Micro Enterprise Financing Limited

Financial Statements
30 September 2008

Micro Enterprise Financing Limited
Index
30 September 2008

	Page
Independent Auditors' Report to the Members	
Financial Statements	
Income and expenditure account	1
Balance sheet	2
Statement of changes in shareholders' equity	3
Statement of cash flows	4
Notes to the financial statements	5 – 24

Independent Auditors' Report

To the Members of
Micro Enterprise Financing Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Micro Enterprise Financing Limited set out on pages 1 to 24, which comprise the balance sheet as of 30 September 2008 and the income and expenditure account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. 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.

Auditors' 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 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 controls 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 controls. 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.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 30 September 2008, and of financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

As required by the Jamaican Companies Act, 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.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.

Chartered Accountants

12 February 2009

Kingston, Jamaica

Micro Enterprise Financing Limited

Income and Expenditure Account

Year ended 30 September 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
Income			
Interest on loans		58,252	34,409
Interest on deposits		1,216	2,334
Grants		27,889	2,191
Fees		11,499	5,679
Other income		5,274	5,478
		104,130	50,091
Operating expenses	6	(100,003)	(72,885)
Operating Profit /(Loss)		4,127	(22,794)
Finance cost		(7,250)	(4,674)
Deficit		(3,123)	(27,468)

Micro Enterprise Financing Limited

Balance Sheet

30 September 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
Non-Current Assets			
Property, plant and equipment	8	13,042	17,175
Current Assets			
Loans	9	79,896	78,079
Receivables	10	6,657	6,437
Deposits	11	17,505	18,074
Cash	11	11,114	5,694
		115,172	108,284
Current Liabilities			
Payables	12	4,836	4,035
Current portion of long term liabilities	14	12,640	31,600
		17,476	35,635
Net Current Assets		97,696	72,649
		110,738	89,824
Shareholders' Equity			
Capital (Limited by guarantee of $10.00)	1	-	-
Grants	13	10,972	15,255
Retained earnings		17,846	20,969
		28,818	36,224
Non-Current Liabilities			
Long term liabilities	14	81,920	53,600
		110,738	89,824

Approved for issue by the Board of Directors on 12 February 2009 and signed on their behalf by:

Morin Seymour Director

Lola Bailey Director

Micro Enterprise Financing Limited

Statement of Changes in Shareholders' Equity

Year ended 30 September 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Grants	Retained Earnings	Total
	$'000	$'000	$'000	$'000
Balance at 1 October 2006		10,724	48,437	59,161
Capital grants received, net	-	4,531	-	4,531
Deficit for the year	-	-	(27,468)	(27,468)
Balance at 30 September 2007		15,255	20,969	36,224
Capital grants utilised, net	-	(4,283)	-	(4,283)
Deficit for the year	-	-	(3,123)	(3,123)
Balance at 30 September 2008	-	10,972	17,846	28,818

Micro Enterprise Financing Limited

Statement of Cash Flows
Year ended 30 September 2008
(expressed in Jamaican dollars unless otherwise indicated)

	2008 $'000	2007 $'000
Cash Flows from Operating Activities		
Deficit from operations	(3,123)	(27,468)
Items not affecting cash resources:		
Amortisation of capital grants	(5,274)	(14,074)
Depreciation	5,769	5,886
	(2,628)	(35,656)
Changes in operating asset and liabilities:		
Receivables	(220)	7,111
Payables	802	1,023
Cash used in operating activities	(2,046)	(27,522)
Cash Flow from Investing Activities		
Loans receivable	(1,817)	(44,378)
Investments	-	46,699
Purchase of property, plant and equipment	(1,637)	(8,596)
Cash used in investing activities	(3,454)	(6,275)
Cash Flow from Financing Activities		
Grants received	991	18,605
Loan repaid	(12,640)	-
Loan financing	22,000	22,000
Cash provided by financing activities	10,351	40,605
Increase in cash and cash equivalents	4,851	6,808
Cash and cash equivalents at beginning of year	23,768	16,960
CASH AND CASH EQUIVALENTS AT END OF YEAR	28,619	23,768

1. Identification and Principal Activities

(a) The company is incorporated in Jamaica and was registered under the Companies Act on 7 May 2002 and is limited by guarantee of $10.00.

