# REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Promoting Transparency and Accountability

KNAO

For the Parliament and the People of Kiribati

# Telecom Services Kiribati Limited For the Year Ended 31st March 2007

## KIRIBATI NATIONAL AUDIT OFFICE 2010

Promoting Transparency and Accountability
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# KIRIBATI NATIONAL AUDIT OFFICE

*Promoting Transparency and accountability for the Parliament and the People of Kiribati*

TE MAURI TE RAOI AO TE TABOMOA

## Audit Report

## To the readers of Telecom Services Kiribati Limited's financial statements for the year ended 31 March 2007

The Auditor-General is the auditor of Telecom Services Kiribati Limited (the company).

### Qualification – limitation of scope

In our opinion, there was a severe limitation of scope from lack of documentation and explanations to support the following balances in the financial statements.

Specifically the limitation of scope was due to the following matters:

- An accurate bank confirmation could not be obtained from the ANZ bank Kiribati.
- No documentation available to confirm the ARF bank balance of $10,000.
- Documentation relating to $8,000 worth of unpresented cheques could not be located.
- No third party confirmation available from Telstra and Telecom on the debit and credit balances on the balance sheet and the corresponding inpayment/outpayment values in the profit & loss statement due to the age of the balances.
- Late adjustment relating to $483,722 prepayment and trade creditors of $128,319 could not be verified to supporting documentation.
- No documentation available for review relating to fixed asset disposals for the year of $116,900.
- Term loan with ANZ Kiribati of $4.2M could not be verified to a third party confirmation.
- Contingencies could not be confirmed due to no legal confirmation letter being responded to by TSKL's lawyers.

- Insufficient contract management to allow us to determine an accurate and complete level of commitments.

- The statement of cashflows and corresponding reconciliation to the net surplus/(deficit) could not be audited due to lack of sufficient explanation as to how figures were determined.

- Variance explanations for the Statement of financial performance movements in significant expenditure items were not provided.

- Unable to verify internet revenue of $589,575 due to insufficient information audit.

- Expenditure could not be fully verified due to:

    - Late adjustment of $132,699 relating to outer island study not supported; and

    - Missing documentation relating to $388,000 of expenditure.

## Qualification - Adverse opinion

After considering the limitation of scope as outlined above, in our opinion, the financial statements of the company are not fairly stated. An adverse opinion has been issued on the financial statement of the company due to the limitation of scope and the following balances being materially misstated.

- Inventory materially overstated as unit prices include both cost of inventory and freight costs.

- Goods in transit and the purchase order liability balances in the balance sheet had been adjusted back to 2003/04 levels. Audit unable to verify the validity of this transaction due to lack of documentation relating to the 2007 financial year.

- Goods received liability is overstated but unable to quantify the error due to lack of sufficient documentation.

Based on our examination the company has not kept proper accounting records for the year ended 31 March 2007.

The audit was completed on 5 August 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

## Basis of Opinion

We carried out the audit in accordance with the International Organisation of Supreme Audit Institution's (INTOSAI) Auditing Standards, which incorporate the International Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

## Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice. The financial statements must give a true and fair view of the financial position of the company as at 31 March 2007 and the results of its operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Public Finance (Control and Audit) Act 1981.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from the Public Finance (Control and Audit) Act 1981.

## Independence

When carrying out the audit we followed the independence requirements of the Kiribati National Audit Office, which incorporate the independence requirements of the International Standards of Auditing.

Other than the audit, we have no relationship with or interests in the company.

Mrs Maketara Iotua Metutera
For Auditor General
Kiribati National Audit Office

## Telecom Services Kiribati Limited
## Directors' Report

The directors present their report together with the financial statements of the Telecom Services Kiribati Limited ("the company") for the year ended 31 March 2007 and the auditors' report thereon.

**Directors**

The directors of the company in office at the date of this report are:

Mr Francis Ngalu (Chairman)
Mr Inatoa Teebania
Mr Bill Reiher
Mr Uera Rabaua
Mr Elliot Ali

The above Directors were appointed on 26 November 2003.

**State of affairs**

In the opinion of the directors the accompanying balance sheet gives a true and fair view of the state of affairs of the Company as at 31 March 2007 and the accompanying profit and loss account gives a true and fair view of the results of the Company and statement of cash flows for the year then ended.

