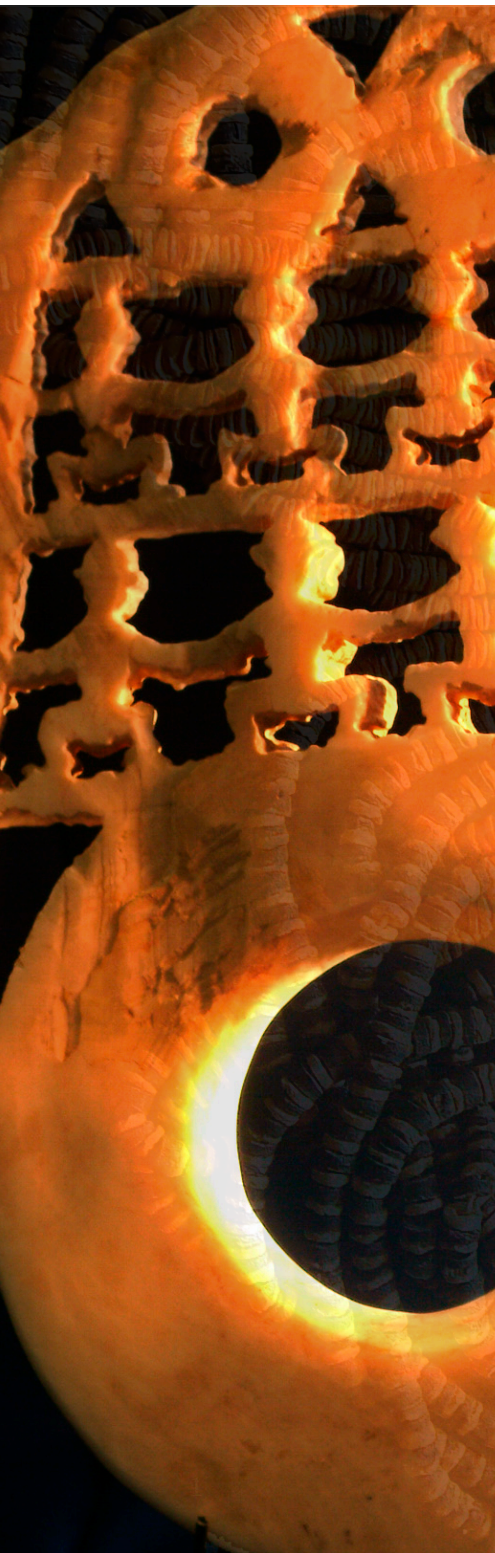




SOLOMON ISLANDS
NATIONAL PROVIDENT FUND
Annual Report 2005





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- National Bank of Solomon Islands

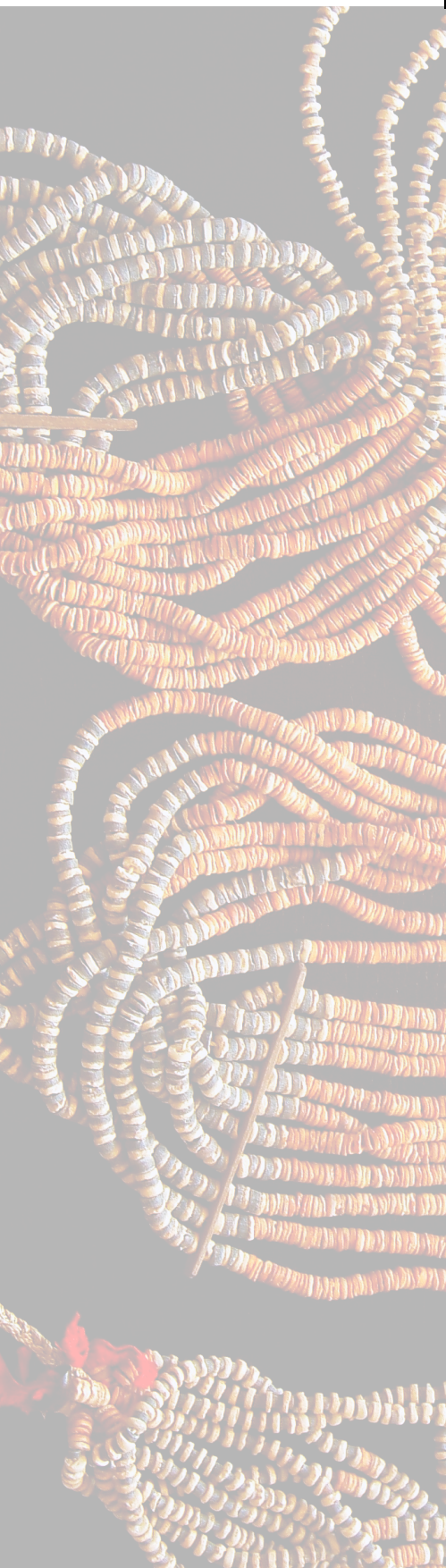
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- PriceWaterhouseCoopers

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NO
LASTING
PEACE
WITHOUT
SOCIAL
JUSTICE.

NO
SOCIAL
JUSTICE
WITHOUT
SOCIAL
SECURITY.



Honourable Minister,
Ministry of Finance and Treasury,
P.O. Box G26,
Honiara.
Solomon Islands.

Dear Sir,

**Solomon Islands National Provident Fund Annual
Report 2005**

In accordance with Section 12(2) of Solomon Islands National Provident Fund Act 1973, I have the honour to submit to you, on behalf of the Board of Trustees of Solomon Islands National Provident Fund, the Annual Report for the Financial Year ended 30 June 2005 which incorporates the Statement of Assets and Liabilities, Statement of Accounts and major development events and activities of the Fund during the period.

Thank you for your continuous support, understanding and cooperation.

Yours faithfully,

Solomon Islands National Provident Fund

John H. H. Beverley MBE
Chairman of Board of Trustees



Our Vision

Enhancing members' wealth for better living standard with satisfaction during working life and in retirement.

Our Mission

- Commitment and professionalism in service delivery
- Enhancing members' financial wealth and growth
- Facilitate delivery of social security benefits
- Partake in development of Solomon Islands
- Make prudent investment decisions and sound management
- Exercising Good Governance and Employment practices.

Core Values

Members can have confident and trust in the integrity of SINPF hence these principles:

We will provide quality standard of efficiency and professionalism in delivering our services promptly and on cohesive manner;

We will exercise sound and prudential management of funds we are entrusted;

We will enhance profitability and sound financial growth of the Fund;

We will secure and fulfill growth of wealth and social security to members;

We will partake in the nation's desired economic and social developments as good corporate citizens;

We will enhance human resources capacity and potential to meet their requirements and future opportunities;

We will recognize and keep pace to changes of the country's society.

Highlights

Board subcommittees established including: Credit & Investment, Audit, Information Technology and Legal to realize good governance principles;

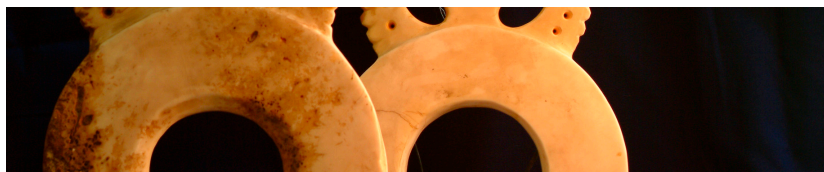
Contribution inflows increased by 50% from \$49.9 million in FY2004 to \$97.3 million in the FY2005;

Total Members' accumulated contributions reached record level of \$434.7 million - an increase by 18% from FY2004 figure;

- Total membership to the Fund increased by 6% compared to FY2004 figure;
- Surcharges collected increased by 30% compared to FY2004 figure;
- Total investment portfolios increased from \$364.8 million in FY2004 to record level of \$474.7 million in FY2005 - an increase by 23%;
- Equity investment increased to \$90.4 million which represented an increase by 28% compared to FY2004 figure;
- Government Security Bonds of \$129.0 million now performing from been impaired since 1999;
- Three senior staff graduated with Diploma and Degree qualifications;
- Attache GL System been established and running;
- Prudential supervision by Central Bank of Solomon Islands been executed;
- Loan Risk Management Scheme approved and adopted.

