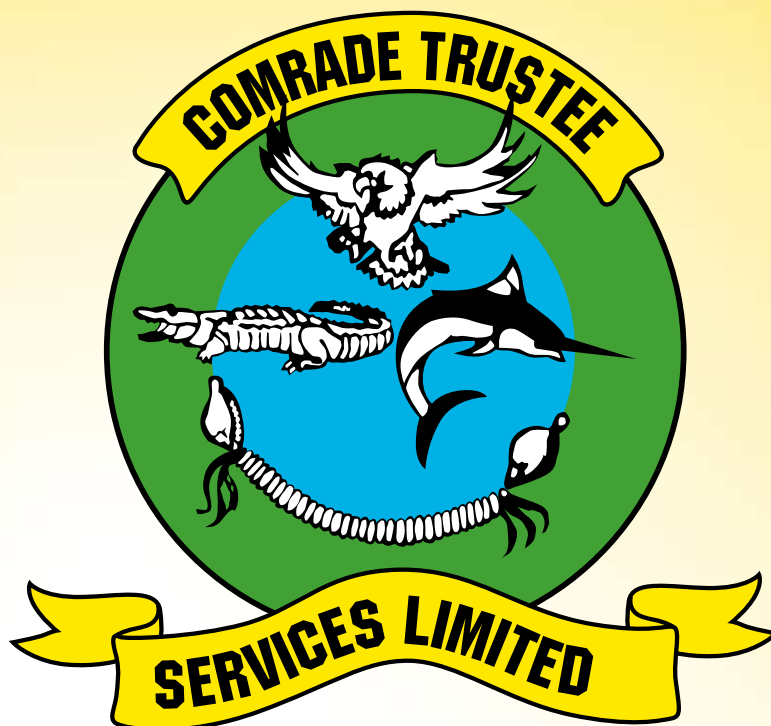


2008 ANNUAL REPORT



Comrade Trustee Services Limited
PO Box 497, Port Moresby, NCD,
Level 6, Defence Haus, Corner Hunter, Street &
Champion Parade, Port Moresby, NCD
Telephone: 320 3455 Facsimile: 321 5840
Web site: www.ctsl.com.pg

Vision & mission statement

The vision of the company is:-

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

And the mission is:-

“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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Part 2

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Chairman's Statement

Dear Members,

It gives me great pleasure once again to present the 2008 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 2008.

I am happy to announce that the Fund enjoyed another profitable year realizing a net surplus (after tax) of K39,078,810 (Consolidated – K43,903,683). This was a very commendable achievement considering the turmoil caused to both the domestic and global economies by the financial crisis experienced during the year and which resulted in many Funds in the region recording unusually low returns or worse, negative returns. Although this was a reduction from the prior year net surplus of K74,685,442 the Board is encouraged that the Fund was able to avoid significant losses as a result of prudent risk management and diversification strategies put in place to mitigate such eventualities.

Board expects the current financial crisis with resultant poor performance to continue for the remainder of this year and well into 2010 with some signs of recovery thereafter. The current environment presents the Board with major challenges which they will work towards resolving and consequently achieving the best possible results for the Fund going forward.

The Board has approved the following benefits to be passed on to members this year:-

- a) 12.99% interest to be credited to contributors accounts as at 31st December 2008
- b) 4% interim CPI indexation for 2009; and,
- c) balance of 2008 CPI indexation after actuarial evaluation and recommendation later this year.

I advise 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 later this year.

I advise that the Net Assets of the Fund has grown to K284,359,596 (Consolidated – K299,229,673) as at the end of 2008. This represents a growth rate of 16.99% over the previous year.

Total revenue earned during the year amounted to

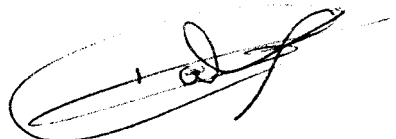
K53,280,271 out of which investment income accounted for K44,614,989 (83.74%).while income from contributions (members' and State) accounted for K8,665,282 (16.26%). A significant component of investment income was attributed to share price appreciation of companies in which the Fund acquired shares such as Bank South Pacific and Oil Search Limited just to name a few.

Your Fund has continued to enjoy a reasonable level of surplus and growth in net assets over the past several years 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, including 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.

The management expense ratio (MER) of the Fund increased slightly to 2.20% (Consolidated – 2.12%) during the year (2007 – 2.14% and 2.77%) [restated]). 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 in due time.

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 2008.



Chris Alu
Chairman

14th May 2009.

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 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. Accordingly an actuarial evaluation of the Fund will be undertaken for the two years ended on 31 December 2008 during 2009 and results of the evaluation published in the subsequent year annual report.

The next actuarial evaluation will be undertaken for the period ending on 31st December 2010 in early 2011.



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 Trustees



(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, Monterrey, California, USA in 1991. He speaks Bahasa Indonesia fluently. He is a member of the PNG Institute of Directors.

**Captain (Navy) Alois
Ur Tom, OBE**



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

Captain Ur Tom 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

manage the Defence Force on behalf of the Commander PNG Defence Force as the Deputy Commander.

Captain Ur Tom has had considerable hands on experience in all facets of naval duties including attachment in the United States and Australian navies. He 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 College in Canberra and a visiting Fellow to the Royal Australian Navy's Maritime Studies Program. He also holds a graduate Certificate and a Master in Business Administration (MBA) degree from Deakin University in Geelong Australia.

He 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.

***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 2008 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment	Attendance of Meetings		
				Board	Audit Committee	Appointments Committee
Chris Alu (Chairman)	K25,750	Current	19/12/02	4/5	4/4	-
Col D. Takendu, OBE (Rtd)	K24,189	Current	19/12/02	5/5	-	1/1
Capt (N) Max Aleale, DMS	K17,525	Current	29/09/07	4/5	-	1/1
Capt (N) Tom Ur, OBE	K22,775	Current	02/01/02	4/5	4/4	-
Brian Hull	K22,775	Current	07/07/03	5/5	-	1/1
Johnson Kalo	K21,700	Current	07/07/03	3/5	2/4	-
Kisakiu Posman	K13,850	Current	04/06/04	3/5	2/4	-

* Fees shown above are before tax.

The Board complied with its approved Calendar of meetings planned for the year. The Board formally met five times during the year and the two Committees (Audit & Compliance and Appointments & Remuneration Committees) each met four times and once 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 four 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 once 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 2008, 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
	Chairman	Hunter Limited
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
	Director	Kina Asset Management 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 2008. Board is in the process of negotiating contract terms which it hopes will be finalised prior to the end of 2009.

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 2008. Board is in the process of negotiating contract terms which it hopes will be finalised prior to the end of 2009.

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.

The Fund's investment objective is to maximize returns over the medium to long term at moderate risk levels.

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 prudential 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 prudential review of the Fund was undertaken in April 2006.

Independent Auditor

Prior to 1st January 2004, the statutory audit of the Fund was undertaken by the Auditor General. Since 2005, 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 and Board confirms compliance with Clause 9(a)(ii) of the Prudential Standard 5/2008 Financial Statements Format and Disclosure Requirements as indicated in the table below. Fees paid to the auditor are summarized as follows:

Auditor	2004	2005	2006	2007	2008
Auditor General	K80,000	-	-	-	-
Deloitte Touche Tohmatsu	-	K93,000	K117,664	K135,076	K133,737
Partner In-charge	G. Sulliman	P. Barber	S. Theron	S. Theron	S. Theron

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 of the Fund as prescribed in Prudential Standard 3/2006 (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.

The MER for the Fund is shown below.

	2004	2005	2006	2007	2008
DFRBF	1.93%	2.87%	2.25%	2.14% ¹	2.20%

¹ MER for prior years restated to be compliant with Prudential Standard 2/2006 in its computation.

Consolidation

Commencing 2007 the Fund consolidated its accounts with subsidiary companies to be compliant with IAS 27 and its accounts presented accordingly.



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 – 2007).

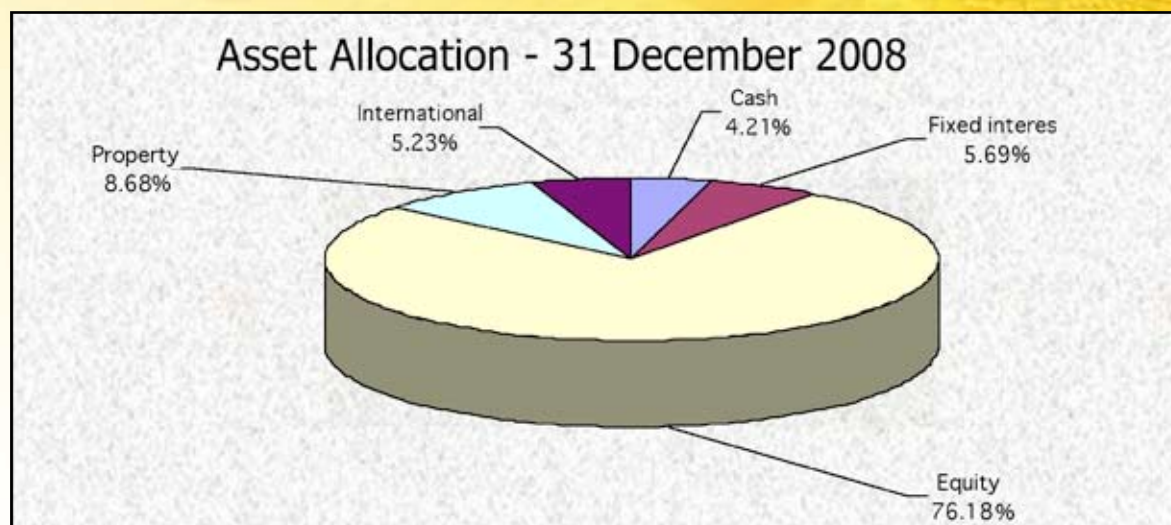
Investment transactions (excluding cash and treasury notes)

Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount
Bank South Pacific	Share sale	Equity	Various	(5,340,532)	(K10,151,419)
Kina Asset Management Ltd	Share purchase	Equity	01-Jun-08	7,380,000	K7,380,000
Bank South Pacific	DRP	Equity	18-Jul-08	(2,795,861)	(K3,382,991)
New Britain Palm Oil	Share purchase	Equity	15-Sep-08	50,000	K600,000
BHP Billiton	Share purchase	Equity	11-Jan-08	10,000	K937,583
QM Technology	Share sale	Equity	04-Apr-08	(125,000)	(K1,065,430)
ANZ Banking Group	Share purchase	Equity	17-Jun-08	10,000	K364,635
ANZ Banking Group	Share purchase	Equity	04-Jul-08	10,000	K444,361

Investment Performance Highlights

The composition of the investment portfolio and asset allocation as at 31st December 2008 relative to the prior year is summarized as follows:

Asset Classification	Portfolio Value (Kina)		Percentage Holdings		Neutral Allocation %	Sector Range % Low – High
	31- Dec-08	31-Dec-07	31-Dec-08	31-Dec-07	31- Dec-08	31-Dec-08
Cash	K11,880,675	K7,572,041	4.21%	3.00%	5%	0-10%
Fixed interest	K16,065,389	K23,094,725	5.69%	9.15%	15%	10-30%
Equity	K215,019,610	K183,546,280	76.18%	72.72%	50%	40-60%
Property	K24,511,913	K17,011,852	8.68%	6.74%	10%	5-20%
International	K14,758,327	K21,176,475	5.23%	8.39%	20%	10-30%
TOTAL	K282,235,914	K252,401,375	100.00%	100.00%	100%	



Equity Portfolio - PNG

Company Name	Total Market Value (Kina)	
	31- Dec-08	31-Dec-07
Listed		
. Bank South Pacific Ltd	K152,887,035	K119,029,043
. Credit Corporation Ltd	K6,736,572	K8,073,923
. Highlands Pacific Ltd	K391,942	K962,174
. Kina Asset Management Ltd	K8,929,800	0
. Marengo Mining Ltd	K10,600	K86,988
. New Britain Palm Oil Ltd	K2,924,148	K2,907,122
. Oil Search Ltd	K17,002,348	K23,321,833
Sub-total	K188,882,445	K154,381,083
Unlisted		
. BPT PNG Ltd (Toyota Tsusho)	K1,480,050	K986,700
. Hunter Ltd	K2,457,143	K2457,143
. Paradise Foods Ltd	K13,506,637	K11,250,000
. Pacific Balanced Fund	K316,383	K316,383
. Post Courier Ltd	K443,600	K388,150
. South Pacific Brewery Ltd	K7,933,352	K7,933,352
Sub-total	K26,137,165	K23,331,728
Total	K215,019,610	K177,712,811

Cash Portfolio

Description	Amount (Kina)		
	International Kina	PNG Kina	31- Dec-08 Total
Cash on hand			
. Petty cash	-	K700	K700
Sub-total	-	K700	K700
Interest Bearing Deposits (< 90 days)			
. Adelaide Bank	K2,941,717	-	K2,941,717
. ANZ – Investment account	-	K22,953	K22,953
. Bank of Queensland	K2,048,135	-	K2,048,135
. BSP – Main account	-	K78,319	K78,319
. BSP – Benefits account	-	K103,229	K103,229
. BSP – Management account	-	K36,728	K36,728
. BSP – Housing account	-	K66,082	K66,082
Sub-total	K4,989,852	K307,311	K5,297,163
On-call			
. BSP	-	K600,000	K600,000
. Kina Finance Ltd	-	K5,405,322	K5,405,322
. Westpac Bank Ltd	-	K4,377,000	K4,377,000
. PNG Home Finance Ltd	-	K1,191,042	K1,191,042
Sub-total	-	K11,573,364	K11,573,364
Cash + Interest Bearing Deposits (<90 days)	K4,989,852	K11,881,375	K16,871,227
. Commonwealth Bank (> 90 days)	K735,114	-	K735,114
Total Cash & IBD's < 90 days	K5,724,966	K11,881,375	K17,606,341

Fixed Interest Portfolio

Description	Serial No	Maturity Date	Coupon Rate	Face Value 31-Dec-08	Settlement Value 31-Dec-08
Government Inscribed Stock	S15112009 (G19)	15/11/2008	5%	K1,000,000	K999,525
	S15112016 (G26)	15/11/2016	9%	K4,000,000	K4,374,192
	S15112021 (G27)	15/11/2021	12%	K3,000,000	K3,441,903
	S15112009 (G24)	15/11/2009	5%	K1,000,000	K988,003
	S15112021 (G25)	15/11/2021	12%	K1,000,000	K1,013,964
	S15112016 (G28)	15/11/2016	9%	K1,000,000	K1,011,364
	S15112023 (G37)	15/11/2023	12%	K2,000,000	K2,233,336
	S15112023 (G38)	15/11/2023	12%	K1,000,000	K1,093,733
	S15112018 (G39)	15/11/2018	9%	K333,000	K341,127
	S15112011 (G40)	15/11/2011	6%	K571,000	K568,242
Total				K14,904,000	K16,065,389

Property Portfolio

Property		Market Value (Kina)	
Name	Description	31- Dec-08	31-Dec-07
PNG			
1. Harbour City Development	Section 44, Lot 16, Harbour City, Konedobu, NCD	K382,090	0
2. Defense Haus, Hunter Ltd	Section 03, Lot 18-20, Hunter St., Port Moresby, NCD	K4,953,200	K4,599,000
3. Latitude 9 Apartments	Section 42, Lot 01, Ogoa St., Granville, NCD	K10,708,000	K8,536,000
4. Lawes Road Apartments (50%)	Section 07, Lot 24, Lawes Rd., Granville, NCD	K 5,276,623	K1,740,521
5. Stop & Shop Building	Section 14, Lot 11 & 12, Angau Dr., Boroko, NCD	K3,192,000	K2,161,000
Sub- Total		K24,511,913	K17,036,520
International			
1. Canberra house, ACT, Australia	36 Gadali Crescent, Ngunnawal, ACT, 2913, Aust	K 1,170,182	K1,172,749
Sub-total		K1,170,182	K1,172,749
Total Property		K25,682,095	K18,209,269

International Portfolio

Asset Classification	Market Value (Kina)	
	31- Dec-08	31-Dec-07
Equity		
Listed		
. ANZ Bank Ltd	K854,667	K672,874
. Alco Max Securities & Mortgage Trust	K9,316	K453,320
. Alpha Collateralized Debt Obligation	K61,487	K323,450
. BHP Billiton Ltd	K1,701,509	K1,967,165
. Commonwealth Bank of Australia	K538,476	K1,448,174
. Macquarie Infrastructure Group	K191,168	K445,479
. Macquarie Media Group	K135,551	K759,005
. Mahogany Capital Ltd	K279,486	K514,580
. Multiplex Sites Trust	K97,820	K550,723
. Nexus Bond	-	K352,806
. QM Technologies	-	K827,003
. RiverCity Motorway	K106,454	K764,519
. Telstra Corporation	K2,668,939	K3,507,229
Sub-total	K6,644,873	K12,586,327
Unlisted		
. ABN AMRO Social Infrastructure Trust	K909,308	K1,220,381
. AMP Capital China Fund	K308,998	K702,027
Sub-total	K1,218,306	K1,922,408
Total Equity	K7,863,179	K14,508,735
Cash		
. Bank of Queensland	K2,048,135	K57,614
. Adelaide Bank	K2,941,717	K4,710,636
. Commonwealth Bank	K735,114	K735,114
Sub-total	K5,724,966	K5,503,364
Property		
. Canberra, ACT, House	K1,170,182	K1,172,749
Fixed Interest		
. Fixed interest	-	-
Total International	K14,758,327	K21,184,848

Valuation methodology

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

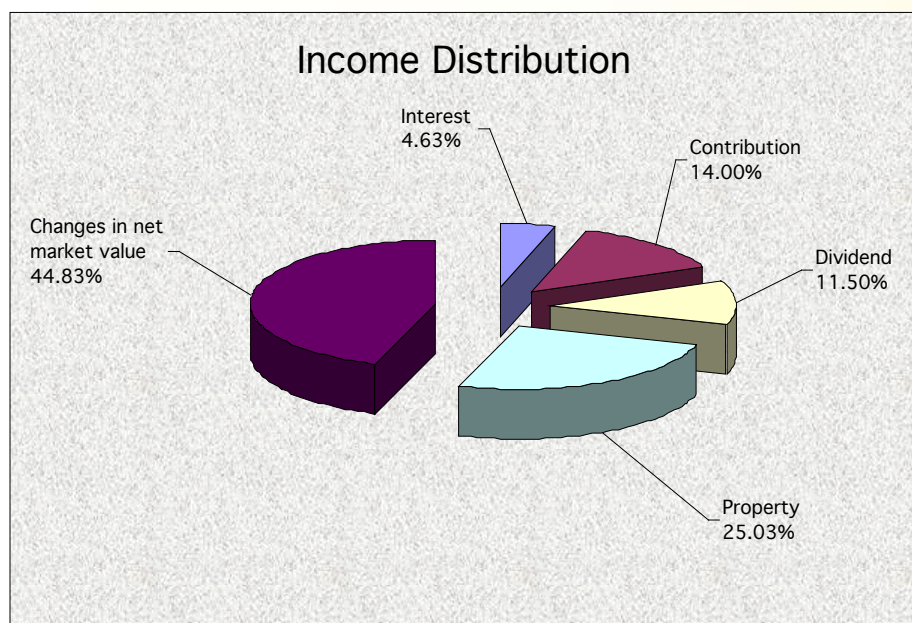
- Listed equities - Closing market price as quoted by the relevant stock exchange at balance date
- Unlisted equities - Price as determined by independent professional valuation
- Property - Value as determined by a registered property valuer & undertaken every two years
- Government securities - At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

