

**Solomon Airlines Limited**

**Financial Statements**

**For the year ended**

**31 December 2012**

# **Solomon Airlines Limited**

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# **Solomon Airlines Limited**

## **Directors' report**

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of Solomon Airlines Limited ("the Company") as at 31 December 2012 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

### **Directors**

The names of directors in office at the date of this report and at any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Chairman	-	Mr Reginald William Tyson
Deputy Chairman	-	Mr Denton Rarawa
Director	-	Mr Sebastian Ilala
Director	-	Mr Bob Pollard
Director	-	Mrs Rose Isukana
Director		Mr Primo Afeau

### **State of affairs**

In the opinion of the directors, the accompanying statement of financial position gives a true and fair view of the state of affairs of the Company as at 31 December 2012 and the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Company for the year then ended.

### **Trading results**

The net loss for the year after income tax benefit of \$3,146,329 (2011: income tax expense of \$Nil) amounted to \$35,203 (2011: Net profit \$12,041,114).

### **Going concern**

The Company had a deficiency of working capital, excluding revenue received in advance, of \$21,923,159 as at 31 December 2012. The Company's continuation as a going concern, therefore is dependent upon its ability to obtain appropriate external financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as going concern.

The directors consider the application of the going concern principle to be appropriate in the preparation of these financial statements as the Company is the single provider of domestic aviation services in Solomon Islands, is the international carrier and is a state owned enterprise.

### **Dividends**

It was recommended that no dividends be declared or proposed for the year.

### **Reserves**

The Directors recommend that no amounts be transferred to or from reserves in respect of 31 December 2012.

# Solomon Airlines Limited

## Directors' report (continued)

### Principal activity

The principal activity of the Company during the course of the financial year was to provide domestic and international and air transport services. There were no significant changes in the nature of this activity during the year.

### Current assets

The directors took reasonable steps before the Company's financial statements were made out to ascertain that the current assets of the Company were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the current assets in the financial statements to be misleading.

### Receivables

The directors took reasonable steps before the Company's financial statements were made out to ascertain that all known bad debts were written off and adequate allowance was made for impairment losses.

At the date of this report, the directors are not aware of any circumstances which would render the above assessment inadequate to any substantial extent.

### Related party transactions

All related party transactions have been adequately recorded in the financial statements.

### Other circumstances

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which would render any amounts stated in the accounts to be misleading.

### Unusual circumstances

The results of the Company's operations during the financial year have not, in the opinion of the directors, been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

### Events subsequent to balance date

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

Dated at this EIGHTEENTH day of SEPTEMBER 2013.

Signed in accordance with a resolution of the directors.



Director  
Denton Ruvawa



Director  
Bob Pollard

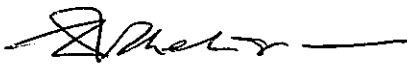
**Solomon Airlines Limited**  
**Statement by Directors**


In the opinion of the Directors of the Company:

- (a) the accompanying statement of comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2012;
- (b) the accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 31 December 2012;
- (c) the accompanying statement of financial position of the Company is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012;
- (d) the accompanying statement of cash flows of the Company is drawn up so as to give a true and fair view of the cash flows of the Company for the year ended 31 December 2012;
- (e) at the date of this statement there are reasonable grounds to believe the Company will be able to pay its debts as and when they fall due; and
- (f) all related party transactions have been adequately recorded in the books of the Company.

Dated at HONIARA this 18<sup>th</sup> day of SEPTEMBER 2013.

Signed in accordance with a resolution of the directors.

  
\_\_\_\_\_  
Director  
Denton Rarawa

  
\_\_\_\_\_  
Director  
Bob Pullard

**Solomon Airlines Limited**  
**Statement of comprehensive income**  
**For the year ended 31 December 2012**

	Note	2012 \$	2011 \$ <i>Restated</i>
Revenue	5	284,015,526	248,163,324
Other income	6	4,252,057	2,432,671
		<u>288,267,583</u>	<u>250,595,995</u>
Staff and related costs	7	(49,838,465)	(50,840,015)
Operations	8	(105,218,814)	(89,071,594)
Selling and marketing expenses	9	(8,369,511)	(9,016,936)
Fuel		(70,993,211)	(58,989,232)
Depreciation		(13,664,393)	(7,264,636)
Other expenses	10	(40,374,178)	(23,794,206)
<b>(Loss) / profit from operations</b>		<u>(190,989)</u>	<u>11,619,376</u>
Finance income	11	352,767	1,469,724
Finance expenses	11	(3,343,309)	(1,047,986)
<b>Operating (loss) / profit before income tax</b>		<u>(3,181,531)</u>	<u>12,041,114</u>
Income tax benefit	12 (a)	3,146,328	-
<b>Net (loss) / profit after income tax</b>		<u>(35,203)</u>	<u>12,041,114</u>
<b>Other comprehensive income for the year, net of tax</b>			
Revaluation of property, plant and equipment - net of tax		8,298,324	835,108
<b>Total comprehensive income for the year</b>		<u><u>8,263,121</u></u>	<u><u>12,876,222</u></u>

The notes on pages 10 to 34 are an integral part of these financial statements.

