

POSF

PUBLIC OFFICERS SUPERANNUATION FUND



ANNUAL REPORT 2004



2004 highlights

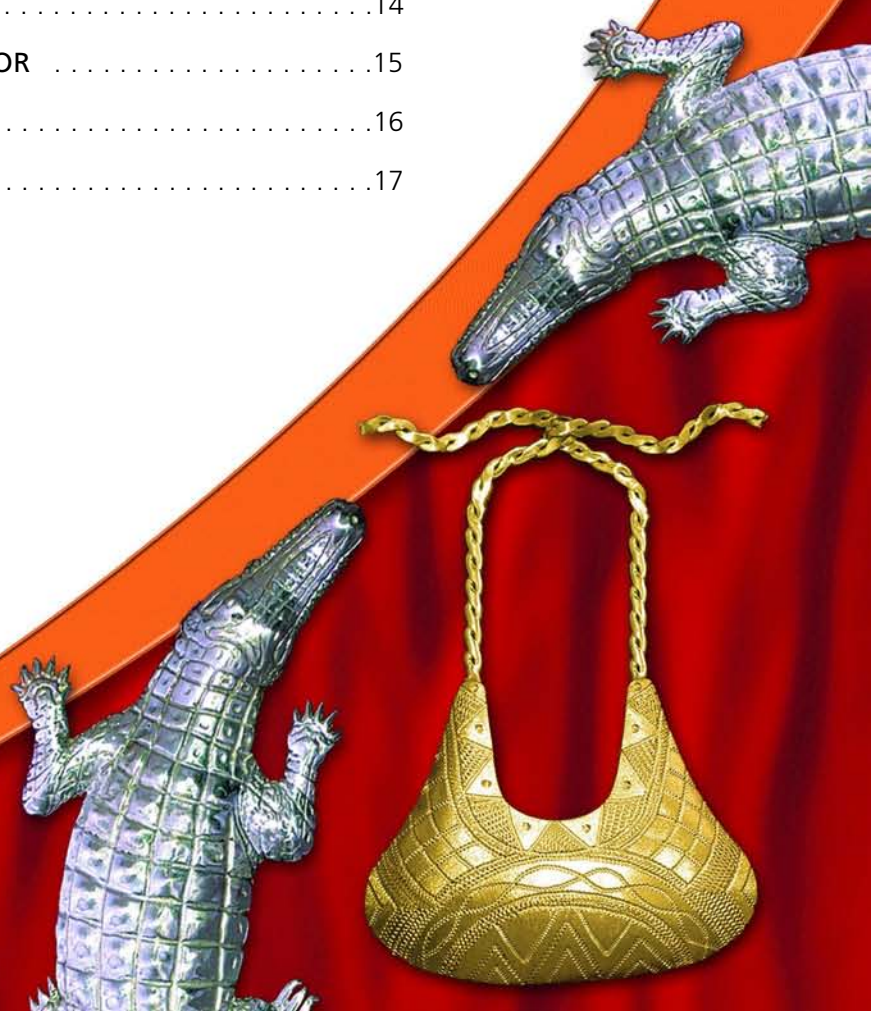
- *New record Fund Net Asset value of K1 billion, a growth of K167million.*
- *Achieved 19% asset growth.*
- *15.5% interest paid to members (19% in 2003).*
- *Improved operating cash flow, net asset position and profit performance.*
- *Reduction in outstanding State Debt by over K100 million.*
- *Divestment of non performing and non-strategic assets.*
- *Increased and improved product awareness for members.*
- *Achieved 100% turnaround time in under 5 days in benefit payments.*

Theme: Cover Picture.

The Crocodile is feared and revered in PNG. It has cultural significance and signifies security and protection. The Bilum represents safety and guardianship. Together these traditional PNG icons depict the safe guarding or safe keeping of members' wealth.

C O N T E N T S

	<i>page</i>
CHAIRMAN'S STATEMENT .....	.2
BOARD OF DIRECTORS .....	.3
CORPORATE GOVERNANCE .....	.4
Audit & Compliance Committee .....	.4
Membership Committee .....	.4
Risk Management .....	.5
Human Resource Management .....	.5
Community Support .....	.5
MANAGING DIRECTOR'S STATEMENT .....	.6
Management Team .....	.8
Corporate Values .....	.9
Comparative statistics: Summary .....	.9
Investment Portfolio .....	.10
Member's contributions .....	.14
Benefits Paid .....	.14
STATEMENT FROM THE FUND ADMINISTRATOR .....	.15
INVESTMENT MANAGER'S STATEMENT .....	.16
INDEPENDENT AUDITOR'S STATEMENT .....	.17



CHAIRMAN'S STATEMENT



Chairman
Sir Nagora Bogan KBE

I am pleased to present to you, the 2004 Public Officers Superannuation Fund (POSF or Fund) Annual Report.

