# REPORT O E DIREC DR OF AUDIT

The Statements for the Year Ended 30 June 2006

## REPORT OF THE DIRECTOR OF AUDIT

### TO THE CHAIRPERSON OF THE

### STATE TRADING CORPORATION

I have audited the accompanying balance sheet of the State Trading Corporation as of 30 June 2006, and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation. My responsibility is to express an opinion on these financial statements based on my audit.

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

## **Audit Opinion**

In my opinion, the financial statements give a true and fair view of the state of affairs of the State Trading Corporation as of 30 June 2006, and of its income and expenditure for the year then ended in accordance with Generally Accepted Accounting Principles and comply with the Statutory Bodies (Accounts and Audit) Act 1972.

(R. JUGURNATH)
Director of Audit.

National Audit Office Level 14 Air Mauritius Centre PORT LOUIS 2 May, 2007



## STATE

## **TRADING**

## **CORPORATION**

**FINAL ACCOUNTS 2005 - 2006** 

### **BALANCE SHEET AS AT 30 JUNE 2006**

	NOTE	2006 MUR	2005 MUR
FIXED ASSETS			
Property,Plant and Equipment	2	21,481,856	26,093,597
Investments	3	1,125,660	1,125,660
		22,607,516	27,219,257
CURRENT ASSETS			
Stocks		66,830,938	88,943,836
Accounts Receivable	4	4,021,602,008	3,360,217,627
Short Term Deposits	5	1,592,524,994	200,000,000
Bank Balance		285,280,205	666,246,298
		5,966,238,145	4,315,407,761
CREDITORS			
Accounts Payable	6	3,113,782,512	2,159,799,500
Borrrowings	7	2,945,216,078	1,534,728,804
		6,058,998,590	3,694,528,304
NET CURRENT ASSETS		(92,760,445)	620,879,457
15		(70,152,929)	648,098,714
CAPITAL AND RESERVE			
Share Capital	8	400,000	400,000
General Reserve	1	(70,552,929)	647,698,714
		(70,152,929)	648,098,714

A Teelokee

Financial Manager

R S Soomarooah

General Manager

The notes on pages 4 to 11 form an integral part of the Accounts.

## INCOME AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2006

		2006	2005 *
	NOTE	MUR	MUR
Turnover	9	19,594,420,068	14,633,859,154
Recovery Account	1	512,990,420	609,897,870
Subsidy on Rice and Flour From Government	10	400,000,000	400,000,000
Refund of Subsidy from Traders		153,115	156,765
Transfer from surplus on petroleum product			144,704,494
TOTAL REVENUE		20,507,563,603	15,788,618,283
COST OF SALES		20,359,878,691	15,356,722,105
		147,684,912	431,896,178
OTHER INCOME			
Interest receivable	11	101,723,706	22,168,149
(Loss)/Gain on Exchange		(172,307,940)	(57,213,325)
Miscellaneous Income		1,537,475	4,915,218
Investment Income		42,248	36,704
		(69,004,511)	(30,093,254)
OTHER EXPENDITURE			
Exceptional Item	12	(574,232,671)	(5,409,945)
Administrative Expenses		(97,630,956)	(96,530,227)
Depreciation	2	(5,186,320)	(5,371,298)
Interest Payable	13	(119,882,097)	(12,685,071)
		(796,932,044)	(119,996,541)
SURPLUS/(DEFICIT) FOR THE YEAR		(718,251,643)	281,806,383
Transfer to Rice and Flour			(144,704,494)
NET SURPLUS / (DEFICIT) for the year		(718,251,643)	137,101,889
RETAINED SURPLUS B/F		647,698,714	510,596,825
RETAINED SURPLUS/(DEFICIT) C/F Note 1		(70,552,929)	647,698,714

# CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2006

	NOTE	2006 MUR	2005 MUR
Net Cash (Outflow)/Inflow from			
Operating Activities	17	(385,455,837)	618,065,143
RETURNS ON INVESTMENTS &			
SERVICING OF FINANCE			
Interest Paid		(111,581,153)	(11,489,402)
Interest Received		98,861,802	19,623,265
Investment Income Received		42,248	36,703
Net Cash (Outflow) from Returns on			
Investments & Servicing of Finance		(12,677,103)	8,170,566
INVESTING ACTIVITIES			
Acquisition of Fixed Assets		(838,532)	(2,128,942)
Sales of Fixed Assets		43,100	0.00
Net Cash (Outflow)/Inflow from			
Investing Activities		(795,432)	(2,128,942)
FINANCING			
Loans		1,410,487,273	(98,305,000)
(Decrease)/Increase in			
Cash & Cash Equivalents	17(a)	1,011,558,901	525,801,767

#### 1 (a) ACCOUNTING POLICIES

The principal accounting policies adopted by the Corporation are as follows:

#### (i) Basis of Accounting

The accounts are prepared under the historical cost convention.

