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BOARD OF DIRECTORS

As part of the reforms under the Superannuation General Provisions Act 2000, the former POSF Board of Directors incorporated a company under the Companies Act known as POSF Limited to act as the Trustee of the Fund in December 2002. POSF Limited is licensed by the Bank of Papua New Guinea as the regulator of the superannuation industry.

Board of POSF Limited comprises six Directors:

- A Director nominated by the Secretary for Treasury
- A Director nominated by the Secretary for Personnel Management
- Three independent Directors, one of whom is a non resident Director
- The Managing Director

The newly appointed Directors have the necessary qualifications and commercial experience to effectively perform their duties as Directors of the Trustee company. All Directors have passed the fit and proper persons test set out under the regulations and as supervised by the Bank of Papua New Guinea. The term of appointment for each Director is 3 years.

Since appointment, all directors have attended training and educational courses to further enhance their knowledge and skills in all levels of corporate governance and industry knowledge to effectively perform their duties and responsibilities.

Chairman

Sir Nagora Bogan, KBE

Sir Bogan was appointed to the Board on 24th December 2002 as nominee of the Secretary for Treasury. He has extensive experience in leadership, management, Finance and global and regional business and trade.

Sir Nagora has served in the Government for more than 24 years. He was PNG's Ambassador to the United States of America with concurrent accreditation as Ambassador to Mexico and High Commissioner to Canada, a post he served from 1996 to 2001. Prior to that, he served as the First Commissioner General for PNG Internal Revenue Commission from 1992 to 1995. In 1991, he was elected by members of the Commonwealth Association of Tax (CATA) to serve as a non-salaried Chairman of this premier London based professional association of tax administrators from 1991 to 1995.

In 1985 Sir Nagora served as Assistant Chief Collector of Taxes in PNG Taxation Office and moved on to Chief Collector of Taxes from 1986 – 1992.

Sir Nagora holds a Bachelor of Law Degree from the University of Papua New Guinea. In 1991, he was awarded a Member of the British Empire (MBE). In 1996 he was awarded a Knight Bachelor of the British Empire (KBE) by Queen Elizabeth II in recognition of his contributions to the country.



B O A R D O F D I R E C T O R S

Deputy Chairman

Mr Kerenga Kua

Mr Kerenga Kua

Kerenga was appointed to the Board on 18th December 2002. He was nominated by the previous Board, as an independent director. Kerenga is the Partner in Charge of Commercial Litigation with Posman Kua Aisi Lawyers. He has wide experience in company and commercial law based legal dispute resolution. He also worked as a Senior Associate with International Law firm Blake Dawson Waldron. He has been a Lawyer of the PNG National Supreme Courts of Justice since 1987. Kerenga is also the President of the PNG Law Society and also has professional membership with the International Bar Association. Kerenga holds a Bachelor of Law Degree from the University of Papua New Guinea.

Director

Mr Ravu Vagi

Ravu was appointed to the Board on 19th December 2002. He was nominated by the Secretary of Department of Personnel Management (DPM). Ravu has wide experience in Human Resource Planning and Management and has served in the Government for more than 20 years. He is currently the Deputy Secretary, Policy Research & Performance Management with DPM. From 1999 – 2000 has was Director, Strategic Management. Prior to that Ravu has held numerous positions since joining DPM back in 1983 as a Research Officer in the National Statistical Office. Ravu holds a Master of Development Administration from the Australian National University, a Postgraduate Certificate in Human Resource Studies from the Victoria University of Manchester, UK and also a Bachelor of Arts (Demography) from the University of Papua New Guinea.

Director

Mrs Aivu Tauvasa

Aivu was appointed to the Board on 24th December 2002. She was nominated by the previous board as an independent director. Aivu brings with her a wealth of experience in management and leadership. Aivu is currently the Trade Commissioner with the Pacific Islands Trade and Investment Commission based in Sydney. She was the Managing Director of Investment Promotion Authority from 1993 to 1998. Aivu has been engaged as a consultant on short term attachments between 1983 to 1993 with various organizations including the UNDP, PNG Chamber of Mines and Petroleum, UNIFEM AusAID and PNG/ Australia Business Council. She is a Fellow of the PNG Institute of Management. Aivu holds a Masters in Business Administration from Embry-Riddle Aeronautical University, Florida, USA graduated with Distinction, and a Bachelor of Arts from the University of Papua New Guinea.



BOARD OF DIRECTORS

Director

Mr Greg Taylor

Greg was appointed to the Board on 24th December 2002. He was nominated by the previous board as an independent non-resident director. Greg has wide experience in the Australian Treasury working initially on international finance and aid matters. He subsequently became responsible for policy in relation to the regulation of banking, insurance and superannuation. Through his career, Greg has had extensive experience working outside Australia. From 1977-1979 he was responsible for representing Australia's economic, financial and taxation interests at the OECD. More recently, Greg was the Chairman of the PNG Superannuation Task Force, with responsibility to consult widely before the new superannuation legislation was brought into force. From 1997-2000 he held the position of PNG's Executive Director of the International Monetary Fund (representing also Australia, New Zealand and twelve other countries mainly in Asia and Pacific). Greg holds a Bachelor of Economic Degree with Honours from the University of Adelaide, Australia.

Director

Mr Leon Buskens

Leon was appointed to the Board on 18th December 2002 by the previous board then as acting Managing Director. His confirmation as Managing Director of POSF Ltd was done in June 2004. His appointment was through a merit based process which is a first for the Fund. Leon has been with POSF for more than 15 years. He initially joined POSF as an accounts clerk and progressed to supervisory and managerial positions within the Finance & Administration over the years. Leon has Professional membership with the Australian Institute of Banking & Finance (Senior Associate), Securities Institute of Australia, Finance & Treasury Association Ltd in Australia and the PNG Institute of Directors. Leon holds a Master of Finance from the Royal Melbourne Institute of Technology, Australia and a Bachelor of Commerce in Accountancy from the PNG University of Technology.



CHAIRMAN'S STATEMENT

Corporate Governance – A Principal Pillar for Long Term Growth of POSF Limited

This Annual Report for the financial year ending 31st December, 2003 is the first post reform report since the introduction of the Superannuation Act 2002.

Amongst the milestones achieved in 2003, the accompanying accounts and other composite management reports herald a record financial performance by POSF Limited.

In the short history of POSF Limited, this is unprecedented because of some important critical considerations and challenges. The results were achieved in spite of concurrent management challenges. These include, negotiating, learning and implementing on the job the complex process of change management brought about by the new Superannuation reform, the requirement to conform with, and accomplish various rigorous schedules and milestones set by the Bank of Papua New Guinea, articulating a new strategic road map, and the necessity to maintain normal services and business.

From the perspective of POSF Limited and the Superannuation industry, the performance is proof that adherence to sound corporate governance and prudential financial practices adds value and increases wealth.

Over the past five years, superannuation funds across the world have performed very poorly. In fact, majority of these funds had abysmal financial results as significant sectors of the world's economy fell into recession. As a result, the investments and general business of national and global superannuation funds suffered, many of them quite substantially. So dramatic was the impact that many people lost faith in the ability of many superannuation products.

With that global backdrop, POSF Limited recognized that not only does it have guardianship over the funds of many thousands of professional government employees in Papua New Guinea, but it also had the eyes of the people of Papua New Guinea and the investment community both here and internationally. In close conjunction with the Management and the staff, the Board has set about the responsible restructuring, streamlining and strategic focus and direction of the Fund to make sure that all its stakeholders had an open, transparent and well managed fund.

The Board looked at what was taking place in other parts of the world and articulated and adopted strong governance policies and processes to underscore a consistent and sustainable growth of the fund. The Board is 100% committed to making POSF Limited the leader in integrity and will ensure that this is demonstrated on a day-to-day basis through its customer services and by performing with leadership and commitment to achieve the ultimate objectives of ensuring maximum returns and value for all its members.

POSF Limited considers its people as valuable assets and extends a special word of thank you to the owners – the contributors and members of the Fund, directors of the Board and trustees of the Fund, and the management and staff, other partners, alliances and stakeholders for their unstinted commitment to the reform and the transition.