**Solomon Airlines Limited**  
**Statement of changes in equity**  
**For the year ended 31 December 2012**

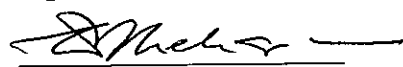
	Note	Share capital \$	Revaluation Reserve \$	Accumulated losses \$	Total \$
Balance at 1 January 2011		50,000,000	59,256,164	(76,475,004)	32,781,160
Effect of restatement on opening retained earnings	30	-	(12,718,092)	12,718,092	-
Transfer to deferred tax liability	30	-	(13,961,422)	(1,841,179)	(15,802,601)
Balance as at 1 January 2011 restated		50,000,000	32,576,650	(65,598,091)	16,978,559
<b>Total comprehensive income for the year</b>					
Profit for the year restated		-	-	12,041,114	12,041,114
Total other comprehensive income for the year restated		-	835,108	-	835,108
<b>Total comprehensive income for the year</b>		-	835,108	12,041,114	12,876,222
<b>Contribution by owners of the Company</b>					
Issue of shares		20,909,801	-	-	20,909,801
Balance at 31 December 2011		70,909,801	33,411,758	(53,556,977)	50,764,582
Balance at 1 January 2012		70,909,801	33,411,758	(53,556,977)	50,764,582
<b>Total comprehensive income for the year</b>					
Loss for the year		-	-	(35,203)	(35,203)
Total other comprehensive income for the year		-	8,298,324	-	8,298,324
<b>Total comprehensive income for the year</b>		-	8,298,324	(35,203)	8,263,121
Balance at 31 December 2012		70,909,801	41,710,082	(53,592,180)	59,027,703

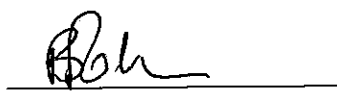
The notes on pages 10 to 34 are an integral part of these financial statements.

**Solomon Airlines Limited**  
**Statement of financial position**  
**As at 31 December 2012**

	Note	2012 \$	2011 \$ <i>Restated</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	13	3,566,609	8,214,604
Investments	14	227,968	2,220,720
Deposits	15	2,168,870	2,188,184
Trade receivables	16	6,564,330	7,985,727
Other receivables and prepayments	17	8,937,054	13,717,477
Inventories	18	8,833,728	7,021,926
<b>Total current assets</b>		<u>30,298,559</u>	<u>41,348,638</u>
<b>Non-current assets</b>			
Aircraft, Property, Plant and Equipment	19	150,658,329	81,285,981
Investment property	20	7,600,000	7,600,000
Deposits	15	1,779,096	337,819
<b>Total non-current assets</b>		<u>160,037,425</u>	<u>89,223,800</u>
<b>Total assets</b>		<u>190,335,984</u>	<u>130,572,438</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bankoverdraft	21	2,916,457	-
Borrowings	22	7,242,364	-
Revenue received in advance		19,813,963	27,616,149
Trade, other payables and accrued expenditure	23	39,682,209	28,433,672
Employee benefits	24	2,380,689	1,373,917
<b>Total current liabilities</b>		<u>72,035,682</u>	<u>57,423,738</u>
<b>Non-current liabilities</b>			
Borrowings	22	40,179,417	-
Trade, other payables and accrued expenditure	23	2,522,582	6,223,614
Deferred tax liability	12 (c)	16,570,600	16,160,504
<b>Total non-current liabilities</b>		<u>59,272,599</u>	<u>22,384,118</u>
<b>Total liabilities</b>		<u>131,308,281</u>	<u>79,807,856</u>
<b>Shareholders equity</b>			
Share capital	25 (b)	70,909,801	70,909,801
Revaluation reserve	25 (c)	41,710,082	33,411,758
Accumulated losses		(53,592,180)	(53,556,977)
<b>Total shareholders equity</b>		<u>59,027,703</u>	<u>50,764,582</u>
<b>Total shareholders equity and liabilities</b>		<u>190,335,984</u>	<u>130,572,438</u>

Signed in accordance with a resolution of the Board.

  
 Director  
 Denton Rarawa

  
 Director  
 Bob Pollara



**Solomon Airlines Limited**  
**Statement of cash flows**  
**For the year ended 31 December 2012**

	Note	2012 \$	2,011 \$
<b>Operating activities</b>			
Receipts from customers		283,259,280	265,496,529
Payments to suppliers and employees		<u>(266,784,460)</u>	<u>(244,764,753)</u>
Cash generated from operations		16,474,820	20,731,776
Interest received		33,688	-
Interest and bank charges paid		(3,342,309)	-
Income tax paid		-	(146,535)
<b>Cash flows from operating activities</b>		<u>13,166,199</u>	<u>20,585,241</u>
<b>Investing activities</b>			
Payments for property, plant and equipment		(55,588,251)	(31,589,785)
Proceeds from sale of property, plant and equipment		-	164,169
Withdrawal of term deposit		1,992,752	-
<b>Cash flows used in investing activities</b>		<u>(53,595,499)</u>	<u>(31,425,616)</u>
<b>Financing activities</b>			
Proceeds from borrowings		37,500,000	-
Repayments of borrowings		<u>(4,635,152)</u>	<u>-</u>
<b>Cash flows used in financing activities</b>		<u>32,864,848</u>	<u>-</u>
Net increase / (decrease) in cash and cash equivalents		(7,564,452)	(10,840,375)
Cash and cash equivalents at 1 January		8,214,604	19,054,979
<b>Cash and cash equivalents at 31 December</b>	13	<u>650,152</u>	<u>8,214,604</u>
Non cash investing activities	27		

The notes on pages 10 to 34 are an integral part of these financial statements.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**1. Reporting entity**

Solomon Airlines Limited trading as Solomon Airlines, (the "Company") is domiciled in the Solomon Islands. The address of the Company's registered office is Henderson, Honiara, Solomon Islands.

The principal activity of the Company during the course of the financial year was to provide international and domestic air transport services. There were no significant changes in the nature of this activity during the year.

**2. Basis of preparation**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were approved by the Board of the Directors on 18<sup>th</sup> SEPTEMBER 2013

**(b) Basis of measurement**

The financial statements have been prepared using the historical cost basis except for the following items in the statement of financial position:

- investment property is measured at fair value
- owned aircrafts are measured at fair value

**(c) Going concern basis of accounting**

The Company had a deficiency of working capital of \$21,923,159 as at 31 December 2012. The Company's continuation as a going concern, therefore is dependent upon its ability to obtain appropriate external financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as going concern.