Summary of Key Results -2008 (Consolidated)

	2008	2007	Variance
• Total income	K61,199,709	K94,034,833	-K32,835,124
• Change in net assets	K43,903,683	K74,685,442	-K30,781,759
• Total Fund net assets	K298,761,058	K254,857,375	+K43,903,683
• Fund Growth (%)	17.01%	41.45%	-24.44%
• Total benefits paid	K10,489,919	K10,957,942	-K468,023
• Interest crediting rate	12.99%	37%	-24.01%
• CPI indexation rate	4%	4%	0%
• MER ¹	2.20%	2.14%	+0.06%

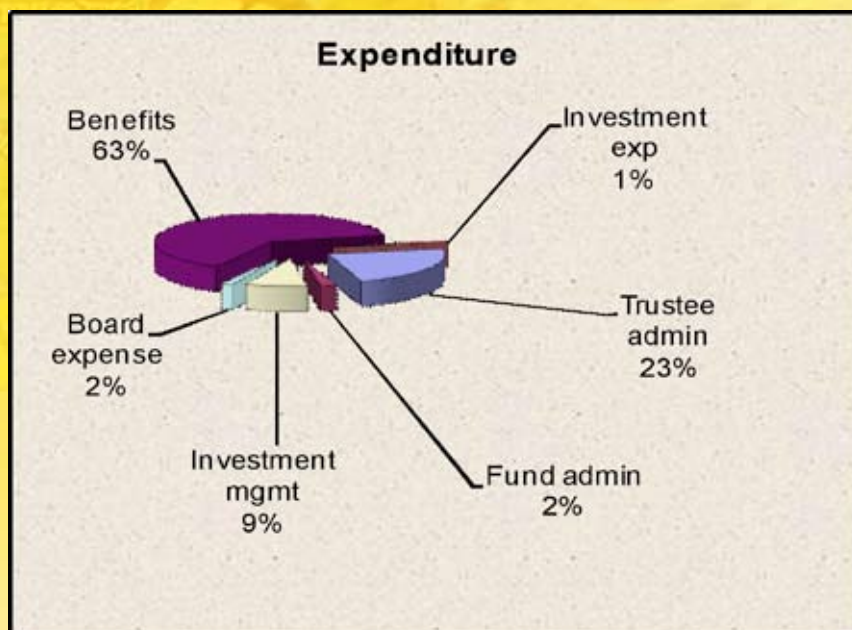
¹ MER for Fund only shown. On consolidation was 2.14%

² MER for 2007 revised to be compliant with Prudential Standard 6/2006. On consolidation MER was 2.77%.



Income Summary (Consol)

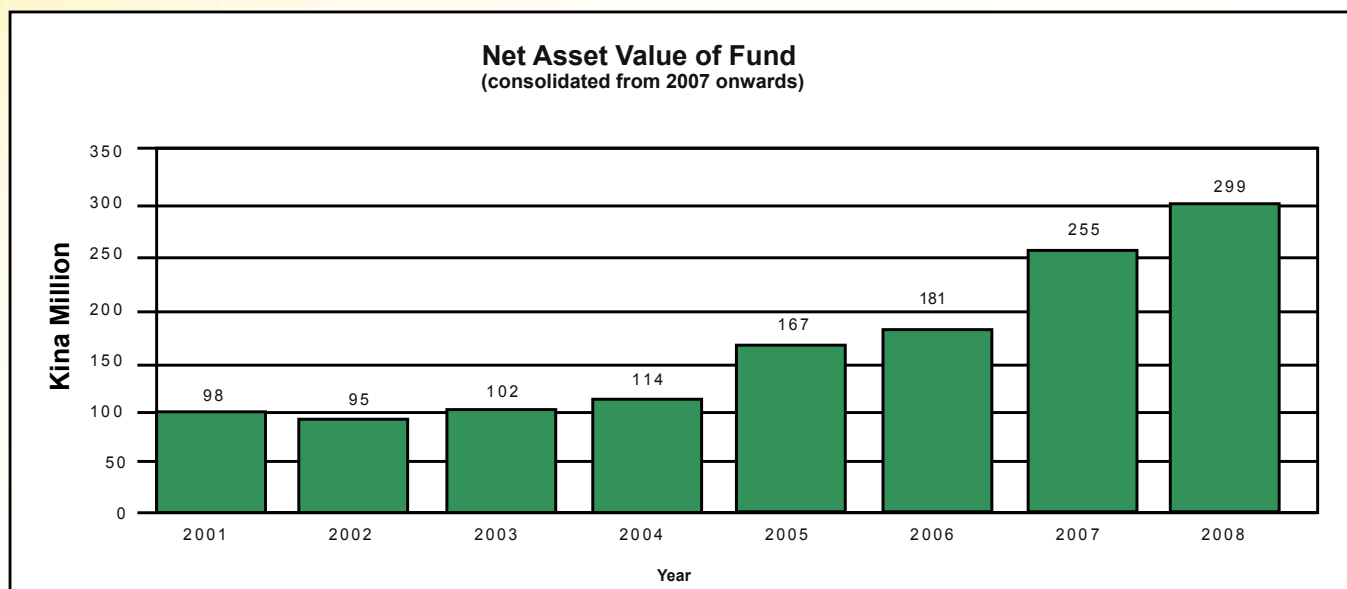
• Interest	K2,868,232
• Other Income	(K699,315)
• Contribution	K8,665,282
• Dividend	K7,118,279
• Property	K15,496,230
• Changes in net market value	K27,751,001
Total Income	K61,199,709



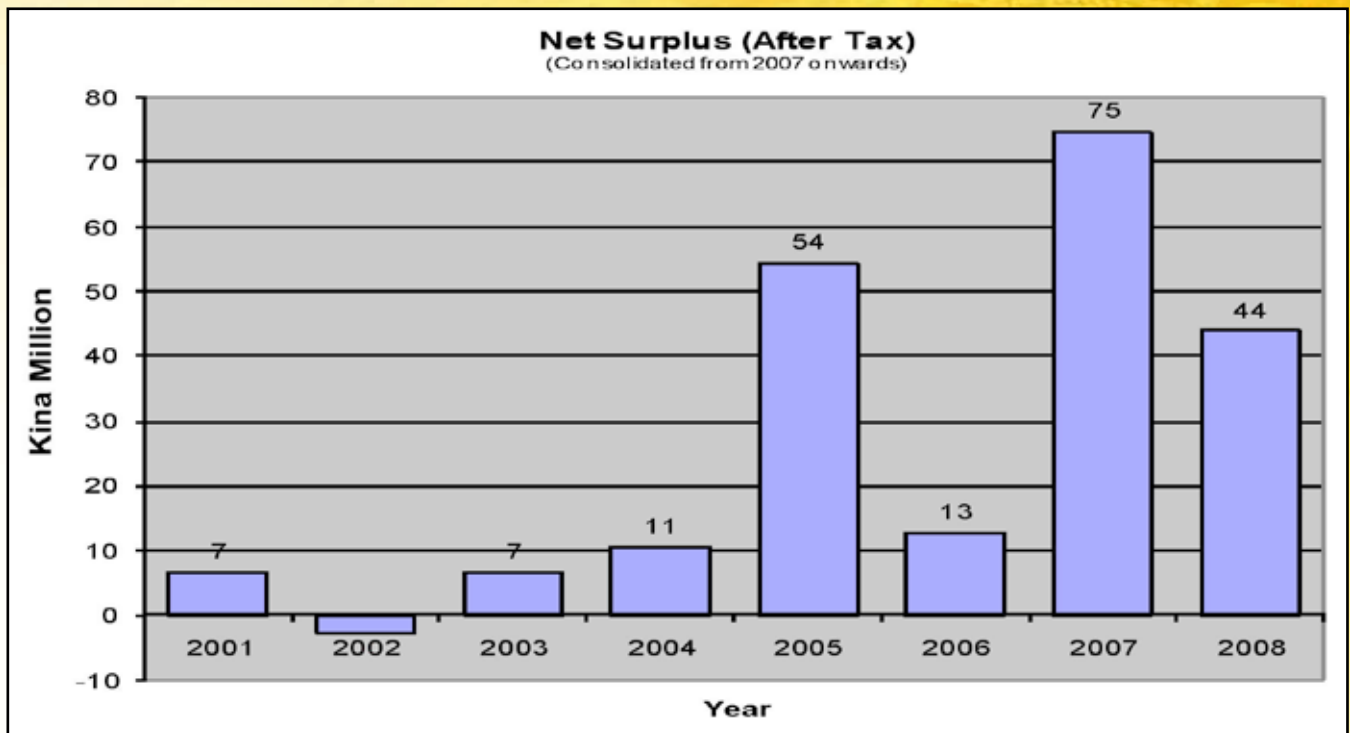
Expenditure (Kina)

• Trustee admin	K 3,825,476
• Fund admin	K 373,299
• Investment	K 1,408,102
• Board exp	K 253,623
• Investment exp	K 163,850
<hr/>	
Mgmt Expense	K 6,024,350
<hr/>	
• Benefits	K10,489,919
<hr/>	
Total Expense	K16,514,269

Fund Highlights at a Glance



The above bar graph shows that the fund has grown steadily from K98.0 million in 2001 to K298,761,058 (Non-consolidated – K284,359,598) as at 31st December 2008. Despite the adverse consequences of the financial crisis which have already had negative impact on Fund operations to date, your trustees will endeavour to ensure the sound custody, investment and preservation of the funds entrusted to its care with the aim of 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 grown during the 8 year period under review. The global financial crisis which had a significant impact on Fund performance in 2008 is expected to continue for some years yet. Consequently members are warned not to expect the same level of growth experienced to date.



