

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

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SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
DIRECTORS' REPORT - 31ST DECEMBER 2011

In accordance with the Companies Act 2009 your directors present their report on the accounts of the company for the year ended 31st December 2011.

RESULTS: The net results of operations to be read in conjunction with the significant accounting policies set out in Note 1 to the financial statements was a net Profit of \$12,041,115 (2010: profit of \$19,136,247) after income tax.

ACTIVITIES: The company is involved in the domestic and international air transportation of passengers and freight.

DIVIDENDS: The directors do not recommend the payment of a dividend.

GENERAL: In accordance with the requirements of the Companies Act 2009 the directors state that:-

"The accounts set out on pages 4 to 22 have been prepared under the direction of the directors and in their opinion exhibit a true and fair view of the state of the company's affairs as at 31st December 2011 and its results for the year ended on that date."

On behalf of the Board,



Director - Mr Reginald William Tyson



Director - Mr Denton Ranawa

Dated at Honiara this 29th day of May 2012.

**Solomon Islands Office
of the Auditor-General**



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Solomon Airlines Limited

I was engaged to audit the accompanying financial statements of Solomon Airlines Limited, which comprise the Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows as at 31 December 2011 and the Statement of Comprehensive Income and Detailed Operating Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies set out in note 1 and with the requirements of the Companies Act (Cap. 175), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. 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 report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 estimates made by the Board and management, as well as evaluating the overall presentation of the financial report.

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

Basis for Qualified Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Detailed Operating Statement

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

Revenue

I was unable to obtain sufficient appropriate audit evidence regarding the completeness of passenger revenue.

As a result I am unable to confirm or verify by alternative means the carrying amount of passenger revenue included in the financial statements as at 31 December 2011. Accordingly, I am not able to determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Basis for Qualified Opinion on the Statement of Financial Position

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

Revenue Received in Advance

I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy of flight tickets issued but not uplifted within one year from date of purchase.

As a result I am unable to confirm or verify by alternative means the carrying amount of revenue received in advance as at 31 December 2011 or determine whether any adjustment to the amount disclosed in the financial statements was necessary.

Inventory

I was unable to satisfy myself as to the accuracy of the year end stock listing due to numerous count errors identified during the audit of the stock-take. I can not confirm that the stock-take listing forms a reliable basis with which to value stock.

As a result I am unable to confirm or verify by alternative means the carrying amount of inventory included in the financial statements as at 31 December 2011.

Qualified Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Detailed Operating Statement

In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Detailed Operating Statement presents fairly in all material respects as at 31 December 2011 in accordance with International Financial Reporting Standards.

Qualified Opinion on the Statement Financial Position

In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the Financial Position presents fairly in all material respects as at 31 December 2011 in accordance with International Financial Reporting Standards.



Edward Ronia
Auditor-General

30 May 2012

Office of the Auditor General
Solomon Islands

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31ST DECEMBER 2011

	Note	2011 \$	2010 \$
Operating profit/(loss) before income tax (See pages 19 to 22 for detailed Operating Statement)		12,041,115	19,136,247
Income tax for the year	3	-	-
PROFIT FOR THE YEAR		12,041,115	19,136,247
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserve		1,193,011	29,860,238
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		13,234,125	48,996,485

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31ST DECEMBER 2011

	Share Capital (Note 14)	Revaluation Reserve (Note 15)		Accumulated Losses \$	Total \$
		\$	\$		
2010					
Balance as at 1st January 2010	50,000,000	42,818,745	(109,034,970)	(16,215,325)	
Other comprehensive income for the year		29,860,238	19,136,247		48,996,485
Revaluation surplus transferred on derecognition of asset	-	(13,422,819)	13,422,819		-
Share issue & paid	20,909,801				20,909,801
Balance as at 31st December 2010	70,909,801	59,256,164	(76,475,003)		53,690,962
2011					
Other comprehensive income for the year		1,193,011	12,041,115		13,234,125
Balance as at 31st December 2011	70,909,801	60,449,175	(64,433,889)		66,925,087

The Statement of Comprehensive Income and the Statement of Changes in Equity is to be read in conjunction with the notes
to and forming part of the accounts set out on pages 7 to 18 and the operating statement set out on pages 19 to 22.