Board of Trustees

Names	Appointment	Representative	Date
David Quan	Chairman	Minister's Discretion	up to 27/04/05
Milton Sibisopere	Deputy Chairman	Employer	up to 27/04/05
Fred Maetoloa	Member	Employer	up to 27/04/05
Edmund Andresen	Member	Crown	up to 27/04/05
Ethel Sigimanu (Mrs)	Member	Crown	up to 27/04/05
Martin Karani	Member	Employee	up to 27/04/05
Milton Aqorau	Member	Employee	up to 27/04/05
John H. Beverley MBE	Chairman	Employers	from 27/04/05
Adrian Wickham	Deputy Chairman	Minister's Discretion	from 27/04/05
Ivan Dyer	Member	Minister's Discretion	from 27/04/05
Luma Darcy	Member	Crown	from 27/04/05
Ronald Unusi	Member	Crown	from 27/04/05
Gabriel Suri	Member	Employers	from 27/04/05
Irene Paulsen (Mrs)	Member	Employees	from 27/04/05
Monica Utukana (Mrs)	Member	Employees	from 27/04/05



Chairman

John H.H. Beverly (MBE)



Deputy Chairman

Adrian Wickham



Director

Gabriel Suri



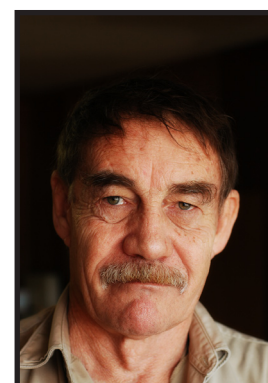
Director

Irene Paulsen



Director

Ronald Unusi



Director

Ivan Dyer



Director

Luma Darcy

Missing:

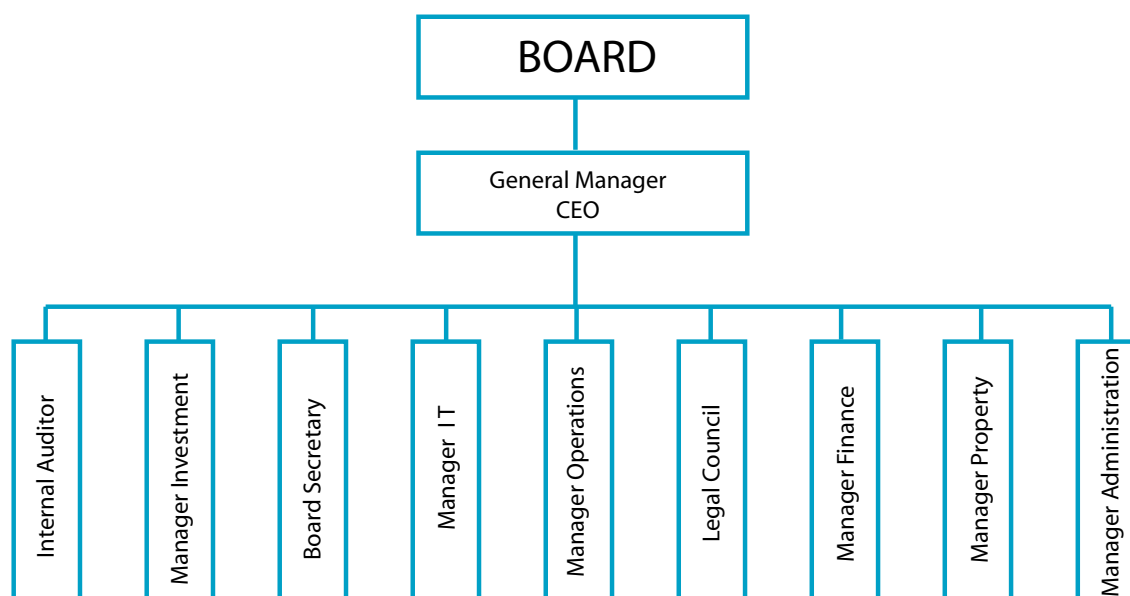
Director

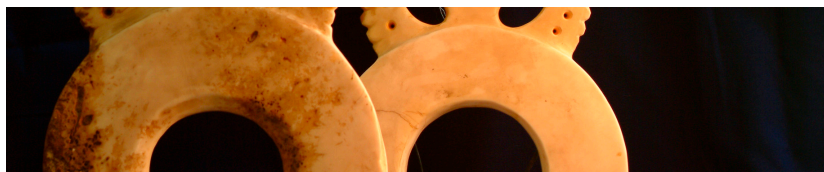
Monica Utukana

Management Team

Names	Position
Tony Makabo	General Manager & CEO
Ruth Fugui (Mrs)	Manager Administration & Board Secretary
John V Joi	Manager Finance
Michael Wate	Manager Investment
Gary Faaitoa	Manager Legal Services
George Hoatamauri	Manager Properties
Aluta Kakadi	Manager Operations
Lottie Aumana	Manager Info. Technology (Ag)
Areau Hivu (Mrs)	Manager Internal Audit

Corporate Structure





General Manager / CEO

Tony Makabo



**Manager
Administration &
Board Secretary**

Ruth Fugui



**Manager
Finance**

John V Joi



Internal Auditor

Areau Hivu



**Manager
Property**

George Hoatamauri



**Manager
Legal Services**

Gary Fa'aitoa



**Manager
Investment**

Michael Wate



**Manager
Operations**

Aluta Kakadi



**Manager
Information Technology**

Lottie Aumana

Chairman's Report



I have pleasure in reporting to the members, employers and stakeholders that Solomon Islands National Provident Fund completed the Financial Year 2005 with some improvements notwithstanding the negative effects on the domestic economy that had emanated from the recent past events. The financial performance for the year represents a period of consolidation of finances and operations.

The present Board was appointed with commitment and challenge to make a change that would make a turn-round for success in SINPF now and the future. For success to be realized, the Board is focusing on these immediate objectives:

- improved profitability and deliver reasonable return to members;
- improving the Balance Sheet position of the Fund;
- transforming impaired SOE and Provincial loan debts to performing status;
- adherence to good governance and re-institute confidence and trust by members;
- identification and directing investments that would yield higher returns; and
- rebuild better relationship with employers and commercial clients.

FY2005 saw a welcome recovery and slight growth in the domestic economy compared to the recent past events in the country. The Fund has continued to realize increased contribution inflows thus led to achieving accumulated record level of \$435 million or 18% increase from FY2004 performance level. New registration of employees and employers continued to occur and it is certain that numbers will further increase when the domestic economy fully recovers with sustainable growth in the future. On the withdrawals to members, there had been steady level of injections in the domestic economy at

an average of \$27 million per annum for the last three years. However, this withdrawal level had been reduced from \$47 million in FY2001 and \$73 million in FY2002 periods as result of contraction and closure of major private sector investments.

The separation of investment functions from Finance Department and appointment of Manager Investment were critical tasks undertaken as priority to provide a new direction and focus to substantially improve investment returns. This was so in the light of falling investment returns and improved excess liquidity situation of the Fund. The Board has made very bold decisions to ensure impaired investment assets are transformed to performing status. As a result, a Deed was signed between SI Government and SINPF (with other bondholders) for amortization of restructuring and development bonds amounted \$129.6 million that Government owed and defaulted on. Under the Deed, the Government would repay the bond debts over a period less than 14 years at an average interest rate of 2.25% per annum. A series of negotiations have been underway with National Government on the state-owned enterprises and provincial government guarantee loan debts which hopefully will be resolved amicable in the next financial year. This been supplemented by disposal strategy to sell mortgage assets by the Fund to recover the members' funds owed.

The Fund's investments has substantially enhanced compared to the recent past two financial years, especially in interest bearing deposits (IBDs) in commercial banks, equity in Solomon Telekom Ltd and amortized government securities. Financial returns on these different investment vehicles had fallen to lowest level, except for equity investment in Solomon Telekom Ltd which delivered 10% return to the members. In this respect, the Board is now addressing the low investment return issue seriously thus



determined to further diversify its investments in viable private sector opportunities that will yield higher investment returns to members. This must be pursued in view of the increasing cash liquidity within the Fund from surplus contribution inflows. The Board has given directive to explore opportunity for offshore investment and a consultant been engaged to assist the Board in its decision process as part of mixed strategies to increase incomes, profitability and net worth of the Fund.

Pertinent to the impaired investments and low returns, the Board will undertake a review on investment policies and strategies to ensure informed investment decisions are made to provide high yield returns thus creating members' wealth. A loan risk management guidelines and management been adopted in an attempt to reduce any possible risks that may affect members' funds invested.

The Board continues to place strong emphasis on governance in exercising its real trusteeship responsibility and duties in ensuring the Fund is effective, efficient and members receive reasonable returns. The Board will maintain its independence at all times in making investment decisions and on operational matters of the Fund. In so doing, the Board instituted subcommittees being responsible for specific important operational areas to assist in its decision-making process. These Board subcommittees include: audit, Credit & investment, information technology (IT) and legal.

Since the Financial Institutions Act came

effective in Year 2003 under the administration of Central Bank of Solomon Islands (CBSI), the Bank continues to undertake its prudential supervision on the financial and operational aspects of the Fund annually. Issues of concern were attended and resolved by the Board and Management within reasonable timeframe coupled with regular consultations.

In the immediate future, the Board will do its ultimate best to transform all impaired public sector guarantee loan debts to performing status to realize investment returns to members. Furthermore, it is the Trustees responsibility to ensure profitability enhanced to realize maximum investment returns to members annually and strengthening the financial position to face future challenges. On the same token, it is fitting to rebuild a sense of confidence and trust of members, employers and other stakeholders in the management of the Fund since the prudential supervision by CBSI is now in place. With the continued presence of RAMSI and restoration of law and order coupled with the ongoing gradual economy recovery, I am confident that the Fund is now heading for a bright future.

May I take this opportunity to sincerely thank my fellow colleagues on the Board, Management team and all the staff for their invaluable support, contributions and demonstration of genuine team spirit during the financial year. I am sure we will continue to perform much better with trust and confidence in the years to come for the benefit of the members and Solomon Islands as a whole.

John H. H. Beverley MBE
Chairman

General Manager's Report



I am pleased to report on developments and outcomes in respect of Financial Year ended 31st June 2005. The period had been tough for the Fund in realizing its anticipated income potential and returns from its investment portfolios due to the unfavorable economic environment. Notwithstanding that situation, the Fund was successful with record growth level of total members' contributions reached \$435 million and investment level at \$410 million. The Board and Management would continue its commitment in ensuring the members' funds are prudently managed to realize efficiency, higher investment returns and rebuild general reserves.