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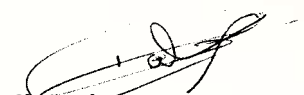
DECLARATION BY DIRECTORS

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 2008 and has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

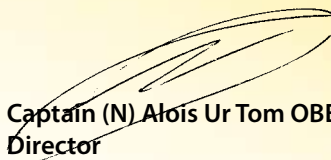
- a) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- b) no circumstances have arisen which would render any amount in the statements misleading,
- c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due.
- d) the Fund has complied with the reporting requirements as prescribed by the Superannuation (General Provisions) Act 2000 and as required by Bank of PNG Prudential Standards 3/2008 and 5/2008.

Dated at Port Moresby this 27th day of March 2009.

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 2008 and has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

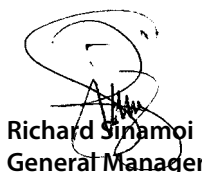
- 1) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- 2) no circumstances have arisen which would render any amount in the statements misleading,
- 3) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due.
- 4) the Fund has complied with the reporting requirements as prescribed by the Superannuation (General Provisions) Act 2000 and as required by Bank of PNG Prudential Standards 3/2008 and 5/2008.

Dated at Port Moresby this 27th day of March 2009.

For and on behalf of the management of Comrade Trustee Services Limited.



George B 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 2008. 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 Ur Tom, OBE	Non Executive
Mr Johnson Kalo	Non Executive
Col David Takendu, OBE (Rtd)	Non Executive
Captain (N) Max Aleale, DMS, OBE	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 Fund reported a net consolidated surplus of K43,903,683 (2007: K74,685,442) after charging income tax benefit of K1,257,824 (2007: K1,735,046) and minority interest of K2,039,581 (2007: K531,282).

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 (d).

Donations

No donations were made during the current year.

Independent audit report

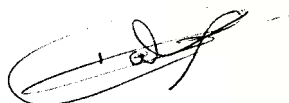
The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent audit report on pages 4 & 5. Fees paid for audit services are disclosed in note 15 to the financial statements.

Subsequent events

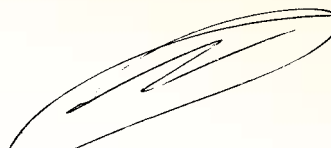
There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or 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
Port Moresby, 27th 2009



Captain (N) Alois Ur Tom OBE
Director



Deloitte Touche Tohmatsu

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Douglas Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

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Fax: +675 308 7001
www.deloitte.com/pg

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

We have audited the accompanying financial statements of Comrade Trustee Services Limited and its subsidiaries, which comprise the balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the financial year ended 31 December 2008 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Companies Act 1997 and International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu

Audit Opinion

In our opinion,

- (a) the financial statements give a true and fair view of the financial position of Comrade Trustee Services Limited and its subsidiaries as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Statements of Accounting Standards of the Certified Practicing Accountants of Papua New Guinea; and other mandatory professional reporting requirements in Papua New Guinea.

- (b) proper accounting records have been kept.

Other Information

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

Port Moresby, this 31st day of March 2009.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Suzaan Theron

By: Suzaan Theron

Partner

Registered under the Accountants Act 1996

STATEMENT OF CHANGES IN NET ASSETS

REVENUE

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
Investment Income;	6	2,868,232	2,879,898	2,776,251	2,969,898
• Interest Income	7	15,496,230	6,332,765	7,750,489	3,504,144
• Property Income	8	7,118,279	6,194,990	7,118,279	6,194,990
• Dividends					
• Gains from changes in fair values & sale of Investment Securities available-for-sale	21	27,751,001	66,993,309	27,751,001	66,993,309
		53,233,742	82,400,962	45,396,020	79,662,341
Other Income (expense)	9	(699,315)	3,581,193	(781,031)	720,366
Contribution Income					
• Contributions received from members		1,939,048	1,705,871	1,939,048	1,705,871
• State Share of contributions	10	6,726,234	6,346,807	6,726,234	6,346,807
TOTAL		61,199,709	94,034,833	53,280,271	88,435,385

EXPENDITURE

Benefits & General administration					
• Benefits	10	10,489,919	10,957,942	10,489,919	10,957,942
• Trustee administration expenses	13	4,079,099	4,630,015	4,042,345	3,082,356
• Fund investment and administration expense	11	1,781,401	1,395,106	1,781,401	1,395,106
		16,350,419	16,983,063	16,313,665	15,435,404
Direct investment expenses	12	163,850	100,000	163,850	100,000
TOTAL		16,514,269	17,083,063	16,477,515	15,535,404
CHANGE IN NET ASSETS BEFORE TAX		44,685,440	76,951,770	36,802,756	72,899,981
Income tax benefit/(expense)	16	1,257,824	(1,735,046)	2,276,054	(1,266,002)
CHANGES IN NET ASSETS AFTER TAX		45,943,269	75,216,723	39,078,810	71,633,979
Current year surplus attributable to minority interests		(2,039,581)	(531,282)		
Changes in net assets attributable to members		43,903,683	74,685,442	39,078,810	71,633,979
Net assets available to pay benefits at the beginning of the year		254,857,375	180,171,933	245,280,788	173,646,809
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE YEAR		298,761,058	254,857,375	284,359,598	245,280,788

STATEMENT OF NET ASSETS

ASSETS	Note	CONSOLIDATED		CTSL	
		2008 Kina	2007 Kina	2008 Kina	2007 Kina
• Cash & due from other banks	17	20,955,066	15,788,956	17,606,343	13,741,649
• Treasury bills	18	-	795,262	-	795,262
• Loans to members & others	19	2,169,051	1,452,492	2,169,051	2,052,492
• Current income tax receivable	27	452,351	-	1,493,948	129,488
• Deferred income tax assets	20	453,348	337,695	356,449	232,338
• Investment securities available-for-sale	21	221,162,790	190,501,547	222,882,790	192,221,547
• Investment securities held-to-maturity	22	15,857,826	20,841,826	15,857,826	20,841,826
• Investment properties	23	37,577,800	30,158,269	25,682,095	18,209,269
• Property & equipment	24	735,339	546,974	306,317	345,925
• Other assets	25	4,067,407	7,903,011	1,896,599	3,961,067
TOTAL		303,430,978	268,326,032	288,251,413	252,530,863
LIABILITIES					
• Employee provisions	26	702,901	473,124	702,901	455,767
• Deferred income tax liabilities	20 (c)	739,196	3,785,949	726,290	1,906,739
• Current Income tax payables	27	-	206,054	-	-
• Other liabilities	28	2,759,207	5,790,780	2,462,626	4,887,569
TOTAL		4,201,304	10,255,908	3,891,817	7,250,075
NET ASSETS		299,229,673	258,070,123	284,359,596	245,280,788
EQUITY					
• Share capital		-	-	-	-
• Minority interest		5,252,335	3,212,754	-	-
• Opening retained earnings		4,792,869	6,525,119	-	-
• Opening balance – members funds		245,280,786	173,646,809	245,280,786	173,646,809
• Current year surplus		43,903,683	74,685,442	39,078,810	71,633,979
		299,229,673	258,070,123	284,359,596	245,280,788

STATEMENT OF CASH FLOWS

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
Cash flow from operating activities					
• Interest received		1,883,077	1,980,543	1,822,425	2,070,543
• Dividend received		7,888,279	5,487,150	7,888,279	5,487,150
• Property income received		4,098,333	2,445,844	1,023,772	186,818
• Other operating income received		2,752,081	997,738	18,509	16,241
• Cash payment to employees & suppliers		(8,339,479)	(6,754,124)	(5,292,425)	(4,704,285)
• Income taxes paid	27	(778,763)	(632,180)	(392,968)	(405,634)
		7,503,532	3,524,971	5,067,591	2,650,833
Cash flows from operating profits before changes in operating assets & liabilities					
• Changes in operating assets & liabilities					
- Net increase in loans to members & others		(116,559)	(499,861)	(116,559)	(499,861)
- Net decrease (increase) in other assets		362,707	(106,572)	1,189,315	(91,448)
- Net increase in other liabilities		(302,748)	(11,802)	(302,748)	(212,351)
Net Cash provided by operating activities		7,446,932	2,906,736	5,837,599	1,847,173
Cash flows from investing activities					
• Placement of term deposits (net)		-	(65,172)	-	(65,172)
• Placement of treasury bills (net)		795,262	2,345,166	795,262	2,345,166
• Purchase of investment securities held-to-maturity		(3,904,000)	(1,014,206)	(3,904,000)	(1,014,206)
• Proceeds on maturity of investment securities held-to-maturity		9,026,777	-	9,026,777	-
• Purchase of property & equipment	24	(266,843)	(150,351)	(76,395)	(99,645)
• Proceeds from disposal of property & equipment		-	-	-	-
• Purchase of investment properties	23	(1,064,864)	(3,064,244)	(947,522)	(2,737,058)
• Proceeds from sale of investment properties		-	2,023	-	2,023
• Purchase of securities	21	(14,317,841)	(16,488,745)	(14,317,841)	(16,488,745)
• Proceeds from sale of securities	21	11,407,599	7,305,179	11,407,599	7,305,179
Net Cash used in investing activities		1,676,090	(11,130,350)	1,983,879	(10,752,458)
Cash flows from activities with contributors					
• Contributions received from the members		1,939,048	1,705,871	1,939,048	1,705,871
• Benefits paid (including state share)	10	(10,489,919)	(10,957,942)	(10,489,919)	(10,957,942)
Net cash used in activities with contributors		(8,550,871)	(9,252,071)	(8,550,871)	(9,252,071)
Cash from activities with the state					
• Cash receipt of state share (benefits)		4,594,086	6,679,624	4,594,086	6,679,624
Net increase/(decrease) in cash & cash equivalents		5,166,111	(10,796,061)	3,864,694	(11,477,731)
Cash & cash equivalents at beginning of period		15,053,840	25,849,901	13,006,535	24,484,267
Cash & cash equivalents at the end of period	29	20,219,952	15,053,840	16,871,229	13,006,536

The notes on pages 9 to 40 are an integral part of these financial statements.

