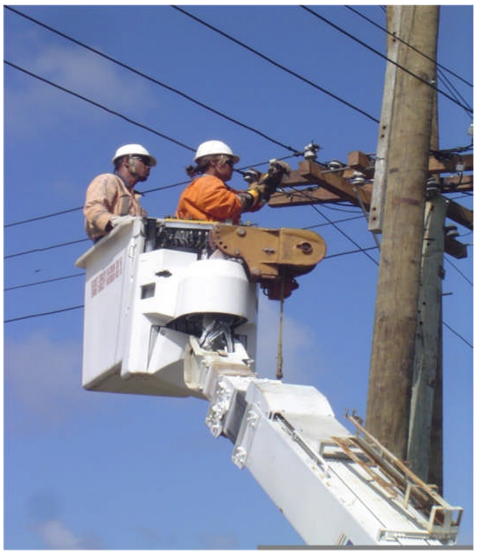
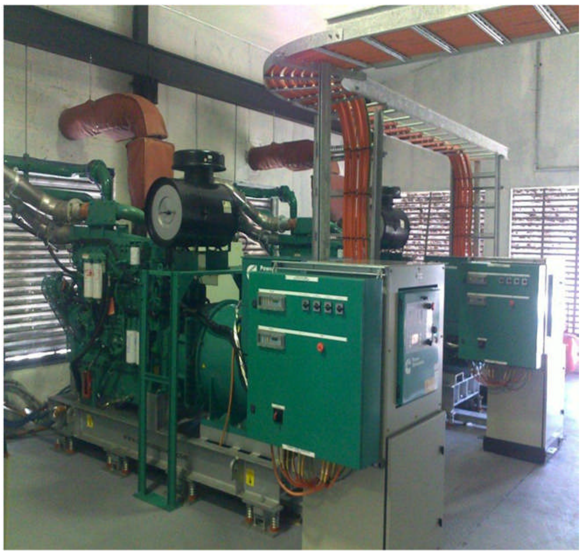
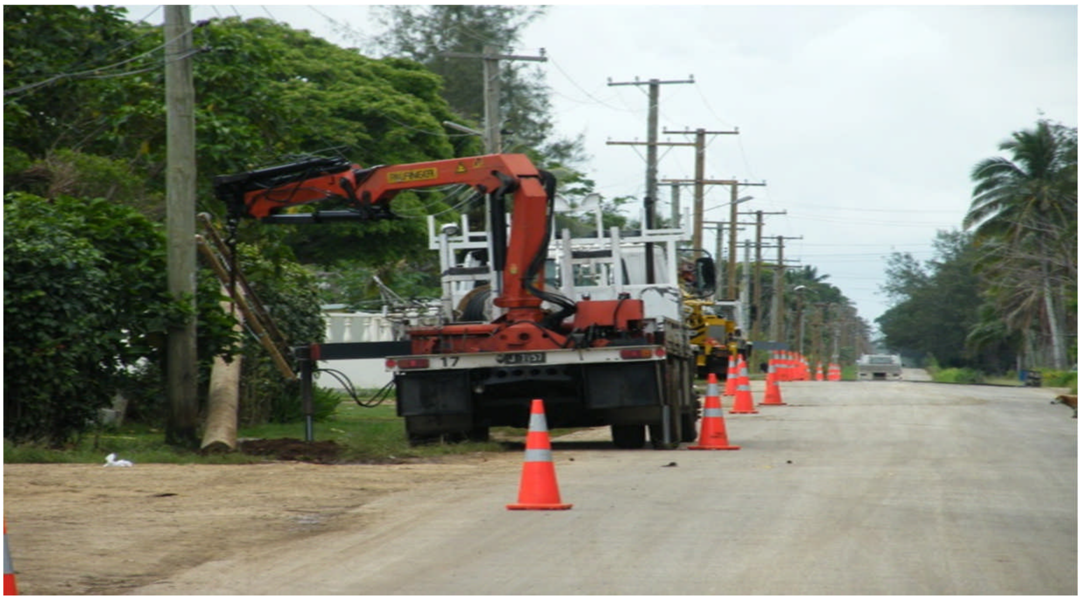
TONGA POWER LIMITED

Annual Report 2010







Chairman's Report

Introduction

While Tonga Power faced earnings fluctuations as a result of cyclone Rene and rising landed fuel costs and declining consumer demand throughout the year, the company has delivered an above budget pre-tax profit for the financial year ended 30 June 2010.

The year has been a year of consolidation following the company's commencement in July 2008, with a clear focus on meeting the company's primary objectives of providing safe, reliable and affordable electricity and maximising shareholder value.

This year a major milestone for the company has been the signing of a memorandum of understanding (MOU) with Meridian Energy to enter into a power purchase agreement (PPA). A subsequent amendment to the Electricity Act was also passed by the Government to allow the PPA to operate.

2009/2010 Review

A restructuring of the company's key operating departments was also implemented which included the secondment of a Distribution Network Manager from Northpower. This has allowed the individual to become more aligned with their core functions. The restructuring has resulted in improving safety performance and delivered productivity gains throughout the business.

In an effort to reduce the company's dependence on imported diesel fuel, renewable energy has formed part of the company's strategy which complimented the Governments Energy Roadmap (TERM). The TERM was signed by the Government of Tonga and major donor partners in June 2010.

TERM will play a pivotal role in Tonga Power meeting its objectives to supply safe, reliable and affordable electricity over the next 5 – 10 years. The plan has a strong emphasis on reducing the landed cost of fuel, improving distribution network efficiency and developing renewable energy, initially solar photovoltaic power generation.

The MOU which has been signed with Meridian Energy in conjunction with NZAID, to construct a 1 – 1.5 Megawatt (MW) solar power farm at our Popua power station site is testimony to the company's commitment to reduce energy costs . The solar power facility is planned to be completed late 2011 and will generate about 7% of the company's total demand, using "state of the art" on-grid integration technology.

The company's continued investment in its generation and distribution network is showing positive results, for over 90% of the country has (N-1) generation security. The Distribution team's increased productivity in line construction and meter replacement programs has reduced line losses by over 1% from 18.45% to 17.44%. This is a significant gain in reducing the cost of electricity.

Financial Review

The profit after tax was $3.01m from revenue of $36.32m compared to a budget return of $3.10m. The Directors declared a dividend of $1.0m for the year. The dividend will be reinvested as equity into the business to be used specifically for the undergrounding of electricity supply to the Central Business District of Nuku'alofa.

To reduce foreign exchange rate risk, the company's USD$7.59m term loans were repatriated to Tongan Pa'anga which realised a TOP$ 439k "mark to market" gain on the balance sheet.

Significant investment in the company's infrastructure was achieved during the year. This included funding the $2.0m acquisition and installation of two 600kVA generators at Vava'u and spending over $3.0m on upgrading the electricity distribution network.

