Total comprehensive income for the year	-	46,184	46,184
Dividends	-	(26,250)	(26,250)
BALANCE AT 30th JUNE 2018	15,000	224,423	239,423
BALANCE AT 1st JULY 2018	15,000	224,423	239,423
Total comprehensive income for the year	-	38,136	38,136
Dividends	-	(22,200)	(22,200)
BALANCE AT 30th JUNE 2019	15,000	240,359	255,359

The notes on pages 45 to 68 form an integral part of these financial statements. Auditors' Report on pages 37 to 40.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	2019 Rs'000	2018 Rs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		44,580	54,794
Adjustments for:			
Corporate social responsibility		(974)	(821)
Actuarial gain on defined benefit pension plan		1,511	708
Depreciation	(5)	1,789	1,883
Amortisation	(7)	50	61
Interest income		(10,057)	(10,066)
Retirement benefit obligations		(1,082)	(7,116)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		35,817	39,443
Increase in inventories		(221)	(91)
Decrease in trade and other receivables		768	111
(Decrease)/Increase in trade and other payables		(105)	3,390
CASH GENERATED FROM OPERATING ACTIVITIES		36,259	42,853
Tax paid		(6,109)	(8,024)
NET CASH GENERATED FROM OPERATING ACTIVITIES		30,150	34,829
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in financial assets		(74,070)	(71,907)
Purchase of property, plant and equipment	(5)	(862)	(379)
Purchase of intangible assets	(7)	(28)	(193)
Proceeds from fixed deposit		71,900	46,100
Interest received		14,289	9,024
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		11,229	(17,355)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(26,250)	(18,951)
NET CASH USED IN FINANCING ACTIVITIES		(26,250)	(18,951)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		15,129	(1,477)
Cash and Cash Equivalents @ beginning of year		54,401	55,878
Cash and Cash Equivalents @ end of year		69,530	54,401
ANALYSIS OF CASH AND CASH EQUIVALENTS:			
Deposits and cash balances		69,530	54,401

The notes on pages 45 to 68 form an integral part of these financial statements. Auditors' Report on pages 37 to 40.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. GENERAL INFORMATION

Central Depository & Settlement Co. Ltd is a private company incorporated in Mauritius. Its registered office is situated at 4th floor, One Cathedral Square building, 16 Jules Koenig Street, Port Louis.

The main activities of the company are to provide depository, clearing and settlement services in order to facilitate dealings in securities.

2. ADOPTION OF NEW AND REVISED STANDARDS

(i) New and amended standards and interpretations adopted during the year

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted the following Standards (amendments) as of 01 July 2018:

-IFRS 9 Financial Instruments

-IFRS 15 Revenue from Contracts from Customers

-IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRS 9 Financial Instruments

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Impact of adoption:

The Company has concluded that the impact of adopting IFRS 9 is not material on the Company's financial information. There are changes in classification due to the adoption of IFRS 9. The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 July 2018. The carrying amount has not changed.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 and New carrying amount under IFRS 9
Financial assets:			
Investments	Held-to-maturity	Amortised cost	172,207
Trade and other receivables	Loans and receivables	Amortised cost	31,831
Deposits and cash balances	Cash and cash equivalents	Amortised cost	54,401
			258,439
Financial liabilities			
Trade and other payables	Amortised cost	Amortised cost	11,703
			11,703

2. ADOPTION OF NEW AND REVISED STANDARDS (CONT'D)

(i) New and amended standards and interpretations adopted during the year (Cont'd)

New accounting policies:

The application of the new standard required the Company to apply the new accounting policies. Accordingly, the Company has applied the new accounting policies the detail of which are disclosed in note 3 of these financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.

(ii) New standards, amendments and interpretations issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date.

Annual Improvements 2015 – 2017 Cycle

IFRS 3 Business Combinations - Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business. The amendments confirm that a business must include inputs and a process and clarifies that the process must be substantive, and the inputs and process must together significantly contribute to creating outputs.

IFRS 11 Joint Arrangements - Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income taxes - Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises.

IAS 23 Borrowing Costs - Clarification that when a qualifying asset is ready for its intended use or sale, a company treats any outstanding borrowing to obtain that qualifying asset as part of general borrowings.

IFRS 16 Leases

The new standard recognises a leased asset and a lease liability for almost all leases and requires them to be accounted for in a consistent manner. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONT'D)

(ii) New standards, amendments and interpretations issued but not yet effective (Cont'd)

IAS 19 Employee Benefits (Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income tax.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments have impacted the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

The amendment to IAS 28 will clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IAS 1 Presentation of Financial Statements

Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

IFRS 17 Insurance Contracts

The new insurance contracts standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

Where relevant, the Company is still evaluating the effect of these Standards, amendments to published Standards and Interpretations issued but not yet effective, on the presentation of its financial statements.

3. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all years presented, unless otherwise stated and are set out below:

(a) Basis of preparation

The financial statements comply with the Companies Act 2001 and have been prepared in accordance with International Financial Reporting Standards (IFRS). Where necessary, comparative figures have been amended to conform with change in presentation and disclosure in the current year. The financial statements are prepared under the historical cost convention except that investments, trade and other payables, trade and other receivables and cash and cash equivalents are carried at amortised cost, less any impairment loss.

3. ACCOUNTING POLICIES (CONT'D)

(b) Revenue Recognition

Revenue from contracts with customers

The Company recognises revenue from contracts with customers based on a five-step model as set out in 'IFRS 15 – Revenue from Contracts with Customers' as follows:

Step 1. Identify the contract(s) with a customer: A contracts is defined as an agreement between two or more parties that creates enforceable rights and obligations and set out the criteria for every contract that must be met.

Step 2. Identify the performance obligations in the contract: A performance obligations is a promise in a contract with a customer to transfer to the customer either a good or service (or a bundle of goods or services) that is distinct; or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Step 3. Determine the transaction price: The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

Step 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes all of the benefits provided by the Company's performance as the Company performs; or
2. The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

For performance obligations where any of the above conditions are not met, revenue is recognised at a point in time at which the performance obligation is satisfied.

When the Company satisfies a performance obligation by delivering the promised goods or services it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

The revenue of the Company for the year has been recognised at a point in time upon performance of services, net of Value Added Tax.

Other income earned by the company is recognised on the following basis:
(i) Interest Income - using the effective interest method.
(ii) Fees on issue of ISIN Numbers - as it accrues.
(iii) IT Facilities Management fees - as it accrues.

3. ACCOUNTING POLICIES (CONT'D)

(c) Property, Plant and Equipment

Property, Plant and Equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of assets by equal instalments to their expected residual values over their estimated useful lives as follows:

Office Premises	50 years
Office furniture & Equipment	5 years
Computer Equipment	5 years
Motor Vehicles	5 years

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

When the carrying amount of an asset is greater than that its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of Property, Plant and Equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

(d) Intangible Assets

Computer software
Intangible assets (Application Software) were capitalised on the basis of costs incurred to acquire and bring to use the specific software and were amortised at the rate of 7.41% per annum for a period of 13 years.

Development Costs
Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software controlled by the Company and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs.

The Computer software recognised as assets are amortised over their estimated useful lives (5 years).

(e) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

Inventories represent stationery and CDS Forms, and are stated at cost. Cost is determined on the first-in first-out (FIFO) method.

(f) Deferred Tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

3. ACCOUNTING POLICIES (CONT'D)

(g) Employee Benefits

(a) *Defined benefit pension plan*

The company contributes to a pension scheme which is a 'Defined Benefit' plan.

The present value of funded obligations is recognised in the statement of financial position as a non-current liability after adjusting for the fair value of plan assets, any recognised actuarial gains and losses and any unrecognised past service cost. The valuation of these obligations is carried out annually by a firm of consulting actuaries.

A portion of the actuarial gains and losses will be recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous accounting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date; and
- 10% of the fair value of plan assets at that date.

The current service cost and any recognised past service cost are included as an expense together with the associated interest cost, net of expected return on plan assets.

(b) *State pension plan*

Contributions to the National Pension Scheme are expensed to the statement of profit or loss and other comprehensive income in the period in which they fall due.

(h) Provisions

Provisions are recognised when the company has a present or constructive obligation as a result of past events and it is probable that it will result in an outflow of economic benefits that can be reasonably estimated to settle the obligation.

(i) Stated capital

Ordinary shares are classified as equity.

(j) Foreign Currencies

(i) *Functional and presentation currency*

Items included in the financial statements are measured using Mauritian rupees, the currency of the primary economic environment in which the entity operates ("functional currency").

The financial statements are presented in Mauritian rupees, which is the company's functional and presentation currency.

(ii) *Transactions and balances*

Transactions denominated in foreign currencies are translated in Mauritian rupees at the rates ruling at the transactions dates. Monetary assets and liabilities which are expressed in foreign currencies are translated into Mauritian rupees at the rates ruling at reporting date. Resulting gains or losses are transferred to the statement of profit or loss and other comprehensive income.

