

INVESTMENT CORPORATION OF SOLOMON ISLANDS  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008

Investment Corporation of Solomon Islands  
Financial Statements for the year ended 31 December 2008

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# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### State Owned Enterprise Information

The Investment Corporation of Solomon Islands ('the Corporation') is a State Owned Enterprise domiciled in the Solomon Islands

Registered Office

PO Box 570, Honiara

Principal Place of Business

Mendana Avenue, Honiara

Directors

The Directors at any time during or since the end of the financial year are listed in the Directors' Report.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Directors' Report

The Directors present their report together with the financial statements of Investment Corporation of Solomon Islands ('the Corporation') for the year ended 31 December 2008 and the Independent Audit Report thereon.

#### Directors

The Directors at any time during or since the end of the financial year:

D Rarawa  
C Hapa  
E Iramu  
S Alekera  
D Aihari  
M Kemakeza (Chairman)  
M Wale  
J Maneniaru  
G Suri

#### Principal activities

The principal activity of the Corporation during the course of the financial year ended 31 December 2008 was the management of investments in Solomon Islands Portfolio Companies.

#### Operating and financial review

The Corporation incurred a net profit for the year amounting to \$2,255,305 (2007: \$23,792,155).

#### Dividends

No dividends have been paid or declared since the end of the previous financial year, and the Directors do not recommend the declaration of a dividend.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Directors' Report (continued)

#### Significant changes in the state of affairs

In July 2007 the Solomon Islands Government passed the State Owned Enterprises Act 2007 and listed Investment Corporation of Solomon Islands as a State Owned Enterprise under the jurisdiction of the Act.

Compliance with the Act could impact the future operations of Investment Corporation of Solomon Islands. Significant impact could include:

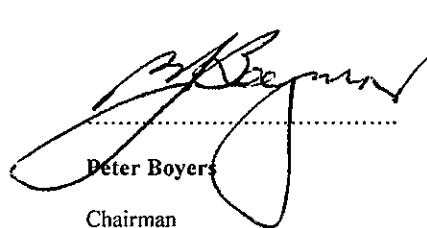
- The Minister of Finance and the Responsible Minister (the "accountable Ministers") can direct ICSI to perform a community service obligation (Sec 8, 1)
- The accountable Ministers can determine the amount of any dividend payable by ICSI (Sec 12, 1b)
- The requirement to issue a Statement of Corporate Objectives that provides disclosure of intended activities, accounting policies, performance targets, dividends and taxes to be paid during the period in question (Sec 13,2)
- The requirement to issue the audited consolidated financial statements of the group within 3 months after the end of the financial year (Sec 14,1b)
- This act shall prevail where there is any inconsistency in requirements with the Investment Corporation of Solomon Islands Act (Sec 26, 7 and 8)

There were no other significant changes in the state of affairs of the Corporation during the year.

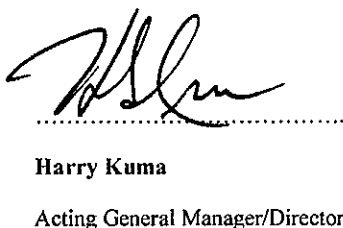
#### Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely to affect significantly the operations of the Corporation, the results of its operations, or the state of affairs of the Corporation in future financial years.

Signed in accordance with a resolution of the Directors.



.....  
**Peter Boyers**  
Chairman



.....  
**Harry Kuma**  
Acting General Manager/Director

Dated at Honiara this 9<sup>th</sup> day of Nov 20 11



## **INDEPENDENT AUDITOR'S REPORT**

### **To the Board of the Investment Corporation of Solomon Islands**

I was engaged to audit the accompanying financial statements of the Investment Corporation of Solomon Islands (ICSI), which comprise the Balance Sheet as at 31 December 2008, and the Profit and Loss Statement, 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.

