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annual
report




22nd June, 2001

Hon. Kilroy Genia, MP
Minister for Defence
National Parliament
PO WAIGANI
National Capital District

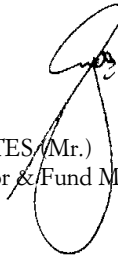
My Dear Minister,

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 1999.

Yours faithfully,



CHRIS ALU (Mr.)
Chairman of the Board



SYD YATES (Mr.)
Fund Administrator & Fund Manager



AUDITOR - GENERAL OF PAPUA NEW GUINEA

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

TELEPHONE: 301 2203
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The Honourable Sir Mekere Morauta, Kt, MP
Prime Minister & Minister for Treasury
PO Wards Strip
WAIGANI
National Capital District

Date: 4 June 2001
Our Reference: 30-28-4
Action Officer:
Designation:
Your Reference:
Date:

Dear Sir,

DEFENCE FORCE RETIREMENT BENEFITS FUND

In accordance with Section 8(4) of the Audit Act 1989 (as amended), I have audited the accompanying financial statements of the Defence Force Retirement Benefits Fund for the year ended 31 December 1999, as set out on pages 2 to 11, which were due on or before 30 June 2000 in terms of Section 63(4) of the Public Finances (Management) Act, but submitted by the Board of the Fund on 01 June 2001. The Fund's Board of Trustees is responsible for the preparation and presentation of these financial statements in order to express an opinion on them.

My audit was conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free from material misstatement. My audit procedures included examination, on a test basis, of evidence supporting the 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 generally accepted accounting practice which requires, amongst other things, compliance with International Accounting Standards and statements of Accounting Standards of the Papua New Guinea Institute of Accountants and other statutory requirements so as to present a view which is consistent with my understanding of the Fund's financial position, the results of its operations and its cash flows. I believe that my audit provides a reasonable basis for my opinion.

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

QUALIFICATION

1. Note 6 to the Financial Statements reveals an investment of K81,655,090. Included in this were:

- (i) Sandaun Motel K5,415,338; and
- (ii) Canberra Property K486,427

The Fund purchased Sandaun Motel Investment (Banora Trading Limited) for a consideration of K5.3 million. I am unable to satisfy that the property purchased was based upon a proper independent professional valuation and that its value is correctly stated in the financial statements because a recent valuation by a Consultant, as advised by the Board, indicates its value to be within the vicinity of K1.1 million to K1.6 million, thus indicating a loss believed to be nearly K4 million.



AUDITOR - GENERAL OF PAPUA NEW GUINEA

The Fund also purchased a Canberra property costing K486,427 (AU\$ 263,790) and rented it to Defence Department without having a formal agreement entered into.

The incomes derived from these two properties were not commensurable with other government securities like Treasury Bills.

In terms of the government investment guidelines, it is not clear whether these purchase of properties in Vanimo and Canberra are consistent with the powers of the Board of the Fund.

2. Note 6 to the Financial Statements reveals K13,916,068 as changes in market value of investments contributing to the surplus of K20,457,250 for the year. The increase in accounting valuation was on quoted shares K2,164,600, unquoted shares K7,768,2432 and Land and Buildings K3,983,225. Note 1 (c) (ii) indicates that the main factors used in the analysis were divided yield, earnings based on net tangible asset backing, as appropriate. As a result, I am unable to satisfy that the material increase in value of K7,768,243 in quoted shares and K3,983,225 in Land and Buildings are properly derived.

3. Note 5 to the Financial Statement reveals that the Management expenses had increased from K478,425 in 1998 to K1,736,375. The main reasons attributed to the increase were increased business activities of the Board including overseas travel in search of potential investments. The major increases were in relation to the Board of Trustees expenses K509,680 (1998 - 143,023) and professional fees K446,727 (1998 - K70,254).

QUALIFIED AUDIT OPINION

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

- (a) the financial statements are based on proper accounts and records: and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Defence Force Retirement Benefits Fund as at 31 December 1999, and the results of its financial operations and its cash flows for the year then ended.