A final word of caution – it is fitting to acknowledge and celebrate annual achievements, but it must be done with modesty and a good dose of pragmatic appreciation that each year is different and change is the only constancy. Good macro economic management and by extension good market conditions can have impact on performances and they are some external factors that the Board or Management does not have control or influence over.

The challenge really is how to manage in erratic or difficult economic times, sustain profitability and consistently add wealth to the Funds net assets.



Sir Nagora Bogan, KBE
Chairman



MANAGEMENT STATEMENT

Dear Members,

" A new future with POSF "

2003 marked a new era for POSF. The Fund had to undergo many structural changes during the course of the year to comply with the changes under the new Superannuation Act. It is the first year of full operations of the Fund under the new Superannuation Act. A new Board of Directors for the Trustee Company POSF Ltd took Office at the start of the year.

Since taking Office, the Board, Management and Staff has been actively engaged in adopting and applying best corporate governance practices. The establishment of Board sub-committees, appointment of the Investment Manager, finalisation of an investment policy & strategic plan, and development of a new organisational structure were all completed during the year. A new work culture is emerging together with a noticeable improvement in performance. However, this is very much work in progress and further improvements are expected. The introduction of performance monitoring through key performance indicators (KPI) for management and staff along with the Investment and Fund Administrator will further enhance performance in 2004.

What does all this mean for you the contributor ? First and foremost your interest comes first in everything we do. We have a duty to ensure we create wealth for you after your retirement while at the same time offer protection of your funds and provide you with the highest quality of service.

We are pleased to report that despite the many changes through the year, there were no disruptions to the normal operations of the Fund. In fact there were notable improvements achieved in the timeliness of transactions with members.

The changes to superannuation legislation allows private sector companies with a choice to now contribute to the Fund. During 2003 the following companies took advantage of this change.

- | | |
|-----------------------|-------------------------------------|
| 1. AUSPAC LIMITED | 7. NATIONAL TEACHERS IN SURANCE LTD |
| 2. INTEROCEANIC SHIPS | 8. OIL PALM INDUSTRY CORPORATION |
| 3. KULA KAIUN | 9. PNG LIMOUSINE |
| 4. MASSIM | 10. RABAUL SHIPPING LTD |
| 5. METO INVESTMENTS | 11. RABAUL SLIPWAY |
| 6. GOLDEN KUMULINE | |

Traditionally, the Fund receives and invests employee contributions (6% of salary) while the employer contribution (8.4% of salary) is retained by the State. When paying out benefits to exiting members, the Fund pays out the full benefit comprising of employee, employer and accumulated interest. The Fund then invoices the State for its share of benefits paid out

To this extent the State as the employer has a large unfunded liability, which from time to time has led to arrears due from the State. However, under the new legislation the State is now required to move progressively towards fully funding the new employer contributions, remitting its employer contributions directly to the Fund.

A total of K11 million was received as 2003 employer contributions. Plans jointly developed between the Treasury Department and POSF Ltd are in place to manage the State Debt, which we are confident will be extinguished in 2004.

We made a record profit announcement for the year which also resulted in a record interest rate of 19% credited to your accounts. The return is based on your opening member account balance at the start of each year. The net worth of the Fund also increased in the year from K718.7 million to K869.2 million, a growth of 21%. We have taken up in the accounts a provision to cater for the future escalation in pensions after an actuarial review has been completed.

Finally, the industry and your Fund is in better shape than ever before and we are moving together in the right direction.

Our new future looks bright and promising

MANAGEMENT STATEMENT



Management Team

From Left to right: Property Manager: Mr Yuanimba Yinanguie, GM(Finance & Admin): Ms Asi Pako
Principal Legal Officer: Ms Patricia Taureka, Managing Director: Mr Leon Buskens,
GM (Corporate Services): Mr Wayne Smith, Manager HR & Administration: Mrs Loka Kula,
Board Secretary: Mrs Norah Lavett, Manager Finance: Mr Heartly Kanaiat.

Corporate Values

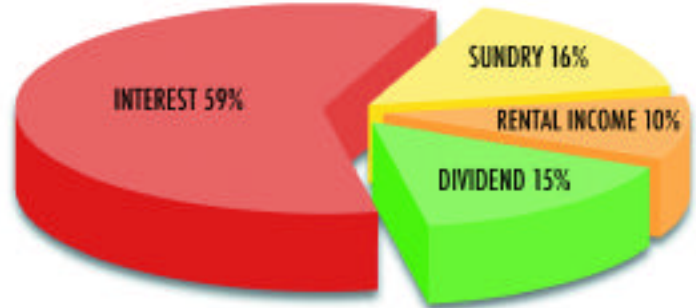
The following corporate values underpin the business of the Fund and are important principles in guiding the behaviour of management and staff:

- **Membership Servicing:**
Strive at all times to provide the best possible services to its members.
- **Honesty, Integrity & Mutual Respect:**
Uphold the highest level of ethics in the conduct of its activities.
- **Employee Development:**
Promote and support personal and professional development of employees.
- **Transparency:**
Ensure that all business is conducted in an open and transparent manner.
- **Accountability:**
Maintain accountability at all levels of operation from the Board to management and staff.
- **Commitment:**
Demonstrate the highest level of commitment and dedication to the vision, mission and values of POSF Limited.

MANAGEMENT STATEMENT

Financial Performance

- Record Year for the Fund. (strong profit, balance sheet, and cashflow performance)
- 19 % declared as final interest rate for 2003
- Improved interim interest rate for 2004 of 7 %



Income from operations

2003 HIGHLIGHTS

- Record Year for the Fund.
- Appointment of Kina Funds Management Limited as Investment Manager.
- Finalisation and approval of the new organizational structure.
- Establishment of Membership Committee.
- Establishment of Audit and Compliance Committee.
- Development of a Strategic Plan.
- Divestment of non-performing investments.
- Progressive resolution of state share debt issue.
- Improved member services, reduced turn around in benefit payout, newsletter, new booklets, information kiosk and internet services, increased working hours, clearing of backlog of queries.

Composition of Investment Portfolio as at 31 December 2003:

Classes of Investment	Kina (million)	% 31.12.03	Investment Guideline Range	Neutral Allocation
Cash	30.0	4.2	5 – 20 %	15%
Fixed Interest	360.8	49.8	10 – 40 %	30%
Equity	227.0	31.3	20 – 50 %	30%
International	1.5	0.2	5 – 20 %	10%
Property	105.4	14.5	10 – 30 %	15%
Total	<u>724.7</u>			

Explanatory notes to be read in conjunction with the table:

Cash is defined as liquid assets, call deposits and treasury bills with maturity up to 90 days.

Fixed Interest comprises government, semi-government, corporate securities & debts including development loans beyond 90 days.

Equity comprises ordinary shares listed on POMSOX and unlisted equity.

International can be either cash, fixed interest and hybrid securities, property and equities, which are dually listed in the POMSOX and ASX.

MANAGEMENT STATEMENT

Investment Objective

The primary Investment objective of POSF is to maximise returns on its Investment Portfolio without putting at risk the main purpose of the Fund, the security of members' funds.

Investment Policy

With this objective, POSF should display the characteristics of a conservative fund and pursue a balanced investment portfolio to minimise portfolio risk (volatility of returns). This will be achieved by diversification where the primary objective is to achieve a sustainable level of portfolio return within acceptable risk limits.

