



# South Pacific Business Development Microfinance Ltd.

## Financial Statements

For the Period Ending 31 December 2010

**AUDIT REPORT**

**TO THE READERS OF THE  
SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LIMITED  
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2010**

Report of the independent auditor to the shareholders of South Pacific Business Development Microfinance Limited (the Company).

**Unqualified opinion**

In our opinion:

- (a) Proper books of account have been kept by the company, so far as it appears from our examination of those books, and
- (b) The accompanying financial statements which have been prepared in accordance with generally accepted accounting practises represented by International Financial Reporting Standards:
  - i. Are in agreement with the books of account;
  - ii. To the best of our information and according to the explanations given to us:
    - a. Give a true and fair view of the state of affairs of the company's financial position as at 31 December 2010
    - b. Give a true and fair view of the company's results and cash flows for the year ended on that date;
    - c. Give the information required by the Tonga Companies Act, 1995 in the manner so required.
- (c) Balance Sheet and Profit and Loss account together with the notes thereon have been drawn up in conformity with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions.

The audit was completed on 16 March 2011, and is the date at which our opinion is expressed.

The basis of the opinion is explained below.

**Basis of Opinion**

The directors of the Company are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them.

We have audited the accompanying financial statements of the company which comprise the balance sheet as of 31 December 2010, the income statement and cash flow statement for the year the ended

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and a summary of significant accounting policies and other explanatory notes as set out on pages 1 to 13. 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. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. The auditor also 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.

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

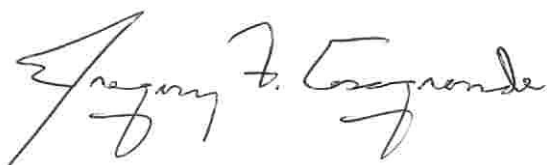


Jennifer Tupou  
JK Chartered Accountant  
Nuku'alofa  
Tonga

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**BALANCE SHEET**  
**As of 31 December 2010**

<b>ASSETS</b>			
<b>Current Assets</b>	<i>Note</i>	<b>2010</b>	<b>2009</b>
Cash on Hand and in Bank	5	252,992.59	84,625.27
Loan Portfolio Outstanding	6	1,449,950.85	532,513.79
Receivables	7	15,385.07	6,050.54
Short-Term Investments	8	248,702.60	250,000.00
<b>Total Current Assets</b>		<b>1,967,031.11</b>	<b>873,189.60</b>
<b>Fixed Assets</b>			
Fixed Assets	9	184,264.81	106,935.00
Less: Accumulated Depreciation		53,766.02	14,208.53
<b>Net Fixed Assets</b>		<b>130,498.78</b>	<b>92,726.47</b>
Other Assets	10	2,808.76	4,387.16
<b>TOTAL ASSETS</b>		<b>2,100,338.66</b>	<b>970,303.23</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Clients' Savings deposits	11	223,116.72	66,836.88
Accounts Payable	12	6,412.62	2,094.79
Taxes Payable		31,877.62	15,601.69
Accrued Interest Payable	14	52,101.54	6,440.10
Commercial Loans	13	200,413.38	-
<b>Total Current Liabilities</b>		<b>513,921.88</b>	<b>90,973.46</b>
<b>Long-term Liabilities</b>			
Soft Loans	14	1,393,747.22	905,346.26
<b>Total Long term Liabilities</b>		<b>1,393,747.22</b>	<b>905,346.26</b>
<b>TOTAL LIABILITIES</b>		<b>1,907,669.10</b>	<b>996,319.72</b>
<b>EQUITY</b>			
Owner's equity	15	182,882.04	182,882.04
Retained Earnings		(208,898.53)	-
Excess of Income and Expenditure, current period		218,686.05	(208,898.53)
<b>TOTAL EQUITY</b>		<b>192,669.56</b>	<b>(26,016.49)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,100,338.66</b>	<b>970,303.23</b>

These financial statements are to be read in conjunction with the accompanying notes to accounts.



