



Annual Report 2001



BOARD OF DIRECTORS



CHRIS ALU
Chairman



Col DAVID TAKENDU
OBE, Deputy Chairman



Col REGINALD RENAGI
OBE, Director



SIMON KETAN
Director



VARI FORE
Director

Management Team



Darby Kila
General Manager



GEORGE UWARE
Executive Manager
Corporate Administration



MATAGU KIDU
Executive Manager
Investments



RICHARDSINAMOI
Board Secretary



SYD YATES
Group General Manager
Kina Securities Limited

HIGHLIGHTS OF THE YEAR 2001

PROFIT **K6,645,470.00**

NET ASSETS **K97,693,959.00**

This is an increase of K6,645,470.00 from the previous year.

REVENUE

Contributions	K2,287,402.00
Investment Income	K8,523,244.00
TOTAL REVENUE	K10,810,646.00

HOW THE FUND WORKS.

The Defence Force Retirement Benefits Fund is administered by Kina Securities Ltd under delegation from 1st January 1997. Administration expenses and Investment Management Fees for all Funds administered and managed by the KSL are met by KSL and recovered from the other Fund after the year end.

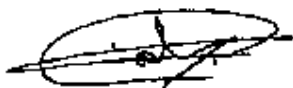
Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

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Declaration by Management

In our opinion the accompanying Balance Sheet, Revenue Account, Statement of Cash Flows and Notes to and forming part of the accounts for the year ended 31st December 2001, have been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

- (a) the results of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- (b) no circumstances have arisen which would render any amount in the statements misleading;
- (c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due.



.....
CHRIS ALU
Chairman of the Board

28 February 2003



.....
SYD YATES
Fund Administrator and Manager



AUDITOR – GENERAL OF PAPUA NEW GUINEA

TELEPHONE: 301 2203
FAX : 325 2872

LEVEL 6, TISA INVESTMENT P/L
P.O. BOX 423
WAIGANI
PAPUA NEW GUINEA

Hon. Mr. Bart Philemon, PM
Minister for Finance and Treasury
Department of Finance
P.O. Box 710
WAIGANI
National Capital District

Date 17 March 2003
Our Reference: 30-28-4
Action Officer
Designation:
Your Reference:

Date:

Dear Sir,

DEFENCE FORCE RETIREMENT BENEFITS FUND

In accordance with Section 8(4) of the Audit Act 1989 (as amended), I have audited the accompanying financial statements of the Defence Force Retirement Benefits Fund for the year ended 31 December 2001, as set out on pages 2 to 11, submitted by the Board in accordance with Section 63(4) of the Public Finances (Management) Act, 1995. The Fund's Board of Trustees is responsible for the preparation and presentation of these financial statements and the information they contain. I have performed an audit of these financial statements in order to express an opinion on them.

My audit was conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free from material misstatement. My audit procedures included examination, on a test basis, of evidence supporting the amount 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 generally accepted accounting practice which also requires, amongst other things, compliance with International Accounting Standards and other statutory requirements 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 cash flows. I believe that my audit provides a reasonable basis for my opinion.

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

QUALIFICATION

Note 6 to the Financial Statements disclosures total investment of K88,555,798. Included in this are:

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

- (i) Sandaun Motel - K5,415,338;and
- (ii) Pacific International Assurance Ltd - K750,000.

Sandaun Motel was purchased for K5.4 million and was subsequently revalued at approximately K1.4 million.

The investment in Pacific International Assurance Ltd was shown at cost. The company's shares were valued at K nil, as a result, the Fund incurred a loss of K750,000. The Fund has not accounted for any diminution in the value of these investments.

The Fund's Members Housing Scheme records were not properly maintained thus resulting in an unreconciled difference of K1,569,00 between the amount stated in the financial statements and the schedules provided for audit verification. Accordingly, I am unable to confirm the accuracy of the amount stated in the financial statements.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the preceding paragraph:

- (a) the financial statements are based on proper accounts and records;and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Defence Force Retirement Benefits Fund as at 31 December 2001, and the results of its financial operations as its cash flows for the year ended.

