KOKOPO MICROFINANCE LIMITED

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

KOKOPO MICROFINANCE LIMITED

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KOKOPO MICROFINANCE LIMITED

DIRECTORS' REPORT

Your directors present their report on the company for the financial year ended 31 December 2011.

Directors

The names of the directors in office at any time during or since the end of the financial year are:

Henry Tavul (Chairman)

Ezekiel Bangin (Director)

Lady Nerrie Tololo (Director)

Esau Niba (Director)

Ellison Pidik (Director)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Operating Results

The loss of the company for the financial year after providing for income tax amounted to PGK75,593.

Review of Operations

A review of the operations of the company during the financial year and the results of those operations show during the year, the company continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Significant Changes in State of Affairs

No significant changes in the company's state of affairs occurred during the financial year.

Principal Activity

The principal activity of the company during the financial year was provision of microfinance services.

There has been no material change in the Company's business, or classes of business that the company is engaged in and or set up to engage in, during the year that is material to an understanding of the company's business..

After Balance Date Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Likely Developments

The company expects to maintain the present status and level of operations and hence there are no likely developments in the company's operations.

Environmental Issues

The company's operations are not regulated by any significant environmental regulation under a law of Papua New Guinea.

Options

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Signed in accordance with a resolution of the Board of Directors:

Chairman ______________________ Henry Tavul

Director ______________________ Ezekiel Bangin

Dated this 5th day of June 2012

KOKOPO MICROFINANCE LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 PGK	2010 PGK
Revenue		978,713	200,008
Employee benefits expense		(383,285)	(216,442)
Transport costs		(738)	-
Depreciation and amortisation expenses		(64,088)	(59,563)
Advertising		(58,206)	(11,261)
Other expenses		(547,989)	(335,973)
Profit before income tax expense		(75,593)	(423,231)
Income tax expense		-	-
Profit after income tax expense		(75,593)	(423,231)

The accompanying notes form part of these financial statements.

KOKOPO MICROFINANCE LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2011

	Notes	2011 PGK	2010 PGK
CURRENT ASSETS			
Cash and cash equivalents	2	**476,346**	170,305
Loan to Customers	3	**10,165,817**	7,610,229
Inventories	4	**5,858**	17,751
Prepayments and Staff Advances	5	**10,983**	8,383
TOTAL CURRENT ASSETS		**10,659,004**	7,806,668
NON-CURRENT ASSETS			
Property, plant and equipment	6	**761,326**	556,104
TOTAL NON-CURRENT ASSETS		**761,326**	556,104
TOTAL ASSETS		**11,420,330**	8,362,772
CURRENT LIABILITIES			
Customers Savings and other payables	7	**10,934,839**	7,905,235
Provisions	8	**42,025**	22,826
TOTAL CURRENT LIABILITIES		**10,976,864**	7,928,061
TOTAL LIABILITIES		**10,976,864**	7,928,061
NET ASSETS		**443,466**	434,711
EQUITY			
Contributed equity		**373,102**	309,720
Reserves	10	**852,689**	481,975
Accumulated losses	11	**(782,325)**	(356,984)
TOTAL EQUITY	9	**443,466**	434,711

The accompanying notes form part of these financial statements.

KOKOPO MICROFINANCE LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 PGK	2010 PGK
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		(569,562)	(24,566)
Payments to suppliers and employees		(1,923,449)	(551,641)
Interest received		-	26,739
Net cash used in operating activities		(2,493,011)	(549,468)
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(269,311)	269,762
Payment for investments		-	500,000
Net cash provided by/(used in) investing activities		(269,311)	769,762
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issue		63,382	28,994
Proceeds from borrowings		3,004,981	(128,516)
Net cash provided by/(used in) financing activities		3,068,363	(99,522)
Net increase in cash held		306,041	120,772
Cash at beginning of financial year		170,305	49,533
Cash at end of financial year	12	476,346	170,305

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a special purpose financial report prepared for use by the directors and shareholders of the company. The directors have determined that the company is not a reporting entity and that the accounting policies adopted are appropriate to meet the needs of the shareholders. The financial report does not comply with International Financial Reporting Standards.

The financial report is prepared on an accruals basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

The following specific accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this financial report:

(a) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

(b) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses.

(c) Property, Plant and Equipment

Property, plant and equipment are carried at cost, independent or directors' valuation. All assets, excluding freehold land and buildings, are depreciated over their useful lives to the company. Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation in shareholders equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets original cost is transferred from the revaluation reserve to retained earnings.

The carrying amount of plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted in determining recoverable amounts.

(d) Financial Instruments

Investments are carried at cost or at directors' valuation. Dividends are brought to account in the Profit and Loss Account when received. Non-current investments are measured on the cost basis. The carrying amount of investments is reviewed annually by directors' to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for shares in listed companies or the underlying net assets for other non-listed corporations.