3. ACCOUNTING POLICIES (CONT'D)

(k) Related Parties

For the purpose of these financial statements, parties are considered to be related to the company if they have the ability, directly or indirectly, to control the company or exercise significant influence over the company in making financial and operating decisions, or vice versa, or where the company is subject to common control or common significant influence. Related parties may be individuals or other entities.

(l) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

(m) Financial instruments

Classification of financial assets

Initial recognition

On initial recognition, a financial asset is classified as measured at (i) amortised cost, (ii) Fair Value through Other Comprehensive Income (FVOCI) or (iii) Fair Value through Profit or Loss (FVTPL).

(i) Financial assets measured at amortised cost:

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- It is held within a business model whose objective is to hold the financial assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. ACCOUNTING POLICIES (CONT'D)

(m) Financial instruments (Cont'd)

Classification of financial assets (Cont'd)

(i) Financial assets measured at amortised cost (Cont'd):

For the year ended 30 June 2019, the Company held financial assets listed below at amortised cost:

(a) Investments

Investments are financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. They are measured at amortised cost, less any impairment loss. The interest accrued is recorded as interest income in the statement of profit or loss and other comprehensive income.

(b) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. The amount of loss is recognised in the statement of profit or loss and other comprehensive income.

(c) Cash and cash equivalents

Cash includes balances with banks. Cash equivalents are short-term, highly liquid assets which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

(ii) Financial assets measured at FVOCI:

- Debt Instruments: Debt Instruments may be classified as at FVOCI, where the contractual cash flows are solely for payments of principal and interest on the outstanding principal, and the objective of the Company's business model is achieved both by collecting contractual cash flows and selling the underlying financial assets.

- Equity Instruments: In case of equity instruments which are not held for trading or designated at FVTPL, the Company may irrevocably elect to recognise subsequent changes in other comprehensive income. This election is made on an investment-by-investment basis.

For the year ended on 30 June 2019, the Company did not hold financial assets which are classified as measured at FVOCI.

(iii) Financial assets measured at FVTPL:

On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial assets are classified as measured at FVTPL.

For the year ended on 30 June 2019, the Company did not hold any financial assets which are to be classified as measured at FVTPL.

3. ACCOUNTING POLICIES (CONT'D)

(m) Financial instruments (Cont'd)

Business model assessment

The Company makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the frequency, volume and timing of trades of financial assets in prior periods, the reasons for such trades and its expectations about the future trading activity. However, information about trading activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized;

- how the performance of the portfolio is evaluated and reported to the management; and

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows, nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the outstanding principal.

In assessing whether the contractual cash flows are solely payments of principal and interest on the outstanding principal, the Company considers the contractual terms of the instruments. This includes assessing whether the financial assets contains a contractual terms that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing such financial assets.

Derecognition of financial assets

From 1 July 2018, any cumulative gain/loss recognised in the statement of other comprehensive income in respect of an equity instruments designated as FVOCI is reclassified to retained earnings upon derecognition.

3. ACCOUNTING POLICIES (CONT'D)

(m) Financial instruments (Cont'd)

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model followed under IAS 39 with the forward-looking 'expected credit losses' ('ECL') model. Assessing how changes in economic factors affect ECL requires considerable judgement. ECL are determined on a probability-weighted basis.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-months ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is require for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For amounts due from related parties, the Company applies general approach in calculating ECLs. The Company applies loss allowance at an equal to 12-months ECL since the credit risk on amounts due from related parties has not increased significantly since initial recognition. 12-months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12-months after the reporting date.

In certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Classification of financial liabilities

Initial recognition

Financial liabilities are classified, at initial recognition (i) at amortised cost or (ii) at FVTPL, or (iii) as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value, net of directly attributable transaction costs, wherever applicable.

Financial liabilities at FVTPL:

Financial liabilities at FVTPL including financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL, shall be measured at fair value. For the year ended on 30 June 2019, the Company has not designated any financial liability as at FVTPL.

3. ACCOUNTING POLICIES (CONT'D)

(m) Financial instruments (Cont'd)

Classification of financial liabilities (Cont'd)

Other financial liabilities

After initial recognition, these are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisitions and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

The Company has no derivatives designated as hedging instruments as at 30 June 2019. Hence, all other financial liabilities are classified at amortised cost.

Trade and other payables

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with IFRSs requires the directors and management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Judgements and estimates are continuously evaluated and are based on historical experience and other factors, including expectations and assumptions concerning future events that are believed to be reasonable under the circumstances. The actual results could, by definition therefore, often differ from the related accounting estimates.