MARK M. WANI, MBE
Auditor - General



DEFENCE RETIREMENT BENEFIT FUND BOARD AND SUBSIDIARIES
FINANCIAL STATEMENTS
FOR THE THE YEAR ENDED 31 DECEMBER 1999

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Defence Retirement Benefit Fund Board and Subsidiaries

REVENUE ACCOUNT

For the the Year Ended 31 December 1999

	NOTE	1999 K	1998 K
REVENUE			
Contributions		2,509,911	2,336,751
Investment Income	2	10,390,536	8,560,185
TOTAL REVENUE		12,900,447	10,896,936
LESS: EXPENDITURE			
BENEFITS: -			
Benefits (net)	3	1,826,928	1,235,535
Administration & Investment Management Fees	4	1,268,903	1,178,883
Management	5	1,736,375	478,425
TOTAL EXPENDITURE		4,832,206	2,892,843
Excess Revenue Over Expenditure		8,068,241	8,004,093
Changes in Net Market Value of Investments 6(a)		13,916,067	(1,982,580)
FUND SURPLUS BEFORE TAX		21,984,308	6,021,513
Less: Taxation	7	1,527,060	374,916
NET INCREASE IN MEMBERS FUNDS		20,457,248	5,646,597

The accompanying notes form part of these Financial Statements.

Defence Retirement Benefit Fund Board and Subsidiaries

BALANCE SHEET

For the the Year Ended 31 December 1999

	NOTE	1999 K	1998 K
ACCUMULATED MEMBERS FUNDS			
Opening Balance		62,445,185	56,798,588
Surplus for the year		<u>20,457,249</u>	<u>5,646,597</u>
TOTAL MEMBERS FUNDS		<u>82,902,434</u>	<u>62,445,185</u>
REPRESENTED BY:			
CURRENT ASSETS			
Cash at Bank	11	476,395	737,461
Receivables	8	<u>3,326,946</u>	<u>2,528,290</u>
TOTAL CURRENT ASSETS		<u>3,803,341</u>	<u>3,265,751</u>
LESS:			
CURRENT LIABILITIES			
Creditors	9	960,959	942,509
Unclaimed monies		320,187	170,232
Provision for Income Tax	7	<u>1,130,360</u>	<u>158,197</u>
TOTAL CURRENT LIABILITIES		<u>2,411,506</u>	<u>1,270,938</u>
NON CURRENT ASSETS	10	<u>310,622</u>	<u>142,044</u>
NET CURRENT ASSETS		<u>1,702,457</u>	<u>2,136,857</u>
INVESTMENTS	6	81,655,090	60,596,217
LESS: TERM LIABILITIES			
Deferred Taxation	7	455,113	287,889
NET ASSETS		<u>82,902,434</u>	<u>62,445,185</u>

