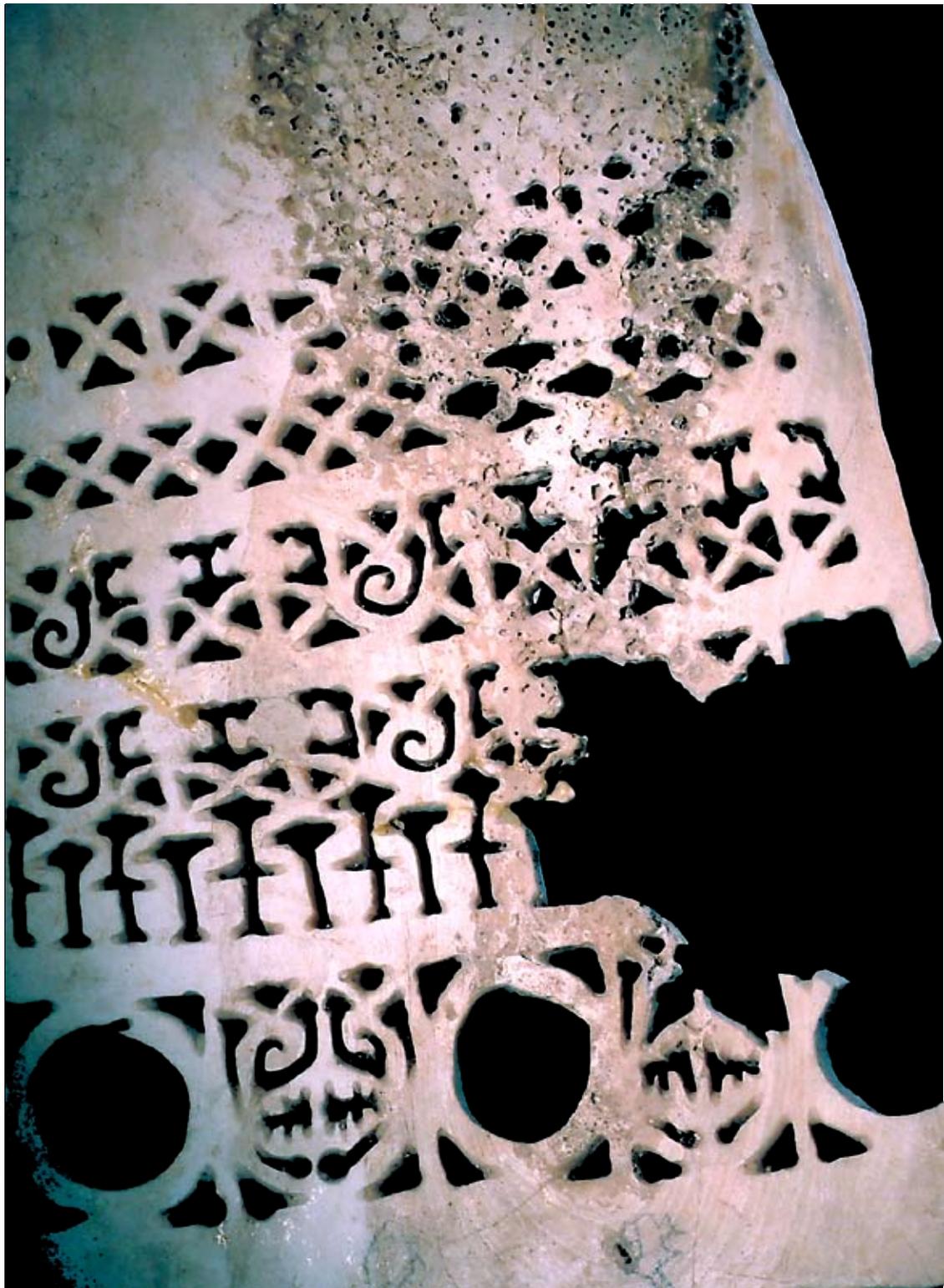
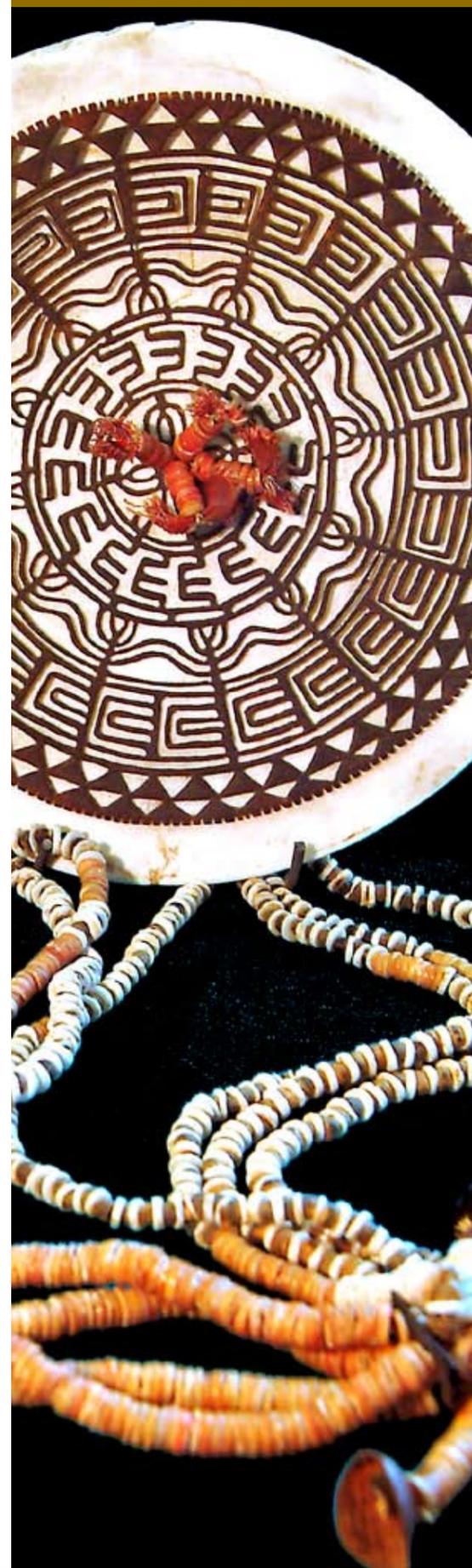




SOLOMON ISLANDS
NATIONAL PROVIDENT FUND
Annual Report 2006





HEAD OFFICE & REGISTERED OFFICE

NPF Building,
PO Box 619,
Mendana Avenue
Honiara Solomon Islands
TELEPHONE: (677) 21659
FACSIMILE: (677) 20484

BANKS:

- Westpac Banking Corporation
- National Bank of Solomon Islands
Honiara

AUDITORS

- Auditor General
- PriceWaterhouseCoopers
Honiara

LEGAL ADVISORS

Sol-Law
Barristers, Solicitors & Notaries
PO Box 498,
Honiara
Level 5 Anthony Saru Building
Telephone: 23886
Facsimile: 20356
Email: sollaw@solomon.com.sb

James Apania Lawyers
Baristers & Solicitors
PO Box 897,
Honiara,
Solomon Mutual Centre Building
Telephone: 21382
Facsimile: 21384
Email: japani@solomon.com.sb



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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 2006**

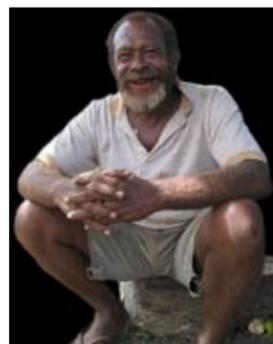
In accordance with Section 12(2) of Solomon Islands National Provident Fund Act 1973 (as amended), I have the honour to submit to you, on behalf of the Board of Trustees of Solomon Islands National Provident Fund, the Annual Report for the Financial Year ended 30th June 2006 which incorporates the Statement of Assets and Liabilities, Statement of Accounts and major development events and activities of the Fund during the financial period.

Thank you and appreciate your continuous understanding, support 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 sustainable growth;
- Support and facilitate delivery of Social Security Benefits;
- Partake in economic and social developments in Solomon Islands;
- Make prudent investment decisions and sound management;
- Enhance knowledge and skills of staff to fully utilize their potential;
- 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 service promptly and efficiently on cohesive manner;
- We will exercise sound management practices and prudential investment policies of funds we are entrusted;
- We will act responsibly to enhance and sustain sound financial growth;
- We will fulfill growth of wealth and social security benefits to members;
- We will partake in desired developments as good corporate citizen for the benefit of Solomon Islands;
- We will enhance employees capacities and to fulfill their potentials in meeting future challenges and opportunities;
- We will perform the business affairs of the Fund on ethical manner;
- We will participate in meeting social needs of members' and communities.