Where applicable, the notes to the financial statements set out areas where management has applied a higher degree of judgement that have a significant effect on the amounts recognised in the financial statements, or estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D)

Property, plant and equipment and Intangible assets

The cost of the property, plant and equipment and intangible assets are depreciated and amortised over the estimated useful life of the asset. The estimated useful life is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors. Management has not considered any residual value as it is deemed immaterial.

Retirement benefit obligation

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using various assumptions that may differ from actual developments in future. The assumptions used include the discount rate, future salary increases, mortality rates and future pension increases. Changes in these assumptions will impact the carrying amount of the pension obligation.

The company determines the appropriate discount rate at each reporting date after discussions with the actuaries. In determining the appropriate discount rate, management considers the yield curve for government bonds traded on secondary market that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the expected term of the related pension obligation.

Income tax expense

Income tax expense comprises current tax and deferred tax. Current tax is expected tax payable on the taxable income for the year using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous year. Deferred tax is provided using the liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates currently enacted.

A deferred tax asset is based upon whether it is probable that future taxable profits will be available against which the asset can be utilised. Recognition, therefore, involves judgement regarding the future financial performance of the Company.

Calculation of loss allowance

When measuring expected credit loss the company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring expected credit loss. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

5. PROPERTY, PLANT AND EQUIPMENT

	OFFICE PREMISES	OFFICE FURNITURE & EQUIPMENT	COMPUTER EQUIPMENT	MOTOR VEHICLES	TOTAL
COST	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
At 1st July 2017	16,409	5,216	14,175	3,616	39,416
Additions	-	277	102	-	379
Disposal	-	(15)	-	-	(15)
At 30th June 2018	16,409	5,478	14,277	3,616	39,780
Additions	-	176	686	-	862
At 30th June 2019	16,409	5,654	14,963	3,616	40,642
DEPRECIATION					
At 1st July 2017	2,283	4,686	11,968	1,907	20,844
Charge for the year	328	279	553	723	1,883
Disposal	-	(15)	-	-	(15)
At 30th June 2018	2,611	4,950	12,521	2,630	22,712
Charge for the year	328	309	429	723	1,789
At 30th June 2019	2,939	5,259	12,950	3,353	24,501
NET BOOK VALUES					
At 30th June 2019	13,470	395	2,013	263	16,141
At 30th June 2018	13,798	528	1,756	986	17,068

6. INVESTMENTS

	2019	2018
	Rs'000	Rs'000
Maturity falling:		
- Between two to five years	164,820	162,650
- After five years	9,557	9,557
	174,377	172,207

The investments bear interest at rates ranging from 3.80% to 4.75% p.a. (2018: 3.35% to 5.34% p.a.)

These investments will mature in the financial years 2021 to 2028.

7. INTANGIBLE ASSETS

	APPLICATION SOFTWARE	DEVELOPMENT COSTS	TOTAL
COST	Rs'000	Rs'000	Rs'000
At 1st July 2017	6,775	250	7,025
Additions	193	-	193
At 30th June 2018	6,968	250	7,218
Additions	28	-	28
At 30th June 2019	6,996	250	7,246
AMORTISATION			
At 1st July 2017	6,715	250	6,965
Charge for the year	61	-	61
At 30th June 2018	6,776	250	7,026
Charge for the year	50	-	50
At 30th June 2019	6,826	250	7,076
NET BOOK VALUES			
At 30th June 2019	170	-	170
At 30th June 2018	192	-	192

8. TRADE AND OTHER RECEIVABLES

	Current		Non-current	
	2019	2018	2019	2018
	Rs'000	Rs'000	Rs'000	Rs'000
Trade receivables	2,945	4,023	-	-
Prepayments	1,145	1,151	-	-
Amount due from holding company	728	271	-	-
Interest receivable	10,417	11,242	10,685	14,092
Other receivables	1,392	1,158	1,775	2,150
	16,627	17,845	12,460	16,242

The average credit period on sales of services is 1 month. No interest was charged on the trade receivables. The company does not hold any collateral as security.

Before accepting any new customer, the Company assesses the potential customer's credit quality.

The directors believe that no provision for impairment is required as at 30th June 2019 as most of the trade debtors have been recovered after year end.

	2019	2018
Ageing of past due but not impaired	Rs'000	Rs'000
Less than 1 month	2,574	3,859
More than 1 month	371	164
	2,945	4,023

9. STATED CAPITAL

	ISSUED & FULLY PAID	
	2019	2018
	Rs'000	Rs'000
150,000 Ordinary Shares of Rs 100 each	15,000	15,000

The holding of an ordinary share in the company shall confer on the holder:

(a) the right to vote at meetings of shareholders and on a poll to cast one vote for each share held;
(b) the right to an equal share in dividends and other distributions made by the company; and
(c) the right to an equal share in the distribution of the surplus assets of the company on its liquidation.