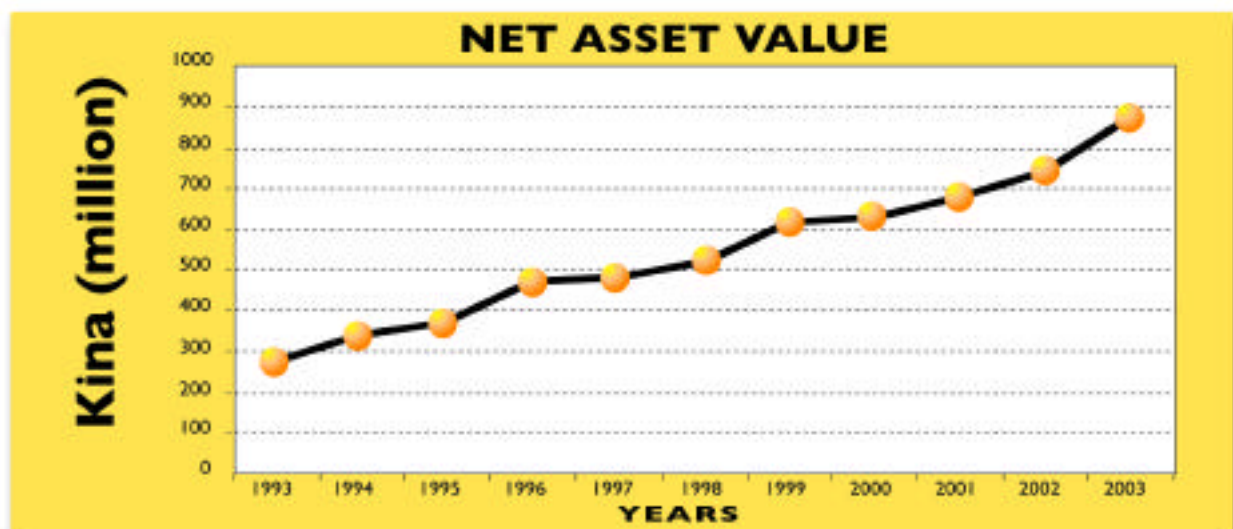
Selected financial information

Statistics	2003	2002	2001	2000	1999	1998
Net Asset Value (K million)	869.2	718.7	686.2	632.1	606.2	528.1
Net Asset Growth (%)	21%	5%	9%	4%	15%	8%
Net Profit After Tax (K million)	133.0	45.9	45.7	30.4	48.6	41.0
Interest credited to Members Accounts (%)	19%	10%	10%	10%	13%	12.5%
Headline Inflation Rates (%) *	8.4	14.8	10.3	10	13.2	21.8
Reserves (K million)	37.0	76.3	83.9	78.3	114.9	92.1
Employee Contributions (K million)	47.1	51.2	33.6	40.4	29.7	31.4
Employer Contributions (K million) *	15.2	0	0	0	0	0
Administration Expenses (K million)	10.1	9.2	9.8	9.8	10.0	10.8
Total Exit Gross Payouts (K million)	64.0	89.3	76.8	52.17	80.21	37.99
Number of exit payments	3,854	4,905	3,693	3,233	7,231	5,601
Management Expense Ratio (MER) *	1.3%	1.3%	1.5%	1.6%	1.8%	2.12%

* 1. Source : BPN G Quarterly Economic Bulletin.

2. The Fund received K 11.1 million from the State at the start of 2004, in respect of 2003 employer contributions.

3. The MER is an indication of the cost of managing the Fund expressed as a percentage and is calculated in accordance with the Central Bank Standard as management cost divided by the average net asset value of the Fund.



MANAGEMENT STATEMENT

Licensed Investment Manager

The Trustee POSF Ltd has out sourced the function of Investment Manager to Kina Funds Management Limited. The separation of activities in this way as prudently required by the new Superannuation legislation gives members greater confidence that their funds will be prudently invested.

Economic Summary

Major macroeconomic indicators cited by the Bank of Papua New Guinea showed continued improvement in economic performance during 2003.

These consist of much lower inflation outcome for 2003, sustained high prices for most of PNG's mineral and non-mineral export commodities, the appreciation of the kina against the major currencies especially the US dollar and an increase in the level of foreign exchange reserves at the Central Bank.

The domestic economic performance in the second half of 2003 was encouraging. The following actual developments in the macroeconomic indicators offer a glimpse of hope for a recovery and real growth in the economy in 2004.

- real growth in the economy with improving economic activity;
- appreciation of the Kina against the US dollar;
- a falling inflation rate with declining interest rates trend,
- rising employment levels;
- improving foreign reserves position; and
- Improved private sector performance with increasing new and planned business investments are indicative of rising investor confidence.

Investment Portfolio Report

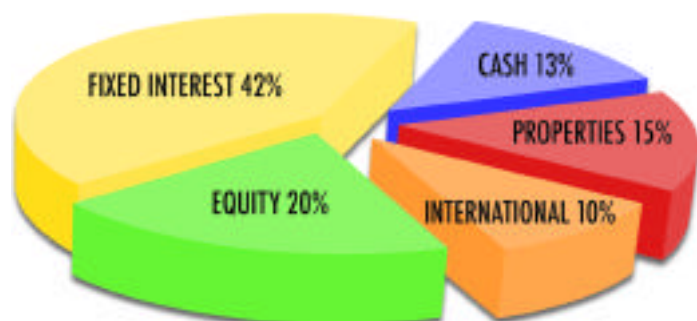
Major macroeconomic indicators cited by the Bank of Papua New Guinea showed continued improvement in economic performance during 2003.

At the end of the year, the Fund held K288 million in treasury bills. This was an increase of 48% from 2002, which was K194 million. The 48% holding in treasury bill was to capture the higher interest offered in this sector, while seeking for other investment opportunities that may be available. The total income earned for the year was K47.2 million.

The Fund carried a total of K51.75 million in the loans portfolio and this constituted 7.14% of the total investment portfolio. During the year, the Fund received a total income of K6.98 million which represents a return of 12.85%

The Term Deposits holding amounted to K53.6 million which constituted 7.4% of the total investment assets of K724.7 million.

During the year, a total income of K7.22 million was earned from the Fund's investment in Interest Bearing Deposits with various financial institutions.



Investment Portfolio



MANAGEMENT STATEMENT

Investment Portfolio Report (cont-)

The total value of the property portfolio at year end was K105.4 million as compared with K94.7 million for the same period ending 2002. In 2003, the property portfolio accounted for 14.5% of the total investment portfolio.

The Fund also holds substantial land portfolio, which is being held for future development. Much of the land is not generating income, and the Fund continues to incur costs affecting the overall return for the property portfolio. The Fund has since decided to stop further purchase of undeveloped land

The Fund has investments in both unlisted and listed shares. The unlisted shares are all PNG based companies while listed shares are mainly resource companies also based in Papua New Guinea with listings on both the Port Moresby Stock Exchange and Australian Stock exchange.

The equities portfolio contributed to the Fund, a total dividend income of K15.33 million, K12.40 million from unlisted equities while K2.92 million from listed equities like carrier Oil Search, Ramu Sugar, SP Brewery, Westpac Bank, Credit Corporation and Arnotts Biscuits are some of the companies, that have continued to provide the Fund solid returns through dividends and capital appreciation.

The total value of the equity portfolio (unlisted and listed) at the end of 2003 was K225.53 million and this represents 31% of the total investment portfolio at the end of 2003. This was an increase of 30% over the previous year, reflecting revaluations in line with accepted accounting principles.

Of the total equity portfolio K97.21 million was in unlisted shares and K128.32 million was in listed equities.

Licensed Fund Administrator

The Trustee POSF Ltd has completed the transfer of members funds administration to Kina Investment & Superannuation Services Limited after the company was appointed under the Superannuation (General Provisions) Act.

Members Contributions

A total of K 51.2 million was received as contributions during 2003.

Employee contributions K 47.1 million

Employers contributions K 4.1 million

Employee contributions decreased by K4.4 million and employer contributions commenced in 2003.

Benefit Payments

A total of 3,783 claims were processed and paid out during the year as compared to 4,905 claims in 2002 and a payout total of K 64.0 million. 71 claims were processed as unemployment benefits.

The different types of benefit paid were:

Benefit Type	Amount	Claims
Resignation	K 15.4 million	1,349
Retirement	K 25.5 million	659
Retrenchment	K 8.9 million	786
Death	K 14.2 million	989



MANAGEMENT STATEMENT

Pensions

In 2003 payments were made to 1,304 active pensioners amounting to K2.1 million. The Pension Section has been meeting operational expectations in respect of timely processing of the fortnightly pension payments and enquiries.

