

SOLOMON ISLANDS POSTAL CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

Solomon Islands Postal Corporation

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Solomon Islands Postal Corporation State Owned Enterprise Information

The Solomon Islands Postal Corporation (trading as Solomon Post) is a State Owned Enterprise incorporated under the Solomon Islands Postal Corporation Act 1996, commencing operations on 1st January 1997 and domiciled in the Solomon Islands.

The functions of the Corporation are to:

- a) Provide postal services within Solomon Islands and other countries;
- b) Carry on any business or activity relating to postal services; and
- c) Carry on any business or activity which is incidental to those mentioned in paragraphs (a) and (b)

Registered Office

PO Box 1930
Honiara

Principal Place of Business

GPO Building
Mendana Avenue
Honiara

Directors

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

Solomon Islands Postal Corporation Directors' Report

The Directors present their report together with the financial statements of Solomon Islands Postal Corporation ('the Corporation') for the Year ended 31 December 2014 and the Independent Audit Report thereon.

Directors

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

Name	Date of Appointment	Position	Date of Revocation
2012			
Mr. Robert Bokelema	10/10/2012	Chairman	Current
Mr. Alex Nindi	11/03/2010	Member	Current
Mr. Gideon Zoleveke	29/09/2005	Member	Current
Ms Susan Votu	19/11/2009	Member	Current
Mr. Harrison Tahimana	2/02/2005	Member	30/09/2012
Christian Siale	10/10/2012	Member	Current
Patrick Taloboe	10/10/2012	Member	Current
2013			
Mr. Robert Bokelema	10/10/2012	Chairman	Current
Mr. Alex Nindi	11/03/2010	Member	15/09/2013
Mr. Gideon Zoleveke	27/09/2013	Member	Current
Ms Susan Votu	19/11/2009	Member	16/09/2013
Christian Siale	10/10/2012	Member	Current
Patrick Taloboe	10/10/2012	Member	Current
Benjamin O Aitoroi	27/09/2013	Member	Current
George S Kiriau	27/09/2013	Member	Current
2014			
Mr. Robert Bokelema	10/10/2012	Chairman	Current
Mr. Gideon Zoleveke	27/09/2013	Member	Current
Patrick Taloboe	10/10/2012	Member	Current
Benjamin O Aitoroi	27/09/2013	Member	Current
George S Kiriau	27/09/2013	Member	Current
Christian Siale	10/10/2012	Member	Current

Principal activities

The principal activity of the Corporation during the course of the financial year ended 31 December 2014 was the provision of Postal services.

Operating and financial review

The Corporation recorded a net loss for the year amounting to \$2,114,086 (2013: net loss of \$3,063,132)

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.

Solomon Islands Postal Corporation Directors' Report - cont'd

Significant Changes in the State of Affairs

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

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

- The Minister of Finance and the Responsible Minister (the "accountable Ministers") can direct SIPC to perform a community service obligation (Section 8, 1);
- The accountable Ministers can determine the amount of any dividend payable by SIPC (Section 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 (Section 13,2);
- The requirement to issue the audited consolidated financial statements of the group within 3 months after the end of the financial year (Section 14, 1b); and
- This act shall prevail where there is any inconsistency in requirements with the Solomon Islands Postal Corporation Act 1996 (Section 26, 7 and 8)


A State Owned Enterprises (SOE) Regulation was gazetted on April 2010 named the SOE Regulation 2010. The SOE Regulation was to administer the administration of the SOE Act 2007. The effecting of the Regulation can have significant impact on the following:


- Appointment of Directors (Part 2)
- Disqualification and Removal of Directors (Part 3)
- Directors Duties (Part 4)
- Community Service Obligations (Part 6)

Solomon Islands is currently on automatic suspension from the Universal Postal Union (UPU) since August 2012 for failing to settle outstanding mandatory membership contribution arrears. The total arrears to 31 December 2014 was CHF305,852.64 including interest charged. This automatic suspension affects greatly the operations of Solomon Posts as it is denied the privilege to benefit from a number of projects from the UPU since 2012 financial year as well as current projects under the DOHA Postal Strategy for the period 2013-2016. The settlement of the UPU annual mandatory contribution is the responsibility of the Solomon Islands Government (SIG) as the signatory to the Universal Postal Services Charter and as the regulator of postal services in Solomon Islands.