10. RETIREMENT BENEFIT ASSETS

The amounts recognised in the statement of financial position are determined as follows:

	2019	2018
	Rs'000	Rs'000
Present value of funded obligations	30,427	30,301
Fair value of plan assets	(32,345)	(31,137)
Asset in the statement of financial position	(1,918)	(836)

The amounts recognised in the Statement of profit or loss and other comprehensive income are as follows:

	2019	2018
	Rs'000	Rs'000
Current service cost	1,425	943
Interest cost	1,866	1,879
Expected return on plan assets	(1,958)	(1,717)
Fund expenses and life insurance	406	193
Net actuarial gain recognised during the year	(1,511)	(708)
Total included in staff costs (Note 13(b))	228	590

Movements in the liability recognised in the Statement of financial position:-

	2019	2018
	Rs'000	Rs'000
At 1st July	(836)	6,280
Total expenses as shown above	228	590
Contributions	(1,310)	(7,706)
At 30th June	(1,918)	(836)

The principal actuarial assumptions used were as follows:	2019	2018
Discount rate	6.50%	6.20%
Future salary increases	3.00%	4.20%
Future pension increases	2.00%	1.20%

10. RETIREMENT BENEFIT ASSETS (CONT'D)

Sensitivity

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the period, while holding all other assumptions constant.

	2019	2018
	Rs'000	Rs'000
Effect on present value of funded obligations		
1% increase in discount rate	5,550	5,885
1% decrease in discount rate	7,190	7,716
1% increase in salary increase rate	2,839	3,287
1% decrease in salary increase rate	2,489	3,941
Effect of changing longevity - rate up	782	978
Effect of changing longevity - rate down	816	1,019

Reconciliation of the present value of defined benefit obligation

	2019	2018
	Rs'000	Rs'000
Present value of obligation at start of year	30,301	28,996
Current service cost	1,831	1,136
Interest cost	1,866	1,879
Benefits paid	(406)	(193)
Liability gain	(3,165)	(1,517)
Present value of obligation at end of year	30,427	30,301

Reconciliation of fair value of plan assets

Fair value of plan assets at start of year	31,137	22,716
Expected return on plan assets	1,958	1,717
Employer contributions	1,310	7,706
Benefits paid	(406)	(193)
Asset loss	(1,654)	(809)
Fair value of plan assets at end of year	32,345	31,137
Actual return on plan assets	304	908

Distribution of plan assets at end of year

The assets of the scheme are invested in local and overseas equity (quoted), and local and overseas debt (quoted and unquoted).

History of obligations, assets and experience adjustments

	2019	2018
	Rs'000	Rs'000
Fair value of plan assets	32,345	31,137
Present value of defined benefit obligation	(30,427)	(30,301)
Asset	1,918	836
Asset experience loss during the year	(1,654)	(809)
Liability experience gain during the year	3,165	1,517

10. RETIREMENT BENEFIT ASSETS (CONT'D)

	2019 Rs'000	2018 Rs'000
Expected employer contributions to post-employment benefit plans	1,883	1,580

Pension amounts and disclosures have been based on the report submitted by Aon Hewitt Ltd.

11. TAXATION

(a) Tax liability

	2019 Rs'000	2018 Rs'000
At 1st July	699	1,417
Taxation paid	(6,109)	(8,024)
Provision for the year	6,786	7,306
At 30th June	1,376	699

(b) Income tax

	2019 Rs'000	2018 Rs'000
Current tax on the adjusted profit for the year at 15%	6,786	7,306
Deferred taxation	(62)	1,071
Tax charge	6,724	8,377

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the company as follows:

	2019 Rs'000	2018 Rs'000
Profit before tax as adjusted	45,117	54,681
Tax calculated at a tax rate of 15%	6,768	8,202
Non-deductible expenses for tax purposes	303	(622)
Deferred taxation	(62)	1,071
Capital allowances effects	(285)	(274)
Tax charge	6,724	8,377

(c) Deferred Tax Liability

	2019 Rs'000	2018 Rs'000
At 1st July	1,089	(102)
(Credited)/Charge for the year	(62)	1,071
Charged to other comprehensive income	257	120
At 30th June	1,284	1,089

11. TAXATION (CONT'D)

	Capital tax allowances	Retirement benefit (asset)/ obligation	Total
	Rs'000	Rs'000	Rs'000
At 01 July 2017	966	(1,068)	(102)
Charge for the year	(19)	1,090	1,071
Charged to other comprehensive income	-	120	120
At 30 June 2018	947	142	1,089
Credited for the year	11	(73)	(62)
Charged to other comprehensive income	-	257	257
At 30 June 2019	958	326	1,284