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 34.

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.

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 2008 as follows:

- i. Listed shares are valued at 31 December 2008 at last sale price on that date. Off-shore investments are converted using the ANZ Bank exchange rate. The rate used AUD0.5367.
- ii. Unlisted shares are independently valued as at 31 December 2008 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2008. 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.

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 derivative 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.

NOTES TO THE FINANCIAL STATEMENTS

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

(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.

(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 or resignation benefits calculated based on a formula provided in the DFRBF Act.

NOTES TO THE FINANCIAL STATEMENTS

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 is 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%

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 08 Kina
Liability for accrued benefits	30,780,000
Net assets available to pay benefits	157,199,000

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.

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

NOTES TO THE FINANCIAL STATEMENTS

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:

	Note	CONSOLIDATED		CTSL	
		2008 Kina	2007 Kina	2008 Kina	2007 Kina
a) Allowances for losses					
Other assets	25	191,788	27,938	191,788	27,938
Loans and advances	19	-	248,747	-	248,747
		<u>191,788</u>	<u>276,685</u>	<u>191,788</u>	<u>276,685</u>
b) Investment Securities available for sale					
Unlisted Shares					
- Cost		15,773,700	15,767,063	17,493,700	17,487,063
- Gains from changes in fair value		9,861,771	7,767,073	9,861,771	7,767,073
Total	21 & 32	<u>25,635,471</u>	<u>23,534,136</u>	<u>27,355,471</u>	<u>25,254,136</u>
Listed shares					
- Cost		40,636,959	28,002,455	40,636,958	28,002,455
- Gains from changes in fair value		154,890,360	138,964,955	154,890,360	138,964,955
Total	21 & 32	<u>195,527,319</u>	<u>166,967,410</u>	<u>195,527,319</u>	<u>166,967,410</u>

During the year the Fund recognized gains from changes in fair values (note 21) amounted to K18,020,103 (2007: K64,764,607) due to increase of fair values of listed shares.

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
6. Interest income					
Cash & short term funds		876,226	660,109	844,899	750,109
Loans & advances		136,778	44,130	136,778	44,129
Treasury bills		101,562	189,373	40,910	189,373
Investment securities:					
- Available for sale		222,104	195,926	222,104	195,926
- Held to maturity		1,531,562	1,790,361	1,531,560	1,790,361
Total		<u>2,868,232</u>	<u>2,879,898</u>	<u>2,776,251</u>	<u>2,969,898</u>
7. Property income					
Rental Income		4,781,212	3,591,198	1,823,368	1,119,511
Depreciation	23	(196,580)	(226,548)	(25,943)	(30,658)
Other management expense		(1,831,329)	(1,163,547)	(598,183)	(419,666)
Valuation increment		12,742,927	4,131,662	6,551,247	2,834,958
Total		<u>15,496,230</u>	<u>6,332,765</u>	<u>7,750,489</u>	<u>3,504,144</u>
8. Dividend income					
Dividends received		7,118,279	6,194,990	7,118,279	6,194,990
Total		<u>7,118,279</u>	<u>6,194,990</u>	<u>7,118,279</u>	<u>6,194,990</u>
9. Other operating income/(expenses)					
Gain on sale of Sandaun Motel		-	1,893,480	-	-
Gain/(loss) from valuation of offshore deposits		(799,540)	704,126	(799,540)	704,126
Operating income from Sandaun Motel		-	967,341	-	-
Others		100,225	16,246	18,509	16,240
Total		<u>(699,315)</u>	<u>3,581,193</u>	<u>(781,031)</u>	<u>720,366</u>

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
10. Benefits					
Pension and back pension		9,638,376	9,596,323	9,638,376	9,596,323
Refunds		442,707	344,378	442,707	344,378
Gratuities		9,460	15,110	9,460	15,110
Lump sum		399,376	1,002,131	399,376	1,002,131
		10,489,919	(10,957,942)	10,489,919	10,957,942
Less : State Share		(6,726,234)	(6,346,807)	(6,726,234)	(6,346,807)
Net benefit paid		3,763,685	4,611,135	3,763,685	4,611,135
11. Fund investment and administration expenses					
Fund administration fee		371,832	389,764	371,832	389,764
Investment management fee		1,408,102	991,368	1,408,102	991,368
Benefits payment fee		1,467	13,974	1,467	13,974
Total		1,781,401	1,395,106	1,781,401	1,395,106
12. Impairment losses					
Provisions		163,850	100,000	163,850	100,000
Total		163,850	100,000	163,850	100,000
13. Trustee administration expenses					
Staff expenses	14	2,120,586	1,274,461	2,071,803	1,274,461
Other operational expenses	15	1,291,631	1,616,458	1,145,768	1,084,780
Depreciation	24	169,436	385,104	116,001	189,216
Software cost		150	4,633	150	4,632
Operating lease		-	151,005	211,327	151,004
GST expense		289,412	-	289,412	274,093
Other		207,884	1,198,354	207,884	104,170
Total		4,079,099	4,630,015	4,042,345	3,082,356

NOTES TO THE FINANCIAL STATEMENTS

	Note	CONSOLIDATED		CTSL	
		2008 Kina	2007 Kina	2008 Kina	2007 Kina
14. Staff costs					
Salaries and wages		1,432,663	804,266	1,383,880	804,266
Superannuation contributions		123,611	63,028	123,611	63,028
Staff accommodation		405,623	289,525	405,623	289,525
Travel and accommodation		41,223	14,711	41,223	14,711
Training		19,461	24,091	19,461	14,091
School fee allowances		77,941	62,155	77,940	62,155
Other		20,064	16,685	20,064	102,931
Total	13	2,120,586	1,274,461	2,071,803	1,274,461
As at 31 December 2008 the Fund had 21 (2007: 21) employees.					
15. Other operational expenses					
Advertising		46,908	84,569	46,908	75,175
Board of Trustee expenses		253,623	180,127	239,173	181,667
Internet service provider		38,213	46,303	38,213	46,303
License fee		163,771	152,490	163,771	152,490
Printing and stationery		82,916	26,966	82,916	25,780
Professional fees					
- Audit services		133,737	135,076	106,259	88,576
-Non audit services		-	67,193	-	31,264
- Legal		109,018	79,732	107,858	79,732
- Consulting		108,297	167,711	88,066	167,711
Telephone		94,427	37,994	94,427	37,534
Insurance		79,936	148,849	79,936	62,489
Business Travel		31,214	74,844	31,214	74,844
Sundry expenses		149,574	416,604	67,026	61,215
Total	13	1,291,631	1,616,458	1,145,768	1,084,780

NOTES TO THE FINANCIAL STATEMENTS

	Note	CONSOLIDATED		CTSL	
		2008 Kina	2007 Kina	2008 Kina	2007 Kina
16. Income taxes expense/(benefit)					
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		44,514,269	76,951,770	36,802,756	72,899,981
Prima facie tax at 25%		9,200,689	18,224,995	9,200,689	18,224,995
Prima facie tax at 30%		2,313,454	1,215,537	-	-
Tax effect of permanent differences		(13,165,205)	(17,705,486)	(12,538,710)	(16,958,993)
Prior year tax over/understated		393,238	-	1,061,967	203,321
Total		(1,257,824)	1,735,046	(2,276,054)	1,266,002
Represented by:					
Deferred tax	20	(3,162,406)	592,333	(1,304,561)	203,321
Current tax	27	2,200,275	1,142,713	(971,493)	1,062,681
Total		(1,257,824)	1,735,046	(2,276,054)	1,266,002
17. Cash and due from other banks					
Cash on hand		5,008	1,200	700	700
Loans & advances to other banks		3,651,727	1,660,091	307,312	413,285
Placement with other banks – less than 90 days		16,563,217	13,392,552	16,563,217	12,592,551
Include cash in cash & cash equivalents	29	20,219,952	15,053,841	16,871,229	13,006,535
Placement with other banks – more than 90 days		735,114	735,114	735,114	735,114
Total		20,955,066	15,788,956	17,606,343	13,741,649
18. Treasury bills					
More than 90 days		-	795,262	-	795,262
Total		-	795,262	-	795,262

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.

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
19. Loans to members and others					
Members		1,112,970	941,441	1,112,970	941,441
Others		1,056,081			
- State share		-	511,052	1,056,081	511,052
- Hunter Limited		-	-	-	600,000
- Hombrum Piggery Limited		-	248,747	-	248,747
Gross Loan and advances		2,169,051	1,701,240	2,169,051	2,301,240
Less : Specific allowances for losses	5	-	248,747	-	248,747
		<u>2,169,051</u>	<u>1,452,492</u>	<u>2,169,051</u>	<u>2,052,492</u>

Loans are fixed rates. The aggregate amount of non-performing loans on which interest was not being accrued amounted to nil (2007: K600, 000) as at 31 December 2008.

