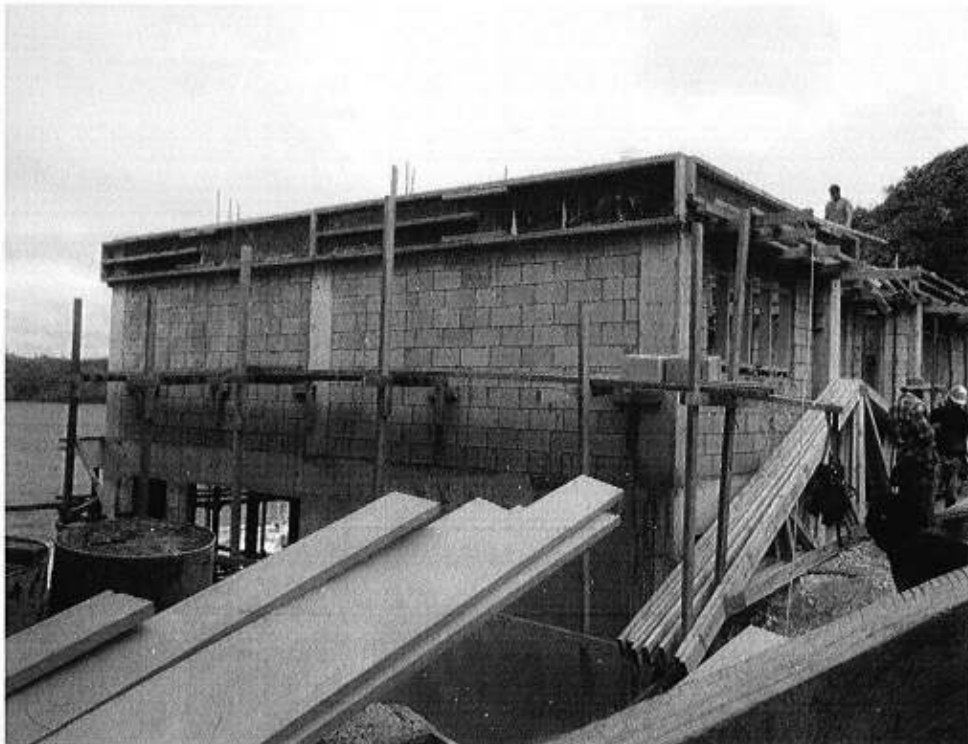




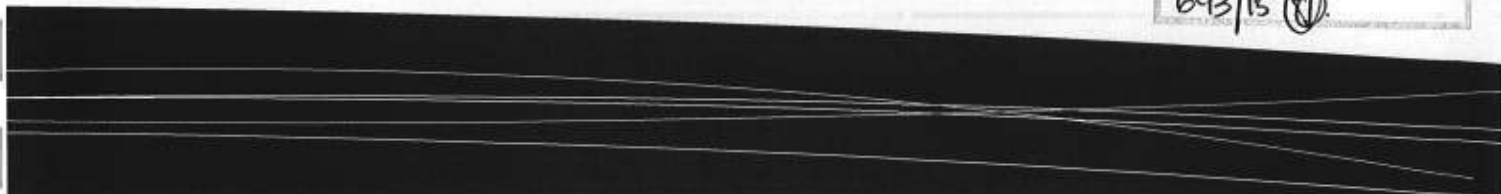
Tonga Cable Limited



Vava'u Landing Station under construction

## Annual Report

Financial Year 2014-2015



## Table of Contents

<b>1.0 CHAIRLADY REPORT</b> .....	<b>1</b>
1.1 OVERVIEW .....	1
1.2 BUSINESS STRATEGY AND COMPLIANCE.....	1
1.3 EXTERNAL FACTORS.....	2
1.4 BOARD PERFORMANCE .....	2
1.5 ACKNOWLEDGEMENT.....	2
<b>2.0 CEO'S REPORT</b> .....	<b>3</b>
2.1 OPERATION RESULTS .....	3
2.2 EXTENSION OF THE CABLE SYSTEM .....	3
2.3 FORWARD LOOKING.....	3
2.4 ACKNOWLEDGEMENT.....	3
<b>3.0 ANALYSIS/OVERVIEW OF THE BUSINESS</b> .....	<b>4</b>
3.1 KEY STRATEGIES INITIATED AND RELATIVE SUCCESS .....	4
3.2 COMMENTS ON LEGAL, REGULATORY AND ENVIRONMENTAL ISSUES .....	5
3.3 OVERALL MARKET POSITION, MARKET SHARE AND MARKET PROSPECTS .....	6
3.4 MANAGEMENT OF BUSINESS RISKS.....	6
3.5 PHYSICAL ASSETS AND EQUIPMENT.....	6
3.6 PEOPLE.....	7
3.7 PRODUCT/SERVICE AND SUPPLY .....	8
3.8 BUSINESS SYSTEMS AND OTHER RESOURCES .....	8
<b>4.0 AUDITED FINANCIAL STATEMENTS</b> .....	<b>9</b>
<b>5.0 RECONCILIATION – PERFORMANCE TO PLAN</b> .....	<b>29</b>
5.1 TABLE OF KEY RESULTS PLAN TO ACTUAL .....	29
5.2 EXPLANATION OF KEY VARIANCES.....	29

**Board of Directors  
on 30<sup>th</sup> June 2015**



**Lady 'Eseta Fusitu'a**  
Hon. Chairlady



**Dr S. Leimoni Taufu'i**



**Rev. Samiuela Fonua**



**Robert Bolouri**  
CEO/ Secretary



Lady 'Eseta Fusitu'a  
Hon. Chairlady

## **1.0 Chairlady Report**

### **1.1 Overview**

We are pleased to present this review of the Tonga Cable Limited's (TCL) progress in the 2014/15 financial year where we worked hard to, again, achieve solid results for the company despite the slow recovery in the economy.

Throughout the year, our customers remained our highest priority and we continued to find ways to improve our services and how we interact with our customers, and to have a positive impact on their businesses with our products and services.