12. TRADE AND OTHER PAYABLES

	2019	2018
	Rs'000	Rs'000
Service fees received in advance	7,804	6,638
Other payables	3,794	5,065
	11,598	11,703

13. OPERATING PROFIT

		2019	2018
		Rs'000	Rs'000
(a) Operating profit is arrived at after :			
Crediting :			
Other income			
Interest receivable		10,057	10,066
Fees on issue of ISIN numbers		2,093	2,415
Sundry income		313	349
IT facilities management fees		1,430	1,430
Project fees		-	2,478
Registry software fees		628	537
		14,521	17,275
and Charging :			
Fees paid to auditors -	audit services	224	190
	operational audit services	69	60
	taxation services	23	22
	review of risk management report	33	32
Non-executive directors' emoluments		1,307	1,277
Depreciation		1,789	1,883
Amortisation		50	61
Staff costs (Note 13(b))		16,694	18,699

13. OPERATING PROFIT (CONT'D)

(b) Staff costs

	2019	2018
	Rs'000	Rs'000
Salaries and allowances	16,466	18,109
Pension costs (Note 10)	228	590
	16,694	18,699

(c) Number of employees

Administration	12	12

14. FINANCE COSTS

	2019	2018
	Rs'000	Rs'000
Bank charges	55	40

15. DIVIDENDS

	2019	2018
	Rs'000	Rs'000
Declared and not yet paid :		
Dividend of Rs 148 per Ordinary Share (2018: Rs 175)	22,200	26,250

16. EARNINGS PER SHARE

		2019	2018
Total Comprehensive Income attributable to shareholders	Rs'000	38,136	46,184
Number of Ordinary Shares in issue		150,000	150,000
Earnings per share	Rs	254.24	307.89

17. RELATED PARTY TRANSACTIONS

	2019	2018
	Rs'000	Rs'000
(i) *Sales of Services to :*		
The Stock Exchange of Mauritius Ltd	1,430	1,430
(ii) *Outstanding Balance arising from the sales of services :*		
The Stock Exchange of Mauritius Ltd	728	271

The above transactions were carried out on commercial terms and conditions and the repayment is over a month upon receipt of invoice.

(iii) *Compensation of key management personnel*		
Short term benefits	4,757	5,072
Post employment benefits	703	585
	5,460	5,657

17. RELATED PARTY TRANSACTIONS (CONT'D)

		2019	2018
(iv)	Remuneration of directors	Rs'000	Rs'000
	- Non executive directors	1,307	1,277
	- Executive	5,460	5,657
(v)	Dividend payable	22,200	26,250

18. FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from its use of financial instruments:

(a) Liquidity risk
(b) Market risk
(c) Interest rate risk
(d) Currency risk
(e) Credit risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Investment decisions are made within guidelines determined by the Investment Committee.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to finance its operations and to mitigate the effects of fluctuation in cash flows.

The maturity profile of the financial instruments is summarised as follows:

	2019			
	Less than 1 year	1-5 years	> 5 years	Total
	Rs'000	Rs'000	Rs'000	Rs'000
Financial assets				
Investments	-	164,820	9,557	174,377
Deposits and cash balances	69,530	-	-	69,530
Trade and other receivables	14,776	11,676	-	26,452
	84,306	176,496	9,557	270,359
Financial liabilities				
Trade and other payables	11,598	-	-	11,598
Proposed dividends	22,200	-	-	22,200
	33,798	-	-	33,798

18. FINANCIAL RISK MANAGEMENT (CONT'D)

Liquidity risk (Cont'd)

	2018			
	Less than 1 year	1-5 years	> 5 years	Total
	Rs'000	Rs'000	Rs'000	Rs'000
Financial assets				
Investments	-	162,650	9,557	172,207
Deposits and cash balances	54,401	-	-	54,401
Trade and other receivables	16,138	15,693	-	31,831
	70,539	178,343	9,557	258,439
Financial liabilities				
Trade and other payables	11,703	-	-	11,703
Proposed dividends	26,250	-	-	26,250
	37,953	-	-	37,953

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of its financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The interest rate profile of the company's financial assets as at 30 June is as follows:

	2019	2018
	%	%
Bank balances	0.30 - 1.80	0.30 - 1.80
Deposits	3.80 - 4.75	3.35 - 5.34

Deposits which have fixed interest rates will not be affected by fluctuations in the level of interest rates. The following table details the sensitivity of the company's bank balances and deposits if interest rate had been 50 basis points higher. For a lower interest rate by 50 basis points, there would be an equal and opposite impact on the profit and equity.