20. Deferred income taxes

Deferred income taxes are calculated on all temporary differences under liability method using an effective tax rate of 25% (2007: 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		22,841	27,401	-	-
Accruals and provisions		155,895	49,225	149,295	49,225
Allowances:					
- Loans to members & others		-	140,144	-	62,187
- Others assets		115,405	6,984	47,947	6,984
Employee Provisions		159,207	113,942	159,207	113,942
Total	20(c)	<u>453,348</u>	<u>337,695</u>	<u>356,449</u>	<u>232,338</u>

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
b) Deferred income tax liabilities are attributable to the following items:					
Rent receivable		49,058	51,749	49,058	51,748
Interest receivable		373,245	297,548	373,245	297,548
Prepayments insurance		22,708	29,883	9,802	8,417
Gains from foreign exchange of valuation due from other banks		-	(2,526)	-	(2,526)
Depreciation (Differences between tax and carrying values)		294,185	3,409,295	294,185	1,551,551
Total	20 (c)	739,196	3,785,949	726,290	1,906,739
c) The movement in deferred taxes are as follows:					
Balance at beginning of year		(3,448,254)	(2,855,921)	(1,674,402)	(1,471,080)
Income statement debit/credit		3,162,406	(592,333)	1,304,561	(203,321)
Balance at the end of year		<u>(285,848)</u>	<u>(3,448,254)</u>	<u>(369,841)</u>	<u>(1,674,401)</u>
Represented by :					
Deferred income tax assets	20 (a)	453,348	337,695	356,449	232,338
Deferred income tax liability	20 (b)	(739,196)	(3,785,949)	(726,290)	(1,906,739)
		<u>(285,848)</u>	<u>(3,448,254)</u>	<u>(369,841)</u>	<u>(1,674,401)</u>

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
21. Investment securities available-for-sale					
Equity securities at fair value					
- Listed	5	195,527,319	166,967,410	195,527,319	166,697,773
- Unlisted	5	25,635,471	23,534,136	24,898,328	22,796,993
Total equities at fair value	32	221,162,790	190,501,547	220,425,647	189,764,766
Total equities at cost-Hunter Ltd		-	-	2,457,143	2,457,143
Total equities at cost and fair value		<u>221,162,790</u>	<u>190,501,547</u>	<u>222,882,790</u>	<u>192,221,547</u>
The movement in investment securities available-for-sale					
Balance at beginning of year		190,501,547	116,044,672	192,221,547	116,044,672
Gains from change in fair value		18,020,103	64,764,607	18,020,103	64,764,607
Consolidation adjustment for investment in Hunter Ltd		-	(1,720,000)	-	-
Purchases		14,317,841	16,488,745	14,317,841	16,488,745
Disposals		(11,407,599)	(7,305,179)	(11,407,599)	(7,305,179)
Gains on sale		9,730,898	2,228,702	9,730,898	2,228,702
Balance at end of year	32	<u>221,162,790</u>	<u>190,501,547</u>	<u>222,882,790</u>	<u>192,221,547</u>
22. Investment securities held-to-maturity					
Debt securities					
- Principal	34	14,904,000	20,026,777	14,904,000	20,026,777
- Unamortized discount		(17,297)	(45,019)	(17,297)	(45,019)
- Unamortized premium		971,123	860,067	971,123	860,067
Total		<u>15,857,826</u>	<u>20,841,826</u>	<u>15,857,826</u>	<u>20,841,826</u>
The movement in investment securities held-to-maturity:					
Balance at beginning of year		20,841,826	19,980,346	20,841,826	19,980,346
Purchases		3,904,000	1,014,206	3,904,000	1,014,206
Disposals		(9,026,777)	-	(9,026,777)	-
Amortized discount		27,722	23,988	27,722	23,988
Amortized premium		111,055	(176,714)	111,055	(176,714)
Total		<u>15,857,826</u>	<u>20,841,826</u>	<u>15,857,826</u>	<u>20,841,826</u>

NOTES TO THE FINANCIAL STATEMENTS

23. Investment properties

	Note	Land & Buildings Kina	Furniture & Fittings Kina	Plant & Equipment Kina	Total Kina
a) CTSL					
Cost					
Balance at 31 December 2007		18,017,733	292,975	238,023	18,548,731
Revaluation increment		6,551,247	-	-	6,551,247
Additions		930,522	-	17,000	947,522
Balance at 31 December 2008		25,499,502	292,975	255,023	26,047,500
Accumulated depreciation					
Balance at 31 December 2007		-	(188,600)	(150,862)	(339,462)
Charged during the year	7	-	(12,869)	(13,074)	(25,943)
Disposal		-	-	-	-
Balance at 31 December 2008		-	(201,469)	(163,936)	(365,405)
Book value as at 31 December 2008		25,499,502	91,506	91,087	25,682,095
Book value as at 31 December 2007		18,017,733	104,375	87,161	18,209,269
b) CONSOLIDATED					
Cost					
Balance at 31 December 2007		32,955,667	292,975	238,023	33,486,665
Revaluation increment		6,551,247	-	-	6,551,247
Additions		1,047,864	-	17,000	1,064,864
Disposals		-	-	-	-
Balance at 31 December 2008		40,554,778	292,975	255,023	41,102,776
Accumulated depreciation					
Balance at 31 December 2007		(2,988,934)	(188,600)	(150,862)	(3,328,396)
Charged during the year	7	(170,637)	(12,869)	(13,074)	(196,580)
Disposal		-	-	-	-
Balance at 31 December 2008		(3,159,571)	(201,469)	(163,936)	(3,524,976)
Book value as at 31 December 2008		37,395,207	91,506	91,087	37,577,800
Book value as at 31 December 2007		29,966,733	104,375	87,161	30,158,269

NOTES TO THE FINANCIAL STATEMENTS

24. Property and equipment

a) CTSL

	Motor Vehicle Kina	Furniture & Fitting Kina	Other Equipment Kina	Renovation Kina	Software Kina	Total Kina
Cost						
Balance at 31 Dec 2007	77,272	526,826	244,744	309,773	71,752	1,230,367
Additions	-	-	52,530	21,646	2,219	76,395
Balance at 31 Dec 2008	77,272	526,826	297,275	331,420	73,970	1,306,764
Accumulated depreciation						
Balance at 31 Dec 2007	(35,909)	(502,862)	(147,508)	(133,644)	(64,520)	(884,444)
Charged during year	(17,727)	(15,330)	(43,535)	(31,873)	(7,536)	(116,001)
Balance at Dec 31 2008	(53,636)	(518,192)	(191,043)	(165,517)	(72,056)	(1,000,446)
Book value 31 Dec 2008	23,636	8,634	106,231	165,902	1,913	306,317
Book value 31 Dec 2007	41,363	23,964	97,236	176,129	7,232	345,925

b) CONSOLIDATED

	Motor Vehicle Kina	Furniture & Fitting Kina	Other Equipment Kina	Leasehold improvements/ Renovation Kina	Software Kina	Total Kina
Cost						
Balance at 31 Dec 2007	77,272	672,557	929,208	478,863	74,952	2,232,852
Additions	-	9,926	233,052	21,646	2,219	266,843
Adjustment	90,958	-	-	-	-	90,958
Balance at 31 Dec 2008	168,230	682,483	1,162,260	500,509	77,171	2,590,653
Accumulated depreciation						
Balance at 31 Dec 07	(35,909)	(631,623)	(650,469)	(302,734)	(65,143)	(1,685,878)
Charged during year	(17,727)	(34,952)	(77,348)	(31,873)	(7,536)	(169,436)
Balance at Dec 31 0208	(53,636)	(666,575)	(727,817)	(334,607)	(72,679)	(1,855,314)
Book value 31 Dec 2008	114,594	15,908	434,443	165,902	4,492	735,339
Book value 31 Dec 2007	41,363	40,934	278,739	176,129	9,809	546,974

NOTES TO THE FINANCIAL STATEMENTS

	Note	CONSOLIDATED		CTSL	
		2008 Kina	2007 Kina	2008 Kina	2007 Kina
25. Other Assets					
Prepayments		97,465	46,704	54,444	39,125
Debtors:					
- Individuals		-	(66)	-	(66)
- Corporate		1,273,863	-	1,273,863	1,194,373
Security deposits		35,180	-	35,180	21,154
Accrued interests:					
- Treasury		-	21,154	-	2,545
- Due from other banks		140,043	2,545	140,043	60,917
- Loans		-	60,917	-	738,000
- State share		191,793	137,515	191,793	137,515
Investment Securities:					
- Held-to-maturity		172,734	251,215	172,734	251,215
- Available-to-sale		-	-	-	-
Goodwill on consolidation		1,791,930	1,719,930	-	-
Dividend Receivable		-	916,655	-	916,655
GST Receivable		220,330	716,253	220,330	619,858
Banora property sale		-	2,499,122	-	-
Others		335,857	1,559,004	-	7,714
Total	5	4,259,195	7,930,949	2,088,387	3,989,005
Less: Special allowance for losses		(191,788)	(27,938)	(191,788)	(27,938)
		<u>4,067,407</u>	<u>7,903,011</u>	<u>1,896,599</u>	<u>3,961,067</u>
Movements in specific allowance for losses are as follows:					
Balance at beginning of the year		27,938	27,938	27,938	27,938
Impairment losses during the year		163,850	-	163,850	-
Balance at end of the year	5	<u>191,788</u>	<u>27,938</u>	<u>191,788</u>	<u>27,938</u>

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
26. Employee provisions					
Balance at beginning of the year		473,124	288,574	455,767	270,465
Charged to profit & loss		230,547	193,085	247,904	193,837
Utilized during the year		(770)	(8,534)	(770)	(8,534)
Balance at end of the year		<u>702,901</u>	<u>473,124</u>	<u>702,901</u>	<u>455,767</u>
Represented by:					
Short term provisions		187,572	138,547	187,572	138,547
Long term provisions		515,329	334,578	515,329	317,221
Balance at end of the year		<u>702,901</u>	<u>473,124</u>	<u>702,901</u>	<u>455,767</u>
27. Current income tax receivable/(payable)					
Balance at beginning of the year		(206,055)	304,478	129,488	786,535
Paid during the year		778,763	632,180	392,968	405,634
Current provisions	16	(2,200,275)	(1,142,713)	(1,777,065)	(1,062,681)
Dividend rebate		1,686,590	-	1,686,590	-
Prior year tax over/understated		393,328	-	1,061,967	-
Balance at end of the year		<u>452,351</u>	<u>(206,054)</u>	<u>1,493,948</u>	<u>129,488</u>
Represented by:					
Current income tax receivable		452,351	-	1,493,948	129,488
Current income tax payable		-	(206,054)	-	-
		<u>452,351</u>	<u>(206,054)</u>	<u>1,493,948</u>	<u>129,488</u>
28. Other liabilities					
Creditors		471,911	1,171,803	428,090	268,591
Retrenchment benefits due		1,437,110	4,045,181	1,437,110	4,045,181
Accruals		850,186	573,796	597,425	573,797
Balance at end of the year		<u>2,759,207</u>	<u>5,790,780</u>	<u>2,462,626</u>	<u>4,887,569</u>

NOTES TO THE FINANCIAL STATEMENTS

		CONSOLIDATED		CTSL	
	Note	2008 Kina	2007 Kina	2008 Kina	2007 Kina
29. Cash and cash equivalents					
For the purposes of the cash flow statement, cash and cash equivalents comprises the following:					
Cash & due from other banks	17	20,219,952	15,053,841	16,871,229	13,006,535
Balance at end of the year		20,219,952	15,053,841	16,871,229	13,006,535

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.