This year we saw continued growth in revenue and profit which demonstrated the value being created by the high quality of the submarine fibre optic cable system and the expansion of our services to Data Centre businesses.

We are pleased to have exceeded our financial targets for this financial year. The total revenue was TOP4,716,746 compared to a budgeted figure of TOP4,212,948 which is an increase of 12%; and the EBITA (Earnings Before, Interest, Tax, Depreciation and Amortisation) was TOP2,447,390 which was better than the budget by 54 %. The NPAT (Net Profit After TAX) was TOP1,501,185 compared to budgeted figure of TOP551,034 .

The future outlook for TCL is still a positive one and it will continue to grow, especially with the plan to complete the extension of the submarine fibre optic cable system to the Ha'apai and Vava'u groups towards the end of 2016.

### **1.2 Business Strategy and Compliance**

During the year we set out strategies to improve our operations, services and financial performances. The implementation of those strategies had been reflected in the results that we have achieved in this financial year. Furthermore, those strategies had given us clear direction for accomplishing our goals while carefully evaluating the wide range of risks facing the business.

We are glad to report that TCL continued to comply with all the regulations and policies which are applicable to its operations and we will continue to observe and adjust our operation to be in line with any changes in those areas.

### **1.3 External Factors**

There was not much impact of the external factors, such as Government Policy, Law, Environment, Political, etc., in our operations apart from one aspect of the Nonresident Withholding Tax. Although we have stated our opinion on this matter but at the end we have to take the Government's view and this has a negative impact on our financial results.

### **1.4 Board Performance**

The Board met as often as was needed (9 meetings) and with the help of its Sub-Committee (5 meetings) provided directions to management and responded to any issue that needed its attention.