#### (ii) Turnover

Turnover is based on the invoiced value net of Value Added Tax.

#### (iii) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The annual rates used are:

Buildings	2%
Plant and Machinery	10%
Motor Vehicles	20%
Office Equipment & Furniture	10%
Computer System	20%

#### (iv) Stocks

Stocks are valued at the lower of cost and net realisable value.

#### (v) Foreign Currencies

Assets and liabilities expressed in foreign currencies are translated into Mauritian Rupees at the rates of exchange prevailing at Balance Sheet date.

#### 1 (b) GENERAL RESERVE

The General Reserve as at 01 July 2005 which was MUR 578 million has been amended to MUR 648 million. The adjusted amount of MUR 70 million represents losses in connection with APM at 30 June 2005 which had initially been accounted in STC's loss and has now been treated as amount recoverable under APM in the financial year 2005-2006.

The Accounts Receivable of the Corporation at 30 June 2005 included an amount of MUR 1,265 million due by Government. This amount included MUR 200 million representing accumulated excess INPUT VAT paid and the balance, accumulated losses sustained by the Corporation on sales of Petroleum Products, Cement and Liquefied Petroleum Gas (LPG). This situation had resulted due to Government policy of not passing the full cost of these commodities to the consumers. During this financial year, a series of measures have been taken to prevent STC making further losses as follows:

- (i) To apply a dual pricing policy on LPG by charging the market price on LPG for sale as auto gas and in cylinders of above 12 kg;
- (ii) Upward revisions of the price of LPG in Cylinders of 5 kg, 6 kg and 12 kg;
- (iii) Upward revision of the price of Dual Purpose Kerosene (DPK) and apply a dual pricing policy on this product;
- (iv) Increase the maximum percentage adjustment (increase or decrease) for price fixing in the Automatic Pricing Mechanism from 15% to 20% for petroleum products.

- (v) Inclusion of Fuel Oil and LPG (cylinders of 5kg, 6kg and 12kg) in the Automatic Price Mechanism with effect from July 2006;
- (vi) Upward revision of the price of Cement with effect from July 2006; and
- (vii) Removal of subsidy on Ration Rice and Flour with effect from July 2006

In the current Financial Year, Government has settled part of the amount due, that is MUR 407 million relating to the period prior to April 2004 and has requested the Corporation to set off accumulated losses up to March 2006 to the extent of MUR 886 million against its General Reserve. Thus the amount due by Government at 30 June 2006 excluding VAT amounts to MUR 250 million made up of past losses on Cement and LPG. A provision has been made in the new price structure of these two products to enable STC to recoup the losses from future sales. The excess of INPUT VAT paid by STC is expected to be absorbed from future OUTPUT VAT collected.

Moreover, all losses made during this financial year have been transferred to the General reserve.

The above measures is that the General reserve which was MUR 647,698,714 at 30 June 2005 has resulted into a negative reserve of MUR 70,552,929 at 30 June 2006 as shown below.

#### MOVEMENT OF GENERAL RESERVES

	2005-06	2004-05
	MUR	MUR
OPENING BALANCE	647,698,714	510,596,825
Net Surplus / (Deficit) for the year	(718,251,643)	137,101,889
CLOSING BALANCE	(70,552,929)	647,698,714

#### 1 (c) AUTOMATIC PRICING MECHANISM

The Automatic Pricing Mechanism was introduced in April 2004 to determine, on a quarterly basis, the retail prices of Mogas and Gas oil as per the Consumer Protection (Price and Supplies Control Act) (G.N. 137 of 2004). The Regulation was amended in June 2006 to include Fuel Oil and L.P.Gas filled in cylinders of 5 kg, 6 kg and 12 kg with effect from July 2006.

The Regulation defines the mechanism of fixing the retail prices of the commodities with a minimum of 2.5% and a maximum adjustment of 20% for petroleum products, and a maximum of 5% for LPG. It is a transparent system for fixing the price for a period of three months (a quarter) based on the actual cost that prevailed in the previous quarter. It also provides to carry forward any gain or loss of one quarter to the subsequent quarter(s).

Thus the loss made as at 30 June 2006 due to APM amounting to MUR 335 million has been treated as an account receivable in the APM recovery account and is expected to be recouped from future sales.

An amount of MUR 70 million representing losses made on Mogas and Gas Oil at 30 June 2005 has been adjusted to the Final Accounts 2004-2005.

1 (d) Recovery Account: The amount of MUR 512,990,420 represents loss recoverable from future sales.

