



**BSP CONVERTIBLE NOTES LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**BSP CONVERTIBLE NOTES LIMITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

<b>CONTENTS</b>	<b>PAGE NO.</b>
Table of contents	1
Directors' Report	2 - 3
Statement by Directors	4
Independent Auditors' Report	5 - 6
Statement of Profit or Loss and Other Comprehensive Income	7
Statement of Changes in Equity	8
Statement of Financial Position	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 -23

**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 31 December 2013, the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended on that date and report as follows:

**Directors**

The names of the directors of company at the date of this report are:

Kevin Bernard McCarthy  
Johnson Kalo

Robin Gerard Fleming  
Cecil Browne

**Principal Activities**

The principal activity of the company is to facilitate the issue of convertible notes and subsequent conversion to Fiji Class Shares and lend the proceeds to Bank of South Pacific Limited - Fiji Branch for use in its business activities in Fiji.

The company commenced business operations in April 2010.

**Results**

The profit after income tax for the year ended 31 December 2013 was \$864,617 (2012: Loss after income tax: \$15,498).

The profit for the year include support fee of \$569,941 received from Bank of South Pacific Limited of Papua New Guinea as per the Support Deed to enable the company to meet dividend commitments to Fiji Class Shareholders.

**Dividends**

During the year, final dividend of \$508,479 and interim dividend of \$245,197 was declared and paid on Fiji Class Shares of the company.

Shareholders of Fiji Class Shares are entitled to receive dividend equal to the amount of dividend paid to the ordinary shareholders of Bank of South Pacific Limited of Papua New Guinea.

**Reserves**

It is proposed that no amounts be transferred to reserves within the meaning of the Seventh Schedule of the Companies Act, 1983.

**Unusual Transactions**

In the opinion of the directors, except for conversion of convertible notes into Fiji Class Shares and support fee of \$569,941 received from Bank of South Pacific Limited of Papua New Guinea, the results of the operations of the company during the financial year were not substantially affected by any other item, transaction or event of a material unusual nature, nor has there arisen between the end of the financial year and the date of this report any item, transaction or event of a material unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the company.

**DIRECTORS' REPORT [CONT'D]**

**Significant Events During the Year**

Pursuant to the condition of the Mandatorily Convertible Notes Deed dated 5 March 2010, each note issued by the company converted to a single Fiji Class Share on 20 April 2013.

Also, effective from 27 April 2013, Fiji Class Shares are quoted on the South Pacific Stock Exchange.

**Events Subsequent to Balance Date**

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

**Other Circumstances**

As at the date of this report:

- (i) no charge on the assets of the company has been given since the end of the financial year to secure the liabilities of any other person;
- (ii) no contingent liabilities have arisen since the end of the financial year for which the company could become liable; and
- (iii) no contingent liabilities or other liabilities of the company have become or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the company to meet its obligations as and when they fall due.

As at the date of this report, the directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the company's financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the company misleading or inappropriate.

**Directors' Benefits**

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than those disclosed in the financial statements) by reason of a contract made by the company or by a related company with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

For and on behalf of the board and in accordance with a resolution of the directors.

Dated this 12 day of March 2014.

.....  
Director

.....  
Director

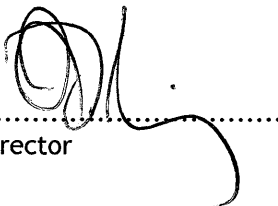
**STATEMENT BY DIRECTORS**

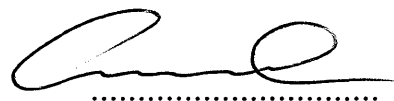
In accordance with a resolution of the board of directors of BSP Convertible Notes Limited, we state that in the opinion of the directors:

- [i] the accompanying statement of profit or loss and other comprehensive income of the company is drawn up so as to give a true and fair view of the results of the company for the year ended 31 December 2013;
- [ii] the accompanying statement of changes in equity of the company is drawn up so as to give a true and fair view of the changes in equity of the company for the year ended 31 December 2013;
- [iii] the accompanying statement of financial position of the company is drawn up so as to give a true and fair view of the state of affairs of the company as at 31 December 2013;
- [iv] the accompanying statement of cash flows of the company is drawn up so as to give a true and fair view of the cash flows of the company for the year ended 31 December 2013;
- [v] the financial statements have been properly prepared in accordance with International Financial Reporting Standards;
- [vi] at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due; and
- [vii] all related party transactions have been adequately recorded in the books of the company.