**Principal activities**

The principal activities of the company are to develop, expand and operate and manage on commercial principles, the domestic and international telecommunications services and systems of Kiribati.

**Operating results for the period**

The operating profit after income tax for the year ended 31 March 2007 was $972,126 (2006: $1,551,935).

**Dividends**

The directors recommend that no dividends be paid for the year ended 31 March 2007 (2006: $nil).

**Reserves**

The directors recommend that no amounts be transferred to or from reserves.

**Events subsequent to year end**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Dated at Tarawa this 23rd day of August ~~2007~~ 2010

Signed in accordance with a resolution of the directors:

Director

Director

TELECOM SERVICES KIRIBATI Limited
INCOME STATEMENT
For the year ended 31 March 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | A$ | A$ |
| Income | | | |
| Telephone revenue | 3.1 | 8,234,640.18 | 8,799,268.03 |
| Other operating income | 3.2 | 447,721.65 | 1,503,928.94 |
| | | 8,682,361.83 | 10,303,196.97 |
| Less: Expenses | | | |
| Personnel expenses | 4.1 | 2,035,521.43 | 1,715,639.30 |
| Depreciation expense | 4.2 | 1,328,132.00 | 1,068,667.00 |
| Other operating expenses | 4.3 | 3,884,516.53 | 5,153,110.25 |
| | | 7,248,169.96 | 7,937,416.55 |
| Profit from operations | | 1,434,191.87 | 2,365,780.42 |
| Net financing revenue | 5 | 53,694.44 | 14,120.12 |
| Profit before tax expense | | 1,487,886.31 | 2,379,900.54 |
| Less: Income tax expense | 6 | 515,760.21 | 827,965.20 |
| Net surplus/(deficit) after tax | | 972,126.10 | 1,551,935.34 |

Telecom Services Kiribati Limited
Balance Sheet
As at 31 March 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | A$ | A$ |
| **Current Assets** | | | |
| Cash | 7.1 | 1,258,498.34 | 1,744,719.44 |
| Receivables | 7.2 | 4,852,708.59 | 5,108,676.64 |
| Inventories | 7.3 | 1,000,747.47 | 1,771,920.80 |
| Total current assets | | 7,111,954.40 | 8,625,316.88 |
| **Non-current assets** | | | |
| Plant and equipment | 8.1 | 10,165,426.71 | 9,831,869.34 |
| Deferred tax | 8.2 | 109,385.00 | 109,385.00 |
| | | 10,274,811.71 | 9,941,254.34 |
| **Total Assets** | | 17,386,766.11 | 18,566,571.22 |
| **Current Liabilities** | | | |
| Clearing accounts | 9.1 | (45,602.29) | (47,286.83) |
| Creditors & accruals | 9.2 | 2,174,559.89 | 3,410,957.49 |
| Provisions | 9.3 | 3,657,742.20 | 3,481,181.99 |
| | | 5,786,699.80 | 6,844,852.65 |
| **Long Term Liabilities** | | | |
| Borrowings | 9.4 | 4,296,254.87 | 4,890,033.23 |
| **Net Assets** | | **7,303,811.44** | **6,831,685.34** |
| **Shareholder's equity** | | | |
| Share capital | 10.1 | 3,729,278.44 | 3,257,152.34 |
| Retained profits | 10.2 | 3,574,533.00 | 3,574,533.00 |
| | | **7,303,811.44** | **6,831,685.34** |