### **1.5 Acknowledgement**

The TCL is always grateful to the Government of Tonga for their leadership and support, which are always pivotal to its operations. Likewise the TCL is also grateful to all its shareholders and stakeholders for their invaluable support.

## **2.0 CEO's Report**

It is my great honour and privilege to present this report on operation of Tonga Cable Limited (TCL) for the financial year 2014-2015.

Since TCL was commissioned on 21<sup>st</sup> August, 2013, last year was the first full financial year of operation which witnessed substantial growth over the previous year. We were able to meet all our financial targets and surpass many of our objectives. As indicated in Key Strategies and Keys to Success of Business Plan, we were aiming for 99.98% availability, but I am happy to report that we achieved better than 99.9999% availability on Submarine Network.

In our Business Plan we had projected to hire two more staff to help managing the Landing Stations of Ha'apai and Vava'u, but for reasons beyond our control the extension of fibre optic cable to Ha'apai and Vava'u is delayed and therefore; we continued our operation without additional workforce.

### **2.1 Operation Results**

The Revenue for the year ended 30<sup>th</sup> June, 2015 was TOP4,716,746. In comparison with the last year's revenue (TOP3,490,842) there was an increase of T\$1,225,904 or 35% growth.

The total cost of operation for the year was TOP3,215,561 in comparison to last year cost of operation (TOP3,323,502) there was a decrease of TOP107,941. The difference between revenue and cost of operation provided TOP1,501,185 of net profit or a return of 3.39% on investment. The previous year was showing net profit after tax of TOP125,505 which created a favourable variation of TOP1,375,680 or 1,096% increase.

### **2.2 Extension of the Cable System**

Although all the necessary documents that were responsibility of TCL are prepared and submitted to World Bank (WB) and Asian Development Bank (ADB) to facilitate the allocation of the savings from the international segment to the extension of the cable, but due to circumstances beyond our control the project has not received the green light to proceed and we are awaiting the resolution of few items that related to regulatory enhancement.

### **2.3 Forward Looking**

We are optimistic that the issues related to the extension of the cable will be resolved and the implementation of domestic cable will begin during the next financial year. We also expect a marked increase in demand for capacity which will enhance our revenue. At the same time we are expecting to provide special offers that will reduce the effective cost of the bandwidth to operators and hopefully will reduce the cost to the end users.

### **2.4 Acknowledgement**

I would like to express my sincere appreciation to the members of the Board of TCL for their guidance and support as well as to the staff of TCL for their dedicated and sacrificial efforts to make the last financial year another successful year.

### 3.0 Analysis/Overview of the Business

#### 3.1 Key Strategies Initiated and Relative Success

Key Strategies	Comments
<p><i>Objective: Achieve 99.98% Availability on the Submarine Fibre Optic Network.</i></p> <ul style="list-style-type: none"> <li>• Instructions for routine maintenance to be simple, clear and addressing all aspects of the operations.</li> <li>• Ensure that the routine maintenances are carried out.</li> <li>• Close cooperation with partners in planned and unplanned outages.</li> </ul>	<p>99.9999% availability was achieved on the submarine fibre optic network in this financial year.</p>
<p><i>Objective: To promote growth of Internet penetration by increasing the number of Internet Service Provider (ISP) to 5 by the end of 2017.</i></p> <ul style="list-style-type: none"> <li>• To provide best price possible.</li> <li>• To provide favourable terms and conditions to ISPs.</li> </ul>	<p>Although TCL has been able to offer much better price than satellite in terms of capacity and also have a much lower minimum purchase capacity requirement for ISPs than Telecommunications Service Providers (TSP), there was no ISP connected during the financial year. The entry to the market is still high at some areas where TCL does not have any control on, such as co-location etc. However, TCL was able to connect a new Internet Access Provider (IAP) during the financial year.</p>
<p><i>Objective: Complete 100% of the yearly planned projects.</i></p> <ul style="list-style-type: none"> <li>• To make sure funds are available for the projects.</li> <li>• To make sure the necessary skills are available.</li> <li>• Projects are well planned and met deadlines.</li> </ul>	<p>TCL was able to complete all its planned projects for the financial year.</p>
<p><i>Objective: To complete the domestic cable by the end of 2016.</i></p> <ul style="list-style-type: none"> <li>• To secure funding for the project.</li> <li>• To complete the technical design of the system.</li> <li>• To acquire the necessary permits and assessments.</li> </ul>	<p>TCL had fulfilled all its parts and it is now up to the Government and the donor partners to finalise the arrangement so, that the extension of the submarine fibre optic cable to Vava'u and Ha'apai can be implemented.</p>
<p><i>Objective: To establish a Datacenter by 2015.</i></p> <ul style="list-style-type: none"> <li>• To complete market research.</li> <li>• To complete the design and costing of the system.</li> </ul>	<p>This project was successfully completed in this financial year.</p>