The directors consider the application of the going concern principle to be appropriate in the preparation of these financial statements as the Company is the single provider of domestic aviation services in Solomon Islands, is the international carrier and is a state owned enterprise.

**(d) Functional and presentation currency**

The financial statements are presented in Solomon Island dollars, which is the Company's functional currency. Balances disclosed are rounded to the nearest dollar.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**2. Basis of preparation (continued)**

**(e) Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 16	-	Trade receivables
Note 19	-	Aircraft, property, plant and equipment

**3. Significant accounting policies**

The accounting policies set out below have been consistently applied by the Company except where otherwise indicated.

**(a) Foreign currency transactions**

Transactions in foreign currencies are translated to Solomon Island dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Solomon Island dollars at the exchange rate at that date. The foreign currency gains or losses on retranslation are recognised in profit or loss.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

**(b) Aircraft, property, plant and equipment**

**(i) Recognition and measurement**

Items of aircraft, property, plant and equipment are measured at either fair value or at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of aircraft, property, plant and equipment have different useful lives, they are accounted for as separate items (major aircraft components) of aircraft, property, plant and equipment.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**3. Significant accounting policies (continued)**

**(b) Aircraft, property, plant and equipment (continued)**

(i) Recognition and measurement (continued)

Any gain and loss on disposal of an item of aircraft, property plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of aircraft, property, plant and equipment. This is recognised within other income / operating expense in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of aircraft, property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefit embodied within the part will flow to the company and its cost can be measured reliably. The cost of the day-to-day servicing of aircraft, property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight line basis over the useful life of each class of asset. The depreciation rates used for aircraft, property, plant and equipment are:

Land and building	5%
Aircraft	5%
Aircraft spares	12.5%
Aircraft establishment costs	20%
Motor vehicles	20%
Plant and equipment	10%

(iv) Revaluation

Aircraft shown at fair value, are based on annual valuations by an external independent valuer, less subsequent depreciation of assets. The fair values are recognised in the financial statements of the Company.

Any revaluation increase arising on the revaluation of assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of assets is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**3. Significant accounting policies (continued)**

**(b) Aircraft, property, plant and equipment (continued)**

**(iv) Revaluation (continued)**

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to retained earnings.

**(c) Aircraft/Engine Overhaul**

For owned aircraft, costs incurred in respect of heavy maintenance and overhaul of aircraft engines and airframes are capitalised and depreciated over the period to the next scheduled maintenance. Other non-heavy maintenance and overhaul costs are charged to the profit or loss on consumption or as incurred.

**(d) Investment property**

Investment property is property held to earn rental income. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property is recognised in profit or loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**(e) Financial instruments**

**(i) Non-derivative financial assets**

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date which is the date the company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies the non-derivative financial assets into the following categories: loans and receivables and held to maturity financial assets.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**3. Significant accounting policies (continued)**

**(e) Financial instruments (continued)**

**(i) Non-derivative financial assets (continued)**

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loan and receivables comprise cash and cash equivalents, trade and other receivables and deposits.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and bank overdraft for the purposes of the statement of cashflows.

Held to maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held to maturity. Held to maturity financial assets comprises of term deposits.

**(ii) Non-derivative financial liabilities**

All financial liabilities are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective

Other financial liabilities comprise borrowings, trade creditors and accrued expenses.

**(iii) Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**(f) Leases**

Leases in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**3. Significant accounting policies (continued)**

**(f) Leases (continued)**

Other leases are operating leases and are not recognised in the company's statement of financial position and are recognised in profit or loss.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventory is based on the weighted average principle.

**(h) Impairment**

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indications that a debtor will enter bankruptcy.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**3. Significant accounting policies (continued)**

**(h) Impairment (continued)**

An impairment loss is reversed only to the extent that the assets 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.

**(i) Employee benefits**

**(i) Defined contribution plan**

Contributions are paid to the Solomon Islands National Provident Fund on behalf of employees to secure retirement benefits. Costs are recognised within the statement of comprehensive income.

**(ii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in profit or loss as the related service is provided.

A liability is recognised for the amount to be paid under short-term benefits if the Company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

**(j) Trade payables, other payables and accrued expenditure**

Trade and other payables are stated at cost. A provision is recognised in the statement of financial position when the Company 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(k) Revenue**

Passenger and freight sales are recorded as "revenue received in advance" and transferred to revenue earned when the service is provided. Passenger and freight sales are included in profit or loss net of sales discounts. Agency commission is included as a selling and marketing expense.

Unused tickets are recognised as revenue after 12 months from the ticket issue date.

**(l) Lease repayments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.



**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**3. Significant accounting policies (continued)**

**(m) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(n) Finance income and expenses**

Finance income and expenses comprise interest income, interest on borrowings and foreign exchange gains and losses. Interest income is recognised as it accrues in profit or loss, using effective interest method. Borrowing costs are recognised in the profit and loss using the effective interest method. Foreign currency gains and losses on financial assets and liabilities are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
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**3. Significant accounting policies (continued)**

**(o) Comparative information**

Certain comparative amounts in the statement of comprehensive income have been reclassified to conform with the current year's presentation. Refer Note 30 of the financial statements.

**(p) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2012 and have not been applied in preparing these financial statements. The Company has not applied the following standards that are applicable, have been issued, but are not yet effective.

- IFRS 9 - Financial instruments classification and measurement (effective 1 January 2015)

- IFRS 13 - Fair value measurements (effective 1 January 2015)

The impact of the above standards as not yet been calculated.

**4. Financial risk management**

**Overview**

The Company has exposure to the following risks arising from financial instruments:

- (i) Credit risk;
- (ii) Liquidity risk; and
- (iii) Market risk.

This note presents information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes for measuring and managing risk.