- a) At 31 December 2008, Hunter Limited (a subsidiary), fully settled the unsecured loan to this Fund (2007: K1,338,000) and expenses of K947 (2007: K3,289) the Fund paid on behalf of Hunter Limited. CTSL owns 70% of Hunter Limited. Uncollected interest accrued on impaired loans of K600, 000 amounted to K738, 000 at 31 December 2007 and was fully settled at 31 December 2008.
- b) At 31 December 2008, Banora Trading (a subsidiary), fully settled the amount of K121,208 owed to CTSL (2007: K121,208).
- c) Key management personnel remuneration specified in aggregate in the year 2008:

Primary			Post - employment				
Year	Salaries & Fees	Bonus	Non-monetary	Super	Prescribed Benefit	Other	Total
2008	K511,000	99,519	K17,280	K60,000	K411,720	-	K1,099,519
2007	K336,748	-	K18,280	K49,991	K59,705	-	K463,724

NOTES TO THE FINANCIAL STATEMENTS

- d) The number of employees or former employees, not being directors of the group, whose total remuneration and the value of other benefits received, exceeded K200,000 per annum stated in bands of K10,000 and those in access of K300,000 in bands of K50,000:

	2008 K	2007 K
K200,000 – K210,000	-	-
K211,000 – K220,000	-	-
K221,000 – K230,000	-	-
K231,000 – K240,000	-	-
K241,000 – K250,000	-	-
K251,000 – K260,000	-	-
K261,000 – K270,000	-	-
K171,000 – K280,000	-	-
K281,000 – K290,000	-	-
K291,000 – K300,000	-	-
K301,000 – K350,000	-	-
K351,000 – K400,000	-	-
K401,000 – K450,000	-	2
K450,000 – K500,000	-	-
K501,000 – K550,000	2	-

- e) Board of Directors remuneration aggregate in the year 2008:

Year	Stipend	Sitting Fees	Total
2008	K75,165	K92,150	K167,315
2007	K72,250	K73,550	K145,800

31. Financial risk management

CTSL's strategy for the Fund focuses on two primary objectives: to maximize long term fund returns and to manage and control business and investment risks. This strategy inherently requires 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, government security risk and country risk.

NOTES TO THE FINANCIAL STATEMENTS

a) Liquidity risk

CTSL invests the majority of the Fund's 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) Government security 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. The Fund's investments in foreign jurisdiction has been primarily in Australia to the value of K32,163,295 (2007: K51,299,021). Country risk is assessed on a scale of low-medium-high to below.

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:

NOTES TO THE FINANCIAL STATEMENTS

	Up to 1 Year Kina	1-5 Years Kina	Over 5 Years Kina	Non Interest Bearing Kina	Total Kina
i) CTSL					
31 December 2008					
Assets					
Cash & due from other banks	16,871,229	735,114	-	-	17,606,343
Treasury bills	-	-	-	-	-
Loans to members & others	1,056,081	1,112,970	-	-	2,169,051
Current income tax receivable	-	-	-	1,493,943	1,493,943
Deferred income tax assets	-	-	-	356,449	356,449
Investment securities-					
- Available-for-sale	-	222,882,790	-	-	222,882,790
- Held-to-maturity	-	1,168,437	14,689,389	-	15,857,826
Investment properties	-	-	-	25,682,095	25,682,095
Property and equipment	-	-	-	306,317	306,317
Other assets	-	-	-	1,896,599	1,896,599
	<u>17,927,310</u>	<u>225,899,311</u>	<u>14,689,389</u>	<u>29,735,403</u>	<u>288,251,413</u>
Liabilities					
Employee provisions	-	-	-	702,901	702,901
Deferred income liabilities	-	-	-	726,290	726,290
Other liabilities	-	-	-	2,462,626	2,462,626
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,891,817</u>	<u>3,891,817</u>
Interest sensitivity gap	<u>17,927,310</u>	<u>225,899,311</u>	<u>14,689,389</u>	<u>25,843,586</u>	<u>284,359,596</u>
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 receivables	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	1,096,739
Other liabilities	-	-	-	4,887,569	4,887,569
	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,250,075</u>	<u>7,250,075</u>
Interest sensitivity gap	<u>14,323,842</u>	<u>16,104,232</u>	<u>27,159,420</u>	<u>187,693,294</u>	<u>245,280,788</u>

NOTES TO THE FINANCIAL STATEMENTS

	Up to 1 Year Kina	1-5 Years Kina	Over 5 Years Kina	Non Interest Bearing Kina	Total Kina
ii) CONSOLIDATED					
31 December 2008					
Assets					
Cash & due from other banks	17,969,180	2,985,886	-	-	20,955,066
Treasury bills	-	-	-	-	-
Loans to members & others	1,056,081	1,112,970	-	-	2,169,051
Current income tax receivable	-	-	-	452,351	452,351
Deferred income tax assets	-	-	-	453,348	453,348
Investment securities-					
- Available-for-sale	-	221,162,790	-	-	221,162,790
- Held-to-maturity	-	1,168,437	14,689,389	-	15,857,826
Investment properties	-	-	-	37,577,800	37,577,800
Property and equipment	-	-	-	735,339	735,339
Other assets	-	-	-	4,067,407	4,067,407
	<u>19,025,261</u>	<u>226,430,083</u>	<u>14,689,389</u>	<u>43,286,245</u>	<u>303,430,978</u>
Liabilities					
Employee provisions	-	-	-	702,901	702,901
Deferred income liabilities	-	-	-	739,196	739,196
Other liabilities	-	-	-	2,759,207	2,759,207
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,201,304</u>	<u>4,201,304</u>
Interest sensitivity gap	<u>19,025,261</u>	<u>226,430,083</u>	<u>14,689,389</u>	<u>39,084,941</u>	<u>299,229,673</u>
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 receivables	-	-	-	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	-	-	-	5,903,011	5,790,780
	<u>16,372,552</u>	<u>15,973,841</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>

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 2008			
Assets			
Cash and due from other banks	11,881,299	5,725,044	17,606,343
Treasury bills	-	-	-
Loans to members and others	2,169,051	-	2,169,051
Current income tax receivable	1,493,943	-	1,493,943
Deferred income tax assets	356,449	-	356,449
Investment securities available-for-sale	197,614,721	25,268,069	222,882,790
Investment securities held-to-maturity	15,857,826	-	15,857,826
Investment properties	24,511,913	1,170,182	25,682,095
Other assets	2,202,916	-	2,202,916
Total	256,088,118	32,163,295	288,251,413
Liabilities			
Employee provisions	702,901	-	702,901
Deferred income tax liabilities	726,290	-	726,290
Other liabilities	2,462,625	-	2,462,625
Total	3,891,817	-	3,891,817
Net	252,196,301	32,163,295	284,359,596
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 payable	-	-	-
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

NOTES TO THE FINANCIAL STATEMENTS

	Kina Kina	AUD Kina	Total Kina
b) CONSOLIDATED			
31 December 2008			
Assets			
Cash and due from other banks	15,230,022	5,725,044	20,955,066
Treasury bills	-	-	-
Loans to members and others	2,169,051	-	2,169,051
Current income tax receivable	452,351	-	452,351
Deferred income tax assets	453,348	-	453,348
Investment securities available-for-sale	195,894,721	25,268,069	221,162,790
Investment securities held-to-maturity	15,857,826	-	15,857,826
Investment properties	36,407,618	1,170,182	37,577,800
Other assets	4,802,746	-	4,802,746
Total	271,267,683	32,163,295	303,430,978
Liabilities			
Employee provisions	702,901	-	702,901
Deferred income tax liabilities	739,196	-	739,196
Other liabilities	2,759,207	-	2,759,207
Total	4,201,304	-	4,201,304
Net	267,066,378	32,163,295	299,229,673
31 December 2007			
Assets			
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	-	4,452,492
Current income tax payable	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	-	20,841,829
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
Deferred income tax liabilities	341,458	-	341,458
Current income tax payable	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

