

SOLOMON AIRLINES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2010

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SOLOMON AIRLINES LIMITED

DIRECTORS' REPORT - 31ST DECEMBER 2010

In accordance with Section 151 of the Companies Act (Cap.175) your directors present their report on the accounts of the company for the year ended 31st December 2010.

- RESULTS: The net results of operations to be read in conjunction with the significant accounting policies set out in Note 1 to the financial statements was a net Profit of \$19,136,247. (2009: profit of \$4,871,909) after income tax.
- ACTIVITIES: The company is involved in the domestic and international air transportation of passengers and freight.
- DIVIDENDS: The directors do not recommend the payment of a dividend.
- GENERAL: In accordance with the requirements of the Companies Act (Cap.175) the directors state that:-
- “The accounts set out on pages 4 to 22 have been prepared under the direction of the directors and in their opinion exhibit a true and fair view of the state of the company's affairs as at 31st December 2010 and its results for the year ended on that date.”

On behalf of the Board.



Director  
Reginald William Tyson



Director  
Denton Rarawa

Dated at Honiara this 9th day of June 2011.

Solomon Islands Office  
of the Auditor-General



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Solomon Airlines Limited

I was engaged to audit the accompanying financial statements of Solomon Airlines Limited, which comprise the Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows as at 31 December 2010 and the Statement of Comprehensive Income and Detailed Operating Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies set out in note 1 and with the requirements of the Companies Act (Cap. 175), and for such internal control as 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*

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Statement of Comprehensive Income, Statement of Changes Equity and Statement of Cash Flows. However due to the continued improvements in the accounting records and supporting documentation during the year, I did obtain sufficient and appropriate audit evidence to provide a basis for a qualified opinion on the Statement of Financial Position.

### *Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows*

The disclaimer of opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows is attributed to the following:

- A disclaimer of opinion was made on the financial statements for 2009. I therefore could not determine the accuracy of the opening balances as at 1 January 2010, and the effect of any misstatements therein on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended 31 December 2010.

As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the profit for the year reported in the Statement of Comprehensive Income and Statement of Changes in Equity and the net cash flows from operating activities reported in the Statement of Cash Flows.



*Basis for Qualified Opinion on the Statement of Financial Position*

The qualified opinion on the Statement of Financial Position is attributed to the following:

- The sales building was an owner occupied property until 31 July 2010. From 1 August 2010 the building was leased to another entity and therefore became an investment property. The building was revalued at the end of the year to \$8,000,000 and included in property plant and equipment. The full revaluation gain for the year of \$4,580,000 was accounted for in the asset revaluation reserve on the Statement of Financial Position. Under International Financial Reporting Standards, the building's revalued amount of \$8,000,000 at 31 December 2010 should have been accounted for as an investment property on the Statement of Financial Position. The fair value gain on the building attributable to the period from 1 August to 31 December 2010 of \$1,980,333 should have been recognised in the profit for the year on the Statement of Comprehensive Income.
- During the year only two out of three aircraft included in property, plant and equipment at 31 December 2010 were revalued. Under International Financial Reporting Standards, if an item of property, plant and equipment is revalued the entire class of property, plant and equipment to which that asset belongs shall be revalued. As a result, I was unable to obtain sufficient appropriate audit evidence about the carrying amount of aircraft held as at 31 December 2010 or determine whether any adjustment to the amount was necessary.
- I was unable to obtain sufficient appropriate audit evidence about the carrying amount of revenue received in advance as at 31 December 2010 or determine whether any adjustment to the amount was necessary.

*Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows*

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows. Accordingly, I do not express an opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows.

*Qualified Opinion on the Statement Financial Position*

In my opinion, except for the possible effects of the matters described in the basis for Qualified Opinion paragraph, the Financial Position presents fairly in all material respects as at 31 December 2010 in accordance with International Financial Reporting Standards.



Edward Ronia  
Auditor-General

14 June 2011

Office of the Auditor General  
P O Box G18  
Honiara  
Solomon Islands

**SOLOMON AIRLINES LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**YEAR ENDED 31ST DECEMBER 2010**

	Note	2010 \$	2009 \$
Operating profit/(loss) before income tax (See pages 19 to 22 for detailed Operating Statement)	2	19,136,247	4,896,801
Income tax for the year	4	-	24,892
PROFIT FOR THE YEAR		<u>19,136,247</u>	<u>4,871,909</u>
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserve		<u>29,860,238</u>	<u>2,874,716</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>48,996,485</u>	<u>7,746,625</u>