Inquires and Complaints

We have introduced a Benefit Payment Letter containing an Exit Statement, which will be mailed directly to members upon payment of their benefit. We expect this service initiative to greatly reduce customer enquiries.

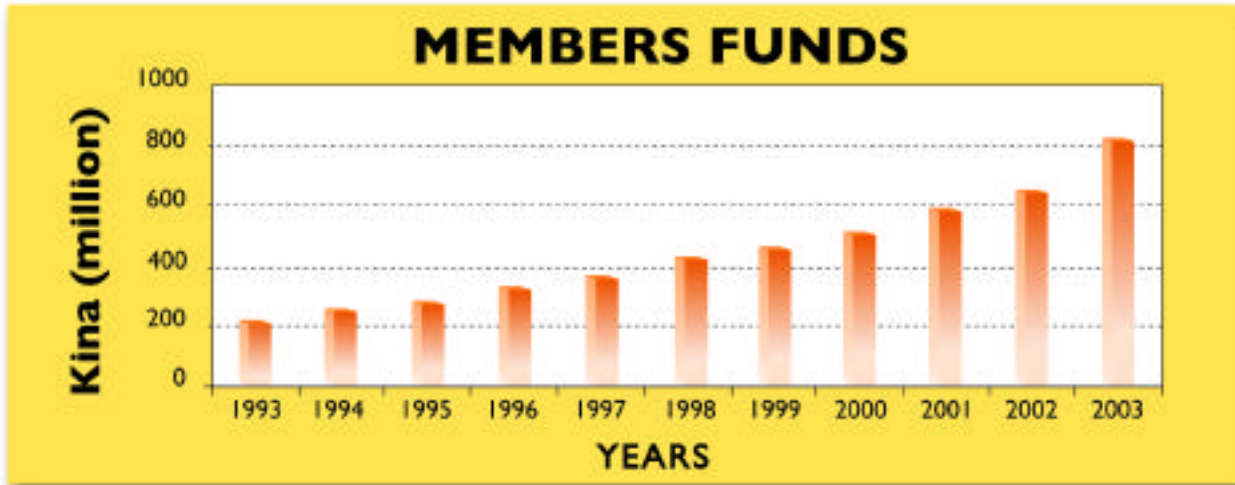
The exit statement will provide the member with details on their contributions, deductions and calculation of final benefits including tax.

This letter will also serve as a statement of earnings alleviating POSF Limited from issuing a separate notification. 2 days turnaround time in payment of benefits (providing all documents are complete and in order).

New toll free number for members to contact the Fund Administrator on 1801414

Action now being taken on rights of Ancillary & casual workers to contribute to superannuation.

Increase in interim interest rates from 4% to 7.0%



Mr Leon Buskens
Managing Director

INVESTMENT MANAGER'S STATEMENT

■ KINA FUNDS MANAGEMENT LIMITED



Year in Review

The 2003 financial year has been a successful one for POSF Limited with the announcement of a record interest declaration of 19%. This is in spite of the many changes that took place within the Fund to comply with the Superannuation (General Provisions) Act 2000.

The Fund outsourced its Investment function to a licensed Investment Manager. Kina Funds Management Limited (KFM) was appointed the Investment Manager in 2003.

2003 saw good growth and returns to POSF Limited. The returns provided by the different asset classes, particularly treasury bills and interest bearing deposits are worth noting as the bulk of the income was generated through these sectors.

With the change of environment in the superannuation industry in Papua New Guinea, we are confident that the Fund will grow from strength to strength and will be reflected in asset growth and returns to our valued contributors in 2004. Already, we have seen the fruits of the reform with the elimination of the bad investment decision and the strengthening of good corporate governance in all our efforts in making POSF Limited the number one superfund in Papua New Guinea.

We are extremely pleased with the quality of the relationship that has been developed between POSF Limited and KFM. The tangible results of this relationship are evident in the 2003 results and we are continuing to work to enhance the Fund's future results and achievements for our loyal members.

2004 will provide a major task as we continue to work together as a team to improve on our benchmark performance of 2003. KFM will continue to provide independent investment advice within the framework of the investment policy and the new Superannuation Act.

We thank the Trustees, Management and staff of POSF Limited for the cooperation accorded to KFM in 2003 and trust that will continue in 2004 to deliver and safeguard the interest of the members of the Fund.

Kong E Wong
Group Financial Controller
Kina Funds Management Limited

John Naura
Investment Portfolio Manager
Kina Funds Management Limited

Level 2 Deloitte Tower Douglas Street PO Box 1141 Port Moresby Papua New Guinea
Telephone (675) 308 3888 Facsimile (675) 308 3899 Email Funds@kina.com.pg Website www.kina.com.pg

FUND ADMINISTRATOR'S STATEMENT

■ KINA SUPERANNUATION SERVICES LIMITED



2003 – Retrospective

2003 was a defining year with respect to the administration services provided to the members of POSF.

State Of The Art

Kina Investment and Superannuation Services, who was contracted to provide this service in 2002, had fully converted all member records onto the Symmetry SSS system by the start of 2003. This initiative meant that POSF member records were now being managed on the latest information technology solution in the field of Superannuation and Administration.

The Symmetry SSS system:

- Embraced all the latest superannuation legislative and taxation requirements in Papua New Guinea
- Introduced the highest quality in regard to comprehensive audit trails, user access security, data integrity and disaster recovery components that protects members' accounts and personal details.
- Brought processing quality and efficiencies through "e-Load" whereby all government employee contributions were processed into their accounts electronically.

Customers Come First

As a partner of POSF Limited, Kina Investment and Superannuation Services is dedicated in meeting POSF Limited's mission statement of providing the highest quality of customer service to its members. In realising this goal the staff of Kina Investment and Superannuation Services underwent intensive training and culture change to focus on the needs and expectations of our members. This effort saw the eradication of backlogs and a dramatic reduction in turnaround times.

The issuing of the 2003 statements ensured members were given vital information regarding the changes and impacts of the new Superannuation Act. Members were also invited to update their personal information to improve the integrity of recorded information and especially to nominate beneficiaries in case of untimely death. This effort will continue and we urge all members to review their information and inform us of any changes.

Moving Forward - *"The only constant is change"*

We look forward to initiating service improvements through-out 2004 in order to ensure that we are a leader in Customer Service and Customer Satisfaction.

Some of our initiatives are:

- New Customer Service Centre
- Members Payment Letter with Exit Statement
- Benchmarked 2 day Service Standard
- Weekly Unemployment payment processing

Stephen Brown
Fund Administration Manager

Moving forward towards a better future for all.

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AUDITOR GENERAL'S REPORT



AUDITOR - GENERAL OF PAPUA NEW GUINEA

TELEPHONE : 301 2203
FACSIMILE : 325 2872

LEVEL 6 TISA HAUS
P.O. BOX 423
WAIGANI
PAPUA NEW GUINEA

The Honourable Bart Philemon, MP
Minister for Finance and Treasury
Department of Finance
Vulupindi Haus - 4th Floor
PO Box 710
WAIGANI, NCD

Date: July 30, 2004
Our Reference: 30-27-4
Action Officer:
Designation:
Your Reference:
Date:

PUBLIC OFFICERS SUPERANNUATION FUND - AUDIT REPORT FOR THE YEAR ENDED 31 DECEMBER, 2003

In accordance with Section 8(4) of the Audit Act, 1989 (as amended), I have audited the accompanying financial statements of the Public Officers Superannuation Fund for the year ended 31 December, 2003 as set out on pages 1 to 16 submitted by the Fund under Section 63(4) of the Public Finances (Management) Act, 1995. The Fund's Board is responsible for the preparation and presentation of these financial statements and the information contained therein. I have conducted an independent audit of these financial statements in order to express an opinion on them.

My audit was conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free from material misstatement. My audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with generally accepted accounting practice which requires, amongst other things, compliance with International Financial Reporting Standards and Statements of Accounting Standards of the Papua New Guinea Institute of Accountants and other statutory requirements, so as to present a view which is consistent with my understanding of the Fund's financial position, and the results of its operations, its cash flows and changes in equity. I believe that my audit provides a reasonable basis for my opinion. During the course of my audit, I obtained all information and explanations that were required.