Our People

Our people's health and safety is of paramount importance in maintaining the highest standards of operational excellence. Tonga Power performed well in the 2009/10 year in terms of health and safety seeing a significant reduction in the "Lost Time Injury Frequency Rate" (LTIFR) over the previous year.
A key priority for the current financial year is new and improved initiatives to develop the company's health and safety culture and rigorous target setting and reporting the relevant measures.

Our Strategy

Tonga Power's strategy to provide safe, reliable and affordable electricity to the consumer moved closer to our goal during the financial year. The company successfully purchased and installed two new 600 kVA generators for Vava'u creating (N-1) security. This has created an opportunity to relocate the two second hand units to Ha'apai and 'Eua which will be evaluated during the forthcoming financial year.

The current decline in consumer demand particularly in Tongatapu has meant the company has delayed its planned growth in generator capacity on the island, which generates 85% of the nation's total demand.

As mentioned in the introduction, significant gains in developing a renewable energy source on the island has been achieved during the financial year. This includes signing of an MOU with Meridian Energy to construct a 1 – 1.5 MW solar photovoltaic power farm. Once completed, this facility will generate approximately 7% of total demand. Further alternative renewable energy sources are also being investigated including waste heat generation to reduce our dependence on imported diesel.

Under the (TERM) our distribution network will receive a boost in addition to the company's planned capital investment. A programme call the "Village Network Reconstruction Project" has been developed with NZAID and the European Union to reconstruct the low voltage (LV) transmission lines at over 100 villages.

This significant 2 – 3 year project in conjunction with Tonga Power’s reconstruction of its Nuku’alofa and HV network, will have a positive impact on reducing average line losses from its current 18% level.

Conclusion

The strengthening of the balance sheet through investment in core assets has occurred during the financial year, placing Tonga Power in a strong position to deliver its objectives in the future.

It has been a positive year for Tonga Power and I am proud to lead such a talented and committed team, and would like to thank the Board and everyone in Tonga Power for working hard to help focus the business in its second year of operation. I am excited about Tonga Power’s future and I’m looking forward to working with all our stakeholders as we work to accomplish our goals.

David Wright
Chairman

TONGA POWER LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

I N D E X

Page No.

DIRECTORS' REPORT

In accordance with a resolution of the Board of Directors, the directors herewith submit the statement of financial position of the company as at 30 June 2010, and the related statements of comprehensive income, changes in equity and the cash flows for the year ended on that date and report as follows:

FINAI DIRECTORS

The following were directors of the company at any time during the financial period and up to the date of this report:

Mr. David Wright – Chairman of the Board
Hon. Afu'alo Matoto – Director
Mr. Warren Moyes - Director
Mrs 'Alisi Nunia Taumoepeau – Director
Mr. S. Tsutomu Nakao II - Director
Mr. Richard Guttenbeil – Director

2 PRINCIPAL ACTIVITY

The principal business activity of the company is to generate and supply electricity to the people of Tonga. The company also undertakes certain electrical contracting work particularly for private customer service lines. Its registered office is located at the corner of Taufa'ahau Road and Mate'alona Road, Nuku'alofa, Tonga.

The company was incorporated on 29 August 2007 and commenced commercial operations on 25 July 2008. Consequently, the year ended 30 June 2010 is compared to the period 25 July 2008 to 30 June 2009.

3 TRADING RESULTS

The profit after income tax of the company for the financial year was $3,014,058 (2009: loss of $726,984) after deduction of income tax expense of $1,524,510 (2009: income tax credit of $193,774)

4 PROVISIONS

There were no material movements in provisions, other than provisions for leave, doubtful debts and taxes, where applicable.

5 DIVIDENDS

The directors declared a dividend of $1,000,000 during the year. The dividend will will be reinvested as equity into the company to be used specifically for the project of undergrounding electricity supply in the Central Business District of Nuku'alofa. In addition, the reinvestment will be used to cover the cost of relocation of utility poles, lines and structures in respect to the implementation of the National Road Improvement Project.

6 CURRENT ASSETS

The directors took reasonable steps before the company's financial statements were made out to ascertain that the current assets of the company was shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of the business.

At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the current assets in the financial statements misleading.

7 TRANSFERS TO/FROM RESERVES

The directors recommend that no amounts be transferred to reserves in respect of the year ended 30 June 2010.

8 BAD AND DOUBTFUL DEBTS

The directors took reasonable steps before the company's financial statements were made out to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts. At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extent.

9 DIRECTORS' BENEFIT

No director has received or become entitled to receive any benefit (other than benefits included in the amount of emoluments or shown in the financial statements under the related parties note) by reason of a contract made by the company or a related corporation with any director or with a firm of which a director is a member or with a company in which a director has a substantial financial interest.

10 EVENTS SUBSEQUENT TO BALANCE DATE

No charge on the assets of the company has arisen since the end of the financial period to the date of this report to secure the liabilities of any other person.

No contingent liability has arisen since the end of the financial year to the date of this report, other than those disclosed in Note 27 in the financial statements.

No contingent or other liability has become enforceable or is likely to become enforceable within a period of twelve months after the end of the financial period which, in the opinion of the directors, will or may affect the ability of the company to meet its obligations as and when they fall due.

11 OTHER CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which would render any amounts stated in the financial statements misleading.

12 UNUSUAL TRANSACTIONS

The results of the company's operations during the financial period have not in the opinion of the directors been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

Dated at Nuku'alofa this 13 day of October 2010

For and on behalf of the Board of Directors by authority of a resolution of the Directors.

.... Director

.... Director

TONGA POWER LIMITED

STATEMENT BY DIRECTORS'

In the opinion of the directors:

(a) the accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the company for the year ended 30 June 2010;

(b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the company as at 30 June 2010;

(c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in shareholder's funds for the year ended 30 June 2010; and

(d) the accompanying statement of cash-flows is drawn up so as to give a true and fair view of the cash flows of the company for the year ended 30 June 2010.

Dated at Nuku'alofa this 13 day of October 2010

For and on behalf of the Board of Directors by authority of a resolution of the Directors.

....
Director

....
Director

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
52 Narara Parade
PO Box 54
Lautoka, Fiji Islands
Telephone +679 666 0400
+679 666 1055
Facsimile +679 666 1798
+679 666 4671

Independent auditor's report

To the Shareholder of Tonga Power Limited

We have audited the accompanying financial statements of Tonga Power Limited (the 'Company'). The financial statements comprise the balance sheet of the Company as of 30 June 2010 and the statement of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 6 to 33.

Directors' and Management's Responsibility for the Financial Statements
Directors and Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Tonga Companies Act, 1995. 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
This report is made solely to the Company's shareholder, as a body, in accordance with section 214(1) of the Tonga Companies Act 1995. Our audit work has been undertaken so that we might state to the Company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed. 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 directors and 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.