The Highlights

- Total accumulated members' contribution balances increased by 12% to \$489 million from \$435 million in FY2005;
- Annual new membership increased by 45% to 4,570 compared to 3,160 in FY2005 whilst total active membership increased slightly 1.4% to 66,041 members during the period;
- Withdrawal applications from members facilitated stood at 1,748 representing amount withdrawn to \$25.1 million;
- Total amount credited to members reached \$15.9 million compared to \$8.9 million in FY2005 - an increased by approximately 79%;
- Total investment portfolio increased to record level by 16% to \$474 million from \$410 million in FY2005;
- SINPF Shareholding at Solomon Telekom Limited increased to 64.7% reflecting 51,946,625 ordinary Class "A" shares;
- Sotai Fishing & Processing Ltd impaired loan of \$16.1 million been taken-over by Government and \$10.0 million amortized;
- Commodities Marketing Authority and Solomon Islands Visitors Bureau loan debts been fully extinguished;
- Prudential Supervisory by Central Bank of Solomon Islands on administrative operations of the Fund been conducted;

Board of Trustees

Names	Appointment	Representative
John H. Beverley MBE	Chairman	Employers
Adrian Wickham	Deputy Chairman	Minister's Discretion
Ivan Dyer	Member	Minister's Discretion
Luma Darcy	Member	Crown
Ronald Unusi	Member	Crown
Gabriel Suri	Member	Employers
Irene Paulsen (Mrs)	Member	Employees
Monica Utukana (Mrs)	Member	Employees



Chairman
John H.H Beverley (MBE)



Deputy Chairman
Adrian Wickham



Director
Irene Paulsen



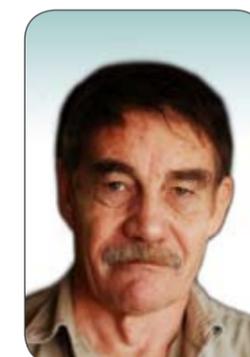
Director
Ronald Unusi



Director
Gabriel Suri



Director
Luma Darcy



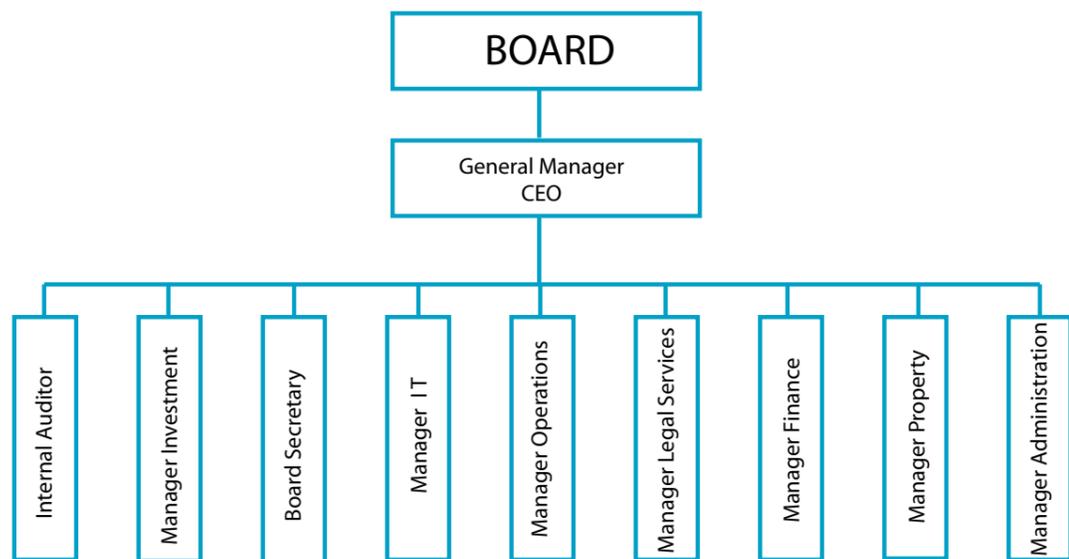
Director
Ivan Dyer

Missing:
Director
Monica Utukana

Management Team

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

Corporate Structure



General Manager / CEO
Tony Makabo



Board Secretary
Ruth Fugui



Manager Finance
John V Joi



Internal Auditor
Areau Hivu



Manager Property
George Hoatamauri



Manager Investment
Michael Wate



Manager Information Technology
Lottie Aumana



Manager Operations
Aluta Kakadi



Manager Administration
Maevalyn Sitai

Manager Legal Services
Gary Fa'aitoa



Chairman's Report



“Investment portfolio surge to a record level and this envisaged to be enhanced in future”

On behalf of the Board of Trustees of Solomon Islands National Provident Fund I have the pleasure to report to ALL members, employers and other stakeholders that the Fund has achieved gross surplus of \$23.7 million in respect of the Financial Year ended 30th June 2006. This has led to the Board declaring interest rate of 4% on the members' balances with the Fund amounted to \$15.9 million been credited to members' accounts. This is an encouraging result for the Fund and its members.

During the period, the Fund continued to experience increase inflows of members' contributions that resulted in a record level of \$489 million in total. The new membership also increased which brought the total active membership to 66,041. Total registered employers reduced due to effects by the unfortunate events happening in the country recently.

The Fund's investment portfolio surged to a record level amounted \$474 million - up by 16% from previous period and this is envisaged to be enhanced in future. The Fund's investment portfolio been dominated by fixed term deposits and Government Security Bonds principally due to lack of investment opportunities available in the domestic economy. The Fund would continue its commitment to undertake further diversification on its investment portfolios to some strategic profitable opportunities that would provide higher return to members. The returns on these investments reached 8.5% and the main attributes emanated from interest on loans and Government Bonds, dividends from Solomon Telekom and property rentals.



Solomon Islands National Provident Fund remains committed to further improve its effectiveness and financial profitability that would lead to enhancing members' wealth. In so doing, the Fund continues to identify viable commercial investment opportunities that would deliver adequate returns to the members. An investment policy and guidelines been in place to provide new direction to invest members' funds in prudent and sound manner.

Looking ahead in future, there is a renew sense of confidence and trust on the Board and Management emerging as they continue to stabilize and improve financial growth of the Fund and wealth of members. The financial position of the Fund is getting stronger and this will be further strengthened when all remaining impaired assets fully performing and new investments made in viable opportunities. I do firmly believe that the Fund will continue to strive for achieving better financial outcomes and returns to members in the years ahead.

May I take this opportunity to sincerely thank my Colleague Board of Trustees and sub-committee members for their loyalty, invaluable support and commitments in respect to their responsibilities to Solomon Islands National Provident Fund. Moreover, I wish to thank the Government, Employers, employees of the country, CEO, Executive Management Team and all the staff for their genuine support and commitment in realizing a successful year of the Fund's operations.

John H. H. Beverley MBE
Chairman

General Manager's Report



Financial Year 2006 has been a successful financial period for Solomon Islands National Provident since the recent social unrest in Solomon Islands. This success would not have come about without the continuous positive direction of the Board of Trustees and committed efforts been displayed by all the hard working staff with teamwork spirit manner to realize the results.

Further restructuring of public sector debts owed to the Fund been undertaken. Solomon Government has agreed to settle about \$16.1 million owed by Soltai Processing & Fishing Ltd. The SINPF Board then secured a 10-year bond of \$10.0 million at 5.2% interest rate per annum whilst the remaining \$6.1 million was paid to the Fund as part of the settlement Deed. Pertinent to Government's previous restructured bonds, the monthly repayments on the previous bonds been consistent and current. This reflects a significant improvement to Governments' financial performance and stability. Furthermore, the loan debts owed by Solomon Islands Visitors Bureau and Commodity Export Marketing Authority been fully extinguished. Discussions on the remaining loans and arrears owed by Malaita Province, Western Province and SIEA to the Fund are underway. It is envisaged that these debts will be amicably settled as soon as practical.

The Fund's investment portfolios had reached record level of \$474 million and envisage a potential growth in the near future. About 64% of the Fund's total investment portfolio been confined to Government securities and fixed term deposits in commercial banks with annual returns of about 2% and 5% respectively. These investments have to be made due to lack of profitable business opportunities available within the domestic economy. However, the Board is determined to pursue feasible diversification strategy of the Fund's investment portfolios through sound investment that facilitates necessary economic and social development of Solomon Islands.



Turning to financial performance, the Fund has posted approximately \$23.7 million surplus which then led to interest credited to members amounted \$15.9 million. The remaining surplus was posted to General Reserve of the Fund. This was a successful result notwithstanding the negligible interest rates offered by commercial banks on fixed term deposits and also the Government securities. The Board remains committed to further improve financial performance and profitability of the Fund and reasonable rate of return on members' funds in the near and long-term future.

The financial success of the Fund would not have been realized without the teamwork and concerted efforts rendered by the Board of Trustees, Executive Management and staff during the year. In this respect, may I sincerely thank the Chairman and members of SINPF Board for their continuous commitment, invaluable guidance and support to Management and Staff. I would also thank the Chairman of the sub-committees of the Board for their assistance to Management and Board in making informed decisions.

I also wish to thank the Executive Management and Staff for their dedication, cooperation and hardworking efforts been displayed during the year. They are wonderful people to work with in delivering the results expected.

Tony Makabo
General Manager & Chief Executive

Corporate Governance

Overview

The Fund is committed to achieving high standard of corporate governance. In this respect, the Board and Management have exercised prudent and sound decisions in realizing the desired set of objectives of the Fund. The Board has realized the essence and benefit to the Fund hence its commitments to further strengthen and at the same time sustain good governance culture in the future for betterment of members.

Importance of an Effective Board

The Board has formalized and defined the functions and powers reserved to the Board and those delegated to management to ensure and facilitate accountability to the members and stakeholders. The appointments of eight (8) Board of Trustees made by Hon. Minister of Finance under Section 3 of SINPF Act maintained during the period, with the exception of one Director - Ms Monica Utukana who resigned to undergo undergraduate studies overseas. The Board composition has been conducive in making informed decisions expediently, with the benefit of a variety of perspectives and skills they have in the best interest of the Fund, its members and the nation. The Board of Trustees has continued to recognize and exercise their fiduciary responsibilities and commitments to ensure profitability enhanced and growth of members' wealth for retirement realized.

Mrs. Ruth Fugui, who was the former Manager Administration, been appointed Secretary to the Board to solely responsible for the Board and allied good corporate governance matters.