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

AUDIT OPINION

I now report that in my opinion:

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Public Officers Superannuation Fund as at 31 December, 2003 and the results of its financial operations, its cash flows and the changes in equity for the year then ended.

Yours faithfully,
PONA MAC KAWA
Acting Auditor-General

FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

INCOME & EXPENDITURE STATEMENT FOR YEAR ENDED 31st DECEMBER 2003

	Note	2003 K	2002 K
Income	3	102,947,754	68,898,982
Expenditure	4	<u>16,668,221</u>	<u>14,644,995</u>
Net operating surplus before movement in revaluation of investments and income tax		<u>86,279,533</u>	<u>54,253,987</u>
Add/ (deduct): Movement in revaluation of investments	5	60,416,254	(2,199,508)
Net operating surplus before income tax		146,695,787	52,054,479
Less: Income tax expense	6	<u>13,664,398</u>	<u>6,147,785</u>
Operating surplus after movement in revaluation of investments, income tax and extraordinary items		133,031,389	45,906,694
Retained earnings at beginning of year		39,965,727	32,844
Transfer to Pensioner Funds	2(c)	39,097,000	0
Amount transfer from Investment Revaluation Reserves	7(a)	0	43,365,565
Adjusted retained earnings at beginning of year		868,727	43,398,409
Amount transferred from reserves		<u>0</u>	<u>4,200,000</u>
Amount available for Allocation		133,900,116	93,505,103
Allocation:			
Contributors' accounts		117,978,945	53,539,376
Pensioners' accounts		<u>14,500,000</u>	<u>0</u>
Retained Earnings at end of year		<u><u>1,421,171</u></u>	<u><u>39,965,727</u></u>

The accompanying notes form part of these financial statements

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AS AT 31st DECEMBER 2003

	Note	2003 K	2002 K
Contributor & Pensioner Funds			
Contributor Funds	2(a)	779,117,868	637,478,328
Contributor Housing Advances	2(b)	<u>(12,451,700)</u>	<u>(12,993,570)</u>
		766,666,168	624,484,758
Pensioner Funds	2(c)	<u>64,777,000</u>	<u>17,900,000</u>
		831,443,168	642,384,758
Reserves and Retained Earnings	7	<u>37,799,268</u>	<u>76,343,824</u>
Total Contributor and Pensioner Funds, Reserves and Retained Earnings		<u>869,242,436</u>	<u>718,728,582</u>
Assets			
Property, plant & equipment	8	7,367,790	7,887,091
Investments	9	724,705,832	602,905,049
Current Assets			
Cash at Bank & on hand	10	36,865,666	25,368,500
Receivables	11	122,021,910	99,163,893
Stores & Consumables		<u>10,049</u>	<u>10,050</u>
		158,897,625	124,542,443
Less: Current Liabilities			
Payables	12	6,199,296	7,853,132
Provision for Taxation	6	1,379,145	(3,347,289)
Deferred Tax Liability	6	12,817,466	10,751,579
Unclaimed Moneys		<u>1,332,904</u>	<u>1,348,579</u>
Total Current Liabilities		21,728,811	16,606,001
Net Current Assets		<u>137,168,814</u>	<u>107,936,442</u>
Total Assets		<u>869,242,436</u>	<u>718,728,582</u>

The accompanying notes form part of these financial statements

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN NET ASSETS FOR YEAR ENDED 31 DECEMBER 2003

	Retained Earnings	Investment Revaluation Reserves	Contributors Funds	Pensioner Funds	Housing Advance & General Reserve	Reserves Under Sec 35(2)(c)	Total
Balance at 01/ 01/ 2002	32,844	43,365,565	576,343,209	17,900,000	19,300,000	21,278,097	678,219,715
Reclassification of Revaluation reserves to Retained Earnings	43,365,565	(43,365,565)	-	-	-	-	-
Profit after tax	45,906,694	-	-	-	-	-	45,906,694
Housing Advance Reserve transfer to Retained Earnings	2,200,000	-	-	-	(2,200,000)	-	-
General Reserve transfer to Retained Earnings	2,000,000	-	-	-	(2,000,000)	-	-
Contributions Rec'd	-	-	51,208,398	-	-	-	51,208,398
Benefit Payments	-	-	(43,612,655)	-	-	-	(43,612,655)
Interest Appropriation	(53,539,376)	-	53,539,376	-	-	-	-
Balance at 31/ 12/ 2002	39,965,727	-	637,478,328	17,900,000	15,100,000	21,278,097	731,722,152
Profit after tax for period	133,031,389	-	-	-	-	-	133,031,389
Contributions Rec'd	-	-	51,199,997	-	-	-	51,199,997
Benefit Payments	-	-	(27,539,402)	-	-	-	(27,539,402)
Housing Advances	-	-	(12,451,700)	-	-	-	(12,451,700)
Transfer to Pensioner Funds	(39,097,000)	-	-	39,097,000	-	-	-
Transfer to State Debt	-	-	-	(6,720,000)	-	-	(6,720,000)
Allocation:							
Contributors Account	(117,978,945)	-	117,978,945	-	-	-	-
Pensioners Account	(14,500,00)	-	-	14,500,00	-	-	-
Balance at 31/ 12/ 2003	1,421,171	-	766,666,168	64,777,000	15,100,000	21,278,097	869,242,436

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS FOR YEAR ENDED 31st DECEMBER 2003

	2003 K	2002 K
Cash flow from operating activities		
Cash receipts in the course of Operations	94,257,173	72,495,083
Cash paid to Suppliers & Employees in Course of Operations	(22,140,766)	(14,699,206)
Income Tax paid	<u>(6,872,077)</u>	<u>(8,243,290)</u>
Net cash provided by operating activities	<u>65,244,330</u>	<u>49,552,587</u>
Cash flow from investing activities		
Receipt of development loan repayments	5,100,000	3,500,000
Proceeds on maturity of Government securities	1,307,348,000	711,365,000
Payments for purchase of Government securities	(1,348,199,999)	(795,786,826)
Placement of term deposits – net	(26,558,968)	73,000,000
Payment for property development & acquisition	(3,763,145)	(132,293)
Payment for acquisition of equities	(1,068,142)	(30,860,243)
Proceeds on sale of equities	2,929,484	0
Payment for fixed assets (net)	<u>(244,295)</u>	<u>(127,799)</u>
Net cash used in Investing activities	<u>(64,457,065)</u>	<u>(39,042,161)</u>
Cash flow from activities with Contributors		
Contributions received from Members	51,199,997	51,208,398
Benefits paid (including state share)	(63,103,517)	(88,755,822)
Housing withdrawals paid	<u>(1,081,910)</u>	<u>(9,889)</u>
Net cash used in activities with Contributors	<u>(12,985,430)</u>	<u>(37,557,313)</u>
Cash flow from activities with the State		
Cash receipts of State share (Benefits)	23,695,331	39,848,365
Cash receipts of State share (Housing advances)	<u>0</u>	<u>7,210,880</u>
Net cash provided by activities with the State	23,695,331	47,059,245
Net increase/ (decrease) in cash & cash equivalents held	11,497,166	20,012,358
Cash & cash equivalents at the beginning of the year	<u>25,368,500</u>	<u>5,356,142</u>
Cash & cash equivalents at the end of the year	<u><u>36,865,666</u></u>	<u><u>25,368,500</u></u>

A reconciliation of operating surplus after income tax to net cash provided by operating activities is provided in Note 14. The accompanying notes form part of these financial statements

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

1. STATEMENT OF ACCOUNTING POLICIES

The following accounting policies, which are in accordance with generally accepted accounting standards, have been adopted in the preparation of the Fund's financial statements.

1.1 Accounting Basis

The financial statements have been prepared under the historical cost convention and therefore do not reflect changes in purchasing power of money, except where indicated.

1.2 Recognition of Investment Income

Interest on government securities, term deposits, loans and rental income is accrued. Dividends from shares are accounted for on a cash received basis.

