PRICEWATERHOUSECOOPERS

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February 15, 2008

Independent Auditors' Report

To the Chief Auditor of Anguilla

We have audited the accompanying financial statements of **Anguilla Financial Services Commission** which comprise the balance sheet as of August 31, 2007, and the statement of surplus, statement of changes in accumulated reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Financial Services Commission Act, 2003. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the **Anguilla Financial Services Commission** as of August 31, 2007 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Financial Services Commission Act, 2003.

PricewaterhouseCoopers

Chartered Accountants

BALANCE SHEET

As of August 31, 2007

(expressed in United States Dollars)

	2007 $	2006 $
Assets		
Non-current assets		
Plant and equipment (note 5)	**21,473**	16,521
Current assets		
Cash and cash equivalents (note 6)	**261,813**	314,573
Investments (note7)	**627,041**	306,947
Accounts receivable	**30,541**	13,875
Other assets (note 8)	**18,263**	–
	937,658	635,395
Total assets	**959,131**	651,916
Equity		
Accumulated reserves	**897,414**	578,378
Liabilities		
Current liabilities		
Accounts payable and accruals (note 9)	**61,717**	73,538
Total liabilities	**61,717**	73,538
Total liabilities and equity	**959,131**	651,916

Approved by Board Members on December 12, 2007

______________________ **Member** ______________________ **Member**

STATEMENT OF CHANGES IN ACCUMULATED RESERVES

For the year ended August 31, 2007

(expressed in United States Dollars)

	Accumulated reserves $
Balance as of August 31, 2005	357,327
Surplus for the year	258,088
Contribution to the Government of Anguilla (note 13)	(37,037)
Balance as of August 31, 2006	578,378
Surplus for the year	319,036
Balance as of August 31, 2007	**897,414**

STATEMENT OF SURPLUS

For the year ended August 31, 2007

(expressed in United States Dollars)

	2007 $	2006 $
Revenues		
Licence fees	**757,246**	626,272
Interest income	**30,904**	18,539
Other income	**2,709**	–
	790,859	644,811
Operating expenses		
Payroll and related costs (note 10)	**293,969**	227,187
Travel and subsistence (note 11)	**55,321**	42,757
Maintenance/technical support	**26,562**	16,623
Board members' allowances	**25,950**	32,550
Subscriptions	**23,216**	10,694
Professional service fees	**13,485**	22,252
Cleaning	**6,000**	5,300
Audit Fees	**5,525**	3,150
Office supplies	**5,326**	2,480
Entertainment	**4,426**	3,566
Depreciation (note 5)	**4,393**	3,482
Communications	**2,681**	2,602
Conference expenses (note 12)	**2,550**	6,834
Other expenses	**1,410**	6,898
Bank charges	**1,009**	301
Travel (local)	–	47
	471,823	386,723
Surplus for the year	**319,036**	258,088

STATEMENT OF CASH FLOWS

For the year ended August 31, 2007

(expressed in United States Dollars)

	2007 $	2006 $
Cash flows from operating activities		
Surplus for the year	319,036	258,088
Item not affecting cash:		
Depreciation	4,393	3,482
Interest income	(30,904)	(18,539)
	292,525	243,031
Changes in operating assets and liabilities		
Increase in other assets	(18,263)	–
Increase in accounts receivable	(16,666)	(11,980)
(Decrease) increase in accounts payable and accruals	(11,821)	70,388
Decrease in unearned licence fees	–	(2,685)
Cash generated from operations	245,775	298,754
Interest received	23,968	18,417
Net cash from operating activities	269,743	317,171
Cash flows from investing activities		
Purchase of plant and equipment	(9,345)	–
Purchase of investments	(313,158)	(77,470)
Net cash used in investing activities	(322,503)	(77,470)
Cash flows from financing activities		
Contribution to the Government of Anguilla	–	(37,037)
Net cash used in financing activities	–	(37,037)
Net (decrease) increase in cash and cash equivalents	(52,760)	202,664
Cash and cash equivalents, beginning of the year	314,573	111,909
Cash and cash equivalents, end of the year (note 6)	261,813	314,573

NOTES TO FINANCIAL STATEMENTS

August 31, 2007

(expressed in United States Dollars)

1 General Information

Incorporation and principal activity
The Anguilla Financial Services Commission ("the Commission") was established under the Financial Services Commission Act on November 26, 2003 and it commenced operations on February 2, 2004 in the Valley, Anguilla, BWI.