Sub-committees and Portfolio Board

The Board maintains its function through the Subcommittees to facilitate making informed decision. The established subcommittees including: Credit and Investment, Information Technology, Audit and Legal Affairs. These subcommittees have been functioning effectively according to their respective formalized mandates given by the Board. There been no any changes made to the composition.



The Board's Policy is to have representations in its Equity Investment Portfolios to ensure its interest and objectives i.e. to achieve adequate investment returns realized and value of members enhanced. In this respect, the SINPF Board members are appointed to represent the Fund in the investment portfolio companies including: National Bank of Solomon Islands (NBSI), Solomon Telekom Limited (STL) and Solomon Mutual Insurance Limited (SMIL). The Fund held two directorships in NBSI and Solomon Telekom whilst three directors in SMI.

The Board and Management maintained their recognition and commitments to ethical standard and ensuring an effectiveness, profitability and growth of wealth to members. Thus, the Board, Management and staff will continue to observe the highest standard of ethical behavior contained in the Code of Conduct when pursuing the business affairs of the Fund.

Reporting with Honesty and Integrity

The Board has recognized the importance of been able to independently verify and safeguard the integrity of the Fund's financial reporting. The General Manager and Manager Finance required to inform the Board that the financial reports represent a true and fair view, in all material respects, of the Fund's financial condition and operational results and are in accordance with relevant international accounting standards. In this connection, the Board always insist that the Fund's Financial Statements be audited by reputable and worldwide recognize accounting firm. The audit of FY2006 Financial Statements was completed within the timeframe required by law - the first time ever for the Fund's audited financial statements completed in time. The Board and Management will continue with their commitments and obligations in future.

Overview of Operations

The Fund has developed and utilized cross-functional teamwork culture from the Board, Management and staff from all departments to ensure financial dues to members collected on timely manner. This would have to be sustained in the years ahead. Public relationship between the Fund and Employers has shown improvements resulting in contributions and arrears paid, especially employers experiencing substantial debt arrears in the past. This has led to adequate improvement in contribution payments.

Other important allied functions under the pervue of Operations that showed satisfactory improvements included: membership registration and withdrawals. The Operations Department continued pursuing its commitment and focus to provide quality customer service to members promptly at all times. Further improvement strategies through Information Technology applications been studied and assessed for implementation as soon as practical.

Employer and Employees



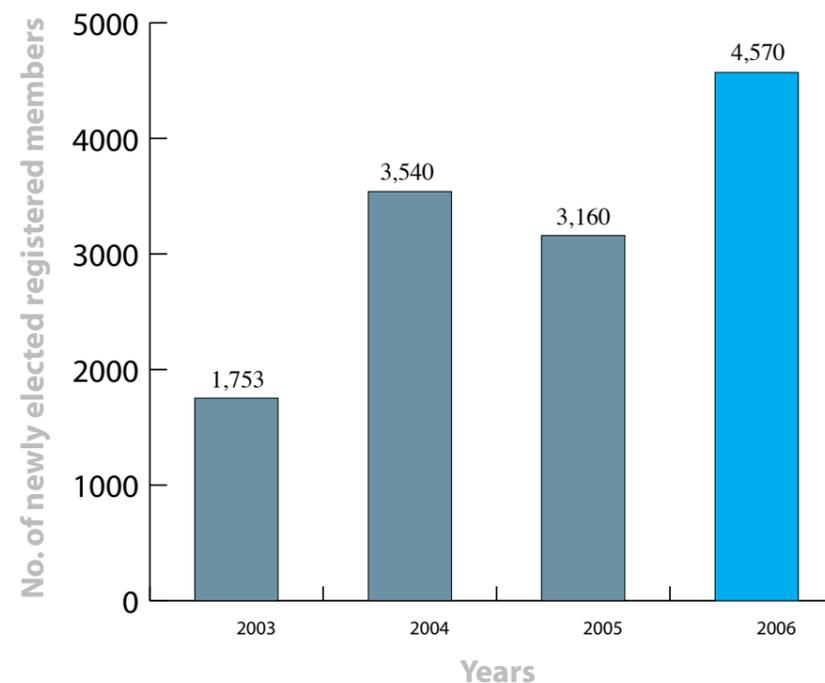
Employer and Membership Registration

New membership grown had satisfactorily in response to the gradual economic improvements and growth. This trend would likely to provide avenue for new membership growth if right investment environment and confidence for private sector investors put in place. Having to improve and institute conducive environment for investments in Solomon Islands is a very prominent agenda that need to be tackled by Government and stakeholders to facilitate direct foreign and domestic investment inflows and employment generation to occur in the local economy.



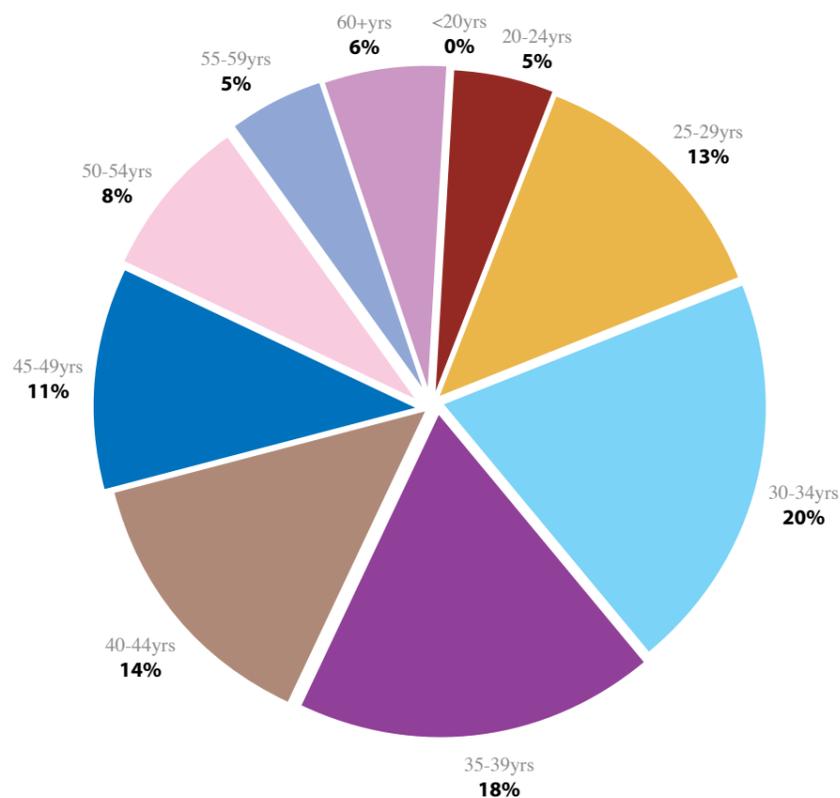
New employees registered during financial period increased by 45% to 4,570 employees. The total number of members of the Fund as at 30 June 2006 stood at 66,041 an increase of 1.4% over previous period. From gender perspective, male membership continued its domination by 71% whilst female stood at 29%. Age membership category from 30 - 44 years dominated the membership and contribution value. The least were those from 18 - 24 years of age. This trend is similar to the previous year.

Bar Chart I: Newly Registered members: 2003 - 2006



Overview of Operations (continued)

Pie Chart I: Accumulated Active Membership by Age-group & percentage



Employers

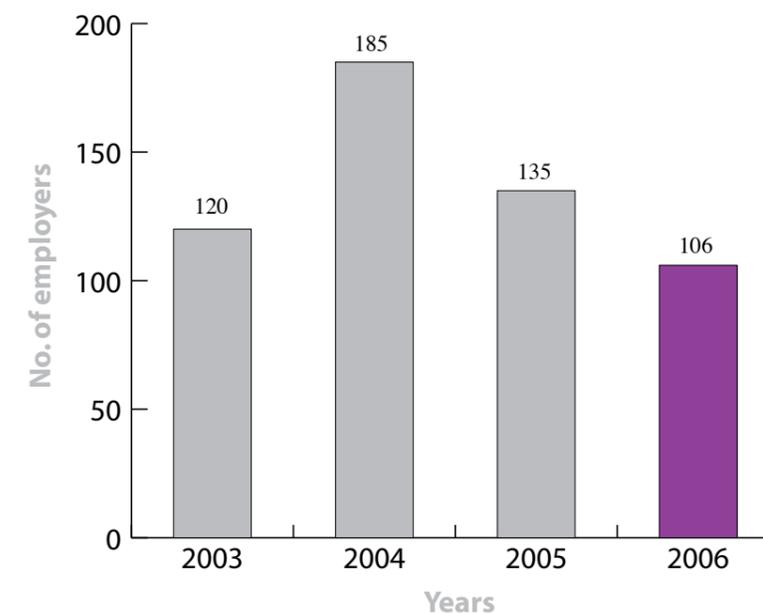
The total number of active employers at the end of the period stood 1,978 - a reduction by about 497 compare to previous period. This is not a good reflection of the nation's ambition for economic growth and employment generation. The "black Tuesday" effect in Honiara had contributed to the reduction coupled with normal ceasing of business operations. The Chinatown burning had led to 103 businesses burnt-down and 800 employees were affected. Out of the total burnt businesses, 28 employers have re-opened their businesses. The re-development of Chinatown (now under discussions and planning) in future might contribute to increases in employers.



The number of newly registered employers stood at 106 - a reduction by 31 compare to the previous financial year.

A review on employers was undertaken during the period has confirmed that 603 employers ceased operations since the events in Year 2000. Moreover, there were 200 employers been registered (information from Registrar of Companies) but have not resumed operations as yet. Again, the need for political stability and enabling investment environment is crucially important to induce and facilitate both private sector foreign direct investments and domestic investments to materialize. This has to be seriously pursued by all stakeholders without delay. Only then, the opportunity for further investments would occur leading to number of employers to increase in future.