1.3 Fixed Assets and Depreciation

Fixed assets transferred from previous Funds are recorded at their net book value, and the subsequent additions are recorded at cost. Depreciation is provided on all fixed assets so as to reduce such assets to their residual value at the end of their estimated lives. The Fund uses the reducing balance method. The principal annual rates are as follows:

Buildings	4.5%
Furniture & fittings	At rates varying from 11.25 % to 30.00 %
Office equipment	At rates varying from 11.25 % to 30.00 %
Motor vehicles	30%

1.4 Income Tax

Tax effect accounting principles are observed by the company whereby income tax expense for the period is matched with the pre-tax result adjusted for permanent differences. The account "Provision for Deferred Income Tax" records the tax effect of items which will cause taxable income to be higher than book profits in the future and the account "Future Income Tax Benefits" records the tax effect of items, which will cause taxable income to be lower than book profits in the future.

1.5 Valuation of Investments

In accordance with International Accounting Standard 26, Accounting and Reporting by Retirement Benefits Plan, all investments should be carried at fair value. Accordingly no consolidated accounts have been prepared. The Board's policy is to revalue the Fund's investments every year.

- i. Quoted shares are valued at 31 December 2003 at last sale price on that date.
- ii. Unquoted shares are valued at fair value as at 31 December 2003 as adopted by the Board. This valuation was performed by KPMG as an independent professional valuer. The main factors used in the analysis was a combination of dividend yield and net tangible asset backing and future maintainable earnings, as appropriate.
- iii. Land and Buildings are valued at 31 December 2003. This valuation was performed by registered valuer The Professional Valuer of PNG Limited. The valuation reports indicate that a 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 directly in the Income and Expenditure Statement as per IAS 40.

1.6 Provision for Doubtful Debts

Provision for doubtful debts comprises of specific provisions on debts that may not be recoverable.

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

2. CONTRIBUTOR AND PENSIONER FUNDS

(a) Contributor Funds are credited with contributions on cash received basis. Interest allocated to Contributor Funds this year is at 19% on the account balance as at the beginning of the year.

	2003 K	2002 K
Contributor Funds		
Balance brought forward from previous year	637,478,328	576,343,209
Add:		
Contributions received during the year	51,199,997	51,208,398
Interest Allocation	<u>117,978,945</u>	<u>53,539,376</u>
	806,657,270	681,090,983
Deduct:		
Benefit payments	<u>27,539,402</u>	<u>43,612,655</u>
Balance as at end of year	<u>779,117,868</u>	<u>637,478,328</u>
(b) Contributor Housing Advance		
	<u>(12,451,700)</u>	<u>(12,993,570)</u>

The balance of Contributor Housing Advance was reclassified from Assets to Contributor Funds as this provides more relevant information to users about the movement of Contributor Funds.

(c) Pensioner Funds

Pension Liability brought forward from former fund	17,900,000	17,900,000
Add:		
Transfer from retained earnings	39,097,000	0
Interest Allocation	14,500,000	0
Deduct:		
Adjustment to correct over invoicing to State	<u>(6,720,000)</u>	<u>0</u>
Balance at year end	<u>64,777,000</u>	<u>17,900,000</u>

The Board of Trustees resolved to recognize as Pensioner Funds, the cumulative net invested value of the actuarially determined value of Former Fund pensions previously recorded as a provision for pension liability of K17.9 million. An allocation to recognize an increase of K39.097 million has been made from opening retained earnings, with the balance of K14.5 million being allocated from 2003 profits. The balance has also been adjusted to reflect the estimated value of pensions over invoiced to the State. An actuarial valuation will be required to calculate both the escalation of Former Fund pensions as well as the future value of pensions that will be funded from the Pension Account.

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

3. INCOME

The following categories of income were credited to the Income and Expenditure Statement:

	2003 K	2002 K
Property Rental Income		
Gross rental income	16,951,040	14,639,530
Less: Maintenance expenditure	<u>(6,983,466)</u>	<u>(6,424,898)</u>
	<u>9,967,574</u>	<u>8,214,632</u>
Interest		
Government securities	47,245,014	24,263,228
National Government loan	1,467,000	3,456,790
Debentures/ Loan – Companies	5,508,135	6,241,787
Term deposits	<u>7,217,251</u>	<u>3,371,244</u>
	<u>61,437,400</u>	<u>37,333,049</u>
Dividends from Investments		
Quoted shares (ordinary)	2,924,693	6,754,126
Unquoted shares (ordinary & preference)	<u>12,401,342</u>	<u>9,995,944</u>
	<u>15,326,035</u>	<u>16,750,070</u>
Sundry Income		
Directors fees received	80,100	0
Profits/ (loss) on assets disposed	14,333	(47,679)
Capital gain	996,309	(34,080)
Interest on state share receivable	14,756,048	6,304,016
Bad Debt recovery	204,378	0
Other Income	<u>165,577</u>	<u>378,974</u>
	<u>16,216,745</u>	<u>6,601,231</u>
Total Income	<u>102,947,754</u>	<u>68,898,982</u>

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

4. EXPENDITURE

Net operating surplus before exceptional items and income tax is arrived at after charging the following specific items of expenditure:

	2003 K	2002 K
Management Expenditure		
Staff	4,797,592	5,128,487
Vehicles	182,465	152,188
Travel	86,148	107,330
Professional fees	1,188,218	1,914,636
Directors fees & expenses	311,294	98,637
Conferences	19,353	9,262
Office expenses	990,069	835,219
Staff housing	459,068	658,473
Office building expenses	<u>152,545</u>	<u>316,448</u>
	<u>8,186,752</u>	<u>9,220,680</u>
Outsourcing Expenditure		
Fund Administration	1,615,229	0
Investment Management	<u>355,500</u>	<u>0</u>
	<u>1,970,729</u>	<u>0</u>
Contributor Expenditure		
Contributor liaison	407,403	328,227
Insurance scheme	<u>3,974,500</u>	<u>1,708,000</u>
	4,381,903	2,036,227
Less: Cont. Life Insurance exp w/ back	<u>0</u>	<u>738,156</u>
	<u>4,381,903</u>	<u>1,298,071</u>
Provisions		
Provision for doubtful debts	18,000	141,072
Provision for depreciation of fixed assets	749,263	762,771
Provision for doubtful loan – Sipef Timbers	0	1,595,505
Provision for doubtful term deposit – RFL	1,000,000	0
Provision for doubtful loan – Hombrum Piggery	<u>0</u>	<u>1,623,681</u>
	<u>1,767,263</u>	<u>4,123,029</u>
Exceptional Item		
Legal settlement of benefit claims	361,574	3,215
Total Expenditure	<u>16,668,221</u>	<u>14,644,995</u>
5. MOVEMENT IN REVALUATION OF INVESTMENTS		
Surplus (Deficit) on revaluation of Investment Properties	6,732,607	16,696,082
Surplus (Deficit) on revaluation of Equity Shares	<u>53,683,647</u>	<u>(18,895,590)</u>
	<u>60,416,254</u>	<u>(2,199,508)</u>

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

6. INCOME TAX

The income tax charged against the excess of income over expenditure of the Fund is determined in accordance with the policy set out in Note 1.4 and relates to:

	2003 K	2002 K
Income Tax Expense		
Current	15,993,815	7,952,462
Deferred	2,105,022	2,309,626
Prior year expense/ (credit)	<u>(4,434,439)</u>	<u>(4,114,303)</u>
Income tax expense for the year	<u>13,664,398</u>	<u>6,147,785</u>
Provision for Income Tax		
Prima facie tax payable at 30% (2002: 25%) on Fund surplus and extraordinary items	44,008,736	14,371,192
Tax effect of permanent differences	(25,909,899)	(4,109,104)
Tax effect of timing differences	(2,105,022)	(2,309,626)
Credit for Interest Withholding Tax	(6,871,077)	(3,483,775)
2002 Provisional Tax Paid	<u>0</u>	<u>(3,100,000)</u>
	9,122,738	1,368,687
Prior years	<u>(7,743,593)</u>	<u>(4,715,976)</u>
	<u>1,379,145</u>	<u>(3,347,289)</u>
Deferred Tax Liability		
Balance at beginning of year	10,751,578	7,973,309
Movement in year	2,105,022	2,309,626
Adjustment to prior year	<u>(39,134)</u>	<u>468,644</u>
	<u>12,817,466</u>	<u>10,751,579</u>
Comprising:		
Interest receivable	13,545,342	11,719,069
Rent receivable	774,983	724,119
Consumable stores	2,513	3,014
Depreciation	(8,533)	90,718
Less:		
Employee benefits	(208,785)	(379,287)
Doubtful debts	(483,257)	(440,298)
Doubtful Loans	<u>(804,797)</u>	<u>(965,756)</u>
Deferred taxation	<u>12,817,466</u>	<u>10,751,579</u>

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

7. RESERVES AND RETAINED EARNINGS

Housing Advance Reserve	15,100,000	15,100,000
Reserve under Sec 35 (2) (c)	21,278,097	21,278,097
Retained Earnings	<u>1,421,171</u>	<u>39,965,727</u>
	<u>37,799,268</u>	<u>76,343,824</u>

In 2002, the Fund adopted International Accounting Standard 39, Financial Instruments: Recognition and Measurement. The balance of Investment Revaluation Reserve of K43,365,565 was reclassified to Retained Earnings in accordance with this requirement.

8. PROPERTY, PLANT AND EQUIPMENT

Property, Plant & Equipment (i.e. "Non Investment" fixed assets) are included in the accounts as set out below. (Fixed Assets associated with Investment real estate are included under Investments). Depreciation of Fixed Assets is in accordance with policy set out in note 1.3, & is included in the accounts as follows:

	HOUSING		OFFICE BUILDING		VEHICLES		Total
	Land & Building	Plant & Equipment	Land & Building	Furniture & Fittings	Plant & Equipment	Motor Vehicles	
Cost							
At 01/ 01/ 03	985,830	121,308	3,558,333	2,281,037	2,992,402	1,314,731	11,253,641
Additions	16,695	10,959	0	0	173,734	63,637	265,025
Reclassification to Investment Properties (refer not 9)	0	0	(8,333)	0	0	-	(8,333)
Disposals	0	0	0	0	(46,275)	(101,558)	(147,833)
At 31/ 12/ 03	1,002,525	132,267	3,550,000	2,281,037	3,119,861	1,276,810	11,362,500
Depreciation							
At 01/ 01/ 03	123,662	63,103	0	747,281	1,654,890	777,615	3,366,551
Depreciation	11,116	9,642	160,125	171,207	240,808	156,478	749,376
Disposals	0	0	0	0	(41,402)	(79,815)	(121,217)
At 31/ 12/ 02	134,778	72,745	160,125	918,488	1,854,296	854,278	3,994,710
Depreciation							
At 31/ 12/ 03	9,392	10,198	0	190,573	294,107	258,999	763,269
Net Book Value							
At 31/ 12/ 03	867,747	59,522	3,389,875	1,362,549	1,265,565	422,532	7,367,790
At 31/ 12/ 02	862,168	58,205	3,558,333	1,553,757	1,337,512	536,116	7,887,091

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

9. INVESTMENTS

Investments are made up as follows:

	2003 K	2002 K
Shares		
Quoted shares - ordinary as at 01/ 01/ 2003	56,613,937	60,389,282
Adjustment of securities (Oil Search & Orogen)	0	(3,427,072)
Reclassification from Unquoted (Pamu)	0	320,000
Reclassification from Unquoted (BSP)	32,308,000	0
Divestment of shares in Macmin	(1,603,740)	0
Investment in Pamu Sugar	854,330	0
Investment in NBPO Development Ltd.	63,812	0
Revaluation increment/ (decrement)	<u>40,075,544</u>	<u>(668,273)</u>
At 31/ 12/ 2003	128,311,883	56,613,937
Unquoted shares - ordinary as at 01/ 01/ 2003	115,685,008	99,602,010
Reclassification to Quoted Shares	0	(320,000)
Reclassification to Quoted Shares (BSP)	(32,308,000)	0
Investment(s) for the year		
• Bank South Pacific Limited	0	29,999,996
• others	0	860,247
• Alotau International Hotel	150,000	0
Revaluation increment/ (decrement)	<u>13,685,995</u>	<u>(14,457,245)</u>
As at 31/ 12/ 2003	97,213,003	115,685,008
Unquoted shares - preference as at 01/ 01/ 2003	628,001	971,001
Redemption of shares in Pamu Sugar	(550,000)	0
Revaluation increment/ (decrement)	<u>(78,001)</u>	<u>(343,000)</u>
	0	628,001
Total Shares	<u>225,524,886</u>	<u>172,926,946</u>
Term deposits	51,700,000	30,000,000
Less: Provision for doubtful deposit (RFL)	(1,000,000)	0
	50,700,000	30,000,000
Offshore Term Deposit	2,929,484	0
Government Securities	288,322,114	247,470,115
Loans and Debentures		
National Government as at 01/ 01/ 03	10,000,000	10,000,000
Repayments/ additions/ conversions	<u>0</u>	<u>0</u>
At 31/ 12/ 2003	10,000,000	10,000,000
Companies as at 01/ 01/ 03	46,850,000	53,102,142
Repayments	(5,100,000)	(3,500,000)
Provision for doubtful loan	<u>(0)</u>	<u>(2,752,142)</u>
As at 31.12.2003	41,750,000	46,850,000
Total Loans and Debentures	<u>51,750,000</u>	<u>56,850,000</u>

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

9. INVESTMENTS (continued)

	2003 K	2002 K
Property		
Land & Building as at 01.01.2003	89,740,229	73,210,579
Additions	1,761,188	413,568
Divestment(s) for the year	(1,173,298)	(580,000)
Reclassification from Fixed Assets (Refer Note 8)	8,333	0
Revaluation increment/ (decrement) (Refer Note 5)	6,732,608	16,696,082
Land & Building as at 31.12.2003	<u>97,069,060</u>	<u>89,740,229</u>
Furniture & fittings		
Cost at 01.01.2003	5,369,860	5,045,807
Additions	218,804	355,979
Disposals	0	(29,248)
Reclassification to Fixed Assets (Refer Note 8)	0	(2,678)
Cost at 31.12.2003	<u>5,588,664</u>	<u>5,369,860</u>
Depreciation 01.01.2003 – Furniture & Fittings	2,063,606	1,646,319
Depreciation for year	431,154	431,195
Disposals	0	(13,908)
Depreciation 31.12.2003	<u>2,494,760</u>	<u>2,063,606</u>
Net Book Value	3,093,904	3,306,254
Plant & Equipment		
Cost 01.01.2003	3,254,784	3,200,787
Additions	211,789	83,028
Disposals	0	(24,901)
Reclassification to Fixed Assets (Refer Note 8)	0	(4,130)
Cost 31.12.2003	<u>3,466,573</u>	<u>3,254,784</u>
Depreciation 01.01.2003 – Plant & Equipment	1,635,784	1,383,668
Depreciation for year	243,242	270,642
Disposals	0	(18,526)
Depreciation 31.12.2003	<u>1,879,026</u>	<u>1,635,784</u>
Net Book Value	1,587,547	1,619,000
Total Property	<u>101,750,511</u>	<u>94,665,483</u>
Project Investigations	155,802	0
Capital Works in Progress	3,573,035	992,505
Total Investments	<u>724,705,832</u>	<u>602,905,049</u>

Single investment exceeding 5% of the total assets is as follows:

Investment	Type of Investment	Shareholding (%)	% on total assets	Value
Bank South Pacific Limited	Quoted	10.88%	5%	47,538,455
Bank of Papua New Guinea	Treasury Bills	N / A	33%	288,322,114

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

10. CASH AT BANK AND IN HAND

Bank balance	3,779,004	(1,281,186)
Cash in hand	1,885	1,870
Bank call deposit	33,084,777	26,647,816
	<u>36,865,666</u>	<u>25,368,500</u>