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

The Board of Directors and management are responsible for the preparation and fair presentation of these financial statements in accordance with an acceptable financial reporting framework and ICSI's Act 1996, 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 my audit. I conducted my audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### **Basis for Disclaimer of Opinion**

Lack of or unreliable accountings records

Due to lack of or unreliable accounting records, I was unable to obtain sufficient appropriate audit evidence with respect to cash and cash equivalents, interest bearing loans and borrowings, property plant and equipment, investments in subsidiaries, investments in associates, investment losses from associates and impairment losses. I am unable to determine whether any adjustments might have been found necessary in respect of the Profit and Loss Statement, Statement of Changes in Equity, Balance Sheet and Cash Flow Statement, and the related disclosures.

#### **Disclaimer of Opinion**

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. Accordingly, I do not express an opinion on the financial statements

Edward Ronia  
Auditor-General

Office of the Auditor-General  
Solomon Islands

24 November 2011

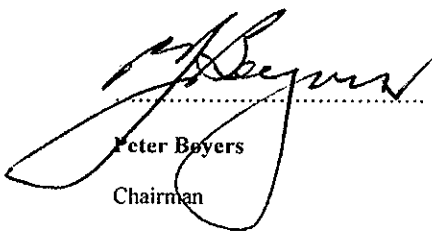
Investment Corporation of Solomon Islands  
Financial Statements for the year ended 31 December 2008

Statement by Directors


In accordance with a resolution of the Board of Directors of Investment Corporation of Solomon Islands, we state that in the opinion of the Directors:

- (a) the financial statements and notes set out on pages 8 to 29:
  - (i) give a true and fair view of the Corporation's financial position as at 31 December 2008 and of its performance for the financial year ended on that date; and
  - (ii) comply with International Financial Reporting Standards;
- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Peter Boyers  
Chairman



Harry Kuma  
Acting General Manager/Director

Dated at Honiara this 9<sup>th</sup> day of Nov 2011

Investment Corporation of Solomon Islands

Financial Statements for the year ended 31 December 2008

Profit and loss statement

	Note	2008 \$	2007 \$
<b>Income:</b>			
Grants received	2	6,722,380	20,193,829
Other income		1,173,421	-
Rental income		712,015	483,325
Dividends received		418,605	1,195,835
Fair value adjustments – investment property	11	281,896	170,846
Interest income		22,916	45,658
Other operating income		12,641	43,420
Share of profit from associates	2,10	-	4,000,000
<b>Total income</b>		<b>9,343,874</b>	<b>26,132,913</b>
<b>Expenses:</b>			
Directors expenses		318,950	204,911
Impairment losses	2,4	169,000	22,123
Investment losses from associates	2,10	4,974,378	-
Office and administrative expenses		541,789	246,540
Other operating expenses		192,895	1,302,186
Rental property expenses		281,596	140,984
Salaries and wages		609,961	424,014
<b>Total expenses</b>		<b>7,088,569</b>	<b>2,340,758</b>
<b>Net profit for the year</b>	2	<b>2,255,305</b>	<b>23,792,155</b>

The profit and loss statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 29.



Investment Corporation of Solomon Islands

Financial Statements for the year ended 31 December 2008

Statement of changes in equity

	Note	Shareholder contribution / equity	Reserves	Retained Earnings / (Accumulated losses)	Total
		\$	\$	\$	\$
Balance at 1 January 2007		102,698,795	3,306,992	(25,639,921)	80,365,866
Gain on available for sale financial instruments		-	5,500,000	-	5,500,000
Net profit for the year		-	-	23,792,155	23,792,155
		-----	-----	-----	-----
Balance at 31 December 2007		102,698,795	8,806,992	(1,847,766)	109,658,021
Net profit for the year		-	-	2,255,305	2,255,305
		-----	-----	-----	-----
Balance at 31 December 2008		<u>102,698,795</u>	<u>8,806,992</u>	<u>407,539</u>	<u>111,913,326</u>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 29.