**Risk management framework**

The Board of Directors have overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

**(i) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
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**4. Financial risk management (continued)**

**(i) Credit risk (continued)**

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows.

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Cash at bank	3,512,095	8,122,324
Trade receivables	15,123,007	13,136,467
Deposits	3,947,966	2,526,003
Other receivables (excluding prepayments)	7,846,314	12,321,834
Investments	227,968	2,220,720
	<u>30,657,350</u>	<u>38,327,348</u>

Impairment losses

The ageing of trade receivables at reporting date that were not impaired was as follows:

Not past due	1,058,720	44,189
Past due 31 - 60 days	1,700,762	1,007,536
Past due 61 - 90 days	2,144,122	373,918
Past due 91 - 120 days	936,644	505,270
Past due more than 120 days	724,082	6,054,814
	<u>6,564,330</u>	<u>7,985,727</u>

The movement in the provision for doubtful debts in respect of trade receivables during the year is disclosed in Note 16.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**4. Financial risk management (continued)**

**(ii) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company has bank overdraft facilities available.

The following are the contractual maturities of financial liabilities:

**31 December 2012**

	Carrying amount \$	6 months or less \$	6 - 12 months \$	1-2 years \$	More than 2 years \$
<u>Financial liabilities</u>					
Bank overdraft	2,916,457	2,916,457	-	-	-
Borrowings	47,421,781	5,220,314	5,220,314	10,440,628	26,540,525
Trade, other payables and accrued expenditure	42,204,791	37,882,209	1,800,000	2,522,582	
	92,543,029	46,018,980	7,020,314	12,963,210	26,540,525

**31 December 2011**

Financial liabilities

Trade, other payables and accrued expenditure	34,657,286	24,833,672	1,800,000	2,522,582	5,501,032
	34,657,286	24,833,672	1,800,000	2,522,582	5,501,032

**(iii) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**(a) Currency risk**

The Company is exposed to foreign currency risks on revenue, expenses and borrowings that are denominated in a currency other than the Solomon Island Dollar. The Company has AUD, NZD, USD, PJK and FJD bank accounts which it uses to manage foreign currency exposures.

As at year end, assets, liabilities denominated in foreign currencies include cash at bank, trade receivables, deposits, borrowings and trade and other payables. Significant foreign exchange exposures are as follows:

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**4. Financial risk management (continued)**

**(a) Currency risk (continued)**

**31 December 2012**

	<b>USD</b>	<b>AUD</b>	<b>FJD</b>	<b>NZD</b>	<b>PJK</b>
	<b>SBD \$</b>	<b>SBD \$</b>	<b>SBD \$</b>	<b>SBD \$</b>	<b>SBD \$</b>
<u>Financial assets</u>					
Deposits	4,002,966	-	-	-	-
Cash at bank	449,243	1,306,144	462,852	535,553	545,360
Trade receivables	461,366	1,835,202	-	-	-
Other receivables	-	2,543,919	131,999	139,634	7,197
	<u>4,913,575</u>	<u>5,685,265</u>	<u>594,851</u>	<u>675,187</u>	<u>552,557</u>

Financial liabilities

Borrowings	11,919,824	-	-	-	-
Trade and other payables	8,703,372	7,481,784	-	-	-
	<u>20,623,196</u>	<u>7,481,784</u>	<u>-</u>	<u>-</u>	<u>-</u>

**31 December 2011**

<u>Financial assets</u>					
Deposits	2,526,003	-	-	-	-
Cash at bank	420,384	2,573,823	1,193,063	2,408,023	138,349
Trade receivables	400,762	1,594,132	-	-	-
Other receivables	-	1,977,110	3,272	17,532	-
	<u>3,347,149</u>	<u>6,145,065</u>	<u>1,196,335</u>	<u>2,425,555</u>	<u>138,349</u>

Financial liabilities

Trade and other payables	5,863,524	5,040,532	-	-	-
	<u>5,863,524</u>	<u>5,040,532</u>	<u>-</u>	<u>-</u>	<u>-</u>

A strengthening of the Dollar as indicated below against USD, AUD, FJD, NZD and PJK at 31 December would have increased (decreased) profit after tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. This assumes that all other variables are constant.

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<u>Financial assets</u>		
Impact on profit after tax if 10% increase in USD fx rate against SBD	491,358	334,715
Impact on profit after tax if 10% decrease in USD fx rate against SBD	(491,358)	(334,715)
Impact on profit after tax if 10% increase in AUD fx rate against SBD	568,527	614,507
Impact on profit after tax if 10% decrease in AUD fx rate against SBD	(568,527)	(614,507)

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**4. Financial risk management (continued)**

<b>(a) Currency risk (continued)</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<u>Financial assets (continued)</u>		
Impact on profit after tax if 10% increase in FJD fx rate against SBD	59,485	119,634
Impact on profit after tax if 10% decrease in FJD fx rate against SBD	(59,485)	(119,634)
Impact on profit after tax if 10% increase in NZD fx rate against SBD	67,519	242,556
Impact on profit after tax if 10% decrease in NZD fx rate against SBD	(67,519)	(242,556)
Impact on profit after tax if 10% increase in PJK fx rate against SBD	55,256	13,835
Impact on profit after tax if 10% decrease in PJK fx rate against SBD	<u>(55,256)</u>	<u>(13,835)</u>

<u>Financial liabilities</u>		
Impact on profit after tax if 10% increase in USD fx rate against SBD	(2,062,320)	(586,352)
Impact on profit after tax if 10% decrease in USD fx rate against SBD	2,062,320	586,352
Impact on profit after tax if 10% increase in AUD fx rate against SBD	748,178	(504,053)
Impact on profit after tax if 10% decrease in AUD fx rate against SBD	<u>(748,178)</u>	<u>504,053</u>

**(b) Interest rate risk**

Interest rate refers to the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was as follows:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<u>Fixed rate instruments</u>		
Term deposits	<u>227,968</u>	<u>2,220,720</u>
<u>Variable rate instruments</u>		
Borrowings	47,421,781	-
Bank overdraft	2,916,457	-
	<u>50,338,238</u>	<u>-</u>
<u>Sensitivity analysis</u>		
A 1% change in interest rate would have the following impact	<u>503,382</u>	<u>-</u>

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**4. Financial risk management (continued)**

**(c) Fuel price risk**

The Company purchases its fuel at market price. The Company is exposed to fuel price risk through world fuel price fluctuations. An increase / decrease of 10% on the global fuel prices as at 31 December with all other variables constant would have the following impact on profit and loss and statement of changes in equity.