(b) The company was established to assist in the development of micro enterprises in designated urban inner-city communities. This is done through loan financing to low income micro entrepreneurs on a group basis. The main sources of funding are grants from Canadian International Development Agency (CIDA), the Bank of Nova Scotia Jamaica Limited (BNS), Kingston Restoration Company (KRC) and interest earned on loans disbursed.

The registered office of the company is located at 12 Duke Street, Kingston.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. 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 5.

Micro Enterprise Financing Limited
Notes to the Financial Statements
30 September 2008
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published accounting standards effective in the current year

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following IFRS, which are relevant to its operations. The 2007 comparative figures have been amended as required, in accordance with the relevant requirements.

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective for annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk. The company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 October 2007.

There was no impact on opening retained earnings at 1 October 2007 from the adoption of the above-mentioned standard.

Interpretations and amendments effective in 2008 but not relevant to the company
The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 March 2007 but they are not relevant to the company's operations:

- **IFRIC 9 Reassessment of Embedded Derivatives** (effective for annual periods beginning on or after 1 March 2007)
- **IFRIC 11 IFRS 2 - Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at the balance sheet date, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, and has determined that the following may be relevant to its operations, and has concluded as follows:

- **IAS 1 Presentation of Financial Statements (Revised)** (effective for annual periods beginning on or after 1 January 2009). The main objective in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. IAS 1 will affect the presentation of owner changes in equity and of comprehensive income. It will not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS. IAS 1 will require an entity to present, in a statement of changes in stockholders' equity, all owner changes in stockholders' equity. All non-owner changes in stockholders' equity (i.e. comprehensive income) will be required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income will not be permitted to be presented in the statement of changes in stockholders' equity. Management is currently assessing the impact of these changes.

- **IAS 16 (Amendment), Property, plant and equipment** (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for- sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the company's operations because none of the company's ordinary activities comprise renting and subsequently selling assets.

- **IAS 23 (Amendment), 'Borrowing costs'** (effective from 1 January 2009)**.** It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The company may apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the company as there are no qualifying assets.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to existing standards that are not yet effective and not relevant for the company's operations

The company has concluded that the following standards, interpretations and amendments to existing standards, which are published but not yet effective, are not relevant to its operations and will therefore have no material impact on adoption.

IAS 19 (Amendment), Employee benefits

IAS 20 (Amendment) Accounting for government grants and disclosure of government assistance

IAS 27 (Revised) Consolidated and Separate Financial Statements

IAS 28 (Amendment), Investments in associates

IAS 29 (Amendment), Financial reporting in a hyperinflationary economy

IAS 32 Financial Instruments: Presentation/ IAS 1 Presentation of Financial Statements (Amendments) - Puttable Financial Instruments and Obligations Arising on Liquidation

IAS 36 (Amendment), Impairment of assets

IAS 38 (Amendment), Intangible assets

IAS 39 (Amendment), Financial investments: Recognition and measurement

IAS 40 (Amendment), Investment Property

IAS 41 (Amendment), Agriculture

IFRS 1 (Amendment) First time adoption of IFRS

IFRS 2 (Amendment) Share-based Payment - Vesting Conditions and Cancellations

IFRS 3 (Revised) Business Combinations

IFRS 5 (Amendment) Non-current assets held for sale and discontinued operations

IFRS 8 Operating Segments

IFRIC 11 Group and Treasury Share Transactions

IFRIC 12 Service Concession Arrangements

IFRIC 13 Customer Loyalty Programmes

IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

IFRIC 15 Agreements for construction of real estate

IFRIC 16 Hedges of a net investment in a foreign operation

2. Summary of Significant Accounting Policies (Continued)

(b) Interest income and expense

Except for loans receivable, interest income and expense are recognised in the income and expenditure account for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price.

Interest on loans receivables is taken into account on the cash basis, as collection is considered doubtful. IFRS requires that when loans become doubtful of collections, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However, such amounts as would have been determined under IFRS are considered to be immaterial.

(c) Fee income

Fees are recognised on a cash basis, on completion of the underlying transaction.

(d) Property, plant and equipment

Property, plant and equipment are shown at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are 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 reliably measured. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated on the straight-line basis at rates that will write off the carrying value of each asset over the period of its expected useful life as follows:

Leasehold improvements	3 years
Office furniture, machines and equipment	10 years
Computer equipment	3 years
Motor vehicle	5 years

The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the company. Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the income and expenditure account.