The principal activity of the Commission is to regulate the financial services industry in Anguilla in accordance with the prescribed financial services enactments and to carry out such other functions as are determined under section 3 of the Financial Services Commission Act, 2003.

2 Summary of significant accounting policies

a) Basis of preparation
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the Financial Services Commission Act, 2003 and under the historical cost convention as modified by the revaluation of financial assets and financial liabilities measured at fair value.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Standards, amendments and interpretations effective in 2007

IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006), changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. This amendment does not have a significant impact on the Commission's financial statements.

IFRIC 8, 'Scope of IFRS 2' (effective May 1, 2006), requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This interpretation does not have any impact on the Commission's financial statements.

NOTES TO FINANCIAL STATEMENTS

August 31, 2007

(expressed in United States Dollars)

2 Summary of significant accounting policies …cont'd

a) Basis of preparation … continued

Interpretations to existing standards that are not yet effective and have not been early adopted.

The following interpretations to existing standards have been published that are mandatory for the Commission's accounting periods beginning on or after September 1, 2007 or later periods that have not been early adopted.

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements** - Capital Disclosures (effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Commission assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Commission will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning September 1, 2007.

b) Plant and Equipment

Plant and equipment are stated at historical cost, less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Commission and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of surplus during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to their residual values, if any, over the estimated useful lives indicated below.

Furniture and fittings	10 years
Computers and equipment	5 years

The asset's residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

An asset's carry amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of surplus.

2 Summary of significant accounting policies … cont'd

c) Accounts receivable
Accounts receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of accounts receivables is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the market rate of interest for similar borrowers.

d) Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks, and other short term highly liquid investments with maturities at acquisition of three months or less.

e) Foreign currency transactions
Functional and presentation currency
Items included in the financial statements of the Commission are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Commission's functional and presentation currency is United States dollars.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currency are reported at the exchange rates prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the statement of surplus.

f) Revenue recognition

Licence fees
Licence fees comprise of amounts collected from companies licensed by the Commission. Revenue is recognised when the licence fees are due.

Interest income
Interest income is recognised in the statement of income for all interest bearing instruments on an accruals basis using the effective yield method based on actual purchase price. Interest income includes income earned on cash and cash equivalents and term deposits.

2 Summary of significant accounting policies … cont'd

g) Impairment of long lived assets

Plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

h) Financial assets

The Commission classifies its financial assets as loans and receivables. Loans and receivable are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the balance sheet date, accounts receivable and term deposits are classified as loans and receivables.

i) Provisions

Provisions are recognised when the Commission has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

j) Employee benefits

Pension costs

The Commission's contribution to the Government's defined benefit pension plan is charged to the statement of surplus in the period to which the contributions relate. The Commission does not have its own pension plan and its pension costs are limited to contributions made.

Post-employment obligations

The Commission recognizes a liability and an expense for gratuity due to its employees based on the terms of the employment contracts.

3 Financial risk management

The Commission's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Substantially all of the Commission's transactions, assets and liabilities are denominated in United States dollars. Therefore, there is no significant exposure to currency risk.

Credit risk

Credit risk arises from the possibility that counterparties may default on their obligations to the Commission. The amount of the Commission's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. Impairment provisions are made for losses that have been incurred at the balance sheet date, if any. The Commission monitors this risk annually or more frequently as deemed necessary.

NOTES TO FINANCIAL STATEMENTS

August 31, 2007

(expressed in United States Dollars)

3 Financial risk management…cont'd

Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the ability of funding through an adequate amount of committed credit facilities. Management does not believe significant liquidity risk exists at August 31, 2007.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. None of the Commission's liabilities are interest bearing. The interest bearing assets include the cash and term deposits and investments (notes 6 and 7). The Commission is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Fair value of financial assets and liabilities
Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. None of the Commission's financial assets and liabilities are traded in a formal market. Estimated fair values are assumed to approximate their carrying values.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Commission makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management do not consider that there are estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO FINANCIAL STATEMENTS

August 31, 2007

(expressed in United States Dollars)

5 Plant and Equipment

	Computers and Equipment $	Furniture and Fittings $	Total $
Year ended August 31, 2006			
Opening net book amount	11,996	8,007	20,003
Depreciation charge	(2,390)	(1,092)	(3,482)
Closing net book amount	9,606	6,915	16,521
August 31, 2006			
Cost	15,619	9,541	25,160
Accumulated depreciation	(6,013)	(2,626)	(8,639)
Net book amount	9,606	6,915	16,521
Year ended August 31, 2007			
Opening net book amount	9,606	6,915	16,521
Additions	6,719	2,626	9,345
Depreciation charge	(2,954)	(1,439)	(4,393)
Closing net book amount	**13,371**	**8,102**	**21,473**
August 31, 2007			
Cost	21,838	12,167	34,005
Accumulated depreciation	(8,467)	(4,065)	(12,532)
Net book amount	**13,371**	**8,102**	**21,473**