	<b>Profit or loss &amp; equity impact</b>	
	<b>(Increase) / decrease</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
10% increase in fuel price	(7,099,321)	(5,898,923)
10% decrease in fuel price	<u>7,099,321</u>	<u>5,898,923</u>

Fuel price risk is mitigated as the Company monitors fuel prices monthly to see if fuel surcharges need adjusting.

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>5. Revenue</b>		
Passenger revenue	189,758,428	153,944,765
Cargo and mail revenue	15,145,614	10,609,929
Charter revenue	18,442,865	24,936,237
Excess baggage	4,050,555	3,745,241
Fuel surcharge	37,777,704	35,553,221
Traffic income	5,195,388	4,785,072
Revenue from unused tickets and cargo manifests	13,644,972	14,588,859
	<u>284,015,526</u>	<u>248,163,324</u>
<b>6. Other income</b>		
Net commission income	-	1,145,438
Gain on sale of property, plant and equipment	-	141,171
Ticket cancellation fees	689,202	-
Rental income	375,000	-
Other	3,187,855	1,146,062
	<u>4,252,057</u>	<u>2,432,671</u>
<b>7. Staff and related costs</b>		
Wages and salaries expense	26,472,178	23,532,143
Key management compensation - short term benefits	4,930,706	4,304,429
National Provident Fund contributions	2,503,014	2,446,879
Housing and other allowances	12,845,932	15,166,052
Other staff related costs	3,086,635	5,390,512
	<u>49,838,465</u>	<u>50,840,015</u>

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

	2012	2011
	\$	\$
<b>8. Operations</b>		
Aircraft lease	45,427,499	60,560,677
Airport navigation charges	4,765,329	1,962,570
Catering	7,581,728	6,877,259
Engineering and Maintenance	35,031,578	7,635,904
Ground handling	6,574,222	5,701,431
Insurance - aircraft	4,881,358	1,808,686
Passenger disruption costs	503,268	1,565,069
Other operational costs	453,832	2,959,998
	<u>105,218,814</u>	<u>89,071,594</u>
<b>9. Selling and marketing expenses</b>		
Advertising	1,425,767	1,290,263
Agents commission	6,943,744	7,726,673
	<u>8,369,511</u>	<u>9,016,936</u>
<b>10. Other expenses</b>		
Accounting fees	1,326,534	755,019
Audit fee	336,833	236,948
Bad and doubtful debts	3,407,937	-
Commission	1,107,404	-
Computer and communications	10,585,783	7,453,104
Consultancy	3,548,313	5,784,674
Directors fees	159,000	28,175
Freight & courier	2,698,676	-
Insurance - others	4,510,207	2,347,769
Motor vehicle expenses	2,567,646	2,056,601
Others	1,465,837	1,632,139
Premises expenses	6,765,836	1,884,230
Printing and stationery	1,894,172	1,615,547
	<u>40,374,178</u>	<u>23,794,206</u>
<b>11. Finance income and expenses</b>		
<b>Finance income</b>		
Interest income	33,688	333,116
Realised exchange gain	319,079	1,136,608
	<u>352,767</u>	<u>1,469,724</u>
<b>Finance expenses</b>		
Bank charges	(1,757,741)	(1,036,926)
Interest expense - loans	(1,585,068)	(11,060)
Interest expense - overdraft	(500)	-
	<u>(3,343,309)</u>	<u>(1,047,986)</u>



**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

	2012	2011
	\$	\$
		<i>Restated</i>
<b>12. Income tax</b>		
<b>(a) Income tax expense recognised in profit or loss</b>		
Current tax expense	-	-
Deferred tax (credit) / expense	(3,146,328)	-
	<u>(3,146,328)</u>	<u>-</u>
<b>(b) Reconciliation of effective tax rate</b>		
Operating (loss) / profit before income tax	(3,181,531)	12,041,114
Prima facie income tax (credit) calculated at 30% (2011: 30%)	(954,459)	3,612,334
Tax losses utilised	-	(3,612,334)
Deferred tax assets in respect of prior and current year temporary differences now brought to account	(2,191,870)	-
	<u>(3,146,329)</u>	<u>-</u>
<b>(c) Recognised deferred tax asset / (liability)</b>		
Provision for doubtful debts	2,567,603	-
Employee benefits	714,207	-
Tax losses	2,144,523	-
Asset revaluation reserve	(17,875,749)	(14,319,325)
Property, plant and equipment	(4,121,184)	(1,841,179)
	<u>(16,570,600)</u>	<u>(16,160,504)</u>

**Movement in temporary differences during the year**

	1 January 2011	Recognised in income statement	31 December 2011
	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
Property, plant and equipment	(1,841,179)	-	(1,841,179)
Asset revaluation reserve recognised directly in equity	(13,961,422)	(357,903)	(14,319,325)
	<u>(15,802,601)</u>	<u>(357,903)</u>	<u>(16,160,504)</u>
	1 January 2012	Recognised in income statement	31 December 2012
Provision for doubtful debts	-	2,567,603	2,567,603
Employee benefits	-	714,207	714,207
Tax losses	-	2,144,523	2,144,523
Property, plant and equipment	(1,841,179)	(2,280,005)	(4,121,184)
	(1,841,179)	3,146,328	1,305,149
Asset revaluation reserve recognised directly in equity	(14,319,325)	(3,556,424)	(17,875,749)
	<u>(16,160,504)</u>	<u>(410,096)</u>	<u>(16,570,600)</u>

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**12. Income tax (continued)**

During the year \$43,288,199 of tax losses expired without being utilised by the Company.