Investment Corporation of Solomon Islands

Financial Statements for the year ended 31 December 2008

Balance sheet

	Note	2008 \$	2007 \$
<b>ASSETS</b>			
Cash and cash equivalents	17	5,513,043	5,311,708
Trade and other receivables	4	2,373,091	2,611,599
Total current assets		<u>7,886,134</u>	<u>7,923,307</u>
Advances for future share issues	5	26,916,209	20,193,829
Other investments	6	28,831,020	28,831,020
Loans	7	5,969,764	5,969,764
Investments in subsidiaries	8	31,400,000	31,400,000
Investments in associates	9	20,025,622	25,000,000
Investment property	11	2,482,389	2,200,493
Property, plant and equipment	12	1,664,648	1,338,816
Total non-current assets		<u>117,289,652</u>	<u>114,933,922</u>
Total assets		<u>125,175,786</u>	<u>122,857,229</u>
<b>LIABILITIES</b>			
Trade and other payables		104,226	40,974
Interest bearing loans and borrowings	13	13,158,234	13,158,234
Total current liabilities		<u>13,262,460</u>	<u>13,199,208</u>
Total liabilities		<u>13,262,460</u>	<u>13,199,208</u>
Net assets		<u><u>111,913,326</u></u>	<u><u>109,658,021</u></u>
<b>SHAREHOLDERS' EQUITY</b>			
Shareholder contribution/equity		102,698,795	102,698,795
Reserves		8,806,992	8,806,992
Retained earnings / (accumulated losses)		407,539	(1,847,766)
Total shareholders' equity		<u><u>111,913,326</u></u>	<u><u>109,658,021</u></u>

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 29.

Investment Corporation of Solomon Islands

Financial Statements for the year ended 31 December 2008

Cash flow statement

	Note	2008 \$	2007 \$
<b>OPERATING ACTIVITIES</b>			
Cash receipts from customers		1,885,977	481,745
Cash paid to suppliers and employees		(1,802,430)	(1,516,300)
Cash flows from operating activities		<u>83,547</u>	<u>(1,034,555)</u>
<b>INVESTING ACTIVITIES</b>			
Dividends received		418,605	1,195,835
Interest received		14,524	47,884
Acquisition of property, plant and equipment	12	(405,341)	(81,304)
Cash flows from investing activities		<u>27,788</u>	<u>1,162,415</u>
<b>FINANCING ACTIVITIES</b>			
Cash receipts from repayment of loans		90,000	748,364
Cash flows from financing activities		<u>90,000</u>	<u>748,364</u>
Net increase in cash and cash equivalents		201,335	876,224
Cash and cash equivalents at beginning of year		<u>5,311,708</u>	<u>4,435,484</u>
Cash and cash equivalents at end of year	17	<u><u>5,513,043</u></u>	<u><u>5,311,708</u></u>

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 29.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the financial statements

#### 1. SIGNIFICANT ACCOUNTING POLICIES

##### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board.

##### (b) Basis of preparation

The financial statements have been prepared primarily on the historical cost basis except that investment properties and financial instruments classified as available for sale have been stated at their fair value.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of a financial report in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been consistently applied by the Corporation and they are consistent with those of the previous year.

The financial statements are presented in Solomon Islands currency, the Solomon Islands dollar (\$).

##### Consolidation

These financial statements represent the transactions, financial performance and financial position of the Corporation. Consolidated financial statements have not been prepared.

##### (c) Going concern

The 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. As a going concern, the Corporation is dependent upon the continuing support of the Solomon Islands Government, its bankers and creditors.

Whilst the Corporation's Current Liabilities exceed its Current Assets, the Corporation has significant Net Assets.

The Directors have concluded that the going concern basis is appropriate.

## Investment Corporation of Solomon Islands

### Financial Statements for the year ended 31 December 2008

#### Notes to the Financial Statements (continued)

##### 1. Significant accounting policies (continued)

###### (d) Foreign currency

The functional currency adopted in the preparation of the financial statements is the Solomon Islands currency, the Solomon Islands dollar (\$). Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the Profit and Loss Statement. Foreign currency monetary assets and liabilities are translated at the exchange rate at the balance sheet date. Resulting exchange differences are recognised in the profit and loss statement for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate at the date of the transaction.

###### (e) Property, plant and equipment

Items of property, plant and equipment are stated at original cost or deemed cost less accumulated depreciation and impairment losses. Construction costs for self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads.

Property that is constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property. When the construction or development of an investment property is completed and will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit and loss.