Against a background of improving macro economic performance including lower inflation rate and declining IBD and Treasury Bill interest rates, the Fund yielded an overall positive end-of-year performance.

In spite of the fall in interest income, the Fund adopted a series of investment strategies and maintained prudent financial and management discipline to achieve the positive outcomes that it did. These results were in accordance with forecast due to the vigilance of the Board and Management and reflect consistent solid results in the past two years.

The milestones for 2004 include among others; the recovery of over K100 million State Debt, 19% increase in net assets, total revenue less expenses and benefits paid after income tax of K167 million, consistent high interest yields for members of over 15%, improved member services, and of course achieving a record net assets value of K1.034 billion.

Improving management capabilities remained uppermost on the Board agenda. It engaged the services of an independent Management Consulting company to assist in the recruitment and selection of a Managing Director. This process was transparent, objective and resulted in the appointment of Leon Buskens as Managing Director in June. The conclusion of this process helped bring about greater confidence in staff morale and improved productivity.

In 2004, the Fund invested and mobilized resources to further add value to its net worth to achieve maximum returns for its members. The quality, timeliness, efficiency and accessibility of service to members were priority tasks for the Fund and the consistent effort and resources to expanding and increasing service delivery resulted in improved relations between the Fund and its members. Some worthwhile results include; increased frequency in dialogue with representatives of member employers, faster processing of claims with 100% of benefit payments in a turnaround time of 5 days, extension of customer service hours, expanded member education and awareness programs including the use of internet for more efficient communication.

Many of the superannuation reforms set by the Bank of Papua New Guinea were also accomplished. For instance, under the new laws, POSF Limited was required to outsource its Fund Administration and Investment Management Administration. It did so in appointing Kina Investment and Superannuation Services Limited (KISS) as its Fund Administrator. KISS made significant inroads in improving the capabilities to service member needs.

The Investment Manager is Kina Funds Management Limited (KFM). KFM provided a mechanism for qualitative and objective appraisal of all investment proposals and the outcomes of 2004 are evidence of the Fund obliging to the industry's reform agenda through its choice of clients.

It is acknowledged that there is much more to do to improve the Fund's performance, but I believe, overall we have collaboratively commenced on a path to help us achieve even greater levels of professional conduct including teamwork using a good sense of direction and purpose to help the Fund grow.

In conclusion, superannuation and what it means to thousands of ordinary Papua New Guineans now and in the future must be seen as a long-term strategic thinking and planning process. To ensure it is adequately equipped and prepared to manage the future well being of its members, the Fund commenced the process of articulating a 5-Year Strategic Plan (2005-2010) in November 2004. I anticipate this and the completion of the ancillary tasks under the Plan to be completed in early 2005 for implementation in mid 2005. The team at POSF Limited is taking recent successes in stride and continuously thinking about ways to add value and planning for the next 5-10 years.

On behalf of the Board of the Trustee Company, POSF Limited, I commend management and staff for their commitment, cooperation and contribution to the strong performance of the Fund in 2004.

A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the left.

SIR NAGORA BOGAN, KBE
CHAIRMAN OF THE BOARD

BOARD OF DIRECTORS



front row (left to right)

Director: Mrs Aivu Tauvasa, *Masters in Business Administration from Embry-Riddle Aeronautical University, Florida, USA graduated with Distinction; Bachelor of Arts from the University of PNG.*

Aivu was appointed to the Board in December 2002 as an independent director. She is currently the Trade Commissioner with the Pacific Islands Trade and Investment Commission in Sydney, Australia. Prior to that she served as Managing Director of PNG Investment Promotion Authority for five years.

Deputy Chairman: Mr Kerenga Kua, *Kerenga holds a Bachelor of Law Degree from the University of PNG.*

Kerenga was appointed to the Board in December 2002 as an independent director. He is the Partner in Charge of Commercial Litigation in Posman Kua Aisi Lawyers. He worked previously as a Senior Associate with international law firm Blake Dawson Waldron. He is also the President of the PNG Law Society.

Director: Leon Buskens, *Masters in Finance, Royal Melbourne Institute of Technology - Australia; Bachelor of Commerce, University of Technology PNG.*

Leon was appointed to the Board in December 2002. He was later appointed Managing Director in June 2004. He is a member of the Australian Institute of Banking & Finance (Senior Associate).

back row (left to right)

Director: Mr Greg Taylor, *Greg holds an Economics Degree with Honours from the University of Adelaide, Australia.*

Greg was appointed to the Board in December 2002 as an independent non-resident director. Greg has had wide experience in the Australian Treasury and other senior government posts, including periods at the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF). From 1997-2000 he was PNG's Executive Director at the International Monetary Fund. In 2001 – 2002 he headed the Superannuation Task Force, responsible for bringing the superannuation reform legislation into operational effect.