PRICEWATERHOUSECOOPERS

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 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 as at 30 June 2010 and of its financial performance, changes in equity, and its cash flows for the year ended on that date;

    b) give the information required by the Tonga Companies Act, 1995 in the manner so required.

We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit.

13 October 2010
Suva, Fiji

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants

TONGA POWER LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 $	2009 $
Revenue	6	36,321,524	36,732,124
Cost of sales	9	(24,209,093)	(26,981,554)
Gross Profit		12,112,431	9,750,570
Selling and distribution expenses	9	(47,797)	(34,639)
Administrative and other expenses	9	(7,597,079)	(7,959,544)
Other income	7	215,404	91,287
Operating profit		4,682,959	1,847,674
Finance costs	8	(144,391)	(2,768,432)
Profit / (loss) before income tax		4,538,568	(920,758)
Income tax (expense)/credit	11	(1,524,510)	193,774
Profit / (loss) for the year from continuing operations		3,014,058	(726,984)
Other Comprehensive Income:			
Gains on revaluation of distribution network equipment		-	4,626,328
Depreciation transfer on revalued assets		(132,181)	-
Total Comprehensive Income for the year		$ 2,881,877	$ 3,899,344

The above statement of comprehensive income should be read in conjunction with the accompanying notes

TONGA POWER LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Notes	2010 $	2009 $
ASSETS			
Current assets			
FINANCIAL STATEMENTS	12	1,459,805	1,742,804
Trade and other receivables	13	5,040,329	3,781,314
Inventories	14	800,121	401,150
Held-to-maturity financial assets	15	2,004,518	1,000,000
		9,304,773	6,925,268
Non-Current asset			
Property, plant and equipment	16	51,330,599	50,709,266
		51,330,599	50,709,266
TOTAL ASSETS		$ 60,635,372	$ 57,634,534
LIABILITIES			
Current Liabilities			
Trade and other payables	17	4,939,666	3,914,317
Provision for dividend	23(b)	1,000,000	-
Current income tax liabilities		587,687	-
Borrowings	18	3,499,406	1,391,041
		10,026,759	5,305,358
Non-Current Liabilities			
Deferred income tax liabilities	19	1,863,719	926,393
Borrowings	18	10,180,078	14,719,844
		12,043,797	15,646,237
TOTAL LIABILITIES		22,070,556	20,951,595
EQUITY			
Contributed equity	21	32,783,595	32,783,595
Asset revaluation reserve	23(a)	4,494,147	4,626,328
Accumulated profits / (losses)	23(b)	1,287,074	(726,984)
TOTAL EQUITY		38,564,816	36,682,939
TOTAL LIABILITIES AND EQUITY		$ 60,635,372	$ 57,634,534

The above statement of financial positions should be read in conjunction with the accompanying notes.

For and on behalf of the Board of Directors.

.... Director

.... Director

TONGA POWER LIMITED

STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Share Capital	Asset Revaluation Reserve	Accumulated Profits / (Losses)	Total Equity
		$	$	$	$
Balance at 25 July 2008		$ 32,783,595	$ -	$ -	$ 32,783,595
Comprehesive Income					
Profit / (loss)		-	-	(726,984)	(726,984)
Other comprehesive income					
Gains on revaluation of distribution network equipment	23(a)	-	4,626,328	-	4,626,328
Total Comprehensive income		-	4,626,328	(726,984)	3,899,344
Transaction with owners					
Dividend declared		-	-	-	-
Total transaction with owners		-	-	-	-
Balance at 1 July 2009		$ 32,783,595	$ 4,626,328	$ (726,984)	$ 36,682,939
Comprehesive Income					
Profit / (loss)		-	-	3,014,058	3,014,058
Other comprehesive income					
Gains on revaluation of distribution network equipment	23(a)	-	-	-	-
Depreciation transfer on revalued assets	23(a)	-	(132,181)	-	(132,181)
Total Comprehensive income		-	(132,181)	3,014,058	2,881,877
Transaction with owners					
Dividend declared	23(b)	-	-	(1,000,000)	(1,000,000)
Total transaction with owners		-	-	(1,000,000)	(1,000,000)
Balance at 30 June 2010		$ 32,783,595	$ 4,494,147	$ 1,287,074	$ 38,564,816

FINANCIAL STATEMENTS
TONGA POWER LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Cash flows from operating activities			
Receipts from customers		35,748,692	34,305,163
Payments to suppliers		(27,215,067)	(28,994,756)
Cash generated from operations		8,533,625	5,310,407
Income tax paid		-	-
Interest paid		(659,007)	(1,111,042)
Net cash generated from operating activities		7,874,618	4,199,365
Cash flows from investing activities			
Short term investment		(1,004,518)	(1,000,000)
Proceeds from sale of property, plant equipment		14,362	-
Purchase of property, plant and equipment		(5,326,031)	(917,405)
Net cash used in investing activities		(6,316,187)	(1,917,405)
Cash flows from financing activities			
Proceeds from borrowings		-	11,163,391
Repayment of borrowings		(1,841,430)	(1,213,370)
Shareholder contribution - Government		-	6,560,186
Acquisition of shares		-	(17,049,363)
Net cash used in financing activities		(1,841,430)	(539,156)
Net (decrease) / increase in cash held		(282,999)	1,742,804
Cash and cash equivalents at beginning of year		1,742,804	-
Cash and cash equivalents at end of year	12	$ 1,459,805	$ 1,742,804

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

Tonga Power Limited ("the company") is incorporated and domiciled in the Kingdom of Tonga and its registered office is at the corner of Taufa'ahau Road and Matealona Road, Kolofo'ou, Nuku'alofa, Tonga.

The principal activities of the company is the generation, transmission, distribution and sale of electricity on Tongatapu, Vava'u, Eua and Ha'apai. The company also undertakes certain electrical contracting work particularly for private customer service lines.

FINANCIA

These financial statements were authorised for issue by the board of directors on 13th October 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Enterprises Act 2002 and Companies Act, 1995.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain non-current assets and financial instruments. All property, plant and equipment have been valued using the depreciated historical costs except for the distribution network assets which were valued using depreciated replacement costs, and land and building were valued using market valuation.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and management's judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 July 2010 or later periods, but the group has not early adopted them. Adoption of these standards and interpretations will not have any significant impact on the group's financial statements.