Bar Chart 2: Newly Registered employers: 2003 - 2006



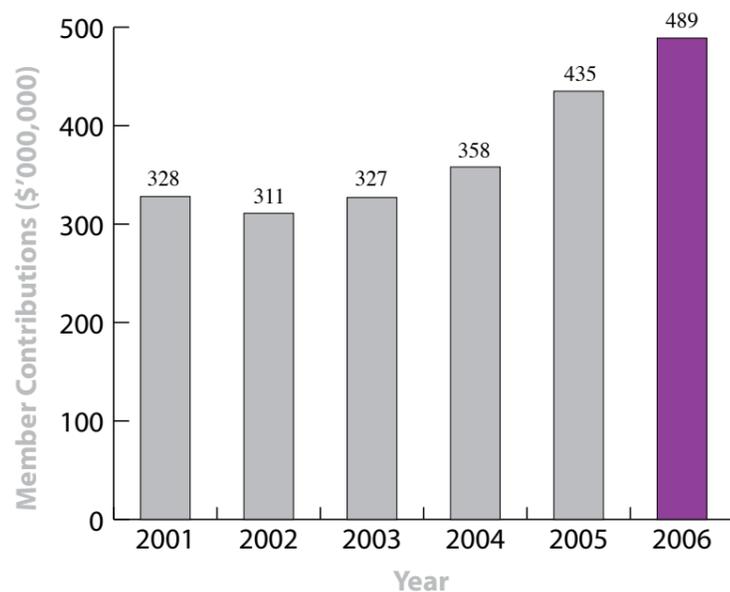
Members' Contributions

Overview of Operations (continued)

Contributions collected continued to sustain upward trend. Annual contributions paid during the period stood at \$64.6 million compared to \$97 million in Y2005 which reflect the securitization of public servants contribution arrears. However, the total members' contributions increased to record level by 12% to \$489 million compared the previous year figure. The Fund envisaged that members' contributions would continue to increase if employers are committed to display their statutory obligations to pay employees contributions and rule of law fully normalize and importantly, investment environment made conducive to investors in years ahead.

Pertinent to unidentified contributions, the balance has declined by 32% to \$5.5 million compared to the previous year figure. This reduction is encouraging and the Board remains committed to resolving this issue so that unidentified contributions are cleared and credited to the rightful members.

Bar Chart 3: Growth of Total Members' Contributions: 1997 - 2006 (\$'000,000)



Withdrawals

The total withdrawal applications during the financial year stood at 1,748 and that had translated to payments amounted to \$25.1 million to members, a decrease of \$2.7 million from the previous year figure of \$27.8 million. Since Y2003, the contribution withdrawals seem stabilized with minimal variations compared to those withdrawals made during the events of Y2000 that were very substantial due to massive redundancies of employment as a result of closure and reduction operation levels of companies and public sector organizations. With that experience, the Board would continue to maintain substantial liquid assets at all times to meet the members' withdrawals. At the current average level of members' withdrawals, the Fund's liquidity has been adequately sufficient to facilitate withdrawals.



Members Withdrawal and Enquiry

The grounds that warrant withdrawals by members by Law are as follow:

- * Ground 1 Attaining age 50 years and above
- * Ground 2 Deceased member
- * Ground 3 Medically incapacitated
- * Ground 4 Member migrating overseas
- * Ground 5 Redundancy
- * Ground 6 40 Years and permanently retired
- * Ground 7 Other Claims - pledges

Overview of Operations (continued)

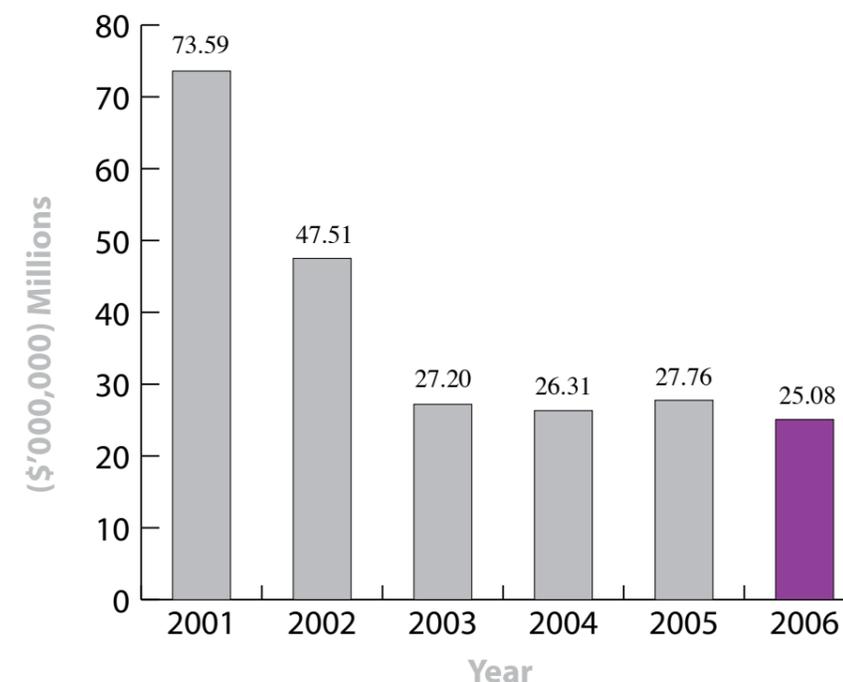
Table 1: Number of Withdrawals 2003-2006

Year	G1	G2	G3	G4	G5	G6	G7	Total
2003	583	152	25	111	910	534	459	2774
2004	637	194	33	60	632	529	241	2326
2005	520	87	36	27	277	261	233	1441
2006	830	83	71	34	412	75	243	1748

Table 2: Approved Applications and Withdrawals 2006

Withdrawal Ground	Number of Application	Amount Withdrawn \$	Withdrawal %
50 Years	830	15,304,800	60.0
Death	83	1,242,320	4.9
Incapacity	71	1,180,400	4.7
Immigration	34	1,691,140	6.6
Redundancy	412	2,403,930	9.5
40 Years & Retired	75	1,143,425	4.5
Claims	243	2,484,340	9.8
Total	1748	\$25,075,211	100.0

Bar Chart 4: Members' Contribution Withdrawals: 2001 - 2006



Surcharges

The surcharge being levied at 2% per month on the outstanding contributions not paid by default employer in accordance to provisions of SINPF Act (1973). Surcharges collected during the financial year increased by 8% to approx. \$2.0 million from previous year. Improved public relations with employers and compliance have led to the improvement of collections.

Though surcharge is still a concern and challenge to the Fund due to default in payment of members' contributions. However, a review of policy would be pursued that would allow the Board to make decision that would lead to some improvements to contribution collection and payments of surcharge when impose.

Overview of Operations (continued)

Members' Benefits

Annual Interest to Members

At end of the Financial Year, the Board has declared an interest rate of 4% on the members' balances held with the Fund as at 30th June 2005. This was a better investment rate of return been offered in the domestic market. The monetary value credited to all members' accounts totaled about \$16.0 million. This has nearly doubled the amount \$8.9 million credited to members' balances in the previous year.

It is a statutory obligation under SINPF Act that varying interest rate to be declared by the Board at the end of each Financial Year. The minimum statutory rate is 2.5%.

Special Death Benefit

The Board declared a maximum of \$2,500 to be payable for special death benefit. This is to comply with Section 9 of SINPF Act. A total amount of about \$142,000 was paid out during the financial year. The accumulated special death benefit with the Fund stood at \$2.2 million - an increase by 4.5% from previous year figure. Members' annual contribution to special death benefit was \$5.00 per member.

Members' Pledge

Total members' applications been received and approved for 2/3rd of their total contribution balances reached 1,765. This represented accumulated total value of \$23.7 million been pledged against members' micro-loan financed by the local commercial banks and other financial institutions.

A total 2/3rd pledge claimed by lending financial institutions amounted to \$2.5 million which represents 243 delinquent loans incurred by members - a reduction by about \$0.6 million from the previous year. The pledge claims represented 10.5% of the total value of loans borrowed by members.

Table 3: Total Pledges claimed by Financial Institutions: 2004-2006

Year	NBSI \$	ANZ \$	WBC \$	DBSI \$	SIHFL \$	SINPF \$	Total
2004	741,980	333,240	129,040	33,980	29,940	1,489,435	2,757,615
2005	396,647	410,750	22,000	4,420	0	2,259,780	3,093,597
2006	122,085	640,085	378,580	29,950	143,450	170,200	1,484,850

THE ECONOMY

The Solomon Islands economy grew by 5.0% and hopefully would post a strong growth of 6.2% in 2007. Further impetus for the private sector led growth would be enhanced by re-opening of the oil palm project on the Guadalcanal plains and gold ridge mining, effecting of the passage of new foreign investment bill and amendments to the tax regime.

Inflation settled at 7.2% as measured by the 12 months moving average of the Honiara Retail Price Index but however, this had increased to 9.6% in mid 2006 as a result of strong increases in the prices of local items. On the international front, fears of rising inflation prompted Central Banks of major economies to raise interest rates to curb inflation. As a result, the increasing interest rates for shorter-term investments had become more attractive.

Furthermore, the expansion at 4.8% of the global economy, which was broad based continued to generate firm demand for our major export commodities keeping their international prices relatively high despite the surge and high volatility in oil prices.

The official gross external reserves were reasonably adequate over the past 12 months equivalent to more than 5 months import cover. This would improve SINPF position to move its off shore investment plans forward as requests to CBSI for foreign currency could be considered in light of the adequate level of the external reserves.