Telecom Services Kiribati Limited
Statement of cash flows
For the year ended 31 March 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | A$ | A$ |
| **Cash flows from operating activities** | | | |
| | | | |
| **Cash was provided from:** | | | |
| Domestic billings | | 6,678,424.27 | 7,736,339.74 |
| Inpayments | | 314,838.18 | 510,481.01 |
| Interest received | | 53,694.44 | 14,120.12 |
| Gov't grant | | 720,184.42 | |
| Other income | | 1,826,602.28 | 1,727,171.09 |
| | | 9,593,743.59 | 9,988,111.96 |
| **Payments were made for** | | | |
| Direct costs | | 201,995.77 | 296,282.18 |
| Income taxes paid | | 680,000.00 | 584,131.70 |
| Interest paid | | 563,221.60 | 306,877.29 |
| Network costs | | 498,224.81 | 502,681.10 |
| Operating costs | | 4,811,553.51 | 4,337,458.89 |
| | | 6,754,995.69 | 6,027,431.16 |
| Net cash provided by operating activities | | 2,838,747.90 | 3,960,680.80 |
| **Cash Flows from investing activities** | | | |
| Payment for plant and equipment | | -1,672,189.00 | -3,806,249.00 |
| Proceeds from sale of non-current assets | | 4,220.00 | 0.00 |
| Net cash used in investing activities | | -1,667,969.00 | -3,806,249.00 |
| **Cash Flows from financing activities** | | | |
| Proceeds from borrowing | | 0.00 | 1,723,742.30 |
| Repayment of borrowings | | -1,157,000.00 | -495,123.66 |
| Payment for dividend | | -500,000.00 | |
| Net cash used in financing activities | | -1,657,000.00 | 1,228,618.64 |
| Net increase/(decrease) in cash held | | -486,221.10 | 1,383,050.44 |
| Cash at the beginning of the financial year | | 1,744,719.44 | 361,669.00 |
| Cash at the end of the financial year | 7.1 | 1,258,498.34 | 1,744,719.44 |

# Telecom Services Kiribati Limited

## Notes to and forming part of the financial statements

## For the year ended 31 March 2007

1. **Significant accounting policies**

Telecom Services Kiribati Limited is an entity domiciled in the Republic of Kiribati.

(a) **Statement of compliance**

The financial statements have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee ("IASC"), interpretations issued by the Standing Interpretations Committee of the IASC and the requirements of the Kiribati Law.

(b) **Basis of preparation**

The financial statements are presented in Australian dollars. They are prepared on the historical cost basis.

(c) **Foreign currencies**

Foreign currency transactions are translated to Australian dollars at the rate of exchange ruling at the date of the transaction.

Amounts receivable and payable in foreign currency are translated at the rate of exchange ruling at balance date. Gains and losses on revaluation have been included in the profit and loss statement as part of the operating profit.

(d) **Plant and Equipment**

*(i) Owned assets*

Items of plant and equipment are stated at cost less accumulated depreciation.

*(ii) Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of plant and equipment. The estimated useful lives are as follows:

| | |
|---|---|
| Building | 5% |
| Plant and Equipment | 10-20% |
| Motor vehicle | 20% |
| Furniture and fittings | 10% |
| Office and training equipment | 10% |
| Air conditioners | 33.3% |

*(iii) Subsequent expenditure*

Subsequent expenditure on assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Telecom Services Kiribati Limited
Statement of cash flows
For the year ended 31 March 2007

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | A$ | A$ |
| **Cash flows from operating activities** | | | |
| **Cash was provided from:** | | | |
| Domestic billings | | 6,678,424.27 | 7,736,339.74 |
| Inpayments | | 314,838.18 | 510,481.01 |
| Interest received | | 53,694.44 | 14,120.12 |
| Gov't grant | | 720,184.42 | |
| Other income | | 1,826,602.28 | 1,727,171.09 |
| | | 9,593,743.59 | 9,988,111.96 |
| **Payments were made for** | | | |
| Direct costs | | 201,995.77 | 296,282.18 |
| Income taxes paid | | 680,000.00 | 584,131.70 |
| Interest paid | | 563,221.60 | 306,877.29 |
| Network costs | | 498,224.81 | 502,681.10 |
| Operating costs | | 4,811,553.51 | 4,337,458.89 |
| | | 6,754,995.69 | 6,027,431.16 |
| Net cash provided by operating activities | | 2,838,747.90 | 3,960,680.80 |
| **Cash Flows from investing activities** | | | |
| Payment for plant and equipment | | -1,672,189.00 | -3,806,249.00 |
| Proceeds from sale of non-current assets | | 4,220.00 | 0.00 |
| Net cash used in investing activities | | -1,667,969.00 | -3,806,249.00 |
| **Cash Flows from financing activities** | | | |
| Proceeds from borrowing | | 0.00 | 1,723,742.30 |
| Repayment of borrowings | | -1,157,000.00 | -495,123.66 |
| Payment for dividend | | -500,000.00 | |
| Net cash used in financing activities | | -1,657,000.00 | 1,228,618.64 |
| Net increase/(decrease) in cash held | | -486,221.10 | 1,383,050.44 |
| Cash at the beginning of the financial year | | 1,744,719.44 | 361,669.00 |
| Cash at the end of the financial year | 7.1 | 1,258,498.34 | 1,744,719.44 |