**SOLOMON AIRLINES LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**YEAR ENDED 31ST DECEMBER 2010**

	Share Capital (Note 1a) \$	Revaluation Reserve (Note 1a) \$	Accumulated Losses \$	Total \$
<b>2009</b>				
Balance as at 1st January 2009	50,000,000	39,944,029	(122,085,594)	(32,141,565)
Total comprehensive income for the year		2,874,716	4,871,909	7,746,625
Other comprehensive income				-
Prior year adjustment			8,179,615	8,179,615
Balance as at 31st December 2009	<u>50,000,000</u>	<u>42,818,745</u>	<u>(109,034,070)</u>	<u>(16,215,325)</u>
<b>2010</b>				
Total comprehensive income for the year	-	29,860,238	19,136,247	48,996,485
Revaluation surplus transferred on derecognition of asset	-	(13,422,819)	13,422,819	-
Share issue & paid	<u>20,909,801</u>	-	-	<u>20,909,801</u>
Balance as at 31st December 2010	<u>70,909,801</u>	<u>59,256,164</u>	<u>(76,475,004)</u>	<u>53,690,962</u>

The Statement of Comprehensive Income and the Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the accounts set out on pages 7 to 18.

**SOLOMON AIRLINES LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**YEAR ENDED 31ST DECEMBER 2010**

	<u>Note</u>	<u>2010</u> \$	<u>2009</u> \$
<b>CURRENT ASSETS</b>			
Cash	5	21,275,699	4,014,690
Receivables	6	28,447,346	22,325,009
Inventories	7	5,771,467	4,140,983
<b>TOTAL CURRENT ASSETS</b>		<u>55,494,512</u>	<u>30,480,682</u>
<b>NON-CURRENT ASSETS</b>			
Receivables	8	-	-
Property, plant and equipment	9	63,390,821	42,907,112
Investments	10	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<u>63,390,821</u>	<u>42,907,112</u>
<b>TOTAL ASSETS</b>		<u>118,885,333</u>	<u>73,387,794</u>
<b>CURRENT LIABILITIES</b>			
Creditors and borrowing	11	35,005,070	46,612,961
Provisions	12	1,442,290	165,500
Revenue received in advance		28,747,011	15,588,746
<b>TOTAL CURRENT LIABILITIES</b>		<u>65,194,371</u>	<u>62,367,207</u>
<b>NON-CURRENT LIABILITIES</b>			
Creditors and borrowing	13	-	27,235,912
<b>TOTAL LIABILITIES</b>		<u>65,194,371</u>	<u>89,603,119</u>
<b>NET ASSETS</b>		<u>53,690,962</u>	<u>(16,215,325)</u>
<b>EQUITY</b>			
Share capital	14	70,909,801	50,000,000
Reserves	15	59,256,164	42,818,745
Accumulated losses		(76,475,004)	(109,034,070)
<b>TOTAL EQUITY</b>		<u>53,690,962</u>	<u>(16,215,325)</u>

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the accounts set out on pages 7 to 18.

**SOLOMON AIRLINES LIMITED**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED 31ST DECEMBER 2010**

	<u>Note</u>	<u>2010</u> \$	<u>2009</u> \$
Cash flows from operating activities			
Receipts in the course of operations		202,530,684	184,687,931
Payments in the course of operations		(186,633,457)	(175,632,860)
Interests paid on Loan		(258,950)	(1,201,181)
Income tax paid		(94,000)	(4,892)
Net cash flows (used in)/from operating activities	3	<u>15,544,277</u>	<u>7,848,998</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(1,620,937)	(1,297,173)
Proceeds from sale of property, plant and equipment		14,330,989	-
Net cash flows used in investing activities		<u>12,710,052</u>	<u>(1,297,173)</u>
Cash flows from financing activities			
Proceeds from borrowing		-	4,645,294
Repayment of borrowings		(10,993,320)	(2,834,965)
Net cash flows from financing activities		<u>(10,993,320)</u>	<u>1,810,329</u>
Net increase in cash and bank overdrafts		17,261,009	8,362,154
Cash and bank overdrafts at beginning of the financial year		<u>4,014,690</u>	<u>(4,347,464)</u>
Cash and bank overdrafts at end of the financial year	5	<u><u>21,275,699</u></u>	<u><u>4,014,690</u></u>

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the accounts set out on pages 7 to 18.



SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards and the disclosure requirements of Schedule 8 of the Companies Act (Cap.175), and on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Except for certain assets, which are at valuation, the financial statements have been prepared in accordance with the historical cost convention. Unless otherwise stated the accounting policies are consistent with those used in previous years.

a) **Going Concern**

The financial statements have been prepared on a going concern basis.

b) **Foreign Currency Translation**

Foreign currency transactions are initially translated at the rate of exchange at the date of the transaction. At balance date amounts receivable and payable in foreign currencies are translated at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

c) **Investment**

Interests in unlisted securities are brought to account at cost. Where there has been a permanent diminution in the value of the investment a provision for diminution is made.

d) **Inventories**

Inventories are stated at the lower of cost and net realisable value.

e) **Property, Plant and Equipment**

*Acquisition of Assets*

The cost method of accounting is used for all acquisition of assets. Cost is determined as fair value of assets given up at that date of acquisition plus costs incidental to the acquisition.