Depreciation is charged to the Profit and Loss Statement on a reducing balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Fixed assets are first depreciated in the year of acquisition, or, in the case of construction, in the year of substantial completion of the asset. Land is not depreciated. The rates of depreciation current and comparative periods are as follows:

###### Property, plant and equipment (continued)

- Buildings 3 to 6 percent
- Motor vehicles 20 percent
- Office equipment, furniture & fittings 5 to 20 percent

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

#### 1. Significant accounting policies (continued)

##### (f) Impairment

The carrying amounts of all assets carried at cost are reviewed at each balance sheet date to determine whether there is any indication of impairment.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### (g) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Corporation's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

##### (h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

##### (i) Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recorded at the net proceeds received. Any discount, premium or other difference between the net proceeds and the redemption value is amortised and included in finance costs over the term of the loan.

If debt is repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the profit and loss statement.

##### (j) Provisions

Provisions are recognised when the Corporation has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

## Investment Corporation of Solomon Islands

### Financial Statements for the year ended 31 December 2008

#### Notes to the Financial Statements (continued)

##### 1. Significant accounting policies (continued)

###### (k) Revenue

Revenue from services rendered is recognised in the Profit and Loss Statement in proportion to the stage of completion of the transaction at the balance sheet date.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

###### (l) Trade and other payables

Trade and other payables are stated at cost.

###### (m) Taxation

The Corporation is exempt from income tax in terms of paragraph 19(1) of the Investment Corporation of Solomon Islands Act.

###### (n) Investment Property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. Fair value has been determined as the lower of the latest available independent valuations, indexed during intervening years by the official CPI index of the Solomon Islands, and the present value of future cash flows from the investment properties, as described below.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. Valuations reflect, where appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognised in the profit and loss statement. Rental income from investment property is recognised in the profit and loss statement on a straight line basis over the term of the lease.

## Investment Corporation of Solomon Islands

### Financial Statements for the year ended 31 December 2008

#### Notes to the Financial Statements (continued)

##### 1. Significant accounting policies (continued)

###### (n) Investment Property (continued)

If an investment property becomes owner-occupied, it is reclassified as property, fixtures and fittings and its fair value at the date of reclassification becomes its cost for accounting purposes of subsequent recording. When the Corporation begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on a fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

###### (o) Investments

###### Financial instruments

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the Profit and Loss Statement.

Where the Corporation has the positive intent and ability to hold investments to maturity, they are stated at amortised cost less impairment losses.

Other financial instruments held by the Corporation are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the Profit and Loss Statement.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date. For financial instruments which are not actively traded in an open market, the fair value is determined by reference to the investee's net asset value as stated in its most recent financial statements.

Financial instruments classified as held for trading or available-for-sale investments are recognised / derecognised by the Corporation on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognised / derecognised on the day they are transferred to / by the Corporation.

###### Associates

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the cost method.



# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

#### 1. Significant accounting policies (continued)

##### (o) Investments (continued)

###### Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, currently exercisable potential voting rights are taken into account. In the Corporation's financial statements, investments in subsidiaries are carried at cost.

##### (p) Cash and Cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

##### (q) Employee benefits

The Corporation's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Liabilities for employee benefits for wages, salaries, annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at amounts based on remuneration wage and salary rates that the Corporation expects to pay as at reporting date including related on-costs.

##### (r) Expenses

###### Operating lease payments

Payments made under operating leases are recognised in the Profit and Loss Statement on a straight-line basis over the term of the lease.

###### Financial costs

Financial costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, dividend income, and foreign exchange gains and losses.

##### (s) Financial income

Interest income is recognised in the Profit and Loss Statement as it accrues, using the effective interest method. Dividend income is recognised in the Profit and Loss Statement on the date the entity's right to receive payments is established which in the case of quoted securities is ex-dividend date.