**Gregory F. Casagrande**  
Chairman/President

16 March 2011

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Date

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**INCOME STATEMENT**  
**For the period 1 January to 31 December 2010**

<b>Financial Income</b>	<b>2010</b>	<b>2009</b>
Interest on Loans	486,313.21	40,553.95
Development Fee	57,241.00	14,000.00
Loan Insurance Fee	71,876.27	17,500.00
Life Insurance Fee	23,180.00	-
Interest earned on Bank Accounts & Term Deposits	5,467.19	10.98
Other operating revenues	15,124.69	885.32
<b>Total Financial Income</b>	<b>659,202.36</b>	<b>72,950.25</b>
<b>Financial Expenses</b>		
Interest and fees on borrowed funds	89,888.08	13,313.18
Foreign Exchange Loss/(Gain)	(12,814.95)	(180.03)
Interest on Client Saving	2,463.37	-
Loan Insurance Loss	1,903.80	-
<b>Total Financial Expenses</b>	<b>81,440.30</b>	<b>13,133.15</b>
<b>NET FINANCIAL INCOME</b>	<b>577,762.06</b>	<b>59,817.10</b>
Loan Loss Provision	14,565.67	-
<b>NET FINANCIAL MARGIN</b>	<b>563,196.39</b>	<b>59,817.10</b>
<b>Operating Expenses</b>		
Computer Support System	4,204.64	1,217.86
Conference & Meetings	1,123.55	1,168.90
Depreciation	41,312.36	14,208.53
Electricity and Water	5,567.00	528.76
Fees and Bank Charges	3,238.88	673.13
Insurance	5,226.58	1,491.70
Management Fees	143,730.34	67,146.39
Membership Fees and Subscription	256.00	291.00
Office Expenses	14,802.67	10,565.64
Postage, Telephone and Communications	9,168.16	3,696.93
Printing and Office Stationeries	16,766.33	6,512.44
Professional Services	8,093.72	36,008.02
Public Relations and Advertisements	3,127.05	20,295.46
Rentals	24,000.00	8,000.00
Repairs and Maintenance	6,582.89	4,268.38
Salaries and Benefits	154,969.92	36,206.92
Staff Training and Development	7,302.55	4,901.49
Transportation, Fuel, Oil	13,437.91	3,717.84
Travel	42,279.66	47,816.24
<b>Total Operating Expenses</b>	<b>505,190.21</b>	<b>268,715.63</b>

<b>NET OPERATING INCOME BEFORE TAXES &amp; DONATIONS</b>	<b>58,006.18</b>	<b>(208,898.53)</b>
Income Tax	(21,366.56)	-
<b>NET INCOME AFTER TAX AND BEFORE DONATIONS</b>	<b>36,639.62</b>	<b>(208,898.53)</b>
<b>Non-Operating Income/Expenses:</b>		
Grants & Donations	184,054.24	-
Non operating income/(expense)- Loss on write-off of Fixed Assets	(2,007.81)	-
<b>NET INCOME</b>	<b>218,686.05</b>	<b>(208,898.53)</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**STATEMENT OF CASH FLOW**  
**For the year ending December 31, 2010**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2010</b>	<b>2009</b>
Net Operating Income	58,006.18	(208,898.53)
Adjustment for Non-Cash Items:		
Depreciation	39,557.49	14,208.53
Loan Loss Provision	14,565.67	-
 (Increase)/Decrease in Operating Assets:		
Gross Loan Portfolio	(932,002.73)	(532,513.79)
Receivables	(9,334.53)	(6,050.54)
Other Assets	1,578.40	(4,387.16)
 Increase/(Decrease) in Operating Liabilities:		
Accounts Payable	4,317.83	2,094.79
Taxes Payable	16,275.93	15,601.69
Accrued Interest Payable	45,661.44	6,440.10
 <b>Cash Flow from Operating Activities</b>	<b>(761,374.32)</b>	<b>(713,504.91)</b>
Income Tax	(21,366.56)	0.00
<b>Net Cash Flow from Operating Activities</b>	<b>(782,740.88)</b>	<b>(713,504.91)</b>
 <b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(77,329.81)	(106,935.00)
Short-term Investments	1,297.40	(250,000.00)
Loss on Write-off of Fixed Assets	(2,007.81)	-
<b>Net Cash Flow from Investing Activities</b>	<b>(78,040.22)</b>	<b>(356,935.00)</b>
 <b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Client Savings Deposits	156,279.84	66,836.88
Equity	-	182,882.04
Soft Loans	488,400.96	905,346.26
Commercial Loan	200,413.38	-
Grants and Donations	184,054.24	-
<b>Net Cash Flow from Financing Activities</b>	<b>1,029,148.42</b>	<b>1,155,065.18</b>
 <b>NET INCREASE/(DECREASE) IN CASH</b>	<b>168,367.32</b>	<b>84,625.27</b>
<b>OPENING CASH BALANCE</b>	<b>84,625.27</b>	<b>-</b>
<b>CLOSING CASH BALANCE</b>	<b>252,992.59</b>	<b>84,625.27</b>

