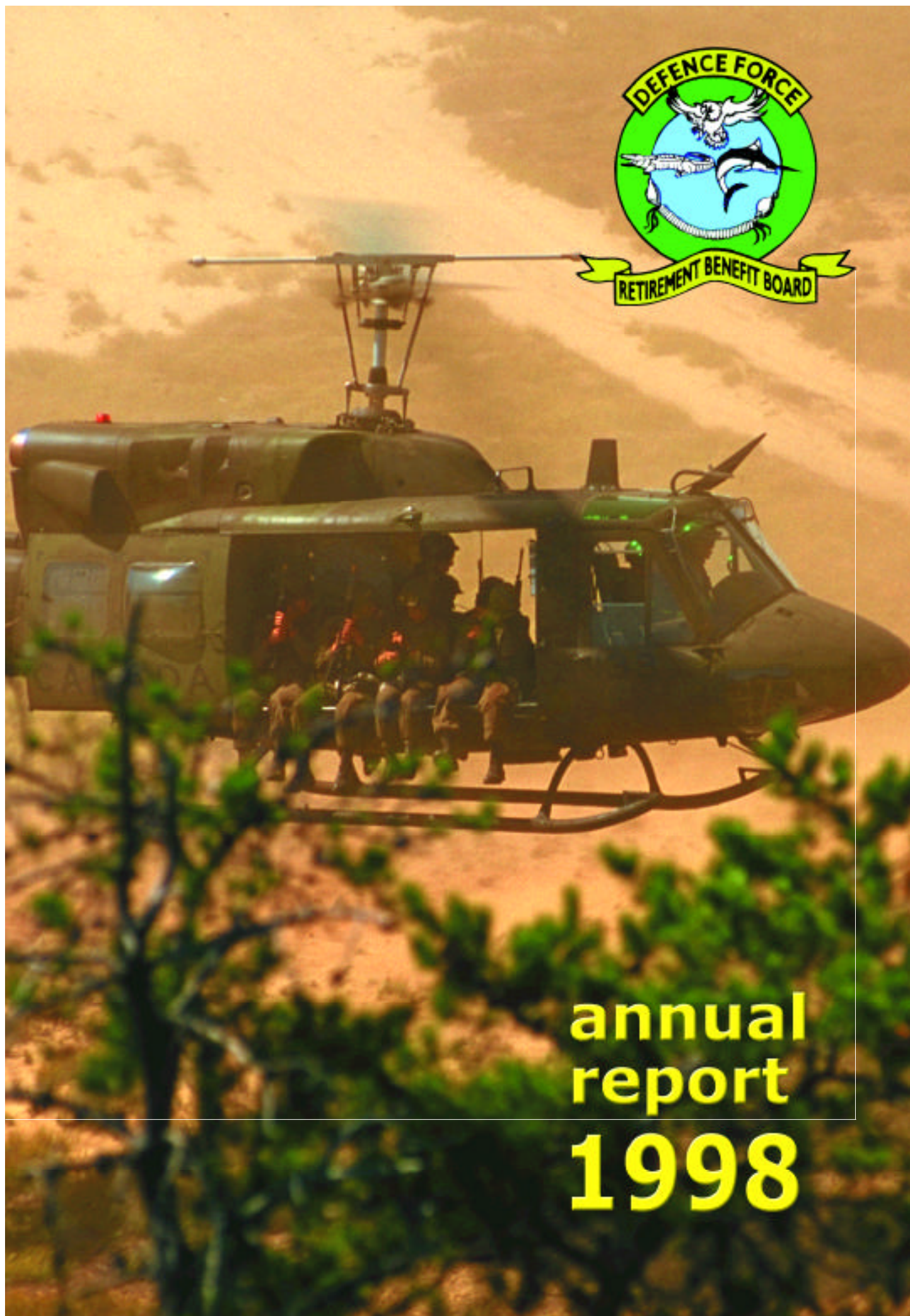




RETIREMENT BENEFIT BOARD



**annual  
report  
1998**


28 February 1999

The Hon. Alfred Pogo, MP  
Minister for Defence  
Murray Barracks  
Free Mail Bag  
BOROKO  
National Capital District

Dear Sir,

In accordance with the Defence Force Retirement Benefits Act (chapter no. 76) section 16, we submit the Annual Report for the year ended 31 December 1998.