Yours faithfully,



MARK M. WANI, MBE
Auditor-General

Defence Retirement Benefits Fund Board
REVENUE ACCOUNT
For the Year Ended 31 December 2001

REVENUE	Note	2001 K	2000 K
Contributions		2,287,402	2,294,709
Investment Income	2	<u>8,523,244</u>	<u>10,532,630</u>
TOTAL REVENUE		10,810,646	12,827,339
LESS:EXPENDITURE			
BENEFITS: -			
Benefits (net)	3	5,114,279	2,850,346
Administration & Investment Management Fees	4	1,532,458	1,540,739
Management	5	1,894,514	1,726,558
TOTAL EXPANDITURE		8,541,251	6,117,643
Excess Revenue Over Expenditure		2,269,395	6,709,696
Changes in Net Market Value of Investments	6(c)	4,903,853	854,797
SURPLUS BEFORE TAX		<u>7,173,248</u>	<u>7,564,493</u>
Less:Income Tax Expense	7	527,778	(581,561)
SURPLUS AFTER TAX		<u>6,645,470</u>	<u>8,146,054</u>

Defence Retirement Benefits Fund Board
BALANCE SHEET
For the Year Ended 31 December 2001

	Note	2001 K	2000 K
ACCUMULATED MEMBERS FUNDS			
Opening Balance		91,048,489	82,902,435
Surplus for the year		6,645,470	8,146,054
TOTAL MEMBERS FUNDS		97,693,959	91,048,489
REPRESENTED BY:			
CURRENT ASSETS			
Cash at Bank	11	369,286	571,392
Receivables	8	8,963,021	4,244,888
TOTAL CURRENT ASSETS		9,332,307	4,816,280
LESS:			
CURRENT LIABILITIES			
Creditors	9	934,729	1,141,727
Unclaimed monies		249,387	327,033
Provision for Income Tax		706,745	84,059
TOTAL CURRENT LIABILITIES		477,371	1,462,819
NET CURRENT ASSETS		8,854,936	3,353,461
NON CURRENT ASSETS	10	639,116	251,152
INVESTMENTS	6	88,555,798	87,752,786
LESS: TERM LIABILITIES			
Deferred Taxation		355,891	308,910
NET ASSETS		97,693,959	91,048,489

Defence Retirement Benefits Fund Board
STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2001

	2001 K	2000 K
CASH FLOW FROM OPERATION ACTIVITIES		
Cash receipts in the course of operations	8,361,873	10,644,319
Cash paid to suppliers in the course of operations	(4,838,243)	(2,558,478)
Income tax paid	(543,475)	(610,944)
Net cash provided by operation activities	2,980,155	7,474,897
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds of maturity of Govt.Inscribed Stock	300,000	-
Payment for purchase of Govt.Inscribed Stock	(3,059,390)	-
Placement of Term Deposits (Net)	882,000	3,285,619
Placement of Treasury Bills (Net)	3,377,094	(17,613,660)
Payment for acquisition of Equities	3,464,924	10,803,745
Proceeds on sale of Equities	-	(1,336,779)
Loan granted	-	503,813
Payment for acquisition of Land & Building	(276,719)	(795,331)
Payment for Fixed Assets	(611,970)	(767,979)
Net cash used in investing activities	(518,953)	(38,573)
	3,556,985	(5,959,144)
CASH FLOW FROM ACTIVITIES WITH CONTRIBUTORS		
Contributions received from members	2,287,402	2,294,709
Benefits paid (Including State Share)	<u>(11,942,378)</u>	<u>(6,005,136)</u>
	(9,654,976)	(3,710,427)
CASH FLOW FROM ACTIVITIES WITH THE STATE		
Cash receipts of State Share (Benefits)	<u>2,915,729</u>	<u>2,289,671</u>
Net (decrease) / Increase in cash & Cash equivalents	(202,106)	94,997
Cash & cash equivalents at the beginning of the year	571,392	476,395
Cash & cash equivalents at the end of the year	<u>369,286</u>	<u>571,392</u>
Details of reconciliation of operating surplus after income tax to net cash provided by Operating activities are provided in Note 10		

The accompanying notes from part of these Financial Statements.

