

Annual Report 2007



Comrade Trustee Services Limited

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Vision & mission statement

The vision of the company was varied during a strategic planning workshop in November 2007 to:-

"To achieve excellence in meeting the needs of members through efficient management of the Fund."

And the mission was amended to:-

"To continuously deliver services to meet the identified needs of our members and to prudently manage the Fund to ensure its value is enhanced"

Corporate Values

The achievement of our mission statement requires all Directors and employees of CTSL and our core service providers to adhere to our corporate values. These values require CTSL to operate in accordance with the highest professional and ethical standards in all our relationships with members, suppliers, and the community in which we operate. The values provide a platform for the company to nurture and promote a corporate climate which encourages innovation and diligence amongst staff and rewards them through:-

OUR CORPORATE VALUE

Being responsible and accountable for our actions

Operating with honesty and integrity

Always putting the interest of our members first

Being transparent in our dealings with all parties

Training and developing our employees and providing them with the necessary resources to perform to their full potential and rewarding them fairly

Aiming continually to improve our service and efficiency levels

Treating each other with respect and consideration and encouraging team work and cooperation

Pursuing an employment policy that is based on merit and does not discriminate on the basis of gender, race, religion or ethnic persuasion

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Chairman's Statement

Dear Members,

It gives me great pleasure once again to present the 2007 Annual Report of the Defence Force Retirement Benefits Fund which also contains the audited consolidated Financial Statements of the Fund and its subsidiaries for the year ended 31st December 2007.

I am very delighted to announce that the Group enjoyed a very profitable year realizing a record net consolidated surplus (after tax) of K74,685,442. This was a very commendable achievement, made possible by a combination of a stable political and economic environment prevailing during the past several years and positive gains realized on stocks listed on both the Australian Stock Exchange (ASX) and the Port Moresby Stock Exchange (PomSox).

PNG is now well placed to realize the benefit of a stable government coupled with further economic growth resulting from the high demand for various commodities sourced from this country. This growth is expected to be spurred on by the mining and LNG projects now in various stages of development.

Your Fund is now well placed to benefit from such major capital investment in the country and the Board is anxiously looking at investment opportunities to grow the Fund and ensure that it is in a financially sound position to fulfil its obligation to sustain pension payments.

As a result of such exceptional performance in 2007, I am happy to announce that the Board has approved the

following benefits to be passed on to members:-

- a) 37% interest to be credited to contributors accounts as at 31st December 2007
- b) 4% CPI indexation for 2007
- c) a further 4% as interim CPI indexation for 2008; and,
- d) a special CPI adjustment to pensions by incremental rates ranging from 1% in 2006 to 100% for 1991 and prior years.

I am pleased to announce that contributors' accounts will be credited by the interest crediting rate approved while pensioners should receive the CPI adjustments after they are processed and paid by the middle of the year. Board in approving the pension indexation attempted to compensate pensioners for the high cost of living experienced over the years by passing on some of the gains realized by the Fund.

Board is further pleased to announce that the policy on CPI indexation that required adjustment on pensions to occur every three years with retrospective pension adjustments has been amended. This was done to be compliant with Bank of PNG directives which requires the period in between actuarial evaluations to be reduced to two years. In addition Board is allowed to declare an interim CPI indexation, if supported by actuarial recommendation so that adjustments are made sooner to cushion the effect of increases in cost of living rather than latter. Commencing 2007 actuarial evaluation will be undertaken every two years therefore next evaluation will be undertaken for the financial year ending 31st December 2008.

I advise that the Net Assets of the Fund has continued to grow from K180,171,933 in 2006 to K254,857,375 as at the end of 2007. This represents a growth rate of 41.45% over the previous year.

Board is confident that with careful and prudent management, the Fund will continue to grow and be in a financially sound position to fulfil its statutory obligation to members.

Total revenue earned during the year amounted to K94,034,833 out of which investment income accounted for K82,400,962 (87.62%), while income from contributions (members' and State) accounted for K8,052,678 (8.56%). A significant component of investment income was attributed to share price appreciation of companies in which the Fund acquired shares such as Bank South Pacific, Oil Search Limited, New Britain Palm Oil Ltd just to name a few.

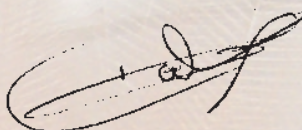
Your Fund has continued to enjoy a reasonable level of surplus and growth in net assets during the year, however members are advised that such achievements cannot be guaranteed and repeated in the future. Growth and profitability of the Fund is dependent principally on the investment strategies developed and pursued by the Board and investment opportunities available and ultimately the macro and micro economic environment prevailing in the country during the year.

During the year global financial markets were adversely affected by the financial turmoil caused by the sub-prime

mortgage crisis in the US the effects of which are expected to be felt for some time yet and to which PNG is not immune.

Your Board continued to exercise greater financial discipline resulting in the management expense ratio (MER) of the Fund continuing its downwards trend to 1.78% during the year (2006 - 1.94%). Board advises however that due to the requirement for consolidation of the accounts with the Fund's subsidiary companies in 2007 to be compliant with International Accounting Standards 27 (IAS27), the overall MER has increased to 2.32%. The Board will continue to monitor operational expenditure, including those of its subsidiaries to ensure that the Fund moves toward MER convergence with industry average without compromising operational efficiency.

Finally, I take this opportunity to thank my fellow Directors, management, staff, investment manager, fund administrator and all other persons or entities whose unfailing dedication, commitment, perseverance and hard work have contributed towards the realization of an exceptional outcome for the Fund in 2007.



Chris Alu
Chairman

14th May 2008.

The Fund

The Defence Force Retirement Benefits Fund (DFRBF) was initially established in accordance with provisions of the Defence Force Retirement Benefits Act, Chapter 79, however as of 1st January 2003 the Fund is recognized as being established pursuant to Section 8 of the Superannuation (General Provisions) Act 2000 with the repeal of Section 17 of the DFRB Act (provision through which the Fund was initially established) on 31st December 2002.

The primary objective of the Fund is to provide benefits to members of the Defence Force on retirement and to their families in the event of death and for related purposes.

Unlike other fund operating in the country, DFRBF is a defined benefits fund. This means that benefits are usually determined by a formula provided in the enabling legislation. Since members benefits are determined by a formula, rather than reflecting what is in the members' individual accounts, the funds held in the Fund are kept as a single pool for members.

Members are required to compulsorily contribute 6% of their salary to the Fund. The employer or State share of pension contribution is not paid each fortnight as is the case with an accumulation fund. Instead the State assumes all residual pension liability after allowing for member contribution, investment income and expenses of administering the Fund.

Because of the uncertainties of the extent of residual liability assumed by the State, an actuarial evaluation is undertaken periodically. Prior to the Superannuation Act 2000 coming into effect, the actuarial evaluation of the Fund was undertaken after every three years with the last one conducted for the three years ended on 31st December 2006. Commencing 1st January 2007 the actuarial evaluation of the Fund will be undertaken after every two years in compliance with prudential requirements to determine among other things, the financial viability of the Fund and its ability to meet and sustain future pension payments to the members. The next actuarial evaluation will be undertaken for the period ending on 31st December 2008 in early 2009 and details of which will be reported to members in the subsequent financial year.



Licensed Corporate Trustee

In compliance with the requirements of the Superannuation (General Provisions) Act 2000, Comrade Trustee Services Limited (CTSL) has been approved by the Bank of Papua New Guinea (BPNG) as the licensed corporate trustee for the Fund. As a licensed trustee, it has ultimate legal responsibility for the prudent management of the fund, and subject to the requirements of the Superannuation Act and the governing rules of the fund has the power, authority and the discretion generally to do all such acts as it considers necessary or expedient for the sound administration, maintenance, investment and preservation of the fund.

The trustee company is administered under the direction of a Board of Directors comprising of seven Directors, three (3) of whom are drawn from the members of the Fund and four independent Directors who collectively plan, oversee, set corporate goals and determine the strategic direction of the Fund.

Board Of Trustee



(Standing left to right) – Capt (N) A. Tom Ur - OBE, Capt (N) M. Aleale, Col D. Takendu - OBE (Rtd), K. Posman,
(Seated left to right) B. Hull, C. Alu (Insert - J. Kalo)

Chris Alu
 – Chairman
 Independent
 Director



Appointed to the Board of DFRBF (predecessor to Comrade Trustee Services Limited) as Chairman in June 2000 and served in that position until 31st December 2002, when the Board ceased to exist by operation of the Superannuation Act 2000. He was subsequently appointed to the Board upon the formation of CTSL as licensed corporate trustee to the Fund on 19th December 2002.

Mr. Alu was re-elected as the Chairman of both the Board and the Audit & Compliance Committee.

Mr. Alu has 24 years of extensive private and public sector experience and brings with him invaluable accounting experience to the Board.

Mr. Alu graduated with a degree in accounting from the PNG University of Technology in 1981 and holds a Certificate in Commercial Audits from the Darling Downs Institute of Advanced Education, Queensland, Australia.

He is also Chairman of Unitech Development & Consultancy Limited – the business arm of the University of Technology, a member of Council of the University of Technology and President of the Fellowship of Companies for Christ International, PNG Chapter. He is also involved with many charity groups and considers this as his contribution towards the less fortunate in society.

Mr. Alu is a member of the PNG Institute of Directors and was appointed pursuant to Clause 10 of the Company Constitution as an independent director

Colonel David L.Y. Takendu, OBE, BE
 (Civil), psc (Aust),
 psc (Indon), jssc
 (Aust) (Rtd.)



Appointed to the Board of DFRBF (predecessor to Comrade Trustee Services Limited) as Deputy Chairman in June 2000 and served in that position until 31st December 2002, when the Board ceased to exist by operation of the Superannuation Act 2000. He was subsequently appointed to the Board upon the formation of CTSL as the licensed corporate trustee to the Fund on 19th December 2002.

Col Takendu joined the Australian Army, Papua New Guinea Command, in 1968 as an officer cadet and worked his way up to the rank of Colonel and held the position of Chief of Staff at the time of retirement in December 2002. He represents pensioners on the Fund Board.

He previously served on the Post and Telecommunications Board from 1990 to 1993 and more recently served as Chairman of Banora Trading Limited.

Colonel Takendu graduated from the PNG University of Technology in 1978 with a degree in Civil Engineering. During the course of his employment with the Defence Force he has also attended military staff colleges in Australia, New Zealand, Indonesia and United States notably, the Australian Staff College, Queenscliffe, Victoria, in 1981, the Indonesian Military Staff College, Bandung, between 1986 and 1987, the JFK School of Government, Harvard University, Boston, Mass, USA in International Conflict Resolution Strategies, 2001 and Defence Resources Management Institute, at the US Naval Post Graduate School, Monterey, California, USA in 1991. He speaks Bahasa Indonesia fluently.

He is a member of the PNG Institute of Directors.

Captain Alois Tom Ur, OBE (Navy)



Appointed to the Board on 19th December 2002, Captain Tom Ur represents members of the fund on the Board.

Captain Tom Ur was appointed Chief of Staff in July 2002 and has occupied that position in the Defence Force to the present time. His primary role is to provide logistical and management support to the Commander of the PNG Defence Force.

Currently he is a member of the Defence Force Supplies and Tenders Board and Chairman of the Disciplined Forces Housing Committee.

Captain Tom Ur has had considerable hands on experience in all facets of naval duties including attachments in the United States and Australian navies.

Captain Tom Ur is a graduate of the University of PNG with a Bachelor of Commerce (Accounting) degree, a graduate Diploma in Strategic Studies from the Joint Services Staff College in Canberra and a visiting Fellow to the Royal Australian Navy's Maritime Studies Program. He also holds a graduate Certificate in Business Administration and a Masters Degree from Deakin University in Melbourne and is a member of the PNG Institute of Directors.

Johnson Kalo
 Independent
 Director



Appointed to the Board on 7th July 2003, he is a nominee of the Bankers Association pursuant to Clause 10 of the Company Constitution. Mr. Kalo holds a degree in accounting from the PNG University of PNG.

Since his graduation in 1988, Mr. Kalo has had extensive working experience in all facets of accounting and auditing having worked with KPMG for 7 years ascending to the position of Assistant Manager at the time of leaving to take up the position of Internal Auditor with Motor Vehicles Insurance Limited in 1995. Upon the creation of Finance Pacific Limited, which eventually assumed control of MVIL and PNGBC, Mr. Kalo continued to perform accounting and auditing functions. In 2000, Mr. Kalo was

appointed as Senior Accountant within the Financial Analysis Unit of the PNGBC and with the subsequent sale and merger of the bank in 2002 with Bank of South Pacific Mr. Kalo was retained as Senior Accountant and his duties expended to include new accounting and reporting challenges brought about by the merger of the two banks in the areas of integration and financial systems. In July 2006 Mr. Kalo was appointed as Chief Financial Officer to Bank South Pacific.

Mr. Kalo brings to the Board not only his accounting expertise but the added benefit of a banker's perspective to Board deliberations which will enhance corporate governance.

Mr. Kalo is an Associate Member of the PNG CPA and a member of the PNG Institute of Directors.

Brian Hull
Independent
Director



Appointed to the Board on 7th July 2003, as a nominee of the PNG Institute of Directors pursuant to Clause 10 of the Company Constitution.

Mr. Hull served on the Board of the Bank of Papua New Guinea from October 1986 through to December 2000. Apart from Sir Henry ToRobert, Brian was the longest serving member of this board.

As Executive Chairman he founded Eda Ranu in 1996 and served in this capacity until 1998. Currently Brian Hull is Executive Chairman of Century 21 Siule Real Estate and his extensive experience in real estate and property industry benefits the Fund significantly. This is in addition to his contribution to enhancing and strengthening corporate governance.

Brian Hull holds a Diploma from the Australian School of Pacific Administration, attended the University of Papua New Guinea and has completed various business

related courses in Australia, New Zealand, Singapore, USA and Papua New Guinea. In April 2005, he participated in the inaugural International Company Directors Course conducted by the Australian Institute of Company Directors in Sydney, Australia.

Brian is currently a Fellow of the Australian Institute of Company Directors, a founding member of the PNG Institute of Directors and a founding member of the Real Estate Agents Association. He was appointed Chairman of Pacific Assurance Group in early 2006.

Kisikiu Posman
Independent
Director



Appointed to the Board on 4th June 2004 he was nominated by the PNG Law Society pursuant to Clause 10 of the Company Constitution.

Mr. Posman graduated from the University of PNG in 1983 with a Bachelor of Law and also graduated with a Master of Law degree from the University of Ottawa, Canada in 1986.

Mr. Posman has had a varied employment history having commenced employment with Bougainville Copper Limited in 1974, then to teaching law at the University of PNG between 1983 and 1989 then to private practice. His stint in private practice started with Warner Shand Lawyers, then with Mallesons Stephen Jaques at their Sydney office for two years then with Carter Newell Lawyers in Port Moresby for a further three years.