IAS 24 Amendment – Related party disclosures (effective 1 January 2011)
IFRS 1 Amendment – 'First time adoption': financial instrument disclosures (effective 1 July 2010)
IFRS 9 Amendment – Financial Instruments: Classification and measurement (effective 1 January 2013)
IFRIC 14 Amendment – Prepayments of a minimum funding requirement (effective 1 January 2011)
IFRIC 19 Amendment – Extinguishing financial liabilities with equity instrument (effective 1 July 2010)

(b) Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The geographical segments identified in the primary reporting disclosures for the company are four. There is no secondary reporting as the company operates predominantly in the supply and distribution of electricity to customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(c) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Tongan Pa'anga and denoted "$", which is the company's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(d) Property, plant and equipment

In accordance with IAS 16, the company records all plant and equipment at depreciated historical costs except for distribution network equipment which are measured using the depreciated replacement cost method. Land and buildings are valued at market costs less subsequent depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

All other repairs and maintenance expenditures are charged to the statement of comprehensive income during the financial period in which they are incurred.

Gains or losses on the disposal of property plant and equipment are recognised in the statement of comprehensive income.

Depreciation and amortisation are calculated on a straight line basis so as to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives.

The principal annual rates in use are:

Class	Amortisation or Depreciation rate
Generation Equipment	3.33% to 20%
Distribution Network Equipment	1.82% to 100%
Office Computers & Equipment	11.55% to 29.97%
Furniture & Fixtures	10.25% to 25.31%
Tools & Equipment	10.03% to 25.31%
Motor vehicles	20% to 33.33%
Other Auxiliary Equipment	10%
Land & Building	3.33%

(e) Leases

Lease in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(f) Financial assets

The company classifies its financials assets in the following categories: at fair value through profit or loss, available-for-sale, held-to-maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

Currently there are no assets held by the company in this category.

(ii) Available for sale financial assets
Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Currently there are no assets held by the company in this category.

(iii) Held-to-maturity financial assets
Held to maturity investments are non-derivative financial assets with fixed and determinable payments and maturities for which the company has the intention and ability to hold to maturity.

(iv) Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

The company does not engage in regular purchase and sale of financial assets.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

The fair value of financial assets traded in active markets is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the company is the current bid price. The fair value of financial assets that are not traded in active markets is determined using valuation techniques.

(g) Trade and other receivables

All trade and other receivables are recognised at the amounts expected to be received on settlement.

Collectability is reviewed on an ongoing basis and balances which are known to be uncollectible are written-off. A provision is raised when doubt as to collection of a particular balance or classes of balances exists.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the FIFO principle and includes expenditure incurred in acquiring the stock and bringing it to its existing condition and location. Adequate provision is made for slow-moving and obsolete inventories.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalent assets comprise, cash on hand and at bank, deposits at call which are readily convertible to cash and bank overdrafts.

(j) Share capital

Ordinary shares are classified as equity and carried in the company's financial statements at par value.

(k) Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Borrowings

Borrowings are recognised initially at cost, and associated transaction costs and establishment fees are recognised in the statement of comprehensive income when incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. The company held borrowings in line with its capital risk management policy, refer note 3(e).

(m) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(n) Employee emoluments and benefits

(i) Wages, salaries and annual leave
Liabilities for wages and salaries, including annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

During the year, the company did not have a long service leave scheme in place.

(o) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(p) Dividends

Provision is made for the amount of any dividend declared, determined by the directors on or before the end of the financial year but not distributed at balance date.

(q)Revenue recognition

Revenue comprises the fair value of the sale of goods and services. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the company’s activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

(i) Electricity Income
Revenue from the supply of electricity is recognised based on meter readings.

(ii) Provision of services
Revenue is generally recognised when services are rendered.

(iii) Interest income
Revenue is recognised when interest accrues to the net carrying amount of the financial assets held.

(v) Rental income
Rental income is recorded on an accrual basis.

3 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

Risk management is carried out by management of the company under policies approved by the Board of Directors. Management identify and evaluate financial risks in close co-operation with the company's operating units. The Board provides direction for overall risk management covering specific areas, such as mitigating foreign exchange, interest rate risk and credit risks, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange
Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency (refer note 2 (c)). The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the New Zealand (NZD) and American (USD) dollar. As a measure, prompt settlement of liabilities (and assets if necessary) is exercised by management to minimise the exposure to foreign exchange losses. As an additional measure, the company negotiates competitive rates with its bankers to minimise losses and maximise gains when receipts and payments become due.

To determine the company's sensitivity to foreign exchange risk, an implied volatity in exchange rates is calculated based on the maximum variation of month end spot rates from the average exchange rate in the year.

At 30 June 2010, if the pa'anga had strengthened/weakened by 4% against the NZD with all other variables held constant, post tax profit for the year would have been $97,908 higher/lower, mainly as a result of foreign exchange gains/losses on translation of NZD denominated trade payables at year end.

At 30 June 2010, if the pa'anga had strengthened/weakened by 5% against the USD with all other variables held constant, post tax profit for the year would have been $306,702 higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD denominated borrowings.

(ii) Political climate
The company operates in Tonga and changes to governments and the policies they implement affect the economic situation and ultimately the revenues of the company. To address this, the company reviews its pricing and service ranges regularly and responds appropriately.

(b) Credit risk

The entity has no significant concentrations of credit risk. The entity has policies in place to ensure that sales electricity and services are made to customers with an appropriate credit history. But due to the absence of a credit agency, the entity has policies that limit the amount of credit exposure to any one customer or company of customers.

Credit limits were exceeded during the reporting period from existing customers for whom a number do not have sufficient customer bonds in place. The company has revised its collection strategy and this has resulted in the significant improvement of the accounts receivable position at the end of the financial period. All new customers are now required to pay customer bonds.

3 FINANCIAL RISK MANAGEMENT - continued

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business of the company, management aims at maintaining flexibility in funding by keeping committed credit lines available.

Management monitors monthly forecasts of the company's liquidity reserve comprising of its un-drawn overdraft facility and cash and cash equivalents (note 12). The forecasted liquidity reserve beginning 1 July 2010 and subsequently for the 4 year period beginning 2011 and ending 2014 is as follows;

	$	$
	2010	**2011-2014**
Opening balance for the period	1,742,804	1,459,805
Net operating cash flows	7,874,618	38,335,376
Net investment cash flows	(6,316,187)	(25,526,256)
Net financing cash flows	(1,841,430)	(9,157,737)
Closing balance for the period	1,459,805	5,111,188

The table below analyses the company's external financial liabilities into relevant maturity groupings based on the remaining period at statement of financial position date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As at 30 June 2010:				
Borrowings	3,499,406	4,354,690	5,825,388	-
Trade and other payables	4,939,666	-	-	-
As at 30 June 2009:				
Borrowings	1,391,041	1,510,242	10,176,717	3,032,884
Trade and other payables	3,914,317	-	-	-

3 FINANCIAL RISK MANAGEMENT - continued

(d) Cash flow and fair value interest rate risk

The company has significant interest-bearing assets and borrowings, its income and operating cash flows are substantially dependent of changes in market interest rates.