	2012	2011
	\$	\$
<b>13. Cash and cash equivalents</b>		
Cash on hand	54,514	92,280
Cash at bank	3,512,095	8,122,324
	<u>3,566,609</u>	<u>8,214,604</u>
Bank overdraft	(2,916,457)	-
	<u>650,152</u>	<u>8,214,604</u>
<b>14. Investments</b>		
Term deposits	<u>227,968</u>	<u>2,220,720</u>

The average rate on term deposits in 2012 was 1.25% (2011:1.25%). The deposits have an average maturity of 365 days (2011: 365 days).

**15. Deposits**

**Current**

Deposits with IATA and others	<u>2,168,870</u>	<u>2,188,184</u>
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**Non current**

Deposits for leased A320 aircraft	<u>1,779,096</u>	<u>337,819</u>
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**16. Trade receivables**

Trade receivables	15,123,007	13,136,467
Provision for doubtful debts	(8,558,677)	(5,150,740)
	<u>6,564,330</u>	<u>7,985,727</u>

Reconciliation of provision for doubtful debts

Balance at 1 January	5,150,740	19,250,000
Provision made during the year	3,407,937	-
Provisions utilised during the year	-	(14,099,260)
Balance at 31 December	<u>8,558,677</u>	<u>5,150,740</u>

**17. Other receivables and prepayments**

Other receivables	6,724,353	10,977,021
GST receivable	1,121,961	1,344,813
Prepayments	1,090,740	1,395,643
	<u>8,937,054</u>	<u>13,717,477</u>

**18. Inventories**

Aircraft spares	8,424,298	6,199,766
Fuel	409,430	822,160
	<u>8,833,728</u>	<u>7,021,926</u>

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

**19. Aircraft, property, plant and equipment**

	Land & Buildings	Aircraft	Aircraft spares	Aircraft establishment cost	Motor vehicles	Plant and equipment	Work in Progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost / Revaluation</b>								
Balance at 1 January 2011	28,013,939	33,867,511	-	-	2,286,693	4,136,743	988,778	69,293,664
Additions	5,221,044	-	-	21,047,098	313,413	1,022,268	3,985,962	31,589,785
Disposals	-	-	-	-	-	(1,051,453)	-	(1,051,453)
Reclassification to investment property	(8,000,000)	-	-	-	-	-	-	(8,000,000)
Revaluation decrement	-	(3,406,887)	-	-	-	-	-	(3,406,887)
<b>Balance at 31 December 2011</b>	<b>25,234,983</b>	<b>30,460,624</b>	<b>-</b>	<b>21,047,098</b>	<b>2,600,106</b>	<b>4,107,558</b>	<b>4,974,740</b>	<b>88,425,109</b>
Additions	6,141,369	35,915,506	18,168,439	9,016,054	349,359	1,591,265	-	71,181,992
Work in progress capitalised	4,844,974	-	-	-	-	-	(4,844,974)	-
Offset of accumulated depreciation on revaluation	-	(3,807,578)	-	-	-	-	-	(3,807,578)
Revaluation increment	-	11,854,749	-	-	-	-	-	11,854,749
<b>Balance at 31 December 2012</b>	<b>36,221,326</b>	<b>74,423,301</b>	<b>18,168,439</b>	<b>30,063,152</b>	<b>2,949,465</b>	<b>5,698,823</b>	<b>129,766</b>	<b>167,654,272</b>
<b>Breakdown of cost / revaluation</b>								
2009 Valuation	15,634,332	-	-	-	-	-	-	15,634,332
2012 Valuation	-	38,507,795	-	-	-	-	-	38,507,795
Cost	20,586,994	35,915,506	18,168,439	30,063,152	2,949,465	5,698,823	129,766	113,512,145
<b>Balance at 31 December 2012</b>	<b>36,221,326</b>	<b>74,423,301</b>	<b>18,168,439</b>	<b>30,063,152</b>	<b>2,949,465</b>	<b>5,698,823</b>	<b>129,766</b>	<b>167,654,272</b>

The aircraft were revalued on 31 December 2012. The valuation was carried out by an independent valuer Michael Knight and Associates. The valuation was based on recent market activity and known transaction data in relation to the aircraft type.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
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**19. Aircraft, property, plant and equipment (continued)**

	Land & Buildings	Aircraft	Aircraft spares	Aircraft establishment cost	Motor vehicles	Plant and equipment	Work In Progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Depreciation</b>								
Balance at 1 January 2011	1,619,756	792,320	-	-	1,239,757	2,251,010	-	5,902,843
Depreciation charge for the year	1,040,141	3,807,578	-	1,146,147	416,568	454,203	-	6,864,637
Disposals	-	-	-	-	-	(1,028,454)	-	(1,028,454)
Offset of accumulated depreciation as a result of revaluation	-	(4,599,898)	-	-	-	-	-	(4,599,898)
<b>Balance at 31 December 2011</b>	<b>2,659,897</b>	<b>-</b>	<b>-</b>	<b>1,146,147</b>	<b>1,656,325</b>	<b>1,676,759</b>	<b>-</b>	<b>7,139,128</b>
Depreciation charge for the year	1,349,331	4,537,571	1,892,433	4,891,254	342,318	651,486	-	13,664,393
Offset of accumulated depreciation as a result of revaluation	-	(3,807,578)	-	-	-	-	-	(3,807,578)
<b>Balance at 31 December 2012</b>	<b>4,009,228</b>	<b>729,993</b>	<b>1,892,433</b>	<b>6,037,401</b>	<b>1,998,643</b>	<b>2,328,245</b>	<b>-</b>	<b>16,995,943</b>
<b>Carrying amount</b>								
At 1 January 2010	26,394,183	33,075,191	-	-	1,046,936	1,885,733	988,778	63,390,821
At 31 December 2011	22,575,086	30,460,624	-	19,900,951	943,781	2,430,799	4,974,740	81,285,981
At 31 December 2012	32,212,098	73,693,308	16,276,006	24,025,751	950,822	3,370,578	129,766	150,658,329