In 1993, he left Carter Newell Lawyers to start the law firm Fiocco Posman Kua Lawyers in partnership with Messrs Rio Fiocco and Kerenga Kua. The firm has undergone significant changes since then having merged with Tharwell Aisi Lawyers and is now one of the largest national legal firms. Mr. Posman is the managing partner of the firm.

In addition to his legal background, Mr. Posman has had some prior commercial experience having served on the Boards of the Investment Corporation of PNG and Air Niugini and is also a member of Council of the Legal Training Institute, and a council member of the PNG Law Society.

Mr. Posman is a member of the PNG Law Society and the PNG Institute of Directors.

Captain (N) Max Sundie Aleale, psc
(RANC), Grad DDip
SS(Canberra, DMS)



Appointed to the Board on 29 September 2006 upon the retirement of Capt R. Renagi,, Capt Aleale represents members of the Fund on the Board.

Capt Aleale was promoted on 2 May 2002 to the rank of Captain (Navy) and appointed Chief of Operations – PNG Defence Force however actually took up duties in this position on 30 June 2004. He is the principle Military Operations and Administrative adviser of the Defence Force to the Commander.

He is currently a member of four Senior Defence Committees and has commanded two patrol boats, a major naval base and a principle naval adviser to the Chief of Operations of the Defence Force. Captain Aleale has considerable operational, administrative and management experience.

He is a graduate of the Joint Services College, Lae, Royal Australian Naval Staff College, Sydney, Asia Pacific Centre for Security Studies, Hawaii and holds a Graduate Diploma in Strategic Studies from the Australian Defence Strategic Studies Centre in Canberra and a Fellow of the Centre.



An artist impression of the HarbournCity Project Development

***Growing and protecting
member's retirement nest egg
through prudent investments***

Corporate Governance Disclosure Statement

The Board is committed to upholding and implementing the principles of good corporate governance. This is considered critical as recent experiences have shown that the lack of good corporate governance has contributed directly to corporate frauds and in worst case scenarios, corporate failures leading to a serious erosion of confidence in those entrusted with the responsibility of managing companies - the directors. The enhanced accountability, transparency and integrity flowing from improved corporate governance creates value for shareholders and other stakeholders, reduces costs, increases competitiveness and restores confidence.

The Board is responsible for the corporate governance of the Fund, including its corporate planning, establishing goals for management and monitoring achievement of these goals.

This statement sets out the principle corporate governance practices and disclosures that were in operation during the year.

The Trustee

Comrade Trustee Services Limited (CTSL) is the successor in law to the DFRBF Board and has been approved by the Bank of Papua New Guinea (BPNG) as the licensed trustee for the Fund. As a licensed trustee, it has ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act and the governing rules of the fund has the power, authority and the discretion generally to do all such acts as it considers necessary or expedient for the sound administration, maintenance, investment and preservation of the Fund.

Shareholder Information

There are five shareholders who each hold one ordinary share "in trust" on behalf of the members of the Fund. These shares attach no beneficial rights to the shareholder, except to ensure compliance with the Companies Act 1997 and the Superannuation Act and are transferable, in the case of the Commander of the Defence Force to his successor and in the case of the other shareholders when they cease to be Directors of the company to their successors. Shareholders of the company as at the year end are as follows:-

<i>Name of Shareholder</i>	<i>Class of Shares</i>	<i>No of Shares</i>	<i>Value</i>	<i>Special Notes</i>
Commodore Peter Ilau, DMS, MBE	Ordinary	1	K1.00	Share held in trust for members
Chris Alu	Ordinary	1	K1.00	Share held in trust for members
Col D. Takendu, OBE (Rtd)	Ordinary	1	K1.00	Share held in trust for members
Capt Max Aleale, DMS	Ordinary	1	K1.00	Share held in trust for members
Capt Tom Ur, OBE	Ordinary	1	K1.00	Share held in trust for members
Total		5	K5.00	

The rights attaching to these shares are set out in the Constitution of the Company and in certain circumstances, are regulated by the Companies Act 1997 and the Superannuation Act 2000. There is only one class of shares and all shares have equal rights.

Each share holder is entitled to receive notice of, and to attend and vote at general meetings of the company and to receive all notices, accounts and other documents required to be sent to shareholders under the company's Constitution, the Companies Act and the Superannuation Act.

The Board

Comrade Trustee Services Limited is managed under the direction of the Board of Directors. The Board has the ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act 2000 and the governing rules of the Fund has the power, authority and discretion generally to do all such acts as it considers necessary or expedient for the sound management, maintenance, investment and preservation of the Fund.

The Board comprises of seven Directors, three of whom represent members of the Fund and four independent Directors. Strict appointments criteria, including a "fit and proper" test ensures that persons appointed to the Board are legally eligible and possess skills, knowledge, experience or expertise in the management of commercial entities and whose inclusion on the board will add value and enhance corporate governance. Board appointments are subject to Bank of Papua New Guinea approval. Directors hold office for a term of three years at the expiry of which they are eligible to nominate for re-election subject however to any restrictions contained in the Company Constitution and Central Bank approval. No Directors retired during the year.

All Board and Committee meeting are convened in Port Moresby and therefore members of the Board must be residents of the National Capital District.

The names of members of the Board at the date of this report, including their remuneration, status on the Board and information relating to their attendance at meetings for the twelve months to 31st December 2007 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment	Attendance of Meetings		
				Board	Audit Committee	Appointments Committee
Chris Alu (Chairman)	K25,850	Current	19/12/02	4/4	2/2	-
Col D. Takendu, OBE (Rtd)	K22,700	Current	19/12/02	4/4	-	2/2
Capt (N) Max Aleale, DMS	K18,050	Current	29/09/07	3/4	-	1/2
Capt (N) Tom Ur, OBE	K21,900	Current	02/01/02	3/4	2/2	-
Brian Hull	K22,250	Current	07/07/03	4/4	-	2/2
Johnson Kalo	K20,500	Current	07/07/03	2/4	1/2	-
Kisakiu Posman	K14,550	Current	04/06/04	1/4	1/2	2/2

* Fees shown above are before tax.

The Board complied with its approved Calendar of meetings planned for the year. The Board formally met four times during the year and the two Committees (Audit & Compliance and Appointments & Remuneration Committees) each met two and three times respectively.

All meeting papers are circulated seven days in advance to all Directors. This enables adequate time to read and understand the matters requiring Board action, thus ensuing informed decisions are made for the ultimate benefit of the Fund.

Audit & Compliance Committee

The Committee met three times during the year. The role of the Committee includes review of the Fund's financial statements, review of audit reports, review of the company's accounting policies, review of internal control systems and procedures including risk assessment and management strategies, review of the actuarial report, tenders, annual budgets, investment policy and guidelines and related matters. Members of the Audit Committee at the date of this report are:-

Chris Alu	-	Chairman
Captain Tom Ur	-	Member
Johnson Kalo	-	Member
Kisakiu Posman	-	Member

Appointments & Remuneration Committee

The Committee met two times during the year. The role of the Committee includes succession planning, review and recommendation of candidates for Board vacancies, review of Board fees and remuneration, appointment of executive management, review of salary and remuneration including terms of employment of senior management and related matters. Members of the Appointments & Remuneration Committee at the date of this report are:-

Colonel David L. Y. Takendu, OBE (Ret)	-	Chairman
Brian Hull	-	Member
Kisakiu Posman	-	Member
Captain Max Aleale	-	Member

External Board Positions

As at 31st December 2007, the following external Board positions were held by Directors and employees of CTSL.

<i>Name</i>	<i>Position</i>	<i>Company</i>
Chris Alu	Chairman	Unitech Development & Consultancy Ltd
	Member	University of Technology Council
Col David Takendu, OBE	Director/Chairman	Banora Trading Limited
Brian Hull	Executive Chairman	Century 21, Siule Real Estate
	Chairman	Pacific Assurance Group
Kisakiu Posman	Director	Banora Trading Limited
George Uware	Director	Banora Trading Limited
	Director	Hunter Limited
Richard Sinamoi	Director	Hunter Limited
	Director	Pacific Capital Ltd
	Director	Paradise Foods Ltd

Employees of the company appointed to the Boards of subsidiary companies are not paid any fees.

Independent Professional Advise

With the approval of the Chairman, a Director is entitled to seek independent professional legal and accounting advice at the expense of the Fund, regarding any aspect of that Director's duties and/or issues of concern about the Fund's operations.

Code of Conduct and Ethical Standards

The Board has adopted several codes relating to the conduct of Directors, management and staff including the management of conflicts of interest and confidentiality. CTSL recognizes and acknowledges the requirement for Directors and employees to observe and uphold the highest standards of behaviour and ethical standards in the performance of their duties.

Fund Administration

The fund administration function is delegated to and performed by Kina Investment & Superannuation Services Limited (KISSL) in compliance with the Superannuation Act 2000. The engagement of KISSL is for a term of three years which expired on 31st December 2005 and Board having been satisfied with their performance resolved to extend their engagement for a further three year term commencing 1st January 2006. The renewed contract will expire on 31st December 2008. At least three months prior to the expiry of contract, further engagement will be determined in accordance with the terms of the contract and failing this by tender.

Investment Management

The investment management function is delegated to and performed by Kina Funds Management Limited (KFML) in compliance with the Superannuation Act 2000. The engagement of KFML is for a term of three years which expired on 31st December 2005 and the Board having been satisfied with their performance resolved to reappoint them for a further term commencing on 1st January 2006. The renewed contract will expire on 31st December 2008. At least three months prior to the expiry of the contact further engagement will be determined in accordance with the terms of the contract and failing this by tender.

The investment manager is required to manage the Fund's investment portfolio in accordance with the investment policy approved by the trustee from time to time and subject to prudential standards issued by the Bank of Papua New Guinea and the Superannuation Act.

Employee Remuneration

Please refer to Note 30(c) of the Notes to the Financial Statements for details.

Regulatory Supervision by Bank of Papua New Guinea

As part of the Bank of Papua New Guinea's regulatory supervision of the superannuation industry, the bank undertakes from time to time an independent review of the operations of the Fund in addition to the independent financial audits undertaken by an auditor. The review by the BPNG is aimed at ensuring adherence to world best practice in corporate governance standards and compliance by the Trustee with the provisions of the Superannuation Act and Prudential Standards in the management of the Fund. The last review of the Fund was undertaken in December 2007.

Independent Auditor

Prior to 1st January 2004, the statutory audit of the Fund was undertaken by the Auditor General. Since 2004, the Trustee has engaged an independent professional auditor to undertake the audit of the Fund. The auditor's appointment is for 12 months at the expiry of which further engagement is determined by closed tender. To ensure independence and avoid conflicts of interest the auditor is prohibited from any accounting assignments or valuation of Fund assets and liabilities. The current independent auditor is Deloitte Touche Tohmatsu. Fees paid to the auditor are summarized as follows:

Auditor	2004	2005	2006	2007
Deloitte Touche Tohmatsu	K80,000	K93,000	K117,664	K135,076

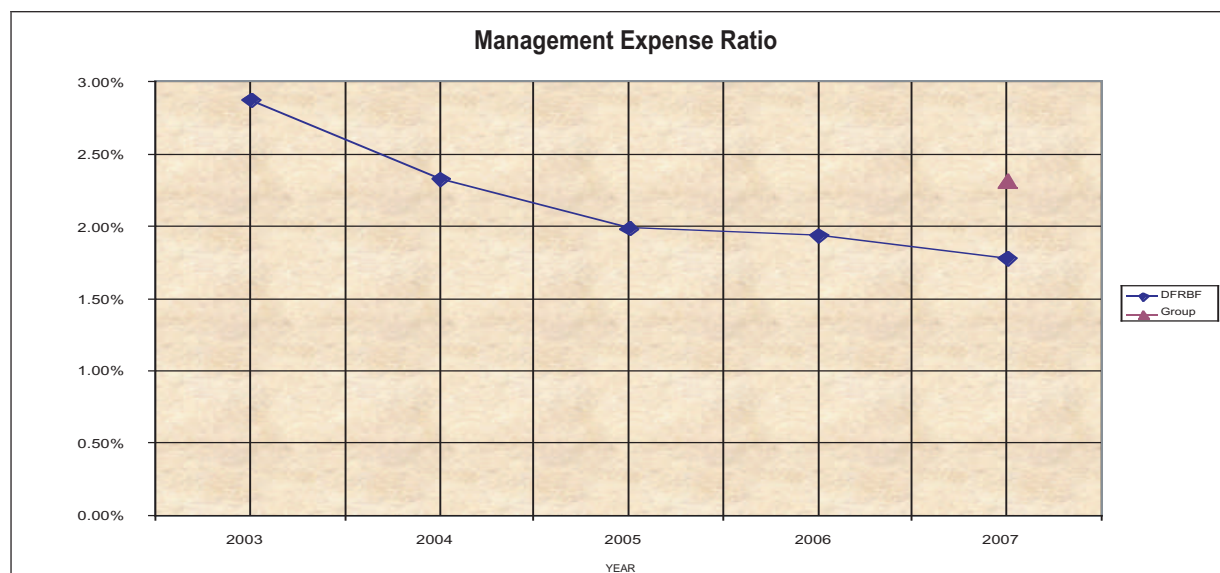
Management Expense Ratio

Management expense ratio (MER) is an underlying key financial performance indicator used to measure the performance of the fund relative to industry standards and also to assist identifying adverse deviation and take corrective action.

The MER is determined by taking the sum of all expenses (excluding depreciation, direct investment expenses and pension and related benefit expenses) divided by the average net asset value of the Fund expressed as a percentage. The net asset values are based on audited accounts and after allowing for net changes in market values, depreciation and taxation.

Commencing 2007 the Fund consolidated its accounts with subsidiary companies to be compliant with International Accounting Standards and its accounts presented accordingly. Consequently for comparative purposes the MER for the Fund and the group are shown below.

	2003	2004	2005	2006	2007
DFRBF	2.88%	2.39%	1.99%	1.94%	1.78%
Group	-	-	-	-	2.32%



Staff Employment Policy

CTSL is an equal opportunity employer and does not discriminate on the basis of sex, race, colour, religion or sexual orientation. Employment is merit based. There were twenty one staff employed by the company during the year (21 – 2006).