*Revaluation of Non-Current Assets*

Revaluation increments are credited directly to the Asset Revaluation Reserve. Any revaluation decrements are debited to the Asset Revaluation Reserve to the extent that it was previously credited.

*Depreciation*

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life. The expected useful lives are as follows:

Leasehold Land and Building	20 years
Aircraft	8 years
Plant and Equipment	10 years
Motor Vehicles	5 years
Computer Equipment	3 years



SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

*Leased Non-Current Assets*

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all of the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense. The lease asset is amortised over the term of its estimated useful life.

Other operating lease payments are charged to the Statement of Comprehensive Income in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

**f) Revenue Received In Advance**

Passenger and Freight Sales are credited to Revenue Received In Advance and subsequently transferred to revenue when tickets or cargo are uplifted. Billings from other airlines are offset against Revenue Received In Advance when paid.

**g) Commercial Agreements With Other Airlines**

Some of the company's traffic operations are the subject of commercial agreements with other airlines under which revenue earned by the participating airlines is shared according to predetermined formulae as defined in each commercial agreement. Such revenue is brought to account in the same manner as for other passenger revenue.

**h) Income Tax**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future Income Tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

<b>2</b>	<b>OPERATING PROFIT/(LOSS)</b>	<u>2010</u>	<u>2009</u>
		\$	\$
	The operating profit/(loss) before income tax is arrived at after charging/(crediting) the following items:		
	Amortisation and depreciation	4,159,599	5,468,193
	Bad and doubtful debts	7,250,000	1,817,449
	Aircraft operating overhead costs	57,934,219	54,307,450
	Interest charges	170,295	2,331,367
	Loss/(Gain) on sale on property, plant and equipment	(7,509,061)	-
	Aircraft lease charges	46,126,329	41,590,606
	Foreign exchange losses/(gains)	(1,679,508)	(7,470,059)
<b>3</b>	<b>CASHFLOW RECONCILIATION</b>		
	The reconciliation of operating profit/(loss) after income tax to cash flows from operation is as follows:		
	Operating profit/(loss) after income tax	19,136,247	4,871,909
	Loss/(Gain) on sale on property, plant and equipment	(7,509,061)	-
	Amortisation and depreciation	4,159,599	5,468,193
	Changes in Assets and Liabilities:		
	- (Increase)/Decrease in trade receivables	(6,106,396)	(1,696,121)
	- (Increase)/Decrease in inventories	(1,630,484)	243,629
	- Increase/(Decrease) in trade creditors and borrowings	7,494,372	(1,038,612)
		<u>15,544,277</u>	<u>7,848,998</u>
<b>4</b>	<b>INCOME TAX</b>		
	Turnover tax on current year's income	-	20,000
	Overseas income tax	-	4,892
		<u>-</u>	<u>24,892</u>
	The benefit of income tax losses carried forward is not recognised in the profit and loss account until the directors consider they can be recovered.		
<b>5</b>	<b>CASH (CURRENT)</b>		
	Net cash on hand and at bank	<u>21,275,699</u>	<u>4,014,690</u>
		<u>21,275,699</u>	<u>4,014,690</u>
	Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
	Cash and cash equivalents	21,925,928	10,562,836
	Bank overdraft	(650,229)	(6,548,146)
		<u>21,275,699</u>	<u>4,014,690</u>

SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

	2010	2009
	\$	\$
<b>6 RECEIVABLES (CURRENT)</b>		
Trade debtors	28,480,321	24,039,206
Provision for doubtful debts	(19,250,000)	(12,000,000)
	9,230,321	12,039,206
Other debtors	13,415,330	6,676,949
	22,645,651	18,716,155
Security deposits	5,801,695	3,608,854
	28,447,346	22,325,009
<b>7 INVENTORIES (CURRENT)</b>		
Aircraft spares	4,999,371	4,018,024
Fuel	772,096	122,959
General stock	-	-
	5,771,467	4,140,983
<b>8 RECEIVABLES (NON-CURRENT)</b>		
Loans and advances to related companies:		
Pacific Car Rentals Limited	-	463,006
Hunts of the Pacific (SI) Limited	-	18,794
	-	481,800
Less: Provision for non-recovery	-	(481,800)
	-	-

SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

9. PROPERTY, PLANT AND EQUIPMENT

	12/31/2010	12/31/2009	1/1/2009
<i>Carrying amounts of:</i>			
Land and Buildings	26,145,000	22,700,000	12,370,988
Aircraft	33,075,191	16,773,628	20,718,745
Motor Vehicles	1,046,936	888,656	963,099
Plant & Equipment	685,742	549,420	256,061
Furniture & Fittings	133,551	98,575	121,924
Office Machines	108,546	125,984	70,394
Staff Property	213,459	203,699	118,418
Radio Equipment	35,517	41,738	47,712
Computer Equipment	479,847	507,787	271,217
Leasehold Improvements	35,724	17,600	22,000
Reservation Equipment	442,530	458,335	521,554
Work in Progress	988,778	541,690	541,690
	<u>63,390,821</u>	<u>42,907,112</u>	<u>36,023,801</u>

	Land and Buildings at revalued	Aircraft at revalued amount	Motor Vehicles at cost	Plant and equipment at cost	Furniture & Fittings at cost	Office Machines at cost	Staff Property at cost	Radio Equipment at cost	Computer Equipment at cost	Leasehold Improvements at cost	Reservation Equipment at cost	WIP at cost	Total
<i>Cost or valuation</i>													
Balance at 1 January 2009	14,544,899	31,560,937	2,125,133	467,807	187,081	189,085	184,456	109,319	1,079,184	562,519	768,400	541,690	52,320,510
Additions			334,388	339,802		72,201	107,029		443,755				1,297,175
Disposals													
Revaluation increase	8,155,100												8,155,100
Other [describe]													
Balance at 31 December 2009	22,700,000	31,560,937	2,459,521	807,610	187,329	261,286	291,487	109,319	1,522,936	562,519	768,400	541,690	61,773,034
Additions			618,720	242,171	52,642		39,697		200,385	20,236		447,088	1,620,936
Disposals		(13,422,819)	(791,548)						(15,332)				(14,229,702)
Reclassified as held for sale													
Revaluation increase/(decrease)	4,400,000	15,729,393											20,129,393
Other [describe]													
Balance at 31 December 2010	27,100,000	33,867,511	2,286,693	1,049,781	239,971	261,286	331,184	109,319	1,707,986	582,755	768,400	988,778	69,293,664



SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings at revalued	revalued amount	Vehicles at cost	equipment at cost	Fittings at cost	Machines at cost	Property at cost	Equipment at cost	Equipment at cost	Improvements at cost	Equipment at cost	WIP at cost	Total
<i>Accumulated depreciation and impairment</i>													
Balance at 1 January 2009	(2,173,912)	(10,842,192)	(1,162,034)	(211,746)	(65,157)	(118,691)	(66,038)	(61,607)	(807,967)	(540,519)	(246,846)		(16,296,709)
Eliminated on disposals of assets													
Eliminated on revaluation	2,899,230												2,899,230
Eliminated on reclassification as held for sale													
Impairment losses recognised in profit or loss													
Reversals of impairment losses recognised in profit or loss													
Depreciation expense	(725,318)	(3,945,117)	(408,831)	(46,444)	(23,597)	(16,611)	(21,750)	(5,974)	(207,182)	(4,400)	(63,219)		(5,468,443)
Effect of foreign currency exchange differences													
Other													-
Balance at 31 December 2009	-	(14,787,309)	(1,570,865)	(258,190)	(88,754)	(135,302)	(87,788)	(67,581)	(1,015,149)	(544,919)	(310,065)	-	(18,865,922)
Eliminated on disposals of assets			685,631						10,734				696,365
Eliminated on disposal of a subsidiary													-
Eliminated on revaluation	180,000	16,262,254											16,442,254
Eliminated on reclassification as held for sale													-
Impairment losses recognised in profit or loss													-
Reversals of impairment losses recognised in profit or loss													-
Depreciation expense	(1,135,000)	(2,267,265)	(354,523)	(89,908)	(17,666)	(17,438)	(29,937)	(6,221)	(223,724)	(2,112)	(15,805)		(4,159,599)
Effect of foreign currency exchange differences													-
Other				(15,941)									(15,941)
Balance at 31 December 2010	(955,000)	(792,320)	(1,239,757)	(364,039)	(106,420)	(152,740)	(117,725)	(73,802)	(1,228,139)	(547,031)	(325,870)	-	(5,902,843)

Leasehold land and buildings were last revalued at 31st December 2010. The Islander was last revalued on 31st December 2005 whereas the 2 Twin Otters were last revalued on 25th February 2011.