2. Summary of Significant Accounting Policies (Continued)

(e) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

For the purpose of these financial statements, financial assets comprise loans, receivables, deposits and cash balance. Financial liabilities comprise payables and deferred revenue. The determination of the fair values of the company's financial instruments is discussed in Note 4.

(f) Cash and cash equivalents

Cash and cash equivalents includes deposits and cash. For the purposes of the cash flow statement, cash and cash equivalents comprise deposits, and cash and bank balances.

(g) Borrowings

Borrowings are recognised initially at the proceeds received, net of transactions costs 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 income statement over the period of the borrowings using the effective interest method.

(h) Employee benefit costs

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity (a fund). The company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The company operates a defined contribution plan whereby it pays contributions to a privately administered fund. Once the contributions have been paid, the company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

(i) Grants

Grants are recognised at their fair value where there is reasonable assurance that the company will comply with all attached conditions.

Operational grants are deferred and recognised in the income and expenditure account over the period necessary to match them with the cost they are intended to compensate.

Grants relating to the purchase of property, plant and equipment are included in the balance sheet as deferred grants and are credited to the income and expenditure account on a straight-line basis over the expected lives of the related assets.

2. Summary of Significant Accounting Policies (Continued)

(j) Loans and allowance for impairment losses

Loans are stated net of any unearned income and of an allowance for credit losses.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such.

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis.

(k) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income and expenditure account on a straight-line basis over the period of the lease.

(l) Taxation

The company has been granted approval from the Ministry of Finance for status as an approved venture capital company under Section 36A of the Income Tax Act and Section 36C (2) which relieves the income of such company from Income Tax, providing certain conditions specified by the Act and Certificate of Approval are met on an annual basis. .

(m) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Financial Risk Management

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price 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.

The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

(a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The company's exposure to credit risk on its financial assets relates to the amount held in cash and bank, receivable and loans.

The company offers loan financing to low income entrepreneurs, primarily on a group basis, and seeks to diversify its loan portfolio by placing limits on the amount of risk accepted from any one group. Therefore, the company has no significant concentrations of credit risk.

Credit review process

The company has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and capital repayment obligations.

(i) Loans

The company assesses the probability of default of individual counterparties based on payment history and changes in the circumstances of individuals or groups since the issue of loans. Counterparty limits are established by the use limits based on the number of persons in a group and the nature of the activity being undertaken. The credit quality review process allows the company to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

Collateral and other credit enhancements

Due to the nature of the company's objectives, the company does not obtain collateral or credit enhancements in relation to loans.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days, or there are any known difficulties in the cash flows of counterparties or infringement of the original terms of the contract.

The company addresses impairment assessment through individually assessed allowances.

Individually assessed allowances are provided for financial assets that are above materiality thresholds based on a review conducted at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individual accounts. The assessment normally encompasses the review of anticipated receipts for that individual account.

In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

Management examines the portfolio to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the company:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions;

Loans

Credit quality of loans are summarised as follows:

	2008	**2007**
	$'000	**$'000**
Neither past due nor impaired	79,896	78,079
Past due but not impaired	-	-
Impaired	23,715	8,705
Gross	103,611	86,784
Less: provision for credit losses	(23,715)	(8,705)
Net	79,896	78,079

There are no financial assets that are past due.

Micro Enterprise Financing Limited
Notes to the Financial Statements
30 September 2008
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans (continued)

Restructured loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. The company's renegotiated loans that would otherwise be past due or impaired totalled $9,949,000 (2007 - $7,174,000).

The following table summarises the company's credit exposure for loans at their carrying amounts, as categorised by the industry sectors:

	2008	**2007**
	$'000	**$'000**
Agriculture	5,690	4,773
Education	8,277	6,945
Manufacturing	11,381	9,546
Retail	31,038	26,035
Services	46,040	38,619
Other	1,185	866
	103,611	86,784
Less: Provision for credit losses	(23,715)	(8,705)
	79,896	78,079

All loans are lent to customers in Jamaica.

Micro Enterprise Financing Limited

Notes to the Financial Statements

30 September 2008

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management process

The company's liquidity management process involves monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates and exchange rates.