Yours faithfully,

KELLY NARU   
Chairman of the Board

  
SYD YATES  
Fund Administrator &  
Fund Manager



**AUDITOR-GENERAL'S OFFICE**

TELEPHONE: 301 2203  
FAX : 325 2872

LEVEL6, TISAINVESTMENT P/L  
PO BOX 423  
WAIGANI  
PAPUA NEW GUINEA

The Honourable Alfred Pogo  
Date: 29 November, 1999  
Minister for Defence

Murray Barracks  
Free Mail Bag  
BOROKO  
National Capital District

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

Dear Sir,

**DEFENCE FORCE RETIREMENT BENEFITS FUND**

In accordance with Section 8(4) of the Audit Act, 1998 (as amended), I have audited the accompanying financial statements of the Defence Force Retirement Benefits Fund for the year ended 31 December 1998, as set out on pages 1 to 10, submitted by the Fund under section 63 (4) of the Public Finances (Management) Act, 1995. The Fund's board of Trustees is responsible for the preparation and presentation of these financial statements and the information they contain. I have performed an audit of these financial statements in order to express an opinion on them.

My audit was conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free from material misstatement. My audit procedures included examination, on test bases, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with International Accounting Standards and Statutory requirements so as to present a view which is consistent with my understanding of the Fund's financial position, the results of its operations and its cash flows.

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

**AUDIT OPINION**

I now report that in my opinion:

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Defence Force Retirement Benefits Fund as at 31 December 1998, and the results of its financial operations and its cash flows for the year then ended.

Yours faithfully,

MARK M. WANI, MBE  
Auditor-General  
DEFENCE FORCE RETIREMENT BENEFITS FUND



PAPUA NEW GUINEA DEFENCE FORCE RETIREMENT BENEFITS FUND

**FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31ST DECEMBER 1998

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DEFENCE FORCE RETIREMENT BENEFITS FUND  
**REVENUE ACCOUNT**  
 FOR THE YEAR ENDED 31ST DECEMBER 1998

	NOTE	1998 K	1997 K
<b>REVENUE</b>			
Contributions		2,336,751	2,339,822
Investment Income	2	8,560,185	4,408,418
<b>TOTAL REVENUE</b>		<b>10,896,936</b>	<b>6,748,240</b>
<b>LESS: EXPENDITURE</b>			
BENEFITS: -			
Benefits (net)	3	1,235,535	1,751,076
Insurance (net)	3 (a)	-	220,504
Administration & Inv. Management Fees	4	1,178,883	749,114
Management	5	478,425	177,155
<b>TOTAL EXPENDITURE</b>		<b>2,892,843</b>	<b>2,897,849</b>
Change in Net Market Value of Inv.	6 (a)	(1,982,580)	1,984,220
<b>FUND SURPLUS BEFORE TAX</b>		<b>6,021,513</b>	<b>5,834,611</b>
Less: Taxation	7	374,916	123,031
<b>NET INCREASE IN MEMBERS FUNDS</b>		<b>5,646,597</b>	<b>5,711,580</b>

*The accompanying notes form part of these Financial Statements.*

DEFENCE FORCE RETIREMENT BENEFITS FUND  
**BALANCE SHEET**  
AS AT 31ST DECEMBER 1998

	NOTE	1998 K	1997 K
<b>ACCUMULATED MEMBERS FUNDS</b>			
Opening Balance		56,798,588	51,087,008
Surplus for the year		5,646,597	5,711,580
<b>TOTAL MEMBERS FUNDS</b>		<b>62,445,185</b>	<b>56,798,588</b>
REPRESENTED BY:			
CURRENT ASSETS			
Cash at Bank		737,461	1,581,932
Receivables	11(1)	2,528,293	2,905,911
<b>TOTAL CURRENT ASSETS</b>	<b>8</b>	<b>3,265,754</b>	<b>4,487,843</b>
LESS:			
CURRENT LIABILITIES			
Creditors	9	942,509	568,811
Unclaimed monies		170,235	163,396
Provision for Income Tax	7	158,197	110,054
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,270,941</b>	<b>842,261</b>
<b>NON CURRENT ASSETS</b>	<b>10</b>	<b>142,044</b>	<b>13,306</b>
<b>NET CURRENT ASSETS</b>		<b>2,136,857</b>	<b>3,658,888</b>
<b>INVESTMENTS</b>	<b>6</b>	<b>60,596,217</b>	<b>53,295,111</b>
LESS: TERM LIABILITIES			
Deferred Taxation	7	287,889	155,411
<b>NET ASSETS</b>		<b>62,445,185</b>	<b>56,798,588</b>