##### (t) Reclassification

Prior year balances have been reclassified to correspond to current year presentation where considered necessary.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

#### 2 NET PROFIT

	2008	2007
	\$	\$
Net profit for the year includes the following items of income and expense:		
Income:		
Interest received from banks	22,916	23,535
Interest received from subsidiaries	-	22,123
Fair value adjustments - investment property	281,896	170,846
Government grants	6,722,380	20,193,829
Equity accounted profits – Kolombangara Forest Products Ltd	-	4,000,000
Expense:		
Auditors remuneration - audit	44,660	-
- other services	10,500	-
Impairment loss: Sasape Marina Limited	-	22,123
: Other	169,000	-
Investment losses from associates - Kolombangara Forest Products Ltd	4,974,378	-
Depreciation of fixed assets	79,509	83,957
Exchange losses	-	718,034
Donations	4,795	10,000
Employer contributions to NPF	33,550	32,506
Staff costs	609,961	424,014

#### 3 EMPLOYEES

The number of employees at the end of the year was 4 (2007: 4).

#### 4 TRADE AND OTHER RECEIVABLES

	2008	2007
	\$	\$
<b>Current assets</b>		
Rent receivable	57,100	45,000
Interest receivable	10,054	1,662
Loan to Transpacific Supplies	850,001	940,001
Owing from Director	169,000	169,000
Less: impairment	(169,000)	-
Dividend receivable - Withholding Tax	1,455,936	1,455,936
	<u>2,373,091</u>	<u>2,611,599</u>

## Investment Corporation of Solomon Islands

### Financial Statements for the year ended 31 December 2008

#### Notes to the Financial Statements (continued)

<b>5 ADVANCES FOR FUTURE SHARE ISSUES</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Solomon Airlines Limited	15,000,000	15,000,000
Kolombangara Forest Products Limited	11,916,209	5,193,829
	<u>26,916,209</u>	<u>20,193,829</u>

During 2006 financial year, the European Commission agreed to provide grant-funding to Kolombangara Forest Products Limited ('KFPL') on behalf of the Corporation.

During 2007, the Corporation entered into an agreement with Kolombangara Forest Products Limited ('KFPL') whereby the Corporation agreed to contribute \$33,611,900 to Kolombangara in consideration for KFPL issuing 34,246,575 ordinary shares to the Corporation. Following these transactions, the Corporation will hold 40% of the issued capital of KFPL. The Corporation's contribution is to be paid in four tranches due on 31 March 2007, 31 March 2008, 31 March 2009 and 31 March 2010. During the year ended 31 December 2007, the Corporation paid \$5,193,829 in respect of the first tranche (this investment was made directly to KFPL on behalf of the Corporation by the European Commission). The second tranche of \$6,722,380 was paid to KFPL in 2008. As at the end of the financial year, KFPL had not allotted any shares and accordingly the Corporation has accounted for the first and second tranche contributions as a Non-Current Asset.

The funding of the Corporation's aforementioned investment in KFPL has been provided by non-reciprocal grant-funding provided by the European Commission. On the basis that the grant-funding is non-reciprocal, the Corporation has recorded the funding for the first tranche as grant income in 2007.

During 2007, the Solomon Islands Government advanced \$15 million to the Corporation to increase the Corporation's investment in Solomon Airlines Limited. As at 31 December 2007, the Corporation had advanced these funds, however Solomon Airlines Limited had not executed the issuance of additional ordinary shares.

The funding for of the Corporation's aforementioned investment in Solomon Airlines Limited by the Solomon Islands Government is a non-reciprocal grant. On the basis that the grant-funding is non-reciprocal, the Corporation has recorded the funding as grant income in 2007.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

6 OTHER INVESTMENTS		2008	2007
	Ownership	\$	\$
<b>Available for sale investments</b>			
Solomon Telekom	10.0%	21,000,000	21,000,000
Pacific Forum Line	<1%	126,430	126,430
<b>Other investments</b>			
Development Bank of Solomon Islands		7,704,590	7,704,590
		<u>28,831,020</u>	<u>28,831,020</u>

Available for sale investments represent shares held by the Corporation in other entities. The Corporation's percentage ownership of those entities is 10% or less. The Corporation accounts for its investment in these entities as available for sale assets, which means that at the end of each financial year, the Corporation adjusts the carrying value of those investments to reflect their fair value with a corresponding entry recorded in equity.

The Corporation first applied this accounting policy in the 2006 financial year.