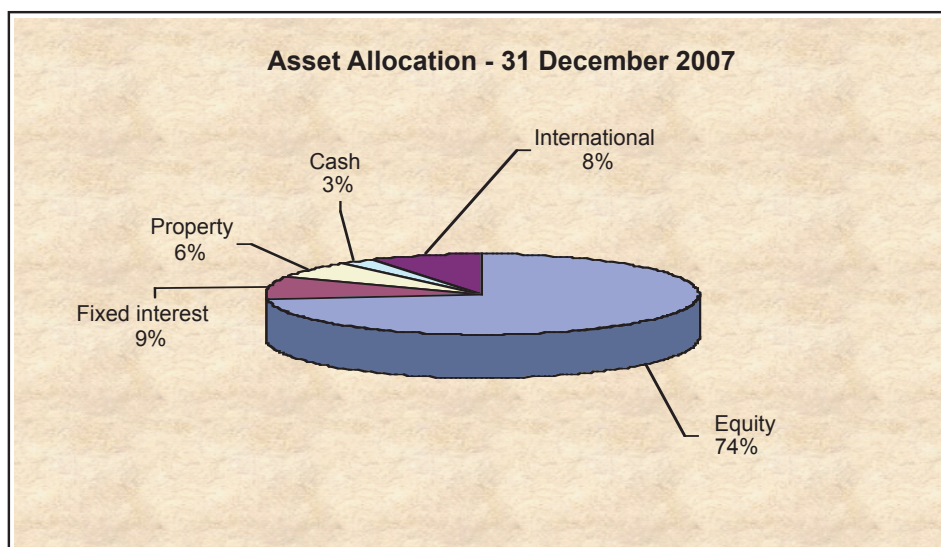
Investment transactions (excluding cash and treasury notes)

Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount
Bank South Pacific	Share sale	Equity	Various	(549,944)	(K3,373,039)
Bank South Pacific	DRP	Equity	20-Jul-07	549,944	K2,623,230
Ramu Sugar Ltd	Share sale	Equity	23-Feb-07	(1,106,889)	(K3,486,700)
Highlands Pacific Ltd	Share sale	Equity	Various	(795,263)	(K295,687)
Paradise Foods Ltd (Arnotts)	Share purchase	Equity	30-May-07	180,000	K9,873,000
River City Motorway Group	Share purchase	Equity	07-Aug-07	400,000	K488,759
ANZ Banking Group	Share purchase	Equity	27-Dec-07	10,000	K655,442
BHP Billiton Ltd	Share purchase	Equity	Various	20,000	K1,951,363

Investment Performance Highlights

The composition of the investment portfolio and asset allocation as at 31st December 2007 relative to the prior year is summarized as follows:

Asset Classification	Portfolio Value (Kina)	Percentage Holdings %		Neutral Allocation (%)		Sector Range Low – High
	31- Dec-07	31-Dec-06	31-Dec-07	31-Dec-06	31- Dec-07	31-Dec-07
Cash	K7,572,041	17,353,500	3.00%	9.38%	5%	0-10%
Fixed interest	K23,094,725	24,044,607	9.15%	12.99%	15%	10-30%
Equity	K183,546,280	111,669,262	72.72%	60.34%	50%	40-60%
Property	K17,011,852	11,494,293	6.74%	6.21%	10%	5-20%
International	K21,176,475	20,498,431	8.39%	11.08%	20%	10-30%
TOTAL	K252,401,375	185,060,093	100.00%	100.00%	100%	



Valuation methodology

The valuation methodology adopted by the Trustee is as follows:-

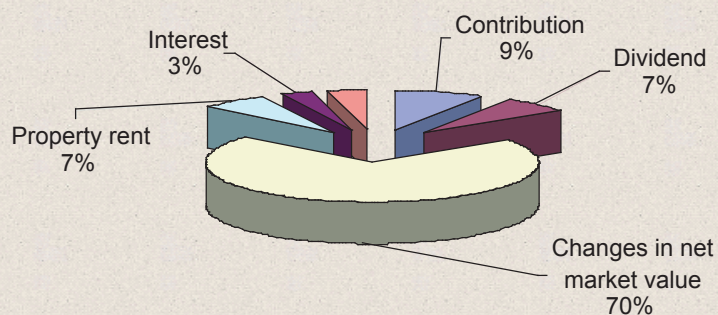
- | | |
|-----------------------|--|
| Listed equities | - Closing market price as quoted by the relevant stock exchange at balance date |
| Unlisted equities | - Price as determined by independent professional valuation |
| Property | - Value as determined by a registered property valuer & undertaken annually prior to 2007 valuation undertaken annually. |
| Government securities | - At purchase price/face value |

Summary of Key Results -2007

	2007	2006	Variation
• Total income	K94,034,833	K29,520,904	+K64,513,929
• Change in net assets	K74,685,442	K14,145,014	+K60,540,428
• Total Fund net assets ¹	K254,857,375	K180,171,933	+K74,685,442
• Fund Growth (%)	K41.45%	K8.49%	+32.96%
• Total benefits paid	K10,957,942	K20,953,241	-K9,995,299
• Interest crediting rate	37%	5%	+32%
• CPI indexation rate ²	4%	0%	+4%
• MER ³	1.78%	1.94%	-0.05%

¹ 2006 balance re-stated on consolidation
² Not inclusive of 2008 interim CPI adjustment of 4% and special CPI adjustment for 2001 and prior years
³ Above % shows Fund MER only. On consolidation Group MER was 2.33%

Income Pie Graph

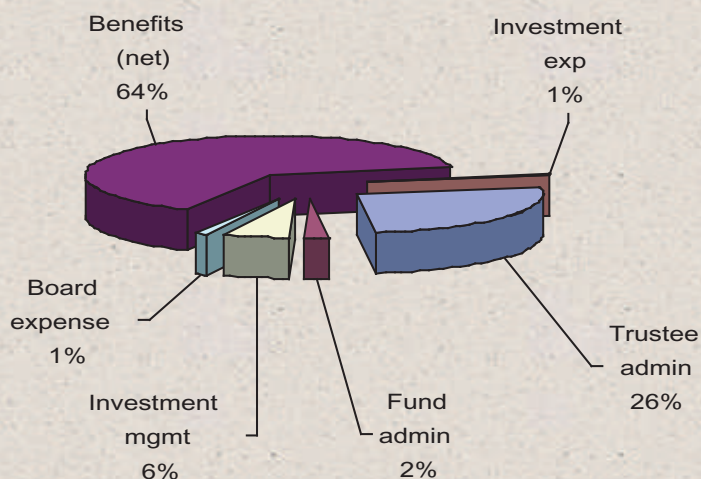


Income Summary (Kina)

• Interest	K2,879,898
• Other Income	K3,581,193
• Contribution	K8,052,678
• Dividend	K6,194,990
• Property rent	K6,332,765
• Changes in net market value	K66,993,309

Total Income K94,034,833

Expenditure

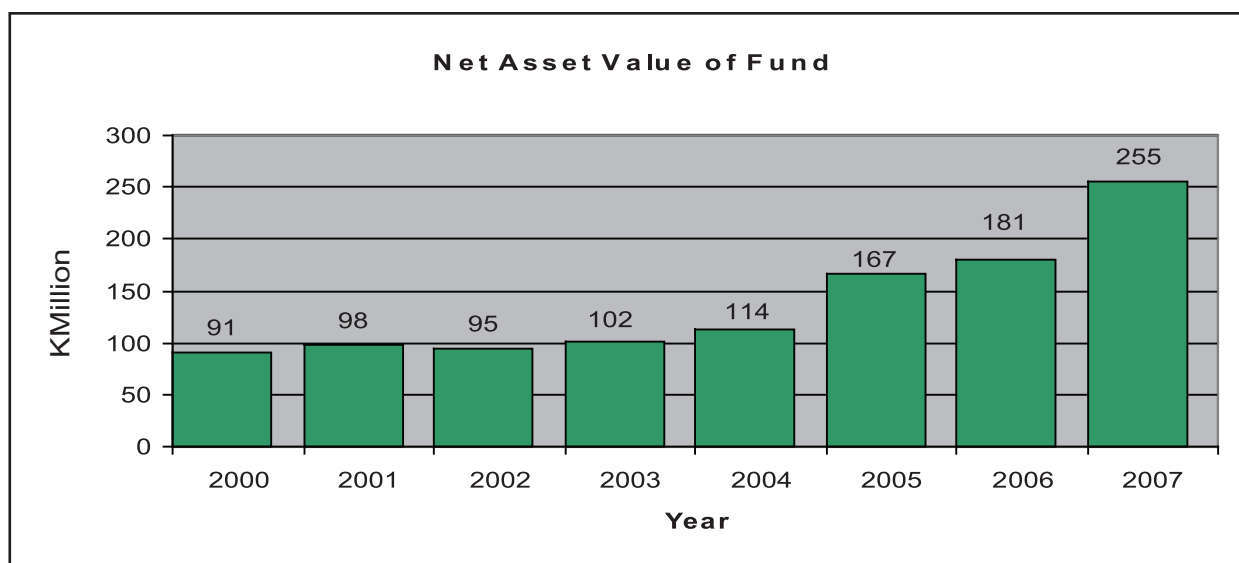


Expenditure (Kina)

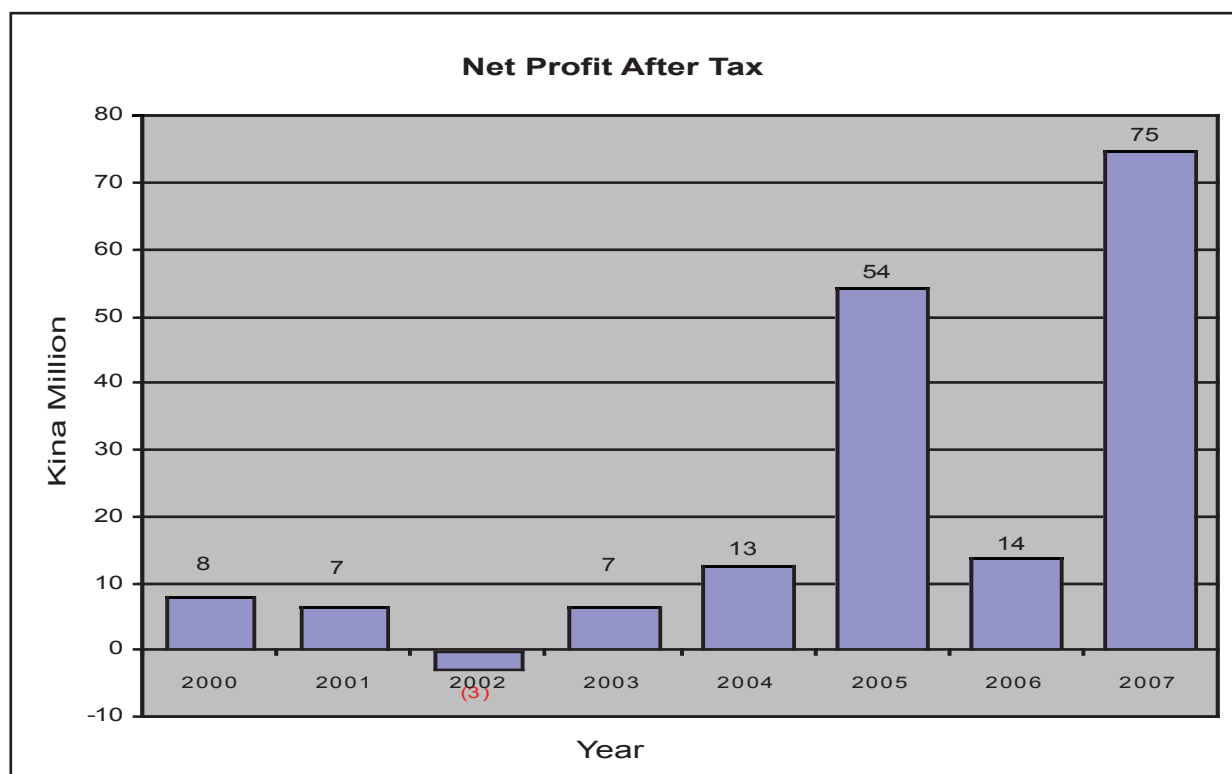
• Trustee admin	K4,449,888
• Fund admin	K403,738
• Investment	K991,368
• Board Exp	K180,127
• Benefits	K10,957,942
• Investment Exp	K100,000