1. **Significant accounting policies (continued)**

(e) **Trade and other receivables**

Trade, traffic and other receivables are stated at their cost less impairment losses. The carrying amount of these assets is reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each balance date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

(f) **Inventories**

Inventories comprise communication plant spare components, phonecards, mobiles and other supplies held principally for the maintenance of plant and equipment and resale. Obsolete inventories are written off against revenue. Inventories are stated at the lower of cost and net realisable value. A provision for obsolescence based on the following rates are created:

| | |
|---|---|
| 4 years or older | 100% |
| 3 years | 75% |
| 2 years | 50% |
| 1 year | 25% |

(g) **Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits. For the purpose of statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(h) **Capital**

(i) *Date of incorporation*

Telecom Services Kiribati Limited was incorporated on 1 November 1990.

The Government of the Republic of Kiribati owns 100% of the capital of the company.

(ii) *Dividends*

Dividends are recognised as a liability on an accrual basis in the period in which they are declared.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time.

**1. Significant accounting policies (continued)**

**(i) Employee Benefits**

*(i) Annual leave*

Provision for annual leave is calculated at balance date based on the current rate of remuneration. Addition to provision for annual leave is recognised in the income statement.

*(ii) Superannuation*

Contributions to superannuation plan are recognised as an expense in the income statement.

**(j) Provisions**

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

*(i) Employee Entitlement*

Refer to note i (i).

*(ii) Doubtful debts*

The collectability of debts is assessed at year-end and specific provision is made for any doubtful accounts. A general provision for doubtful debts of 5 per cent (net of specific provisions) is also brought to account for accounts receivable.

**(k) Trade and other payables**

Trade, traffic and other payables are stated at their cost.

**(l) Revenue**

*(i) Domestic Billing*

Revenue from domestic billing includes telephone, internet, telegram, phone rental and installation income. Other revenue streams are sale of phone cards, mobile phones, recharge cards, services and maintenance charges. Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the customer. For calls made and unbilled, revenue is accrued and recognised in the income statement. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

*(ii) In-payments*

In-payments income arising from incoming traffic is recognised as earned.

| Telecom Services Kiribati Limited | | | |
|---|---|---|---|
| Notes forming part of financial statement for the year 31st March 2007 | | | |
| | | 2007 | 2006 |
| | Note | A$ | A$ |
| **Revenue** | | | |
| **Domestic billing** | 3.1 | | |
| Telephone | | 3,492,001.37 | 3,661,711.48 |
| Telegram | | 131,377.38 | 138,233.90 |
| Rental | | 1,073,061.12 | 965,693.22 |
| Directory sales | | 22,597.00 | 20,889.50 |
| Installation fees | | 26,950.00 | 309,924.99 |
| Equipment sales | | 177,946.93 | 191,130.14 |
| International DOT KI | | (108,605.00) | |
| Audio text | | - | 159,895.00 |
| Reconnection fees | | 16,419.15 | 13,806.70 |
| Maintenance service fees | | | - |
| Telegraph stationery | | 50,032.29 | 62,319.69 |
| Phone card sales | | 130,184.20 | 114,887.80 |
| Telephone inpayment | | 896,585.11 | 510,481.01 |
| Internet | | 589,574.78 | 978,266.32 |
| Mobile calls | | 1,736,515.85 | 1,672,028.28 |
| | | **8,234,640.18** | **8,799,268.03** |
| **Other operating income** | 3.2 | | |
| Other income | | 770,920.37 | 1,489,760.94 |
| Rent | | 11,712.28 | 14,168.00 |
| Sales Adjustment | | (334,911.00) | - |
| | | **447,721.65** | **1,503,928.94** |
| | | **8,682,361.83** | **10,303,196.97** |
| **Expenses:** | | | |
| **Personnel expenses** | 4.1 | | |
| Salaries & wages | | 1,849,129.22 | 1,643,478.88 |
| Annual leave | | 93,533.70 | (17,999.36) |
| Provident fund contribution | | 92,858.51 | 90,159.78 |
| | | **2,035,521.43** | **1,715,639.30** |
| **Depreciation expense** | 4.2 | | |
| Building | | 5,952.00 | 604.00 |
| Air Conditioners | | 24,469.00 | 23,039.00 |
| Furniture and Fittings | | 4,068.00 | 4,173.00 |
| Office and Training | | 151,865.00 | 167,216.00 |
| Vehicle | | 56,520.00 | 59,838.00 |
| Radio Plant | | 16,615.00 | 24,098.00 |
| Earth Station Plant | | 425,082.00 | 119,908.00 |
| Exchange Plant\Microwave | | 30,176.00 | 34,387.00 |
| Subsribers Equipment | | 613,385.00 | 635,404.00 |
| | | **1,328,132.00** | **1,068,667.00** |
| **Other operating expense** | 4.3 | | |
| Telephone Outpayment | | 201,995.77 | 296,282.18 |
| Cost of Sales | | 170,387.42 | 181,166.48 |
| Write off Redundant Stock | | 3,163.44 | |