For and on behalf of the board and in accordance with a resolution of the directors.

Dated this 12 day of March 2014.

  
.....  
Director

  
.....  
Director

## **INDEPENDENT AUDITORS' REPORT**

To the members of BSP Convertible Notes Limited

Page 5

### **Report on the Financial Statements**

We have audited the accompanying financial statements of BSP Convertible Notes Limited (the company), which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 7 to 23.

### **Director's and Management's Responsibility for the Financial Statements**

Directors and management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Fiji Companies Act, 1983, and for such internal control as the directors and management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

**INDEPENDENT AUDITORS' REPORT [CONT'D]**

To the members of BSP Convertible Notes Limited (Cont'd)

Page 6

**Opinion**

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of the company as at 31 December 2013, and its financial performance, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

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;
- b) the financial statements are in agreement with the books of account; and
- c) to the best of our information and according to the explanations given to us, the financial statements give the information required by the Fiji Companies Act, 1983 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.

SUVA, FIJI  
12 MARCH 2014

*BDO*  
BDO  
CHARTERED ACCOUNTANTS

**BSP CONVERTIBLE NOTES LIMITED**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

Page 7

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Interest income	6	\$ 663,627	1,149,158
Interest expense	8	<u>(339,449)</u>	<u>(1,126,357)</u>
<b>Net interest income</b>		324,178	22,801
Support fees from BSP	7	569,941	-
Operating expenses	8	<u>(29,502)</u>	<u>(38,299)</u>
<b>Profit / (loss) before income tax</b>		864,617	(15,498)
Income tax expense	5(a)	<u>-</u>	<u>-</u>
<b>Profit / (loss) for the year</b>		<b>864,617</b>	<b>(15,498)</b>
Other comprehensive income / (expense)		<u>-</u>	<u>-</u>
<b>Total comprehensive income / (expense) for the year</b>		<b>\$ <u>864,617</u></b>	<b><u>(15,498)</u></b>

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to financial statements set out on pages 11 to 23.



**BSP CONVERTIBLE NOTES LIMITED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2013**

Page 8

	Ordinary Share Capital	Fiji Class Shares	Accumulated Losses	Total
	\$	\$	\$	\$
Balance as at 31 December 2011	250,000	-	(937,140)	(687,140)
Loss for the year	-	-	(15,498)	(15,498)
Other comprehensive income for the year	-	-	-	-
<b>Balance as at 31 December 2012</b>	<b>250,000</b>	<b>-</b>	<b>(952,638)</b>	<b>(702,638)</b>
Conversion of Convertible Notes to Fiji Class Shares		16,090,806	-	16,090,806
Profit for the year	-	-	864,617	864,617
Dividend on Fiji Class Shares (Note 14)	-	-	(753,676)	(753,676)
Other comprehensive income for the year	-	-	-	-
<b>Balance as at 31 December 2013</b>	<b>250,000</b>	<b>16,090,806</b>	<b>(841,697)</b>	<b>15,499,109</b>

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 11 to 23.

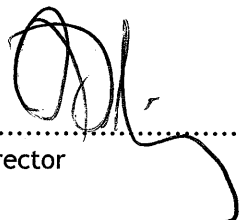
**BSP CONVERTIBLE NOTES LIMITED  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2013**