*The accompanying notes form part of these Financial Statements*

DEFENCE FORCE RETIREMENT BENEFITS FUND  
**STATEMENT OF CASH FLOWS**  
 FOR THE YEAR ENDED 31ST DECEMBER 1998

	<b>1998</b>	<b>1997</b>
	K	K
<b>CASH FLOW FROM OPERATION ACTIVITIES</b>		
Cash receipts in the course of operations	7,923,771	4,896,884
Cash paid to suppliers in the course of operations	(1,563,261)	835,745
Income tax paid	-	(89,416)
Net cash provided by operation activities	6,360,510	3,971,723
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds of maturity of Govt. Inscribed Stock	-	-
Payment of purchase of Govt. Inscribed Stock	-	-
Placement of Term Deposits (Net)	3,680,799	1,608,845
Placement of Treasury Bills (Net)	(11,140,374)	(2,906,850)
Placement of Tab Issue (Net)	(944,080)	-
Payment for acquisition of Equities	(1,761,838)	(632,380)
Proceeds on sale of Equities	900,000	-
Loan granted	-	-
Preliminary expenses on Proposed Investments	-	-
Payment on Convertible Notes	-	-
Payment for Fixed Assets	(145,206)	(10,874)
Net cash used in investing activities	(9,410,699)	(1,941,259)
<b>CASH FLOW FROM ACTIVITIES WITH CONTRIBUTORS</b>		
Contributors received from members	2,317,392	2,036,897
Benefits paid (Including State Share)	(2,695,623)	(4,044,512)
	(378,231)	(2,007,615)
<b>CASH FLOW FROM ACTIVITIES WITH THE STATE</b>		
Cash receipts of State Share (Benefits)	2,583,949	164,375
Net (decrease) / Increase in cash & cash equivalents	(844,471)	187,224
Cash & cash equivalents at the beginning of the year	1,581,932	1,394,708
Cash & cash equivalent at the end of the year	<u>737,461</u>	<u>1,581,932</u>

Details of reconciliation of operation surplus after income tax to net cash provided by Operating activities are provided in Note 10.

*The accompanying notes form part of these Financial Statements.*

DEFENCE FORCE RETIREMENT BENEFITS FUND  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31ST DECEMBER 1998

1. Set out hereunder are the significant accounting policies adopted by the Fund in the preparation of the accounts for the year ended 31st December 1998, such accounting policies were adopted in the preceding period unless specifically stated otherwise.

(a) Basis of Financial Statements

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

(b) Historical Cost Convention

The accounts have been prepared under the historical cost convention with the exception of investments assets which are revalued periodically as determined by the Board in order to reflect current worth to the Fund. [Refer Note 1(d).

(c) Valuation of Investment Assets

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

Investments are valued as at 31st December 1998 as follows: -

- i) Quoted shares - at last sale price as at 31st December 1998.
- ii) Unquoted shares - at the fair value as at 31st December 1996. This valuation involved the adoption of an independent professional valuation. The main factors used in the analysis was a combination of dividend yield and net tangible asset backing, as appropriate.
- iii) Land and Buildings - by a valuation carried out by the Valuer as at 31st December 1996. The basis of the valuation was based on the market value.

(d) Basis of Accounting

The Fund accounts for income and expenditure on an accrual basis except dividend income which is brought to account when received. Contributions from members are brought into income when receivable. Pension payments, lump sums, refunds of contributions and related government contributions are brought to accounts as they become payable. Accrued benefit liabilities are based on the history of payments.