Undiscounted cash flows of liabilities

The maturity profile of the company's liabilities at year end, based on contractual undiscounted payments was as follows:

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
				2008		
Payables	4,836	-	-	-	-	4,836
Long term liabilities	365	5,185	18,084	86,079	25,101	134,814
	5,201	5,185	18,084	86,079	25,101	139,650
				2007		
Payables	4,035	-	-	-	-	4,035
Long term liabilities	456	4,985	15,796	74,815	25,592	121,644
	4,491	4,985	15,796	74,815	25,592	125,679

Assets available to meet all of the liabilities and to cover financial liabilities include deposits and cash.

Micro Enterprise Financing Limited

3. Financial Risk Management (Continued)

(c) Market risk

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk exposures are measured using sensitivity analysis. There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company had no foreign currency transactions for the period under review, and holds no balances in foreign currency.

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's income and operating cash flows are substantially independent of changes in market interest rates.

Micro Enterprise Financing Limited

Notes to the Financial Statements

30 September 2008

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk

Interest rate risk (continued)

The following table summarises the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
				2008			
Assets							
Loans	6,529	19,139	25,519	28,709	-	-	79,896
Receivables	-	-	-	-	-	6,657	6,657
Deposits	17,505	-	-	-	-	-	17,505
Cash at bank	-	-	-	-	-	11,114	11,114
Total financial assets	24,034	19,139	25,519	28,709	-	17,771	115,172
Liabilities							
Payables	-	-	-	-	-	4,836	4,836
Long term liabilities	-	3,160	13,328	59,510	18,562	-	94,560
Total financial liabilities	-	3,160	13,328	59,510	18,562	4,836	99,396
Total interest repricing gap	24,034	15,979	12,191	(30,801)	(18,562)	12,935	15,776
				2007			
Assets							
Loans	6,246	18,739	24,985	28,109	-	-	78,079
Receivables	-	-	-		-	6,437	6,437
Deposits	18,074	-	-	-	-	-	18,074
Cash at bank	-	-	-	-	-	5,694	5,694
Total financial assets	24,320	18,739	24,985	28,109	-	12,131	108,284
Liabilities							
Payables	-	-	-	-	-	4,035	4,035
Long term liabilities	-	3,160	12,640	46,448	22,952	-	85,200
Total financial liabilities	-	3,160	12,640	46,448	22,952	4,035	89,235
Total interest repricing gap	24,320	15,579	12,345	(18,339)	22,952	8,096	19,049

3. Financial Risk Management (Continued)

(d) Capital management

The company is not subject to externally imposed capital requirements, and there are no defined capital management policies or objectives. The assets and liabilities are managed to achieve the overall objective of the company as disclosed in Note 1.

4. Fair Value Estimation

Fair value represents an estimate of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Many of the company's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The fair values of deposits, cash and payables are assumed to approximate their carrying values due to their short-term nature.

The fair value of loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values;

The fair value of the long term liabilities approximates the carrying value as these bear current market interest rates.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates 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.

(a) Critical judgements in applying the company's accounting policies

In the process of applying the company's accounting policies, management has made no judgements which it believes presents a significant risk of material misstatement to the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

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.

Impairment losses on loans

The company reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income and expenditure account, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

6. Expenses by Nature

The following items have been charged in arriving at operating profit/(loss):

	2008 $'000	2007 $'000
Advertising	602	1,220
Auditors' remuneration	450	350
Depreciation	5,769	5,886
Loan loss provision	30,850	10,104
Other expenses	3,578	3,636
Printing, stationery & office supplies	1,656	990
Rent	4,792	4,494
Repairs and maintenance expenditure	563	260
Staff costs (Note 7)	44,666	38,938
Travelling expense	2,312	2,134
Utilities	4,765	4,873
	100,003	72,885

7. Staff Costs

	2008 $'000	2007 $'000
Wages and salaries	38,756	33,854
Statutory contributions	3,325	2,794
Pension costs	783	775
Other	1,802	1,515
	44,666	38,938

Number of persons employed by the company at the end of the year:

	2008 No.	2007 No.
Full-time	38	39

Micro Enterprise Financing Limited

Notes to the Financial Statements

30 September 2008

(expressed in Jamaican dollars unless otherwise indicated)