Apart from the automatic suspension from UPU, there has not arisen in the interval between the end of the financial year and the date of this report any other 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.


Name: Robert Bokelena
Director


Name: GIDEON ZOVEVEKE
Director

Dated at Honiara this 3rd day of August 2016.



INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Postal Corporation

Report on the Financial statements

I have audited the accompanying financial statements of the Solomon Islands Postal Corporation ("the Corporation"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information.

Directors' and Management Responsibility for the Financial Statements

Directors and Management are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as directors 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 the audit. The Audit has been conducted 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 the 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 the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion the financial statements give a true and fair view of the financial position of Solomon Islands Postal Corporation as at 31 December 2014 and 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 audit opinion, I draw your attention to Note 11 in the financial statement regarding the Solomon Islands Postal Corporation debt to Japan Post totaling SDB\$72,020,597 which could involve some element of fraud in the business arrangement with two Australian companies and the Corporation. As a result, increased the huge debt which was unfavourable to SIPC and therefore the debt was removed from current liability and have been disclosed as contingent liability.

Further more, the Corporation's current liabilities exceed its current assets by \$779,184 (4,864,664- 4,085,480). As a going concern, the Corporation is dependent upon the continuing support of the Solomon Islands Government .

Report on Other legal and Regulatory Requirements

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

The Corporation 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 2015. The Management signed financial statements were not presented to me until 3rd August 2016 which is one year and four months after the SOE Act requirement.



Peter Lokay
Auditor-General

Office of the Auditor-General
Solomon Islands


5 August 2016


Solomon Islands Postal Corporation Statement by Directors

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

- (a) the financial statements and notes set out on pages 6 to 22:
 - (i) give a true and fair view of the Corporation's financial position as at 31 December 2014 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.


Name: Robert Bokoelena
Director


Name: Gibson Zarevaki
Director

Dated at Honiara this 3rd day of August

2016.

Solomon Islands Postal Corporation
Statement of Comprehensive Income for the year ended 31 December 2014

	Notes	<u>2014</u> \$	<u>2013</u> \$
Revenue from Continuing Operations			
Stamp sales		297,148	262,722
Bulk Postage		597,359	1,331,764
Remailing fees		-	599,616
Terminal Dues		559,870	696,334
Post Box Rentals		807,603	879,379
Property Rentals		1,918,671	1,698,745
Post shop sales		916,618	914,834
Other Income		1,168,939	1,321,678
SIG Grant (CSO funding)		2,233,029	1,000,000
Foreign currency sales		1,372,429	1,445,240
Total revenue from continuing operations		<u>9,871,667</u>	<u>10,150,312</u>
Expenses from Continuing Operations			
Advertising, Printing and Stationery		312,364	41,616
Board expenses		102,904	72,136
Cost of goods purchased for resale		1,778,943	1,088,933
Depreciation		995,280	1,422,251
Operating expenses		905,023	812,892
Maintenance and repairs		348,542	300,106
Office expenses		176,928	302,315
Terminal dues expenses		20,280	5,457
Rent expense		1,115,378	1,104,485
Seminars, conferences and training		261,826	77,518
Travel and transport		54,346	348,435
Utilities		1,278,183	1,254,676
Employment Expense		4,278,856	4,080,835
Mail freights		209,158	266,085
Finance expenses		450	1,317,781
Tax expenses		147,294	717,923
Total expenses from continuing operation		<u>11,985,753</u>	<u>13,213,444</u>
Net profit / (loss) from continuing operation		<u>(2,114,086)</u>	<u>(3,063,132)</u>
Other comprehensive income			
Finance revenues		1,886,339	4,479
Revaluation increment of land & building		5,193,059	-
Total other comprehensive income		<u>7,079,398</u>	<u>4,479</u>
Total Comprehensive Income for the year		<u>4,965,312</u>	<u>(3,058,653)</u>

The Statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Solomon Islands Postal Corporation
Statement of Changes in Equity for the year ended 31 December 2014

	<u>Notes</u>	2014 \$	2013 \$
Balance at 1 January 2013		(56,209,163)	(50,022,707)
Net Profit for the year		<u>(3,058,653)</u>	<u>-</u>
Balance as at 31 Dec 2013 as previously reported		(59,267,816)	(50,022,707)
Correction of Prior year error	2	<u>72,240,398</u>	<u>(6,186,456)</u>
Balance at 31 December 2013, as restated		<u>12,972,582</u>	<u>(56,209,163)</u>
Asset Revaluation Reserves		6,756,167	-
Net profit / (loss) for the year		<u>4,965,312</u>	<u>(3,058,653)</u>
		11,721,479	(3,058,653)
Balance at 31 December 2014		<u>24,694,061</u>	<u>(59,267,816)</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 10 to 22.

Solomon Islands Postal Corporation
Statement of Financial Position as at 31 December 2014

	Note	2014 \$	2013 \$
CURRENT ASSETS			
Cash on hand and at bank	3	793,268	1,439,255
Trade and other receivables	4	1,097,313	2,206,963
Inventories	5	<u>2,194,899</u>	<u>2,136,977</u>
TOTAL CURRENT ASSETS		<u>4,085,480</u>	<u>5,783,195</u>
NON-CURRENT ASSETS			
Property & Investments	6	7,968,059	2,775,000
Property, plant and equipment	7	<u>17,679,557</u>	<u>11,632,165</u>
TOTAL NON-CURRENT ASSETS		<u>25,647,616</u>	<u>14,407,165</u>
TOTAL ASSETS		<u>29,733,096</u>	<u>20,190,360</u>
CURRENT LIABILITIES			
Deferred Income	8	46,500	-
Trade and other payables	8	<u>4,818,164</u>	<u>79,427,959</u>
TOTAL CURRENT LIABILITIES		<u>4,864,664</u>	<u>79,427,959</u>
NON - CURRENT LIABILITIES			
Deferred Income	8	139,500	-
Trade and other payables	8	<u>34,871</u>	<u>30,217</u>
TOTAL NON-CURRENT LIABILITIES		<u>174,371</u>	<u>30,217</u>
TOTAL LIABILITIES		<u>5,039,035</u>	<u>79,458,176</u>
NET ASSETS		<u>24,694,061</u>	<u>(59,267,816)</u>
SHAREHOLDERS' EQUITY			
Retained earnings / (Accumulated losses)		<u>24,694,061</u>	<u>(59,267,816)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>24,694,061</u>	<u>(59,267,816)</u>

The Statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Solomon Islands Postal Corporation
Statement of Cash flow for the year ended 31 December 2014

	Note	2014 \$	2013 \$
Cash Flows From Operating Activities			
Cash receipts from customers		11,286,387	10,154,790
Cash receipts from SIG CSO Grant		1,554,120	-
Cash payments to suppliers and employees		<u>(13,432,489)</u>	<u>(9,486,519)</u>
Cash generated from / (used in) operations		<u>(591,982)</u>	<u>668,271</u>
Net cash provided by / (used in) operating activities	13(b)	<u>(591,982)</u>	<u>668,271</u>
Cash Flows From Investing Activities			
Acquisition of property, plant and equipment		(54,005)	(43,411)
Withdrawal of term deposits		<u>-</u>	<u>149,632</u>
Net cash provided by / (used in) investing activities		<u>(54,005)</u>	<u>106,221</u>
Net increase / (decrease) in cash and cash equivalents		(645,987)	774,492
Cash and cash equivalents at the beginning of the financial year		<u>1,439,255</u>	<u>664,763</u>
Cash and cash equivalents at the end of the financial year	3	<u>793,268</u>	<u>1,439,255</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statement set out on pages 10 to 22.