SOLOMON AIRLINES LIMITED
COMPANY NUMBER ZD111645
STATEMENT OF FINANCIAL POSITION
YEAR ENDED 31ST DECEMBER 2011

	Note	2011 \$	2010 \$
CURRENT ASSETS			
Cash	4	10,435,324	21,275,699
Receivables	5	24,229,205	28,447,346
Inventories	6	7,021,926	5,771,467
TOTAL CURRENT ASSETS		41,686,455	55,494,512
NON-CURRENT ASSETS			
Receivables	7	-	-
Property, plant and equipment	8	81,285,981	63,390,821
Investments	9	-	-
Investment Property	10	7,600,000	-
TOTAL NON-CURRENT ASSETS		88,885,981	63,390,821
TOTAL ASSETS		130,572,437	118,885,333
CURRENT LIABILITIES			
Creditors and borrowing	11	28,268,168	35,005,070
Provisions	12	1,539,417	1,442,290
Revenue received in advance		27,616,150	28,747,011
TOTAL CURRENT LIABILITIES		57,423,735	65,194,371
NON-CURRENT LIABILITIES			
Creditors and borrowing	13	6,223,614	-
TOTAL LIABILITIES		63,647,350	65,194,371
NET ASSETS		66,925,087	53,690,962
EQUITY			
Share capital	14	70,909,801	70,909,801
Reserves	15	60,449,175	59,256,164
Accumulated losses		(64,433,889)	(76,475,004)
TOTAL EQUITY		66,925,087	53,690,962

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the accounts set out on pages 7 to 18 and the operating statement set out on pages 19 to 22.

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
STATEMENT OF CASH FLOWS
YEAR ENDED 31ST DECEMBER 2011

	<u>Note</u>	<u>2011</u> \$	<u>2010</u> \$
Cash flows from operating activities			
Receipts in the course of operations		265,496,530	202,530,684
Payments in the course of operations		(244,764,755)	(186,633,457)
Interest paid on Loan			(258,950)
Income tax paid		(146,535)	(94,000)
Net cash flows (used in)from operating activities	2	<u>20,585,240</u>	<u>15,544,277</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(31,589,784)	(1,620,937)
Proceeds from sale of property, plant and equipment		164,169	14,330,089
Net cash flows used in investing activities		<u>(31,425,615)</u>	<u>12,710,052</u>
Cash flows from financing activities			
Proceeds from borrowing		-	-
Repayment of borrowings		-	(10,993,320)
Net cash flows from financing activities		-	(10,993,320)
Net increase in cash and bank overdrafts		(10,840,375)	17,261,009
Cash and bank overdrafts at beginning of the financial year		<u>21,275,699</u>	<u>\$4,014,690</u>
Cash and bank overdrafts at end of the financial year	4	<u>10,435,324</u>	<u>21,275,699</u>

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the accounts set out on pages 7 to 18 and the operating statement set out on pages 19 to 22.

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards and the disclosure requirements of Schedule 3 of the Companies Act 2009, and on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

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

a) Going Concern

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

b) Foreign Currency Translation

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

c) Investment

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

d) Inventories

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

e) Property, Plant and Equipment

Acquisition of Assets

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

Revaluation of Non-Current Assets

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

Depreciation

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

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

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 30111645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Lessor Non-Current Assets

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

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

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

d) Revenue Received In Advance

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

g) Commercial Agreements With Other Airlines

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

h) Income Tax

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

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

2 CASHFLOW RECONCILIATION

The reconciliation of operating profit/(loss) after income tax to cash flows from operation is as follows:

Operating profit/(loss) after income tax	12,041,115	19,136,247
Loss/(Gain) on sale of property, plant and equipment	(141,171)	(7,509,061)
Amortisation and depreciation	7,264,636	4,159,599
Changes in Assets and Liabilities:		
- (Increase)/Decrease in trade receivables	4,218,141	(6,106,396)
- (Increase)/Decrease in inventories	(1,250,459)	(1,630,484)
- Increase/(Decrease) in trade creditors and borrowings	(1,547,021)	7,494,372
	20,585,240	15,544,277

3 INCOME TAX

Turnover tax on current year's income
Overseas income tax

	-	-
	-	-
	-	-

The benefit of income tax losses carried forward is not recognised in the profit and loss account until the directors consider they can be recovered.