The investment in the Development Bank of Solomon Islands represents the Corporation's 90% holding in the Development Bank. The investment is accounted for at cost.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

7 LOANS	Note	2008 \$	2007 \$
Loans			
Solomon Airlines Limited		5,969,764	5,969,764
Sasape Marina Limited		421,767	421,767
Solomon Islands Printers Limited		3,463,757	3,463,757
Soltai Fishing & Processing Limited	13	<u>8,931,833</u>	<u>8,931,833</u>
		<u>18,787,121</u>	<u>18,787,121</u>
Impairments of loans			
Solomon Airlines Limited		-	-
Sasape Marina Limited		421,767	421,767
Solomon Islands Printers Limited		3,463,757	3,463,757
Soltai Fishing & Processing Limited		<u>8,931,833</u>	<u>8,931,833</u>
		<u>12,817,357</u>	<u>12,817,357</u>
Carrying value of loans			
Solomon Airlines Limited		5,969,764	5,969,764
Sasape Marina Limited		-	-
Solomon Islands Printers Limited		-	-
Soltai Fishing & Processing Limited		<u>-</u>	<u>-</u>
		<u>5,969,764</u>	<u>5,969,764</u>

The loan to Solomon Airlines Limited is unsecured and attracts an interest rate of 0% per annum (2007: 0%).

On 10 August 1998, Sasape Marina Limited was granted a loan of \$250,000 at an interest rate of 5% per annum and to be repaid over a period of 36 months.

On 4 December 2000, the Solomon Islands National Provident Fund Loan of \$2,098,465 owing by Solomon Islands Printers Limited was transferred to Investment Corporation of Solomon Islands, with a corresponding receivable from Solomon Islands Printers Limited being recognised.

On 21 March 2000, the Investment Corporation of Solomon Islands board resolved that the balance of its loan to Solomon Islands Printers Limited, being \$1,365,292 at that time, be converted to shares. However, as at the end of the current year, the conversion has not been formalised by Solomon Islands Printers Limited.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

<b>8 INVESTMENTS IN SUBSIDIARIES</b>	Ownership	2008 \$	2007 \$
Investments			
Sasape Marina Limited	100.0%	4,904,411	4,904,411
Solomon Airlines Limited	100.0%	50,000,000	50,000,000
Soltai Fishing & Processing Limited	51.0%	51	51
Solomon Taiyo Limited	100.0%	2,000,000	2,000,000
Solomon Islands Printers Limited	100.0%	2,000,000	2,000,000
Solomon Islands Plantation Limited	97.0%	<u>12,998,042</u>	<u>12,998,042</u>
		<u>71,902,504</u>	<u>71,902,504</u>
Impairments of investments			
Sasape Marina Limited		4,904,411	4,904,411
Solomon Airlines Limited		21,100,000	21,100,000
Soltai Fishing & Processing Limited		51	51
Solomon Taiyo Limited		2,000,000	2,000,000
Solomon Islands Printers Limited		2,000,000	2,000,000
Solomon Islands Plantation Limited		<u>10,498,042</u>	<u>10,498,042</u>
		<u>40,502,504</u>	<u>40,502,504</u>
Carrying value of investments			
Sasape Marina Limited		-	-
Solomon Airlines Limited		28,900,000	28,900,000
Soltai Fishing & Processing Limited		-	-
Solomon Taiyo Limited		-	-
Solomon Islands Printers Limited		-	-
Solomon Islands Plantation Limited		<u>2,500,000</u>	<u>2,500,000</u>
		<u>31,400,000</u>	<u>31,400,000</u>
<b>9 INVESTMENTS IN ASSOCIATES</b>	Ownership	2008 \$	2007 \$
Investments			
Kolombangara Forest Products Limited	23.6%	<u>20,025,622</u>	<u>25,000,000</u>
		<u>20,025,622</u>	<u>25,000,000</u>

The investment in Kolombangara Forest Products Limited ('KFPL') is accounted for on an equity-accounted basis. This means that each year the Corporation adjusts the carrying value of its investment in KFPL to record the Corporation's share of KFPL's net profit/loss and any changes in KFPL's equity. The recognition of the Corporation's share of KFPL's financial result each year is reflected in the Profit and Loss Statement.

The Corporation first applied this accounting policy in the 2006 financial year.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

#### 10 NET ASSETS OF ASSOCIATES

The Corporation's share of the loss in Kolombangara Forest Products Limited for the year was \$4,974,378 (2007: share of profit was \$4,000,000).