Contributions

The contribution inflows had continued to enjoy upward movement with significant increase by 49% from last year. As a result, the total members' contributions increased by 18%. The increases were largely due to cooperative spirit been rejuvenated between the Fund and employers, new registered employers, amortization of government's long outstanding contribution arrears and assistance rendered by in-house Counsel. The improvement has really contributed to healthy cash flow level in the Fund. I believe with confidence that this positive trend would continue as result of Law and Order being restored, positive economic and investment environment slowly picking-up. On the withdrawal, there was a slight increase by 5% compared to the last financial year figure but however, this was reduced by more than 50% from FY2002 and FY2001 withdrawals.

Investment

Pertinent to investment, the Board was cautiously investing in the more secured but low return investments by taking up additional interest bearing deposits in commercial banks at negligible rates ranging from 0.4% - 1.5%. This is substantially low compared to the pre-tension

rates. Moreover, the Fund purchased treasury bills been issued by Central Bank at rates ranging from 2.5% to 6% depending on the competitive biddings and period terms. In late 2004 the Fund purchased additional ordinary class "A" shares in Solomon Telekom Company Ltd valued \$25.5 million thus brought the Funds' total equity shareholding to 59.14%. The Fund has embarked on new investments as a desperate move to invest all excess funds in the domestic market given that Central Bank not been helpful to give approval to invest offshore for higher incomes and returns. The Fund will continue to pursue its desire to invest offshore in consultation with Central Bank. Some pre-requisites required to necessitate an offshore investment is being pursued by the Fund.

In December 2004 although very difficult, the Fund had amicably reached a Deed Agreement on the Restructuring Bonds with the government. The Bonds were amortized over a period less than 14 years at substantially low interest rate of 2.25% average per annum. Now the Bonds are performing after been impaired prior to the social unrest period. The Fund's total investment in the amortized Bonds had reached \$129.5 million and this had contributed 15% of the Fund's gross income.

The Fund's rental property investment had accounted for about 18% of gross income. Imposition of 5% penalty on rental arrears has shown improvement to rental collection. However, the high cost of repairs and maintenance was a concern in terms of sustaining reasonable overall profitability and return to members of the Fund however this would be assessed for effective decision-making.

The Fund's loan investments in the Provinces (Malaita & Western), state-owned enterprises (SOEs) and members housing scheme had continued to posed problems to the Fund.



However, the Board has taken hard-line strategic actions on the recovery process to ensure the impaired assets are performing and hopefully extinguished. In this respect, a few SOEs (i.e. Solomon Visitors Bureau and CEMA) have displayed serious commitments to extinguish their respective loan debts with the Fund very soon. It is advised that Government should move swiftly in clearing other debts under its guarantee obligation to allow members' wealth enhanced.

A satisfactory investment return of 10% was achieved on investment in Solomon Telekom whilst Solomon Mutual Insurance was 5%. Unfortunately, there were no dividends from National Bank of Solomon Islands due to the long outstanding shareholding saga which hopefully be resolved soon. The interest income on investments had reduced largely due to negligible rates from commercial banks and Government's security Bonds and non-performing loans to public sector organizations and members. However, total income from investment had just managed to increase slightly by 2% compared to Year 2004.

Information Technology

The NPF2000 contribution system has finally running live after been unattended to in past four years. The dormant function like withdrawal had now been working as well. The Unix IT System had been discarded due to aging. Attach'e GL System for general ledger was acquired and now in use by Finance Department. IT sub-committee has been trying to identify a feasible but practical IT system for loan management and property investment. The Board and Management are committed to install practical and feasible IT system requirements in the new financial period to provide operational efficiency, effectiveness and

availability of information in a timely manner.

Administration & Human Resources Development

As part of the ongoing restructuring process, the review and job evaluation exercises of the provincial branch structures at Gizo and Auki been undertaken. As a result, two positions been made redundant in response to low commercial activities and be reviewed if need arise in the near future. All the Department Manager positions were filled thus the Fund now have management team who are professional and competent in moving the members' institution forward in the future.

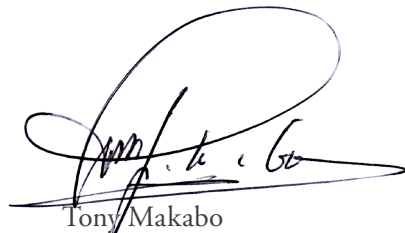
The Fund has continued to place more emphases on developing its human resources to keep updated global trends and better equip with new knowledge and skills to undertake new challenges ahead. Academic and short specific training are guided by training policy and plans. During the period, two senior staff continued undertaking undergraduate programs at University of South Pacific. A senior staff has completed her commerce degree from University of Otago, New Zealand whilst two staff completed Diploma programs at Solomon Islands College of Higher education (SICHE). Nine staff pursuing Diploma and Certificate programs at SICHE and one staff pursuing Bachelors Degree at USP Centre. Local training fully financed by the Fund whilst overseas training being jointly financed by the Fund and Government's scholarship programs. There were specific short training attended by staff to enhance their knowledge and skills. This would be continued.

In conclusion, there were improvements realized notwithstanding the continued slow economic recovery and growth during the

General Manager's Report (continued)

period of considerable challenges. The Board and Management are strongly committed to strengthen the financial status and rebuilding reserves of the Fund through income enhancement, cost-saving strategies and also to ensure the impaired assets do perform again. Investment assets that entertain high risks and low return to the Fund and members should be reviewed to facilitate informed decision-making. The Board of Trustees and Management will continue to manage the funds prudently with determination to enhance profitability and members' wealth. The Fund is now believed to be on positive path for further improvements in the future once the domestic economy fully recovers. The Fund will maintain its desire to partake in the country's economic development dictated by viability and higher returns to members.

Lastly, I wish to take this opportunity to thank all members of the Fund for putting your trust and confidence in the Board of Trustees, Management and Staff to be the custodian and administer of your retirement funds. I would like to sincerely thank the Chairman and Board of Trustees for their continuous support, directives and guidance during the period. My sincere thanks also accorded to the hardworking Management team and staff for their cooperation, support and understanding. I must also thank the employers, governments and churches for their continued support, contributions and prayers towards the Fund. It is my sincere hope that the Fund will continue to achieve its vision, plans and objectives in the long-term future.

A handwritten signature in blue ink, appearing to read 'Tony Makabo', with a large, sweeping loop at the end.

Tony Makabo
General Manager & Chief Executive

Corporate Governance

The Board of Trustees is responsible for the corporate governance of the Fund. Corporate governance is a matter of great importance in the Fund and is undertaken with due regard to all members, stakeholders and the Fund's role in the community.

The maximum number of Board of Trustees is eight (8) and the appointments are made by the Hon. Minister of Finance under Section 3 of SINPF Act based on the "fit and proper person" criteria for a term of three years. The Board is responsible for the overall corporate governance of the Fund including its strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimizing the Fund's overall performance and further enhancing the members' wealth.

The Board has established four Board subcommittees comprised of Board members and management. The Committees include: Credit & Investment, Audit, Legal and Information Technology. The roles and responsibilities of the Committees are to assist and report to the Board to make informed decision-makings.

Pertinent to ethical standards, the Fund acknowledges the need for Board of Trustees, management and staff at all levels to observe the highest standards of ethical behavior when undertaking the Fund's business affairs. To this end, the Board adopted a Code of Conduct for both Board members and management team to abide by the Code.

Overview of Operations

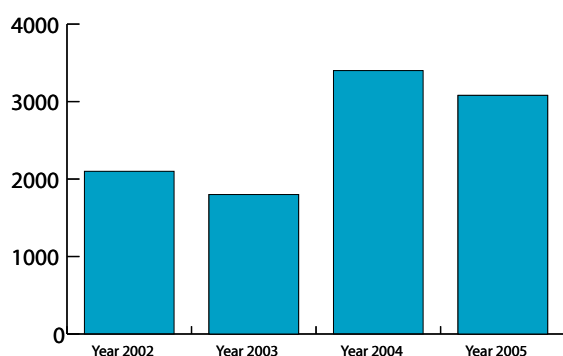
Membership

The membership of the Fund had gradually increased notwithstanding the poor status of the economy after the recent past events. New employees registered during the period stood at 3,161. The total members as at 30 June 2005 reached 65,089 - an increase of 6% over the previous year. Approximately 66% of active employees are in the age categories between 25 - 44 years. The membership continue to be dominated by male 70% whilst female was 30%.

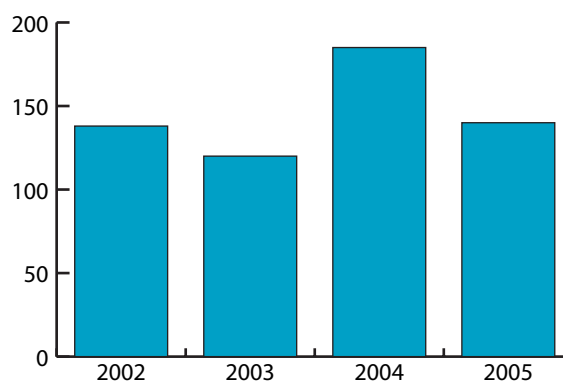
Employer

Total active employers at the end of Financial Year stood at 1,967 and new employers registered during the period reached 135 - a reduction by 50 from the previous year. It is envisaged that employers would increase when the domestic economy fully recovers and investment environment is conducive. A possible restart of some strategic investments i.e. Gold ridge, Palm Oil plantation, etc should pose a positive signs to genuine investors in investing in the domestic economy.