Overview of Operations (continued)

The continued improvement in government's revenue collection and stringent management of public expenditures has enabled Government to paying-down domestic based creditors, including SINPF. The risk to the Government losing the momentum in moving forward its reform agenda being necessary to stimulate private sector development and improve investor confidence is always there and should not be taken for granted. So far the government has continued to display its political will to take on the reforms. Creating an enabling environment for the private sector to improve, grow and improving investor confidence, especially after the events of the April 18 2006 riots is absolutely of paramount importance.

Though these domestic and global developments been encouraging and positive to the growth of Solomon Islands' economy that is necessary to stimulate new investments, SINPF Board would continue adopting a conservative investment stance but at the same time investigating local viable investment opportunities with reasonable rate of return that meets the Board's required risk and return profile.



Finance department staff

INVESTMENT

The Fund's gross investment portfolio surged to \$474 million - an upward by 16% from last year level. The main dominance was the fixed term deposits (IBDs) at 35.5% followed by government security bonds with 28.0%.

About 98.8% of the total portfolio been invested in domestic capital markets whilst 1.2% invested offshore through IBD at commercial bank, Australia so far. The Board envisaged increasing this portfolio in the very near future.

Pertinent to income to the Fund, there was a total increase by about 19.3% to \$29.1 million from \$24.4 million in FY2005. The increase stemmed mainly from the upfront payment was made to the Fund when Government agreed to repay Soltai Fishing & Processing Ltd loan through amortized Bond instrument.

Table 4: Investments by Asset Classes

Investment Assets	2006 Value \$	2005 Value \$	2006 Proportion of Portfolio	2005 Proportion of Portfolio
Staff Loans	3,089,435	3,159,458	0.7 %	0.8 %
Members' Loans	25,528,314	28,932,005	5.0 %	7.0 %
Commercial Loans	14,708,714	27,936,996	3.1 %	6.8 %
Properties	31,126,500	34,989,791	6.5 %	8.5 %
Equities	100,428,162	89,428,162	21.2 %	21.8 %
Govt. Securities	132,719,898	129,468,912	28.0 %	31.5 %
Fixed Term Deposits	169,158,022	96,748,000	35.5 %	23.6 %
Total	473,759,045	410,663,324	100.0 %	100.0 %

Table 5: Income by Major Investment Assets/ Vehicles

Overview of Operations (continued)

Investment Class	2006 Income \$	2005 Income \$	2006 Contribution to Total Income
Cash at bank	46,000	25,980	0.2 %
Fixed Term Deposits	1,752,350	3,195,950	6.0 %
Members & Staff Loans	2,128,760	1,760,240	7.0 %
Government Securities	2,765,910	4,267,180	10.0 %
Properties	5,742,120	4,972,860	19.8 %
Equity Shares	7,655,500	7,848,070	26.0 %
Commercial Loans	8,971,710	2,240,790	31.0 %
Total	29,062,350	24,311,070	100.0 %

* Above represents normal investment income but exclude: gain on sale of assets, foreign exchange gains, surcharges, bad debt recovery, write-back of provisions.

Investment Returns

The investment return by the Fund for the Financial Year had reached 8.5%. This partly led to the declaration of 4% interest rate to members - the highest rate in the domestic market then. Interest income on commercial loans contributed 31% of the total income of the Fund followed by dividends at 26%, rental 19%, government securities 10% and members' loans 6%. The least was 1% in respect of interest bearing deposits in commercial banks. Though, government securities and fixed term deposits accounted for 56% of the total gross investment portfolios, the returns on these investments were negligible hence only attracted not more than 3% whilst income stood at 16.2% of the total investments incomes.

As result of the negligible low investment returns been attained from the existing portfolios in the past years, in particular the IBDs in the domestic commercial banks and government securities, the Board determined to seek offshore investment opportunities - a serious strategic development aimed to reduce risks, enhance income and return to the members. Moreover, the Board has reviewed its investment portfolios and decided

to divert the investments with low returns or been impaired to viable investment opportunities that could yield much higher returns and deliver growth to the members' wealth. The Fund had undertaken consultative study in consultation with CBSI to explore and determine how best and feasible would the Fund engage in offshore investment and types of investment vehicles to utilize. Currency spread and risks also assessed and analyzed. With the approval of CBSI, the Fund would pursue its offshore investment strategy in the next Financial Year.

Commercial Banks

The Fund's investment in the Brisbane property been converted to IBD of AUD1.2 million at Westpac Banking Corporation, Australia at 5.45% after been sold due consistent poor returns in the past and been rolled-on when the term period lapsed.

The Board has placed additional \$68.9 million on fixed term deposits with the domestic banks and this brought the total IBD at \$168.2 million at end of Financial Year The IBD with the commercial banks have attracted low rates thus seriously affected incomes for the Fund. The banks have continuously sustained their negligible interest rate level during the period as result of low-level demand for credit facilities from borrowers. As a consequence, the total investment return on these IBD stood at 10.4% compared to 3.3 % in the previous year. This trend might possibly continue in the near future. However, if the low interest rate trend continue, income may decline therefore low returns to members. The Fund's IBD with Development Bank of Solomon Islands (DBSI) been classified as non-performing and the Board has to pursue strategic measures to fully recover the amount owed and thereafter re-invested to provide return to members.

Though investment in commercial banks attracted low risk and return during the period, the Board is committed to diversify its investment portfolios in other profitable business opportunities that contain risk tolerance and yield better investment returns to members.

Overview of Operations (continued)

Table 6: Income by Investment Class.

	FY2006			FY2005		
	Portfolio \$	Income \$	Return %	Portfolio \$	Income \$	Return %
WBC	125,905,660	1,036,640	0.8	78,800,000	2,279,270	2.9
ANZ	26,000,000	185,150	0.7	0	0	0
NBSI	8,000,000	368,020	4.6	14,548,000	916,680	6.3
DBSI	1,129,390	0	0	7,000,000	0	0
Credit Corp	2,000,000	23,290	1.2	0	0	0
WBC Aust	6,252,360	139,250	2.2	0	0	0
Total	169,287,410	1,752,350	9.5	100,348,000	3,195,950	9.2

Government Securities

The Board has secured from Government a 10-year amortizing Bond of \$10.0 million during the settlement of Soltai Fishing & Processing Company loan it has guaranteed from the Fund. Initially priced at 5.2% however, the rate would be reviewed annually against the 91 days Treasury bill rate.

On the restructured bonds, the rate of return on the balance would be reduced as the Bonds' principal are paid down whilst SINPF held these Bonds to maturity. The overall return from all security investment stood at 2.08% only - a reduction from 3.3% in respect of FY2005. In addition, Government had paid 1% bonus interest in addition to the Bonds' coupon rate after been certified that Government's domestic revenue exceeded previous year revenue by 15% plus. Since the commencement of the Bond instruments in Y2004, the monthly repayments by Government been consistent and this been a reflection of good improvement of Government financial performance and stability. The Government securities delivered reduced incomes compared to FY2005 level and incomes would continue to reduce correspondingly as depicted in Table 7 below.

Table 7: Government Securities Investment and Return

The Bonds	FY2006			FY2005		
	Portfolio \$	Income \$	Return %	Portfolio \$	Income \$	Return %
Treasury bills	5,711,950	105,390	1.8	6,155,950	38,465	0.6
Soltai Bonds	9,912,510	124,834	1.3	0	0	0
Restructure Bonds	48,543,990	1,128,234	2.0	72,140,510	2,746,845	3.8
Treasury Bond	68,551,450	1,407,450	2.0	72,140,510	2,746,845	3.8
Total	132,719,900	2,765,910	2.1	129,468,910	4,267,180	3.3

Commercial Loans

The Board has approved the adoption and implementation of a loan risk management system and guidelines that include: loan risk grading, loan interest and income recognition policy, provisioning and security assessment. These guidelines been used to manage the Fund's loan portfolios. Pertinent to application of non-accrual accounting for impaired loan assets, the Fund was able to take to income any repayments received to income first before applying the balance to principal loan balance. In so doing, the Fund recorded more than \$11 million in income from these loan assets - an increase by \$7 million compare to the previous year.

During the period, Soltai Ltd loan had been fully settled by Government whilst CEMA and Solomon Visitors Bureau have finally liquidated their respective loans.

In the meantime, there have been negotiations underway between Government and the Fund for settlements of SIEA, Malaita Province and Western Province loans been impaired over the past six years. Hopefully, all relevant parties will reach amicable understanding and solution in settling the loan debts soon.

Overview of Operations (continued)



Settlement of Soltai Fishing and Processing Company Limited loan in March 2006 by the Solomon Islands Government, under SIG Guarantee for the loan in Noro, Western Province

The members' housing investment portfolio has reduced to about \$32 million. The Board would continue with its even-handed policy of recovering intentional delinquent urban members' housing loans through legal proceedings to minimize losses from this particular investment portfolio. The increased in the Fund's income from members' loan schemes was attributed to these recovery efforts.

A proposal being under discussion with Government to amalgamate NPF Members' housing loan portfolios with Solomon Islands Home Finance Ltd existing housing loans to address housing needs of Fund members with practical and feasible housing lending policy, appropriate resource capability and effective management. The proposal is aligned to meeting policy framework of the Government pertaining to home-ownership both urban and rural locations by Solomon Islanders. From the Board's perspective, the proposal would be designed on commercial platform but at the same time addressing members' social security and to deliver reasonable return on members' funds.

Members' affordability to acquire reasonable quality residential home is fundamental. In realizing this agenda, a review of existing tax regime (currently



very high) to allow members comfortably meeting the cost of construction residential homes and repayment of loans borrowed should not be overlooked. Experiences showed that some members could not afford meeting their loan obligations due to high cost of maintaining family social needs thus Government's assistance is crucial.