Total Expense K17,083,063

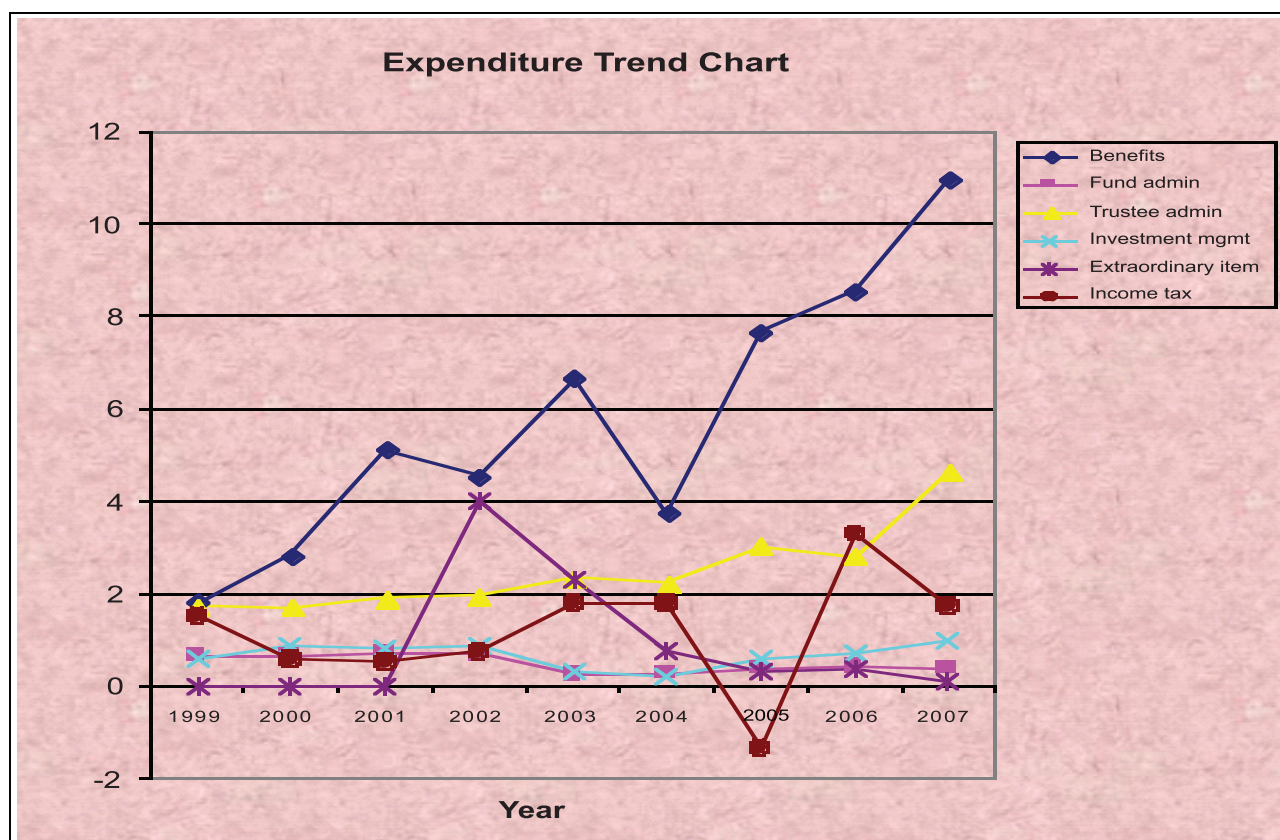
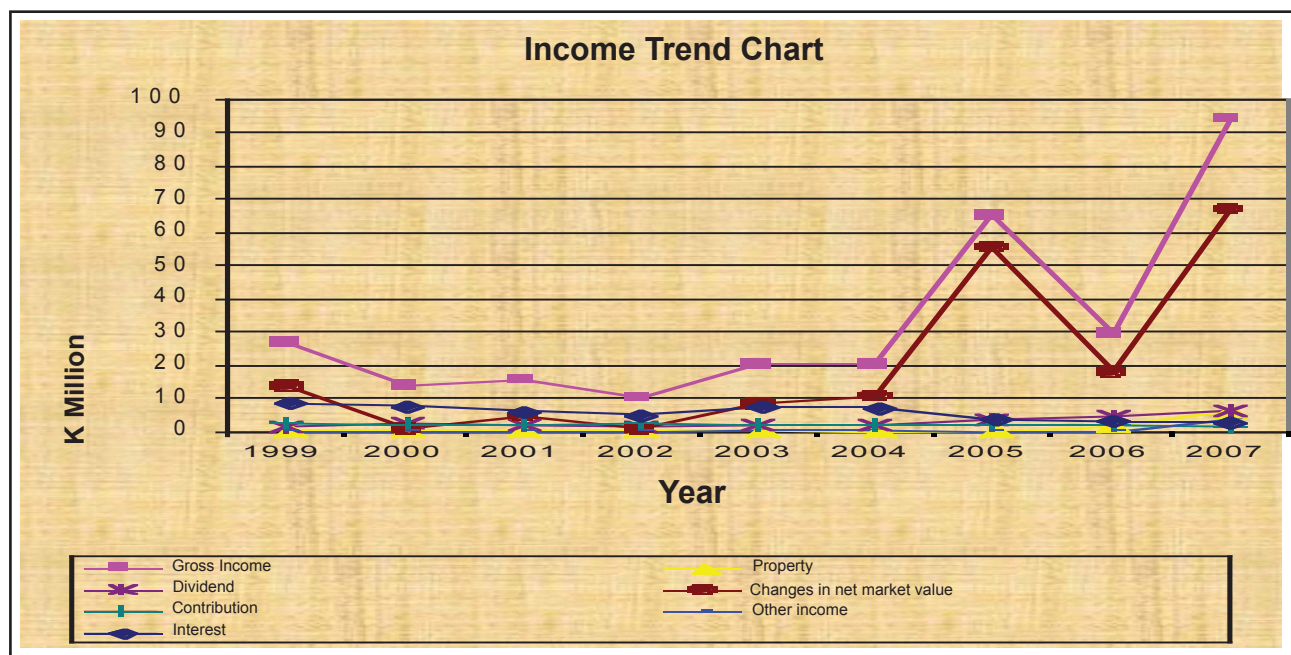
Fund Highlights at a Glance



The above bar graph shows that the fund has grown steadily from K91.0 million in 2000 to K254,857,375 as at 31st December 2007. Your trustees are confident that with prudent and diligent management such growth can be sustained and therefore assuring members financial security at retirement.



Except for 2002 when a loss of approximately K3.0 million was sustained the above graph illustrates that overall, net surplus after tax has steadily grown during the 8 year period under review and from current projections it is forecast to continue at present trend for the immediate to medium term. The trustees are confident that with careful and prudent management, fund surplus is forecast to grow.



Consolidated Financial Statements for the Year Ended 31st December 2007

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Consolidated Financial Statements for the Year Ended 31st December 2007

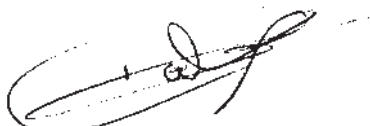
DECLARATION BY DIRECTORS

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flow and Notes to the financial statements for the year ended 31st December 2007 and has been properly drawn up and show the true state of affairs of the Funds as at the date. We are of the opinion that:

- a) the result of the Fund's operations for the year have not been materially affected by hems. 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.

Dated at Port Moresby this 26th day of March 2008.

For and on behalf of the Board of Directors of Comrade Trustee Services Limited.



Chris Alu
Chairman of the Board of Trustee



Captain (N) Alois Ur Tom OBE
Director

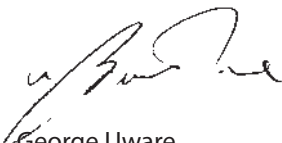
DECLARATION BY MANAGEMENT

In our opinion the accompanying Statement of Changes in Net Assets. Statement of Net Assets, Statement of Cash Flow and Notes to the financial statements for the year ended 31st December 2007 and has been properly drawn up and show the true slate of affairs of the Funds as at the date. We are of the opinion that:

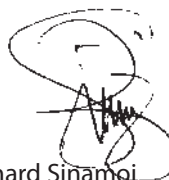
- a) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- b) no circumstances have arisen which would render any amount in the statements misleading.
- c) there are no contingent liabilities that could materially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

Dated at Port Moresby this 26th) day of March 2008.

For and on behalf of Management of Comrade Trustee Services Limit



George Uware
Chief Executive Officer



Richard Sinamoi
General Manager

DIRECTORS REPORT

The directors of Comrade Trustee Services Limited submit herewith the annual financial report of the company for the financial year ended 31 December 2007. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

The names and particulars of the directors and office holders of the company during or since the end of the financial year are:

Directors

Name	Executive/non-executive director
Mr Chris Alu	Non Executive -Chairman of the Board of Trustees
Captain (N) Alois Tom Ur, OBE	Non Executive
Mr Johnson Kalo	Non Executive
Col David Takendu, OBE (Rtd)	Non Executive
Captain (N) Max Aleale, DMS	Non Executive
Mr Brian Hull	Non Executive
Mr Kisakiu Posman	Non Executive

The above named directors held office during and since the end of the financial year.

Company Secretary

The company secretary is Mr. Richard Sinamoi

Review of operations

The Group reported a net profit of K74,685,442 (2006: K15,967,43) after charging income tax of K1,735,046 (2006: K4,895,942) and minority interest of K531,282 (2006: K1,314,362).

Changes in state of affairs

During the financial year there was no significant change in the principal activities or state of affairs of the company other than that referred to in the financial statements or notes thereto.

Change in accounting policies

No changes in accounting policies occurred during the current year.

Entries in the interest register

There were no entries in the interest register made during the year:

Directors' remuneration

Remuneration paid to directors have been disclosed in note 30 to the financial statements.

Remuneration above K100,000 per annum

The number of employees or former employees, not being directors of the company, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K10,000 band are disclosed in note 30 (c).

Donations

No donations were made during the current year by the Company.

Independent audit report

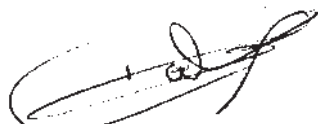
The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent audit report on pages 4. Fees paid for audit services are disclosed in note 15 to the financial statements.

Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

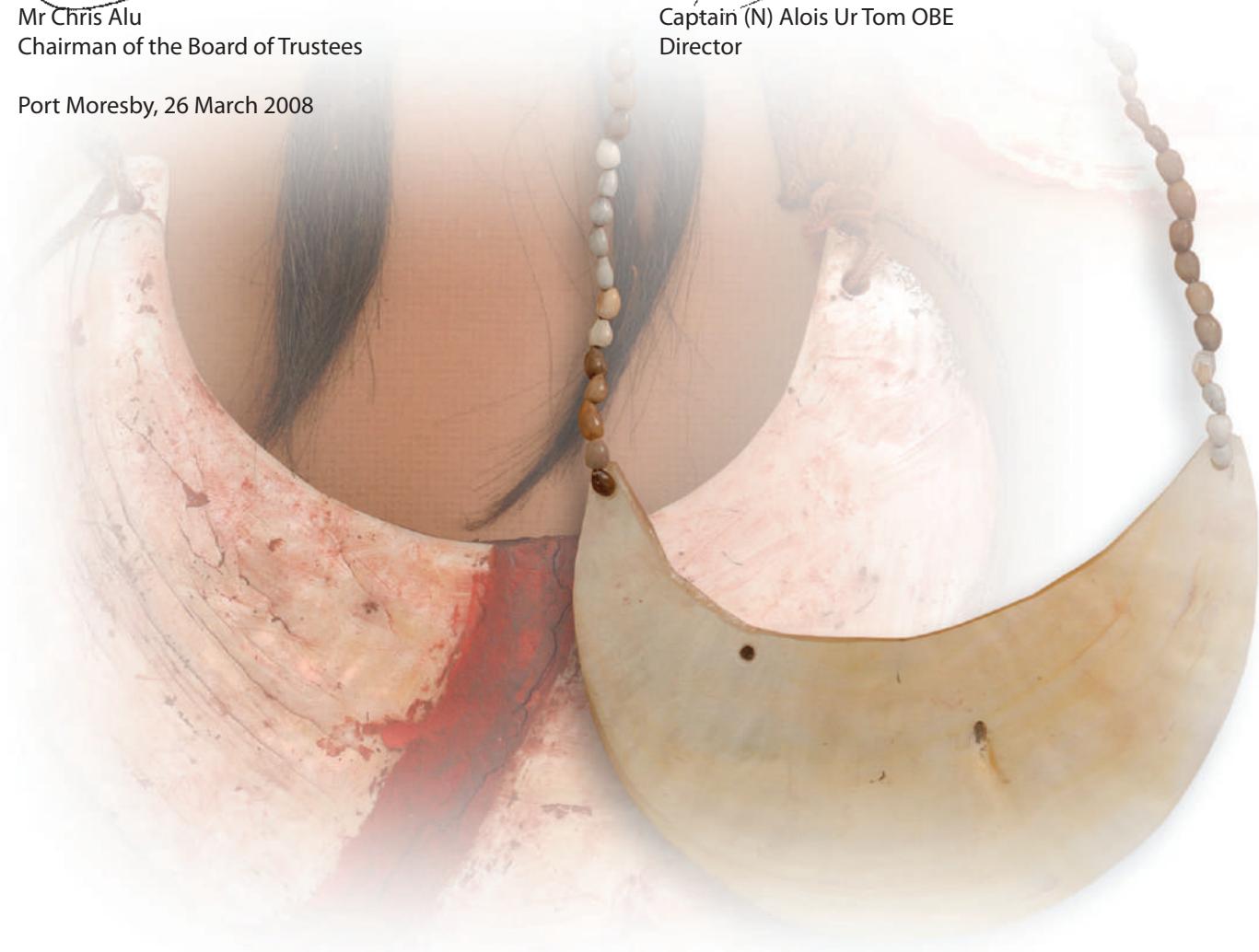


Mr Chris Alu
Chairman of the Board of Trustees



Captain (N) Alois Ur Tom OBE
Director

Port Moresby, 26 March 2008





Deloitte Touche Tohmatsu

Deloitte Tower, Level 12
Douglas Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

Tel: +675 308 7000
Fax: +675 308 7001
www.deloitte.com.pg

Independent audit report to the members of Comrade Trustee Services Limited and its subsidiaries

Scope

We have audited the accompanying consolidated financial report of Comrade Trustee Services Limited and its subsidiaries, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration, as set out on pages 1 to 3.

Directors' Responsibility for the Financial Report

The directors of Comrade Trustee Services Limited and its subsidiaries are responsible for the preparation and true and fair presentation of the financial report in accordance with the Companies Act 1997. This responsibility includes implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Audit Approach

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

Member of Deloitte Touche Tohmatsu

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion, and we have obtained all information and explanations required by us,

Audit Opinion

In our opinion,

- (a) the consolidated financial statements of Comrade Trustee Services Limited and its subsidiaries is in accordance with the Companies Act 1997, including giving a true and fair view of the company and its subsidiaries' financial position as at 31 December 2007 and of its performance for the year ended on that date; and complying with International Financial Reporting Standards and Statements of Accounting Standards; and
- (b) proper accounting records have been kept.

Other Information

We have no interest in the group or any relationship other than that of auditor of the company.

DELOITTE TOUCHE TOHMATSU

Suzaan Theron

Registered under the Accountants Act 1996
Partner, Chartered Accountants
Port Moresby, 31 March 2008

Consolidated Financial Statements for the Year Ended 31st December 2007

STATEMENT OF CHANGES IN NET ASSETS

		CONSOLIDATED		CTSL	
	Note	2007 Kina (Restated)	2006 Kina	2007 Kina (Restated)	2006 Kina
REVENUE					
Investment Income;					
• Interest Income	6	2,879,898	3,212,725	2,969,898	3,302,725
• Property Income	7	6,332,765	7,889,095	3,504,144	1,584,958
• Dividends	8	6,194,990	4,702,448	6,194,990	4,702,448
• Gains from changes in fair values & sale of Investment Securities available-for-sale	21	66,993,309	16,622,649	66,993,309	16,622,649
		82,400,962	32,426,917	79,662,341	26,212,780
Other Income	9	3,581,193	1,168,906	720,366	18,101
Contribution Income					
• Contributions received from members		1,705,871	1,928,143	1,705,871	1,928,143
• State Share of contributions	10	6,346,807	12,379,423	6,346,807	12,379,423
TOTAL		94,034,833	47,903,389	88,435,385	40,538,447
EXPENDITURE					
Benefits & General administration o Benefits	10	10,957,942	20,953,241	10,957,942	20,953,241
• Fund investment & administration expenses	13	4,630,015	4,067,933	3,082,356	2,802,740
• Management expense	11	1,395,106	1,108,981	1,395,106	1,108,981
		16,983,063	26,130,155	15,435,404	24,864,962
Direct investment expenses	12	100,000	(404,752)	100,000	(404,752)
TOTAL		17,083,063	25,725,403	15,535,404	24,460,210
CHANGE IN NET ASSETS BEFORE TAX		76,951,770	22,177,767	72,899,981	16,078,237
Income tax expense	16	(1,735,046)	(4,895,942)	(1,266,002)	(3,295,103)
CHANGES IN NET ASSETS AFTER TAX		75,216,723	17,281,825	71,633,979	12,782,913
Current year profits attributable to minority interests		(531,282)	(1,314,362)	-	-
Changes in net assets attributable to members		74,685,442	15,967,463	71,633,979	12,782,913
Net assets available to pay benefits at the beginning of the year		180,171,933	164,204,470	173,646,809	160,864,078
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE YEAR		254,857,375	180,171,933	245,280,788	173,646,809

The above statement of change in net assets should be read in conjunction with the accompanying notes to the financial statements.