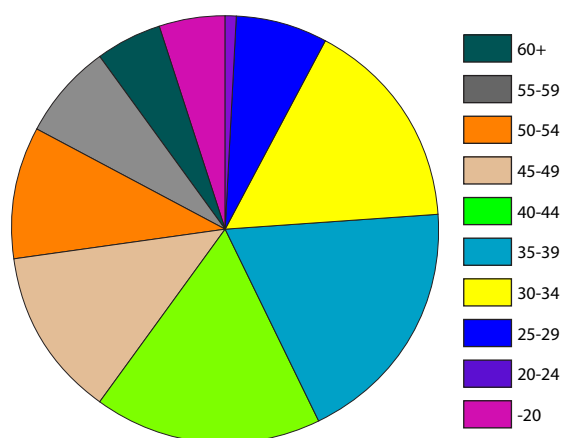
Newly Registered Members: 2002 - 2005



Newly Registered Employers: 2002 - 2005



Active Members by Percentage

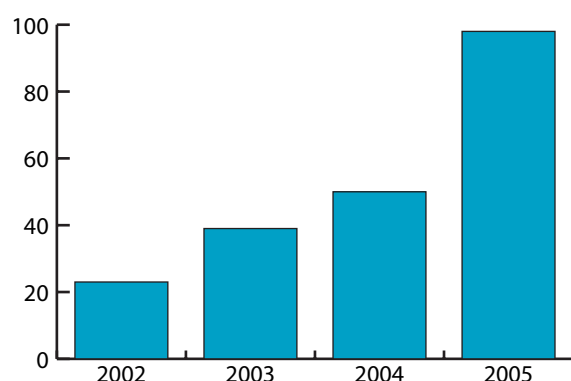


Contributions

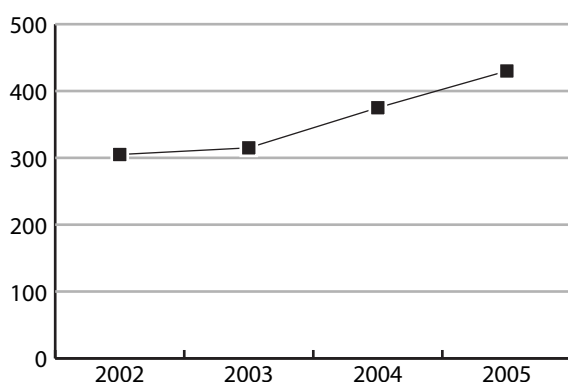
Contributions collected during the Financial Year totaled \$97.3 million. This was an increase by 50% compared to the previous year. This substantial increase was a result of amortization of civil servants' contribution arrears and close cooperation and understanding by employers in paying contributions. The total members' contributions stood at a record high of \$435 million - an increase by \$76.9 million or 18% increase from the previous year. It is envisage the total contribution balance will continue to increase with growth in years ahead.



**Contribution Collected in
\$Millions: 2002 - 2005**



**Total Members' Contribution
Balance in \$Millions: 2002 - 2005**



Surcharges

The total surcharges collected reached \$1.85 million. An increase by about 30% compared to previous year. The surcharges was applied at 2% per month on the outstanding contributions not been paid by an employer according to the applicable provisions in the SINPF Act. The Fund Management had pursued aggressive measures on employers who have intentionally failed to meet their obligations and this would continue as a matter of policy.

Members Benefits

The total withdrawal applications during the financial year stood at 1,208 and this translated to payments amounted to \$27.8 million - an increase by \$1.5 million from previous year. Annually, the withdrawals were on \$27 million average since last three years. The Fund met the withdrawals comfortably with surpluses and these been diverted to different "investment vehicles" locally. The grounds of withdrawals are as follow:

- Ground 1 Attaining age 50 years
- Ground 2 Deceased member
- Ground 3 Medically incapacitated
- Ground 4 Member migrating overseas
- Ground 5 Redundancy
- Ground 6 40 Years and Permanently Retired

The number of withdrawal applications from the period 2003 to 2005 is seen below:

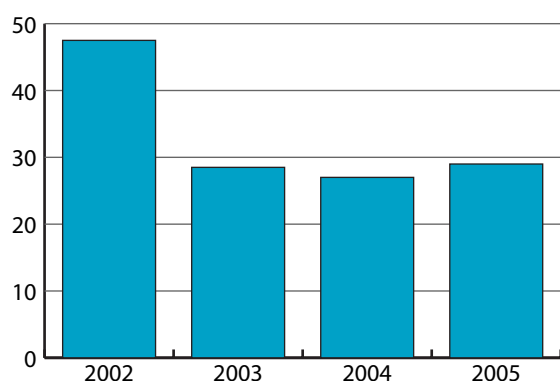
**Table 1: Approved Withdrawal
Applications & Grounds: 2002 - 2005**

Years	G1	G2	G3	G4	G5	G6
2002	744	226	81	179	1885	854
2003	583	152	25	111	910	534
2004	637	194	33	60	632	529
2005	520	87	36	27	277	261

It is a legal requirement under Section 8 of the SINPF Act that the Board has to declare an interest rate not below 2.5% minimum statutory rate. In this respect, the Board had declared interest rate of 2.5% on the members' balances held with the Fund as at 30th June 2005. As a result, a total of \$8.9 million was

Overview of Operations (continued)

**Total Members Financial Withdrawals
in \$Millions: 2002 - 2005**



credited to the members - an increase of \$1.1 million compared to the 2004 Financial Year figure. The Board is committed to realize better returns to the members in the future.

Special Death Benefits

The Board, in compliance to Section 9 of SINPF Act has declared a maximum of \$2,500 payable for special death benefits. A total of \$133,380 was paid for 81 members died during the period. A total accumulative amount in respect of an annual discount of \$5.00 per member from their respective balances has reached \$2.4 million - an increase of 7% from the previous year.

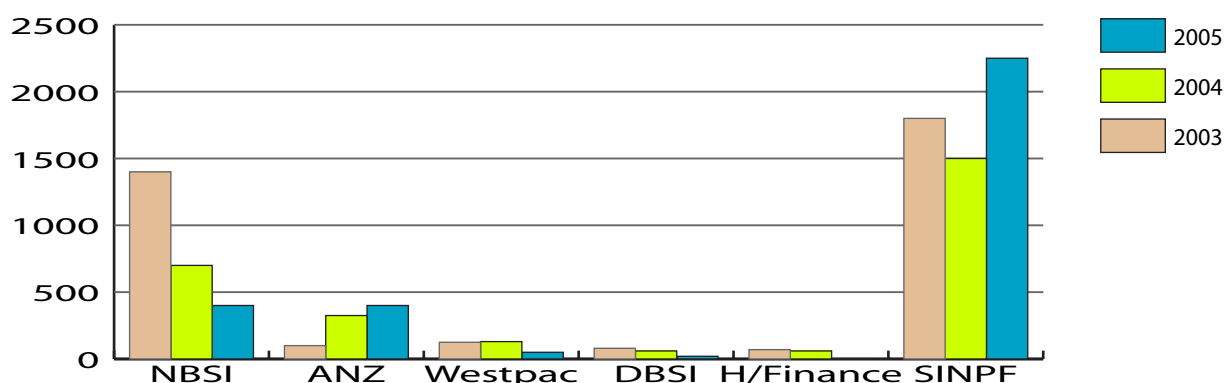
Pledges

Total amount of pledges claimed by commercial banks, Home Finance and SINPF for the Financial Year ending 30th June 2005 reached approximately \$3.1 million compared to \$2.7 million the previous year. This has represented 272 - the total number of pledges claimed. The Fund captured 48% of the total amount claimed and number of pledges claimed reached 179 applications during the year. However there were pledges cleared by committed members with the other local financial institutions subscribed under the SINPF Act.

Investment

Solomon Islands economy was projected to grow by 4.1% and it is likely to be attainable. Inflation in 2004 was recorded at 6.9% and movement in the price index in 2005 is expected to range from 6 to 9%. The improvement of government's revenue collection and stringent management of public expenditures has enable government to start paying down its domestic creditors and as well dealt positively with its debts with commercial banks and National Provident Fund. The risk to government losing the momentum in moving forward its reform agenda that is critically necessary to stimulate

Amount of Pledge claimed by Financial Institutions in \$Thousands: 2002 - 2005



**Table 2: Commercial Investment Portfolios at 30 June 2005**

Investment Class	%	2004 \$	2005 \$	Contributions to gross income (%)
Loans to Provinces	3.9	19 170 360	18 130 970	0
Rental Properties	7.5	36 952 484	50 677 750	18
Members Loans	8.3	44 476 610	42 492 710	6
Loans to SOEs	9.2	46 240 330	43 237 630	8
Equity	19.3	64 865 660	90 365 660	28
Bank Term Deposits	21.4	58 800 000	100 348 000	12
Government Securities	27.7	94 270 050	129 468 900	15
Total		364 775 400	474 721 620	

private sector development and further improve confidence should not taken lightly. Hence the crucial need for a continued commitment by government was necessary thus creating an enabling environment for private sector investments.

Though the domestic economy resumed its recovery process with modest growth, the Fund still found it difficult to realize its income potential from its current level of investments been made. Moreover, it was not possible to identify and pursue feasible investments domestically that would bring about higher profitability and rate of returns to members. The investment income was seriously affected due to negligible interest rates offered by the banks and continued existence of some impaired investments due to Provincial Governments (western & Malaita) and state-owned enterprises. The table below depicted major investments by the Fund and their contributions to the gross income that was led by equity investment and followed by rental properties. The total investment portfolio had increased by 20% and further increases envisaged in the future as the Trustees continue

to search and identify feasible investments with better returns. In this respect, the Board will maintain their commitment to achieve this important agenda.