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

<b>20. Investment property</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Balance 1 January	7,600,000	-
Acquisitions	-	8,000,000
Depreciation charged	-	-400,000
Change in fair value	-	-
	<u>7,600,000</u>	<u>7,600,000</u>

Investment property comprises a commercial property that is leased to third parties for a period of five years. See note 26 for more information. The property was valued in March 2012 by Value Solutions Appraisal using the income approach method capitalising net operating income (allowing for a 2% vacancy factor) at a rate of 11%. The Directors have reviewed the carrying value at 31 December 2012 and propose no adjustments thereto.

**21. Bank overdraft**

The overdraft is with Bank of South Pacific (BSP) and Australia and New Zealand Banking Group Limited (ANZ). Interest is charged at the rate of 10% (2011:Nil) for the overdraft with BSP and 23% for the overdraft with ANZ (2011: nil).

<b>22. Borrowings</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Loan - Bank of South Pacific	35,501,957	-
Finance lease liabilities	11,919,824	-
	<u>47,421,781</u>	<u>-</u>

The borrowings have been classified in the statement of financial position as follows:

Current	7,242,364	-
Non current	40,179,417	-
	<u>47,421,781</u>	<u>-</u>

**Loan - Bank of South Pacific (BSP)**

The Company has secured a loan from BSP to fund the purchase of an aircraft. The loan is repayable by monthly installments of \$552,039. Interest is charged at the rate of 6.75%. Repayments of \$2,404,079 were made during the year. The loan is secured as follows:

- (i) First registered charge over properties situated in the following areas:
  - Rove
  - Property situated along Tandai highway, central Kola'a ridge, west Kola'a ridge.
  - Henderson Airport
  - Gizo
- (ii) First registered charge over residential properties situated at West Kola'a ridge, Tandai highway, Auki, Henderson Airport, Gizo and Western Province.

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**22. Borrowings (continued)**

**Loan - Bank of South Pacific (BSP) (continued)**

- (iii) Registered charge over commercial properties Honiara head office and Gizo office
- (iv) Registered equitable mortgage over the whole of Solomon Island Limited assets and undertakings including uncalled capital, fire policy assigned over stock, plant and machinery;  
 Guarantee (unlimited as amount) by Pacific Car Rentals Limited supported by the commercial property at Henderson;
- (v) at Henderson;
- (vi) Registered mortgage over two De Hallivand Twin Otter and one Dash 8 aircraft.

**Finance lease**

The finance lease liability is in respect of spare parts leased for the A320 aircraft from AAR Parts Trading. The lease liability is payable by monthly instalments of USD 42,900. Interest is charged at the rate of 8.82%. Repayments of \$3,816,160 (USD 514,800) were made during the year.

	2012	2011
	\$	\$
Finance lease liabilities are payable as follows:		
Less than one year	3,816,160	-
Between one and five years	10,176,887	-
	<u>13,993,047</u>	<u>-</u>
Less future interest charges	(2,073,223)	-
	<u>11,919,824</u>	<u>-</u>
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>23. Trade, other payables and accrued expenditure</b>		
Trade payables	21,847,736	2,851,210
Other payables	11,488,728	15,512,837
Accrued expenditure	8,868,327	16,293,239
	<u>42,204,791</u>	<u>34,657,286</u>
Disclosed in the financial statements as follows:		
Current	39,682,209	28,433,672
Non current	2,522,582	6,223,614
	<u>42,204,791</u>	<u>34,657,286</u>

The non current portion represents an agreement made with the Government of the Solomon Islands for payment of \$300,000 monthly in relation to outstanding Pay As You Go taxes (PAYG). The outstanding PAYG taxes as at 31 December 2012 was \$6,122,582 (2011:9,823,614).

**Solomon Airlines Limited**  
**Notes to the financial statements**  
**31 December 2012**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>24. Employee benefits</b>		
Balance at 1 January	1,373,917	1,111,290
Provisions made during the year	1,244,903	262,627
Provisions utilised during the year	(238,131)	-
Balance at 31 December	<u>2,380,689</u>	<u>1,373,917</u>

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>25. Capital and reserves</b>		
<b>(a) Authorised capital</b>		
70,909,801 ordinary shares @ \$1.00 each	<u>70,909,801</u>	<u>70,909,801</u>
<b>(b) Share capital</b>		
70,909,801 ordinary shares @ \$1.00 each	<u>70,909,801</u>	<u>70,909,801</u>

**(c) Revaluation reserve**  
The revaluation reserve relates to the revaluation of aircraft and buildings.

**26. Commitments**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Capital expenditure approved and committed</b>	<u>-</u>	<u>-</u>

**(b) Operating lease**

The Company entered into a one year lease agreement for one Britten Islander with effect from 1 February 2012.