	2019	2018
	Rs'000	Rs'000
Increase in profit	886	914
Increase in equity	753	777

18. FINANCIAL RISK MANAGEMENT (CONT'D)

Currency risk

Except for a USD bank account with a balance of Rs 99,085 (USD 2,832), a GBP bank account with a balance of Rs 11,375 (GBP 257), a AUD bank account with a balance of Rs 2,764 (AUD 109), a ZAR bank account with a balance of Rs 789 (ZAR 324) and a Euro bank account with a balance of Rs 5,276 (EURO 133), there are no other financial assets and liabilities denominated in foreign currencies.

The Company is exposed to currency risk of MUR relative to AUD, USD, EURO, ZAR and GBP.

The following table details the company's sensitivity to a 5% decrease in the exchange rate of the AUD, GBP, ZAR, EUR and USD against the Mauritian Rupee. A positive number below indicates an increase in profit and other equity where the relevant currencies weaken 5% against Mauritian Rupee. For a 5% strengthening of relevant currencies against the Mauritian Rupee, there would be an equal and opposite impact on the profit and their equity.

	2019 Rs'000	2018 Rs'000
Increase in profit	5	8
Increase in equity	4	7

Credit risk

The company's credit risk is primarily attributable to its trade receivables and deposits with banks and other financial institutions. At year end, the company has no significant concentration of credit risk which has not been adequately provided for. Cash and deposits are held in banks and other financial institutions with high credit ratings.

Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns and value for its shareholders.

The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders of the company, comprising issued share capital and retained earnings.

The Company's overall strategy remains unchanged from 2018.

Categories of financial instruments	2019 Rs'000	2018 Rs'000
Financial assets		
At amortised cost:		
Investments	174,377	172,207
Trade and other receivables	26,452	31,831
Deposits and cash balances	69,530	54,401
	270,359	258,439
Financial liabilities		
At amortised cost:		
Trade and other payables	11,598	11,703

19. CONTINGENT LIABILITY

A contingent liablity will arise if, in the event of a default by a participant, the amount due by the participant exceeds the total amount of financial resources available to the Guarantee Fund.

20. HOLDING COMPANY

The directors consider The Stock Exchange of Mauritius Ltd, incorporated in the Republic of Mauritius, as the holding company.

21. FIVE YEAR FINANCIAL SUMMARY
STATEMENT OF PROFIT, CAPITAL & RESERVES

	2019 Rs'000	2018 Rs'000	2017 Rs'000	2016 Rs'000	2015 Rs'000
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME					
TURNOVER	59,512	67,363	54,690	53,426	71,668
PROFIT BEFORE TAXATION	44,580	54,794	41,256	42,740	62,081
TAXATION	(6,724)	(8,377)	(6,505)	(6,435)	(9,351)
CORPORATE SOCIAL RESPONSIBILITY	(974)	(821)	(843)	(1,214)	(986)
PROFIT AFTER TAXATION	36,882	45,596	33,908	35,091	51,744
OTHER COMPREHENSIVE INCOME / (LOSS)	1,254	588	(983)	(487)	628
DIVIDENDS	(22,200)	(26,250)	(18,951)	(21,000)	(31,422)
CAPITAL & RESERVES					
ISSUED & PAID UP STATED CAPITAL	15,000	15,000	15,000	15,000	15,000
REVENUE RESERVES	240,359	224,423	204,489	190,515	176,911

22. GUARANTEE FUND

Section 3(8) of the Securities (Central Depository, Clearing and Settlement) Act 1996 requires the Central Depository & Settlement Co. Ltd (CDS) to establish and maintain a Guarantee Fund for the purpose of providing an indemnity against any default in respect of payments for or delivery of securities by any participant and of obligations of participants towards CDS.

The Fund is independently managed by the Business Conduct Committee (BCC) and not by the Board of Directors of the CDS. The BCC consists of a majority of independent members who are not directors of the CDS. The accounts of the Fund are separately audited.