Table 8: Commercial Loans

	FY2006			FY2005		
	Portfolio \$	Income \$	Return %	Portfolio \$	Income \$	Return %
Soltai Ltd	0	2,616,490	14.0	16,140,960	2,238,450	13.8
SIEA	22,768,500	6,196,120	27.2	22,760,820	0	0
Visitors Bureau	0	1,810	14.0	42,990	2,340	5.4
CEMA	0	97,290	14.0	288,360	0	0
DBSI	4,008,970	0	0	4,004,500	0	0
Western Prov	9,407,105	60,000	0.6	9,407,100	0	0
Malaita Prov	8,724,120	0	0	8,723,860	0	0
Member Urban	31,791,880	1,976,620	6.2	38,264,185	1,599,940	4.2
Rural Housing	248,950	5,035	2.0	380,740	10,490	2.7
Staff	3,495,160	147,100	4.2	2,849,920	149,780	5.3
Total	80,444,685	11,100,465	13.8	102,863,435	4,001,000	3.8



Investment department staff

Overview of Operations (continued)

Properties

Property investment had improved - recording a gross return of 12.5% compared to 9.8% in FY2005. On the income side, there was an increase by 13% to \$5.7 million compared to the previous period. The Brisbane property been disposed at AUD1.12 million against a valuation of AUD1.2 million due to poor investment return, high property costs, management fees and imposition of withholding taxes. By Australian Government The proceeds been invested in commercial bank, Australia at slightly above 5% p.a. The



NPF Building



Anthony Saru Building



Komi Fera Building

Fund has implemented the overdue external refurbishment and repainting of Anthony Saru building to attract quality rentals. The internal refurbishment would be pursued in the new financial year.

To meet the unmet demand for high quality residential accommodations in Honiara, the Board is planning to develop a rental executive apartment to meet extreme end of residential accommodation market segment in Honiara. A feasibility study has been undertaken in determining the viability of such proposal on the Fund's land at the Hibiscus Avenue.

A high level of unpaid rentals from current tenants been an ongoing challenge to the Fund. In this respect, the Board has aggressively pursued both current and ex-tenants to pay rental arrears. The locking-up strategy been applied when arrears exceed two months. Property management gradually improving with introduction of new IT system - property clerk software, a property management automated solution to facilitate effective reporting on individual property costs and return.



Equity Investment

Table 9: SINPFB Shareholding

Company	Shares held	Total Value of Shares (at cost)\$	Shareholding %	Dividend Received \$
Solomon Telekom	51,946,625	89,115,662	64.74	7,655,504
National Bank of SI	98,000	8,500,000	49.0	0
Solomon Mutual Insurance	3,750,000	3,750,000	75.0	0
Total	55,794,625	101,365,662		7,655,504

Solomon Telekom



Telekom House at Point Cruz

Only Solomon Telekom Limited paid annual dividend to the Fund which represented an overall return of 7.5% on all equity investments - a reduction on past year's return. On the income side, dividend receipt was down to 8.6% from 9.8% in the previous year. There were no dividends paid by National Bank of Solomon Islands and Solomon Mutual Insurance Ltd thus unfortunately affected the Fund's incomes.

Pertinent to Solomon Telekom, the Board has taken-up additional 11,000,000 ordinary Class "A" shares that led to the Fund's shareholding to 51,946,625

Overview of Operations (continued)

ordinary Class "A" shares. This accounted for 64.7% of the company's total number of shares owned by the Fund whilst Cable & Wireless 32.6% and Investment Corporation 2.7%. This been the largest equity investment by the Fund.

Solomon Telekom Ltd has been trading profitably over the recent years. This profitability of the company would be diluted if Government attempted to de-regulate the industry thus putting pressure on the Board to review the members' investment and returns. It should be acknowledged and appreciated that 64.74% shareholding of Solomon Telekom Ltd is owned by Solomon Islanders - all members of SINPF.

National Bank of Solomon Islands



National Bank of Solomon Islands in Mud Alley

The Fund holds 49% shares in NBSI whilst the remaining 51% been held by three the Trustees representing education, health and NBSI Staff Association. No dividend payments were received by the Fund since Y2002 hence the investment was considered impaired.

The Bank of South Pacific (BSP), Papua New Guinea has expressed interest to acquire NBSI but however, this was put on hold after the April 2006 riot. This interest if realized should provide the Fund the option to sell its shares to BSP with the purpose of earning huge income from capital gains and future dividend payments from BSP - a profitable bank and also largest bank in PNG.



The Fund envisaged to hold shares in BSP and would be amongst the top ten (10) shareholders. This was Board's strategic development aimed to deliver growth to members' wealth annually in the long-term future.

BSP takeover of NBSI would remove the existing impediments facing the bank such as access to banking technology, expertise and knowledge and adequate capital necessary to compete with two domestic banks. Negotiations and due diligent exercises been undertaken to facilitate making informed decision by the Board in the next Financial Year.

Solomon Mutual Insurance



Solomon Mutual Insurance Head Office

The Fund holds 75% of the total shares of Solomon Mutual Insurance Ltd (SMI). The remaining shares held by WMI 15% and Mr. Sivakumaran 10%. SMI operated General and Life insurance since inception.

In late 2005, the Controller of Insurance cancelled insurance license from SMI hence it stopped trading. In that connection, the SINPF Board has instituted measures to protect its investment in the company in light of appointment of provisional liquidator under a judgment Court Order. A Scheme of Arrangement

Overview of Operations (continued)

was proposed by Board and accepted by High Court to liquidate SMI with the intention to pay insurance policyholders and creditors thus enabling the Fund to establish property investment with controlling interest that would manage the SMI prime properties.

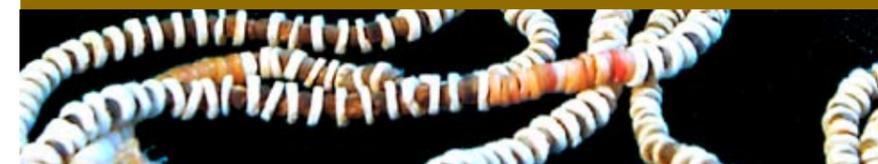
INFORMATION TECHNOLOGY



Staff of Information Technology section

To effectively realize the corporate objectives, support business operations, contribution collections and more importantly, deliver quality service to members, the need to continuously improve information technology is very important. In this respect, there was emphasis on improving the Fund's information technology systems.

The NPF2000 End of Year run was performed for the first time and the auto upload (electronic data interface) related to surcharges and withdrawal procedure was operational. The Fund established ADSL line that enable the email system been reliable and cost-effective. Free ware and downloadable firewall and anti-virus software been installed to block-out any possibility of hazardous activities.



Pertinent to property clerk system, reports and enquiries on tenant rental payments could now be produced. The system runs live on saver and raw data on tenants been captured. Invoice statements could now be produced and soft copy delivered by email to tenants. Parallel phase and interfacing be pursued after consultation with the users.

With the availability of improved information technology, the members and customers would appreciate benefits of electronic self-serve service that would empower and provide members with the flexibility of accessing services at their leisure and lower cost. Such services would include:

- * Electronically deposit payments to member's bank account to eliminate personal picking of cheque from NPF and it is cheap and fast;
- * Member's self-accessibility their contribution account balance through web or touch-screen to reduce valuable time spent by inspector on contribution balance enquiries.

Considering these expectations, the Fund is challenged to offer these IT services in the near future to further improve the effectiveness and efficiency of the Fund.

Overview of Operations (continued)

FUND'S ADMINISTRATION

Human Resources

To ensure the Fund function effectively and efficiently and at the same time meeting the demand of future developments, the Administration has been focused on capacity building and re-allocation of human resources to maximize their contributions to the overall achievement of the planned objectives and future challenges.

Staff training has being an ongoing commitment by the Fund to better equip staff with relevant knowledge and skills to improve their competencies to meet future challenges. Total of eighteen (18) have pursued rays of training programs in appropriate fields allied to their respective job specialties both locally and overseas. Two staff continued to undertake full-time undergraduate studies at University of South Pacific (USP) whilst another two took part-time studies at USP Centre. Ten (10) staff continued with Diploma studies at S.I. College of Higher Education. Out of that total, six (6) staff undertook full-time studies whilst four (4) undertook part-time studies.

Coupled with the tertiary learning, a number of short-term courses and attachments for the staff been pursued both overseas and locally with the purpose of upgrading knowledge and skills in their respective fields of work. Some of these short courses include: administration of Provident Fund Board, ILO training for Provident Fund Managers, IT training, registry procedures, quality customers services, monthly reporting to General Manager and Board, time management and principles of finance. Pertinent to attachment, two senior officers had attachment with Vanuatu Provident Fund to learn about IT systems and functions in respect of contributions received, members' withdrawals and information storage and retrievals.

There were nine (9) new appointments of staff been formalized as result of promotions and further restructuring i.e. amalgamation positions and horizontal transfers. These measures were pursued to maximize the capacity and potential of staff in realizing the objectives of the Fund. On the contrary,

ten (10) security officers employed by the Fund on twelve months contract basis have exited and replaced by security firm displaying discipline and honesty.

The total number of staff during the period stood at ninety-five (95) - a reduction by 12% from the previous period.

Legal Services

The provision of legal services was necessary to ensure the Fund operates within its applicable legal framework and to operate effectively in realizing the overall objectives. Legal services been rendered to Fund both by the in-house and external legal counsels. The service of external Counsels been engaged on technical and complex legal matters. Beside the provision of legal advice to the Board and Management, a number of legal cases been pursued against intentional default borrowers and tenants to recover members' funds and incomes been due.