Solomon Islands Postal Corporation

Notes to and forming part of the accounts

I. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations adopted by the International Accounting Standards Board as adopted by the Institute of Solomon Islands Accountants.

(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 & Expense. 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 judgement 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 which the estimate is revised if the revision affects only that period, or in the period of the revision 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 (\$), and the balances are rounded

(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. The Corporation's current liabilities exceed its current assets. As a going concern, the Corporation is dependent upon the continuing support of the Solomon Islands Government, its bankers and creditors.

The Directors have concluded that the going concern basis is at stake taking into account the Corporation huge debt with Japan Post (refer note 8) and no formal indication from the Solomon Islands Government that it will provide the Corporation with financial support to enable it to pay its debts as and when they fall due for a period of 12 months from the date the Directors approved these financial statements.

(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 Statement of Comprehensive Income. Foreign currency monetary assets and liabilities are translated at the exchange rate at the balance date. Resulting exchange differences are recognised in the Statement of Comprehensive Income for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate at the date of the transaction.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

Items of property, plant and equipment are stated at original cost, deemed cost or valuation less accumulated depreciation and impairment losses. Construction cost 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 production overheads.

Property that is being 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 a self-constructed 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 Statement of Comprehensive income. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Corporation recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive income as an expense as incurred.

Depreciation is charged to the Statement of comprehensive income on a straight line 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. The estimated useful life in current and comparative periods are as follows:

• buildings	20 years
• plant and equipment	5 years
• Fixtures and fittings	10 years
• motor vehicles	5 years

(f) Impairment

The carrying amounts of all assets carried at cost are reviewed at each balance 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 the Statement of Comprehensive income.

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.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories

Inventory for resale and consumable materials are valued at the lower of purchase cost, which is based on invoice prices and includes expenditure incurred in acquiring the goods and bring them to their existing condition and location, and net realisable value. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(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 Statement of Comprehensive income.

(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.

(k) Revenue

Revenue from the sale of goods is recognised in the Statement of comprehensive income when the significant risks and rewards of ownership has been transferred to the buyer.

Revenue from services rendered is recognised in the Statement of comprehensive income in proportion to the stage of completion of the transaction at the balance 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.

The Corporation recognises Property, plant and equipment donated by NGO, Donor partners, government and other stakeholders as deferred income. These are recorded at fair value at the time the assets was received by the Corporation. They are then recognised in the profit and loss as other income systematically over the useful life of the asset.

(l) Trade and other payables

Trade and other payables are stated at cost.

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Taxation

The Corporation is exempt from income tax for income derived from postal services in terms of Solomon Islands Postal 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.

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; 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 appropriate time.

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

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the income statement.

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.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Cash and cash equivalent

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 component of cash and cash equivalents for the purpose of the statement of cash flows.

(p) Employee benefits

The Corporation's obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their services 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 employee's 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.

(q) Expense

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financial costs

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

(r) Financial income

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Corporation's right to receive payments is established which in the case of quoted securities is ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

	2014	2013
	\$	\$
2. PRIOR YEAR ADJUSTMENTS		
Under(Over)statement of Trade Debtors	(1,483,464)	(20,512)
Over(under)statement of Trade Creditors	72,113,609	278,863
Under(Over)statement of Salary Advance	100	6,687
Unreimbursed Imprest expenses	12,830	(1,903)
Unrecorded BSP CSO account opening balance	-	131
Unrecorded Withholding tax deductions	-	(78,278)
Cleared unrepresented cheques and outstanding deposits	(166,538)	112,977
Overstatement of LSB and Basic Rates payables	-	115,748
Overstatement of Fixed Asset (Accum depn)	68,054	-
Understatement of WU Imprest	17,153	-
Reversal of accruals	71,312	-
Reversal of undeposited account	(101,694)	-
Recovery of DMT Imprest shortage	1,870	-
Understatement (Overstatement) of 2012 Philatelic inventory	-	(6,600,169)
Adjustment to PYA opening balance	177,528	-
Removed universal postal service prior years debts	1,529,639	-
	<u>72,240,398</u>	<u>(6,186,456)</u>

A review of all International Mail (IMA) dues to and from all Designated Operators (DOs) that Solomon Post traded mails with was carried out in 2014. This was a first of a series of review to be made and was made possible with the identification of mail due documentations from prior years. The review resulted in corrections to a number of prior year balances for terminal dues (LC/AO), Parcel dues (ILR), and EMS dues (EMS Imbalance). It is expected that the review will bring up to date current records of all mails due to and from other DOs to a stage that Solomon Post should be in a position to manage it's International dues in a consistence and accountable manner.