## **SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**

### *NOTES TO FINANCIAL STATEMENTS*

*FOR THE YEAR ENDING 31 DECEMBER 2010*

#### **1. GENERAL INFORMATION**

South Pacific Business Development Microfinance Ltd. (or SPBD) is a privately owned microenterprise development organization with a mission to provide financial services to economically disadvantaged people particularly women who cannot access savings and loan products from traditional banks. SPBD provides unemployed and low income women entrepreneurs with financial services, training, ongoing guidance and motivation to help them start or grow micro-businesses so that they can improve their lives and that of their families. It was incorporated under the Companies Act 1995 on July 7, 2009 and licensed by the Ministry of Labour, Commerce and Industries to provide financial services. Its offices are located in Tafua'ahau Road, Kolofou District in the capital Nuku'alofa, Kingdom of Tonga.

#### **2. MEASUREMENT BASE**

The accounting principles recognized as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed.

These financial statements have been prepared in accordance with generally accepted accounting practices represented by International Financial Reporting Standards.

#### **3. STATEMENT OF COMPLIANCE**

The financial statements comply with the Disclosure Guidelines for financial reporting of Microfinance Institutions which guidelines are voluntary norms recommended by a group of international donors under the Consultative Group to Assist the Poor (CGAP) and by the members of the Social Enterprise Education and Promotion Network (SEEP).

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **a. Reporting Currency**

All amounts are expressed in Tongan Pa'anga (TOP) currency.

##### **b. Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand and balances held with banks but exclude short term deposits.

##### **c. Investments**

Investments are classified as held to maturity. These investments are with fixed or determinable payments and fixed maturity in which SPBD has the positive intent and ability to hold the investment till maturity.



#### d. Depreciation

Fixed assets are depreciated on a straight-line basis using the following useful life of the assets:

Office Equipment	5 years
Computers and Peripherals	3 years
Software and Electronics System	3 years
Furniture and Fittings	5 years
Leasehold Improvements	2 years
Used Motor Vehicles	3 years

#### e. Revenue

Revenues are presented as Financial Income in the income statement which is comprised of income generated from providing financial services to its target clientele. The main sources of financial income are:

- i. Interest Income - Interest income from loan portfolio and term deposits is recognized using a cash-based method where they are recognized at the time they are received. Hence, if the loan (with the interest) is paid before it is due, then the interest income is recognized at the time of collection; whereas if the loan (with the interest) is in arrears, then no interest income is recognized.
- ii. Development Fee – SPBD charges a fee of 2% of principal loan amount to be used to cover the cost of training the clients, loan evaluation and monitoring. This fee is deducted from the loan proceeds.
- iii. Loan Insurance – This fee is 2% of the total obligations of the client which is the loan principal plus loan interest to cover the risk in the event of death of the client. Should death occur while a loan is still outstanding, the requirement for her family and centre members to fully pay the amount owed to SPBD is eliminated. The loan insurance fee is deducted from the loan proceeds.
- iv. Life Insurance – SPBD offers a Life Micro-insurance Product to help the families of SPBD members to reduce the burden of bereavement and funeral expenses when the member dies. When an SPBD member dies during the period of the loan, her beneficiaries will receive a fixed payment of between 1,000 to 5,000 Pa’anga. The life insurance fee is deducted from the loan proceeds.

Size of Benefit Pa’anga	Insurance Fee in Pa’anga	
Minimum 1,000	15	Compulsory for all members
2,000	35	Voluntary
3,000	55	Voluntary
4,000	75	Voluntary
5,000	95	Voluntary

**f. Grants**

SPBD records all grants and donations in the income statement in the period they are received. It is recorded after the net operating income. Grants and Donations for the period:

	<b>2010</b>	<b>2009</b>
	184,054.24	NIL

SPBD received an International Finance Corporation (IFC) funded grant of 184,054.24 for institutional capacity building.

**g. Expenses**

Expenses are recorded on an accrual basis.

**h. Leases**

SPBD leases the premises from which it conducts its business under an operating lease.

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownership of the leased items, are recognized in the determination of the net income of the company as rentals paid.

**i. Borrowing Costs**

All borrowing costs are expensed.