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

1. Set out hereunder are the significant accounting policies adopted by the Fund in the preparation Of the accounts for the year ended 31 December 2001, such accounting policies were adopted in the preceding period unless specifically stated otherwise.

(a) Basis of Financial Statements

The presentation of these Accounts is in accordance with generally accepted accounting principles for Superannuation Funds. The net appreciation or depreciation of investment assets is shown in the Revenue Account which now more closely reflects the total increase in members funds for the year. While the current treatment is not in complete accordance with the International Accounting Standard on revaluation of investments. This standard is not considered Appropriate to Superannuation Funds.

(b) Historical Cost Convention

The accounts have been prepared under the historical cost convention with the exception of Investment assets which are revalued periodically as determined by the Board in order to reflect Current worth to the fund.

(Refer Note 1 (d))

(c) Valuation of Investment Assets

In accordance with the Board's policy, the Fund's investments should be revalued at least once every three years. An exception is quoted shares which are adjusted annually to market prices at year end. It is the Board's policy that no depreciation should be charged on Investment Assets (Buildings).

Investments are valued as at 31 December 2001 as follows: -

- i. Quoted shares – at least sale price as at 31 December 2001 in Australian Stock Exchange and converted using that day ANZ Bank exchange rate
- ii. Unquoted shares – at the fair value as at 31 December 2001. This valuation involved the adoption of an independent professional valuation. The main factors used in the analysis were divided yield, earning based and net tangible asset backing, as appropriate.
- iii. Land and Building – by a valuation carried out by the Valuer as at 31 December 2001. The basis of the valuation was based on the market value

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

(d) Basis of Accounting

The Fund accounts for income and expenditure on an accrual basis except dividend and interest income from Member Housing Assistant (MHA) and Tertiary Education Assistant (TEA) are brought to account when received. Prior to 2000, the interest from MHA was deducted from the member entitlements when they were discharged from force. However after 2002, the interest is deducted from the loan once the loan has been released. The interest from TEA is recognized once the loan has been released. Contribution from members are brought into account as income when receivable. Pension payments, lump sums, refund of contributions and related government contributions are brought to account as they become payable. Accrual benefit liabilities are based on the history of payment.

(e) Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is applied on the basis of straight line method to write-off the cost of these assets over their estimated useful lives.

The principal annual rates in use are :-

Computer	20%
Office Equipment	20%
Furniture & Fitting	15%
Motor Vehicles	30%

(f) Income tax

The Fund adopts the principles of tax effect accounting whereby the income tax expense for the Year in the Revenue Account is matched with the accounting result (after allowing for permanent Differences). Where the realization of the future tax benefit relating to timing differences is not considered to be virtually certain the future tax benefits is not brought to account.

2. INVESTMENT INCOME

	2001 K	2000 K
Gross Property Rentals	435,712	443,229
Less: Property Expenses	(255,118)	(210,489)
Net Property Rentals	180,594	232,740
Dividends	2,185,210	2,414,052
Interest:-		
Government Securities	196,345	11,459
Interest Bearing Deposits	808,742	1,507,214
Debentures / Loans	837,000	861,357
Treasury Bills	3,513,214	3,252,641
TAP Issue	715,660	2,180,972
Sundry Income	<u>86,479</u>	<u>72,195</u>
	<u>8,523,244</u>	<u>10,532,630</u>

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

3. BENEFIT (NET)

Pension & Back Pension	2,960,825	2,027,208
Refunds	626,040	597,330
Gratuities	25,840	48,984
Lump Sum	8,329,673	3,331,614
	11,942,378	6,005,136
Less: Government Share	(6,828,098)	(3,154,790)
	5,114,280	2,850,346

4. ADMINISTRATION & INVESTMENT MANAGEMENT FEES

The Defence Force Retirement Benefits Fund is administered by Kina Securities Ltd under delegation from 1st January 1997. Administration expenses and Investment Management Fees for all Funds administered and managed by the KSL are met by KSL and recovered from the other Fund after year end. Exceptions to this are bank fees, interest charged, telephone and fax fees, printing and stationery, postage and courier, rent and certain professional fees paid directly by the Fund.