(e) Capital risk management

The company's objectives when obtaining and managing capital are to safeguard the company's ability to continue as a going concern and provide shareholders with a consistent level of returns.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratio of the company as at 30 June 2010 is as follows:

	2010 $	2009 $
Total borrowings (note 18)	13,679,484	16,110,885
Less: cash and cash equivalents (note 12)	(1,459,805)	(1,742,804)
Net debt	12,219,679	14,368,081
Total equity	38,564,816	36,682,939
Total capital	50,784,495	51,051,020
Gearing Ratio	24.06%	28.14%

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 believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Income taxes
The company is subjected to income taxes in one jurisdiction. Since judgement is required based on the information available at balance date, differences are expected to arise when the applicable tax authorities issue their assessment of the company's tax affairs. Such differences will impact the income tax expense and deferred tax provisions in the period in which they were made.

Appropriate alignment will be taken up subsequently.

(ii) Provisions - legal, doubtful debts, obsolescence and employee benefits
Provisions are measured at the value management best estimates an expenditure to be incurred at, to settle a present obligation at balance date. Market situations are often used to estimate provisions. Changes in market situations will create a difference between provisions with the recorded figures. Whilst the fact remains that uncertain issues such as legal, warranty and bad debts exist, management as a benchmark makes adequate provisions based on past record and the foreseeable future.

The provisions are aligned once the final outcome is known at balance date.

(iii) Depreciation
On acquiring an asset, management determines the most reasonable length of time it expects the company to maintain that asset with reference to characteristics of similar assets or classes of assets held by the company presently or in the past. This has been confirmed by Sinclair Knight Merz Limited, a company out of New Zealand. In the absence of local industry, benchmarking is done by comparing age of the assets to standard life of similar assets in New Zealand taking into account local climatic and environmental conditions.

At the end of the financial period, management assesses the carrying value of assets to determine whether they are impaired. Appropriate revisions to the policies are made, if necessary, or any significant impairment losses are accounted for in the financial statements as a corrective measure. Appropriate disclosure would normally follow.

(b) Critical judgements in applying the entity's accounting policy

In applying its accounting policies, the company is not aware of any significant risk of material adjustment to the carrying amount of assets and liabilities that may change within the next financial year.

5 SEGMENT INFORMATION

(a) Primary reporting - geographical segments
The geographical segments identified in the primary reporting disclosures are Tongatapu, Vava'u, Ha'apai and 'Eua

	Tongatapu	Vava'u	Ha'apai	'Eua	Total
	$	$	$	$	$
Revenue from external customers	31,147,179	3,442,105	1,022,710	709,530	36,321,524
Other Income	213,118	1,564	(264)	986	215,404
Inter-segment revenue	-	-	-	-	-
Total segment revenue	$ 31,360,297	$ 3,443,669	$ 1,022,446	$ 710,516	$ 36,536,928
Profit/(loss) from ordinary activities before income tax	3,399,843	965,243	165,152	8,330	4,538,568
Income tax (expense)/credit	(1,239,828)	(241,311)	(41,288)	(2,083)	(1,524,510)
Net profit/(loss)	$ 2,160,015	$ 723,932	$ 123,864	$ 6,247	$ 3,014,058
Segment assets	47,393,543	8,561,353	2,200,137	2,480,339	60,635,372
Total assets	$ 47,393,543	$ 8,561,353	$ 2,200,137	$ 2,480,339	$ 60,635,372
Provision for income tax					587,687
Deferred income tax liabilities					1,863,719
Segment liabilities	16,655,802	1,852,095	574,149	537,104	19,619,150
Total liabilities	$ 16,655,802	$ 1,852,095	$ 574,149	$ 537,104	$ 22,070,556

Other information - unallocated	
Acquisition of property, plant and equipment	5,326,031
Depreciation and amortisation of property, plant and equipment	4,362,427

(b) Secondary reporting – business segments
There is no secondary reporting as the company operates predominantly in one business segment, namely, the supply of electricity to customers.

6 REVENUE

	2010 $	2009 $
Regulated Revenue		
Fuel	18,418,987	23,050,634
Non-fuel	16,511,613	12,910,248
	34,930,600	35,960,882
Fees	396,810	322,126
Customer reconnections/disconnections	276,650	271,722
Upgrade and repairs	717,464	177,394
	$ 36,321,524	$ 36,732,124

7 OTHER INCOME

	2010 $	2009 $
Non-Regulated Revenue		
Rental	67,995	25,838
Other	147,409	65,449
	$ 215,404	$ 91,287

8 FINANCE COSTS

	2010 $	2009 $
Interest income	35,815	974
Total finance income	35,815	974
Interest expense - borrowing fees and charges	(785,563)	(1,241,323)
Net foreign exchange gain/(loss) on financing activities (note 20)	605,357	(1,528,083)
Total finance cost	(180,206)	(2,769,406)
Net finance income/(cost)	$ (144,391)	$ (2,768,432)

Finance income and costs are earned/(borne) at market rates.

TONGA POWER LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

		2010	2009
9	**PROFIT BEFORE INCOME TAX**	**$**	**$**
	Profit before income tax has been determined after charging as:	4,538,568	(920,758)
	Cost of sales		
	Auto fuel	184,900	160,257
	Auto repair & maintenance	133,126	108,963
	Duties and fees	144,659	41,585
	Freight expense	123,626	137,225
	Fuel cost	17,689,029	21,209,489
	Maintenance costs	2,251,501	2,251,756
	Salaries & wages	2,198,649	1,886,094
	Supplies & consumables	149,419	133,939
	Third party costs	592,105	247,938
	Selling and distribution expenses		
	Media annoucements	47,798	34,639
	Administrative and other expenses		
	Auditor's remuneration - audit services	45,000	45,000
	Bad debt expense	48,720	149,098
	Bank charges	57,075	26,803
	Depreciation and amortisation of property, plant & equipment	4,362,427	3,849,075
	Electricity Commission fees	480,000	440,000
	Insurance	477,460	481,315
	Legal and professional fees	171,748	892,523
	Loss on disposal of property, plant & equipment	161,730	1,212,264
	Loss on natural disasters	464,805	-
	Recruitment Costs	72,609	110,463
	Repairs and maintenance	48,319	31,022
	Salaries and wages	603,426	251,439
10	**EMPLOYEE EMOLUMENTS**		
	Key management personnel (note 25(c))	1,207,225	827,584
	Staff	1,658,772	1,337,639
		$ 2,865,997	$ 2,165,223
	Number of employees	135	115

11 INCOME TAX

	2010	2009
	$	$
The current period's income tax expense is made of:		
Current tax Expense (benefit)	1,524,510	(193,774)
Income tax overprovided in prior periods	-	-
	$ 1,524,510	$ (193,774)

The prima facie income tax expense/(credit) on operating profit/(loss) before income tax is reconciled to the income tax expense/(credit) in the statement of comprehensive income as follows:

	2010	2009
Net profit/(loss) before income tax	4,538,568	(920,758)
Prima facie income tax expense/(credit) at 25% on operating profit/(loss)	1,134,642	(230,190)
Tax effect of non-allowable deductions	769,850	36,416
Tax losses recognised	(193,772)	-
Prior year adjustments	(186,210)	-
Income tax expense (credit)	$ 1,524,510	$ (193,774)

12 CASH AND CASH EQUIVALENTS

	2010	2009
This comprises:		
Cash at bank	1,454,405	1,737,554
Cash on hand	5,400	5,250
	$ 1,459,805	$ 1,742,804

Financing facilities available to the company at the end of the financial period consists of an overdraft facility of $3 million at .05% per month for unused line fee. This facility was not used at balance date.