Banks

The Fund has cautiously invested in secured low return investments in commercial banks on fixed term deposits of slightly over \$41.5 million at negligible interest rates ranging from 0.4% to 1.5%. Moreover the Fund has purchased treasury bills amounted \$6.2 million issued by Central bank on competitive bidding basis for interest rates ranging from 2.5% to 6%. These low rates had deprived the income potential the Fund should have earned from its investments thus the Board's strong desire to secure offshore investment through different genuine investment vehicles that would yield higher returns to members. A consultant who was co-financed by the Fund and Australian Business Volunteer Ltd was engaged to advice the Board on policy guidelines to pursue its offshore investment agenda. CBSI found it difficult to grant approval to the Fund as yet.

Overview of Operations (continued)

Table 3: Equity Investments ending June 2005

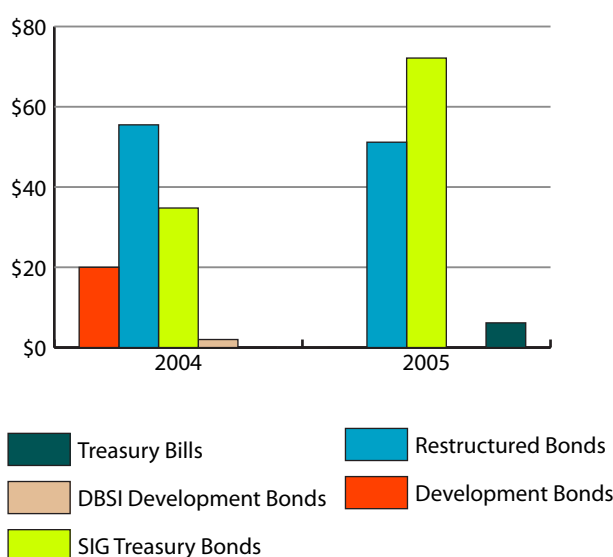
Companies	No. of Shares (%)	\$	ROI (%)
Solomon Telekom	56	78 115 660	10
National Bank	49	8 500 000	0
Solomon Mutual Insurance	75	3 750 000	5
Total		\$90 365 660	

Equity

During the year, a further investment was made in Solomon Telekom Ltd through purchasing of additional 25,500,000 ordinary "A" shares of \$1.00 each for \$25.5 million. This equity investment had brought SINPF total shareholding in Solomon Telekom Ltd to 59.14%. The investment had enabled the Fund to receive dividend payment amounted \$7.66 million or securing return of 10%. Solomon Mutual Insurance maintained same investment level without a change and dividends valued \$187,500 or 5% rate of return was received. National Bank of Solomon Islands also maintained same equity level but no dividends paid to shareholders as yet. The total equity investment made by the Fund stood at \$90.4 million - an increase by 28% from previous year.

2.5% per annum. A monthly amortized payments of \$723,088 been received from government thus contributed 15% of the Fund's gross income.

Government Securities



Government Securities

In mid and late 2004, the government signed a Deed Agreement with the Fund to vary the terms and conditions of its Treasury, development and Development bank Bonds into Amortizing bonds for less than 15 years. Moreover, the unpaid contributions in respect of public employees were also securitized and amortized. These Bonds then totaled \$129.5 million and would continue to dominate the Fund's investment portfolio for a while. These were impaired investment assets in the recent past however those were then transformed to performing asset. The first three Bonds are priced at low rates of 2% per annum and 4th at

Security Type	2004 (\$M)	2005 (\$M)
Development Bonds	2.0	0
Restructured Bonds	55.5	51.2
SIG Treasury Bonds	34.8	72.1
DBSI Development Bonds	2.0	0
Treasury Bills	0	6.2
Total	\$94.2	\$129.5



Rental Properties

The Fund invested in commercial properties that serves as a hedge against inflation and offers both potential for capital appreciation over time and portfolio diversification against gilt-edged government securities, loans and equities. The current commercial properties include: Anthony Saru Building, NPF Building, Brisbane Floor Property and Komi Pako Building. During the year, there was no further investment made however the Board was searching for viable opportunities in the near future. Rentals from properties accounted for about 18% of the Fund's revenue. The government, the largest single tenant, had continued to reduce its rental arrears by almost half of the outstanding amount. The government still committed to clearing its arrears in the next financial year.

Loans

The loans to the state-owned enterprises (SOEs), provinces and members had continued to pose problems to the Fund with limited movement made during the year, in particular the loans to the provinces and some SOEs. The total amount of loans in respect of members and public organizations was slightly over \$103.8 million. Only loans to SOEs and members had contributed 8% and 6% to the Fund's revenue respectively and nil from the provincial loans. In this respect, the Board has taken a hard-line on the recovery of these impaired assets through disposal of mortgage assets. Negotiations with government on the guarantee loans to the SOEs would continue in the next financial year.

Funds Administration

Organization and Human Resources

The organizational restructuring was undertaken to re-align, focus and meeting the challenging that emerged during the poor economic environment in the economy. This was completed during the year when further organizational rightsizing was made to the Provincial branch offices - Gizo and Auki in response to limited business activities taking place in the provinces that led to two junior positions made redundant. A further review would be pursued in the near future if there a sign of economic re-bounce occurred in the provinces. All Departmental Manager positions been filled and Fund now has a team of professional and competent to concertedly manage the members' funds prudently to realize profitability, rebuilding general reserves, high investment returns and social security to members in the future. The total staff of the Fund stood at 108.

The human resources development of staff is an important and ongoing process to better equip staff with new knowledge and skills to execute their responsibilities effectively and also meeting future challenges with competence. Moreover, it enables Management and staff to realize their full potential in realizing the organization's objectives. In this respect, two staff did undertake undergraduate studies at USP, Fiji whilst nine pursued Diploma and Certificate programs at SICHE. Two staff graduated with Diploma from SICHE and one graduated with Bachelor in Commerce from University of Otago, New Zealand during the year.

Overview of Operations (continued)

Information Technology

The Fund has finally had the NPF2000 system for contribution running live with dormant functions like the members' withdrawal and others working as well under the guidance of the IT subcommittee chaired by a Board member. The Fund also acquired the Attache GL System and used for the general ledger accounts as a temporary system to facilitate financial data inputs. The subcommittee would continue to identify practical and feasible IT systems for loan management, general ledger and property investment functions. More emphases should be placed on feasible and practical IT systems to support the general operations of the Fund in terms of an effective customer service, contribution collection & withdrawals, maintenance of accounts and investment monitoring. It is envisage that such systems would be operational in the coming years according to the "IT roadmap" plans.

Internal Audit

Since new Internal Auditor took office, the function of internal audit continues to re-enforce risk management, control and ensuring the recommendations from external auditors and Central Bank's supervisory report are effectively implemented. In so doing, the Board and Management would undertake reviews of strategies to ensure the operational and financial aspects of the Fund are effective and efficient with minimal risks. There would be further strengthening with resources in this area in the future subject workload to be carried out.

Statement by Directors

In accordance with a resolution of the directors of Solomon Islands National Provident Fund, we state that-

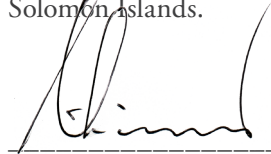
In the opinion of the directors:

(a) the statement of assets and liabilities is drawn up so as to present fairly the state of affairs of the Fund as at 30 June 2005,

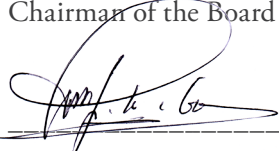
(b) the statement of income and expenditure is drawn up so as to present fairly the loss of the Fund for the financial year ended 30 June 2005,

(c) the statement of contributions is drawn up so as to present fairly the state of members' contributions held by the Fund for the year ended 30 June 2005; and

(d) the financial statements have been made out in accordance with the provisions of the Solomon Islands National Provident Act 1973 as amended, and applicable Accounting Standards in the Solomon Islands.



JHH Beverley, M.B.E
Chairman of the Board



Tony Makabo
General Manager (CEO)

15th November 2005

Report of the Auditor-General



To: The Minister for Finance

The accompanying balance sheet of the Solomon Islands National Provident Fund (herein referred to as the "Fund") for the year ended 30 June 2005 and the related income and expenditure statement, contribution statement and statement of cash flows and notes to and forming part of the financial statements for the year then ended, have been audited under my directions pursuant to Section 47 (2) (b) of the Public Finance and Audit Act (Cap. 120).

Audit Scope

The audit has been conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free of material misstatement. The procedures include examination on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the Solomon Islands National Provident Fund's Act 1973, as amended, and applicable Accounting Standards in the Solomon Islands, so as to present a view which is consistent with my understanding of the Fund's financial position and the results of its operations and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

Pursuant to the provisions of the Solomon Islands National Provident Fund's Act 1973, as amended, I report that in respect of the financial statements of the Fund for the year ended 30 June 2005, in my opinion, the financial statements are properly drawn up so as to give a true and fair view of the financial position of the Solomon Islands National Provident Fund as at 30 June 2005 and the results of its operations and cash flows for the year then ended, and in accordance with the Solomon Islands National Provident Fund's Act 1973, as amended, and applicable Accounting Standards in the Solomon Islands.