**j. Financial Instruments**

Financial instruments are recognized in the balance sheet when SPBD becomes a party to a financial contract. These include cash balances, borrowings, related-party advances, receivables and payables. All financial instruments are initially recorded at cost and subsequently carried at the balance outstanding at the balance date.

**k. Income Tax**

Income tax is accounted for using the taxes payable method. The corporate income tax rate is 25%.

**l. Tonga Consumption Tax**

Provision of financial services is exempted from Consumption Tax by the order of the Commissioner of the Revenue Services Department with the consent of the Privy Council.

**m. Foreign Currencies**

Transactions in foreign currency have been converted into TOP amount at rates ruling at the particular balance sheet date. The source for exchange rates are the published rates of either Westpac Bank (Tonga) Ltd or ANZ Bank (Tonga) Ltd using the average of the buying and selling rates. Exchange differences should be taken to the income statement as foreign exchange gain or loss.

	<b>2010</b>	<b>2009</b>
Exchange rate used at balance sheet date (TOP/USD)	0.5510	0.5242

## n. Comparative Figures

The financial statements are prepared for the twelve months period ending December 31, 2010 with comparative figures for six months operating period in 2009.

### 5. CASH ON HAND AND IN BANK

<i>Cash on Hand</i>	<b>2010</b>	<b>2009</b>
Undeposited Collections	1,770.17	8.00
Petty Cash Imprest	500.00	500.00
Savings Reserve Imprest	4,862.92	2,124.96
<b>SUB-TOTAL</b>	<b>7,133.09</b>	<b>2,632.96</b>
<i>Cash in Bank</i>		
ANZ Bank Account 165-3787	143,492.83	66,082.66
ANZ Dollar Account 165-3890	87,452.21	NIL
Westpac Bank Account 2000732848	14,914.46	15,909.65
<b>SUB-TOTAL</b>	<b>245,859.50</b>	<b>81,992.31</b>
 <b>TOTAL</b>	 <b>252,992.59</b>	 <b>84,625.27</b>

### 6. LOAN PORTFOLIO

	<b>2010</b>	<b>2009</b>
Total Loan Disbursements	2,899,328.35	700,000.00
Total Principal Loan Repayments	1,967,325.62	167,486.21
<b>Gross Loan Portfolio</b>	<b>1,464,516.52</b>	<b>532,513.79</b>

#### *Portfolio Composition*

<b>SPBD Group Loan Product</b>	<b>2010</b>	<b>2009</b>
Current Loans	1,456,566.52	532,513.79
Loans in arrears one week or more	0	0
Renegotiated Loans	0	0
Gross Loan Portfolio	1,456,566.52	532,513.79
Loan Loss Reserve	(14,565.67)	0
<b>Net Loan Portfolio</b>	<b>1,442,000.85</b>	<b>532,513.79</b>

<b>Insider Loans/SPBD Staff Loans</b>	<b>2010</b>	<b>2009</b>
Current Loans	7,950	0
Loans in arrears one week or more	0	0
Renegotiated Loans	0	0
Gross Loan Portfolio	7,950	0
Loan Loss Reserve	0	0
<b>Net Insider Loans/Staff Loans</b>	<b>7,950</b>	<b>0</b>

	<b>2010</b>	<b>2009</b>
SPBD Group Loan Product	1,442,000.85	532,513.79
Insider Loans/SPBD Staff Loans	7,950.00	NIL
<b>Loan Portfolio Outstanding</b>	<b>1,449,950.85</b>	<b>532,513.79</b>

### ***No. of Loans Outstanding***

	<b>2010</b>	<b>2009</b>
SPBD Group Loan Product	2,555	698

### ***Portfolio Quality Measurement***

SPBD's main measure of loan delinquency is an aged portfolio-at-risk (PAR) ratio. Loans are separated into classes depending on the number of days they are in arrears. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio. Loans are considered in arrears if any payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, then to any instalment of principal that is due but unpaid, beginning with the earliest such instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully paid.

### ***Loan Loss Provisioning and Loan Loss Reserve***

Some loans in the portfolio will be uncollectible due to failure of individual members and/or the group/centre guarantee despite SPBD's best efforts. The purpose of loan loss provisioning is to set aside adequate funds or loan loss reserve to cover for potential losses. The loan loss reserve is to be reviewed quarterly and determined by applying predicted loss percentages to aged loans grouped by weeks in arrears.