13 TRADE AND OTHER RECEIVABLES

	2010 $	2009 $
Trade debtors	1,157,659	1,054,121
Provision for doubtful debts	(75,812)	(93,883)
	1,081,847	960,238
Other debtors and prepayments	273,441	487,067
Accrued income	2,714,880	1,782,289
Other current assets	970,161	551,720
	$ 5,040,329	$ 3,781,314

Trade receivables are non-interest bearing and are generally on the following terms:

Accounts with arrears	7 days
Accounts without arrears	30 days

The fair values of trade receivables are as follows:

	2010	2009
Trade receivables	$ 1,081,847	$ 960,238

As of 30 June 2010, trade receivables of $ 899,324 (2009: $785,699) were fully performing.

As of 30 June 2010, trade receivables of $182,523 (2009: $174,539) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows;

	2010	2009
30 - 60 days	60,148	90,531
60 - 90 days	31,591	27,713
Over 90 days overdue	90,784	56,295
	$ 182,523	$ 174,539

As of 30 June 2010, trade receivables of $75,812 (2009: $93,883) were impaired and provided for. The amount of provision was $75,812 as of 30 June 2010 (2009: $93,883). The individually impaired receivables mainly relate to independent customers which are in unexpectedly difficult economic situations.

Movement in the provision for impairment of receivables were as follows:

	2010	2009
Opening balance	93,883	-
Increase in provisions	-	93,883
Provision write backs	18,071	-
Closing balance	$ 75,812	$ 93,883

The other receivables and prepayments are not impaired and the company does not hold any collateral as security.

14 INVENTORIES

	2010 $	2009 $
Fuel	501,850	401,150
Spares	298,271	-
	$ 800,121	$ 401,150

Inventories has been valued in accordance with note 2(h)

15 HELD-TO-MATURITY FINANCIAL ASSETS

	2010 $	2009 $
Term Deposits		
ANZ Banking Corporation	1,004,518	-
Westpac Bank of Tonga	1,000,000	1,000,000
	$ 2,004,518	$ 1,000,000

At balance date, TOP 1,000,000 term deposit was held with the Westpac Bank of Tonga earning interest at 2% (2009: 5%), and TOP 1,004,518 term deposit was held with the ANZ Bank earning interest at 2.25%.

16 PROPERTY, PLANT AND EQUIPMENT

(a) Property, plant and equipment are set out in the financial statements on the following bases:

	2010 $	2009 $
Generation Equipment		
-At cost	18,457,439	16,136,088
-Accumulated depreciation	(2,259,803)	(1,093,130)
	16,197,636	15,042,958
Distribution Network Equipment		
-At cost	34,810,219	32,858,074
-Accumulated depreciation	(5,520,219)	(2,556,980)
	29,290,000	30,301,094
Office Computers & Equipment		
-At cost	233,899	146,835
-Accumulated depreciation	(66,413)	(25,102)
	167,486	121,733
Furniture & Fixtures		
-At cost	63,501	50,280
-Accumulated depreciation	(14,534)	(6,239)
	48,967	44,041
Tools and Equipment		
-At cost	284,235	138,517
-Accumulated depreciation	(67,688)	(20,709)
	216,547	117,808
Motor Vehicles		
-At cost	976,636	392,708
-Accumulated depreciation	(170,072)	(60,014)
	806,564	332,694
Land and Building		
-At cost	4,731,657	4,739,863
-Accumulated depreciation	(186,012)	(86,899)
	4,545,645	4,652,964
Work in progress	57,754	95,974
Closing Net Book Amount	$ 51,330,599	$ 50,709,266

16 PROPERTY, PLANT AND EQUIPMENT - continued

(b) Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Generation Equipment	Distribution Network	Computers & Equipment	Furniture & Fixtures	Tools & Equipment	Motor Vehicle	Land & Building	Capital Work in Progress	Total
	$	$	$	$	$	$	$	$	$
						-			
Carrying Amount at 1 July 2009	15,042,958	30,301,094	121,733	44,041	117,808	332,694	4,652,964	95,974	50,709,266
Additions	424,671	1,952,146	87,064	13,221	145,695	638,415	80,944	1,983,875	5,326,031
Transfers from Capital Works in Progress	2,015,245	-	-	-	-	-	6,850	- 2,022,095	-
Disposals	- 84,512	-	-	-	-	- 28,585	- 96,000	-	- 209,097
Depreciation Expense	- 1,200,726	- 2,963,240	- 41,311	- 8,295	- 46,956	- 135,960	- 99,113	-	- 4,495,601
Carrying Amount at 30 June 2010	$ 16,197,636	$ 29,290,000	$ 167,486	$ 48,967	$ 216,547	$ 806,564	$ 4,545,645	$ 57,754	$ 51,330,599
Carrying Amount at 25 July 2008	16,136,088	27,846,141	113,556	46,273	81,963	179,588	4,611,000	-	49,014,609
Additions	-	385,605	33,279	4,007	56,554	213,121	128,863	95,974	917,403
Revaluation Surplus (note 23(a))	-	4,626,328	-	-	-	-	-	-	4,626,328
Depreciation	- 1,093,130	- 2,556,980	- 25,102	- 6,239	- 20,709	- 60,015	- 86,899	-	- 3,849,074
Carrying Amount at 30 June 2009	$ 15,042,958	$ 30,301,094	$ 121,733	$ 44,041	$ 117,808	$ 332,694	$ 4,652,964	$ 95,974	$ 50,709,266

(c) The depreciation and amortisation policy is set out in Note 2(d).