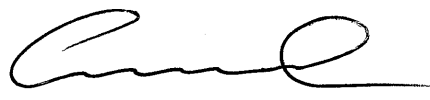
Page 9

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>			
Cash at bank	15(a)	\$ 407,809	330,386
Receivables	9	-	191,267
<b>Total current assets</b>		<b>407,809</b>	<b>521,653</b>
<b>NON-CURRENT ASSETS</b>			
Advance to Bank of South Pacific Ltd - Fiji Branch	10	15,100,000	15,100,000
<b>TOTAL ASSETS</b>		<b>15,507,809</b>	<b>15,621,653</b>
<b>CURRENT LIABILITIES</b>			
Payables	11	8,700	11,299
<b>NON-CURRENT LIABILITIES</b>			
Convertible notes	12	-	16,312,992
<b>TOTAL LIABILITIES</b>		<b>8,700</b>	<b>16,324,291</b>
<b>NET ASSETS / (LIABILITIES)</b>		<b>15,499,109</b>	<b>(702,638)</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital - Ordinary Shares	13	250,000	250,000
Share capital - Fiji Class Shares	15(b)	16,090,806	-
Accumulated losses		(841,697)	(952,638)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>\$ 15,499,109</b>	<b>(702,638)</b>

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 11 to 23.

For and on behalf of the board and in accordance with a resolution of the directors.

  
 .....  
 Director

  
 .....  
 Director

**BSP CONVERTIBLE NOTES LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

Page 10

	<b>2013</b>	<b>2012</b>
	<b>Inflows/ (Outflows)</b>	<b>Inflows/ (Outflows)</b>
<b>Cash flows from operating activities</b>		
Interest received	\$ 854,894	1,149,682
Interest paid	(561,635)	(1,126,357)
Payments to suppliers	(32,101)	(40,910)
<b>Net cash provided by / (used in) operating activities</b>	<b>261,158</b>	<b>(17,585)</b>
<b>Cash flows from financing activities</b>		
Proceeds from support fees	569,941	-
Dividend paid on Fiji Class Shares	(753,676)	-
<b>Net cash used in financing activities</b>	<b>(183,735)</b>	<b>-</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>77,423</b>	<b>(17,585)</b>
Cash and cash equivalents at the beginning of the year	330,386	347,971
<b>Cash and cash equivalents at the end of the year (Note 15(a)) \$</b>	<b>407,809</b>	<b>330,386</b>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 11 to 23.

**NOTE 1. GENERAL INFORMATION**

BSP Convertible Notes Limited (the company) is a limited liability company incorporated and domiciled in Fiji. The company was incorporated under the name "Tourmaline Limited" on 27 October 2006. Subsequently, the name of the company was changed to BSP Convertible Notes Limited on 26 October 2009.

The address of its registered office and principal place of business in Fiji is disclosed in note 22 to the financial statements. The company is listed on the South Pacific Stock Exchange (SPSE).

The principal activity of the company is to facilitate the issue of convertible notes and subsequent conversion to Fiji Class Shares and lend the proceeds to Bank of South Pacific Limited - Fiji Branch for use in its business activities in Fiji. The company commenced business operations in April 2010.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

The financial statements have been prepared in accordance with the requirements of the Companies Act 1983 and International Financial Reporting Standards ('IFRS').

**Basis of Preparation**

The financial statements of the company have been prepared on the basis of historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are critical to the financial statements are disclosed in note 4.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Basis of preparation (Cont'd)**

***New standards, interpretations and amendments effective from 1 January 2013***

A number of new standards, interpretations and amendments effective for the first time for periods beginning on (or after) 1 January 2013, have been adopted in these financial statements. The nature and effect of each new standard, interpretation and amendment adopted by the company is detailed below. Not all new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2013 effect the company's financial statements.

***Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income***

The amendments introduce new terminology, whose use is not mandatory. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

- (a) Items that will not be reclassified subsequently to profit or loss; and
- (b) Items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

***IFRS 13 - Disclosures of Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market condition regardless of whether that price is directly observable or estimated using another valuation technique. The application of IFRS 13 may result in changes in how entities determine fair values for financial reporting purposes. In addition, IFRS 13 requires extensive disclosures about fair value measurements.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Basis of preparation (Cont'd)**

***New standards, interpretations and amendments effective from 1 January 2013 that have no significant impact to the company***

In addition to the standards discussed above, there are certain new standards, amendments and interpretations which are also effective for the first time in these financial statements. However, none have a material effect on the company.