1. **Significant accounting policies (continued)**

(m) **Expenses**

*Out-payments*

Out-payments arising from outgoing traffic is recognised as incurred.

(n) **Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The company adopts the income statement liability method of tax effect accounting.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) **Comparative information**

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosure.

2. Segment reporting

The company's business segment is providing, developing and maintaining telecommunications services. The company only operates in the Republic of Kiribati

| | | | |
|---|---|---|---|
| Audit Fees and Expenses | | 47,820.78 | 35,231.51 |
| Bad & Doubtful Debt | | 247,376.48 | 1,396,095.42 |
| Bank Charges & Commission | | 38,966.92 | 25,412.50 |
| Advertisement | | 49,656.15 | 17,654.40 |
| Board Expenses | | 21,098.15 | 25,035.25 |
| Consultancy Fee\Expenses | | 2,265.54 | 57,015.09 |
| Cleaning | | 4,884.98 | 7,243.72 |
| Exchange Rate Variation | | 3,386.14 | (97,008.08) |
| Computer Support | | 57,112.04 | 30,196.36 |
| Directory Expenses | | 14,515.09 | 37,365.07 |
| Disposal of fixed asset | | 2,643.00 | - |
| Entertainment | | 7,019.90 | 6,306.12 |
| Freight | | 44,019.73 | 408,769.48 |
| Freight paid by suppliers | | 3,239.52 | - |
| General Expenses | | 3,261.25 | 714.15 |
| Hire of Transport | | 43,916.20 | 23,390.37 |
| Insurance | | 113,159.18 | 89,730.51 |
| Internet Lease | | 142,071.17 | 123,067.83 |
| Loan interest | | 404,897.00 | 306,877.29 |
| Legal Expenses | | 18,771.00 | 695.50 |
| Land Lease | | 749.80 | 749.80 |
| Lease Fees (space tower rental) | | 13,200.00 | 9,332.26 |
| Licence Fees | | 12,450.00 | 12,948.00 |
| Loss on disposal | | | |
| Maint - Building | | 27,491.22 | 30,629.33 |
| Maint-Office Equip/Machinery | | 17,881.12 | 16,277.76 |
| Maint - Plant | | 554,348.05 | 716,837.83 |
| Maint - VHF and HF | | 40,017.04 | 53,872.54 |
| Management Fee | | | (27,894.88) |
| Maritime Traffic | | 6,136.61 | 36,673.84 |
| On cost expenses | | (20,403.52) | |
| Payroll Loss | | | 7,522.44 |
| Postage | | 3,418.80 | 3,472.40 |
| Power - Electricity | | 348,928.46 | 383,637.45 |
| Power - Fuel | | 2,225.80 | 606.40 |
| Promotion | | 27,049.33 | 24,210.53 |
| Redundancy Expenses | | 15,156.60 | - |
| Relocation Expenses | | 9,965.81 | 3,627.73 |
| Rent Expenses | | 1,160.00 | 24,713.77 |
| Retirement/Death Benefit | | 10,463.01 | 8,566.20 |
| Reward and Recognition | | 180.00 | 9,686.70 |
| Satellite Rental | | 350,017.03 | 394,874.56 |
| Stationery and Office Supplies | | 106,798.98 | 88,660.39 |
| Stock | | 73,490.30 | (99,829.49) |
| Subscription and Publication | | 28,461.48 | 2,724.80 |
| Subsidised House Rent | | 13,455.00 | 12,772.00 |
| Training Expenses | | 234,036.18 | 97,222.28 |
| Travel Expenses | | 345,326.62 | 189,042.39 |
| Vehicle Expenses - Fuel | | 79,447.33 | 63,716.58 |
| Vehicle Expenses-Maintenance | | 48,923.67 | 48,609.10 |
| Water | | 39.12 | |
| Outerisland study | | (132,698.73) | |