(e) Fixed Assets

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

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



DEFENCE FORCE RETIREMENT BENEFITS FUND  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 31ST DECEMBER 1998

(f) Income Tax

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

	<b>1998</b>	<b>1997</b>
	K	K
<b>2. INVESTMENT INCOME</b>		
Gross Property Rentals	307,814	232,869
Less: Property Expenses	(103,424)	(111,360)
Net Property Rentals	204,390	121,509
Dividends	1,131,887	1,309,878
Interests: -		
Government Securities	116,632	117,151
Interest Bearing Deposits	4,612,033	2,088,902
Debentures/Loans	760,906	762,916
Treasury Bills	1,689,416	7,993
TAP Issue	43,019	-
Sundry Income	1,902	69
	<b>8,560,185</b>	<b>4,408,418</b>
<b>3. BENEFITS (NET)</b>		
Pension	1,336,829	1,318,222
Refunds	444,967	373,926
Gratuities	34,040	29,820
Lump Sum	561,546	2,104,833
	2,377,382	3,826,801
Less: Government Share	(1,141,847)	2,075,725
	<b>1,235,535</b>	<b>1,751,076</b>
<b>(a) INSURANCE</b>		
Contributor Insurance expenses	-	220,504
Less: Life Insurance Premium received	-	-
	-	220,504
<b>4. ADMINISTRATION &amp; INVESTMENT MANAGEMENT FEES</b>		

The Defence Force Retirement Benefits Fund is administered by Kina Securities Limited under delegation from 01st January 1997. Administration expenses and Investments Management Fees for all Funds administered and managed by the KSL are met by KSL and recovered from the other Fund after year end. Exceptions to this are bank fees, interest charged, telephone and fax fees, printing and stationery, postage and courier, rent and certain professional fees paid directly by the Fund.

DEFENCE FORCE RETIREMENT BENEFITS FUND  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 31ST DECEMBER 1998

	<b>1998</b>	<b>1997</b>
	K	K
Administration Fees	711,185	583,017
Investments Management Fees	467,698	166,097
	1,178,883	749,114
<b>5. MANAGEMENT</b>		
Accounting Fees	10,526	-
Audit Fees	65,000	25,000
Bank Charges	3,712	1,827
Board of Trustees Expenses		
Sitting allowance	10,900	
Meeting Expenses	4,292	
Incidental Allowance	38,021	
Accommodation Allowance	13,470	
Transport Allowance	9,746	
Annual Stipend	20,600	
Travel & Accommodation	45,994	143,023
		43,506
Depreciation	18,643	1,147
Disposal of Fixed Assets - Loss	1,949	-
Donation & Sponsorship	983	-
Electricity	63	-
Entertainment	3,668	-
General Insurance	8,960	
Marketing Expenses	1,313	-
Office Expenses	1,039	325
Office Rent	25,643	3,120
Postage & Courier	1,215	1,317
Printing & Stationery	19,788	4,057
Professional Fees	70,254	71,540
Repair & Maintenance		
Office Equipment	5,000	
Computer	4,623	
Motor Vehicle	1,280	
Furniture & Fittings	6,388	17,291
Staff	48,884	13,531
Staff Amenities	1,126	21
Staff Housing	16,740	2,565
Sundry Expenses	1,141	-
Telephone & Fax	13,139	6,578
Training Expenses	1,475	2,160
Vehicles	2,860	461
	478,425	177,155

DEFENCE FORCE RETIREMENT BENEFITS FUND  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 31ST DECEMBER 1998

**6. INVESTMENTS**

Unquoted Shares	8,029,653	6,642,815
Quoted Shares	4,319,380	6,826,960
Government Securities	1,469,524	1,520,108
Land & Buildings	3,540,869	3,472,092
Loans	5,935,131	5,935,131
Interest Bearing Deposits	22,310,356	25,991,155
Treasury Bills	14,047,224	2,906,850
TAP Issue	944,080	-
	60,596,217	53,295,111

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

Quoted Shares	(2,507,580)	1,984,220
Unquoted Shares	525,000	-
Land & Buildings	-	-
	1,982,580	1,984,220