Summary financial information for Kolombangara Forest Plantations, not adjusted for the percentage ownership of the Corporation, was:

	2008 \$	2007 \$
Total Assets	176,600,594	182,976,336
Total Liabilities	92,541,594	77,839,463
Net Profit/(Loss)	(21,077,873)	15,944,613

#### 11 INVESTMENT PROPERTY

Opening balance	2,200,493	2,029,647
Fair value adjustments	281,896	170,846
Closing balance	<u>2,482,389</u>	<u>2,200,493</u>

The carrying amount of investment property is the fair value of the property as determined by the directors.

Leases as lessor

ICSI leases out its investment property under operating leases (see note 19). The future minimum lease payments under non-cancellable leases are as follows:

Less than one year	<u>104,300</u>	<u>99,800</u>
Total contracted leases at year end	<u>104,300</u>	<u>99,800</u>

During the year ended 31 December 2008, \$712,015 was recognised as rental income in the income statement (2007: \$483,325) and \$281,596 in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment property (2007: \$140,984).

Investment Corporation of Solomon Islands

Financial Statements for the year ended 31 December 2008

Notes to the Financial Statements (continued)

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings \$	Motor Vehicles \$	Office Equipment Furniture & Fittings \$	Total \$
<b>Cost</b>				
At 1 January 2008	1,200,000	92,919	508,330	1,801,249
Additions	124,639	254,883	25,819	405,341
Disposals / Transfers	-	-	-	-
At 31 December 2008	<u>1,324,639</u>	<u>347,802</u>	<u>534,149</u>	<u>2,206,590</u>
<b>Depreciation</b>				
At 1 January 2008	161,552	89,871	211,010	462,433
Charge for the year	43,275	10,101	26,133	79,509
Disposals / Transfers	-	-	-	-
At 31 December 2008	<u>204,827</u>	<u>99,972</u>	<u>237,143</u>	<u>541,942</u>
<b>Book value</b>				
At 1 January 2008	<u>1,038,448</u>	<u>3,048</u>	<u>297,320</u>	<u>1,338,816</u>
At 31 December 2008	<u>1,119,812</u>	<u>247,830</u>	<u>297,006</u>	<u>1,664,648</u>



## Investment Corporation of Solomon Islands

### Financial Statements for the year ended 31 December 2008

#### Notes to the Financial Statements (continued)

<b>13 INTEREST BEARING LOANS AND BORROWINGS</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Current		
Loan from Maruha	12,618,477	12,618,477
Loan from Soltai Fishing	539,757	539,757
	<u>13,158,234</u>	<u>13,158,234</u>

The Corporation entered into an Agreement dated 22 August 2001 with Maruha Corporation (an entity incorporated in Japan) whereby Maruha loaned the Corporation ¥229,174,947 (\$11,533,741 as at the date of the agreement) to enable the Corporation to extinguish a debt owing by Solomon Taiyo Limited to the National Bank of Solomon Islands. A corresponding receivable (Note 7) was recorded from Soltai Fishing & Processing Limited (a subsidiary of the Corporation into which the Solomon Taiyo Limited operations were transferred). The receivable from Soltai is recorded as a Non-Current Asset and has been impaired by the Corporation.

The loan from Maruha is unsecured, interest free and was repayable in three equal instalments on 22 September 2001, 22 March 2002 and 22 September 2002.

Prior to 2005, Soltai repaid ¥43,636,398 (\$2,601,908) of the Maruha loan on behalf of the Corporation. As at 31 December 2008, the value of the loan outstanding was ¥185,538,549 (\$12,618,477).

The amount owing to Soltai Fishing and Processing Limited amounting to \$539,797 (2007: \$539,797) is unsecured, interest free and repayable on demand.