Consolidated Financial Statements for the Year Ended 31st December 2007

STATEMENT OF NET ASSETS

	Note	CONSOLIDATED			CTSL
		2007 Kina	2006 Kina (Restate)	2007 Kina	2006 Kina (Restated)
Assets					
• Cash & due from other banks	17	15,788,956	26,519,843	13,741,649	25,154,209
• Treasury bills	18	795,262	3,140,428	795,262	3,140,428
• Loans to members & others	19	1,452,492	862,561	2,052,492	1,552,631
• Current income tax receivable	27	-	304,478	129,488	786,533
• Deferred income tax assets	20	337,695	292,329	232,338	282,772
• Investment securities available-for-sale	21	190,501,547	114,324,672	192,221,547	116,044,762
• Investment securities held-to-maturity	22	20,841,826	19,980,346	20,841,826	19,980,346
• Investment properties	23	30,158,269	546,974	7,903,011	23,190,934
• Property & equipment	24	546,974	1,218,905	345,925	435,495
• Other assets	25	7,903,011	4,176,865	3,961,067	2,607,722
TOTAL		268,326,032	194,011,361	252,530,863	182,654,739
LIABILITIES					
• Employee provisions	26	473,124	288,574	455,767	270,465
• Deferred income tax liabilities	20 (c)	3,785,949	3,148,250	1,906,739	1,753,855
• Current Income tax payables	27	206,054	-	-	-
• Other liabilities	28	5,790,780	7,721,131	4,887,569	6,983,612
TOTAL		10,255,908	11,157,955	7,250,075	9,007,932
NET ASSETS		258,070,123	182,853,406	245,280,788	173,646,807
EQUITY					
• Share Capital		-	-	-	-
• Minority Interest		3,212,754	2,681,472	-	-
• Opening Retained Earnings		6,525,119	3,340,573	-	-
• Opening balance – members funds		173,646,809	160,863,896	173,646,809	160,863,896
• Current year profits		74,685,442	15,967,463	71,633,979	[2,782,913]
		258,070,123	182,853,406	245,280,788	173,646,809

The above statement of net assets should be read in conjunction with the accompanying notes to the financial statements

Consolidated Financial Statements for the Year Ended 31st December 2007

STATEMENT OF CASH FLOWS

		CONSOLIDATED		CTSL	
	Note	2007 Kina	2006 Kina (Restated)	2007 Kina	2006 Kina (Restated)
Cash flow from operating activities					
• Interest received		1,980,543	3,479,980	2,070,543	3,515,865
• Dividend received		5,487,150	4,493,633	5,487,150	4,493,633
• Property income received		2,445,844	2,301,893	186,818	526,048
• Other operating income received	9	997,738	1,168,901	16,241	18,101
• Cash payment to employees & suppliers	27	(6,754,124)	(4,455,639)	(4,704,285)	(2,598,860)
• Income taxes paid		(632,180)	(587,718)	(405,634)	(455,613)
		3,524,971	6,401,050	2,650,833	4,499,173
Cash flows from operating profits before changes in operating assets & liabilities					
• Changes in operating assets & liabilities					
- Net increase in loans to members & others		(499,861)	7,501,249	(499,861)	7,501,249
- Net decrease (increase) in other assets		(106,572)	(110,134)	(91,448)	11,387
- Net increase in other liabilities		(11,802)	(190,508)	(212,351)	(166,156)
- Net Cash provided by operating activities		2,906,736	13,601,657	1,847,173	12,845,653
Cash flows from investing activities					
• Placement of term deposits (net)		(65,172)	(4,015)	(65,172)	(14,015)
• Placement of treasury bills (net)		2,345,166	5,631,081	2,345,166	5,631,081
• Purchase of investment securities held-to-maturity		(1,014,206)	(10,820,787)	(1,014,206)	(10,820,787)
• Proceeds on maturity of investment securities held-to-maturity		-	12,059,269	-	12,059,269
• Purchase of property & equipment	24	(150,351)	(142,838)	(99,645)	(33,405)
• Proceeds from disposal of property & equipment					
• Purchase of investment properties		(3,064,244)	(4,959,273)	(2,737,058)	4,866,938
• Proceeds from sale of investment properties		-	2,023	2,023	
• Purchase of securities	21	(16,488,745)	(7,274,997)	(16,488,745)	(7,274,997)
• Proceeds from sale of securities	21	7,305,179	5,154,359	7,305,179	5,154,359
Net Cash used in investing activities		(11,130,350)	(357,201)	(10,752,458)	(155,433)
Cash flows from activities with contributors					
• Contributions received from the members		1,705,871	1,928,143	1,705,871	1,928,143
• Benefits paid (including state share)		(10,957,942)	(20,953,241)	(10,957,942)	(20,953,241)
Net cash used in activities with contributors		(9,252,071)	19,025,098	(9,252,071)	(19,025,098)
Cash from activities with the state					
• Cash receipt of state share (benefits)		6,679,624	15,560,831	6,679,624	15,560,831
Net increase/(decrease) in cash & cash equivalents		(10,796,061)	,780,189	(11,477,731)	9,225,954
Cash & cash equivalents at beginning of period		25,849,901	16,069,711	24,484,267	15,258,313
Cash & cash equivalents at the end of period	17	<u>15,053,840</u>	<u>25,849,900</u>	<u>13,006,536</u>	<u>24,484,267</u>

The above statement of cash flow should be read in conjunction with the accompanying notes to the financial statements.

Consolidated Financial Statement for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale of financial assets held at fair value through profit and loss.

In accordance with the Board's policy, the Fund's investment should be revalued annually. An exception is shares, which are adjusted annually to market prices at year-end.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

The prior year comparative figures have been restated upon consolidation and the net effect has been discussed in Note 35.

Consolidated Financial Statement for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS**(c) Recognition of income**

Income is recognised on an accrual basis except dividend and interest income from Member Housing Assistant ("MHA"), which are brought to account when received.

Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection, such as when overdue by more than 30 days, or, when the borrower defaults, if earlier than 30 days. Such income is excluded from interest income until received. Contributions from members are brought into account, as income when receivable.

Pension payment, lump sums, refund of contributions and related government contributions are brought to account as they become payable. Accrual of benefit liabilities are based on the history of payment.

Changes in net market value of investments are recognised as income in the Statement of Changes in Net Assets in the periods in which they occur. Changes in net market values are determined as the difference between the net market value at balance date or consideration received (if sold during the year) and the net market value at the previous balance date or the cost (if the investment was acquired during the year).

(d) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available, against which the temporary differences can be recognised.

Income tax payable on profits based on the applicable tax laws in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be recognised.

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

(e) Property, plant, and equipment and depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on the basis of straight line to write-off the cost of such assets to their residual values over their estimated useful lives as follows:

Used in Operations	Investment Properties	
Land and buildings	Nil	Nil
Furniture and fittings	15% 11.25%	to 30%
Plant and equipment	Nil	15% to 30%
Motor vehicle	30%	Nil
Office equipment	20%	Nil
Renovation	10%	Nil
Software	33%	Nil

The asset's residual values and useful lives are reviewed and adjusted, if appropriate at each balance sheet date.

Profits and losses on disposal (being the difference between the carrying value at the time of sale or disposal and the proceeds received) are taken into account in determining operating profit for the year. Repairs and maintenance costs are charged to the income statement when the expenditure is incurred.

(f) Financial assets

The Fund classifies its investment securities into two categories: available-for-sale and held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices are classified as available-for-sale.

Investments are valued as at 31 December 2007 as follows:

- i. Listed shares are valued at 31 December 2007 at last sale price on that date. Off-shore investments are converted using the ANZ Bank exchange rate.
- ii. Unlisted shares are independently valued as at 31 December 2007 as adopted by the Board. This valuation was performed by KPMG as an independent professional valuer. The main factor used in the analysis was a combination of maintainable earnings, dividend yields and discounted cash flows of assets, as appropriate.
- iii. Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. Land and buildings are valued at 31 December 2007. This valuation was performed by registered valuer, The Professional Valuer of PNG Limited, Ashton Brunswick and McCann Property and Planning. The valuation reports indicate that few methods have been considered for the valuation process and includes: capitalization method, summation method and discounted cash flow method.

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

- iv. The net movement on revaluation is reflected in the income statement

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement in the period in which they arise.

Held-to-maturity investments are non derivatives financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold-to-maturity. Were the Fund to sell other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using effective interest rate method. Interest calculated using the effective interest method is recognised in the income statement.

- (g) Loans and impairment losses

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans originated by the Fund by providing money directly to the borrower are recognised as loans originated by the Fund and are carried at cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by references to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

- (h) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including, cash, treasury bills and amounts due from other banks.

- (i) Foreign currency

- i. Functional presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Kina., which is the Fund's functional and presentation currency.

- ii. Transactions and balances

Foreign exchange transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

(j) Changes in accounting policies and comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation and accounting policies in the current year. There have been no changes to accounting policies in the current year.

(k) Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred

(l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(m) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.
The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.
Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS**(n) Payables**

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(o) Presentation Currency

The presentation currency is Papua New Guinea Kina

2. OPERATION OF THE FUND

The Fund was established under the Defence Force Retirement Benefit Fund Act, Chapter 79 (DFRBF Act), however as of 1st January 2003 it is recognized as being established pursuant to Section 8 of the Superannuation (General Provisions) Act 2002 with the repeal of Section 17 of the DFRB Act (provision through which the Fund was initially established) on 31st December 2002.

The Fund is a defined benefit fund and the objective of the Trustee is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

3 FUNDING ARRANGEMENTS

Contributions are made to the Fund in accordance with Part IV of the DFRBF Act at 6% of members' gross salaries for Member contributions while employer contribution is 60% of pension benefits .

4. LIABILITY FOR ACCRUED BENEFITS

The liability for accrued benefits for Defined Benefit Division Members has been determined on the basis of the present value of the expected future payments that arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to the expected future salary levels and by application of the market-based, risk-adjusted discount rate and relevant actuarial assumptions. The actuary undertook the valuation of accrued benefits for Defined Benefit as part of an actuarial review as at 31 December 2006. The actuarial investigation uses an aggregate costing method, whereby the discounted values of future benefits are compared with the net fund of the assets plus the discounted value of contributions paid by the existing members only and no assumptions are made regarding new entrants. Detailed discussion of the review are provided in the actuarial report dated 23 November 2007.

Significant assumptions used applied in the actuarial report are as follow;

Investment Yield	8%
Salary Increase	6%
Pension Increase	4%
Crediting rate	8%
Pension Commutation	50%

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

The vested benefits are calculated as the total benefits payable if every contributor of the Fund left voluntarily at the review date as follows;

	31 Dec 06 Kina	31 Dec 04 Kina
Liability for accrued benefits	30,780,000	37,565,000
Net assets available to pay benefits	157,199,000	79,016,000

Although the actuarial report is prepared as at 31 December 2006, in terms of the requirements of Section 24 of the Defence Force Retirement Benefits Act, Chapter 76, the next actuarial investigation of the fund should be carried out no later than 31 December 2009. Accordingly the results presented above are applicable to the financial year ended 31 December 2007.

Accrued benefits were previously valued as part of a comprehensive review undertaken as at 31 December 2004.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

	Notes	CONSOLIDATED		CTSL	
		2007 Kina	2006 Kina	2007 Kina	2006 Kina
Allowances for losses					
Other assets	25	27,938	27,938	27,938	27,938
Loans and advances	19	248,747	248,747	248,747	248,747
Investment Securities available for sale					
Unlisted Shares					
- Cost		15,767,063	15,767,063	17,487,063	6,501,519
- Gains from changes in fair value		7,767,073	4,057,693	7,767,073	15,043,323
Total	21 & 32	<u>23,534,136</u>	<u>19,824,756</u>	<u>25,254,136</u>	<u>21,544,756</u>
Listed shares					
- Cost		28,002,455	27,575,731	28,002,455	27,575,731
- Gains from changes in fair value		138,964,955	74,059,043	138,964,955	74,059,043
Total	21 & 32	<u>166,967,410</u>	<u>101,634,774</u>	<u>166,967,410</u>	<u>101,634,774</u>

During the year the Fund recognized gains from changes in fair values (note 21) amounted to K64,764,607 (2006: K12,526,691) due to significant increase in fair values of listed shares.

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
		2007	2006	2007	2006
		Kina	Kina	Kina	Kina
6. Interest income					
Cash & short term funds		660,109	764,403	750,109	854,405
Loans & advances		44,130	400,643	44,129	400,643
Treasury bills		189,373	229,600	189,373	229,660
Investment securities					
- Available for sale		195,926	114,897	195,926	114,897
- Held to maturity		1,790,361	1,703,182	1,790,361	1,703,182
Total		2,879,898	3,212,725	2,969,898	3,302,725
7. Property income					
Rental Income		3,591,198	3,410,249	1,119,511	853,710
Depreciation	23	(226,548)	(224,143)	(30,658)	(30,488)
Other management expense		(1,163,547)	(1,312,446)	(419,666)	(357,920)
Valuation increment		4,131,662	6,015,215	2,834,958	1,119,657
Total		6,332,765	7,889,095	3,504,144	1,584,958
8. Dividend income					
Dividends received		6,194,990	4,702,448	6,194,990	4,702,448
Total		6,194,990	4,702,448	6,194,990	4,702,448
9. Other operating income					
Gain on sale of Sandaun Motel		1,893,480	-	-	-
Gain from valuation of offshore deposits		704,126	-	704,126	-
Operating income from Sandaun Motel		967,341	1,150,800	-	-
Others		16,246	18,106	16,240	18,101
Total		3,581,193	1,168,906	720,366	18,101
10. Benefits					
Pension and back pension		9,596,323	9,119,155	9,596,323	9,119,155
Refunds		344,378	244,312	344,378	244,312
Gratuities		15,110	6,990	15,110	6,990
Death claims		-	-	-	-
Lump sum		1,002,131	11,582,784	1,002,131	11,582,784
		10,957,942	20,953,241	10,957,942	20,953,241
Less : State Share		(6,346,807)	(12,379,423)	(6,346,807)	(12,379,423)
Net benefit paid		4,611,135	4,611,135	8,573,818	8,573,818

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		CTSL	
		2007 Kina	2006 Kina	2007 Kina	2006 Kina
11. Management expenses					
Fund administration fee		389,764	411,328	389,764	411,328
Investment management fee		991,368	690,206	991,368	690,206
Benefits payment fee		13,974	7,447	13,974	7,447
Total		<u>1,395,106</u>	<u>1,108,981</u>	<u>1,395,106</u>	<u>1,108,981</u>
12. Impairment losses					
Write back of provisions		-	(404,725)	-	(404,725)
Provisions		100,000	-	100,000	-
Total		<u>100,000</u>	<u>(404,725)</u>	<u>100,000</u>	<u>(404,725)</u>
13. Fund investment and administration expenses					
Staff expenses	14	1,274,461	1,226,311	1,274,461	1,226,311
Administration expenses	15	1,616,458	1,346,011	1,084,780	813,484
Depreciation	24	385,104	373,720	189,216	180,065
Software cost		4,633	2,226	4,632	2,226
Operating lease		151,005	138,267	151,004	138,267
Foreign exchange loss		-	199,725	-	199,725
GST Expense				274,093	116,467
Other		1,198,354	781,673	104,170	126,195
Total		<u>4,630,015</u>	<u>4,067,933</u>	<u>3,082,356</u>	<u>2,802,740</u>
14. Staff costs					
Salaries and wages		804,266	755,819	804,266	755,819
Superannuation contributions		63,028	56,929	63,028	56,929
Staff accommodation		289,525	264,316	289,525	264,316
Travel and accommodation		14,711	26,498	14,711	26,498
Training		24,091	27,257	24,091	27,257
School fee allowances		62,155	47,337	62,155	47,337
Other		16,685	48,154	102,931	48,154
Total	13	<u>1,274,461</u>	<u>1,226,311</u>	<u>1,274,461</u>	<u>1,226,311</u>

As at 31 December 2007 the Fund had 21 (2006: 21) employees.