| | | | |
|---|---|---|---|
| Uniform | | 171.80 | 2,129.37 |
| CEO Expenses | | 21,002.77 | 12,562.73 |
| Suspense Account | | | 53,914.29 |
| | | **3,884,516.53** | **5,153,110.25** |
| **Financing** | 5 | | |
| Interest received | | **53,694.44** | **14,120.12** |
| | | | |
| | | | |
| **Income tax expense** | 6 | | |
| Reconciliation of effective tax rate | | | |
| Profit before tax - $1,487,886.31 | | | |
| Income tax using the company tax rate | | **515,760.21** | **827,965.20** |
| **Current assets** | | | |
| **Cash** | 7.1 | | |
| BOK - Current (A/C 260048) | | 424,449.62 | 1,515,750.88 |
| BOK-Project (A/C 617411) | | 56,951.50 | 27,146.51 |
| BOK - Credit Card - A/C 502501 | | 7,326.98 | 58,723.51 |
| BOK-Xmas Current A/C | | 4,422.70 | |
| BOK-ARF Current A/C | | 10,000.00 | |
| Petty Cash | | 205.20 | |
| Cash In Hand | | 155.17 | 155.17 |
| Cash in transit | | - | 25,660.97 |
| Interest Bearing Deposits | | 754,987.17 | 117,282.40 |
| Letter of credit on term deposits (#260060,671547,710549 and 756501) | | | |
| | | **1,258,498.34** | **1,744,719.44** |
| **Receivables** | 7.2 | | |
| Miscellaneous Debtors | | 4,301,969.66 | 4,245,839.68 |
| Debtors from last year | | (1,086,631.31) | (84,177.06) |
| Telstra debit | | 402,481.70 | 13,367.94 |
| Telecom New Zealand debit | | 563,121.57 | 452,805.17 |
| Salary Advances | | 17,767.37 | 2,598.56 |
| Travel Advances | | (200.00) | |
| Prepayment | | 483,722.00 | |
| Sundry Debtors | | 150,505.00 | 458,269.75 |
| Internal Affairs Lan | | 19,972.60 | 19,972.60 |
| | | **4,852,708.59** | **5,108,676.64** |
| | | | |
| **Inventories** | 7.3 | | |
| Stock on Hand | | 689,311.98 | 556,768.48 |
| Goods in Transit | | 309,104.33 | 1,215,152.32 |
| Stocktake Variance | | 2,331.16 | - |
| | | **1,000,747.47** | **1,771,920.80** |
| **Non-current assets** | | | |
| **Plant & Equipment** | 8.1 | | |
| Land & Building | | | |
| TSKL Building | | 186,357.92 | 12,076.37 |
| provision for depreciation | | (6,550.00) | (599.00) |
| Air conditioners | | 237,190.95 | 221,758.95 |
| provision for depreciation | | (208,818.00) | (184,349.00) |
| Furn & Fittings | | 56,856.82 | 55,944.82 |
| provision for depreciation | | (39,915.00) | (35,847.00) |