NOTES TO FINANCIAL STATEMENTS

August 31, 2007

(expressed in United States Dollars)

6 Cash and cash equivalents

	2007 $	2006 $
Term deposits maturing within 90 days	**210,547**	259,451
Operating bank accounts	**51,266**	55,122
Total cash and cash equivalents	**261,813**	314,573

The operating bank accounts and the term deposits are held with National Bank of Anguilla. The operating bank accounts bear interest at a rate of 1% per annum. The term deposits included in cash and cash equivalents are as follows:

	2007 $	2006 $
Term deposit maturing on November 21, 2007 (2006: November 1, 2006), bearing interest at a rate of 3.75% (2005: 3.75%) per annum	**158,630**	152,818
Term deposit maturing on October 31, 2007 bearing interest at a rate of 3.75% per annum	**51,917**	50,000
Term deposit of EC$ nil (2006: EC$52,910) matured on September 25, 2006 (2005:) and bore interest at a rate of 3.75% per annum	–	19,596
Term deposit of EC$ nil (2006: EC$100,000) matured on September 29, 2006 and bore interest at a rate of 4.5% per annum	–	37,037
	210,547	259,451

NOTES TO FINANCIAL STATEMENTS

August 31, 2007

(expressed in United States Dollars)

7 Investments

	2007 $	2006 $
Loans and receivables		
Term deposit held at National Bank of Anguilla, maturing on February 21, 2008 (2006: February 20, 2007) and bearing interest at a rate of 4.25% per annum (2006: 4.25%).	**319,516**	306,358
Term deposit of US$ 300,000 held at National Bank of Anguilla, maturing on March 14, 2008 bearing interest at a rate of 5.50% per annum.	**300,000**	–
	619,516	306,358
Interest receivable	**7,525**	589
Total investments	**627,041**	306,947

8 Other assets

	2007 $	2006 $
Prepaid training costs	**12,793**	–
Housing deposits	**2,800**	–
Other prepayments	**2,670**	–
Total other assets	**18,263**	–

9 Accounts payable and accruals

	2007 $	2006 $
Accrued expenses	**25,083**	31,090
Gratuity accrual	**16,432**	25,072
Bonus accrual	**14,667**	8,796
Trade payables	**5,535**	8,580
Total accounts payable and accruals	**61,717**	73,538

NOTES TO FINANCIAL STATEMENTS

August 31, 2007

(expressed in United States Dollars)

10 Payroll and related costs

	2007	2006
	$	$
Salaries	**183,821**	159,597
Staff recruitment	**32,469**	–
Housing allowance	**25,900**	17,954
Gratuity	**22,216**	25,071
Bonuses	**14,684**	8,795
Health insurance	**6,055**	6,640
Social security costs	**5,741**	5,589
Pension costs	**3,083**	3,541
Total payroll and related costs	**293,969**	227,187

Included in the payroll and related costs are amounts paid to key members of management as follows:

	2007	2006
	$	$
Salaries	**116,587**	104,392
Housing Allowance	**25,900**	17,954
Gratuity	**22,216**	25,071
Bonuses	**10,777**	5,465
Total key management payroll and related costs	**175,480**	152,882

11 Travel and Subsistence

	2007	2006
	$	$
Industry Support	**22,587**	–
Regulatory	**17,013**	–
Chairman's Travel & Subs.	**11,251**	**11,561**
Training	**4,470**	**5,578**
Travel Airfares	–	**12,277**
Travel Subsistence	–	**12,341**
Total Travel and Subsistence	**55,321**	**42,757**

NOTES TO FINANCIAL STATEMENTS

August 31, 2007

(expressed in United States Dollars)

12 Conference expenses

	2007 $	2006 $
Training	**1,308**	–
Regulatory	**1,167**	–
Industry Support	**75**	–
Conferences and Seminars	–	6,834
Total Conferences	2,550	6,834

13 Contribution to the Government of Anguilla

During the year ended August 31, 2006, the Commission made a monetary contribution of $37,037 to the Government of Anguilla. This was reflected in the statement of changes in accumulated reserves.