(e) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

(f) Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the best estimate of the amounts required to settle the obligation at reporting date.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at-call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Trade Creditors and Other Payables

Trade creditors and other payables, including bank borrowings and distributions payable, are recognised at the nominal transaction value without taking into account the time value of money.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised gross of the amount of GST, except where the amount of GST incurred is not recoverable from the Internal Revenue Commission. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(j) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(k) Investments

Investments held are originally recognised at cost which includes transaction costs. They are subsequently measured at fair value which is equivalent to their market bid price at reporting date. Movements in fair value are recognised through an equity reserve.

KOKOPO MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 PGK	2010 PGK
NOTE 2: CASH AND CASH EQUIVALENTS			
Cash on hand		560	107
Bank South Pacific Ltd - KMF 1		26,466	169,794
Bank South Pacific Ltd - MVDF		123	404
Bank South Pacific Ltd - KML 2		449,197	-
		476,346	170,305

A floating charge over cash and cash equivalents has been provided for certain debts.

	Note	2011 PGK	2010 PGK
NOTE 3: TRADE AND OTHER RECEIVABLES			
CURRENT			
Loan to Customers		9,380,870	7,787,841
Provision for Bad Loans		(177,612)	(177,612)
		9,203,258	7,610,229
Migration Difference		962,559	-
		10,165,817	7,610,229
NOTE 4: INVENTORIES			
CURRENT			
Passbook Inventory		5,858	17,751
NOTE 5: OTHER ASSETS			
CURRENT			
Car Rental Deposit		3,125	3,125
Lease Master - Car Rental Deposit		3,458	3,458
Vunapalauva Property		4,400	1,800
		10,983	8,383
NOTE 6: PROPERTY, PLANT AND EQUIPMENT			
LAND			
Leasehold land:			
At cost		400,800	400,800
BUILDINGS			
At cost		7,700	-
Less accumulated depreciation		(367)	-
		7,333	-
Total land and buildings		408,133	400,800
PLANT AND EQUIPMENT			
(a) Plant & equipment			
At cost		16,990	-
Less accumulated depreciation		(388)	-
		16,602	-

KOKOPO MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 PGK	2010 PGK
NOTE 6: PROPERTY, PLANT AND EQUIPMENT (Continued)			
(b) Motor vehicles			
At cost		202,195	202,195
Less accumulated depreciation		(150,132)	(127,819)
		52,063	74,376
(c) Office equipment			
At cost		383,453	158,026
Less accumulated depreciation		(119,304)	(89,681)
		264,149	68,345
(d) Furniture, fixtures & fittings			
At cost		34,347	18,270
Less accumulated depreciation		(13,968)	(5,687)
		20,379	12,583
Total plant and equipment		353,193	155,304
Total property, plant and equipment		761,326	556,104

NOTE 7: TRADE AND OTHER PAYABLES

	2011 PGK	2010 PGK
CURRENT		
Unsecured liabilities		
Sundry payables and accruals (Group Tax & Accrued Audit Fees)	25,692	34,305
Customers Savings. Tellers cash Surplus and Unknown Deposits	10,909,147	7,870,930
	10,934,839	7,905,235

NOTE 8: PROVISIONS

	2011 PGK	2010 PGK
CURRENT		
Employee benefits (Provision for Long Service and Annual Leave)	42,025	22,826

NOTE 9: EQUITY

	2011 PGK	2010 PGK
Total equity at the beginning of the financial year	455,677	546,979
Total changes in equity recognised in the income statement	(75,593)	(141,262)
Transactions with owners as owners		
- Contributions of equity	63,382	28,994
Total equity at the financial year	443,466	434,711

	Note	2011 PGK	2010 PGK
NOTE 10: RESERVES			
Asset revaluation reserve	(a)	**281,969**	281,969
Grant - Kokopo District Funds	(b)	**470,720**	200,006
East New Britain Provincial Government	(c)	**100,000**	-
		852,689	481,975
(a) Asset Revaluation Reserve			
Movements during the financial year:			
Opening balance		281,969	-
		-	281,969
Closing balance		281,969	281,969

The asset revaluation reserve records revaluations of non-current assets

		2011 PGK	2010 PGK
(b) General reserve			
Movements during the financial year:			
Opening balance - Kokopo District Fund		200,006	200,000
		270,714	6
Closing balance		470,720	200,006

The general reserve was used in prior years to record amounts set aside of fund the future expansion of the company.