(d) The company's distribution network equipment was last revalued on 30th June 2009 by independent valuers. Valuations were made on the basis of depreciated replacement cost of these assets. The revaluation surplus (no deferred tax applicable) was credited to "Asset Revaluation Reserve" (note 23 (a))

If distribution network assets were stated on the historical cost basis, the amounts would be as follows;

	2010	**2009**
	$	**$**
Cost	30,183,891	28,231,746
Accumulated Depreciation	- 2,831,059	- 2,556,980
Net book amount	$ 27,352,832	$ 25,674,766

17 TRADE AND OTHER PAYABLES

	2010 $	2009 $
Trade creditors	3,997,862	2,399,597
Other creditors and accruals	941,804	1,514,720
	$ 4,939,666	$ 3,914,317

18 BORROWINGS

	2010	2009
Current	3,499,406	1,391,041
Non-current	10,180,078	14,719,844
Total	$ 13,679,484	$ 16,110,885
Westpac Bank of Tonga	13,679,484	12,131,542
Caterpillar Financial Services Corporation	-	3,979,343
	$ 13,679,484	$ 16,110,885

Westpac Bank of Tonga Loan

The total loan from Westpac Bank of Tonga of TOP13,679,484 (including the USD2.05million) is secured via an equitable mortgage over assets and undertakings of the company, including Vava'u, 'Eua, Ha'apai and the Popua Power Station in Tongatapu, and debt and interest guarantee by the Government of Tonga.

The USD 6,050,000 (TOP 12,131,542) loan from Westpac Bank of Tonga was partially refinanced during the year via the following loans:

- TOP 3,834,356 from Westpac Bank of Tonga at interest of 6.75% fixed for two years, to be fully repaid by March 2012. Monthly principal and interest repayments are TOP 170,000.

- TOP 3,859,514 from Westpac Bank of Tonga at interest of 6.75% fixed for two years. The loan requires monthly interest only payments until March 2012, from when it will become payable at quartely instalments of TOP 295,056 to be fully repaid by June 2015.

- USD 2,050,000 is still held with Westpac Bank of Tonga and attracts quarterly interest only payments of 4.29% (2009: 5.10063%). Principal repayments will commence in July 2011, to be fully repaid by April 2015. The loan requires interest only payments until August 2011 from when it will become payable at quarterly instalments of USD 128,125

The loan with Caterpillar Financial Services Corporation was refinanced during the year via a Westpac Bank of Tonga loan of TOP 2,999,684 at interest of 6.75% fixed for two years. Monthly principal and interest repayments are TOP 145,318, to be fully repaid by January 2012.

The exposure of the company's borrowings to interest rate changes and the contractual repricing dates at the statement of financial position dates are as follows;

	2010	2009
Less than 1 year	3,499,406	1,391,041
1 – 2 years	4,354,690	1,510,242
2 – 5 years	5,825,388	10,176,717
Over 5 years	-	3,032,885
	13,679,484	16,110,885
Financing charges	1,484,064	3,666,454
	$ 15,163,548	$ 19,777,339

		2010	2009
19	**DEFERRED INCOME TAX**	**$**	**$**
	Deferred tax assets:		
	- Deferred tax asset to be recovered in more than 12 months	257,257	193,774
	- Deferred tax asset to be recovered within 12 months	-	414,502
		257,257	608,276
	Deferred tax liabilities:		
	- Deferred tax liability to be recovered in more than 12 months	(1,934,766)	(1,534,669)
	- Deferred tax liability to be recovered within 12 months	(186,210)	-
		(2,120,976)	(1,534,669)
	Deferred tax liabilities (net)	$ 1,863,719	$ 926,393
	The gross movement on the deferred income tax account is as follows:		
	Beginning of financial period	926,393	-
	Income tax expense / (benefit)	1,524,510	(193,774)
	Additions and other movements	(587,184)	1,120,167
	At end of financial period	$ 1,863,719	$ 926,393

Deferred income tax is accounted for in accordance with the accounting policy outlined in note 2(m).

20 NET FOREIGN EXCHANGE GAIN/(LOSS)

The exchange differences included in the statement of comprehensive income under cost of sales are as follows:

	2010	2009
Gains		
Realised	439,322	11,113
Unrealised	166,035	-
(Losses)		
Realised	-	-
Unrealised	-	(1,539,196)
Net foreign exchange gain/(loss)	$ 605,357	$ (1,528,083)

Unrealised losses or gains on foreign currency transactions result in accordance with the accounting policy outlined in note 2(c) (ii).

21 CONTRIBUTED EQUITY

	2010 $	2009 $
Issued and paid-up capital		
Ordinary shares of 1,000 at $32,783.60 per share	$ 32,783,595	$ 32,783,595

The company's capital (authorised and issued) comprises ordinary shares only.

22 DIVIDENDS PER SHARE

	2010	2009
Dividends per share	$ 0.03	$ -

No interim dividend was paid out during the financial period. The dividends are accounted for in accordance with policy note 2(p)

23 RESERVES AND RETAINED PROFITS

(a) Revaluation Surplus

	2010	2009
At 1 July 2009 (25 July 2008)	4,626,328	-
Revaluation of distribution network equipment	-	4,626,328
Depreciation of distribution network equipment	(132,181)	-
At 30 June 2010 (30 June 2009)	$ 4,494,147	$ 4,626,328

(b) Accumulated Profits/(Losses)

	2010	2009
At 1 July 2009 (25 July 2008)	(726,984)	-
Gain / (Loss) for the period	3,014,058	(726,984)
Dividends Declared	(1,000,000)	-
At 30 June 2010 (30 June 2009)	$ 1,287,074	$ (726,984)

A dividend of $1 million was declared by the Board of Directors on 30 June 2010. It was confirmed by the shareholder (Government) that dividends will be reinvested into Tonga Power Limited for the specific purpose of funding the Government Underground Network Project around the Central Business District. In addition, the reinvestment will be used to cover the cost of relocation of utility poles, lines and structures in respect to the implementation of the National Road Improvement Project. The network assets will be capitalised in the books of Tonga Power limited at the completion of the project.

25 RELATED PARTIES

Transactions of directors and director related entities

Directors

Persons who were directors of the company at any time during the financial period were as follows:

Mr. David Wright
Hon, ‘O. Afu’alo Matoto
Mr. Warren Moyes
Mr. S. Tsutomu Nakao II
Mrs. ‘Alisi Nunia Taumoepeau
Mr. Richard Guttenbeil

During the financial period, directors were paid fees and emoluments amounting to $115,917.81 (30 June 2009: $30,685). Local director fees were $65,425 (30 June 2009: $24,548) and overseas director fees were $50,493;31 (30 June 2009: $6,137) for the company.

(a) Sales of Electricity

All electricity sales to Government Ministries and State Owned Enterprises amounted to $6,959,746 (30 June 2009: $5,887,081. These transactions were made on normal commercial terms and conditions no more favourable than those which would have been adopted if the dealing was made at arm's length with another party in the same circumstances.