The accompanying notes form part of these Financial Statements

Defence Retirement Benefit Fund Board and Subsidiaries

STATEMENT OF CASH FLOWS

For the the Year Ended 31 December 1999

	1999 K	1998 K
CASH FLOW FROM OPERATIONS ACTIVITIES		
Cash receipts in the course of operations	10,652,859	7,923,771
Cash paid to suppliers in the course of operations	(3,055,534)	(1,563,261)
Income tax paid	(387,673)	-
Net cash provided by operation activities	7,209,652	6,360,510
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds of maturity of Govt. Inscribed Stock	1,140,000	-
Payment for purchase of Govt. Inscribed Stock	-	-
Placement of Term Deposits (Net)	13,004,737	3,680,799
Placement of Treasury Bills (Net)	(2,048,175)	(11,140,374)
Placement of Tab Issue (Net)	(13,324,589)	(944,080)
Payment for acquisition of Equities	-	(1,761,838)
Proceeds on sale of Equities	-	900,000
Loan granted	(1,074,296)	-
Preliminary expenses on Proposed Investments	-	-
Payment on Convertible Notes	-	-
Payment for acquisition of Land & Building	(5,979,819)	-
Payment for Fixed Assets	(217,424)	(145,206)
Net cash used in Investing activities	(8,499,566)	(9,410,699)
CASH FLOW FROM ACTIVITIES WITH CONTRIBUTORS		
Contributions received from members	2,509,911	2,317,392
Benefits paid (Including State Share)	(3,865,991)	(2,695,623)
	(1,356,080)	(378,231)
CASH FLOW FROM ACTIVITIES WITH THE STATE		
Cash receipts of State Share (Benefits)	2,384,929	2,583,949
Net (decrease)/Increase in cash & cash equivalents	<u>(261,065)</u>	<u>(844,471)</u>
Cash & cash equivalents at the beginning of the year	737,461	1,581,932
Cash & cash equivalents at the end of the year	<u>476,396</u>	<u>737,461</u>

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

The accompanying notes form part of these Financial Statements.

Defence Retirement Benefit Fund Board

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the the Year Ended 31 December 1999

1. Set out hereunder are significant accounting policies adopted by the Fund in the preparation of the accounts for the year ended 31st December 1999, such accounting policies were adopted in the preceding period unless specifically stated otherwise.

(a) Basis of Financial Statements

The presentation of these Accounts is in accordance with generally accepted accounting principles for Superannuation Funds. The net appreciation or depreciation of investment assets is shown in the Revenue Account which now more closely reflects the total increase in members' funds for the year.

While the current treatment is not in complete accordance with the International Accounting Standard on revaluation of investments, this standard is not considered appropriate to Superannuation Funds.

(b) Historical Cost Convention

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

(c) Valuation of Investment Assets

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

Investments are valued as at 31st December 1999 as follows: -

- i. Quoted shares - at last sale price as at 31st December 1999.
- ii. Unquoted shares - at the fair value as at 31st December 1999. This valuations involved the adoption of an independent professional valuation. The main factors used in the analysis were dividend yield, earning based and net tangible asset backing, as appropriate.
- iii. Land and Buildings - by a valuation carried out by the Valuer as at 31st December 1999. 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 and interest income from Members Housing Assistance (MHA) are brought to account when received. The interest from MHA was deducted from the member entitlements when they were discharged from the force. Contribution from members are brought into account as income when received. Pension payments, lump sums, refunds of contributions and related governments contributions are brought to account as they become payable. Accrued benefit liabilities are based on the history of payments.

Defence Retirement Benefit Fund Board and Subsidiaries

PROFIT AND LOSS ACCOUNTS

For the the Year Ended 31 December 1999

(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 & Fittings	15%
Motor Vehicles	30%

(f) Income Tax

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

	1999 K	1998 K
2. INVESTMENT INCOME		
Gross Property Rentals	274,073	307,814
Less: Property Expenses	(128,546)	(103,424)
Net Property Rentals	145,527	204,390
Dividends	1,715,046	1,131,887
Interest: - Government Securities	86,901	116,632
Interest Bearing Deposits	2,517,059	4,612,033
Debentures/Loans	918,166	760,906
Treasury Bills	2,630,490	1,689,416
TAP Issue	2,363,958	43,019
Sundry Income	13,389	1,902
	10,390,536	8,560,185
3. BENEFITS (NET)		
Pension	1,427,502	1,336,829
Refunds	577,264	444,967
Gratuities	41,170	34,040
Lump Sum	1,820,055	561,546
	3,865,991	2,377,382
Less: Government Share	(2,039,063)	(1,141,847)
	1,826,928	1,235,535
4. ADMINISTRATION & INVESTMENT MANAGEMENT FEES		