Designated Operators	Currency	Balance as at 31 Dec 2013	Total Invoices	Total Payments	Adjustments	Balance as at 31 Dec 2014
Debtors						
Australia Post	SDR	3,253	22,146	-22,146	-3,253	0
Chungwa ha Post (Taiwan)	SDR	14,057	7,871	-10,145	-1,958	9,825
Hong Kong Post	SDR	1,123	1,248		-1,123	1,248
Japan Post	SDR	16,862			-16,862	0
Netherland Post	SDR	2,596			-434	2,162
New Zealand Post	SDR	3,811	4,125	-19,685	11,749	0
Post Fiji Ltd	SDR	5,752	2,313	-4,762	-3,303	0
Post PNG Ltd	SDR	1,154			-1,154	0
Royal Mail (Great Britain)	SDR	21,241	12,382	-12,382	-21,241	0
Singapore Post	SDR	85			26	110
Swiss Post	SDR	2,877			-2,058	819
United States Postal Services	SDR	98,904	1,109		-94,397	5,616
Vanuatu Post	SDR	437			-437	0
		172,152	51,193	-69,120	-134,445	19,780
Creditors						
Japan Post	SDR	6,405,680			-6,405,680	0
Post PNG Ltd	SDR	427			-109	317
Royal Mail (UK)	SDR	40			-40	0
Singapore Post	SDR	63			-63	0
Vanuatu Post	SDR	10			115	125
		6,406,219	0	0		442

The adjustments were stated in SDR converted to USD and to SBD at year-end.

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

	2014	2013
	\$	\$
3. CASH AND CASH EQUIVALENTS		
Petty Cash (Cash imprest)	389,592	361,764
Cash at bank	<u>403,676</u>	<u>1,077,491</u>
	<u>793,268</u>	<u>1,439,255</u>
<p>The Corporation has no approved overdraft facility. Management advise that any overdraft position at the bank is temporary.</p>		
4. TRADE AND OTHER RECEIVABLES		
Trade debtors	2,409,555	3,538,556
Less: Provision for doubtful debts	(1,342,973)	(1,342,973)
Staff advance	25,970	6,576
Other Debtors and prepayments	4,761	4,804
	<u>1,097,313</u>	<u>2,206,963</u>
5. INVENTORIES		
Stores and consumable materials	2,194,899	2,136,977
Less: Provision	-	-
	<u>2,194,899</u>	<u>2,136,977</u>
6. INVESTMENT PROPERTY		
Opening Balance	2,775,000	2,775,000
Fair Value adjustments	5,193,059	-
Closing Balance	<u>7,968,059</u>	<u>2,775,000</u>

The carrying amount of investment property is the fair value of the property as determined by independent valuers in December 2014. Solomon Post finally undertook a valuation of its Land and Buildings in December 2014 after the last valuation was done in 2007.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

8. TRADE AND OTHER PAYABLES (Continue)

A SIG - Inland Revenue

SIPC has not been remitting withholding tax and other dues to the Solomon island government on timely basis and has accumulated to \$603,040 as at 31 December 2014. On the other hand Solomon Islands Government and other ministries have owed the Corporation \$588,886 (refer note 9 (b) below) on bulk mails, as at 31 December 2014. An arrangement to offset the outstanding balance seems to be the best available option.