Overview of Operations (continued)

Internal Audit

The Internal Audit has continued its functions and duties to ensure the Fund operated effectively, efficiently and importantly to function prudently to the best standard of management expected. In this respect, actions had been executed in accordance to the requirements of the Act, established policies, processes and procedures with proper authorization.

Regular reviews been undertaken on financial transactions and records. Operational deficiencies identified had been addressed immediately, including financial issues raised in the management letter by external auditors. Internal Audit also coordinated and monitored operational issues raised in the CBSI supervisory report emanated from the supervisory exercise on the administrative operations of the Fund. Majority of those issues been addressed and resolved. CBSI reports been helpful for the Fund to ensure the Board and Management strictly adhere to prudential guidelines required under the Financial Institutions Act. The Board would continue to assist and cooperate with CBSI to undertake its supervisory responsibilities in future.

Internal Audit has increased its human resource capacity by an additional staff to execute its functions more effectively.

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:

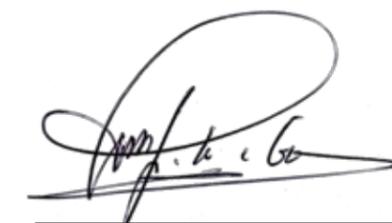
- (a) the statement of assets and liabilities is drawn up so as to present fairly the state of affairs of the Fund as at 30 June 2006,
- (b) the statement of income and expenditure is drawn up so as to present fairly the loss of the Fund for the period ended 30 June 2006,
- (c) the statement of contributions is drawn up so as to present fairly the state of members' contributions held by the Fund for the period ended 30 June 2006; 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



Luma Darcy
Director



Tony Makabo
General Manager (CEO)

Report of the Auditor-General



**To: Honourable Bartholomew Ulufa'alu, MP
Minister for Finance and Treasury
Department of Finance and Treasury**

Scope

The accompanying financial statements of the Solomon Islands National Provident Fund (herein also referred to as the "Fund") for the financial year ending 30th June 2005 have been audited under my directions pursuant to Section 47 (2) (b) of the Public Finance and Audit Act (Cap. 120). The Fund's directors are responsible for the preparation and presentation of the financial report and the information they contain. The independent audit of these financial statements has been conducted in order to express an opinion on them.

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 for an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the applicable Accounting Standards and the statutory requirement in the Solomon Islands so as to present a view which is consistent with my understanding of the Fund's financial position, the results of its operations and its sources and application of funds.

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



Audit Opinion

In my opinion, the Statement of Assets and Liabilities, Statement of Income and Expenditure, the Statement of Contributions and Statement of Cash Flows are in agreement with the books of accounts maintained by the Fund and are properly drawn up so as to give a true and fair view of the statement of affairs of the Fund as at 30th June 2006, are in accordance with the provisions of the Solomon Islands National Provident Act [Cap. 109] and the applicable accounting standards.

Emphasis of Matters

Without qualifying my opinion, I draw attention to Note 10 to the financial statements. The operations of the Fund and those similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for a foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands. The majority of the fund's assets are exposed to these uncertainties. I 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 the member's contribution.

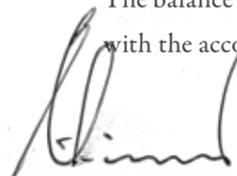
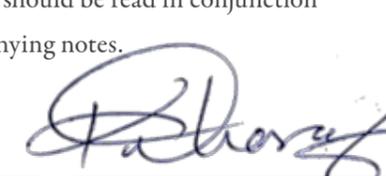
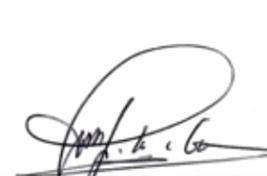
Floyd Augustine Fatai
Auditor-General
Office of the Auditor-General
P O Box G18
Honiara, Solomon Islands
September 14, 2006

Statement of Assets and Liabilities

AS AT 30 JUNE 2006

	Notes	June 2006 \$	June 2005 \$
RESERVES			
Revaluation Reserve	2	21,135,293	21,135,293
General Reserve	2	(1,843,387)	(9,592,284)
Total Reserves		19,291,906	11,543,009
Represented by:			
CURRENT ASSETS			
Cash		9,238,555	8,936,362
Receivables	3	10,504,961	12,724,536
Investments	4	175,446,172	115,943,131
		195,189,688	137,604,029
NON-CURRENT ASSETS			
Investments	5(a)	298,312,873	294,906,133
Property, plant and equipment	6	20,245,115	21,335,815
		318,557,988	316,241,948
Total Assets		513,747,676	453,845,977
CURRENT LIABILITIES			
Creditors		449,374	281,699
Accruals and Provisions	7	2,674,624	4,930,776
		3,123,998	5,212,475
NON-CURRENT LIABILITIES			
Special Death Benefits	1(b)	2,556,648	2,411,315
Members Contributions		488,775,124	434,679,178
		491,331,772	437,090,493
Total Liabilities		494,455,770	442,302,968
NET ASSETS		19,291,906	11,543,009

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

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

Luma Darcy
Director

Tony Makabo
General Manager (CEO)

Statement of Income and Expenditure

FOR THE PERIOD ENDED 30 JUNE 2006

	June 2006 \$	June 2006 \$
INVESTMENT INCOME		
Interests	15,664,729	11,490,143
Dividends	7,655,504	7,848,070
Rentals	5,742,117	5,015,274
	29,062,350	24,353,487
OTHER INCOME		
Surcharges	1,997,259	1,847,334
Sundry	10,235,506	1,409,236
Profit on sale of Assets	4,488,308	90,776
	16,721,073	3,347,436
TOTAL INCOME	45,783,423	27,700,923
LESS: OPERATING EXPENDITURE		
Normal Operating Expenses	19,304,370	16,075,828
Members Expenses	291,932	257,214
Doubtful Debts	2,497,442	3,569,900
TOTAL EXPENDITURE	22,093,744	19,902,942
GROSS SURPLUS/(DEFICIT)	23,689,679	7,797,981
LESS: APPROPRIATION		
Interests Credited to Members	15,940,782	8,945,392
NET SURPLUS/(DEFICIT)	7,748,897	(1,147,411)

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

Statement of Contributions

AS AT 30 JUNE 2006

	Notes	June 2006 \$	June 2005 \$
Opening Balance at 1 July		434,679,178	357,788,102
Opening Balance Adjustment		(72)	351,135
Adjusted Opening Balance at 1 July		434,679,106	358,139,237
Add: Contributions Received during the year		64,569,383	97,251,248
Interests on Members Accounts	1(c)	15,940,782	8,945,392
		515,189,271	464,335,877
Less: Contribution Withdrawals		25,075,211	27,760,122
Transfer to SDB Reserves	1(b)	301,764	363,085
Transfer to General Reserves	2(b)	-	1,392,266
		25,376,975	29,515,473
		489,812,296	434,820,404
Less: Prior Year difference and others		1,037,172	141,266
Balance at 30 June		488,775,124	434,679,178
Represented by:			
Identified		458,586,715	398,464,439
Unidentified		5,563,965	8,237,994
Contribution Creditors	1(a)	24,624,444	27,976,745
		488,775,124	434,679,178

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

Statement of Cash Flows

FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	June 2006 \$	June 2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from investments and customers		44,403,198	42,862,651
Payments to suppliers and employees		(17,668,550)	(18,833,545)
Interest and benefits paid to members		(291,932)	(257,214)
	(b)	26,442,716	23,771,892
NET CASH FLOWS FROM OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Property, Plant and Equipment		(1,666,440)	(728,785)
Investment in loan portfolios & members etc		(62,909,781)	(92,132,816)
Proceeds from sale of Property, Plant and Equipment		135,200	246,000
		(64,441,021)	(92,615,601)
NET CASH FLOWS PROVIDED BY/ (USED IN) INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(Decrease) in contribution balance		38,456,928	74,575,920
Payment of Special Death Benefits		(156,431)	(133,778)
Increase/(Decrease) in Working Capital		-	(1,243,398)
		38,300,497	73,198,744
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES			
NET INCREASE/(DECREASE) IN CASH HELD			
		302,192	4,355,035
Add opening cash brought forward		8,936,363	4,581,328
CLOSING CASH CARRIED FORWARD	(a)	9,238,555	8,936,363
(a) Reconciliation of cash			
Cash balance comprises:			
- Cash at bank		9,237,535	8,935,343
- Cash on hand		1,020	1,020
Closing cash balance		9,238,555	8,936,363

Statement of Cash Flows (continued)

FOR THE PERIOD ENDED 30 JUNE 2006

	June 2006 \$	June 2005 \$
(b) Reconciliation of the operating surplus/(Loss) after Interests to the net cash flows from operations:		
Net surplus/(Loss) after Interests to members	7,748,856	(1,147,410)
Add: NON- CASH EXPENDITURES		
Depreciation of Fixed Assets	3,724,299	3,865,763
Annual Interests to members	15,940,782	8,945,391
Bad and Doubtful Debts	2,497,441	3,569,900
Increase/(Decrease) in Accounts Payable	(2,153,311)	(3,018,817)
Write –off	1,622,182	-
	21,631,393	12,214,827
Less: NON-CASH INCOME		
Net Exchange gains	-	(292,913)
Net (Loss)/Gain on disposal of Fixed Assets	(4,488,308)	(90,776)
(Increase)/Decrease in Account Receivable	1,550,775	11,890,754
(Increase)/Decrease in Accrued Incomes	-	-
Net surplus/(Loss) from Operation	26,442,716	23,771,892

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

Notes To and Forming Part of the Financial Statements

FOR THE PERIOD ENDED 30 JUNE 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Solomon Islands National Provident Fund Act (Cap 109) was established in 1973 as a superannuation or saving scheme for all employees who are members of the Fund. 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 a contribution of 12.5% of gross wages for each employee and may recover 5% of the contribution from the employee.