All valuations are estimates carried out by an independent valuers. The aircraft valuation was undertaken by Ascend. The valuation was based on recent market activity and known transaction data in relation to the aircraft type covering both open market and financial deals. Additionally the valuation considers perceived demand for the type of the aircraft, its availability in the market and expressed views of informed industry sources. The leasehold land and building was undertaken by Solomon Islands Real Estate and Valuation Services. The valuation is based on current market value, whereby the price of the subject property will be subject to a competitive market under the condition of sale.

SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

	2010 \$	2009 \$
<b>10 INVESTMENTS (NON-CURRENT)</b>		
Investments in wholly owned subsidiary companies (see below)	-	535,777
Provision for permanent diminution in value	-	(535,777)
	<u>-</u>	<u>-</u>
Investment in wholly owned subsidiary companies comprises:		
Pacific Car Rentals Limited	-	525,087
Hunts of the Pacific (SI) Limited	-	10,690
	<u>-</u>	<u>535,777</u>
Both subsidiaries are incorporated and operate wholly in the Solomon Islands.		
<b>11 CREDITORS AND BORROWINGS (CURRENT)</b>		
Trade creditors	3,119,665	11,073,890
Other creditors	15,719,534	17,723,084
Accrued expenses	16,124,871	13,013,779
Bank loan - secured	-	4,667,208
Loan from holding company	-	-
Turnover tax	41,000	135,000
	<u>35,005,070</u>	<u>46,612,961</u>
The bank overdraft and loan facilities are secured by assets of the company, including property, aircraft, and other assets, and an unlimited guarantee from the Solomon Islands Government.		
<b>12 PROVISION</b>		
Audit Fees	331,000	165,500
Annual Leave	1,111,290	-
	<u>1,442,290</u>	<u>165,500</u>
<b>13 CREDITORS AND BORROWINGS (NON-CURRENT)</b>		
Bank loan - secured	-	6,326,110
Loan from ultimate holding company	-	5,909,764
Loan from ultimate holding company	-	15,000,038
	<u>-</u>	<u>27,235,912</u>
The loans from holding company are unsecured and are interest free. The loans were converted into fully paid up share capital in 2010.		
<b>14 SHARE CAPITAL</b>		
Authorised		
100,000,000 ordinary shares of \$1 each	<u>100,000,000</u>	<u>50,000,000</u>
Issued and paid up		
70,909,801 ordinary shares of \$1 each fully paid	<u>70,909,801</u>	<u>50,000,000</u>

SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

<b>15 RESERVES</b>	<u>2010</u>	<u>2009</u>
	\$	\$
Asset revaluation reserve:		
Balance at beginning of the year	50,998,360	39,944,029
Add: revaluation surplus	8,257,804	11,054,331
Prior year adjustment	-	(8,179,615)
Balance at end of the year	<u>59,256,164</u>	<u>42,818,745</u>

The 2009 prior year adjustment represents the correction of revaluation adjustments on assets sold in or prior to 2009.

**16 CAPITAL EXPENDITURE COMMITMENTS**

Estimated capital expenditure contracted for at balance date but not provided for was nil (2009: Nil).

**17 OPERATING LEASE COMMITMENTS**

Not later than one year;	33,815,000	32,958,000
Later than one year and not later than five years;	-	74,744,000
Later than five years.	-	-
Lease commitment contracted for at balance date	<u>33,815,000</u>	<u>107,702,000</u>

The completion date for the Strategic Airlines ACMI Lease was originally December 2013. However Solomon Airlines limited opted to cancel the lease on 24th February 2011 in accordance with the terms in the lease agreement and operate on a weekly hire until the end of July 2011. The APNG lease term will end in December 2011.

**18 REMUNERATION OF DIRECTORS**

Amounts received or due and receivable by directors of the company

<u>17,000</u>	<u>36,975</u>
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**19 AUDITOR'S REMUNERATION**

Amounts received or due and receivable by the auditors for:  
Auditing of accounts

<u>363,447</u>	<u>130,654</u>
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**20 RELATED PARTY TRANSACTIONS**

Investment Corporation of Solomon Islands (ICSI) has 100% ownership of Solomon Airlines Limited ordinary shares. The Solomon Islands Government has full control of Investment Corporation of Solomon Islands and appoints the board of directors of Solomon Airlines Limited. Therefore the Solomon Islands Government has full control of Solomon Airlines Limited.

The company was a recipient of loans and advances from Investment Corporation of Solomon Islands (ultimate holding company) which as at 31st December 2010 has a balance of \$0 (2009:\$20,909,802) (Notes 11 and 12). These loans were transferred to equity in 2010.

The company had made advances to its wholly owned subsidiaries on an interest-free basis. As at 31st December 2010 advances to these subsidiaries totalled to \$0 (2009 : \$481,800) (Note 8). The amount written off from non - recovery provision is \$463,006 for Pacific Car Rental and \$18,794 for Hunts of Pacific (SI) Ltd.