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

Defence Retirement Benefit Fund Board and Subsidiaries

PROFIT AND LOSS ACCOUNTS

For the the Year Ended 31 December 1999

	1999 K	1998 K
Administration Fees	672,382	711,185
Investment Management Fees	593,911	467,698
Benefit Payment Fee	2,610	-
	1,268,903	1,178,883
5. MANAGEMENT		
Accounting Fees	-	10,526
Audit Fees	66,600	65,000
Advertising	10,936	-
Bank Charges	3,986	3,712
Interest Charges	7,166	-
Board of Trustees Expenses		
Sitting Allowance	24,541	10,900
Meeting Expenses	17,487	4,292
Incidental Allowance	195,379	38,021
Accommodation Allowance	15,756	13,470
Transport Allowance	14,798	9,746
Annual Stipend	106,500	20,600
Travel & Accommodation	120,325	45,994
Other fees	14,894	
	509,680	143,023
Depreciation	64,013	18,643
Disposal of Fixed Assets	16,385	1,949
Donation & Sponsorship	61,023	983
Electricity	1,280	63
Entertainment	16,141	3,668
General Insurance	3,484	8,960
Marketing Expenses	7,598	1,313
Office Expenses	1,769	1,039
Office Rent	62,383	25,643
Postage & Courier	1,625	1,215
Printing & Stationery	37,202	19,778
Professional Fees	446,727	70,254
Repair & Maintenance		
Office Equipment	663	5,000
Computer	2,259	4,623
Motor Vehicle	4,587	1,280
Furniture & Fittings	2,622	6,388
	10,131	17,291
School fees	9,195	
Software purchase	957	-

Defence Retirement Benefit Fund Board and Subsidiaries

PROFIT AND LOSS ACCOUNTS

For the the Year Ended 31 December 1999

	1999 K	1998 K
Staff	293,049	48,884
Staff Amenities	1,752	1,126
Staff Housing	34,014	16,740
Sundry Expenses	1,060	1,141
Telephone & Fax	30,773	13,139
Training Expenses	4,180	1,475
VAT Expenses	10,573	-
Vehicles	22,693	2,860
	10,573	-
	1,736,375	478,425

6. INVESTMENTS

(a) Domestic Investment

Unquoted Shares	15,797,896	8,029,653
Quoted Shares	6,483,980	4,319,380
Government Securities	324,916	1,469,524
Land & Buildings	7,541,716	3,540,869
Sandaun Motel	5,415,338	-
Loans	5,935,131	5,935,131
Interest Bearing Deposits	9,305,619	22,310,356
Treasury Bills	16,095,399	14,047,224
TAP Issue	14,268,669	944,080
	81,168,664	60,596,217

(b) Overseas Investment

Canberra Act Property	486,427	-
486,427	-	-

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

Quoted Shares	2,164,600	(2,507,580)
Unquoted Shares	7,768,243	525,000
Land & Building	3,983,225	-
13,916,068	1,982,580	-

7. TAXATION

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

INCOME TAX EXPENSE FOR THE YEAR

Current	1,404,612	242,438
Deferred	163,736	132,478
Prior year adjustment	(41,288)	-
Income Tax expense	1,527,060	374,916