4 CASH (CURRENT)

Net cash on hand and at bank	10,435,324	21,275,699
	10,435,324	21,275,699
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
Cash and cash equivalents	10,435,324	21,925,928
Bank overdraft	-	(650,229)
	10,435,324	21,275,699

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

	<u>2011</u>	<u>2010</u>
	\$	\$
5 RECEIVABLES (CURRENT)		
Trade debtors	13,136,467	28,430,321
Provision for doubtful debts	(5,150,740)	(19,250,000)
	7,985,727	9,210,321
Other debtors	13,717,475	13,415,330
	21,703,202	22,645,651
Security deposits	2,526,003	5,801,695
	24,229,205	28,447,346
6 INVENTORIES (CURRENT)		
Aircraft spares	6,199,766	4,999,371
Fuel	822,160	772,096
General stock	-	-
	7,021,926	5,771,467
7 RECEIVABLES (NON-CURRENT)		
Loans and advances to related companies:		
Pacific Car Rentals Limited	-	-
Hunts of the Pacific (SI) Limited	-	-
	-	-
Less: Provision for non-recovery	-	-
	-	-

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 2011165
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31st DECEMBER 2011

8. PROPERTY, PLANT AND EQUIPMENT*

	31/12/2011	31/12/2010	1/01/2010
Carrying amounts of:			
Aircraft	22,237,855	26,145,010	22,700,000
Motor Vehicles	30,450,624	33,075,191	16,773,638
Furniture & Fixtures	943,781	1,096,936	888,656
Office Machines	894,578	685,742	549,420
Staff Property	151,870	133,551	98,575
Radio Equipment	123,780	103,546	125,984
Computer Equipment	237,930	213,159	203,659
Linen/Uniforms	92,746	35,517	41,738
Reserve Equipment	739,141	479,847	507,287
Work in Progress	29,300	35,724	17,610
	81,285,981	63,390,321	42,907,112
Less than one year			
Aircraft at revalued value	Land and Buildings	Motor Vehicles	Plant and Equipment
	1,459,521	807,610	Furniture & Fixtures
	(13,422,819)	(242,171)	Office Machines
	(19,568)		Machinery in use
			Property at cost
			Equipment at cost
			Radio Equipment at cost
			Computer Equipment at cost
			Improvements at cost
			Leasehold Improvements at cost
			Reservation Leasehold Improvements - Aircraft at cost
			WIP at cost
			Total
			29,125,393
Cost of acquisition			
Balance at 1 January 2010	22,700,000	31,560,937	562,519
Additions	5,140,694	2,459,521	768,410
Disposals	(13,422,819)	818,720	(457,088)
Re-classified as held for sale	(19,568)	52,642	(14,229,702)
Revaluation increase/(decrease)	4,400,000	15,729,393	(15,332)
Other [Describe]			(1,051,453)
			(1,051,453)
Balancet at 31 December 2010	27,140,694	33,867,511	582,735
Additions	(8,000,000)	2,266,693	21,047,098
Disposals	(3,406,887)	313,413	3,083,562
Reclassification as investment property	(1,051,453)	(1,051,453)	(1,051,453)
Revaluation increase/(decrease)	(3,406,887)	(3,406,887)	(3,406,887)
Other [Describe]			
Balancet at 31 December 2011	24,240,694	30,460,624	4,974,740
			88,425,107