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		CTSL	
		2007 Kina	2006 Kina	2007 Kina	2006 Kina
15. Administrative expenses					
Advertising		84,569	37,351	75,175	37,351
Board of Trustee expenses		180,127	219,991	181,667	191,964
Internet service provider		46,303	25,061	46,303	25,061
License fee		152,490	707	152,490	707
Printing and stationery		26,966	109,524	25,780	107,222
Professional fees					
- Audit services		135,076	128,963	88,576	86,963
- Non audit services		67,193	87,278	31,264	30,701
- Legal		79,732	103,626	79,732	98,762
- Consulting		167,711	78,059	167,711	78,059
Telephone		37,994	48,515	37,534	48,022
Insurance		148,849	54,811	62,489	54,811
Business Travel		74,844	-	74,844	-
Sundry expenses		414,604	452,125	61,215	53,861
Total	13	1,616,458	1,346,011	1,084,780	813,484

16. Income taxes benefit/(expenses)

The tax on the Fund's profit before tax differs from the amount calculated on the operating profit. The differences are reconciled as follows:

Profit before tax		<u>76,951,770</u>	<u>22,177,767</u>	<u>72,899,981</u>	<u>16,078,237</u>
Prima facie tax at 25%		18,224,995	4,019,559	18,224,995	4,019,559
Prima facie tax at 30%		1,215,537	1,829,859	-	-
Tax effect of permanent differences		(18,297,819)	(5,386,918)	(17,162,314)	(3,689,165)
Movement in deferred taxes		592,333	4,433,442	203,321	2,964,709
Total		<u>1,735,046</u>	<u>4,895,942</u>	<u>1,266,002</u>	<u>3,295,103</u>
Represented by:					
Deferred tax	20	592,333	4,433,442	203,321	2,964,713
Current tax	27	1,142,713	462,500	1,062,681	330,390
Total		<u>1,735,046</u>	<u>4,895,942</u>	<u>1,266,002</u>	<u>3,295,103</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Notes	2007 Kina	2006 Kina	2007 Kina	2006 Kina
17. Cash and due from other banks					
Cash on hand		1,200	1,200	700	700
Loans & advances to other banks		1,660,091	2,043,105	413,285	677,971
Placement with other banks - less then 90 days		13,392,552	23,805,596	12,592,551	23,805,596
Included in cash & cash equivalents	29	15,053,841	25,849,901	13,006,535	24,484,267
Placement with other banks - more than 90 days		735,114	669,942	735.114	669,942
		15,788,956	26,519,843	13,741,649	25,154,209

18. Treasury bills

More than 90 Days	<u>795,262</u>	<u>3,140,428</u>	<u>795,262</u>	<u>3,140,428</u>
	<u>795,262</u>	<u>3,140,428</u>	<u>795,262</u>	<u>3,140,428</u>

Treasury bills are debt securities issued by the Bank of Papua New Guinea for a term of one month, two months, three months, and six months. Bills are categorized as assets held for trading and carried at their fair value.

19. Loans to members and others

Members	941,441	782,445	941,441	782,445
Others				
- State share	511,052	80,187	511,052	80,187
- Hunter Limited	-	-	600,000	690,000
- Hombrum Piggery Limited	248,747	248,747	248,747	248,747
Total Loan and advances	1,701,240	1,111,379	2,301,240	1,801,379
Less : Specific allowances for losses	248,747	248,747	248,747	248,747
	<u>1,452,492</u>	<u>862,631</u>	<u>2,052,492</u>	<u>1,552,631</u>

Loans are fixed rates.

The aggregate amount of non-performing loans on which interest was not being accrued amounted to K600, 000 (2006: K690, 000) as at 31 December 2007.

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Notes	2007 Kina	2006 Kina	2007 Kina	2006 Kina
20. Deferred income taxes					
Deferred income taxes are calculated on all temporary differences under liability method using an effective tax rate of 25% (2006: 25%) in respect of CTSL and 30% in respect of the subsidiaries Hunter Ltd and Banora Trading Ltd.					
a) Deferred income tax assets are attributable to the following items:					
Depreciation		27,401	27,401	-	95,801
Accrual of audit fees		49,225	50,184	49,225	50,184
Allowances for losses					
- Loans to members & others		140,144	140,144	62,187	62,187
- Others assets		6,984	6,984	6,984	6,984
Employee Provisions		113,942	67,616	113,942	67,616
Total	20(c)	<u>337,695</u>	<u>292,329</u>	<u>232,338</u>	<u>282,772</u>
b) Deferred income tax liabilities are attributable to the following items:					
Rent receivable		51,749	665	51,748	665
Interest receivable		297,548	1,342,337	297,548	1,342,337
Prepayments insurance		29,883	48,227	8,417	26,761
Gains from foreign exchange of valuation due from other banks		(2,526)	276,470	(2,526)	276,475
Depreciation (Differences between tax and carrying values)		3,409,295	1,480,551	1,551,551	107,617
Total	20 (c)	<u>3,785,949</u>	<u>3,148,250</u>	<u>1,906,739</u>	<u>1,753,855</u>
c) The movement on deferred income tax account is as follows:					
Balance at beginning of year		(2,855,921)	1,577,521	(1,471,080)	1,493,630
Income statement debit/credit	20 (d)	(592,333)	(4,433,442)	(203,321)	(2,964,709)
Balance at the end of year		(3,448,254)	(2,855,921)	(1,674,401)	(1,471,080)
Represented by :					
Deferred income tax assets	20 (a)	337,695	292,329	232,338	282,772
Deferred income tax liability	20 (b)	(3,785,949)	(3,148,250)	(1,906,739)	(1,753,852)
		<u>(3,448,254)</u>	<u>(2,855,921)</u>	<u>(1,674,401)</u>	<u>(1,471,080)</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Notes	2007 Kina	2006 Kina	2007 Kina	2006 Kina
d) The deferred tax charges/ (credits) in the income statement comprises the following temporary differences:					
Temporary differences on investment properties		1,928,745	2,918,754	1,539,734	1,450,021
Accrual of audit fee		959	(4,978)	959	(4,978)
Allowance for losses					
- Loans to members and others		-	375	-	375
- Other assets			229,810	-	229,810
Tax losses		-	1,214,122	-	1,214.122
Gains from foreign exchange					
of due from other banks		(278,998)	80,386	(278,998)	80,386
Rent receivable		51,085	56,550	51,085	56,550
Interest receivable		(1,044,789)	(31,802)	(1,044,789)	(31,802)
Prepayment insurance		(18,344)	7,367	(18,344)	7,367
Employee provisions		(46,326)	(37,142)	(46,326)	(37,142)
Total	20(c) & 16	592,333	4,433,442	203,321	2,964,709

21. Investment securities available-for-sale

Equity securities at fair value					
- Listed	5	166,967,410	101,634,773	166,967,773	101,634,774
- Unlisted	5	23,534,136	12,689,899	22,796,993	11,952,756
Total equities at fair value	32	190,501,547	114,324,672	189,764,766	113,587,530
Total equities at cost-Hunter Ltd		-	-	2,457,143	2,457,143
Total equities at cost and fair value	32	<u>190,501,547</u>	<u>114,324,672</u>	<u>192,221,547</u>	<u>116,044,672</u>

The movement in investment securities available-for-sale

Balance at beginning of year		116,044,672	103,074,363	116,044,672	103,074,363
Gains from change in fair value		64,764,607	12,526,691	64,764,607	12,526,691
Consolidation adjustment for investment in Hunter Ltd		(1,720,000)	(1,720,000)	-	
Purchases		16,488,745	7,274,997	16,488,745	7,274,997
Disposals		(7,305,179)	(5,154,359)	(7,305,179)	(5,154,359)
Gains on Sale		2,228,702	4,095,737	2,228,702	4,095,737
Balance at end of year	32	<u>190,501,547</u>	<u>114,324,672</u>	<u>192,221,547</u>	<u>116,044,672</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		CTSL	
		2007 Kina	2006 Kina	2007 Kina	2006 Kina
22. Investment securities held-to-maturity					
Debt securities					
– Principle	34	20,026,777	19,026,777	20,026,777	19,026,777
– Unamortized discount		(45,019)	(69,007)	(45,019)	(69,007)
– Unamortized premium		860,067	1,022,576	860,067	1,022,576
Total		<u>20,841,826</u>	<u>19,980,346</u>	<u>20,841,826</u>	<u>19,980,346</u>

The movement in investment securities held-to-maturity:

Balance at beginning of year	19,980,346	21,559,174	19,980,346	21,559,174
Purchases	1,014,206	10,820,787	1,014,206	10,820,787
Disposals	-	(12,059,269)	-	(12,059,269)
Amortized discount	23,988	1,634	23,988	1,634
Amortized premium	(176,714)	(341,980)	(176,714)	(341,980)
Total	20,841,826	19,980,346	20,841,826	19,980,346

23. Investment properties

	Notes	Land & Buildings Kina	Furniture & Fittings Kina	Plant & Equipment Kina	Total Kina
a) CTSL					
Cost					
Balance at 31 December 2006		12,445,717	292,975	238,023	12,976,715
Revaluation increment		2,834,958	-	-	2,834,958
Additions		2,737,058	-	-	2,737,058
Balance at 31 December 2007		<u>18,017,733</u>	<u>292,975</u>	<u>238,023</u>	<u>18,548,731</u>
Accumulated depreciation					
Balance at 31 December 2006			(171,300)	(135,481)	(306,781)
Charged during the year	7		(15,277)	(15,381)	(30,658)
Disposal			(2,023)		(2,023)
Balance at 31 December 2007			<u>(188,600)</u>	<u>(150,862)</u>	<u>(339,462)</u>
Book value as at 31 December 2007		<u>18,017,733</u>	<u>104,375</u>	<u>87,161</u>	<u>18,209,269</u>
Book value as at 31 December 2006		<u>12,445,717</u>	<u>121,677</u>	<u>102,542</u>	<u>12,669,934</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Land & Buildings <i>Kina</i>	Furniture & Fittings <i>Kina</i>	Plant & Equipment <i>Kina</i>	Total <i>Kina</i>
b) CONSOLIDATED					
Cost					
Balance at 31 December 2006		25,759,761	292,975	238,023	26,290,759
Revaluation increment		4,158,452	-	-	4,158,452
Additions		3,037,454	-	-	3,037,454
Disposals		-	-	-	-
Balance at 31 December 2007		<u>32,955,667</u>	<u>292,975</u>	<u>238,023</u>	<u>33,486,665</u>
Accumulated depreciation					
Balance at 31 December 2006		(2,793,044)	(171,300)	(135,481)	(3,099,825)
Charged during the year	7	(195,890)	(15,277)	(15,381)	(226,548)
Disposal		-	(2,023)	-	(2,023)
Balance at 31 December 2007		<u>(2,988,934)</u>	<u>(188,600)</u>	<u>(150,862)</u>	<u>(3,328,396)</u>
Book value as at 31 December 2007		<u>29,966,733</u>	<u>104,375</u>	<u>87,161</u>	<u>30,158,269</u>
Book value as at 31 December 2006		<u>22,965,915</u>	<u>121,677</u>	<u>102,542</u>	<u>23,190,134</u>

	Motor Vehicle <i>Kina</i>	Furniture & Fitting <i>Kina</i>	Other Equipment <i>Kina</i>	Renovation <i>Kina</i>	Software <i>Kina</i>	Total <i>Kina</i>
24. Property and equipment						
a) CTSL						
Cost						
Balance at 31 Dec 06	18,182	524,666	206,350	309,773	71,752	1,130,723
Additions	59,090	2,160	38,394	-	-	99,644
Balance at 31 Dec 07	<u>77,272</u>	<u>526,826</u>	<u>244,744</u>	<u>309,773</u>	<u>71,752</u>	<u>1,230,367</u>
Accumulated depreciation						
Balance at 31 Dec 06	(15,454)	(424,045)	(104,177)	(102,667)	(48,884)	(695,228)
Charged during year	(20,455)	(78,816)	(43,331)	(30,977)	(15,636)	(189,216)
Balance at Dec 31 07	<u>(35,909)</u>	<u>(502,862)</u>	<u>(147,508)</u>	<u>(133,644)</u>	<u>(64,520)</u>	<u>(884,444)</u>
Book value 31 Dec 07	<u>41,363</u>	<u>23,964</u>	<u>97,236</u>	<u>176,129</u>	<u>7,232</u>	<u>345,925</u>
Book value 31 Dec 06	<u>2,727</u>	<u>100,620</u>	<u>102,206</u>	<u>207,106</u>	<u>22,868</u>	<u>435,49</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Motor Vehicle <i>Kina</i>	Furniture & Fitting <i>Kina</i>	Other Equipment <i>Kina</i>	Leasehold improvements/ Renovation <i>Kina</i>	Software <i>Kina</i>	Total <i>Kina</i>
b) CONSOLIDATED						
Cost						
Balance at 31 Dec 06	423,358	668,463	1,154,157	1,076,142	74,952	3,397,072
Additions	59,090	4,094	82,723			145,907
Disposal	(405,176)	-	(307,672)	(597,279)		(1,310,127)
Balance at 31 Dec 07	77,272	672,557	929,208	478,863	74,952	2,232,852
Accumulated depreciation						
Balance at 31 Dec 06	(371,826)	(546,091)	(857,781)	(353,427)	(49,042)	(2,178,167)
Charged during year	(20,455)	(85,532)	(62,949)	(200,067)	(16,101)	(385,104)
Disposal	356,372	-	270,261	250,760		877,393
Balance at Dec 31 07	(35,909)	(631,623)	(650,469)	(302,734)	(65,143)	(1,685,878)
Book value 31 Dec 07	<u>41,363</u>	<u>40,934</u>	<u>278,739</u>	<u>176,129</u>	<u>9,809</u>	<u>546,974</u>
Book value 31 Dec 06	<u>51,532</u>	<u>122,372</u>	<u>296,376</u>	<u>722,715</u>	<u>25,910</u>	<u>1,218,905</u>