***New standards, interpretations and amendments not yet effective***

IFRS 9 - Financials Instruments has been issued which will be effective for annual periods beginning on or after 1 January 2015.

The company has not adopted early this new standard in these financial statements, and this new standard may have an effect on the company's future financial statements.

**a) Convertible Notes**

Convertible notes issued by the company are regarded as compound instruments, consisting of a liability component equivalent to the 3 year fixed coupon amount and an equity component equivalent to the balance. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the company, if any, is included in equity.

The interest expense on the liability component is calculated by applying the coupon rate of 7% to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes.

On 20 April 2013, Notes were mandatorily converted to Fiji Class Shares of BSP Convertible Notes Limited as described in Note 12. Accordingly, the company does not carry any convertible notes as of the year ended 31 December 2013.

**b) Cash and cash equivalents**

For the purpose of statement of cash flows, cash and cash equivalents comprise cash at bank.

**c) Comparatives**

Where necessary, amounts relating to prior years have been reclassified to facilitate comparison and achieve consistency in disclosure with current year amounts.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**d) Foreign Currencies**

*Functional and presentation currency*

The company operates in Fiji and hence the financial statements are presented in Fiji dollars, which is the company's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions during the year are translated to Fiji currency using the rate of exchange ruling at the date of transaction. All gains and losses arising from fluctuations in exchange rates are brought to account in determining the results for the year.

**e) Income Tax**

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Current tax for current and prior periods is recognised as a liability or an asset to the extent that it is unpaid or refundable.

*Deferred tax*

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

**f) Payables**

Payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

**g) Interest Income**

Interest income on advances is brought to account on an accrual basis, unless collectability is in doubt.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**h) Share capital**

Share capital comprises of the ordinary shares and Fiji Class Shares which are classified as equity.

On 20 April 2013, convertible notes issued by the company were mandatorily converted to Fiji Class Shares, where one Note converted to one Fiji Class Share, (refer Note 12 and 15 (b)).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**i) Support Fees from Bank of South Pacific (BSP)**

According to the Support Deed between BSP and BSP Convertible Notes Limited dated 5 March 2010, BSP has agreed to ensure that, on and immediately after each payment of dividend on the Fiji Class Shares under BSP Convertible Notes Limited, the company will satisfy the solvency test.

Accordingly, the company receives support fees from BSP in the event, if the company does not satisfy the solvency test on and immediately after each payment of dividend. Solvency test is to ensure that the company is able to pay its debts in full as they fall due.

**NOTE 3. FINANCIAL RISK MANAGEMENT**

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

Risk management is carried out by management under policies approved by the board of directors. The board provides policies for overall risk management, as well as policies covering specific areas, such as interest rate risk and credit risk.

**(a) Market risk**

*i) Price risk*

The company does not have investments in equity securities and hence is not exposed to equity securities price risk.

*ii) Cash flow and fair value interest rate risk*

The company has interest-bearing assets in the form of advance to Bank of South Pacific Limited - Fiji Branch. This is at variable interest rate, and accordingly company is exposed to interest risk.

Bank of South Pacific Limited of Papua New Guinea has undertaken to provide necessary support as per the Support Deed to enable the company to meet dividend commitments to Fiji Class Shareholders. Accordingly, the interest rate risk and cash flow impact thereon is mitigated by Support Deed with Bank of South Pacific Limited.



**NOTE 3. FINANCIAL RISK MANAGEMENT (CONT'D)**

**(b) Credit risk**

The company's financial assets are cash and cash equivalents and advance to Bank of South Pacific Ltd - Fiji Branch which represent the company's maximum exposure to credit risk in relation to financial assets. The credit risk on liquid funds is considered to be limited given that Bank of South Pacific Limited has high credit rating and is a related entity.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash to meet the company's present obligations.

The company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows.

Bank of South Pacific Limited of Papua New Guinea has undertaken to provide necessary support as per the Support Deed to enable the company to meet dividend commitments to Fiji Class Shareholders. Accordingly, the liquidity risk is also mitigated by Support Deed with Bank of South Pacific Limited.

**NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

In application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

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 material adjustments to the carrying amounts of assets and liabilities within the next financial year and in future is discussed below.

**NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS [CONT'D]**

**Critical Judgements in Applying the Entity's Accounting Policies**

(a) *Deferred tax*

Deferred tax assets are recognized for tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilized. The company has not recognized deferred tax asset in respect to income tax losses given that the realization of the tax benefit is not considered to be probable. The director's and management's assessment of taxable profit forecast involves making a judgement, at the particular point in time, about inherent uncertain future outcomes of events or conditions. Accordingly, subsequent events may result in outcomes that are significantly different from assessment.

**NOTE 5. INCOME TAX**

	2013	2012
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(a) **Income Tax Expense**

The prima facie income tax payable on profit or (loss) is reconciled to the income tax expense in the statement of profit or loss and other comprehensive income as follows:

Profit / (loss) before income tax	\$ 864,617	(15,498)
Prima facie tax payable / (benefit) thereon at 20%	172,923	(3,100)
Tax effect of permanent differences:		
Non-taxable income - support fees	(113,988)	-
Tax losses not recognized as deferred tax assets	-	3,100
Tax losses recouped during the year	(58,935)	-
Income tax expense	-	-

(b) **Benefit of Income Tax losses not brought to Account**

As at 31 December 2013, the company had unconfirmed unrecouped income tax losses of around \$660,000 (2012: \$954,000). These losses are available for carry forward for a period of 4 years from the year of loss. The company has not recognized deferred tax asset in respect to income tax losses given that the realization of the tax benefit is not considered to be probable.

**NOTE 6. INTEREST INCOME**

Advance to Bank of South Pacific Limited - Fiji Branch	662,332	1,147,600
Deposits with Bank of South Pacific Limited - Fiji Branch	1,295	1,558
Total interest income	\$ 663,627	1,149,158

<b>NOTE 7. SUPPORT FEE</b>	<u>2013</u>	<u>2012</u>
Support fees from BSP	\$ 569,941	-
Total support fee	<u>569,941</u>	<u>-</u>

Bank of South Pacific Limited of Papua New Guinea has undertaken to provide necessary support as per the Support Deed to enable the company to meet dividend commitments to Fiji Class Shareholders.

**NOTE 8. EXPENSES**

**Interest Expense**

Convertible notes	<u>339,449</u>	<u>1,126,357</u>
Total interest expense	<u>339,449</u>	<u>1,126,357</u>

**Operating Expenses**

Auditors' remuneration - audit	6,800	7,820
- other services	1,900	1,563
General expenses	<u>20,802</u>	<u>28,916</u>
Total operating expenses	<u>29,502</u>	<u>38,299</u>

**NOTE 9. RECEIVABLES**

Accrued interest on advance to Bank of South Pacific Limited - Fiji Branch	<u>-</u>	<u>191,267</u>
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**NOTE 10. ADVANCE TO BANK OF SOUTH PACIFIC LIMITED - FIJI BRANCH**

Advance to Bank of South Pacific Limited - Fiji Branch	<u>15,100,000</u>	<u>15,100,000</u>
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Advance to Bank of South Pacific Limited - Fiji Branch was subject to interest at the rate of 7.6% which was reduced to 3% from June 2013. The advance is repayable by demand made after the earlier of:

- a) The date on which Fiji Class Shares cease to be on issue;
- b) The date on which all the issued Fiji Class Shares are transferred to, and registered in the name of, BSP or entity which BSP controls; and
- c) The date agreed by BSP and BSP Convertible Notes Limited.

**NOTE 11. PAYABLES**

Payables and accrued liabilities	<u>8,700</u>	<u>11,299</u>
Total payables	<u>\$ 8,700</u>	<u>11,299</u>

**NOTE 12. CONVERTIBLE NOTES**

The convertible notes were issued on 20 April 2010. The notes were convertible into Fiji Class Shares on the earliest of:

- The coupon payment date immediately following the giving of a conversion notice by a note holder;
- The date specified by BSP Convertible Notes Limited;
- Certain specified events or conversion events; and
- 3 years from issue.