SOLOMON AIRLINES LIMITED

COMPANY NUMBER 2811165

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2011

B. PROPERTY, PLANT AND EQUIPMENT (continued)

	Tand and Buildings at revalued amounts	Aircraft at revalued amounts	Motor Vehicles at cost	Furniture and fittings at cost	Office Machines at cost	Staff Property at cost	Equipment at cost	Computer Equipment at cost	Leasehold Improvements at cost	Reserve Leasehold Improvements at cost	W/H at cost	Total
<i>Accumulated depreciation and impairment</i>												
Balance at 1 January 2010	-	(14,787,309)	(1,570,865)	(258,150)	(38,754)	(125,302)	(87,783)	(67,581)	(1,015,149)	(544,919)	(310,065)	-
Eliminated on disposals of assets		618,631						10,734				(18,465,922) 695,365
Eliminated on disposal of a subsidiary												-
Eliminated on revaluation	186,000	16,262,254										16,442,254
Eliminated on reclassification as held for sale												-
Impairment losses recognised in profit or loss												-
Reversals of impairment losses recognised in profit or loss												-
Depreciation expense	(1,135,000)	(2,267,265)	(334,513)	(95,908)	(17,666)	(17,438)	(29,957)	(6,221)	(223,724)	(2,112)	(15,805)	(4,59,599)
Effect of foreign currency exchange differences												(1,594)
Other												1,028,454
Balance at 31 December 2010	(955,000)	(792,320)	(1,239,737)	(364,039)	(106,420)	(152,740)	(117,723)	(73,802)	(1,328,139)	(547,031)	(325,870)	-
Eliminated on disposals of assets									1,028,454			(5,902,842)
Eliminated on disposal of a subsidiary												-
Eliminated on revaluation												4,599,898
Eliminated on reclassification as held for sale												-
Impairment losses recognised in profit or loss												-
Reversals of impairment losses recognised in profit or loss												-
Depreciation expense	(997,439)	(3,807,578)	(416,568)	(98,393)	(98,582)	(23,074)	(35,878)	57,229	(283,632)	(6,424)	(15,805)	(1,146,147)
Effect of foreign currency exchange differences												(5,464,636)
Other												-
Balance at 31 December 2011	(1,952,819)	-	(1,656,325)	(462,434)	(197,002)	(175,758)	(151,603)	(16,573)	(445,316)	(533,455)	(311,674)	(7,139,126)

Leased land and buildings were last revalued at 31st December 2010. The Islands and the 2 twin otters were last revalued on 31st December 2011.

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

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

	2011 \$	2010 \$
9 INVESTMENTS (NON-CURRENT)		
Investments in wholly owned subsidiary companies (see below)	-	-
Provision for permanent diminution in value	-	-
	<hr/>	<hr/>
Investment in wholly owned subsidiary companies comprises:		
Pacific Car Rentals Limited	-	-
Hunts of the Pacific (SI) Limited	-	-
	<hr/>	<hr/>
Both subsidiaries are incorporated and operate wholly in the Solomon Islands.		
10 INVESTMENTS (PROPERTY)		
Investments in property	8,000,000	-
Provision for depreciation	(400,000)	-
	<hr/>	<hr/>
7,600,000	<hr/>	<hr/>
Investment Property was last revalued at 31st December 2011. This was undertaken by Solomon Islands Real Estate and Valuation Services. The valuation is based on current market value, whereby the price of the subject property will be subject to a competitive market under the condition of sale.		
11 CREDITORS AND BORROWINGS (CURRENT)		
Trade creditors	2,851,210	3,119,665
Other creditors	9,394,753	15,719,534
Accrued expenses	16,127,739	16,124,871
Bank loan - secured	-	-
Loan from holding company	-	-
Turnover tax	(105,535)	41,000
	<hr/>	<hr/>
28,268,168	<hr/>	<hr/>
35,005,070	<hr/>	<hr/>
The bank overdraft and loan facilities are secured by assets of the company, including property, aircraft, and other assets . and an unlimited guarantee from the Solomon Islands Government.		
12 PROVISION		
Audit Fees	165,500	331,000
Annual Leave	1,373,917	1,111,290
	<hr/>	<hr/>
1,539,417	<hr/>	<hr/>
1,442,290	<hr/>	<hr/>
13 CREDITORS AND BORROWINGS (NON-CURRENT)		
Bank loan - secured	-	-
Loan from ultimate holding company	-	-
Other Creditors	6,223,614	-
	<hr/>	<hr/>
6,223,614	<hr/>	<hr/>
The loans from holding company are unsecured and are interest free. The loans were converted into fully paid up share capital in 2010.		
14 SHARE CAPITAL		
Issued and paid up	70,909,801	70,909,801
70,909,801 ordinary shares of \$1 each fully paid	<hr/>	<hr/>

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

15	RESERVES	2011	2010
		\$	\$
Asset revaluation reserve:			
Balance at beginning of the year	59,256,164	50,996,360	
Add: revaluation surplus	1,193,011	8,257,804	
Prior year adjustment			-
Balance at end of the year	<u>60,449,175</u>	<u>59,256,164</u>	

16 CAPITAL EXPENDITURE COMMITMENTS

Estimated capital expenditure contracted for at balance date but not provided for was nil (2010: Nil).