Key Strategies	Comments
<ul style="list-style-type: none"> <li>To secure funding.</li> </ul> <p><i>Objective: Achieve the yearly budgeted revenue.</i></p> <ul style="list-style-type: none"> <li>To ensure collection of revenue.</li> <li>To ensure that the monthly revenue target is achieved.</li> <li>To ensure that the revenue generating projects are completed on time.</li> </ul>	The revenue target was achieved and it was better than the budgeted revenue by 12%.
<p><i>Objective: Achieve the yearly budgeted profit.</i></p> <ul style="list-style-type: none"> <li>To ensure collection of revenue.</li> <li>To ensure that the monthly profit target is achieved.</li> <li>To ensure that the revenue generating projects are completed on time.</li> <li>Tight control on the expenses to ensure that they would not exceed the budget limits.</li> </ul>	The achieved Net Profit After Tax was better than the budgeted profit by 172%.
<p><i>Objective: Overall Expenditure to be 5% below the yearly budgeted figure.</i></p> <ul style="list-style-type: none"> <li>Avoid unbudgeted expenses.</li> <li>Comply with the purchasing processes and procedures.</li> <li>Save on energy consumptions.</li> </ul>	The overall expenditure was less than the budget by 22%.
<p><i>Objective: Achieve 95% Customer Satisfaction.</i></p> <ul style="list-style-type: none"> <li>Be responsive to customers' concerns and feedbacks.</li> <li>Ensure that adequate critical spares are in stock.</li> <li>Maintain efficient services.</li> </ul>	Through a survey that was carried out, the Customer Satisfaction was: <ul style="list-style-type: none"> <li>- Capacity Services = 100%</li> <li>- Data Centre Services = 80%</li> </ul>

### 3.2 Comments on Legal, Regulatory and Environmental Issues

During the financial year TCL has complied with all the legislations and policies which are relevant to its operation and worked closely with the Ministry of Public Enterprises and Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Climate Change & Communications (MEIDECC) to ensure that it fulfilled its obligations under the laws of the Kingdom of Tonga. However, there was one outstanding issue that TCL has to resolve during the financial year which was an issue with the non-resident withholding tax.

TCL had numerous discussions with the Ministry of Revenue & Customs (MRC) on the issue with the non-resident withholding tax regarding the quarterly payment that it made to Alcatel-Lucent Submarine Networks (ALSN) for a Maintenance Contract. The argument from TCL was that the nature of the payment is to ensure that in the event of a cable problem,

ALSN will immediately make available a vessel to provide repair services. This annual fee is only to guarantee the availability of a vessel and its crew to provide repair services and it is similar to an insurance policy. Nevertheless, according to the legal advice that was sought by the MRC, TCL should pay the 15% non-resident withholding tax and without taking the matter any further, TCL agreed to pay the non-resident withholding tax of TOP138,791 for the period of August 2013 to April 2015.

On another matter, TCL was able to get the Environmental Impact Assessment for the extension of its submarine fibre optic cable to Vava'u and Ha'apai approved by the Government on 03 March 2015.