Floyd Augustine Fatai
Auditor-General
Office of the Auditor-General
P O Box G18
Honiara, Solomon Islands
19th December 2005

Report of the Auditor



SOLOMON ISLANDS NATIONAL PROVIDENT FUND
AUDITORS' REPORT TO THE AUDITOR GENERAL
FOR THE YEAR ENDED 30 JUNE 2005

PricewaterhouseCoopers
 City Centre Building
 Mendana Avenue
 Honiara
 Solomon Islands
 postal address
 PO Box 70
 Telephone (677) 21851
 Facsimile (677) 23342

Scope

We have audited the financial statements of Solomon Islands National Provident Fund for the financial year ended 30 June 2005 as set out on pages 3 to 18. The Fund's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the Auditor General.

Our audit has been conducted in accordance with applicable Auditing Standards in the Solomon Islands to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Applicable Accounting Standards and statutory requirements in the Solomon Islands so as to present a view which is consistent with our understanding of the Fund's financial position, the results of its operations and its sources and application of funds. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the attached balance sheet, income and expenditure statement and statement of sources and applications of funds are in agreement with the books of account kept by the Fund and are properly drawn up:

- (i) so as to give a true and fair view of the Fund's state of affairs as at 30 June 2005 and of its loss for the financial year ended on that date;
- (ii) in accordance with the provisions of the Public Finance and Audit Act 1978; and
- (iii) in accordance with applicable accounting standards in the Solomon Islands.

Emphasis of Matters

Without qualifying our opinion we draw your attention to note 10 to the financial statements. The operations of the Fund and those of similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for the foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands. The majority of the assets of the Fund are exposed to these uncertainties. We also draw your attention to note 11 to the financial statements regarding the contingent liability of the Fund should the members take legal action to recover the interest not credited to members' contribution account.

PRICEWATERHOUSECOOPERS
Chartered Accountants

BY WAYNE F. MORRIS
PARTNER

Date: 17.2.2006
 Honiara

Statement of Assets and Liabilities

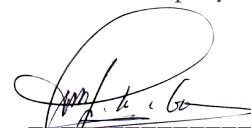
AS AT 30 JUNE 2005

	Notes	2005	2004
		\$	\$
RESERVES			
Revaluation Reserve	2	21,135,293	21,135,293
General Reserve	2	(9,592,284)	(7,201,475)
Total Reserves		11,543,009	13,933,818
Represented by:			
CURRENT ASSETS			
Cash		8,936,362	4,581,327
Receivables	3	12,724,536	26,263,790
Investments	4	115,943,131	71,356,471
		137,604,029	102,201,588
NON-CURRENT ASSETS			
Investments	5(a)	294,906,133	251,243,871
Property, plant and equipment	6	21,335,815	22,709,247
		316,241,948	273,953,118
Total Assets		453,845,977	376,154,706
CURRENT LIABILITIES			
Creditors		281,699	366,321
Accruals and Provisions	7	4,930,776	1,827,337
		5,212,475	2,193,658
NON-CURRENT LIABILITIES			
Special Death Benefits	1(b)	2,411,315	2,239,128
Members Contributions		434,679,178	357,788,102
		437,090,493	360,027,230
Total Liabilities		442,302,968	362,220,888
NET ASSETS		11,543,009	13,933,818

The balance sheet should be read in conjunction with the accompanying notes.



JHH Beverley, M.B.E
Chairman of the Board



Tony Makabo
General Manager (CEO)

Statement of Income and Expenditure

FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	\$	\$
INVESTMENT INCOME		
Interests	11,490,143	12,293,310
Dividends	7,848,070	7,095,365
Rentals	5,015,274	4,569,357
	24,353,487	23,958,032
OTHER INCOME		
Surcharges	1,847,334	1,341,131
Sundry	1,409,236	107,205
Profit on sale of Assets	90,776	70,809
	3,347,436	1,519,145
TOTAL INCOME	27,700,923	25,477,177
LESS: OPERATING EXPENDITURE		
Normal Operating Expenses	16,075,828	14,559,328
Members Expenses	257,214	247,445
Doubtful Debts	3,569,900	52,907,926
TOTAL EXPENDITURE	19,902,942	67,714,699
GROSS SURPLUS/(DEFICIT)	7,797,981	(42,237,522)
LESS: APPROPRIATION		
Interests Credited to Members	8,945,392	7,837,947
NET DEFICIT	(1,147,411)	(50,075,469)

The above statement should be read in conjunction with the accompanying notes.

Statement of Contributions

AS AT 30 JUNE 2005

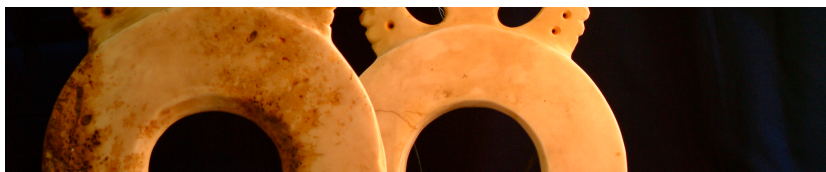
	Notes	2005	2004
		\$	\$
Opening Balance at 1 July		357,788,102	327,141,230
		351,135	(516,945)
Prior year adjustments			
Adjusted Opening Balance at 1 July		358,139,237	326,624,285
Add: Contributions Received during the year		97,251,248	49,983,706
Interests on Members Accounts	I(c)	8,945,392	7,837,947
		464,335,877	384,445,938
Less: Contribution Withdrawals		27,760,122	26,309,386
Transfer to SDB Reserves	I(b)	363,085	349,291
Transfer to General Reserves	2(b)	1,392,266	
		29,515,473	26,658,677
		434,820,404	357,787,261
Less: Others		141,266	(841)
Balance at 30 June		434,679,178	357,788,102
Represented by:			
Identified		398,464,439	334,850,592
Unidentified		8,237,994	5,229,251
Contribution Creditors	I(a)	27,976,745	17,708,259
		434,679,178	357,788,102

The above statement should be read in conjunction with the accompanying notes

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005	2004
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from investments and customers		42,862,651	63,369,001
Payments to suppliers and employees		(18,833,545)	(69,074,779)
Interest and benefits paid to members		(257,214)	(247,445)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(b)	23,771,892	(5,953,223)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Property, Plant and Equipment		521,215	(6,244,992)
Investment in loan portfolios & members etc		(92,132,816)	(19,158,329)
Proceeds from sale of Property, Plant and Equipment		298,926	308,688
NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(91,312,675)	(25,094,633)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(Decrease) in contribution balance		73,272,994	30,646,873
Payment of Special Death Benefits		(133,778)	(187,450)
Increase/(Decrease) in Working Capital		(1,243,398)	80,264
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		71,895,818	30,539,687
NET INCREASE/(DECREASE) IN CASH HELD		4,355,035	(508,169)
Add opening cash brought forward		4,581,328	5,089,497
CLOSING CASH CARRIED FORWARD	(a)	8,936,363	4,581,328
(a) Reconciliation of cash			
Cash balance comprises:		8,935,343	4,580,308
- Cash at bank			
- Cash on hand		1,020	1,020
Closing cash balance		8,936,363	4,581,328



	2005	2004
	\$	\$
(b) Reconciliation of the operating Surplus/(Loss) after Interests to the net cash flows from operations:		
Net Surplus/(Loss) after Interests to Members	(1,147,410)	(50,075,469)
Add: NON-CASH EXPENDITURES		
Depreciation of Fixed Assets	3,865,763	(1,693,142)
Annual Interests to Members	8,945,391	7,837,947
Bad and Doubtful Debts	3,569,900	40,008,000
Increase/(Decrease) in Accounts Payable	(3,018,817)	(115,866)
	12,214,827	46,036,939
Less: NON-CASH INCOME		
Net Exchange gains	(242,913)	-
Net (Loss)/Gain on Disposal of Fixed Assets	(90,776)	(107,205)
(Increase)/Decrease in Account Receivable	11,890,754	(3,468,612)
(Increase)/Decrease in Accrued Incomes	-	1,661,124
Net Surplus/(Loss) from Operation	23,771,892	(5,953,223)

Notes To and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Solomon Islands National Provident Fund is a Fund established for the benefit of all persons employed in the Solomon Islands. An employee is any person who has attained the age of 14 years of age, is not exempt and is employed under a contract of service, irrespective of the period for which a person is employed.

Employers are required to make contributions of 12.5% of salary for each employee and may recover 5% of the contribution from the employee.

Benefits are paid to members on attaining the age of 50 years, on death, are physically or mentally incapacitated from further employment, permanent emigration or attaining the age of 40 years and have permanently retired. In general the benefits paid to members is equal to their accumulated contributions plus interest allocated to them by the Board (refer note 1 (c) below). In addition on death, members are paid a special death benefit.

The balance of the contribution account at any time represents the total liability to members for all benefits (other than Special Death Benefit) in the event that all members become eligible for payment of benefit on that date.

The accounts of the Fund have been drawn up in accordance with the requirements of the Applicable Accounting Standards in the Solomon Islands. They have been prepared on the basis of historical cost and do not take into account changing money values or, except

where stated current valuation of assets. Except where stated, the accounting policies have been consistently applied.

All accounts of the Fund are maintained on accrual account basis except the Contributions Account.

(a) Members Contribution Account

The Contribution Accounts has been maintained on a cash basis except where the monthly Submissions have been received without the corresponding cash payments at the close of year, the contributions are treated as accounts receivable.

(b) Special Death Benefit (SDB)

Under the terms of the Solomon Islands National Provident Fund Act 1973 as amended, an amount is deducted from each member's account at 30 June each year in respect of Special Death Benefit to be paid to the beneficiaries of the member after their death. At 30 June 2005, the amount deducted from each member's account was \$5 (or the amount Standing to the credit of the account if less than \$5). The maximum sum payable on SDB for the year ending 30 June 2005 was \$2,500.