17 OPERATING LEASE COMMITMENTS

Not later than one year;	29,612,000	33,815,000
Later than one year and not later than five years;	43,549,000	-
Later than five years.	-	-
Lease commitment contracted for at balance date	<u>75,161,000</u>	<u>33,815,000</u>

Solomon Airlines entered into an A320 lease agreement with Pegasus Aviation for the current year. First lease payment commenced from May 2011 with lease term of 4 years. APNG new lease rate has commenced from 4th December 2011.

18 RELATED PARTY TRANSACTIONS

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

19 HOLDING COMPANY

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

20 GOING CONCERN

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

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

21 FINANCIAL INSTRUMENTS

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

	2011 \$	2010 \$
Financial Assets		
Cash and cash equivalents	10,435,324	21,275,698
Receivables	7,985,727	9,231,321
Financial Liabilities		
Financial Liabilities measured at amortised cost		
Credit risk and interest rate exposures		
The following table discloses Solomon Airlines Limited maximum exposure to credit risk, interest rate exposures and the ageing analysis of financial assets. Solomon Airlines maximum exposure to credit risk at the end of the reporting period is the carrying amount of financial assets as shown below. The table discloses the ageing of financial assets that are past due but not impaired and impaired financial assets.		
Solomon Airlines holds a Term Deposit Certificate as security on Term Deposit held with Bank South Pacific		

Interest rate exposures and ageing analysis of financial assets

	Weighted Average Effective Interest rate %	Carrying Amount \$	Fixed interest rate	Variable interest rate	Non interest bearing	Up to 3 months	3-12 months	1-2 years	2-5 years	More than 5 years	Impaired financial assets \$
						\$	\$	\$	\$	\$	
						%	%	%	%	%	
Financial Assets											
2011											
Cash and cash equivalents	3.50	10,435,324	-	2,032,640	8,182,681						
Receivables	-	7,985,727	-	2,032,640	7,185,727	1,173,812	3,016,457	1,131,447	1,073,348	1,590,664	5,150,740
						1,173,812	3,016,457	1,131,447	1,073,348	1,590,664	5,150,740
2010											
Cash and cash equivalents	3.50	21,275,698	-	15,066,716	6,208,982						
Receivables	-	9,231,321	-	9,230,321	2,973,444	3,486,579	1,307,715	1,240,632	221,881	19,250,000	
						2,973,444	3,486,579	1,307,715	1,240,632	221,881	19,250,000

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 2011645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

21 FINANCIAL INSTRUMENTS (continued)

Liability risk

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

Interest rate exposure and maturity analysis of financial liabilities

Weighted Average Effective Interest rate %	Contractual amount \$	Fixed interest rate	Variable interest rate	Non interest bearing	\$	Adjustment for discounting \$	\$	Total Nominal Amount \$	Maturity date			
									Up to 3 months	3-12 months	1-2 years	2-5 years
Financial Liabilities												
2011												
Payables												
	2,851,210	-	-	2,851,210	-	-	-	1,801,291	1,049,920	-	-	-
	2,851,210	-	-	2,851,210	-	-	-	1,801,291	1,049,920	-	-	-
2010												
Payables												
	3,119,665	-	-	3,119,665	-	-	-	757,054	534,490	236,916	1,524,785	44,420
	3,119,665	-	-	3,119,665	-	-	-	757,054	534,490	236,916	1,524,785	44,420

SOLOMON AIRLINES LIMITED

COMPANY NUMBER 20111645

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

FINANCIAL INSTRUMENTS (continued)

Market risk

Interest rate sensitivity analysis

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

	-100 basis points			+100 basis points		
	Carrying amount	Surplus	Equity	Surplus	Equity	Surplus
	\$	\$	\$	\$	\$	\$
2011						
Financial Assets						
Cash and cash equivalents	2,052,640	-	95,176	-	95,176	95,176
Financial Liabilities						
Total Increases/(Decrease)		<u>95,176</u>	<u>-</u>	<u>95,176</u>	<u>95,176</u>	<u>95,176</u>

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 2011645
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2011