8. Property, Plant and Equipment

	Leasehold Improvement $'000	Furniture & Fixtures $'000	Office Equipment $'000	Computer Equipment $'000	Motor Vehicles $'000	Total $'000
At Cost -						
At 1 October 2006	5,468	1,730	5,972	3,904	3,927	21,001
Additions	3,666	1,113	2,781	1,036	-	8,596
At 30 September 2007	9,134	2,843	8,753	4,940	3,927	29,597
Transfers	1,472	-	(1,472)	-	-	-
Additions	-	255	790	591	-	1,636
At 30 September 2008	10,606	3,098	8,071	5,531	3,927	31,233
Depreciation -						
At 1 October 2006	2,420	327	1,231	2,058	500	6,536
Charge for the year	2,684	259	1,213	944	786	5,886
At 30 September 2007	5,104	586	2,444	3,002	1,286	12,422
Charge for the year	3,343	298	285	1,058	785	5,769
At 30 September 2008	8,447	884	2,729	4,060	2,071	18,191
Net Book Value -						
30 September 2008	2,159	2,214	5,342	1,471	1,856	13,042
30 September 2007	4,030	2,257	6,309	1,938	2,641	17,175

Micro Enterprise Financing Limited

Notes to the Financial Statements
30 September 2008
(expressed in Jamaican dollars unless otherwise indicated)

9. Loans

	2008 $'000	2007 $'000
Direct lending	103,611	86,784
Less: Provision for loan losses	(23,715)	(8,705)
	79,896	78,079

10. Receivables

	2008 $'000	2007 $'000
Prepayments	300	267
Other receivables	1,184	1,298
Taxation recoverable	5,173	4,872
	6,657	6,437

11. Cash and Cash Equivalents

	2008 $'000	2007 $'000
Bank deposits	17,505	18,074
Cash	11,114	5,694
	28,619	23,768

The effective interest rate on short-term bank deposits was 12% (2007 - 11%) and these deposits have an average maturity of 30 days (2007 - 35 days).

12. Payables

	2008 $'000	2007 $'000
Accruals	2,965	2,889
Statutory contributions	730	704
Other	1,141	442
	4,836	4,035

Micro Enterprise Financing Limited
Notes to the Financial Statements
30 September 2008
(expressed in Jamaican dollars unless otherwise indicated)

13. Grants

These represent interest-free, non-reimburseable financing which was provided to the company by the CIDA as contribution towards its operations.

	2008 $'000	2007 $'000
Capital grants at the beginning of the year	15,255	10,724
Capital grants received	991	18,605
Amortisation	(5,274)	(5,478)
Purchase of property, plant and equipment	-	(8,596)
	10,972	15,255

14. Long Term Liabilities

	2008 $'000	2007 $'000
Bank of Nova Scotia		
Facility #1	50,560	63,200
Facility #2	44,000	22,000
	94,560	85,200
Less: Current portion	(12,640)	(31,600)
	81,920	53,600

This represents two loan facilities with BNS. The first loan represents a ten-year, non-revolving loan facility with BNS, which is to be on-lent to low income micro-entrepreneurs in specified renewal zones of Kingston and Saint Andrew, and their environs. Repayments are to be made in 20 equal, quarterly instalments, commencing 31 December 2007. Interest is at 4.5% for the first two years and increases by 1 percentage point per annum until the sixth year.

The second loan facility was granted in September 2007 and is repayable in 32 equal quarterly instalments, each instalment being equal to the principal balance outstanding as at 31 August 2009 divided by 32, with the first instalment due on 30 September 2009 at an interest of 8.5% per annum, payable quarterly on the outstanding principal balance.

15. Operating Lease Commitments

The future aggregate minimum lease payments under non-cancellable operating leases are:

	2008 $'000	2007 $'000
Not later than 1 year	273	334
Later than one year and not later than 5 years	695	1,161
	968	1,495

16. Related Party Transactions

A related party is one which controls or exercises significant influence over, or is controlled or significantly influenced by, the company in making financial and operating decisions or, along with the company, is subject to common control or significant influence.

(a) The balance sheet amounts, arising in the normal course of business, with related parties, are as follows:

	2008 $'000	2007 $'000
(i) Accounts with BNS:		
Deposits	17,505	18,074
Cash	11,114	5,694

(ii) Grants received from CIDA (Note 13).

(b) Key management compensation:

	2008 $'000	2007 $'000
Salaries and other short-term employee benefits	2,717	5,822
Statutory contributions	160	307
Pension benefits	121	231
	2,998	6,360