### **3.3 Overall Market Position, Market Share and Market Prospects**

On the submarine fibre optic cable business, TCL is the only company who owns and operates a submarine fibre optic cable system in Tonga and hence it enjoys 100% market share. With the success of its international submarine fibre optic cable, TCL is now working on a similar project to extend the system to the Ha'apai and Vava'u Groups.

TCL is a newcomer to the Data Centre market and it owned a very small part of this market at this stage as most of the companies are still using overseas providers for their Data Centre requirements as they have long term contracts with those companies. However, TCL will try to win back those companies when their contracts are expired as its services are comparable to those services offered by overseas companies at lower prices.

### **3.4 Management of Business Risks**

While business risks are numerous, and their consequences can be destructive, TCL has put in place plans on how to minimise the risk when and if it presents itself. TCL had insured its properties and equipment against natural and man-made disasters. TCL also has a Business Continuity Management System which consisted of Business Unit Recovery Plan, Emergency Response Plan, Incident Management Plan and IT-Network Disaster Recovery Plan.

On the preventive side, TCL has in place preventive routine maintenance programs for its equipment and systems and also a maintenance contract with Alcatel-Lucent to cover the event of any damage or break to the submarine fibre optic cable system.

During the financial year, TCL did not encounter any major risk that affected its business but it will continue to regularly review its risk management plan to ensure that they accurately reflect the current potential risks to the business.

### **3.5 Physical Assets and Equipment**

The only major change to the company's physical assets during the financial year was the completion of the procurement and installation of the equipment for the Data Centre services. This investment has opened another line of business opportunity for the company to generate more revenue from the Information and Technology (IT) sector.

### 3.6 People

At the beginning of the financial year, the total number of staff was 12 and it ended the financial year with the same number. However, during the year one staff resigned from the company, on his own personal reason, and he was replaced through the company's recruitment process and policy.

TCL also invested in the development and enhancement of the skills and knowledge of its staff through overseas, local and on-job training during the financial year.

Figure 1. Tonga Cable Limited Organizational Chart



### **3.7 Product/Service and Supply**

The sale of capacity on the submarine fibre optic cable is still the main product of the company and TCL is currently providing capacities to Tonga Communications Corporation, Digicel and the University of the South Pacific (Tonga Campus). The capacities are only available to those companies who have a license from MEIDECC to operate as a TSP, ISP or IAP and this has limited the market for TCL in this area.

Data Centre services (which include Web Hosting, Data Storage and Virtual Private Server) are sold directly to those customers who are interested in these services. TCL is new to this market and the main challenge will be for TCL to compete with overseas companies who are currently dominated this market in Tonga.

### **3.8 Business Systems and Other Resources**

There was no change to the organizational structure or any significant change to the business processes during the financial year. However, TCL was able to add on three new services to its operation, namely, Web Hosting, Data Storage and Virtual Private Server and these services will provide new revenue streams for the company.

## 4.0 Audited Financial Statements

### **TONGA CABLE LIMITED DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2015**

---

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 2015, the related statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

#### **Directors**

The names of Directors in office at any time during the year and at the date of this report are:

- Lady 'Eseta Fusitu'a (Appointed 28th May, 2014)
- Dr S. Leimoni Taufu'i (Reappointed 11th May, 2014)
- Rev. Samiuela Fonua (Appointed 27th June, 2014)

#### **Principal activity**

The principal activity of the company during the financial year was that of developing telecommunication related projects and providing wholesale capacity to Telecommunication Service Providers.

#### **Results**

The operating profit for the company for the year was TOP 1,501,185 (2014: TOP 125,505) after taking into account a zero income tax expense (2014: TOP 41,835).

#### **Dividend**

In view of the extension of the cable to Vava'u and Ha'apai, the Board of Directors of the company resolved that no dividends be declared and paid for the year ended 30 June 2015 (2014: TOP nil).