11 FINANCIAL INSTRUMENTS (continued)

	Carrying amount	Surplus	Rainy	Surplus	Equity	
2010	\$	\$	\$	\$	\$	
Financial Assets						-100 basis points
Cash and cash equivalents	15,066.716	-	19,062	-	19,062	19,062
Financial Liabilities						-100 basis points
Fully Drawn Advance from Bank South Pacific	-	-	-	-	-	
Total Increase/(Decrease)	-	19,062	-	19,062	19,062	19,062

Fair values

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

Foreign currency risk

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

Sensitivity analysis

In managing currency risk Solomon Airlines Limited aims to reduce the impact of short-term fluctuations on Solomon Airlines' earnings. Over the longer-term, however, permanent changes in foreign exchange rates would have an impact on Solomon Airlines' earnings. It is estimated that a general increase of one percentage point in the value of the SBD against other foreign currencies would have increased Solomon Airlines profit before tax by approximately \$11,000 for the year ended 31 December 2011.

It is estimated that a general decrease of one percentage point in the value of the SBD against other foreign currencies would have decreased Solomon Airlines profit before tax by approximately \$11,000 for the year ended 31 December 2011.

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
DETAILED OPERATING STATEMENT
YEAR ENDED 31ST DECEMBER 2011

	<u>2011</u> \$	<u>2010</u> \$
FLYING REVENUE		
INTERNATIONAL		
Capacity lease		
Cargo	7,337,209	6,354,371
Charter	9,032,314	2,468,695
Excess baggage	2,639,548	2,137,321
Mail	845,370	1,038,409
Passenger	<u>103,259,854</u>	<u>94,289,857</u>
	<u>123,114,295</u>	<u>106,288,653</u>
DOMESTIC		
Cargo	2,403,508	1,810,422
Charter	15,903,923	9,972,364
Excess baggage	1,105,493	1,020,612
Passenger	50,684,910	45,510,678
Mail	<u>23,842</u>	<u>87,958</u>
	<u>70,121,875</u>	<u>58,422,034</u>
TOTAL FLYING REVENUE	<u>193,236,170</u>	<u>164,710,687</u>
SUNDY OPERATING REVENUE		
Commissions received	1,145,438	1,145,700
Traffic income	<u>4,785,071</u>	<u>5,862,852</u>
	<u>5,930,509</u>	<u>7,008,552</u>
TOTAL OPERATING REVENUE	<u>199,166,678</u>	<u>171,719,239</u>
OTHER REVENUE		
Gain/(Loss) on disposal of fixed assets	141,171	7,509,061
Ticket Surcharges and Penalties	35,654,389	29,964,764
Sundry income	<u>15,633,753</u>	<u>11,544,377</u>
	<u>51,429,313</u>	<u>49,018,202</u>
TOTAL INCOME	<u>250,595,992</u>	<u>238,737,441</u>
EXPENSES		
AIRCRAFT OPERATING OVERHEADS		
Aircraft charter	5,942,204	2,829,754
Aircraft lease charges	54,618,473	46,126,329
Insurance	<u>1,808,685</u>	<u>2,207,999</u>
TOTAL AIRCRAFT OPERATING COSTS	<u>62,369,363</u>	<u>51,164,082</u>

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
DETAILED OPERATING STATEMENT (Continued)
YEAR ENDED 31ST DECEMBER 2011

	<u>2011</u> \$	<u>2010</u> \$
AIRCRAFT OVERHEAD COSTS		
Air navigation charges	3,346,739	1,369,240
Baggage claims	13,472	6,435
CAA charges	-	36,609
Cargo claims	-	-
Catering costs	6,886,214	5,480,021
Custom fees	95,971	815,724
Disrupted passenger costs	1,652,604	1,487,058
Engine Overhaul	1,225,758	587,725
Fuel - International	29,730,975	19,692,640
Fuel - Domestic	29,258,257	22,370,435
Ground handling fees	6,548,655	4,157,292
IATA membership fee	681,064	150,822
Landing charges	(1,384,170)	777,288
Flight planning	-	2,930
TOTAL AIRCRAFT OVERHEAD COSTS	78,055,560	57,934,219
PERSONNEL EXPENSES		
Education Allowances	991,412	1,001,394
Electricity, gas and water	1,442,276	792,962
Employee related transport costs	1,298,293	310,956
Employee related utility costs	768,581	374,879
Entertainment costs	459,236	263,770
Housing allowances	2,091,429	1,660,811
Leave fares	102,135	116,111
Licence renewal costs	185,735	63,388
Oversight allowance and accommodation	9,229,644	7,362,980
Rent - Housing	1,703,005	1,609,940
Salaries and wages	29,368,997	23,658,023
Annual Leave	262,627	1,119,864
Staff recruitment	114,900	141,255
Staff training	686,769	1,111,081
Tool allowance	155,396	136,184
Uniforms	383,701	243,034
TOTAL PERSONNEL EXPENSES	49,244,134	39,966,632
ENGINEERING EXPENSES		
Consumables	2,935,580	3,204,505
Freight	418,913	470,137
Maintenance - Domestic	1,769,905	1,395,038
Maintenance - International	2,544,125	-
Repairs and maintenance - equipment	(32,621)	21,354
TOTAL ENGINEERING EXPENSES	7,635,902	5,091,034