The following schedule is to be used from the loan portfolio aging report to set the reserve:

Number of weeks in arrears	Percentage of outstanding principal required to be charged as loan loss provision
1 week to 4 weeks in arrears	5%
5 weeks to 8 weeks in arrears	10%
9 weeks to 12 weeks in arrears	25%
13 weeks to 16 weeks in arrears	50%
17 weeks to 20 weeks in arrears	75%
21 + weeks in arrears	100%

### ***Loan Write-off***

The purpose of loan write-offs is to remove loans in arrears from SPBD's balance sheet, where there is significant doubt of any material loan payment recovery.

Any loan in arrears exceeding 26 weeks will be short-listed for potential write-off. Write-off decision will be made on a case-by-case basis by the Chairman/President upon review of the recommendations of the General Manager.

### ***Renegotiated Loans***

Under exceptional circumstances, management may renegotiate loans—either refinancing the entire loan (issuing a new loan to pay off an existing one) or rescheduling repayment terms for clients who have suffered catastrophic events and who appear willing and able to repay their loans under longer-term agreements. Every renegotiation of a loan must be approved by the Chairman/President. Renegotiated loans are tracked separately because they have a higher risk profile than loans that have not been renegotiated.

Portfolio Quality	Outstanding Loan Balance	Portfolio at Risk	Loan Loss Reserve Rate	Loan Loss Reserve Amount
Current	1,456,566.52	0%	1%	14,565.67
1 to 4 weeks in arrears	0	0%	5%	0
5 to 8 weeks in arrears	0	0%	10%	0
9 to 12 weeks in arrears	0	0%	25%	0
13 to 16 weeks in arrears	0	0%	50%	0
17 to 20 weeks in arrears	0	0%	75%	0
21 + weeks in arrears	0	0%	100%	0
<b>Total</b>	<b>1,456,566.52</b>	<b>0%</b>		<b>14,565.67</b>

The Board of Directors approved in a special resolution to have a general provision of 1% of the loan portfolio as of 31 December 2010 or 14,565.67.

Movement in Loan Loss Reserve	2010	2009
Loan Loss Reserve, January 1	0	0
Loan Loss Provision for the year	14,565.67	0
Less: Loans Written-off during the year	0	0
<b>Loan Loss Reserve, December 31</b>	<b>14,565.67</b>	<b>0</b>

## 7. RECEIVABLES

	2010	2009
Advances to Officers and Staff	6,000.00	97.75
Other Receivables	4,483.09	3,500.19
Prepaid Expenses	4,901.98	2,452.60
<b>Total Receivables</b>	<b>15,385.07</b>	<b>6,050.54</b>

## 8. SHORT-TERM INVESTMENTS

	2010	2009
Term Deposits – Westpac Bank	203,330.56	50,000.00
Term Deposits – ANZ	45,372.04	200,000.00
<b>Total</b>	<b>248,702.60</b>	<b>250,000.00</b>

## 9. FIXED ASSETS

Type	Cost	Accumulated Depreciation	Depreciation for the year	Net Book Value
Furniture and Fixtures	23,354.00	5,179.72	3,922.58	18,174.28
Computer Equipment and Peripherals	19,292.61	5,406.92	4,942.11	13,885.69
Motor Vehicle	111,200.00	34,072.22	25,711.02	77,127.78
Office Equipment	13,908.95	2,238.02	1,979.47	11,670.93
Software and Electronics System	12,273.25	2,633.14	1,933.13	9,640.11
Leasehold Improvements	4,236.00	4,236.00	2,824.05	0
<b>2010 TOTAL</b>	<b>184,264.81</b>	<b>53,766.02</b>	<b>41,312.36</b>	<b>130,498.79</b>
<b>2009 TOTAL</b>	<b>106,935.00</b>	<b>0</b>	<b>14,208.53</b>	<b>92,726.47</b>

Computer and office equipment with an acquisition cost of 6,974.63 were stolen during an office break-in in May 2010. These assets were written-off in July 2010. At the time of write-off, these assets had an accumulated depreciation of 1,754.83 and the remaining amount of 5,219.80 was recorded as loss in the income statement.

## 10. OTHER ASSETS

	<b>2010</b>	<b>2009</b>
Stocks of Passbooks	1,361.27	2,219.67
Stocks of Receipt Books	1,447.49	2,167.49
<b>Total</b>	<b>2,808.76</b>	<b>4,387.16</b>

## 11. CLIENTS SAVINGS DEPOSITS

SPBD promotes good management of household finances by members and a household with a sufficient savings is assured of having cash when an unforeseen event occurs. SPBD actively encourages its members to develop a regular habit of savings. All members are required to open a savings account and deposit an initial amount of TOP 10. This must be performed prior to any 1<sup>st</sup> Cycle loan disbursement occurs.