The following is a summary of future operating lease commitments for aircraft and properties payable by the Company translated at exchange rates prevailing at reporting date:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Less than one year	10,713,124	29,612,000
Between one and five years	21,349,148	45,549,000
More than five years	-	-
	<u>32,062,272</u>	<u>75,161,000</u>

**Solomon Airlines Limited**  
**Notes to the financial statements**  
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**26. Commitments**

**(b) Operating lease (continued)**

Leases as lessor

The Company leases out its investment property. The future minimum lease payments under the agreement are as follows:

	2012	2011
	\$	\$
Less than one year	450,000	450,000
Between one and five years	675,000	1,125,000
More than five years	-	-
	<u>1,125,000</u>	<u>1,575,000</u>

**27. Non cash investing activities**

Additions to property, plant and equipment (refer Note 19)	71,181,992	31,589,785
Additions paid for by cash (refer statement of cash flows)	<u>(55,588,251)</u>	<u>(31,589,785)</u>
Non cash additions to property, plant and equipment	<u>15,593,741</u>	<u>-</u>

During the year the entity entered into a finance lease with a supplier for the supply of aircraft spare parts.

**28. Related parties**

**(a) Directors**

The names of directors in office at any time during the financial year are:

Chairman	Mr Reginald William Tyson
Deputy Chairman	Mr Denton Rarawa
Director	Mr Sebastian Ilala
Director	Mr Bob Pollard
Director	Mrs Rose Isukana
Director	Mr Primo Afeau

**(b) Parent company**

The Company is owned by Investment Corporation of Solomon Islands (ICSI). ICSI is fully owned by the Government of Solomon Islands.

**(c) Identity of related parties**

As the Company is owned by the government all government and government related entities are its related parties. Other related parties include directors and employees of the Company.



**Solomon Airlines Limited**  
**Notes to the financial statements**  
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**28. Related parties (continued)**

**(d) Transactions with government and government related entities**

The transactions with the government and government related entities are individually insignificant hence do not warrant disclosure in the financial statements.

18% of the Company's sales and 10% of its purchases are with State Owned Enterprises and for Solomon Islands Government departments.

**(e) Transactions with key management personnel and directors**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly and indirectly.

Key management personnel in the current and prior year comprises of the Chief Executive Officer, General Manager Commercial and Operations and General Manager Finance and Corporate Services.

Transactions with key management personnel are on no more favorable terms than those available, or which might be reasonably be expected to be available, on similar transactions to third parties at arms

Key management compensation is disclosed in Note 7.

In addition to their salaries, the company also provides non-cash benefits to the directors and key management personnel.

Directors fees are disclosed in Note 10.

**29. Contingent liabilities**

Contingent liabilities as at year end amounted to \$Nil (2011: \$Nil).

**30 Correction of prior period error**

Aircraft are revalued each year by an independent valuer with the revaluation increment or decrement recognised in other comprehensive income and Asset Revaluation Reserve. Depreciation expense in previous years in respect of revalued aircraft and buildings has amounted to \$12,718,092 representing excess depreciation that has been booked since annual revaluations commenced. As a result, the Asset Revaluation Reserve in respect of the aircraft and buildings is in excess of the total value of those aircraft and buildings.

Deferred tax liability in respect of asset revaluation reserve and property, plant and equipment was not recorded.

**Solomon Airlines Limited**  
**Notes to the financial statements**  
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**30 Correction of prior period error (continued)**

The adjustments to the 2011 profit and loss and opening retained earnings at 1 January 2011 to correct this are set out below:

	Previously reported	Effect of restatement	Restated balance
	\$	\$	\$
<b>1 January 2011</b>			
Revaluation reserve	59,256,164	(26,679,514)	32,576,650
Accumulated losses	(76,475,004)	12,718,092	(63,756,912)
Deferred tax liability	-	(15,802,601)	(15,802,601)
	Previously reported	Effect of restatement	Restated balance
	\$	\$	\$
<b>31 December 2011</b>			
Revaluation reserve	60,449,175	(27,037,417)	33,411,758
Accumulated losses	(64,433,889)	10,876,912	(53,556,977)
Deferred tax liability	-	16,160,504	16,160,504
Other comprehensive income	1,193,011	(357,903)	835,108

**31. Capital management**

The Company's objective when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital or issue new shares.

**32. Subsequent events**

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



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLOMON AIRLINES LIMITED**

I have audited the accompanying financial statements of Solomon Airlines Limited, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 10 to 34.

**Directors' and Management's Responsibility for the Financial Statements**

Directors and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the directors and management determine 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. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

**Basis of qualification**

*Revenue and revenue received in advance*

I was unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of revenue and revenue received in advance. Accordingly I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

*Inventory*

I was unable to satisfy myself regarding the completeness, existence, accuracy and valuation of inventory at year end. Accordingly I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLOMON AIRLINES LIMITED (CONTINUED)**

### **Qualified opinion**

In my opinion, except for the effect if any, of the matters referred to in the qualification paragraphs above, the financial statements give a true and fair view of the financial position of Solomon Airlines Limited as at 31 December 2012 and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of Matter**

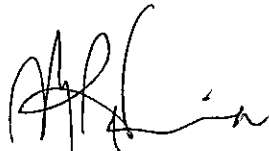
Without modifying my qualified opinion, I draw attention to the following matters:

1. Note 2 (c) in the financial statements regarding the existence of uncertainties in relation to the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to obtain appropriate external financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.
2. Note 30 to the financial statements, which sets out the details in relation to the restatement of the prior year figures for depreciation, asset revaluation reserve and accumulated losses in the statement of comprehensive income and statement of financial position

### **Report on Other Legal and Regulatory Requirements**

#### *Lack of compliance with Public Finance and Audit Act and State Owned Enterprises Act*

The Company has not complied with the requirements of the *Public Finance and Audit Act [CAP 120]* and the *State Owned Enterprises Act 2007* which requires the audited financial statements to be submitted to the responsible Minister before 31 March of the following year to which the financial statements relate. Whilst the majority of the audit fieldwork was completed prior the statutory deadline, the final corrected and signed financial statements were only submitted to me for my audit opinion on 24 September 2013.



**Edward Ronia  
Auditor-General**

**Office of the Auditor  
Solomon Islands**

**24 September 2013**