Director: Mr Ravu Vagi, *Masters of Development Administration; Australian National University, a Postgraduate Certificate in Human Resource; Victoria University of Manchester, UK and a Bachelor of Arts (Demography) from University of PNG.*

Ravu was appointed to the Board in December 2002 as a representative of Department of Personnel Management (DPM). Ravu is currently Deputy Secretary, Policy Research & Performance Management with DPM.

Chairman: Sir Nagora Bogan, KBE. *Sir Bogan holds a Bachelor in Law*

He was appointed to the Board in December 2002 by the Treasury Department. Sir Nagora served the PNG government for over 24 years in various capacities including PNG Ambassador to the USA. He also served as the Commissioner General for the PNG Internal Revenue Commission.

CORPORATE GOVERNANCE

The Board is committed to ensuring that the Fund operates under a system of good governance, accountability and transparency. To adhere to this commitment, a number of Committees were created to assist in this process, including:

1. An Audit and Compliance Committee
2. A Membership Committee

Audit & Compliance Committee

The Committee assists the Trustee objectively review the processes, systems of internal control and management of financial risks, the audit process and the company's processes for monitoring compliance with laws and regulations and its code of business.

The Committee is chaired by Sir Nagora, David Guinn as Deputy Chairman and two representatives from Executive Management as members. The process of having Executive Management Members replaced by independent appointees has commenced.

Membership Committee

This Committee is made up of representatives from union associations together with two members of the Board. The Committee provides an avenue for members to contribute to the decision making process of the Fund.

The Committee:

- Assists the Trustee in dealing with complaints or inquiries about the operation and management of the fund;
- Provides an avenue for members to inquire about and provide their views on the Fund's operation & performance;
- Provides an avenue for members to set guidelines for member benefits from the Fund; and
- Advises the Trustee on the needs of members in terms of information for members, publications and the general communication with members.



From left to right:

Back Row: President Police Association: Robert Ali, Vice President Teachers Association: Martin Kenehe, President PNG Energy Workers Association: Willie Kellis, Public Employees Association Representative: Tau Vali
Seated: Director POSF: Ravu Vagi, President Nurses Association: Lawrence Namaro, Chairman of Committee: Kerenga Kua, President Firefighters Association: Hubert Kapiwan

Insert: Correctional Services Employees Association Representative: Damien Ayebaibai

CORPORATE GOVERNANCE

Risk Management

The Board is committed to identifying and managing the risks of the Fund. It initiated a new risk management platform in 2004. The Risk framework meets the Australian & New Zealand Standard AS/NZ 4360:2004 and the Australian Prudential Regulatory Authority (APRA) guidance note SGN120.1.

Human Resource Management

The Board recognises the importance of staff training and development. It is a critical requirement in the effective implementation of business objectives. Human resource development is a key goal under the Fund's corporate values in the promotion and support of staff development.

The Fund has a training program that is reviewed regularly. It recognises training in both hard and soft skills which are essential to personal and professional development. During 2004, a number of officers attended various up-skilling programs including customer service, effective supervision, finance and accounting, management, superannuation and Information Technology. A number of officers are currently undertaking part-time undergraduate studies with one on full time studies in Australia.

Remuneration Levels

Salary Range	No. of Employees
Between 9,000 – 15,000	23
Between 15,001 – 25,000	34
Between 25,001 – 45,000	26
Between 45,001 – 65,000	4
Between 65,001 – 80,000	5
Between 80,001 – 120,000	1
Between 120,000 – 500,000	2
TOTAL STAFF	95

Staff Levels

	National	Expatriate	Total
Full time (skilled)	70	0	70
Full time (ancillary)	17	0	17
Contract	7	1	8
TOTAL STAFF	94	1	95



Community Support

Under the Fund's donation policy a total of K85,426 (2003: K46,146) was paid to various community service related projects in 2004.

MANAGING DIRECTOR'S STATEMENT

Dear Members

"A NEW FUTURE WITH POSF – CONTINUING STRONG PERFORMANCE"

As part of its ongoing commitment to rebuilding and strengthening its core business, the Fund took several important measures on corporate governance in line with international best practice of corporate governance. The basic structures and foundations of the business of the Fund were revised and appropriate changes, implemented. These measures no doubt, attributed to the overall results in 2004.

In terms of key policy and business drivers, the Fund;

- Reviewed and refined its Investment Policy
- Applied more effective means to monitor and evaluate its existing investment portfolios
- Improved its member service standard benchmarks
- Developed a new risk management platform
- Adopted a property portfolio management program through a facility management system (to commence in 2005)
- Commenced a comprehensive strategic review and planning (2005–2010)
- Revised and adopted a leaner organisational structure
- Commenced a systematic method of promoting a culture of customer service and results oriented productivity and performance
- Commenced a skills and competency needs assessment
- Improved dialogue and network partnerships with the Investment Manager and Fund Administrator.