**7. TAXATION**

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

	1998 K	1997 K
<b>INCOME TAX EXPENSE FOR THE YEAR</b>		
Current	242,438	110,054
Deferred	132,478	12,977
Overprovision in prior years	-	-
Income Tax expense	374,916	123,031
<b>PROVISION FOR INCOME TAX</b>		
Prima Facie tax payable at 25% on operating surplus	1,505,378	981,153
Net effect of permanent differences - current year	(1,129,845)	(858,122)
Net effect of timing differences	(132,478)	(12,977)
	243,055	110,054
Prior years	-	-
Provision for Income Tax	243,055	110,054
<b>DEFERRED TAXATION</b>		
Opening Balance	155,411	142,434
Movement during the year	142,478	12,977
Prior year	-	-
Closing Balance	297,889	155,411
Comprising: -		
Depreciation	134,972	136,408
Interest Receivable	125,066	8,157
Rent Receivable	50,351	17,096
Provision for Audit Fee	(22,500)	(6,250)
Provision for Doubtful Debts	-	-
Deferred Taxation	287,889	155,411

DEFENCE FORCE RETIREMENT BENEFITS FUND  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 31ST DECEMBER 1998

	<b>1998</b>	<b>1997</b>
	K	K
<b>8. RECEIVABLES</b>		
Debtors		
Less: Provision for Doubtful Debts	160,421	68,383
	-	-
	160,421	68,383
Associates Funds	7,712	-
Hunter Board Pty Ltd	46,251	-
Interest accrued - IBD	249,755	155,135
Interest accrued - Government Stock	19,884	20,143
Interest accrued - Loan	4,493	4,493
Interest accrued - Treasury Bills	432,865	7,993
Interest accrued - TAP Issue	43,019	-
Government Share - Benefits	816,626	2,246,714
Contributions in arrears	413,031	393,672
Prepayment - Benefits	318,241	-
Security Deposit	6,617	-
Sundry debtors	9,378	9,378
	<u>2,528,293</u>	<u>2,905,911</u>

**9. CREDITORS**

Associated Funds	-	80,712
Accruals - Audit Fee	90,000	25,000
Sundry creditors	457,246	113,464
Benefits due & unpaid	13,011	13,011
Death Claims	80,000	64,000
NCDC Sales Tax & Benefit tax deductions	7,469	3,386
Department of Defence - payable	265,000	265,000
Group Tax	<u>29,783</u>	<u>4,238</u>

**10. NON CURRENT ASSETS**

Description	Cost	Accum. Depr'n	Net Book Value	Net Book Value
Computer	34,516	2,653	31,864	
Office Equipment	23,882	1,618	22,264	3,519.00
Furniture & Fitting	17,511	751	16,759	
Motor Vehicles	<u>83,750</u>	<u>12,594</u>	<u>71,156</u>	<u>9,787.00</u>
Total	<u>159,659</u>	<u>17,616</u>	<u>142,043</u>	<u>13,306.00</u>

DEFENCE FORCE RETIREMENT BENEFITS FUND  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31ST DECEMBER 1998

**11. NOTES TO THE STATEMENT OF CASH FLOWS: -**

1. Reconciliation of Cash

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

Balance at Bank - Main Account	918,709	214,912
Balance at Bank - Benefit Account	(360,905)	167,020
Balance at Bank - Management Account	179,657	-
Balance at Bank - Call Account	-	700,000
Cash in Transit	-	500,000
	<u>737,461</u>	<u>1,581,932</u>

**12. RELATED PARTY DISCLOSURES**

During the year the following transactions with related parties occurred: -

(a) At 31st December 1998, the Fund was owed K7,712 by Public Officers Superannuation Fund Board.

(b) At 31st December 1998, the Fund was owed K690,000 by Hunter Pty Ltd. (The Fund is a 70% shareholder in Hunter Pty Ltd).

**13. SUBSEQUENT EVENT/POST BALANCE SHEET EVENTS**

The following significant Events occurred after the Balance Sheet date and is not accounted for in this year account: -


(a) In August 1999, a deal to purchase Sandaun Motel in Vanimo was concluded for a consideration of K5,353,060.47.

(b) In October 1999, a deal to purchase Act Property in Canberra was concluded for a consideration of K486,427.45.

DEFENCE FORCE RETIREMENT BENEFITS FUND  
**DECLARATION BY MANAGEMENT**

In our opinion the accompanying Balance Sheet, Revenue Account, Statement of Cash Flows and Notes to and forming part of the accounts for the year ended 31st December 1998, have been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

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

KELLY NARU   
Chairman of the Board

28th February, 1999

SYD YATES   
Fund Administrator & Fund Manager

Notes

Defence Force Retirement Benefits Fund

PO Box 497

Port Moresby

National Capital District