Defence Retirement Benefit Fund Board and Subsidiaries

PROFIT AND LOSS ACCOUNTS

For the the Year Ended 31 December 1999

	1999 K	1998 K
PROVISION FOR INCOME TAX		
Prima Facie tax payable at 25% on operating surplus	5,741,787	1,505,378
Net effect of permanent differences - current year	(4,173,439)	(1,129,845)
Net effect of timing differences	(163,736)	(132,478)
	1,404,612	243,055
Prior years	-	-
Provision for Income Tax	1,404,612	243,055
DEFERRED TAXATION		
Opening balance	287,889	155,411
Movement during the year	163,736	142,478
Prior year	3,488	-
Closing balance	455,113	297,889
Comprising: -		
Depreciation	124,127	134,972
Interest Receivable	341,138	125,066
Rent Receivable	18,598	50,351
Provision for Audit Fee	(28,750)	(22,500)
Provision for Doubtful Debts	-	-
Deferred Taxation	455,113	287,889
8. RECEIVABLES		
Debtors	74,391	160,421
Less: Provision for Doubtful Debts	-	-
	74,391	160,421
Associates Funds	13,575	7,712
Hunter Limited	43,548	46,251
Interest accrued - IBD	180,757	249,755
Interest accrued - Government Stock	9,467	19,884
Interest accrued - Loan	347,925	4,493
Interest accrued - Treasury Bills	571,912	432,865
Interest accrued - TAP Issue	425,493	43,019
Government Share - Benefits	470,759	816,626
Contributions in arrears	-	413,031
Members Housing Asst - Receivable	1,074,296	-
Prepayment	78,054	318,241
Security Deposit	23,957	6,617
Sundry Debtors	12,811	9,378
	3,326,945	2,528,293
9. CREDITORS		
Accruals - Audit fee	115,000	90,000
Sundry creditors	412,411	457,246
Benefits due & unpaid	13,011	13,011
Death Claims	80,000	80,000
NCDC Sales Tax & Benefit tax deductions	-	7,469
Department of Defence - payable	265,000	265,000
Provision for Withholding Tax	10,032	-
Group Tax	64,587	29,783
VAT Payable	918	-
	960,959	942,509

Defence Retirement Benefit Fund Board and Subsidiaries

PROFIT AND LOSS ACCOUNTS

For the the Year Ended 31 December 1999

10. NON CURRENT ASSETS

Description	Cost	Accum. Depre'n	Net Book Value	Net Book Value
Computer	36,370	9,677	26,692	31,864
Office Equipment	166,727	25,333	141,393	22,264
Furniture & Fitting	22,221	3,856	18,365	16,759
Motor Vehicles	151,766	27,595	124,171	71,156
Total	377,084	66,461	310,621	142,043

11. NOTES TO THE STATEMENT OF CASH FLOWS: -

Reconciliation of cash

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

	1999 K	1998 K
Balance at Bank - Main Account	32,373	918,709
Balance at Bank - Benefit Account	4,963	(360,905)
Balance at Bank - Management Account	41,441	179,657
Balance at Bank - Housing Scheme Account	397,618	-
Balance at Bank - Call account	-	-
Cash in Transit	-	-
	476,395	737,461

12. RELATED PARTY DISCLOSURES

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

- (a) At 31st December 1999, Public Officers Superannuation Fund Board owed K13,574.96 to the Fund
- (b) At 31st December 1999, Hunter Pty Ltd owed the Fund K690,000. (The Fund owns 70% of Hunter Pty Ltd).

13. SUBSEQUENT EVENT/POST BALANCE SHEET EVENTS

The following investments were made after the Balance Sheet Date and not accounted for in this year account: -

- (a) Further 468,631 was paid to acquire the property located at Section 88 Lot 2 Henao Drive.
- (b) K282,060 was paid to Hombrum Ltd. to acquire 282,060 shares of its shares at K1 each.
- (c) K350,000 of the agreed K750,000 shares was paid to Pacific International Assurance to acquire K750,000 shares of its share at K1 each.
- (d) K13,000 auction bid was paid to Papua New Banking Corporation to auction for a property located at Section 25 Allotment 49 and 50 of Vanimo.

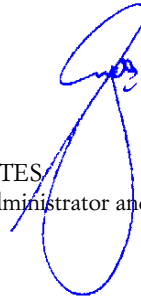
Defence Retirement Benefit Fund Board and Subsidiaries
DECLARATION BY MANAGEMENT

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 31 December 1999, have been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