The conversion events either result in an automatic exchange or an exchange at the option of BSP Convertible Notes Limited. The conversion events mirror the exchange events (other than those exchange events which result in a right to exchange at the election of the Fiji Class Shareholder - there are no conversion events of this nature).

BSP Convertible Notes Limited (BCN) and BCN Noteholders are bound by the Mandatorily Convertible Notes Deed dated 5 March 2010. This sets the initial Conversion Ratio (that is, the number of Fiji Class Shares to which one Note will convert at Conversion Date) at 10:1. This Conversion Ratio is subject to change and adjustable in accordance with the Note Conditions should there be a change to BSP's capital structure. At BSP's Annual General Meeting held on 20 May 2011 in Port Moresby, the shareholders approved a re-organisation of the company's capital via a Share Consolidation, by which 10 existing BSP ordinary shares were consolidated into 1 BSP share. Accordingly, as a result of the share consolidation, the Conversion Ratio was adjusted in accordance with the Deed to 1:1.

The effective interest rate which was used to calculate the interest paid to the noteholders until the conversion was 7%.

The net proceeds received from the issue of the convertible notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the company until the conversion were as follows:

	<u>2013</u>	<u>2012</u>
Net proceeds of convertible notes	\$ 16,312,992	16,312,992
Conversion to Fiji Class Shares (Note 15 (b))	(16,090,806)	-
Liability component	222,186	16,312,992
Interest charged	339,449	1,126,357
Interest paid	(561,635)	(1,126,357)
Liability component at 31 December	<u>\$ -</u>	<u>16,312,992</u>

As per the Conversion Deed, on 20 April 2013, each Note issued by BCN converted to a single Fiji Class Share of BSP Convertible Notes Limited. Also, effective from 27 April 2013, Fiji Class Shares are quoted on the South Pacific Stock Exchange.

NOTE 13. SHARE CAPITAL	2013	2012
Authorised capital		
500,000,000 A Class Ordinary Shares of \$0.01 each	\$ 5,000,000	5,000,000
200,000,000 Fiji Class Shares of \$0.01 each	2,000,000	2,000,000
	7,000,000	7,000,000
Issued and paid up capital		
25,000,000 A Class Ordinary shares of \$0.01 each (a)	250,000	250,000
3,064,968 Fiji Class Shares of \$5.2499 each (b)	16,090,806	-
	\$ 16,340,806	250,000

**Ordinary Shares - A Class Ordinary Shares**

- (a) On 29 April 2010, 24,999,998 A Class Shares of \$0.01 each were issued to Bank of South Pacific Limited. Bank of South Pacific Limited is a company incorporated in Port Moresby, Papua New Guinea.

**Fiji Class Shares**

- (b) On 20 April 2013, Convertible Notes were mandatorily converted to Fiji Class Shares of BSP Convertible Notes Limited. One Note was converted to one Fiji Class Share. Accordingly, 3,064,968 Fiji Class Shares were issued at a total value of \$16,090,806.

Key rights of Fiji Class Shareholders are as follows:

- (i) The right to receive dividend equal to the amount of dividend to be paid on BSP Ordinary Share.
- (ii) The same voting rights as a BSP Ordinary Share and effected through a special voting share held by the Chairman of BSP.
- (iii) The Fiji Class Share may be exchanged on a one for one basis into BSP Ordinary Shares at a subsequent date and at the option of BSP on the occurrence of certain prescribed events.

On conversion, the underlying value of Fiji Class Share was identical to the share price of BSP Ordinary Share as quoted on Port Moresby Stock Exchange (POMSoX).

Fiji Class Shareholders receive dividends twice yearly based on the interim results of 30 June and the final results on 31 December.

Fiji Class Shares are quoted in the South Pacific Stock Exchange (SPSE) and the Share Registry issued share certificates that will record the number of Fiji Class Shares owned by shareholders.