#### **Reserves**

The Directors resolved that no transfer be made to reserves (2014: TOP nil).

#### **Bad and Doubtful Debts**

Prior to the completion of the company's financial statements, the Directors took reasonable steps to ascertain that action had been taken in relation to writing off of bad debts and the provision for doubtful debts. In the opinion of Directors, no provision for doubtful debts is required.

As 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 provision for doubtful debts in the company, inadequate to any substantial extent.

### **Non-Current Assets**

Prior to the completion of the financial statements of the company, the Directors took reasonable steps to ascertain whether any non-current assets were unlikely to be realised in the ordinary course of business compared to their values as shown in the accounting records of the company. Where necessary these assets have been written down or adequate provision has been made to bring the values of such assets to an amount that they might be expected to realise. The extension of the fibre optic cable to Vava'u and Ha'apai is still an ongoing project. In addition, the building of a landing station in Vava'u is currently underway to be completed at the end of 2015 and a building in Ha'apai to be completed by the beginning of 2016.

As at the date of this report, the Directors are not aware of any circumstances, which would render the values attributed to non-current assets in the company's financial statements misleading.

### **Events Subsequent to Balance Date**

On 20<sup>th</sup> July 2015, a new supplier of IP Transit VOCUS replaced SPEEDCAST as TCL IP Transit supplier. There will be 10 days of overlapping and handover before Speedcast finishes at the end of July 2015 and VOCUS takes over supply of TCL's IP Transit.

### **Unusual Transactions**

Apart from these matters and other matters specifically referred to in financial statements, in the opinion of the Directors, the results of the operations of the company during the financial year were not substantially affected by any 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 in the current financial year, other than those reflected in the financial statements.

### **Other Circumstances**

As at the date of this report:

- (i) no charge on the assets of 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 has become or is likely to become enforceable within the year or 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.

**TONGA CABLE LIMITED**  
**DIRECTORS' REPORT (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

---

**Director's Benefits**

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than those included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements or received as the fixed salary of a full-time employee of the company or of a related corporation) by reason of a contract made by the company or by a related corporation 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 2<sup>nd</sup> day of October 2015.

  
Dr. S. Leimoni Taufu'i  
Director

  
Robert Bolouri  
Chief Executive Officer


**TONGA CABLE LIMITED**  
**DIRECTORS' STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2015**


---

In accordance with a resolution of the Board of Directors of Tonga Cable Limited, we state that in the opinion of the Directors:

- (i) the accompanying statement of 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 30 June 2015;
- (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 30 June 2015;
- (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 30 June 2015;
- (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 30 June 2015; and
- (v) at the date of this statement there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due.
- (vi) all related party transactions have been adequately recorded in the books of the company.
- (vii) the Directors have a reasonable expectation that the company has adequate resources and support from the shareholders to continue operations for the foreseeable future and accordingly, the Directors continue to adopt the going concern assumption in preparing the financial statements for the year ended 30 June 2015.

For and on behalf of the Board and in accordance with a resolution of the Directors.

  
\_\_\_\_\_  
Dr. S. Leimomi Taufu'i  
Director

  
\_\_\_\_\_  
Robert Bolouri  
Chief Executive Officer

**TONGA CABLE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	Note	Jun-15 TOP	Jun-14 TOP
Revenue - Sales	2	4,716,746	3,490,842
Cost of Sales	3	(1,474,441)	(1,346,058)
Gross Profit		3,242,305	2,144,784
General and Administrative Expenses	4	(1,707,136)	(1,949,535)
Selling Expenses	5	(33,984)	(27,909)
		(1,741,120)	(1,977,444)
Profit from Operations		1,501,185	167,340
Profit before income tax		1,501,185	167,340
Income tax expense	6	-	(41,835)
Net Profit for the year		1,501,185	125,505
Total comprehensive income, net of tax		1,501,185	125,505
Earnings per share		0.0339	0.0029

The accompanying notes form an integral part of this statement of comprehensive income.