	2001 K	2000 K
Administration Fees	688,532	678,081
Investment Management Fees	836,006	861,818
Benefit Payment Fee	7,920	840
	1,532,458	1,540,739

5. MANAGEMENT

Audit Fees	45,000	60,000
Advertising	62,069	27,844
Bank Charges	10,421	8,572
Leasing Interest	1,066	548
Interest charges	-	2
Board of Trustees Expenses		
Sitting Allowance	13,597	7,400
Meeting Expenses	14,829	4,425
Incidental Allowance	16,013	44,261
Accommodation Allow & transport allow	3,320	600
Annual Stipend	47,000	39,500
Travel & Accommodation	41,192	32,880
Other fees	<u>1,875</u>	131,150
	137,826	
Depreciation	130,207	92,057
Disposal of Fixed Assets	781	5,986

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

Donation & Sponsorship	56,606	84,973
Electricity	5,510	7,831
Entertainment	6,813	31,063
General Insurance	2,184	17,788
Marketing Expenses	2,230	3,112
Office Expenses	1,624	11,887
Office Rent	125,249	105,412
Postage & Courier	1,755	1,943
Printing & Stationery	65,840	48,248
Professional Fees	358,931	215,645
Repair & Maintenance		
Office Equipment	2,010	9,389
Computer	11,260	8,713
Motor Vehicle	22,519	40,528
Furniture & Fitting	35,790	58,880
School Fees	37,450	36,654
Software purchase	-	750
Staff Salaries	492,057	440,052
Staff Amenities	4,982	13,579
Staff Housing	83,147	69,815
Staff Traveling & Accommodation	61,932	73,186
Sundry Expense	-	117
Stamp duty	719	29,689
Subscriptions	2,347	3,840
Telephone & Fax	37,778	35,311
Training Expenses	15,837	20,885
VAT Expenses	80,222	60,168
Vehicles	<u>28,141</u>	<u>29,571</u>
	<u>1,894,514</u>	<u>1,726,558</u>

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

6. INVESTMENTS

(a) Domestic Investment

Quoted Shares	6,663,751	5,169,514
Unquoted Shares	18,067,711	18,067,711
Government Securities	3,037,406	300,000
Land & Buildings	9,975,797	9,377,204
Sandaun Motel	5,415,338	5,415,338
Loans	5,990,000	5,690,000
Interest Bearing Deposits	5,138,000	6,020,000
Treasury Bills	30,331,965	33,709,059
TAP Issue	-	<u>3,464,924</u>
	<u>84,619,968</u>	<u>87,213,750</u>

(b) Overseas Investment

Canberra Act Property	<u>732,19</u>	<u>539,036</u>
	<u>732,190</u>	<u>539,036</u>

(c) The "Change in Net Market Value of Investments" for the year included in the Revenue Account is as follows:-

Quoted Shares	1,379,236	1,379,236
Unquoted Shares	3,295,844	1,164,334
Land & Building	<u>228,773</u>	<u>977,545</u>
	<u>4,903,853</u>	<u>3,521,11</u>

7. TAXATION

The income tax charged against the Fund surplus is determined in accordance with the policy set out in Note 1 (e) and relates to:-

	2001 K	2000 K
INCOME TAX EXPENSE FOR THE YEAR		
Current	490,487	1,789,188
Deferred	60,552	(215,131)
Withholding tax paid		(1,298,986)
Prior year adjustment	-	<u>(856,632)</u>
Income Tax expense	<u>551,039</u>	<u>(581,561)</u>
PROVISION FOR INCOME TAX		
Prima Facie tax payable at 25% on operating surplus	820,009	1,891,123
Net effect of permanent differences – current year	(269,060)	(317,066)
Net effect of timing differences	<u>(60,552)</u>	<u>215,131</u>
	490,487	1,789,188
Brought forward	84,059	1,130,360
Prior years adjustment	(9,690)	(856,632)
Tax paid	<u>(1,127,601)</u>	<u>(1,978,857)</u>
Provision for Income Tax	<u>706,745</u>	<u>84,059</u>