(c) Interest on Members Account

Interest credited to a member's account at 30 June in any one year is calculated on the balance standing to the credit of the member's account as at 1 July in the previous year. In accordance with Section 8 of the Solomon Islands National Provident Fund Act, the minimum interest rate to be credited to the members account is 2.5%. Under Section 10 of the Act if the Fund is at any time unable to pay any sum which is required under the Act

Notes To and Forming Part of the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

then the sum required shall be advanced by the Government out of the Consolidated Fund and the Fund shall as soon as practicable repay to the Government the sum advanced.

(d) Fixed Assets and Depreciation

- * Fixed assets have been stated at cost or at valuation less depreciation
- * Leasehold lands are amortized over the period of the lease
- * Buildings are depreciated on a straight line basis so as to write off their cost over the period of the lease of the land on which they are situated.
- * Other assets are depreciated at rates considered adequate to extinguish the book value of each asset over its estimated useful life.

(e) Income Tax

By virtue of Section 38A of the Solomon Islands National Provident Fund Act 1973 as amended, the incomes of the Fund are exempted from income tax.

(f) Provision for Doubtful Loans and Investments

Except where a specific provision is established all bad loans are written off against profit and loss account in the period in which they are recognized. A provision for doubtful loans which is determined by many factors including value of security held, credit valuation of borrowers, current economic conditions and past loss experience is maintained against specific doubtful loans. Increases or decreases on the provision are charged against the profit and loss.

(g) Investments

Investments are valued at cost and no allowance has been made where market values are lower than cost.

NOTE 2: RESERVES AND OPERATING FINANCIAL PERFORMANCE

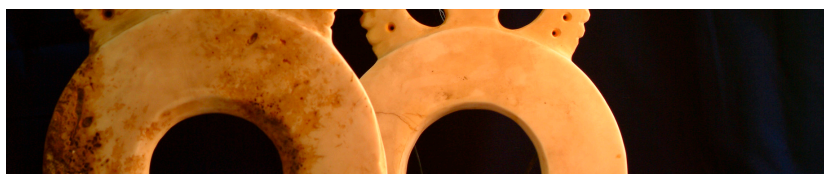
In accordance with general practice for similar Funds, the Fund holds reserves. The following is a summary of the reserves held:

On 30 September 2003 the directors revalued certain land and buildings. The increase in valuation arising was credited to the revaluation reserve and therefore does not effect members' accounts.

The general reserve is held to cover future contingencies and to meet the cost of interest allocated to member accounts. The following items are credited to the reserve each year:

- * Net unappropriated surplus from operation
- * Unclaimed contributions outstanding more than 5 years

In the event where the general reserve is in deficiency due to losses arising from operations, including shortfalls of surplus resulted from interests allocated to members' accounts, such losses are to be off setted and recovered from subsequent earnings and future surpluses.



	2005	2004
	\$	\$
(a) Revaluation Reserve		
Opening Balance	21,135,293	2,112,464
Add: Revaluation during the year	-	19,022,829
Balance at 30 June	21,135,293	21,135,293
(b) General Reserve		
Opening Balance	(7,201,475)	42,793,731
Transfers - Unclaimed Contributions	1,392,266	-
Prior year adjustments	(2,635,664)	80,263
Loss for the year	(1,147,411)	(50,075,469)
Balance at 30 June	(9,592,284)	(7,201,475)
TOTAL RESERVES	11,543,009	13,933,818

Included in general reserves is an adjustment for \$2.6m relating to prior year difference in the contribution account. This difference relate to the discrepancy in the computer system where the opening balance of members contributions in this financial year does not match the closing in the previous year. At the conclusion of this account the discrepancy was not fully rectified due to insufficient time. The matter will be addressed in the next financial year so that it is reconciled and fully resolved.

Notes To and Forming Part of The Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

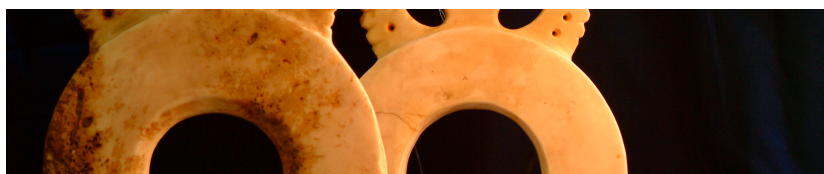
NOTE 3: CURRENT ASSETS - RECEIVABLES

	2005	2004
	\$	\$
Interests	1,197,819	8,116,870
Rentals	3,823,055	5,983,565
Dividends	7,660,570	10,286,233
Surcharges	5,082,323	5,103,734
Others	217,269	381,388
	17,981,036	29,871,790
Less: Provision for Doubtful Debts	5,256,500	3,608,000
	12,724,536	26,263,790

The provisions of \$5,256,500 is provided against arrears on interests, surcharges and rents that were valued at \$ 10.1 million as at 30th June 2005. This is provided based on general provisioning calculated at 20%, 50% and 100% according to aging of the debts in line with the prudential guidelines of the Financial Institutions Act.

NOTE 4: CURRENT ASSETS - INVESTMENTS

	2005	2004
	\$	\$
Term Deposits	100,348,000	58,800,000
Less: Provisions	3,600,000	1,400,000
	96,748,000	57,400,000
Loans Current Portion Due Within 1 Year		
Quasi Government	6,130,518	2,946,197
Provincial Governmen	6,810,506	4,246,863
Members' Schemes	5,195,210	5,947,296
Staff Schemes	1,058,897	816,115
	19,195,131	13,956,471
Total Current Assets	115,943,131	71,356,471

**NOTE 5(a) NON-CURRENT ASSETS - INVESTMENTS**

	2005	2004
	\$	\$
Rental Land and Buildings - at cost	4,668,850	4,668,850
At Directors Valuation - 2003	34,585,000	34,585,000
	39,253,850	39,253,850
Less: Accumulated Depreciation	4,264,059	2,301,366
Net Book Value	34,989,791	36,952,484
Shares	90,365,662	64,865,662
Less: Provisions	937,500	-
	89,428,162	64,865,662
Government Securities	129,468,912	94,271,053
	218,897,074	159,136,715
Loans:		
Quasi Government	37,107,107	43,294,137
Provincial Governments	11,320,461	14,923,498
Members' Schemes	33,447,574	38,529,312
Staff Schemes	2,791,026	3,270,725
	84,666,168	100,017,672
Less: Provision for Doubtful Debts	43,646,900	44,863,000
	41,019,268	55,154,692
Total Non-Current Assets - Investments	294,906,133	251,243,871

Included in the non current investment balance at 30th June 2005 is the total arrears of \$29.3 million relating to non performing commercial loans and members housing loans. The component making up the total arrears analyzed under commercial loans and members loans, and the provisions provided against the overall debt exposure at 30th June 2005 is shown below:

Notes To and Forming Part of The Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

	Arrears (\$)	Total Debts Exposure
Commercial Loan Arrears		
Malaita Province	3,158,514	8,723,862
Western Province	5,791,107	9,407,104
DBSI	2,273,172	4,004,502
SIEA	13,649,449	22,760,819
Visitors Bureau		42,987
CEMA	270,666	288,356
Soltai	78,040	16,140,961
	25,220,948	61,368,591
Members Loans	4,054,475	38,642,783
Staff Loans	21,379	3,849,923
Total	29,296,802	103,861,297
Less Provisions		43,646,900
Balance	29,296,802	60,214,397

A total provisions of \$ 43,646,900 was provided against these debts in the accounts determined on the extent of their impairments based on the credit risk grading criteria classifications under the prudential guidelines of the Financial Institutions Act.

Various actions were taken to recover these arrears and so far Judgements were already obtained against SIEA, DBSI, Soltai and several housing loan borrowers allowing the Fund to foreclose and sell properties held as securities to recover its monies. Similar approach is currently being pursued on the others to obtain Court Orders to sell so that the Fund can exercise its legal rights on the mortgages to recover the debts. Apart from this, and because most of the commercial loans are guaranteed by the Government, an understanding has been brokered with the Government to look into the guaranties, working with both parties, borrowers and NPF to assist in resolving those debts.

NOTE 5:(b) AMOUNT DUE BY SI GOVERNMENT

I) Investment in Treasury Bills Securities

These comprised of short-term investments in the local securities market provided for under the laws of Solomon Islands (cap 119). The securities market is regulated and operated by the Central Bank on behalf of the SI Government. Under the laws governing the securities market investment in treasury bills are restricted upto the maximum term of 90 days.

The local securities market remain closed for a long time since the Collapse in 1999. It was only revived in 2003, following the improvement and stability of Government finances with the assistance of RAMSI. At this stage it is



tightly controlled where issues are limited to Government secured funds kept by the Central Bank. Each week Central Bank publishes an open weekly treasury bills auction inviting investors to bid and apply for how much they offer to buy. At the close of the notice Central Bank assess applications and accept successful tenders based on the series that are actually available.

The fund started participated on the treasury bills auction commencing in April 2004 after it is satisfied that the investment is safe and fully secured by the Central Bank. As at 30 June 2005 the Fund is a registered holder of valid treasury bills certificates in its favour with a total sum of \$6.2 million. So far the Central Bank hasn't defaulted on repayment of matured bills and as such the directors are confident that the \$6.2 million owing from treasury bills at 30 June 2005 are fully recoverable.

II). Investment in Amortized Restructured Bonds.