9. RELATED PARTY TRANSACTIONS	2014	2013
	\$	\$
A. Controlled entities		
The Corporation does not control any other entities		
B. Outstanding Balances		
The following Balances were owing to the corporation:		
Government house	4,208	3,783
Ministry of agriculture	4,672	2,730
Ministry of Commerce (Trade & dispute panel)	12,461	1,978
Ministry of Finance	448,382	437,352
Ministry of Youth Sport Women & Children's Affairs	426	419
Ministry of Development Planning & Coordination	275	71
Ministry of Education & Human Resources	5,871	4,438
Ministry of Environment Conservation & Meteorology	2,479	2,075
Ministry of Forestry & Research	3,636	1,977
Ministry of Health & Medical Services	24,476	19,662
Ministry of Home Affairs	1,334	970
Ministry of Infrastructure & Development	3,629	2,671
Ministry of Justice and Legal Affairs	43,493	32,826
Ministry of Lands & Survey	12,641	8,213
National Parliament house	376	536
Office of the Auditor General	541	-
Ministry of Fisheries and Marine Resources	1,390	-
Ministry of Foreign Affairs	1,299	-
Ministry of National Unity and Reconciliations	577	-
Ministry of Police and National Security	6,289	-
Ministry of Provincial Government	3,347	-
Ministry of Rural Development	83	-
Ministry of Public Service	7,001	-
	588,886	519,701

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

9. RELATED PARTY TRANSACTIONS (Continue)

Transaction

The following revenues(expense) were incurred by the Corporation:

Auditor general	-	-
Directors remuneration and expenses	(102,904)	(72,136)
	(102,904)	(72,136)

C. Key Management Compensation

Key management includes, Chief Executive officer, Deputy Chief Executive Officer-Corporate Services, Deputy Chief Executive

The compensation paid or payable to key management for their service rendered to the Corporation are as follows:

• Wages & salaries	306,000	306,000
• Other employment benefits	303,000	303,000
• Termination benefit	67,500	67,500
	676,500	676,500

All transactions with related parties are concluded on an arm's length basis.

10. EMPLOYMENT BENEFITS

On 20 October 2008, the SIPC Board introduced a long service benefit entitling staff to three months leave after 10 years of service. The entitlement was effective from 1 January 2008. At 31 December 2014 the long service benefit liability was \$43,205 (2013: \$36,810). The increase in liability relates to an increasing number of remaining employees approaching the 10-year Long Service Benefit eligibility requirement.

On 3 November 2009, the SIPC Board endorsed the Retirement Benefit policy entitling staff to retirement benefits through early retirement or normal retirement. The following being summaries of retirees since the policy became effect in 2009:

- In 2010 there were 8 staff retired with gross retirement benefit totalling \$373,829.81
- In 2011 there were 5 staff retired with gross retirement benefit totalling \$314,303.30
- In 2012 there were 3 staff retired with gross retirement benefit totalling \$121,158.62
- In 2013 there were no staff on retirement
- In 2014 there were 7 staff on retirement with gross retirement benefit totalling \$518,815.79

11. CONTINGENCIES

The Corporation contingent liability stands at an aggregate value of SDR 6,397,744 equivalent to SBD\$72,020,597 as at 31 December 2014, which have not otherwise been provided for in the financial statements as at the financial year end.

This huge debt is accumulated from a contract with Morris international and Australian Mail Service (AMS) in 2004 whereby these companies used SIPC prepaid stamps and envelopes to deliver bulk mails to their business clients in Japan through the Japan Post network. SIPC charged its client in Australian dollars while Japan Post invoiced SIPC in SDRs resulting in huge difference which is unfavourable for SIPC.

The Directors are of the opinion that since private companies are involved in this remailing agreement, they should also be investigated and held responsible for this huge debts. Further, the directors have endorsed/agreed that this liability be removed from the financial statement as at 31 December 2014 and classified as contingent liability because there could be some element of fraud in the business arrangement between the two Australian companies and SIPC.

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

12. FINANCIAL RISK MANAGEMENT

Overview

The Corporation has exposures to the following risks arising from financial instruments:

- Credit risk; Liquidity risk; and Market risk

This note presents information about the Corporation's exposure to each of the above risks, and the Corporation'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 for the Corporation's risk management framework. The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, 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 and conditions and the Corporation's activities.