### 2. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles	Office Equipment & Furniture	Plant and Machinery	Buildings	Computer System	TOTAL
	MUR	MUR	MUR	MUR	MUR	MUR
COST						
At 1 July 2005	7,499,600	7,236,903	21,995,615	12,922,321	11,820,838	61,475,277
Additions		264,021	190,327		268,749	723,097
Disposal		(162,062)	(394,705)	-	(639,140)	(1,195,907)
At 30 June 2006	7,499,600	7,338,862	21,791,237	12,922,321	11,450,447	61,002,467
DEPRECIATION						
At 1 July 2005	5,909,849	4,546,274	14,343,141	2,599,854	7,982,562	35,381,680
Charge for the year	1,123,304	467,198	1,987,016	258,447	1,350,355	5,186,320
Disposal		(118,004)	(307,775)	-	(621,610)	(1,047,389)
At 30 June 2006	7,033,153	4,895,468	16,022,382	2,858,301	8,711,307	39,520,611
NET BOOK VALUE						
At 30 June 2005	1,589,751	2,690,629	7,652,474	10,322,467	3,838,276	26,093,597
At 30 June 2006	466,447	2,443,394	5,768,855	10,064,020	2,739,140	21,481,856

				Page 7
3	INVLGIMENTS		2006	2005
	Unquoted (As at 30 June)	% of Shares	MUR	MUR
	a) State Property Development Co Ltd (SPDC)- Note (i)	Less than 1	400,000	400,000
	b) Africa Export-Import Bank (Afreximbank)- Note (ii)	Less than 1	725,660	725,660
		_	1,125,660	1,125,660

Note (i): As at 30 June 2006 STC holds 4,000 out of 6,650,000 shares in State Property Development Co. Ltd.

Note (ii): As at 30 June 2006 STC holds 10 out of 75,000 shares in Afreximbank.

4	ACCOUNTS RECEIVABLE	2006	2005
		MUR	MUR
	Recovery Account	249,805,028	1,064,916,791
	APM Recovery Account	335,465,602	69,655,696
	Large Taxpayers Department	253,889,393	200,456,866
	Trade Debtors	3,170,949,971	2,011,684,572
	Interest Receivable	5,619,662	2,757,756
	Others	5,872,352	10,745,946
		4,021,602,008	3,360,217,627

,			Page 8
SHORT TERM DEPOSITS	2,	.006	2,005
	USD	MUR	MUR
Foreign Currrencies	21,505,000	666,719,515	-
Local Currency		925,805,479	200,000,000
TOTAL DEPOSITS	21,505,000	1,592,524,994	200,000,000
ACCOUNTS PAYABLE		2006	2005
The Accounts Payable are amounts fal due within one year	lling	MUR	MUR
Government of Mauritius		419,090,584	369,441,101
Trade Creditors		2,585,144,696	1,720,313,631
Accrued Interest		9,890,305	1,589,376
Others		99,656,927	68,455,392
		3,113,782,512	2,159,799,500
	Foreign Currencies  Local Currency  TOTAL DEPOSITS  ACCOUNTS PAYABLE  The Accounts Payable are amounts failule within one year  Government of Mauritius  Trade Creditors  Accrued Interest	Foreign Currencies 21,505,000  Local Currency  TOTAL DEPOSITS 21,505,000  ACCOUNTS PAYABLE  The Accounts Payable are amounts falling due within one year  Government of Mauritius  Trade Creditors  Accrued Interest	Foreign Currencies 21,505,000 666,719,515  Local Currency 925,805,479  TOTAL DEPOSITS 21,505,000 1,592,524,994  ACCOUNTS PAYABLE 2006  The Accounts Payable are amounts falling due within one year  Government of Mauritius 419,090,584  Trade Creditors 2,585,144,696  Accrued Interest 9,890,305  Others 99,656,927

					Page 9
		USD	006 MUR	2005 USD	MUR
7	BORR VINGS	000	mak	CSD	MUK
	The following borrowings are payable w	ithin one year:			
	US DOLLAR LOANS	9	7	13,000,000	384,852,000
	LINES OF CREDIT - USD	85,297,777	2,644,486,978	29,141,940	862,718,004
					,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
	TRADE FINANCE LOAN	9,700,000	300,729,100	9,700,000.0	287,158,800
	TOTAL BORROWINGS	94,997,777	2,945,216,078	51,841,940	1,534,728,804
				01/011/010	1,334,720,004
8	SHARE CAPITAL				
	Authorised				
	1,000,000 shares of MUR 10 each		10,000,000		10,000,000
	Issued and fully paid				
	40,000 shares of MUR 10 each		400,000		400,000
9	TURNOVER		2006		2005
	Turnover is made up as follows:		MUR		MUR
	Petroleum Products: Inland Trade ( see no	te Note (i) below)	7,628,796,239		6,393,769,333
	Fuel Oil (CEB)		2,014,645,548		1,583,890,407
	Windfall Gain		199,851,895		31,755,469
	Hedging Refund (see	note (ii) below)	21,158,007		2
	Windfall Loss				(8,546,975)
	International Trade		7,761,344,665		5,219,963,504
			17,625,796,354		13,220,831,738
	Cement		312,712,124		222,514,786
	Ration Rice		149,019,566		137,528,729
	Flour		536,276,114		448,381,599
	Sugar		5,494,638		5,572,135
	LPG (see Note 1 below)		945,511,314		599,030,167
	Others		19,609,958		AN COMPANY OF THE COM
			19,594,420,068		14,633,859,154
	Note (i)				
	Turnover and Cost of sales are net of amo			s follows:	
	(a) Contribution to Road Development Aut		270,044,796		103,374,376
	(b)Subsidy given for the transportation of I	etroleum products			
	to Rodrigues		19,490,926		20,739,514
	(c) Subsidy given for the transportation of	LPG to Rodrigues	6,883,365		6,174,158