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	
	2008 Kina	2007 Kina	2008 Kina	2007 Kina
i) CTSL				
Assets				
Cash from other banks	17,606,343	13,741,649	17,606,343	13,741,649
Treasury bills	-	795,262	-	795,262
Loans receivable	2,169,051	2,052,492	2,169,051	2,052,492
Current income tax receivable	1,493,943	-	1,493,943	-
Deferred income tax assets	356,449	232,338	356,449	232,338
Investment securities-				
- Available-for-sale	222,882,790	192,221,547	222,882,790	192,221,547
- Held-to-maturity	15,857,826	20,841,826	15,857,826	20,841,826
Investment properties	25,682,095	18,209,269	25,682,095	18,209,269
Property and equipment	306,317	345,925	306,317	345,925
Other assets	1,896,599	3,961,067	1,896,599	3,961,067
	<u>288,251,413</u>	<u>252,401,375</u>	<u>288,251,413</u>	<u>252,401,375</u>
Liabilities				
Current income tax payable	-	(129,488)	-	(129,488)
Deferred income tax liabilities	726,290	1,906,739	726,290	1,906,739
Employee provisions	702,901	455,767	702,901	455,767
Other liabilities	2,462,626	4,887,569	2,462,626	4,887,569
	<u>3,891,817</u>	<u>7,120,587</u>	<u>3,891,817</u>	<u>7,120,587</u>
	<u>284,359,596</u>	<u>245,280,788</u>	<u>284,359,596</u>	<u>245,280,788</u>

NOTES TO THE FINANCIAL STATEMENTS

	Carrying Value		Fair Value	
	2008 Kina	2007 Kina	2008 Kina	2007 Kina
ii) CONSOLIDATED				
Assets				
Cash from other banks	20,955,066	15,788,956	20,955,066	15,788,956
Treasury bills	-	795,262	-	795,262
Loans receivable	2,169,051	1,452,492	2,169,051	1,452,492
Current income tax receivable	452,351	135,403	452,351	135,403
Deferred income tax assets	453,348	337,695	453,348	337,695
Investment securities-				
- Available-for-sale	221,162,790	190,501,547	221,162,790	190,501,547
- Held-to-maturity	15,857,826	20,841,826	15,857,826	20,841,826
Investment properties	37,577,800	30,158,269	37,577,800	30,158,269
Property and equipment	735,339	546,974	735,339	546,974
Other assets	4,067,407	7,903,011	4,067,407	7,903,011
	<u>303,430,978</u>	<u>268,461,434</u>	<u>303,430,978</u>	<u>268,461,434</u>
Liabilities				
Current income tax payable	-	341,458	-	341,458
Deferred income tax liabilities	739,196	3,785,949	739,196	3,785,949
Employee provisions	702,901	473,124	702,401	473,124
Other liabilities	2,759,207	5,790,780	2,759,207	5,790,780
	<u>4,201,304</u>	<u>10,391,311</u>	<u>4,201,304</u>	<u>10,390,311</u>
	<u>299,229,673</u>	<u>258,070,123</u>	<u>299,229,673</u>	<u>258,070,123</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 2008, 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.

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:

	2008		2007	
	Kina	%	Kina	%
i) CTSL				
Assets				
Cash from other banks	17,606,343	6%	13,741,649	6%
Treasury bills	-	0%	795,262	0.3%
Loans to members & others	2,169,051	1%	2,052,492	1%
Investment securities-				
- Available-for-sale	222,882,790	78%	192,221,547	78%
- Held-to-maturity	15,857,826	6%	20,841,826	8%
Investment properties	25,682,095	9%	18,209,269	7%
	<u>284,198,105</u>	<u>100%</u>	<u>247,862,045</u>	<u>100%</u>
ii) CONSOLIDATED				
Assets				
Cash from other banks	20,955,066	7%	15,788,956	6%
Treasury bills	-	-%	795,262	0.4%
Loans to members & others	2,169,051	1%	1,452,492	0.6%
Investment securities-				
- Available-for-sale	221,168,790	76%	190,501,547	73%
- Held-to-maturity	15,857,826	5%	20,841,826	8%
Investment properties	37,577,800	11%	30,158,269	12%
	<u>297,728,533</u>	<u>100%</u>	<u>259,538,352</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.

NOTES TO THE FINANCIAL STATEMENTS

32. Detailed Listing of Investment Securities held by CTS� available for sale as at 31 December 2008:

a) Unlisted Share Investments

Companies	Market Price 31/12/2008 Kina	Units	Market Value 31/12/2008 Kina	Share holding as a % of net assets of the Fund	Market Value 31/12/2007 Kina	Share holding as a % of net assets of the Fund
BPT(PNG) Ltd	15.00	98,670	1,480,050	0.52%	986,700	0.40
Arnott's Biscuit	60.00	225,000	13,506,637	4.75%	11,250,000	4.59
Post Courier	4.00	110,900	443,600	0.16%	388,150	0.16
South Pacific Brewery	14.00	566,668	7,933,352	2.79%	7,933,352	3.23
Pacific Balanced Fund (ICPNG)	5.60	56,497	316,383	0.11%	316,383	0.13
ABN AMRO Social Infrastructure	1.82	-	909,308	0.32%	1,220,381	0.50
AMP Capital China	2.07	149,250	308,998	0.11%	702,027	0.29
Total Unlisted Share Investments			24,898,328		22,796,993	
Hunter Ltd		100	2,457,143	0.86%	2,457,143	0.10
			27,355,471		25,254,136	

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

b) Listed Share Investments

Companies						
Bank South Pacific	0.98	156,007,179	152,887,035	53.77%	119,029,043	48.53%
Credit Corporation	2.50	2,694,629	6,736,572	2.37%	8,073,923	3.29%
Oil Search	8.66	1,962,400	17,002,348	8.98%	23,321,833	9.51%
New Britain Palm Oil	12.00	243,679	2,924,148	1.03%	2,907,122	1.19%
Highlands Pacific	0.14	2,804,737	391,942	0.14%	962,174	0.39%
Quoin (Int.) Ltd	-	500,000	-	-	-	-
ANZ Banking	28.49	30,000	854,667	0.30%	672,874	0.27%
BHP Billiton Ltd	56.72	30,000	1,701,509	0.60%	1,967,165	0.80%
Allco Max Securities & Mortgage	0.02	500,000	9,316		453,320	0.18%
Alpha Collateralised Debt Obligation	30.74	2,000	61,487	0.02%	323,450	0.13%
Commonwealth Bank of Australia	53.85	10,000	538,476	0.19%	1,448,174	0.59%
Marengo Mining Ltd	0.15	71,112	10,600		86,988	
Macquarie Infrastructure Group	3.19	60,000	191,168	0.07%	445,479	0.18%
Macquarie Media Group	1.81	75,000	135,551	0.05%	759,005	0.31%
Mahogany Capital Ltd	111.79	2,500	279,486	0.10%	514,580	0.21%
Multiplex Sites Trust	39.13	2,500	97,820	0.03%	550,723	0.22%
Nexus Bond	-	-	-		352,806	0.14%
QM Technologies Ltd	-	-	-		827,003	0.34%
RiverCity Motorway Group	0.32	336,082	106,454	0.04%	764,519	0.31%
Telstra Corporation	7.14	170,000	1,213,154	0.43%	1,953,688	0.80%
Telstra 3 <T3>	7.14	204,000	1,455,785	0.51%	1,553,541	
Kina Asset Management Ltd	1.27	7,380,000	8,929,800	3.14%	-	0.63%
Total Listed Share Investments			195,527,319		166,967,410	
TOTAL SHARE INVESTMENTS			222,882,790		192,221,547	

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

NOTES TO THE FINANCIAL STATEMENTS

33. List of Investment Securities held – to – maturity (Government Inscribed Stock) placed at the Bank of Papua New Guinea as at 31 December 2008.

Serial Number	Settlement Date	Maturity Date	Coupon Rate	Amount Kina 31/12/2008	Amount Kina 31/12/2007
				Face Value 31/12/2008 Kina	Face Value 31/12/2007 Kina
S15052008 4TH (G5)	29/10/2004	15/05/2008	10.00%	-	4,000,000
S15052008-TB (G10)	26/11/2004	15/05/2008	10.00%	-	934,191
S15052008-TB (G11)	26/11/2004	15/05/2008	10.00%	-	1,131,824
S15052008-TB (G12)	26/11/2004	15/05/2008	10.00%	-	289,163
S15052008-TB (G13)	26/11/2004	15/05/2008	10.00%	-	480,820
S15052008-TG (G14)	26/11/2004	15/05/2008	10.00%	-	190,779
S15052008-TB (G18)	25/02/2005	15/05/2008	10.00%	-	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	1,000,000
S15112023 (G37)	11/04/2008	15/11/2023	12.00%	2,000,000	-
S15112023 (G38)	16/05/2008	15/11/2023	12.00%	1,000,000	-
S15112018 (G39)	15/05/2008	15/11/2018	9.00%	333,000	-
S15112011 (G40)	11/07/2008	15/11/2011	6.00%	571,000	-
TOTAL INSCRIBED STOCK				14,904,000	20,026,777

34. Subsidiaries

Name of Entity	Place of Incorporation	Ownership Interest	
		2008	2007
Banora Trading Limited	Papua New Guinea	100%	100%
Hunter Limited	Papua New Guinea	70%	70%

NOTES TO THE FINANCIAL STATEMENTS

35. 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:

Name of Entity	Business Activity	Amount Kina 31/12/2008	Amount Kina 31/12/2007
a) Revenue			
Banora Trading Limited	Motel Operation	-	2,860,821
Hunter Limited	Property Holdings	3,253,842	3,768,390
b) Assets			
Banora Trading Limited		2,254,580	2,883,630
Hunter Limited		8,208,624	14,638,998
c) Liabilities			
Banora Trading Limited		410,560	803,403
Hunter Limited		324,283	3,620,193

36. 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.

37. Subsequent events

Subsequent to balance date, the Fund's investment in Bank South Pacific (significant exposure) share price has decreased from K0.98 per share to K0.80 per share at 31 March 2009. This has potentially resulted in a decrease of K28m to the total investment value at year end.

Other than noted above, there are no matter 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.

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