On 15 July 2004 a Deed was signed by SI Government and bond holders (Judgement Creditors) for the amortization of restructuring

bonds (SINPF \$55.5m) that the Government owed and had fully defaulted on. Under the Deed it was agreed by the parties that the principal debts are rescheduled and repaid over 7 to 14 years. Based on the restructure new instruments on each amortized bonds were issued replacing the old certificates.

The parties also agreed that the government repay 40% of total interest accrued and owed on the restructuring bonds upto 15 June 2004 and the remaining 60% were forgiven. Based on this arrangement NPF received \$2,595,138 on 15 July 2004 and the remaining \$3,892,707.24 representing 60% forgiveness was written off in June 2004.

Upon the execution of the Deed, on the 15 July 2004 \$55.5 million owed to SINPF on restructuring bonds were restructured as follows:

- * \$1.9 million was paid upfront as principal reduction, and
- * The remaining principal of \$53.6 million was rescheduled into four new amortized bonds at 2.0% to 2.5% interest rates repayable over 7 to 14 years period as shown below.

Principal	Term	Maturity Date	Rate %	Period instalment \$	Balance 30/06/05 \$
5,550,000	7 yrs	15/07/11	2.0	70,859.26	4,865,788
11,100,000	10 yrs	15/07/14	2.0	102,134.93	10,170,935
11,100,000	13 yrs	15/07/17	2.0	80,863.17	10,407,041
25,850,000	14 yrs	15/12/18	2.5	53,854.17	25,728,687
53,600,000				307,711.53	51,172,451

Nb: after 7 years repayment on 14 years bond will increase to \$248,720.63 till the debt is fully repaid.

Notes To and Forming Part of The Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

The agreement provides for early repayment of outstanding principals provided the debts accrue no interest arrears, and such early principal repayments in aggregate shall not be less than \$5.0 million and such payments shall be paid to the bond holders *pari passu* in proportion to the aggregate face value of Restructuring Bonds held at the commencement of the Deed, (15 July 2004).

Under the Deed the original terms and conditions of restructuring Bonds that matured on 15 April 2001, 15 July 2002 and 15 April 2003 remained legally in force. However, subject to the compliance by the Government, the bond holders will not take any further steps to recover under the judgement and have agreed the present proceeding be adjourned *sine die*. In the event SI Government defaults under this Deed, by notice bond holders may re-activate the judgement and have proceedings brought for further judgement on the remaining tranches.

Since the Amortized Bonds are repaid directly from a debts sinking fund account maintained in the Central Bank, and because there hasn't been any repayment defaults to date, the directors are of the opinion that the aggregate sum of \$51.2 million owed by SI Government on the Amortized restructuring bonds as at 30 June 2005 are unimpaired and are fully recoverable. No provisions for doubtful debts was provided against these debts in the accounts.

III). Security Investments in Amortized Treasury and Development Bonds.

Government investment on these securities consists of Bonds that were amortized on the Deed dated 2nd December 2004 between SI Government and SINPF. The debts were rescheduled over 7 to 15 years as shown below.

Principal	Term	Rate %	Instalment \$	Maturity Date	Balance 30/06/05 (\$)
\$7,414,528.13	7 yrs	2.0	94,664.51	15/11/11	6,840,691
\$14,829,056.25	10 yrs	2.0	136,447.27	15/11/14	14,053,720
\$14,829,056.25	13 yrs	2.0	108,029.24	15/11/17	14,253,810
\$37,072,640.63	15 yrs	2.5	77,234.07	15/11/19	36,992,290
\$74,145,281.26			\$416,375.29		\$72,140,511

Nb: After 7 years repayment on 15 years bond will increase to \$426,477.85 until debt is fully repaid.



The total principal Amortized Bond of \$74.1 million is made up of \$38.8 million converted from Treasury, Development and DBSI Bonds that were in default, and \$35.4 million in contribution arrears plus \$1.2m in surcharge arrears all ready booked and owing by the SI Government. Under the Deed a reduction in principal of \$1.2m was paid on 15 December 2004. Further more under the Deed SINPF forgave 100% of surcharges not brought to account of \$31.4m owing by the SI Government.

Under the Deed 50% of total accrued interest from the bonds upto 15 November 2004 were paid and the remaining 50% was forgiven and written off in 2004 accounts. There's an option for early repayment on these bonds. In the event that additional principal early reductions are made, the repayment amounts shall be varied appropriated on each of the bonds based on the remaining terms.

Based on this agreement the Government is paying the total sum of \$416,375.69 on the 15th of each month to repay these debts commencing on 15th December 2004. These payments are paid directly to SINPF by CBSI from the debts servicing account maintained in the Central Bank. So far the Government hasn't defaulted on its repayment obligation under this Deed and given repayments are made directly by CBSI, the directors are of the opinion that the total sum of \$72.1 million owing from SI Government on Treasury and Development Amortized Bond as at 30 June 2005 are unimpaired and therefore are fully recoverable. No provisions are provided in the accounts against these debts.

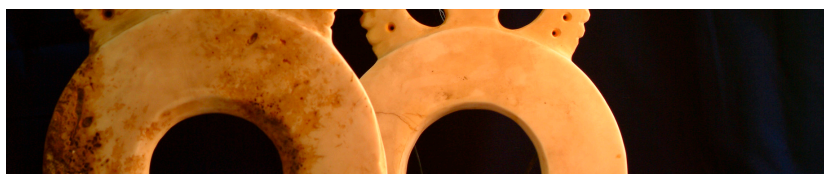
Notes To and Forming Part of The Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 6: NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	2005	2004
	\$	\$
At Directors Valuation - 2003	8,055,000	8,055,000
Less: Accumulated Depreciation	403,084	-
Net Book Value	7,651,916	8,055,000
Residential Buildings - at cost	228,998	-
At Directors Valuation - 2003	8,230,000	8,230,000
	8,458,998	8,230,000
Less: Accumulated Depreciation	422,950	-
Net Book Value	8,036,048	8,230,000
Machinery and Equipments - at cost	3,770,340	3,688,494
Less: Accumulated Depreciation	3,131,373	2,686,833
Net Book Value	638,967	1,001,661
Furniture and Fittings - at cost	834,940	834,730
Less: Accumulated Depreciation	695,503	582,709
Net Book Value	139,437	252,021
Motor Vehicles - at cost	1,361,235	1,792,715
Less: Accumulated Depreciation	1,033,926	1,339,987
Net Book Value	337,309	452,728
Computer - at cost	3,414,761	3,825,350
Less: Accumulated Depreciation	3,008,266	3,233,355
Net Book Value	400,495	591,995
Work-in-Progress	4,135,643	4,125,842
Total Property, plant and equipment:		
At cost	13,745,917	14,267,131
At valuation	16,285,000	16,285,000
	30,030,917	30,552,131
Less: Total Accumulated Depreciation	8,696,102	7,842,884
Total Net Book Value	21,335,815	22,709,247
Work-in-Progress comprises the following:		
Computer Project	4,135,643	4,125,843

The Directors' valuation was based on management's assessment of current market values of the assets in accordance with their expected useful economic life. The valuation was performed by an independent valuer at 30 September 2003.



NOTE 7: CURRENT LIABILITIES - ACCRUALS & PROVISIONS

	2005	2004
	\$	\$
Nominees Trust Account	1,669,519	1,286,789
Accruals	3,261,257	540,548
	4,930,776	1,827,337

NOTE 8: AUDITORS REMUNERATION

Fees totaling \$130,725 was provided in the accounts for audit services this year (\$124,000 last year). No other benefits were received by the auditors during the year other than this.

NOTE 10: GOING CONCERN

The Solomon Islands economy, despite restoration of law and order, will take a considerable time, in years before it is fully revived. The Government through the assistance of donor partners is currently propelling the reconstruction and recovery of the economy. However, it requires political will and concerted participation of all stakeholders, especially the major players in the private sector to revitalise the economy in order to stimulate and expand business activities, restore investor confidence that will lead to employment, improved production and eventually exports.

During the year ended 30 June 2005 the Solomon Islands economy was slowly recovering and the financial performance of the Fund resulted with a reduced deficit of \$1.2 million compared to a significant loss of \$50.1 million in the previous year. Even so, there's still a lot of effort required on debts recovery because many investments are still impaired and non-performing. The operation of the Fund can

only be restored to its full financial capacity if non performing investments are resolved and returned to performing status. As at 30 June 2005 non performing investments accounts for \$75.0 million (2004 \$109 million) for which \$44.0 million was provided in the financial statements against these debts.

Despite the problems currently faced by the Fund on investments, the Board is confident the Fund will continue with its normal operations and should be able to carry on as a going concern for the foreseeable future. There's still some uncertainty clouding the fragile state of the economy and the financial statements do not include any adjustments that might arise from these uncertainties.

NOTE 11: CONTINGENT LIABILITY

Following the Deed signed on 2nd December 2004, as per Note 5(b)(iii) between Solomon Islands National Provident Fund and Solomon Islands Government, SINPF have credited the members with the contributions of \$35.4M during 2005.

Due to the nonpayment of the contributions the members were not credited interest on these contributions for the years ended 1999 to 2004. Concerns have been raised that members may take legal action to recover the interest not credited. If SINPF as Trustees is required to credit the interest for these members, then the interest would have to be paid out of General Reserves. The General Reserves are in deficit by \$9.6M as at 30th June 2005 and therefore the Fund would not be in a position to pay the interest as provided for under the Solomon Islands National Provident Fund Act. It is not possible to quantify the amount of interest payable.