Note (ii): The hedging costs amounted to MUR 13,820,015 resulting in a net gain of MUR 7,337,992.

#### 10 SUBSIDY RECEIVABLE

Rice and Flour

A subsidy of MUR 400 million has been received from Government during the financial year to enable STC to meet the loss incurred on sales of Ration Rice and Flour.

#### 11 INTEREST RECEIVABLE

This amount includes interest receivable on short term deposits and bank balances.

12 EXCEPTIONAL ITEMS	2006	2005
	MUR	MUR
This amount represents:		
(a) Provision for payment of Dead Freight.		
The payment of 'Dead Freight' relates to a contract for		
handling of commodities w hich expired in June 2006.	6,585,563	5,409,945
(b) Writing off of acumulated losses previously treated as		
Account Receivable from Government.	567,647,108	-
	574,232,671	5,409,945

#### 13 INTEREST PAYABLE

This amount includes interest payable on Lines of credit

#### 14 RISK MANAGEMENT POLICY

STC has developed an Enterprise Risk Management Policy regarding the various areas of risk. As part of this business strategy, during the financial year 2005-06 six hedge transactions have been made to cover price risk exposures.

#### 15 PENSION SCHEME

All permanent employees of the Corporation are members of the State Trading Corporation Pension Scheme, a defined benefit Scheme managed by SICOM LTD. The Pension Fund which is wholly funded by the Corporation has a market value of MUR 144.9 million as at 30 June 2006.

#### 16 CONTINGENCIES

A consignment of 12,600 MT of Ration Rice was purchased from Unitech Ltd in February 1995. The consignment arrived in November 1995. In view of the poor quality of the rice, 7,199 MT was sold as animal feed. A claim of Rs 27.6 m has been lodged by the Corporation's legal adviser to the supplier for losses sustained by the Corporation, and an Arbitrator has been appropriated as provided in the contract.

#### 17. NOTES TO CASH FLOW STATEMENT

	1.877.805.199	866,246,298	1,011,558,901	866,246,298	340,444,531	525,801,76
Short Term Deposits	1,592,524,994	200,000,000	1,392,524,994	200,000,000	127,650,818	72,349,18
Bank Balances	285,280,205	666,246,298	(380,966,093)	666,246,298	212,793,713	453,452,58
	MUR	MUR	MUR	MUR	MUR	MUI
	2006	2005	YEAR	2005	2004	YEAI
(b). Analysis of	the balances of Co	ion & cuon Equ	CHANGE IN		5	CHANGE II
7(b) Analysis of	the Balances of C	ash & Cash Equ	ivalents as shown	in the Balance Shee	t	
At 30 JUNE			<u>-</u>	1,877,805,199	866,246,298	
Net Cash (Outflow	/)/Inflow (	Note 17 b)	_	1,011,558,901	525,801,767	
At 1 July		Autoria in Turbus and		866,246,298	340,444,531	
				MUR	MUR	
17 (a). Analysis of	Changes in Cash	& Cash Equiva	lents during the ye	ear		
from Operating A	ctivities		_	(385,455,837)	618,065,143	
Net Cash (Outflow	v)/Inflow		_			
Incr/(Decr) in Acc	ounts Payable			945,797,501	1,642,779,863	
(Incr)/Decr in Acc	ounts Receivable			(658,522,475)	(1,185,777,031)	
(Increase)/Decreas	se in Stocks			22,112,898	27,986,179	
(Profit)/Loss on Sa	0	s		105,419	122,726	
Depreciation Char				5,186,320	5,371,298	
Operating Surplus				(700,135,500)	127,582,108	
Investment Income	to the second			(42,248)	(36,703)	
Interest Receivable				(101,723,706)	(22,168,149)	
Transfer from Surp	lus on petroleum j	oroducts		-	(144,704,494)	
Interest Payable				119,882,097	12,685,071	
Net Surplus/(Defic	cit) for Year			(718,251,643)	281,806,383	
				MUR	MUR	
				2006	2005	