All members also face a compulsory savings requirement. The compulsory savings requirement is 2.5% of the loan amount and deducted from the loan proceeds. The compulsory savings amount cannot be withdrawn while the loan is outstanding. Only when a loan is fully repaid can a member withdraw the compulsory savings.

Members are also encouraged to make voluntary deposits during centre meetings or at the SPBD office. These voluntary deposits can be withdrawn at any time when needed by the member.

All clients' savings are deposited in a segregated bank account at Westpac Bank. SPBD is not a regulated financial institution and does not use clients' savings for onward lending. The number of savings accounts as of the end of the financial year is:

	<b>2010</b>	<b>2009</b>
<i>No. of Savings Accounts</i>	2,925	723
<i>Clients Saving Balances</i>	223,116.72	66,836.88

## 12. ACCOUNTS PAYABLE

	<b>2010</b>	<b>2009</b>
Suppliers, Audit Fees & Other	6,412.62	2,094.79

## 13. COMMERCIAL LOANS

	<b>Type of Facility</b>	<b>Facility Amount</b>	<b>Outstanding balance</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>
Tonga Development Bank	Fluctuating Credit Facility (FCF)	600,000.00	200,413.38	10.5%	06-Sept-2010	On demand

The FCF with Tonga Development Bank is secured by a charge of 120% of the loan portfolio of SPBD or 720,000 to cover the 600,000 facility amount.

#### 14. SOFT LOANS

SPBD availed of long-term loans at below market interest rates with the following balances:

<b>Outstanding Balance of Soft Loans</b>	<b>2010</b>	<b>2009</b>
Microdreams Foundation (USA)	393,747.22	405,346.26
Jasmine Charitable Trust (NZ)	1,000,000.00	500,000.00
<b>Total</b>	<b>1,393,747.22</b>	<b>905,346.26</b>

<b>Accrued Interest Payable</b>	<b>2010</b>	<b>2009</b>
Microdreams Foundation (USA)	1,416.54	1,097.10
Jasmine Charitable Trust (NZ)	50,685.00	5,343.00
<b>Total</b>	<b>52,101.54</b>	<b>6,440.10</b>

#### MicroDreams Foundation

Five (5) long term loans were received during the period with the following terms:

Loan Amount and Currency	Amount in TOP*	Interest Rate	Date Granted	Maturity Date	Grace Period on Principal (years)	Principal Repayment during the period	Interest Payments during the period	Accrued Interest Payable
TOP 4,000.00	4,000.00	7%	20-Jul-2009	30-Sept-2012	3.25	0	0	405.00
USD 75,000.00	136,116.12	5%	6-Aug-2009	30-Sept-2013	3.65	0	7,075.47	303.09
TOP 162,887.66	162,887.66	7%	1-Sept-2009	30-Sept-2014	4.30	0	11,402.00	507.00
USD 50,000.00	90,744.10	5%	2-Oct-2009	15-Dec-2014	5.00	0	4,716.98	201.45
<b>TOTAL</b>	<b>393,747.22</b>						<b>23,194.45</b>	<b>1,416.54</b>

#### Jasmine Charitable Trust

Loan Amount and Currency	Amount in TOP*	Interest Rate	Date Granted	Maturity Date	Grace Period on Principal (years)	Principal Repayment during the period	Interest Payments during the period	Accrued Interest Payable
TOP 1,000,000.00	1,000,000.00	5%	15-Oct-2009	31-Dec-2013	2.0	0	0	50,685.00

All outstanding loans with Microdreams Foundation and Jasmine Charitable Trust are unsecured. No deposits are tied to these loans and no guarantee was obtained to secure them.

**15. OWNER'S EQUITY**

	<b>2010</b>	<b>2009</b>
Gregory F. Casagrande	182,882.04	182,882.04

**16. TAXATION**

Income tax payable is 25% of Net Operating Income for the financial period.

Net Operating Income		58,006.18
<i>Add: Non deductible expenses</i>		
Accounting depreciation	41,312.36	
Loan loss provision	<u>14,565.67</u>	<u>55,878.03</u>
		113,884.21
<i>Less:</i>		
Tax depreciation		<u>28,417.96</u>
Taxable Income		<u>85,466.25</u>
<b>Income Tax Payable</b>		<u><u>\$21,366.56</u></u>