**21 HOLDING COMPANY**

The Holding Company of Solomon Airlines limited is Solomon Airlines (Holdings) Limited. The Investment Corporation of Solomon Islands is the Ultimate Holding Company and currently owns 100% of the issued share capital of Solomon Airlines (Holdings) Limited as a long term investment.

**22 GOING CONCERN**

As indicated in Note 1, these financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The directors of the company have taken into consideration forecasts of the company's future cash flows and operating performance in concluding that a going concern basis is appropriate.

SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

23

FINANCIAL INSTRUMENTS

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period areas follows :

	2010	2009
	\$	\$
<u>Financial Assets</u>		
Cash and cash equivalents	21,275,698	4,014,690
Receivables	9,230,321	12,039,206
<u>Financial Liabilities</u>		
Financial Liabilities measured at ammortised cost	-	31,903,120

Credit risk and interest rate exposures

The following table discloses Solomon Airlines Limited maximum exposure to credit risk, interest rate exposures and the aging analysis of financial assets. Solomon Airlines maximum exposure to credit risk at the end of the reporting period is the carrying amount of financial assets as shown below. The table discloses the ageing of financial assets that are past due but not impaired and impaired financial assets.

Solomon Airlines holds a Term Deposit Certificate as security on Term Deposit held with Bank South Pacific

Interest rate exposures and ageing analysis of financial assets

	Weighted Average Effective Interest rate	Carrying Amount	Fixed interest rate	Variable interest rate	Non interest bearing	Up to 3 months	3-12 months	1-2 years	2-5 years	More than 5 years	Impaired financial assets
	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<u>Financial Assets</u>											
2010											
Cash and cash equivalents	3.50	21,275,698	-	15,066,716	6,208,982	-	-	-	-	-	-
Receivables	-	9,230,321	-	-	9,230,321	2,973,444	3,486,579	1,307,785	1,240,632	221,881	19,250,000
		30,506,019	-	15,066,716	15,439,303	2,973,444	3,486,579	1,307,785	1,240,632	221,881	19,250,000
2009											
Cash and cash equivalents	-	4,014,690	-	-	4,014,690						
Receivables	-	12,039,206	-	-	12,039,206	3,878,295	4,547,582	1,705,758	1,618,170	289,401	12,000,000
		16,053,896	-	-	16,053,896	3,878,295	4,547,582	1,705,758	1,618,170	289,401	12,000,000



SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

23 FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The following table details the contractual maturity analysis for financial liabilities. The contractual maturity amounts are representative of the undiscounted amounts at the end of the reporting period.

Interest rate exposure and maturity analysis of financial liabilities

	Weighted Average Effective Interest rate	Interest rate exposure					Maturity date					
		Carrying Amount	Fixed interest rate	Variable interest rate	Non interest bearing	Adjustment for discounting	Total Nominal Amount	Up to 3 months	3-12 months	1-2 years	2-5 years	More than 5 years
	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Financial Liabilities												
2010												
Payables	-	3,119,665	-	-	3,119,665	-	-	757,054	534,490	258,916	1,524,785	44,420
PAYE	-	12,180,322	-	-	12,180,322	-	-	1,019,951	50,000	-	6,677,955	4,432,416
		15,299,987	-	-	15,299,987	-	-	1,777,005	584,490	258,916	8,202,740	4,476,836
2009												
Payables	-	11,073,890	-	-	11,073,890	-	-	2,657,734	1,882,561	885,911	5,426,206	221,478
Bank loan - secured	-	10,993,318	-	-	10,993,318	-	-	1,166,802	3,500,406	4,667,208	1,658,902	-
PAYE	-	14,189,324	-	-	-	-	-	258,335	1,177,473	3,099,958	6,815,355	2,838,203
SIG Loan	-	20,909,802	-	-	20,909,802	-	-	-	-	-	-	20,909,802
		57,166,334	-	-	42,977,010	-	-	4,082,871	6,560,440	8,653,077	13,900,463	23,969,483

The bank loan from Bank South Pacific was fully repaid in 2010.

The Solomon Islands Government (SIG) Loan was converted to fully paid up share capital in 2010. This was effected through a board resolution by Investment Corporation of Solomon Islands.

SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

23 FINANCIAL INSTRUMENTS (continued)

Market risk

*Interest rate sensitivity analysis*

The following table represents a summary of the interest rate sensitivity of Solomon Airlines's financial assets and liabilities at the end of the reporting period on the surplus for the period and equity for a 1% change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

	-100 basis points			+100 basis points	
	Carrying amount \$	Surplus \$	Equity \$	Surplus \$	Equity \$
2010					
<u>Financial Assets</u>					
Cash and cash equivalents	15,066,716	-	19,062	19,062	19,062
<u>Financial Liabilities</u>					
Total Increase/(Decrease)	-	19,062	- 19,062	19,062	19,062

SOLOMON AIRLINES LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2010

23 FINANCIAL INSTRUMENTS (continued)

	-100 basis points			+100 basis points		
	Carrying amount	Surplus	Equity	Surplus	Equity	
	\$	\$	\$	\$	\$	\$
2009						
<u>Financial Assets</u>						
Cash and cash equivalents	-	-	-	-	-	-
<u>Financial Liabilities</u>						
Fully Drawn Advance from Bank South Pacific	10,993,318	-	179,336	179,336	179,336	179,336
Total Increase/(Decrease)		-	179,336	179,336	179,336	179,336

*Fair values*

All financial assets and liabilities recognised in the Statement of Financial Position, whether they are carried at cost or fair value, are recognised at amounts that represents a reasonable approximation of fair value unless otherwise stated in the applicable notes

*Foreign currency risk*

Solomon Airlines Limited is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than SBD. The currencies giving rise to this risk are primarily AUD and NZD.

*Sensitivity analysis*

In managing currency risks Solomon Airlines Limited aims to reduce the impact of short-term fluctuations on Solomon Airline earnings. Over the longer-term, however, permanent changes in foreign exchange rates would have an impact on Solomon Airline's earnings.

It is estimated that a general increase of one percentage point in the value of the SBD against other foreign currencies would have increased Solomon Airlines profit before tax by approximately \$16,000 for the year ended 31 December 2010.

It is estimated that a general decrease of one percentage point in the value of the SBD against other foreign currencies would have decreased Solomon Airline profit before tax by approximately \$16,000 for the year ended 31 December 2010.

**SOLOMON AIRLINES LIMITED**  
**DETAILED OPERATING STATEMENT**  
**YEAR ENDED 31ST DECEMBER 2010**

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>FLYING REVENUE</b>		
<b>INTERNATIONAL</b>		
Capacity lease	-	-
Cargo	6,354,371	4,608,516
Charter	2,468,695	5,691,626
Excess baggage	2,137,321	1,294,220
Mail	1,038,409	729,515
Passenger	94,289,857	86,713,633
	<u>106,288,653</u>	<u>99,037,510</u>
<b>DOMESTIC</b>		
Cargo	1,830,422	1,655,305
Charter	9,972,364	8,166,362
Excess baggage	1,020,612	940,866
Passenger	45,510,678	39,691,543
Mail	87,958	100,798
	<u>58,422,034</u>	<u>50,554,874</u>
<b>TOTAL FLYING REVENUE</b>	<u>164,710,687</u>	<u>149,592,384</u>
<b>SUNDRY OPERATING REVENUE</b>		
Commissions received	1,145,700	2,162,509
Traffic income	5,862,852	4,127,769
	<u>7,008,552</u>	<u>6,290,278</u>
<b>TOTAL OPERATING REVENUE</b>	<u>171,719,239</u>	<u>155,882,662</u>
<b>OTHER REVENUE</b>		
Gain/(Loss) on disposal of fixed assets	7,509,061	-
Ticket Surcharges and Penalties	29,964,764	16,719,907
Sundry income	11,544,377	12,423,126
	<u>49,018,202</u>	<u>29,143,033</u>
<b>TOTAL INCOME</b>	<u><u>220,737,441</u></u>	<u><u>185,025,695</u></u>
<b>EXPENSES</b>		
<b>AIRCRAFT OPERATING OVERHEADS</b>		
Aircraft charter	2,829,754	334,347
Aircraft lease charges	46,126,329	41,590,606
Insurance	2,207,999	2,492,351
<b>TOTAL AIRCRAFT OPERATING COSTS</b>	<u>51,164,082</u>	<u>44,417,304</u>