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SOLOMON AIRLINES LIMITED
 COMPANY NUMBER 20111645
 DETAILED OPERATING STATEMENT (Continued)
 YEAR ENDED 31ST DECEMBER 2011

	<u>2011</u>	<u>2010</u>
	\$	\$
MARKETING EXPENSES		
Advertising and promotion	1,290,262	556,808
Agents costs	129,041	26,019
Commissions paid	<u>7,597,632</u>	<u>12,518,123</u>
TOTAL MARKETING EXPENSES	<u>9,016,935</u>	<u>13,100,950</u>
VEHICLE EXPENSES		
Vehicle insurance	62,677	41,271
Motor vehicles expenses	1,674,748	1,119,177
Motor vehicle hire	<u>322,502</u>	<u>206,329</u>
TOTAL VEHICLE EXPENSES	<u>2,059,927</u>	<u>1,366,777</u>
PREMISES EXPENSES		
Land rates and rents	95,439	31,921
Rent - Commercial buildings	542,155	430,366
Repairs and maintenance - Offices	<u>1,078,010</u>	<u>1,046,832</u>
TOTAL PREMISES EXPENSES	<u>1,715,605</u>	<u>1,509,119</u>
COMPUTER AND COMMUNICATION EXPENSES		
Communication fees	968,041	452,688
Computer costs	198,079	588,079
Reservation fees	2,686,964	4,949,413
Telephone	<u>3,600,019</u>	<u>3,649,387</u>
TOTAL COMPUTER AND COMMUNICATION EXPENSES	<u>7,453,103</u>	<u>9,639,567</u>
FINANCIAL EXPENSES		
Bank charges	1,038,564	1,496,355
Depreciation expenses	7,264,636	4,159,599
Foreign exchange loss/(gain)	(1,136,608)	(1,679,508)
Insurance	1,970,880	527,081
Interest expenses	(322,056)	170,295
Provision for doubtful debts	*	7,250,000
Penalties and fines	<u>375,249</u>	<u>137,199</u>
TOTAL FINANCIAL EXPENSES	<u>9,190,666</u>	<u>12,061,021</u>
ADMINISTRATION EXPENSES		
Accounting fees	755,019	601,102
Audit fees	236,948	363,447
Board expenses and fees	134,341	61,400
Cleaning	119,067	127,153
Consultancy fees	<u>5,784,674</u>	<u>3,929,552</u>
Debt collection expenses	*	*
Directors fees	28,175	17,000
Donations	61,626	1,192

SOLOMON AIRLINES LIMITED
COMPANY NUMBER 20111645
DETAILED OPERATING STATEMENT (Continued)
YEAR ENDED 31ST DECEMBER 2011

	2011	2010
	\$	\$
ADMINISTRATION EXPENSES (Continued)		
General expenses	(26,422)	852,254
Legal fees	258,849	63,324
NPF contributions	1,762,439	1,774,599
Postage	49,167	12,473
Printing	811,540	498,627
Publication and subscriptions	362,077	510,459
Security	547,243	317,964
Stationery	928,890	635,247
TOTAL ADMINISTRATION EXPENSES	11,813,683	9,767,793
TOTAL EXPENSES	236,554,877	201,691,194
OPERATING PROFIT/(LOSS) FOR THE YEAR	12,041,115	19,136,247