	CONSOLIDATED			CTSL
Notes	2007 Kina	2006 Kina	2007 Kina	2006 Kina

25. Other Assets

Prepayments				
Advances	46,704	59,988	39,125	59,988
- Individuals	(66)	6	(66)	6
- Corporate	-	-	1,194,373	738,300
Security deposits	21,154	21,154	21,154	21,154
Accrued interests				
- Treasury	2,545	16,119	2,545	16,119
- Due from other banks	60,917	20,505	60,917	20,505
- Loans	-	97,222	738,000	745,222
- State share	137,515	106,234	137,515	106,203
Investment Securities				
- Held-to-maturity	251,215	217,807	251,215	217,807
- Available-for-sale	-	-	-	-
Goodwill on consolidation	1,719,930	1,719,930	-	-
Dividend Receivable	916,655	-	916,655	-
GST Receivable	716,253	696,294	619,858	493,306
Banora property sale	2,499,122	-	-	-
Others	1,559,004	1,159,473	7,714	217,045
Total	<u>7,930,949</u>	<u>4,114,731</u>	<u>3,989,005</u>	<u>2,635,654</u>
Less specific provisions for losses	5 (27,938)	(27,937)	(27,938)	(27,938)
	<u>7,903,011</u>	<u>4,086,794</u>	<u>3,961,067</u>	<u>2,607,717</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Notes	2007 Kina	2006 Kina	2007 Kina	2006 Kina
Movements in specific allowance for losses					
Balance at beginning of the year		27,938	947,176	27,938	947,176
Impairment losses during the year					
- Other assets and interests	12	-	(404,752)	-	(404,752)
Reversals		-	(514,488)	-	(514,487)
Balance at end of the year	5	<u>27,938</u>	<u>27,937</u>	<u>27,938</u>	<u>27,938</u>

26. Employee provisions

Balance at beginning of the year		288,574	140,005	270,465	121,897
Charged to profit & loss		193,085	159,354	193,837	159,354
Utilized during the year		(8,534)	(10,785)	(8,534)	(10,785)
Balance at end of the year		473,124	288,574	455,767	270,465
Represented by:					
Short term provisions		138,547	44,118	138,547	44,118
Long term provisions		334,578	244,456	317,221	226,347
Balance at end of the year		<u>473,124</u>	<u>288,574</u>	<u>455,767</u>	<u>270,465</u>

27. Current income tax payable/receivable

Balance at beginning of the year		304,478	179,260	786,535	661,315
Paid during the year		632,180	587,718	405,634	455,613
Current provisions	16	(1,142,713)	(462,500)	(1,062,681)	(330,395)
Balance at end of the year		<u>(206,055)</u>	<u>304,478</u>	<u>(129,488)</u>	<u>786,533</u>
Represented by:					
Current income tax receivable		-	304,478	129,488	786,533
Current income tax payable		(206,055)	-	-	-
		<u>(206,055)</u>	<u>304,478</u>	<u>129,488</u>	<u>786,533</u>

28. Other liabilities

Creditors		1,171,803	1,578,860	268,591	841,341
Retrenchment benefits due		4,045,181	5,350,431	4,045,181	5,350,431
Accruals		573,796	791,840	573,797	791,840
Balance at end of the year		<u>5,790,780</u>	<u>7,721,131</u>	<u>4,887,569</u>	<u>6,983,612</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		CTSL	
		2007 Kina	2006 Kina	2007 Kina	2006 Kina

29. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises of the following:

Cash & due from other banks	17	<u>15,053,841</u>	<u>25,849,301</u>	<u>13,006,535</u>	<u>24,484,267</u>
Balance at end of the year		<u>15,053,841</u>	<u>25,849,301</u>	<u>13,006,535</u>	<u>24,484,267</u>

30. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

- At 31 December 2007, Hunter Limited a subsidiary, owed this Fund K1, 338,000 (2006: K1, 248,000) and expenses of K3, 289 (2006: K205, 791) the Fund paid on behalf of Hunter Limited. This Fund owns 70% of Hunter Limited. Uncollected interest accrued on impaired loans of K600, 000 amounted to K738, 000 (2006: K558, 000) at 31 December 2007.
- At 31 December 2007, Banora Trading a subsidiary, owed the Fund K121, 208 (2006: K167, 508).
- Key management personnel remuneration specified in aggregate in the year 2007

Year	Primary			Post - Employment			Total
	Salaries & Fees	Bonus	Non-monetary	Super	Prescribed Benefit	Other	
2007	K336,748	-	K17,280	K49,991	K59,705	-	K463,724
2006	K266,360	-	K18,751	K34,115	K75,510	-	K394,738

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

The number of employees or former employees, not being directors of the group, whose total remuneration and the value of other benefits received, exceeded K100,000 per annum stated in bands of K10,000 and those in access of K200,000 in bands of K50,000:

	2007 K	2006 K
K100,000 -K110,000	-	-
K111,000 - K120,000	-	-
K121,000 - K130,000	-	-
K131,000 -K140,000	-	-
K141,000 - K150,000	-	-
K151,000 -K160,000	-	-
K161,000 -K170,000	-	-
K171,000 -K180,000	-	-
K181,000 - K190,000	-	-
K191,000 - K200,000	-	-
K201,000 - K250,000	-	-
K251,000 -K300,000	-	-
K301,000 - K350,000	-	1
K350,000 -K400,000	-	1
K401,000 - K450,000	2	-

d) Board of Directors remuneration aggregate in the year 2007

Year	Stipend	Sitting Fees	Total
2007	K72,250	K73,550	K145,800
2006	K63,000	K53,019	K116,019

31. Financial risk management

The CTSL's strategy for the Fund and its subsidiaries focuses on two primary objectives: to maximize long term fund returns and to manage and control business and investment risks. This inherently strategy requires the CTSL to pursue a balanced investment strategy which seeks capital growth over the medium to long term with moderate income streams.

All investment undertaken must balance risk against returns. In other words, the investment strategy pursued must determine a mix of growth and defensive assets that best suits the needs of the members.

The trustees can achieve better returns through disciplined application of a good investment process, one that is based on the analysis of investment fundamentals followed by an assessment of relative value.

The Fund is exposed to liquidity risk, interest rate risk, foreign exchange risk, credit risk, sovereign risk and country risk.

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

a) Liquidity risk

The Fund invests the majority of its assets in investments that are traded in an active market.

The Fund holds securities that are listed on both the Port Moresby Stock Exchange and the Australian Stock Exchange. Those securities that are listed on the Australian Stock Exchange are considered readily realizable while those listed on Port Moresby Stock Exchange are not due to the illiquidity of the market.

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of pension commutation and a fortnightly pension payable through out the life-time of the member.

b) Sovereign risk

The Fund has a significant exposure to the state through its holding of government securities.

c) Country risk

To the extent that the Fund holds funds in foreign jurisdiction, a variety of risk may arise in addition to foreign exchange risk – such as changes in local economic condition, local regulatory requirements or non-transparent governance arrangements.

d) Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing; as a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash equivalents are invested at short-term market interest rates.

The Fund is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarizes the Fund's exposures to interest rates risk. It includes the Fund's assets and liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates:

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Up to 1 Year <i>Kina</i>	1-5 Years Years <i>Kina</i>	Over 5 Years <i>Kina</i>	Non Interest Bearing <i>Kina</i>	Total <i>Kina</i>
i) CTSL					
31 December 2007					
Assets					
Cash & due from other banks	12,888,041	853,608	-	-	13,741,649
Treasury bills	795,262	-	-	-	795,262
Loans to members & others	511,051	941,441	600,000	-	2,052,492
Current income tax receivable	129,488	-	-	-	129,488
Deferred income tax assets	-	-	-	232,338	232,338
Investment securities	-	-	-	-	-
Available-for-sale	-	11,026,777	9,000,000	172,194,770	192,221,547
Held-to-maturity	-	3,282,406	17,559,420	-	20,841,826
Investment properties	-	-	-	18,209,269	18,209,269
Property and equipment	-	-	-	345,925	345,925
Other assets	-	-	-	3,961,067	3,961,067
	<u>14,323,842</u>	<u>16,104,232</u>	<u>27,159,420</u>	<u>194,943,369</u>	<u>252,530,863</u>
Liabilities					
Employee provisions	-	-	-	455,767	455,767
Deferred income liabilities	-	-	-	1,906,739	1,664,801
Other liabilities	-	-	-	4,887,569	4,887,569
	<u>-</u>	<u>7,250,075</u>	<u>7,250,075</u>	<u>-</u>	<u>-</u>
Interest sensitivity gap	<u>14,323,843</u>	<u>16,104,232</u>	<u>27,159,420</u>	<u>187,693,294</u>	<u>245,280,788</u>
31 December 2006					
Assets					
Cash & due from other banks	24,484,267	669,942	-	-	25,154,209
Treasury bills	3,140,428	-	-	-	3,140,428
Loans to members & others	80,187	782,445	690,000	-	1,552,631
Current income tax receivables	-	-	-	786,553	786,553
Deferred income tax assets	-	-	-	282,772	282,772
Investment securities					
- Available-for-sale	-	11,026,777	8,000,000	97,017,985	116,044,762
- Held-to-maturity	-	3,239,147	16,741,199	-	19,980,346
Investment properties	-	-	-	12,669,934	12,669,934
Property and equipment	-	-	-	435,495	435,495
Other assets	-	-	-	2,607,722	2,607,722
	<u>27,704,882</u>	<u>15,718,311</u>	<u>25,431,119</u>	<u>113,800,461</u>	<u>182,654,739</u>
Liabilities					
Employee provisions	-	-	-	270,465	270,465
Deferred income liabilities	-	-	-	1,753,855	1,753,855
Other liabilities	-	-	-	6,983,612	6,983,612
	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,007,932</u>	<u>9,007,932</u>
Interest sensitivity gap	<u>27,704,882</u>	<u>15,718,311</u>	<u>25,431,119</u>	<u>104,792,529</u>	<u>173,646,807</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Up to 1 Year <i>Kina</i>	1-5 Years Years <i>Kina</i>	Over 5 Years <i>Kina</i>	Non Interest Bearing <i>Kina</i>	Total <i>Kina</i>
ii) CONSOLIDATED					
31 December 2007					
Assets					
Cash & due from other banks	15,066,239	722,717	-	-	15,788,956
Treasury bills	795,262	-	-	-	795,262
Loans to members & others	511,051	941,441	-	-	1,452,492
Current income tax receivable	-	-	-	135,403	135,403
Deferred income tax assets	-	-	-	337,695	337,695
Investment securities					
- Available-for-sale	-	11,026,777	9,000,000	170,474,770	190,501,547
- Held-to-maturity	-	3,282,406	17,559,420	-	20,841,826
Investment properties	-	-	-	30,158,269	30,158,269
Property and equipment	-	-	-	546,974	546,974
Other assets	-	-	-	7,903,011	7,903,011
	<u>16,372,552</u>	<u>15,973,341</u>	<u>26,559,420</u>	<u>209,556,122</u>	<u>268,461,434</u>
Liabilities					
Employee provisions	-	-	-	473,124	473,124
Deferred income liabilities	-	-	-	3,785,949	3,785,949
Current income tax payable	-	-	-	341,458	341,458
Other liabilities	-	-	-	5,790,780	5,790,780
	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,391,311</u>	<u>10,391,311</u>
Interest sensitivity gap	<u>16,372,552</u>	<u>15,973,341</u>	<u>26,559,420</u>	<u>199,164,811</u>	<u>258,070,123</u>
31 December 2006					
Assets					
Cash & due from other banks	25,849,901	669,942	-	-	26,519,843
Treasury bills	3,140,428	-	-	-	3,140,428
Loans to members & others	80,187	782,374	-	-	862,561
Current income tax receivables	-	-	-	786,533	786,533
Deferred income tax assets	-	-	-	292,329	292,329
Investment securities					
- Available-for-sale	-	11,026,777	8,000,000	95,297,895	114,324,672
- Held-to-maturity	-	3,239,147	16,741,199	-	19,980,346
Investment properties	-	-	-	23,190,934	23,190,934
Property and equipment	-	-	-	1,218,905	1,218,905
Other assets	-	-	-	4,086,794	4,086,794
	<u>29,070,516</u>	<u>15,718,240</u>	<u>24,741,199</u>	<u>124,873,390</u>	<u>194,493,415</u>
Liabilities					
Employee provisions	-	-	-	288,574	288,574
Deferred income liabilities	-	-	-	3,148,250	3,148,250
Current income tax payable	-	-	-	482,055	482,055
Other liabilities	-	-	-	7,721,131	7,721,131
	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,640,009</u>	<u>11,640,009</u>
Interest sensitivity gap	<u>29,070,516</u>	<u>15,718,311</u>	<u>24,741,199</u>	<u>113,233,381</u>	<u>182,853,406</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

e) Foreign exchange risk

The Fund holds assets denominated in currencies other than Kina, the functional currency. The Fund is therefore exposed to currency risk, as the value of the securities, and the dividends earned denominated in other currencies will fluctuate due to changes in exchange rates. The table below summarizes Fund's exposure to currency risks, concentration of assets and liabilities