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

DEFERRED TAXATION

Opening balance	308,910	455,113
Movement during the year	60,552	(215,131)
Prior year	(13,571)	68,928
Closing balance	355,891	308,910
Comprising:-		
Depreciation	122,123	130,694
Interest Receivable	253,768	174,193
Rent Receivable	-	19,023
Provision for Audit Fee	(20,000)	(15,000)
Deferred Taxation	355,891	308,910

	2001 K	2000 K
8. RECEIVABLES		
Debtors	135,011	76,093
Less: Provision for Doubtful Debts	-	-
	135,011	76,093
Associates Funds	50,707	-
Hunter Limited	74,796	102,339
Finance Pacific	-	110,695
Banora Trading Ltd	99,165	20,640
Interest accrued – IBD	22,954	40,408
Interest accrued – Government Stock	79,610	27,655
Interest accrued – Loan	412,132	308,632
Interest accrued – Treasury Bills	500,376	315,355
Interest accrued – TAP Issue	-	4,722
Government Share – Benefits	5,248,265	1,335,888
Members Housing Assistant-Receivable	2,127,537	1,788,816
Tertiary Education Scheme Receivable	32,068	53,459
Prepayment	29,991	1,083
Security Deposit	49,121	47,471
Sundry debtors	<u>189,718</u>	<u>11,632</u>
	<u>9,051,448</u>	<u>4,244,888</u>
9. CREDITORS		
Associate account	-	22,472
Accruals- Audit fee	60,000	130,000
Sundry creditors	458,427	581,101
Benefits due & unpaid	13,011	13,011
Death Claims	80,000	80,000
Department of Defence- payable	265,000	265,000
Provision for Withholding Tax	10,803	1,968
Group Tax	37,864	31,291
Leasing Payable	6,275	14,909
VAT Payable	<u>3,349</u>	<u>1,975</u>
	<u>934,729</u>	<u>1,141,727</u>

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

			2001 K	2000 K
10. NON CURRENT ASSETS				
Description	Accum. Cost	Net Book Depre'n	Net Book Value	Value
Computer	53,249	27,289	25,960	27,877
Office Equipment	186,611	95,813	90,798	127,334
Furniture & Fitting	534,181	49,154	485,027	17,299
Motor Vehicles	151,766	114,435	37,331	78,642
Total	925,807	286,691	639,116	251,152

11. NOTES TO THE STATEMENT OF CASH FLOWS:-

Reconciliation of cash

For the purpose of this statement of Cash Flows, cash includes balance at bank, net of bank overdrafts, and in call deposits with banks. Cash and cash equivalents at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheets as follows:-

	2001 K	2000 K
Balance at Bank-Mini account	8,176	9,809
Balance at Bank-Benefit account	(9,106)	11,333
Balance at Bank-Management account	(12,091)	16,647
Balance at Bank-Housing Scheme account	87,605	267,602
Balance at Bank-Tertiary Education account	294,302	265,600
Petty Cash	400	400
	369,286	571,392

12. RELATED PARTIES DISCLOSURE

(a) At 31 December 2001, Public Officers Superannuation Fund Board owed K10,401 to the fund

(b) At 31 December 2001, Hunter Pty Ltd owed the Fund K690,000 in loan and K74,795,53 for the expenses Paid on behalf of Hunter. (The Fund own 70% of Hunter Pty Ltd.)

(c) At 31 December 2001, Banora Trading owed the Fund K99,164.79.

Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

Defence Retirement Benefits Fund Board

CHARTS

For the Year Ending 31 December 2001

Category	Value	%Portfolio	%Approved
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Defence Retirement Benefits Fund Board
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2001

Fund Directory

LOCATION

Nambawan Finance Haus
Waigani Drive,
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POSTAL ADDRESS

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FUND ADMINISTRATOR & INVESTMENT MANAGER

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SENIOR MANAGEMENT

Darby G.V.Kila – General Manager
Matagu P.Kidu – Executive Manager Investments
George B. Uware – Executive Manager Corp. Admin.
Richard Sinamoi – Board Secretary

Posman Kua Aisi Lawyers
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