11. RECEIVABLES

Pental Debtors	3,099,933	2,413,730
Less: Provision for doubtful debts	<u>(933,027)</u>	<u>(1,467,661)</u>
	2,166,906	946,069
PO SFB staff housing scheme	222,770	282,294
Staff Advances (salary)	6,982	10,592
Sundry Debtors	5,901,290	5,237,225
Dept Finance (state share)*	110,632,252	88,832,034
Interest Accruals	3,021,089	3,894,377
Associated Funds	<u>70,621</u>	<u>(38,698)</u>
	<u>122,021,910</u>	<u>99,163,893</u>

* Amount receivable from Department of Finance (state share) comprised the following:

Pension	2,389,085	1,406,597
Exits	65,782,696	52,757,369
Housing	2,172,283	2,415,928
Interest	47,008,188	32,252,140
Transfer from Pensioner Funds	<u>(6,720,000)</u>	<u>0</u>
	<u>110,632,252</u>	<u>88,832,034</u>

12. CREDITORS

Creditors	5,366,337	6,503,863
Accruals	<u>832,959</u>	<u>1,349,269</u>
	<u>6,199,296</u>	<u>7,853,132</u>

13. EVENTS SUBSEQUENT TO STATEMENT OF ASSETS DATE

- **Employers Contribution**
K11.1 million was received in January 2004 from the State in respect of its obligation under the Superannuation (General Provisions) Act 2000 to remit employer contributions of 2.1 % (being 25% of 8.4 % employer contribution liability)
- **State Debt**
K28.3 million was received in January 2004 from the State on account of the balance of Dept Finance (Stateshare).
- **Acquisition of Revenue Haus**
The acquisition of Revenue Haus was finalised in January 2004 for K28.3 million.
- **Legal settlement from Paul Paraka Lawyers**
K3.06 million was received in April 2004 in settlement of a legal case against Paul Paraka Lawyers for recovery of outstanding rent collected on behalf of the Fund.

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

14. NOTES TO THE STATEMENT OF CASH FLOWS

1. Reconciliation of Cash

For the purpose of this statement of Cash Flows, Cash includes cash on hand, and on call deposits with banks and is net of bank overdrafts. Cash as at the end of the year as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Assets as follows:

	2003 K	2002 K
Cash on hand	1,885	1,870
At call deposits	33,084,777	26,647,816
Balance at Bank	<u>3,779,004</u>	<u>(1,281,186)</u>
	<u>36,865,666</u>	<u>25,368,500</u>
2. Reconciliation of Cash flow from Operations with Operating Surplus after Income Tax		
Operating Surplus after Income Tax	133,031,387	45,906,694
Cash flows in Operating Surplus attributable to Non-operating activities	(12,057,455)	(4,983,268)
Non-Cash flows in Operating Surplus		
Depreciation	749,263	762,771
Charge to Provisions	18,000	141,072
	- doubtful debts	
	- doubtful loans	
	<u>1,000,000</u>	<u>3,219,186</u>
Net cash provided by operating activities before change in assets and liabilities	122,741,195	45,046,455
Changes in assets and liabilities during the year		
Increase/ (Decrease) in tax provision	6,792,321	(2,095,505)
(Increase)/ Decrease) in debtors	(2,089,869)	4,900,547
Increase/ (Decrease) in creditors	(1,783,063)	1,701,090
(Increase)/ Decrease) in revaluation	<u>(60,416,254)</u>	<u>0</u>
Cash flow from operations	<u>65,244,330</u>	<u>49,552,587</u>

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

15. RELATED PARTY DISCLOSURES

- (a) During the financial year the Fund earned interest on term deposits of K1,494,103 from Kina Finance Limited, a finance company which has common shareholders with the Fund's Investment Manager, Kina Fund Management Limited. As at 31 December 2003, the term deposits placed with Kina Finance Limited was K9.0 million. These transactions were carried out on commercial terms and market rates.
- (b) During the financial year the Fund charged its wholly owned unquoted investment, Moki No.10 Limited an interest of K1,250,000 at a annual rate of 10% for the loan given to this investment. As at 31 December 2003, the loan receivable from this investment is K12,500,000.

16. CONTINGENT LIABILITIES

(a) Related interest on pensions over invoiced to the State

As mentioned in note 2 to the financial statements, the Fund had over invoiced the Independent State of Papua New Guinea ("the State") pension payments and a provision based on management's best estimates of K6.72 million was made as at 31 December 2003. The Fund has a present obligation to repay the State the related interest that has been earned by POSF, arising from its over-invoicing of the pension payments, as per its financial report. As the amount of the interest due earned by POSF from the over invoicing to the State can only be determined subsequent to a full review of all pension payments received from the State, no provision has been made as at balance sheet date.

(b) Interest charged on overdue balances in relation to the over-invoicing of pension payments

As mentioned in note 2 to the financial statements, the Fund had over invoiced the State pension payments and a provision based on management's best estimates of K6.72 million was made as at 31 December 2003. The Fund had also invoiced and received from the State, interest on overdue balances in relation to the over-invoicing of pension payments. Accordingly, the Fund has a present obligation to refund the State these interest charges. As the amount of this obligation can only be determined with sufficient reliability after a full review of all pension payments invoiced to the State, no provision has been made as at balance sheet date.

(c) CPI-adjusted pensions

The repealed State Services and Statutory Authorities Superannuation Fund Act 1990 provided for contributors to have the option to convert their lump sum entitlement to a series of pension forms, whereby the pension could be in the form of one with CPI adjustments (CPI-adjusted pensions). POSF has a present obligation to pay the pensioners who opted for the CPI-adjusted pensions the difference between the pension payment made and the actual entitlement for these CPI-adjusted pensioners. As the amount of this obligation cannot be measured with sufficient reliability, no provision has been made as at balance sheet date.

FINANCIAL STATEMENTS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2003

17. DIRECTORS DISCLOSURE

Name	Nature of Interest	
Sir N Bogan	Director	* Bank South Pacific, * Pacific International Hospital, Coprez Holdings Limited, Coprez Communications Ltd Inventive Nook Ltd, Wazman 2000 Ltd, Impact Communications and Media Ltd, Impact Media Communication Ltd
	Director CEO	FM Morobe Limited (operates of FM Morobe)
	Manager/ Shareholder	
Kerenga Kua	Director	* Big Rooster Ltd, * Kumul Hotels Ltd, City Pharmacy, Endeyaundo Ltd, Fikor Ltd, Kurada 31 Ltd, Yuwai 66 Limited, Finance Corporation Ltd,
	Partner	PosmanKua Aisi Lawyers,
	Other interests	Provide legal services from time to time for the following companies : PO SF Limited Kina Fund Management Pacific Equities and Investment Limited ANZ Bank (PNG Limited)
Gregory Taylor	Director	* Kumul Hotels Limited, TFG International Ltd (Aust)
Favu Vagi	Director	* Big Rooster Ltd
Leon Buskens	Director	* Pacific International Hospital, * Big Rooster Ltd, * Brian Bell, * Heath Lambert, * Hunter Ltd, * Moki No.10 Ltd, * Alotau International Hotel Ltd, * Hombrum Piggery Ltd, * Pacific Capital Ltd, * PNG Hotel Ltd, * Sipef Pacific Ltd, * Kumul Hotel Ltd, * SP Brewery Ltd, * Credit Corporation, * Arnotts Biscuit Ltd, * Metal Refining Operations Ltd
	Shareholder	Moko Enterprise T/ A Bambi School
		* Director as PO SF nominee

Director's Remuneration

Amounts in Kina

Name of director	Total Remuneration	Board Meetings N o. of sittings	Committee Meetings N o. of Sittings	
			Membership	Audit & Compliance
Sir Nagora Bogan	42,000	5/ 5	-	4/ 4
Kerenga Kua	36,000	5/ 5	3/ 3	-
Aivu Tauvasa	23,000	4/ 5	-	-
Greg Taylor	64,090	5/ 5	-	-
Favu Vagi	21,500	5/ 5	3/ 3	-