		2011 PGK	2010 PGK
(c) Other reserves			
Movements during the financial year:			
Opening balance		-	-
Grant ENB Provincial Government		100,000	-
Closing balance		100,000	-

The other reserves records

Kokopo District Treasury assisted Kokopo Microfinance through its Electoral Development Fund (EDF) as a start up capital to initiate the operation. They had made a commitment of K450,000 over the next three years (2004-2006)

NOTE 11: RETAINED EARNINGS

	2011 PGK	2010 PGK
Retained earnings (accumulated losses) at the beginning of the financial year	(706,732)	66,247
Net profit (loss) attributable to shareholders of the company	(75,593)	(423,231)
Accumulated losses at the end of the financial year	(782,325)	(356,984)

NOTE 12: CASH FLOW INFORMATION

	Note	2011 PGK	2010 PGK
Reconciliation of cash flow from operations with profit after income tax			
Loss from operating activities after income tax		(75,593)	(423,231)
Non-cash flows in profit			
Depreciation		64,088	59,563
Changes in assets and liabilities			
Increase in receivables		(1,548,275)	(225,390)
(Increase)/decrease in other assets		(965,159)	11,572
(Increase)/decrease in inventories		(11,893)	13,248
Increase in payables		24,622	1,070
Increase in provisions		19,199	11,527
Cash flows from operations		(2,493,011)	(551,641)

NOTE 13: FINANCIAL RISK MANAGEMENT

The company's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans, bills and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2011 PGK	2010 PGK
Financial Assets		
Cash and cash equivalents	476,346	170,305
Loan to Customers and other receivables	10,165,817	7,610,229
	10,642,163	7,780,534
Financial Liabilities		
Customers Savings and other payables	10,934,839	7,905,235
	10,934,839	7,905,235

Specific Financial Risk Exposures and Management

The main risks that the company is exposed to through its financial instruments are

(a) Interest Rate Risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect the future cash flows or the fair value of fixed rate financial instruments. The company is also exposed to earnings volatility of floating rate instruments.

(b) Liquidity Risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The company manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- using derivatives that are only traded in highly liquid markets
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources

NOTE 13: FINANCIAL RISK MANAGEMENT (Continued)

- maintaining a reputable credit profile
- managing credit risk related to financial assets
- investing only in surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

(c) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial report.

The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

(d) Price Risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The company investments are held in the following sectors at reporting date:

KOKOPO MICROFINANCE LIMITED

DIRECTORS' DECLARATION

The directors have determined that the company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 2 to 11 present fairly the company's financial position as at 31 December 2011 and its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements; and

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Chairman ______________________ Henry Tavul

Director ______________________ Ezekiel Bangin

Dated this 5th day of June 2012

DFK
HILL MAYBERRY
CHARTERED ACCOUNTANTS

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KOKOPO MICROFINANCE LIMITED

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KOKOPO MICROFINANCE LIMITED

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report, of Kokopo Microfinance Limited, which comprises the balance sheet as at 31 December 2011, income statement and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the company's constitution and are appropriate to meet the needs of the shareholders. The directors' responsibility also includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is 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 the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the shareholders. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to shareholders for the purpose of fulfilling the directors financial reporting under the company's constitution. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the shareholders, or for any purpose other than that for which it was prepared.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional ethical pronouncements.

KOKOPO MICROFINANCE LIMITED

PRIVATE INFORMATION FOR THE DIRECTORS ON THE 2011 FINANCIAL STATEMENTS

TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 PGK	2010 PGK
INCOME		
Loan Interest and Fees	966,899	173,269
LESS COST OF GOODS SOLD		
Opening inventory	17,751	4,503
Purchases	(11,893)	13,248
	5,858	17,751
Less Closing inventory	5,858	17,751
Total Cost of Goods Sold	-	-
GROSS PROFIT	966,899	173,269
LESS EXPENSES		
Advertising	2,959	10,741
Audit fees	30,683	-
Bad debts	-	5,384
Bank charges	8,827	5,325
Cash Theft	-	52
Casual labour	721	3,248
Cleaning	188	-
Computer expenses	30,069	27,873
Conference/Seminar costs	4,419	-
Consultancy fees	20,743	2,964
Depreciation	64,088	59,563
Directors' emoluments	18,812	14,072
Donations	5,687	1,127
Electricity	22,312	8,690
Employees' amenities	1,888	508
Entertainment expenses	1,113	1,061
Freight and cartage	738	-
General expenses	56,747	-
Insurance	20,370	15,854
Licensing fees	16,550	15,775
Long service leave	1,025	-
Market Expenses	55,248	520
Motor vehicle expenses	46,603	39,317
Office expenses	737	2,121
Postage	-	598
Printing and stationery	45,857	17,082
Rates and taxes	-	360
Rent	169,420	89,620
Repairs and maintenance	2,681	2,776
Salaries and wages	364,203	210,736
Security costs	26,648	60,258
Service charges	1,540	-
Expenses carried forward	1,020,876	595,625

KOKOPO MICROFINANCE LIMITED

PRIVATE INFORMATION FOR THE DIRECTORS ON THE 2011 FINANCIAL STATEMENTS

TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 PGK	2010 PGK
Expenses brought forward	1,020,876	595,625
Staff training and welfare	1,064	1,950
Superannuation	14,385	-
Telephone	10,792	7,467
Travelling expenses	7,189	18,197
TOTAL EXPENSES	1,054,306	623,239
NET PROFIT/(LOSS)	(87,407)	(449,970)
OTHER INCOME / (EXPENSES)		
Interest	-	26,739
Other income	11,814	-
PROFIT/(LOSS)	(75,593)	(423,231)