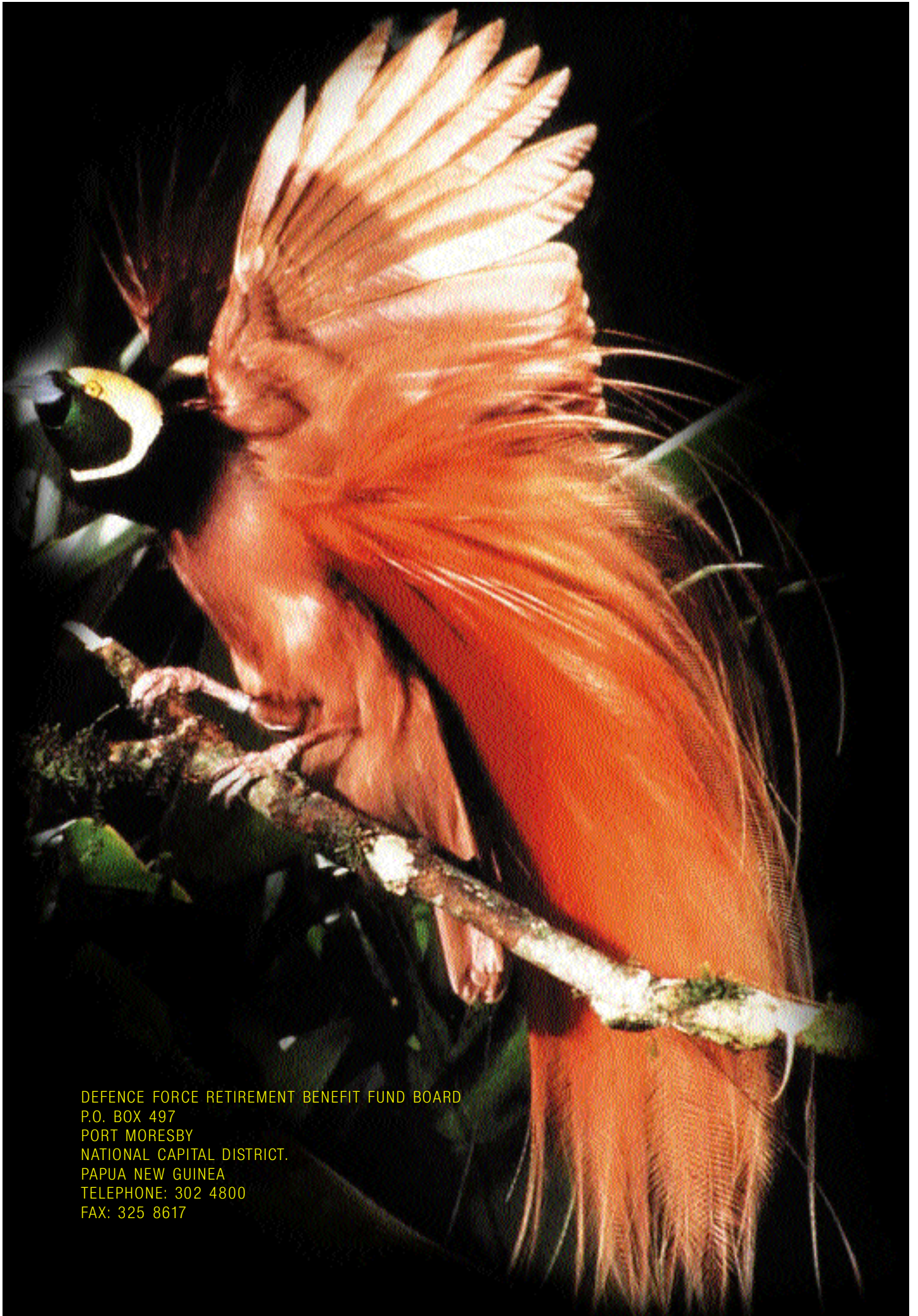
- (a) the results of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- (b) no circumstances have arisen which would render any amount in the statements misleading;
- (c) there are no contingent liabilities that could materially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



CHRIS ALU
Chairman of the Board
28th February, 2000



SYD YATES
Fund Administrator and Fund Manager



DEFENCE FORCE RETIREMENT BENEFIT FUND BOARD
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