Benefits from the Fund 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 annually by the Board (refer note 1 (C) below). In addition on death of a member, the beneficiary of the deceased member's estate is 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 Fund is under the control of a Board. The Board's function and powers are those of a trustee.

The Fund is subjected to all the provisions of the Financial Institutions Act 1998.

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

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

FOR THE YEAR ENDED 30 JUNE 2006

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 account has been maintained on cash basis where only monthly returns (Form A's) that are actually paid are posted to the account.

(b) Special Death Benefit (SDB)

As provided for in the Act 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 the death of a member. The maximum sum payable on SDB for the period ending 30th June 2006 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 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 assessment 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 higher than cost.

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

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: RESERVES AND OPERATING FINANCIAL PERFORMANCE

The following is a summary of the reserves held:

• Revaluation Reserve

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' account balances.

• General Reserve

General revenues less normal operational expenses are credited to the General Reserves unless otherwise appropriated.

The following items are credited to the reserve each year:

- Net unappropriated surplus from operation
- Unallocated contributions outstanding more than 5 years from the Unclaimed
- Deposit Account.

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 set and recovered from subsequent earnings and future surpluses.

	June 2006 \$	June 2005 \$
(a) Revaluation Reserve		
Opening Balance	21,135,293	21,135,293
Add: Revaluation during the year	-	-
Balance at 30 June	21,135,293	21,135,293
(b) General Reserve		
Opening Balance	(9,592,284)	(7,201,475)
Transfers – Unclaimed Contributions	-	1,392,266
Prior year Adjustments	-	(2,635,664)
Profit/Loss for the year	7,748,897	(1,147,411)
Balance at 30 June	(1,843,387)	(9,592,284)
TOTAL RESERVES	19,291,906	11,543,009

NOTE 3: CURRENT ASSETS – RECEIVABLES

	June 2006 \$	June 2005 \$
Interests	962,593	1,197,819
Rentals	2,261,049	3,823,055
Dividends	7,655,504	7,660,570
Surcharges	5,423,337	5,082,323
Others	127,778	217,269
	16,430,261	17,981,036
Less: Provision for Doubtful Debts	5,925,300	5,256,500
	10,504,961	12,724,536

The provisions of \$5,925,300 provided against arrears on interests, surcharges and rents that were valued at \$ 8.3 million as at 30th June 2006. 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.

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

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 4: CURRENT ASSETS - INVESTMENTS

	June 2006 \$	June 2005 \$
Term Deposits	169,287,407	100,348,000
Less: Provisions	1,129,385	3,600,000
	168,158,022	96,748,000
Loans Current Portion Due Within 12 months		
Quasi Government	534,323	6,130,518
Provincial Government	1,958,926	6,810,506
Members' Schemes	4,228,055	5,195,210
Staff Schemes	566,846	1,058,897
	7,288,150	19,195,131
Total Current Assets	175,446,172	115,943,13

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

	Note	June 2006 \$	June 2005 \$
Rental Land and Buildings – at cost		-	4,668,850
At Directors Valuation – 2003		34,585,000	34,585,000
		34,585,000	39,253,850
Less: Accumulated Depreciation		3,458,500	4,264,059
Net Book Value		31,126,500	34,989,791
Shares		101,365,662	90,365,662
Less: Provisions		937,500	937,500
		100,428,162	89,428,162
Government Securities	5(b)	132,719,898	129,468,912
		233,148,060	218,897,074
Loans:			
Quasi Government		26,250,791	37,107,107
Provincial Governments		16,172,301	11,320,461
Members' Schemes		27,812,767	33,447,574
Staff Schemes		2,928,313	2,791,026
		73,164,172	84,666,168
Less: Provision for Doubtful Debts		39,125,859	43,646,900
		34,038,313	41,019,268
Total Non-Current Assets – Investments		298,312,873	294,906,133

NOTE 5: (b) AMOUNT DUE BY SI GOVERNMENT

1) Investment in Treasury Bills Securities

These comprised of short-term investments in the local securities market. The securities market is regulated and operated by the Central Bank on behalf of the SI Government. Treasury bills are restricted to a maximum of 90 days.

Notes To and Forming Part of The Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

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.

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 30/06/06
5,550,000	7 yrs	15/07/11	2.0%	70,859.26	4,110,815
11,100,000	10 yrs	15/07/14	2.0%	102,134.93	9,150,268
11,100,000	13 yrs	15/07/17	2.0%	80,863.17	9,649,199
25,850,000	14 yrs	15/12/18	2.5%	53,854.17	25,633,710
53,600,000				307,711.53	48,543,992

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

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.

III) Investment in Amortized Treasury and Development Bonds.

The Fund's investment in 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 30/06/06
7,414,528.13	7 yrs	2.0%	94,664.51	5/11/11	5,831,729
14,829,056.25	10 yrs	2.0%	136,447.27	15/11/14	12,684,072
14,829,056.25	13 yrs	2.0%	108,029.24	15/11/17	13,232,538
37,072,640.63	15 yrs	2.5%	77,234.07	15/11/19	36,803,112
74,145,281.26			416,375.29		68,551,451

Nb: After 7 years monthly 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 already booked and owing by the SI Government.

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.

Notes To and Forming Part of The Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

(IV) Settlement of Soltai Debt

This debt relates to the Mortgage Debenture that Soltai Fishing and Processing Limited defaulted on which was settled and restructured by SI Government by a fresh Deed dated 31 March 2006.

Under the Deed \$10.0 million was amortized over 10 years at the interest rate equivalent to 90(91) day Treasury Bill weighted average yield. At the time the Deed was signed that rate was 5.02%. The sum of \$10.0 million is repayable over a 10 year period commencing on 1 April 2006 at \$106,163 per month. The remaining \$6.3 million from the original total published debt of \$16.3 million was settled up front in a lump sum payment at the signing of the Deed.

In relation to this same debt SINPF had earlier obtained judgement in its favour against Soltai, SIG and ICSI for the total sum of \$19.7 million. Under the Deed SINPF reserve its right to execute the judgement against Soltai, SIG and ICSI to recover the full judgement debt of \$19.7 million. SINPF will not require payment on the judgement sum if repayment of the Bond is not in default and Soltai, SIG and ICSI comply and fulfil their obligations under the Deed.

The Agreement provides for annual revision of interest on 1st April each year according to the Treasury Bills rate referred to above based on the last published Treasury Bill Auction results published prior to 1st April each year plus 1.5% but shall not exceed 7%.

NOTE 6: NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT

	June 2006 \$	June 2005 \$
Commercial Land and Buildings – at cost	40,615	-
At Directors Valuation – 2003	8,055,000	8,055,000
	8,095,615	8,055,000
Less: Accumulated Depreciation	753,198	403,084
Net Book Value	7,342,417	7,651,084
Residential Buildings – at cost	228,998	228,998
At Directors Valuation – 2003	8,230,000	8,230,000
	8,458,998	8,458,998
Less: Accumulated Depreciation	845,900	422,950
Net Book Value	7,613,098	8,036,048
Machinery and Equipments – at cost	4,122,510	3,770,340
Less: Accumulated Depreciation	3,663,108	3,131,373
Net Book Value	459,402	638,967
Furniture and Fittings – at cost	844,404	834,940
Less: Accumulated Depreciation	782,095	695,503
Net Book Value	62,309	139,437
Motor Vehicles – at cost	1,684,958	1,361,235
Less: Accumulated Depreciation	897,192	1,033,926
Net Book Value	787,766	337,309
Computer – at cost	3,594,326	3,414,761
Less: Accumulated Depreciation	3,240,951	3,008,266
Net Book Value	353,375	400,495
Work-in-Progress	3,626,747	4,135,643
Total Property, plant and equipment:		
At cost	14,142,559	13,745,917
At valuation	16,285,000	16,285,000
	30,427,559	30,030,917
Less: Total Accumulated Depreciation	10,182,444	8,696,102
Total Net Book Value	20,245,115	21,335,815
Work-in-Progress comprises the following:		
Computer Project	3,622,443	4,135,643
Rental Land and Building	4,304	-
	3,626,747	4,135,643

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

Notes To and Forming Part of The Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 7: CURRENT LIABILITIES – ACCRUALS & PROVISIONS

	June 2006 \$	June 2005 \$
Nominees Trust Account	1,639,095	1,669,519
Rental Bond	262,168	-
Accruals	773,360	3,261,257
	2,674,623	4,930,776

NOTE 8: AUDITORS REMUNERATION

Fees totaling \$142,500 was provided in the accounts for audit services this year (\$130,725 last year). No other benefits were received by the auditors during the year other than fees paid for normal accountancy services.

NOTE 10: GOING CONCERN

The Fund is designed to provide retirement and saving benefits to its members and it operates within the parameters of the Solomon Islands economy. The Central Bank has reported that prospects for the Solomon Islands economy are positive, however warns that further economic growth depends on maintenance of law and order and the Government's commitment to reforms and policies to enhance employment and the living standards of all citizens.

The Fund's Board and Management believes the Fund can comfortably meet its obligations to members as and when they fall due and that with concentrated attention, and the cooperation of the Central Bank, the opportunities for improved financial performance for the benefit of members can be realized.

NOTE II: 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 \$35.4 million 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. It is not possible to quantify the amount of interest payable.



NOTES

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