The assets of the Guarantee Fund consist of all money accruing lawfully to that fund and of such contributions as may be specified in the CDS rules. The assets of the Guarantee Fund are as follows:-

Guarantee Fund Assets	2019	2018
	Rs'000	Rs'000
MCB Deposit A/c	27,700	29,300
MCB Savings A/c	4,640	2,218
MCB Current A/c	14	3
Contributions due on value of transactions	18	28
Cash deposit from investment dealers	(1,488)	(127)
Interest receivable	3,198	2,495
Income tax payable	(38)	(40)
	34,044	33,877

Contributions made to the Guarantee Fund	2019	2018
	Rs'000	Rs'000
BALANCE AT 1ST JULY	33,877	34,020
Contributions	222	302
Initial cash contribution from participant	744	-
Refund to participant	(1,556)	(1,388)
Interest	891	1,109
Income tax charge	(134)	(166)
BALANCE AT 30TH JUNE	34,044	33,877

AUDITORS' REPORT ON THE SYSTEM OF INTERNAL CONTROLS TO THE BOARD OF DIRECTORS OF THE CENTRAL DEPOSITORY & SETTLEMENT CO. LTD

We have conducted a review of the system of internal controls of the Central Depository & Settlement Co. Ltd (CDS) in accordance with Section 3.8.7 of CDS Rules and have performed tests of the effectiveness of the system of internal controls during the period 1st July 2018 to 30th June 2019.

The review covered the suitability of the system of internal controls of the Central Depository & Settlement Co. Ltd pertaining to:-

(a) The recording of transactions in Securities Accounts
(b) The processing of transactions, including Clearing and Settlement, in accordance with CDS Rules and Procedures
(c) The integrity and reliability of the data processing facilities of CDS.

Our review also covered the suitability of the system of internal controls of CDS pertaining to the Automated Trading System that is managed by CDS in accordance with the IT Outsourcing Agreement that has been signed between CDS and the Stock Exchange of Mauritius Ltd.

Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion the control procedures were suitably designed to provide reasonable assurance that the system of internal controls of the CDS operated effectively.

PKF (Mauritius)
PUBLIC ACCOUNTANTS

Christine Sek Sum, CPA
(Licensed by FRC)

Date: 17th July 2019

COMPANY SECRETARY'S CERTIFICATE

This is to certify that, in accordance with Section 166 (d) of the Companies Act 2001, all such returns as are required of the Company under the Companies Act 2001 have been filed with the Registrar of Companies during the financial year ended 30th June 2019.

Chaitanand Jheengun (FCIS)
Company Secretary

PROFILE OF MANAGEMENT TEAM

MANAGING DIRECTOR Vipin Y.S. Mahabirsingh

Vipin Y.S Mahabirsingh holds a B.Tech (First Class, Hons.) degree in Electronic Engineering from the University of Mauritius, an M.Phil in Microelectronic Engineering and Semiconductor Physics from the University of Cambridge and an MBA (with distinction) from Edinburgh Business School, Heriot Watt University. He joined the Central Depository & Settlement Co. Ltd at its inception in 1996 as Systems Manager and was appointed General Manager in July 1997. He was then appointed as Managing Director in November 2005. In his capacity as Managing Director of CDS, he also provides consultancy services to African stock exchanges and central depositories. He was the systems vendor's Project Director in the implementation of trading and depository systems at the Nairobi Stock Exchange (2004/2006), Bank of Ghana (2004), Dar es Salaam Stock Exchange (2006), Botswana Stock Exchange (2008/2012), Lusaka Stock Exchange (2008) and Bolsa de Valores de Mocambique (2013). He supervised the implementation of an automated trading system at the Zimbabwe Stock Exchange in 2015 and has spearheaded the replacement of the trading and depository systems at the Lusaka Stock Exchange which went live in December 2017. He is a member of the Technical Committee that has been set up by the African Stock Exchanges Association (ASEA) to drive the implementation of the African Exchanges Linkage Project (ALEP). He is also a member of the Ratings Committee of CARE Ratings (Africa).

SYSTEMS MANAGER Manoven Sadayen

Manoven Sadayen holds a B.Tech (Hons) degree in Computer Science and Engineering from the University of Mauritius. He joined the CDS in December 1998 as IT Officer and was promoted to Assistant Systems Manager in October 2000. He was appointed as Systems Manager in July 2001. He is responsible for the management of the CDS system as well as the automated trading system of the SEM. He also assists the Managing Director in overseeing the Operations department and in providing consultancy services to African stock exchanges and depositories. He participated in the implementation of the automated trading system at the Zimbabwe Stock Exchange in 2015 and the replacement of the trading and depository systems at the Lusaka Stock Exchange in 2017.

FINANCE AND ADMINISTRATION MANAGER Joseph How Tien Fat

Joseph How Tien Fat holds a Diploma in Accountancy from the City of Birmingham Polytechnic (UK) and is a Qualified Stockbroker. He joined the CDS at its inception in 1996 as Accountant and was appointed Finance and Administration Manager in July 2001. He is responsible for the Finance and Administration functions at CDS and plays a key role in managing the funds of the Company. He is also the Secretary of the Business Conduct Committee which is responsible for risk management.

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