Credit risk

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

Trade and other receivables

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

The Corporation establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance are 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 the credit risk at the reporting date was as follows:

	2014	2013
	\$	\$
Cash at bank	793,268	1,439,255
Trade receivables	1,066,582	3,538,556
Other receivables	30,731	11,380
	<u>1,890,581</u>	<u>4,989,191</u>

Impairment losses

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

Not past due	745,813	1,061,000
Past due 31-60 days	56,882	18,075
Past due 61-90 days	36,634	335,362
Past due more than 90 days	227,253	2,124,120
	<u>1,066,582</u>	<u>3,538,557</u>

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

12. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation'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 Corporation's reputation. The Corporation does not operate any bank overdraft facilities.

The following are the contractual maturities of financial liabilities:

	Carrying amount	≤ 6 months	≤ 12 months	≤ 2 years	> 2 years
31 December 2014					
<u>Financial liabilities:</u>					
Trade, other payables and accruals	4,992,535	3,726,917	1,091,247	174,371	
31 December 2013					
<u>Financial liabilities:</u>					
Trade, other payables and accruals	79,427,960	653,241	38,083	36,973	78,699,663

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Corporation'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.

Currency risk

The Corporation is exposed to foreign currency risks on revenue, expenses and borrowings that are denominated in a currency other than the Solomon Islands Dollar. The Corporation for its international mail activities bills in SDR and settles in USD. Other currency of billing and settlements are AUD, CHF and FJD.

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

	USD/SBD	AUD/SBD	CHF/SBD	FJD/SBD
31 December 2014				
<u>Financial assets:</u>				
Trade and other receivables	274,604	-	-	-
<u>Financial liabilities:</u>				
Trade and other payables	2,106,272	-	-	53,270
31 December 2013				
<u>Financial assets:</u>				
Trade and other receivables	2,023,999	539,678	-	-
<u>Financial liabilities:</u>				
Trade and other payables	77,726,219	-	-	-

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

12. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Currency risk (continued)

A strengthening of the Dollar as indicated below against SDR, CHF, USD, AUD, and FJD 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 Corporation considered to be reasonably possible at the reporting date. This assumes that all other variables are constant:

	2014	2013
	\$	\$
<u>Financial assets</u>		
Impact on profit after tax if 1% increase in USD fx rate against SBD	2,746	20,240
Impact on profit after tax if 1% decrease in USD fx rate against SBD	(2,746)	(20,240)
Impact on profit after tax if 1% increase in AUD fx rate against SBD	-	5,397
Impact on profit after tax if 1% decrease in AUD fx rate against SBD	-	(5,397)
<u>Financial liabilities</u>		
Impact on profit after tax if 1% increase in USD fx rate against SBD	21,063	777,262
Impact on profit after tax if 1% decrease in USD fx rate against SBD	(21,063)	(777,262)
Impact on profit after tax if 1% increase in FJD fx rate against SBD	533	507
Impact on profit after tax if 1% decrease in FJD fx rate against SBD	(533)	(507)

13. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flow is reconciled to the related items in the balance sheet as follows:

	2014	2013
	\$	\$
Cash and short term deposits	793,268	1,439,255

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities

Operating profit (loss) after income tax	4,965,312	(3,058,653)
Add (deduct) non-cash items:		
Depreciation	995,280	1,422,251
Foreign currency (gain) loss	(1,886,339)	1,317,781
Revaluation reserves (Increment)/Decrement	(5,193,059)	
Deferred Income - donated computer	(46,500)	
Prior period adjustments	(72,240,398)	(6,186,456)
Net cash provided by operating activities before changes in assets and liabilities	(73,405,704)	(6,505,077)
Changes in assets and liabilities:		
(Increase) decrease in inventories	(57,922)	5,660,179
(Increase) decrease in trade debtors	2,995,989	3,116,886
Increase (decrease) in trade creditors	69,875,655	(1,603,715)
Net cash provided by (used in) operating activities	(591,983)	668,271