| | | | |
|---|---|---|---|
| Vehicle | | 481,921.29 | 476,245.29 |
| provision for depreciation | | (283,335.00) | (333,095.00) |
| Office and Training Equipment | | 2,049,317.58 | 2,024,785.38 |
| Prov for deprn - office traning equip | | (1,711,500.00) | (1,559,765.00) |
| Earth Station Plant | | 2,524,086.37 | 2,418,677.02 |
| Prov for deprn - earth station plant | | (966,068.00) | (540,986.00) |
| Exchange Plant\Microwave Tower | | 493,504.13 | 452,914.87 |
| Prov for deprn - exchange plant\microwave | | (355,430.00) | (325,253.00) |
| Radio Plant | | 171,532.30 | 167,516.77 |
| Prov for deprn - radio plant | | (131,996.00) | (115,382.00) |
| Subscriber Equipment | | 6,289,907.49 | 6,248,836.06 |
| Prov for deprn - subscriber equipment | | (2,225,703.00) | (1,612,318.00) |
| Work In Progress | | 3,604,066.86 | 2,460,707.81 |
| | | **10,165,426.71** | **9,831,869.34** |
| | | | |
| Future income tax benefit | **8.2** | **109,385.00** | **109,385.00** |
| | | | |
| **Current Liabilities** | | | |
| **Clearing accounts:** | **9.1** | | |
| Payroll | | (15,758.01) | (2,101.71) |
| PAYE | | 727.67 | 789.04 |
| TAX ARREARS | | (48,047.45) | (29,151.86) |
| KPF | | 281.70 | 395.72 |
| Housing Rents | | 193.98 | 96.34 |
| Town Council Rates | | 8.84 | 9.07 |
| Staff Bank Loan | | 50.00 | 50.00 |
| Staff DBK Loan | | (601.41) | (726.00) |
| Ministry of Finance-W/hold Tax | | (424.25) | (764.55) |
| TKL | | - | |
| Staff Life insurance | | (2,082.90) | 1,148.10 |
| Staff Club | | 79.06 | 1,068.88 |
| Incorrect postings (to fix) | | 22,901.36 | (0.08) |
| Contra A/C | | 1,480.96 | (470.31) |
| Debtors to Transfer | | 572.94 | (12,153.41) |
| Non Stock Control account | | (4,984.78) | (5,476.06) |
| | | **(45,602.29)** | **(47,286.83)** |
| | | | |
| **Creditors:** | 9.2 | | |
| Trade Creditors | | 128,319.33 | 81,593.59 |
| Creditors not posted last year | | (107,735.07) | (73,496.02) |
| Bank of Kiribati Curr act O/D | | - | - |
| Purchase Order Liability | | 356,778.34 | 1,215,152.32 |
| Goods Received Liability | | 1,141,527.90 | 818,050.05 |
| Telstra Credit (not included in the hard copy) | | | |
| Telecom New-Zealand | | | |
| Accrued Expenses | | 179,974.71 | 910,643.26 |
| Telephone Special Deposits | | 404,901.52 | 387,631.13 |
| Internet Special Deposit | | 49,426.99 | 49,916.99 |
| Mobile Special Deposit | | 21,224.17 | 21,324.17 |
| Inmarsat Special Deposit | | 400.00 | 400.00 |
| Deferred Income tax Expense | | (258.00) | (258.00) |
| | | | |

| | | | |
|---|---|---|---|
| | | 2,174,559.89 | 3,410,957.49 |
| | | | |
| Provisions: | 9.3 | | |
| Recreation Leave | | 102,742.24 | 11,203.74 |
| Tax | | 555,777.98 | 705,017.77 |
| Leave Grant | | 17,387.50 | 10,800.00 |
| Obsolete Stock | | 224,599.33 | 151,109.03 |
| Provision for Doubtful Debts | | 2,757,235.15 | 2,603,051.45 |
| | | 3,657,742.20 | 3,481,181.99 |
| | | | |
| **Long Term Liabilities** | 9.4 | | |
| Bank Loan (A\C 260059) | | **4,296,254.87** | **4,890,033.23** |
| | | | |
| The loan from the Bank of Kiribati is secured by a first mortgage debenture over the assets of the company, and a limited guarantee by the shareholder of the company, the Government of Kiribati | | | |
| | | | |
| **Total Liabilities** | | **10,082,954.67** | **11,734,885.88** |
| | | | |
| **Net Assets** | | **7,303,811.44** | **6,831,685.34** |
| | | | |
| **Shareholder's equity:** | | | |
| Retained profits | | 3,257,152.34 | 1,705,217.00 |
| Profit | | 972,126.10 | 1,551,935.34 |
| Reversal of capital contribution | | (500,000.00) | - |
| Total Retained earnings | 10.1 | 3,729,278.44 | 3,257,152.34 |
| Share capital | 10.2 | 3,574,533.00 | 3,574,533.00 |
| | | **7,303,811.44** | **6,831,685.34** |
| | | | |