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

#### 14 RELATED PARTIES

##### **Solomon Islands Government**

##### **Controlled entities**

Sasape Marina Limited  
Solomon Airlines Limited  
Soltai Fishing & Processing Limited  
Solomon Taiyo Limited  
Solomon Islands Printers Limited  
Solomon Islands Plantation Limited

##### **Associates**

Kolombangara Forest Products Limited

##### **Other investments**

Solomon Telekom  
Pacific Forum Line

Refer to notes 7 and 13 for details of loan amounts owing to and by related party entities. There were no trade transactions during the year with these entities, nor any trade balances at year end due to or from related parties. The Corporation receives grants from the Solomon Islands Government.

##### **Directors remuneration**

The directors received total remuneration during the year of \$318,950 (2007: \$204,911)

# Investment Corporation of Solomon Islands

## Financial Statements for the year ended 31 December 2008

### Notes to the Financial Statements (continued)

#### 15 COMMITMENTS AND CONTINGENCIES

##### **Contingent liabilities**

The Corporation and the Solomon Islands Government agreed that some debts settled by the Solomon Islands Government from a loan on behalf of Soltai Fishing & Processing Limited (previously on behalf of Solomon Taiyo Limited) is to be recognised as a Corporation liability. The liability amounted to \$71,892,358 at the exchange rate ruling at the time of signing the memo dated 22 August 2001.

The Corporation is contingently liable as guarantor of the amount owing by its subsidiary company, Solomon Airlines Limited, to Shell Company (Pacific Islands) Limited.

##### **Commitments**

As described in Note 5, the Corporation has committed to increasing its investment in Kolombangara Forest Products Limited.

#### 16 FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of business.

##### **Credit risk**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Corporation does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Corporation.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

## Investment Corporation of Solomon Islands

### Financial Statements for the year ended 31 December 2008

#### Notes to the Financial Statements (continued)

##### 16 FINANCIAL INSTRUMENTS – cont'd

###### Interest rate risk

The effective interest rates applicable to financial assets and liabilities at the balance date, and the term to maturity are set out below:

	Note	Effective interest rate %	Total	less than 1 year	1 to 2 years	2 to 5 years
<b>2008</b>						
Cash and cash equivalents	17	3.0	5,513,043	5,513,043	-	-
Trade and other receivables	4	0.0	2,542,091	2,542,091	-	-
Loans to related parties	7	0.1	18,787,121	18,787,121	-	-
Trade and other payables		0.0	(104,226)	(104,226)	-	-
Loans and borrowings	13	0.0	(13,158,234)	(13,158,234)	-	-
			<u>13,579,795</u>	<u>13,579,795</u>	-	-
<b>2007</b>						
Cash and cash equivalents	17	3.0	5,311,708	5,311,708	-	-
Trade and other receivables	4	0.0	2,611,599	2,611,599	-	-
Loans to related parties	7	0.1	18,787,121	18,787,121	-	-
Trade and other payables		0.0	(40,974)	(40,974)	-	-
Loans and borrowings	13	0.0	(13,158,234)	(13,158,234)	-	-
			<u>13,511,220</u>	<u>13,511,220</u>	-	-

###### Foreign currency risk

The Corporation is exposed to foreign currency risk on borrowings that are denominated in a currency other than the \$. The currencies giving rise to this risk are primarily Japanese Yen.

###### Sensitivity analysis

In managing interest rate and currency risks the Corporation aims to reduce the impact of short-term fluctuations on its earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on State Owned Enterprise's earnings.

It is estimated that a general increase of ten percentage points in the value of the \$ against other foreign currencies would have increased the Corporation's profit before tax by approximately \$959,780 for the year ended 31 December 2008 (2007: \$959,780).

It is estimated that a general decrease of one percentage point in the value of the \$ against other foreign currencies would have decreased the Corporation's profit before tax by approximately \$1,173,086 for the year ended 31 December 2008 (2007: \$1,173,086).

###### Fair values

The carrying amounts of assets and liabilities shown in the balance sheet approximates their fair values.

Investment Corporation of Solomon Islands

Financial Statements for the year ended 31 December 2008

Notes to the Financial Statements (continued)

17 CASH AND CASH EQUIVALENTS

	2008	2007
	\$	\$
Petty cash	3,773	3,773
NBSI bank account	239,727	1,046,582
CBSI call account	4,427,323	4,261,353
Treasury Bills	842,220	-
	<u>5,513,043</u>	<u>5,311,708</u>