	Kina Kina	AUD Kina	Total Kina
i) CTSL			
31 December 2007			
Assets			
Cash and due from other banks	2,395,244	11,215,514	13,741,649
Treasury bills	795,262	-	795,262
Loans to members and others	2,052,492	-	2,052,492
Current income tax receivable			
Deferred income tax assets	232,338	-	232,338
Investment securities available-for-sale	153,310,789	38,910,758	192,221,547
Investment securities held-to-maturity	20,841,829	-	20,841,826
Investment properties	17,036,520	1,172,749	18,209,269
Other assets	4,306,992	-	4,306,992
Total	201,102,354	51,299,021	252,401,375
Liabilities			
Employee provisions	455,767	-	455,767
Income tax payable	(129,488)	-	(129,488)
Deferred income tax liabilities	1,906,739	-	1,906,739
Other liabilities	4,887,569	-	4,887,569
Total	7,120,587	-	7,120,587
Net	193,981,767	51,299,021	245,280,788
31 December 2006			
Assets			
Cash and due from other banks	16,536,574	8,617,635	25,154,209
Treasury bills	3,140,428	-	3,140,428
Loans to members and others	1,552,631	-	1,552,631
Current income tax payable	786,533	-	786,533
Deferred income tax assets	282,772	-	282,772
Investment securities available-for-sale	85,721,798	30,322,964	116,044,762
Investment securities held-to-maturity	19,980,346	-	19,980,346
Investment properties	11,494,293	1,175,641	12,669,934
Other assets	3,043,217	-	3,043,217
Total	142,538,592	40,116,240	182,654,739
Liabilities			
Employee provisions	270,465	-	270,465
Deferred income tax liabilities	1,753,855	-	1,753,855
Other liabilities	6,983,612	-	6,983,612
Total	9,007,932	-	9,007,932
Net	133,530,660	40,116,240	173,646,809

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Total Kina	KinaAUD Kina	Total Kina
b) CONSOLIDATED			
Assets			
31st December 2007			
Cash and due from other banks	4,573,442	11,215,514	15,788,956
Treasury bills	795,262		795,262
Loans to members and others	1,452,492		1,452,492
Current income tax receivable	135,403		135,403
Deferred income tax assets	337,695		337,695
Investment securities available-for-sale	151,590,789	38,910,758	190,501,547
Investment securities held-to-maturity	20,841,829		20,841,826
Investment properties	28,985,520	1,172,749	30,158,269
Other assets	8,449,985		8,449,985
Total	217,162,417	51,299,021	268,461,434
Liabilities			
Employee provisions	473,124		473,124
Current income tax payable	341,458		341,458
Deferred income tax liabilities	3,785,949		3,785,949
Other liabilities	5,790,780		5,790,780
Total	10,391,311		10,391,311
Net	206,771,106	51,299,021	258,070,123
31 December 2006			
Assets			
Cash and due from other banks	17,902,208	8,617,635	26,519,843
Treasury bills	3,140,428		3,140,428
Loans to members and others	862,561		862,561
Current income tax payable	786,533		786,533
Deferred income tax assets	292,329		292,329
Investment securities available-for-sale	84,001,708	30,322,964	114,324,672
Investment securities held-to-maturity	19,980,346		19,980,346
Investment properties	22,015,293	1,175,641	23,190,934
Other assets	5,305,699		5,305,699
Total	154,377,175	40,116,240	194,493,415
Liabilities			
Employee provisions	288,574		288,574
Deferred income tax liabilities	3,148,250		3,148,250
Current income tax payable	482,055		482,055
Other liabilities	7,721,131		7,721,131
Total	111,640,009		11,640,009
Net	142,737,166	40,116,240	182,853,406

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NOTES TO THE FINANCIAL STATEMENTS

f) Fair values of financial assets and liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Company's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying Value		Fair Value	
	2007	2006	2007	2006
	Kina	Kina	Kina	Kina
i) CTSL				
Assets				
Cash from other banks	13,741,649	25,154,209	13,741,649	25,154,209
Treasury bills	795,262	3,140,428	795,262	3,140,428
Loans receivable	2,052,492	1,552,631	2,052,492	1,552,631
Current income tax receivable	-	786,533		786,533
Deferred income tax assets	232,338	282,772	232,338	282,772
Investment securities				
- Available-for-sale	192,221,547	116,044,762	192,221,547	116,044,762
- Held-to-maturity	20,841,826	19,980,346	20,841,826	19,980,346
Investment properties	18,209,269	12,669,934	18,209,269	12,669,934
Property and equipment	345,925	435,495	345,925	435,495
Other assets	3,961,067	2,607,722	3,961,067	2,607,722
	<u>252,401,375</u>	<u>182,654,739</u>	<u>252,401,375</u>	<u>182,654,739</u>
Liabilities				
Current income tax payable	(129,488)		(129,488)	
Deferred income tax liabilities	1,906,739	1,753,855	1,906,739	1,753,850
Employee provisions	455,767	270,465	455,767	270,465
Other liabilities	4,887,569	6,983,612	4,887,569	6,983,612
	<u>7,120,587</u>	<u>9,007,932</u>	<u>7,120,587</u>	<u>9,007,927</u>
	<u>245,280,788</u>	<u>173,646,807</u>	<u>245,280,788</u>	<u>173,646,809</u>

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS

	Carrying Value		Fair Value	
	2007	2006	2007	2006
	Kina	Kina	Kina	Kina
ii) CONSOLIDATED				
Assets				
Cash from other banks	15,788,956	26,519,843	15,788,956	26,519,843
Treasury bills	795,262	3,140,428	795,262	3,140,428
Loans receivable	1,452,492	862,561	1,452,492	862,561
Current income tax receivable	135,403	786,533	135,403	786,533
Deferred income tax assets	337,695	292,329	337,695	292,329
Investment securities				
- Available-for-sale	190,501,547	114,324,672	190,501,547	114,324,672
- Held-to-maturity	20,841,826	19,980,346	20,841,826	19,980,346
Investment properties	30,158,269	23,190,934	30,158,269	23,190,934
Property and equipment	546,974	1,218,905	546,974	1,218,905
Other assets	7,903,011	4,086,794	7,903,011	4,086,794
	<u>268,461,434</u>	<u>194,493,415</u>	<u>268,461,434</u>	<u>194,493,415</u>
Liabilities				
Current income tax payable	341,458	482,055	341,458	482,055
Deferred income tax liabilities	3,785,949	3,148,250	3,785,949	3,148,250
Employee provisions	473,124	288,574	473,124	288,574
Other liabilities	5,790,780	7,721,131	5,790,780	7,721,131
	<u>10,391,311</u>	<u>11,640,009</u>	<u>10,391,311</u>	<u>11,640,009</u>
	<u>258,070,123</u>	<u>182,853,406</u>	<u>258,070,123</u>	<u>182,853,406</u>

Cash and due from other banks

Cash and due from other banks includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits equal their carrying amounts.

Loans and advances to customers

Loan and advances are net of allowance for losses.

Investment securities

In 2007, investment securities include assets available-for-sale and held-to-maturity which are now measured at fair value based on a market prices or broker/dealer price quotations.

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NOTES TO THE FINANCIAL STATEMENTS

g) Credit risk

The Fund takes exposure on credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

The Fund manages this risk by asset allocation over or below the preferred (neutral) position and the investment manager can take an aggressive or conservative position depending on the economic circumstances prevailing at the time. The asset allocation at balance date is as follows:

	2007		2006	
	Kina	%	Kina	%
i) CTSL				
Assets				
Cash from other banks	13,741,649	6%	25,154,209	14%
Treasury bills	795,262	0.3%	3,140,428	2%
Loans to members & others	2,052,492	1%	1,552,631	1%
Investment securities				
- Available-for-sale	192,221,547	78%	116,044,762	65%
- Held-to-maturity	20,841,826	8%	19,980,346	11%
Investment properties	18,209,269	7%	12,669,934	7%
	<u>247,862,045</u>	<u>100%</u>	<u>178,542,310</u>	<u>100%</u>
ii) CONSOLIDATED				
Assets				
Cash from other banks	15,788,956	6%	26,519,843	14%
Treasury bills	795,262	0.4%	3,140,428	2%
Loans to members & others	1,452,492	0.6%	862,561	0.4%
Investment securities				
- Available-for-sale	190,501,547	73%	114,324,672	61%
- Held-to-maturity	20,841,826	8%	19,980,346	11%
Investment properties	30,158,269	12%	23,190,934	12%
	<u>259,538,352</u>	<u>100%</u>	<u>188,018,784</u>	<u>100%</u>

The assets allocation range defines the high and low extremes within which each assets class may move in response to changing economic conditions. By approving an asset allocation range, the Trustees still maintain ultimate control over investment policy at the micro level while the Investment Manager is given the flexibility needed at operational level to quickly respond to and take advantage of changing economic circumstances without the need to continuously revert back to the Trustees for approval.

The Investment Manager shall evaluate investment proposals to ensure viability and consistency with the approved investment strategy and prudential standards issued by Bank of Papua New Guinea.

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NOTES TO THE FINANCIAL STATEMENTS

32. Detailed listing of Investment Securities held by CTSI, available for sale as at 31 December 2007

	Market Price 31-Dec-07 Kina	Units	Market Value 31-Dec-07 Kina	Market Value 31-Dec-06 Kina
a) Unlisted Share Investments				
Companies				
BPT(PNG) Ltd	10.00	98,670	986,700	394,680
Amon. s Biscuit	50.00	225,000	11,250,000	1,800.00
Post Courier	3.50	110,900	388,150	332,700
South Pacific Brewery	14.00	566,668	7,933,352	7,933,352
Pacific Balanced Fund (1CPNG)	5.60	56,497	316,383	316,383
ABN AMRO Social Infrastructure	2.44	-	1,220,381	1,175,641
AMP Capital China	4.70	149,250	702,027	-
Sub Total			22,796,993	11,952,756
Hunter Ltd		100	2,457,143	2,457,143
Total unlisted Share Investments			25,254,136	14,409,899

Share investment in Hunter Ltd, a subsidiary where CTSI holds a 70% interest is carried at cost. The fair value adjustments for Defense Haus, the principal asset of Hunter Ltd is recognized within Hunter Ltd accounts and on consolidation.

b) Listed Share Investments				
Bank South Pacific	7.26	16,395,185	119,029,043	65,744,692
Credit Corporation	3.05	2,647,188	8,073,923	2,279,000
Oil Search	11.88	1,962,400	23,321,833	15,457,418
Ramu Sugar	-	-	-	3,25,323
New Britain Palm Oil	15.01	193,679	2,907,122	1,198,435
Highlands Pacific	0.34	2,804,737	962,174	3,301,199
ANZ Banking	67.29	10,000	672,874	
BHP Billiton Ltd	98.36	20,000	1,967,165	
Allco Max Securities & Mortgage	0.91	500,000	453,320	917,000
Alpha Collateralised Debt Obligation	161.73	2,000	323,450	454,879
AMR Capital China	-	-	-	618,403
Commonwealth Bank of Australia	144.82	10,000	1,448,174	1,163,414
Marengo Mining Ltd	0.87	100,000	86,988	54,079
Macquarie Infrastructure Group	7.42	60,000	445,479	488,126
Macquarie Media Group	10.12	75,000	759,005	865,859
Mahogany Capital Ltd	205.83	2,500	514,580	552,551
Multiplex Sites Trust	220.29	2,500	550,723	580,179
Nexus Bond	176.40	2,000	352,806	347,990
QM Technologies Ltd	6.62	125,000	827,003	955,208
RiverCity Motorway Group	1.91	400,000	764,519	409,123
Sydney Road Group	-	-	-	62,074
Telstra Corporation	11.49	170,000	1,953,688	1,654,832
Telstra 3 <T3>	7.77	200,000	1,553,541	1,264,989
Total Listed Share Investments			166,967,410	101,634,774
Total share investments			192,221,547	116,044,672

The effects of consolidation of investment securities are presented in note 21.

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	Amount Kina 31-Dec-07	Amount Kina 31-Dec-06
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- 33.** List of Investment Securities held – to – maturity (Government Inscribed Stock) placed at the Bank of Papua New Guinea as at 31 December 2007

Serial Number	Settlement Date	Maturity Date	Coupon Rate	Face Value 31-Dec-2007 Kina	Face Value 31-Dec-2007 Kina
S15052008 4TI-1 (G5)	29/10/2004	15/05/2008	10.00%	4,000,000	4,000,000
S15052008-TB (G10)	26/11/2004	15/05/2008	10.00%	934,191	934,191
S15052008-TB (G11)	26/11/2004	15/05/2008	10.00%	1,131,824	1,131,824
S15052008-TB (G12)	26/11/2004	15/05/2008	10.00%	289,163	289,163
S15052008-TB(G13)	26/11/2004	15/05/2008	10.00%	480,820	480,820
S15052008-TG (Gi 4)	26/11/2004	15/05/2008	10.00%	190,779	190,779
S15052008-TB (G18)	25/02/2005	15/05/2008	10.00%	2,000,000	2,000,000
S15112009	17/11/2006	15/11/2009	5.00%	1,000,000	1,000,000
S15112016	17/11/2006	15/11/2016	9.00%	4,000,000	4,000,000
S15112021	17/11/2006	15/11/2021	12.00%	3,000,000	3,000,000
S15112009	15/12/2006	15/11/2009	5.00%	1,000,000	1,000,000
S15112021	15/12/2006	15/11/2021	12.00%	1,000,000	1,000,000
S15112016	12/01/2007	15/11/2016	9.00%	1,000,000	-
Total Inscribed Stock				20,026,777	19,026,777

34. Restatement

The CTSL net assets available to pay members was previously stated as K180,781,667. The restated amount is K173,646,809 with a difference of K7,134,858. The differences relate to the reversal of the excess of fair values over cost of the shares in Hunter Ltd which have been reversed from CTSL and stated at cost as the subsidiary is now being consolidated. As at 31 December 2006, the fair values of the shares in Hunter Ltd were K9,592,000 while the cost of 100 shares was K2, 457,143. The difference of K7,134,858 has been adjusted against opening members' funds and the financial statements of Hunter Ltd and Banora Trading Ltd is now consolidated with CTSL.

35. Subsidiaries

Name of Entity	Place of Incorporation	Ownership Interest	
		2007	2006
Banora Trading Limited	Papua New Guinea	100%	100%
Hunter Limited	Papua New Guinea	70%	70%

Consolidated Financial Statements for the Year Ended 31st December 2007

NOTES TO THE FINANCIAL STATEMENTS**36. Business and Geographical segments**

The subsidiaries of CTSL operate in Papua New Guinea.

The principal products and services of each of these subsidiaries and the assets and liabilities are as follows:

		Amount Kina 31-Dec-2007	Amount Kina 31-Dec-2006
Name of Entity	Business Activity		
a) Revenue			
Banora Trading Limited	Motel Operation	2,860,821	1,150,800
Hunter Limited	Property Holdings	3,768,390	2,519,482
b) Assets			
Banora Trading Limited	Motel Operation	2,883,630	1,032,653
Hunter Limited	Property Holdings	14,638,998	7,433,888
c) Liabilities			
Banora Trading Limited	Motel Operation	803,403	764,228
Hunter Limited	Property Holdings	3,620,193	1,922,692

37. Subsequent events

There has not been any matter or circumstance, other than that referred to in the consolidated financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

38. Audit Fees

The auditor is Deloitte Touche Tohmatsu. The audit fees paid for the audit of the consolidated financial statements are disclosed in note 15.