**NOTE 14. DIVIDENDS**

	<u>2013</u>	<u>2012</u>
Dividend on Fiji Class Shares	\$ 753,676	-
Total dividends	<u>753,676</u>	<u>-</u>

**NOTE 15. NOTES TO STATEMENT OF CASH FLOWS**

**a) Cash and Cash Equivalents**

Cash and cash equivalents consist of balances with banks. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

Cash at bank	<u>407,809</u>	<u>330,386</u>
Total cash and cash equivalents	\$ <u>407,809</u>	<u>330,386</u>

**b) Non-Cash Funds Item**

During the year, on 20 April 2013, Convertible Notes were converted into Fiji Class Shares of BSP Convertible Notes Limited amounting to \$16,090,806 (refer note 12 and 13). These transactions are not reflected in statement of cash flows.

**NOTE 16. CONTINGENT LIABILITIES**

Contingent liabilities as at 31 December 2013 amounted to \$Nil (2012: \$Nil).

**NOTE 17. COMMITMENTS**

Capital expenditure commitments as at 31 December 2013 amounted to \$Nil (2012: \$Nil).

**NOTE 18. RELATED PARTY TRANSACTIONS**

a) BSP Convertible Notes Limited is a wholly owned subsidiary of Bank of South Pacific Limited. Bank of South Pacific Limited is a company incorporated in Port Moresby, Papua New Guinea.

b) Transactions with the related parties were on normal trading terms and conditions no more favourable than those which would have been adopted if dealing with the parties at arms-length in the same circumstances.

Significant related party transactions during the year were:

- Interest received on advance to Bank of South Pacific Limited - Fiji Branch of \$662,332 (2012: \$1,147,600).
- Interest paid on convertible notes issued to fellow subsidiary, BSP Life Fiji Limited of \$104,712 (2012: \$210,000).
- Support fee from Bank of South Pacific as per the Support Deed of \$569,941 (2012: Nil).
- Dividend paid on Fiji Class Shares to fellow subsidiary, BSP Life Fiji Limited of \$140,514 (2012: Nil).
- The company had issued 571,429 Notes amounting to \$3,000,000 to fellow subsidiary, BSP Life (Fiji) Limited. Upon mandatory conversion, the Notes were converted to 571,429 Fiji Class Shares amounting to \$3,000,000.

**NOTE 18. RELATED PARTY TRANSACTIONS (CONT'D)**

c) Amounts due to, and receivable from related parties:

Appropriate disclosure of these amounts is contained in the respective notes to the financial statements.

d) Directors

The names of persons who were directors of the company at any time during the financial year are as follows:

Kevin Bernard McCarthy  
Johnson Kalo  
Robin Gerard Fleming  
Cecil Browne  
Ian Barton Clyne (resigned 31 May 2013)

**NOTE 19. SIGNIFICANT EVENTS DURING THE YEAR**

Pursuant to the condition of the Mandatorily Convertible Notes Deed dated 5 March 2010, each note issued by the company converted to a single Fiji Class Share on 20 April 2013.

Also, effective from 27 April 2013, Fiji Class Shares are quoted on the South Pacific Stock Exchange.

**NOTE 20. EVENTS SUBSEQUENT TO BALANCE DATE**

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

**NOTE 21. PRINCIPAL ACTIVITY**

The principal activity of the company is to facilitate the issue of convertible notes and subsequent conversion to Fiji Class Shares and lend the proceeds to Bank of South Pacific Limited - Fiji Branch for use in its business activities in Fiji.

The company commenced business operations in April 2010.

**NOTE 22. COMPANY DETAILS**

**Company Incorporation**

The company was incorporated in Fiji under the Companies Act, 1983.

The company was incorporated under the name "Tourmaline Limited" on 27 October 2006. Subsequently, the name of the company was changed to BSP Convertible Notes Limited on 26 October 2009.

**NOTE 22. COMPANY DETAILS (CONT'D)**

**Registered office and principle place of Business**

The registered office and principle place of business of the company is:

Level 12, Suva Central Building  
Corner of Renwick Road and Pratt Street  
Suva

**NOTE 23. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors and authorized on 12 March 2014.