(b) Purchases of services

All services provided by Government Ministries and State Owned Enterprises to the company during the financial period totalled $981,536 (30 June 2009: $1,398,158)

These transactions were on normal commercial terms and conditions no more favourable than those which would have been adopted if the dealing was made at arm’s length with another party under the same circumstances.

	2010 $	2009 $
Services		
Advertising	47,798	34,639
Duties and Fees	144,869	41,585
Electricity Commission Fees	480,000	440,000
Consultant Fees	139,748	713,803
Telephone and Water	151,632	126,183
Licences	17,420	41,844
Postages	69	103
	$ 981,536	$ 1,398,157

(c) Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

25 RELATED PARTIES - continued

(c) Key management compensation - continued

During the year the executives identified as key management personnel, with the greatest authority and responsibility for planning, directing and controlling the activities of the company included the Chief Executive Officer, Manager Network Planning & Design Distribution, Manager Distribution Network, Power Station Manager, Power Station Superintendent/Outer Islands Manager, Administration Manager, and Finance Manager.

Key management personnel compensation package	**2010 $**	**2009 $**
Emoluments	1,207,225	827,584

(d) Financial period-end balances arising from sale and purchases of goods and services

Receivables from related parties		
- Government Ministries and State Owned Enterprises	269,050	-
Payables to related parties		
- Government Ministries and State Owned Enterprises	-	189

The receivables from related party arise from the supply of electricity and are due one month after date of Billing. The receivables are unsecured and bear no interest.

Payables to the related parties arise mainly from purchase transactions and are due one month after the date of purchase. The payables bear no interest.

26 CONTINGENT ASSET

Details and estimates of maximum amounts of contingent assets are as follows:

Debt recovery claim	3,235	-

As at year end 30 June 2010 there is a debt recovery claim by the company against the proprietors of a private company in the amount of TOP 3,235

The company has no further contingent assets other than those disclosed above.

27 CONTINGENT LIABILITIES

Details and estimates of maximum amounts of contingent liabilities are as follows:

Customer Bonds	481,080	268,978

At year end 30 June 2010, a public lawsuit of $50,000 was filed against the company. The company is, however, adequately covered by its General Liability insurance cover.

The company has no further contingent liabilities other than those disclosed above.

28 COMMITMENTS FOR EXPENDITURE

(a) Operating leases

The company has a number of operating lease agreements with varying terms and conditions as follows:

(i) On 24 July 2008, the company took over a lease agreement from Shoreline with Hon. Fakafanua to lease land with corresponding lease number 24318 at 'Anana, Tongatapu. The term of the lease agreement is for a period of 50 years ending on 11 March 2018. Under the agreement, rent is payable at the rate of $16,000 per annum.

(ii) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with the Government of Tonga to lease land with corresponding lease number 3504 at Kolofo'ou, Tongatapu. The term of the lease agreement is for a period of 50 years ending on 31 December 2028. Under the agreement, rent is payable at the rate of $1,620 per annum.

(iii) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with the Government of Tonga to lease land with corresponding lease number 4004 near the Court House at Kolofo'ou, Tongatapu. The term of the lease agreement is for a period of 20 years ending on 23 November 2032. Under the agreement, rent is payable at the rate of $45 per annum.

(iv) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with the Government of Tonga, specifically the Ministry of Labour, Commerce and Industries, to lease land with corresponding lease number Book 1 Folio 156A 3239 at Ma'ufanga, Tongatapu. The term of the lease agreement is for a period of 50 years ending on 1 February 2022. Under the agreement, rent is payable at the rate of $4,364.64 per annum.

(v) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with Langafonua'a Fafine, to lease land with corresponding lease number Book 1 Folio 100 4711 at Kolofo'ou, Tongatapu. The term of the lease agreement is for a period of 50 years ending on 31 August 2035. Under the agreement, rent is payable at the rate of $45 per annum.

(vi) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with the Government of Tonga to lease land with corresponding lease number 7594 at Taumu'aloto, Fualu, Vava'u. The term of the lease agreement is for a period of 50 years ending on 2 June 2058. Under the agreement, rent is payable at the rate of $750 per annum.

(vii) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with the Government of Tonga to lease land with corresponding lease number 3897 at Neiafu, Vava'u. The term of the lease agreement is for a period of 40 years ending on 16 February 2022. Under the agreement, rent is payable at the rate of $1,200 per annum.

(viii) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with the Government of Tonga to lease land with corresponding lease number 2277A at Neiafu, Vava'u. The term of the lease agreement is for a period of 3 years ending on 9 April 2013. Under the agreement, rent is payable at the rate of $680 per annum.

(ix) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with His Majesty, the King of Tonga to lease land with corresponding lease number 3558 at Pagai, Ha'apai. The term of the lease agreement is for a period of 50 years ending on 20 February 2028. Under the agreement, rent is payable at the rate of $650 per annum.

(x) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with His Majesty, the King of Tonga to lease land with corresponding lease number 3711 at the Power Station, Ha'apai. The term of the lease agreement is for a period of 50 years ending on 22 June 2030. Under the agreement, rent is payable at the rate of $240 per annum.

(xi) On 24 July 2008, the company took over a lease agreement from Tonga Electric Power Board with the Government of Tonga to lease land with corresponding lease number 4252 at the 'Ohonua, 'Eua. The term of the lease agreement is for a period of 50 years ending on 23 January 2030. Under the agreement, rent is payable at the rate of $540 per annum.

28 COMMITMENTS FOR EXPENDITURE - continued

(a) Operating leases - continued

Total commitments for future lease rentals, which have not been provided for in the accounts are as follows:

	2010	2009
	$	$
Payable not later than 1 year	80,135	80,135
Payable not later than 1 year but not later than 5 years	130,673	130,673
Payable later than 5 years	162,077	189,242
	$ 372,885	$ 400,050

(b) Capital commitments

At the reporting date a contract agreement dated 19 March 2010 was signed to purchase Orion Billing System for TOP 268,294.

29 PRINCIPAL ACTIVITIES

The principal activities of the company is the generation, transmission, distribution and sale of electricity on Tongatapu, Vava'u, Eua and Ha'apai. The company also undertakes certain electrical contracting work particularly for private customer service lines.

30 Underlying Profit After Tax (Non-Statutory) Disclosure

Underlying profit after tax for the year is presented to allow readers to make an assessment and comparison of underlying profit without taking into account the tax effect of unrealised foreign exchange losses in prior period which were realised in the current year.

	2010
	$
Reported profit before tax	4,538,568
Impairment of property, plant and equipment	-
Underlying profit before tax	4,538,568
Reported tax expense	(1,524,510)
Tax effect of unrealised foreign exchange losses in 2009	384,799
Tax expense on underlying profit	(1,139,711)
Underlying profit after tax	3,398,857

The key differences between the underlying profit and the reported profit after tax is the tax effect of the unrealised foreign exchange losses in prior period which were realised in the current year.