SOLOMON AIRLINES LIMITED

DETAILED OPERATING STATEMENT (Continued)  
YEAR ENDED 31ST DECEMBER 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>AIRCRAFT OVERHEAD COSTS</b>		
Air navigation charges	2,369,240	1,720,847
Baggage claims	6,435	7,347
CAA charges	36,609	4,322
Cargo claims	-	2,451
Catering costs	5,480,021	4,520,019
Custom fees	815,724	531,481
Disrupted passenger costs	1,487,058	469,592
Engine Overhaul	587,725	149,682
Fuel - International	19,692,640	15,691,637
Fuel - Domestic	22,370,435	22,702,013
Ground handling fees	4,157,292	3,365,081
IATA membership fee	150,822	225,008
Landing charges	777,288	4,917,970
Flight planning	2,930	-
<b>TOTAL AIRCRAFT OVERHEAD COSTS</b>	<u>57,934,219</u>	<u>54,307,450</u>
<b>PERSONNEL EXPENSES</b>		
Education Allowances	1,001,394	637,175
Electricity, gas and water	792,962	1,655,851
Employee related transport costs	310,956	196,496
Employee related utility costs	374,879	1,183,124
Entertainment costs	263,770	273,658
Housing allowances	1,660,811	1,660,859
Leave fares	116,111	133,849
Licence renewal costs	63,388	18,184
Overnight allowance and accomodation	7,362,980	4,830,874
Rent - Housing	1,609,940	1,719,005
Salaries and wages	23,658,023	19,970,358
Annual Leave	1,119,864	-
Staff recruitment	141,255	75,067
Staff training	1,111,081	1,233,083
Tool allowance	136,184	92,095
Uniforms	243,034	205,698
<b>TOTAL PERSONNEL EXPENSES</b>	<u>39,966,632</u>	<u>33,885,376</u>
<b>ENGINEERING EXPENSES</b>		
Consumables	3,204,505	5,244,639
Freight	470,137	(317,567)
Maintenance - Domestic	1,395,038	8,685,685
Repairs and maintenance - equipment	21,354	280,475
<b>TOTAL ENGINEERING EXPENSES</b>	<u>5,091,034</u>	<u>13,893,232</u>

SOLOMON AIRLINES LIMITED

DETAILED OPERATING STATEMENT (Continued)  
YEAR ENDED 31ST DECEMBER 2010

	2010	2009
	\$	\$
<b>MARKETING EXPENSES</b>		
Advertising and promotion	556,808	201,539
Agents costs	26,019	41,112
Commissions paid	12,518,123	11,005,861
<b>TOTAL MARKETING EXPENSES</b>	<b>13,100,950</b>	<b>11,248,512</b>
<b>VEHICLE EXPENSES</b>		
Vehicle insurance	41,271	85,171
Motor vehicles expenses	1,119,177	903,917
Motor vehicle hire	206,329	190,005
<b>TOTAL VEHICLE EXPENSES</b>	<b>1,366,777</b>	<b>1,179,093</b>
<b>PREMISES EXPENSES</b>		
Land rates and rents	31,921	64,662
Rent - Commercial buildings	430,366	884,456
Repairs and maintenance - Offices	1,046,832	934,418
<b>TOTAL PREMISES EXPENSES</b>	<b>1,509,119</b>	<b>1,883,536</b>
<b>COMPUTER AND COMMUNICATION EXPENSES</b>		
Communication fees	452,688	809,189
Computer costs	588,079	594,583
Reservation fees	4,949,413	4,885,309
Telephone	3,649,387	3,130,631
<b>TOTAL COMPUTER AND COMMUNICATION EXPENSES</b>	<b>9,639,567</b>	<b>9,419,712</b>
<b>FINANCIAL EXPENSES</b>		
Bank charges	1,496,355	782,209
Depreciation expenses	4,159,599	5,468,193
Foreign exchange loss/(gain)	(1,679,508)	(7,470,059)
Insurance	527,081	442,897
Interest expenses	170,295	2,331,367
Provision for doubtful debts	7,250,000	1,817,449
Penalties and fines	137,199	33,047
<b>TOTAL FINANCIAL EXPENSES</b>	<b>12,061,021</b>	<b>3,405,103</b>
<b>ADMINISTRATION EXPENSES</b>		
Accounting fees	601,102	95,088
Audit fees	363,447	130,654
Board expenses and fees	61,400	76,819
Cleaning	127,153	61,945
Consultancy fees	3,929,552	1,432,472
Debt collection expenses	-	-
Directors fees	17,000	36,975
Donations	1,192	22,056

SOLOMON AIRLINES LIMITED

DETAILED OPERATING STATEMENT (Continued)  
YEAR ENDED 31ST DECEMBER 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>ADMINISTRATION EXPENSES (Continued)</b>		
General expenses	852,254	920,051
Legal fees	65,324	407,650
NPF contributions	1,774,599	1,403,705
Postage	12,473	212,477
Printing	498,627	648,100
Publication and subscriptions	510,459	341,084
Security	317,964	31,443
Stationery	635,247	669,057
TOTAL ADMINISTRATION EXPENSES	<u>9,767,793</u>	<u>6,489,576</u>
<b>TOTAL EXPENSES</b>	<u>201,601,194</u>	<u>180,128,894</u>
<b>OPERATING PROFIT/(LOSS) FOR THE YEAR</b>	<u><u>19,136,247</u></u>	<u><u>4,896,801</u></u>