12 Contingencies

There are no contingencies for the year. (2006:nil)

13. Related parties

TSKL is 100% owned by the Kiribati Government. While TSKL has a Board of Directors as its governing body, the government is the ultimate controlling party of the company.
The following transactions were carried out with related parties during the year.

Purchase of goods and services from TSKL i.e Telephone calls, hire and purchase of equipment by government $2.2m (2006:$2.1m) on normal commercial terms. The amount outstanding at balance date was $3.0m (2006:$3.3m)

The total profit for 2004 was $1.6m of which $500,000 was paid out and the remaining $1.1m was earmarked to offset the government receivable as noted above

The total amount of operating grants received from government was $720,184 (2006: $nil) which has been separately deposited for the purpose of developing telecommunications for outer-islands.

**14. Commitments**

**Operating Leases**

TSKL leases land, property, plant & equipment in the normal course of business. All contracts have a renewal date and a contract review date. Our disclosure has taken the amount for which ever date arrives first. Commitments relating to these contracts are as follows:

| | 2007 | 2006* |
|---|---|---|
| Within 1 year | 185,082 | |
| 1 to 2 years | 750 | |
| 2 to 5 years | 2,250 | |
| Greater than 5years | 3,750 | |
| TOTAL | 191,832 | 0 |

** 2006 comparatives not known as this is a new disclosure for 2007.*

Capital

TSKL have agreed with the Government of Kiribati to develop outer island telecommunications of which $1,839,533 has been set aside as a reserve. There is work in progress of $3,604,067 (2006: $2,460,708) which reflects TSKL's commitment to develop outer island telecommunications.

10. (a)Shareholders equity

Reconciliation of movement in shareholders equity

| | Share Capital A$ | Retained Profits A$ | Total A$ |
|---|---|---|---|
| Balance at 1 April 2005 | 1,735,000 | 3,544,750 | 5,279,750 |
| Total recognised gains and losses | | 1,551,935 | 1,551,935 |
| Retained earnings transfer to share capital | 1,839,533 | | 1,839,533 |
| Reduction in retained earnings | | (1,839,533) | (1,839,533) |
| Balance at 31 March 2006 | 3,574,533 | 3,257,152 | 6,831,685 |
| Balance at 1 April 2006 | 3,574,533 | 3,257,152 | 6,831,685 |
| Total recognised gains and losses | - | 972,126 | 972,126 |
| Reversal of capital contribution | | (500,000) | (500,000) |
| Balance at 31 March 2007 | 3,574,533 | 3,729,278 | 7,303,811 |

(b)Statement of movement in equity for the Year ended 31 March 2007

| | 2007 | 2006 |
|---|---|---|
| Opening Equity | 6,831,685 | 5,279,750 |
| Surplus/(deficit) for the year | 972,126 | 1,551,935 |
| Reversal of capital contribution | (500,000) | - |
| Closing Equity | 7,303,811 | 6,831,685 |

11. Earnings per share

| | 2007 A$ | 2006 A$ |
|---|---|---|
| Net profit | 972,126 | 1,551,935 |
| Weighted average number of issues ordinary shares used in the calculation of basic and diluted earnings per share | 3,574,533 | 3,574,533 |
| Basic earnings per share | 0.27 | 0.43 |
| Diluted earnings per share | 0.27 | 0.43 |

15 **Principal activities**

The principal activities of the company are to develop, expand and operate and manage on commercial principles, the domestic and international telecommunications services and systems of Kiribati.

16. **Registered office**

The Company's registered office and head office is located at Bairiki, Tarawa..

17. **Segment information**

(a) **Industry segment**

The group operates predominantly in the telecommunications industry and revenue from other industry segments is not material.

(b) **Geographical segment**

The Company operates in Kiribati and is therefore one geographical area for reporting purposes.