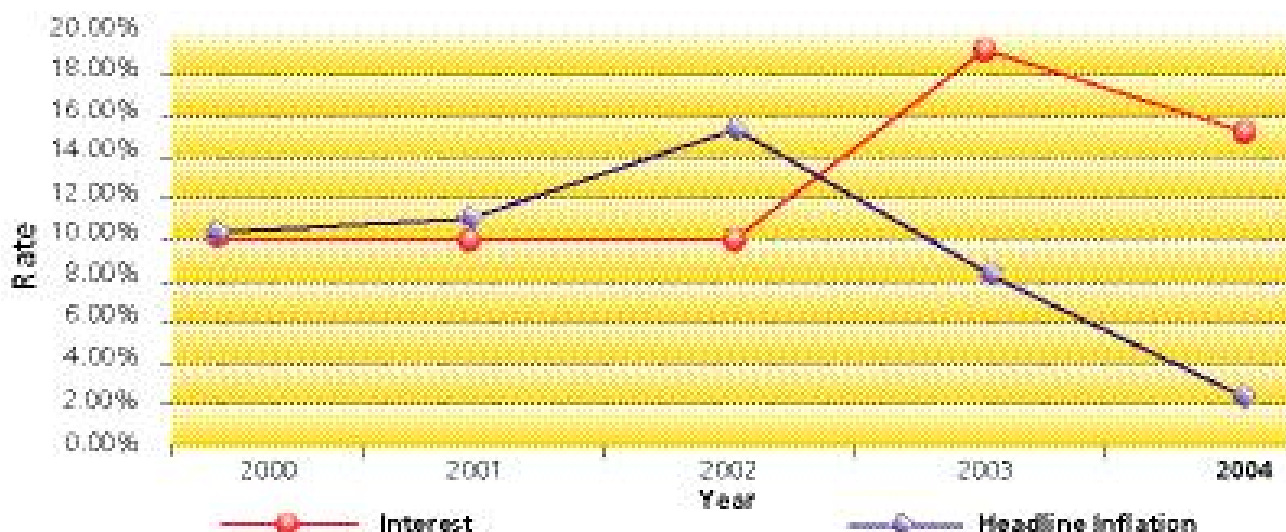
Empowering Contributors

Management recognises that it is only through more and improved member awareness campaigns and public education that contributors will better understand, appreciate the purpose and objectives of the Fund and plan their own savings or retirements funds. Accordingly, during the second half of 2004, management teams were dispatched to a number of provinces in PNG and suburban centres in Port Moresby to undertake a series of education awareness programs. The initial response was overwhelmingly encouraging. During 2005, it is anticipated that management together with the Fund Administrator will cover the remaining provinces and based on the results develop an annual cyclic system of education awareness campaigns throughout the country. Employers, unions, and other employee groups are urged to make use of the visitation schedules.

Interest Crediting Policy

Changes were made to the decade old method of crediting interest to member accounts. The new crediting method is a time weighted basis on member balance during the year.

The table below depicts the rates credited to members for the years 2000 to 2004 against headline inflation for those respective years.



MANAGING DIRECTOR'S STATEMENT *(continued)*

Investment Strategy

In 2004 our Investment Manager, Kina Funds Management operated in accordance with the Board's interim Investment Strategy. The Investment Manager must operate within the broad parameters of the Strategy in seeking to safeguard the value of contributors' funds and enhance returns on funds invested. Towards the end of the year the Board reviewed this Strategy, and posted a revised Strategy on the Fund website.

An outline of the revised Strategy, together with current investments, is provided later in this Report.

Challenges Ahead

Updating contributor personal information and nomination of beneficiaries remains a major challenge. Plans are underway to cleanse member data and will require the support of both employers and members. Members who have not received their 2004 Annual Statement should immediately contact us to confirm their address details. Those who have not nominated beneficiaries are encouraged to do so – this will ensure easier facilitation of benefits payments in the event of death. Members who have incomplete or wrong personal details appearing on their statements should also immediately contact us.

Pensions

The Board recognised the need to consider escalating certain life pensions which are payable to a small number of members who left the Fund prior to 1991. Despite some complexities in the legislative history, it appears the general intention in the legislation at the time of the transition from a defined benefit to an accumulation fund was that these pensions be indexed in line with inflation, subject to the availability of funds over time. The Fund's share of this adjustment has now been separated from member balances and an exercise will be undertaken in 2005 to work through and review individual pension entitlements. The Fund has written to the Government concerning its potential obligations in this regard, and the Membership Committee has been kept informed of this exercise.

Retirement Savings Account (RSA)

The Fund has taken an initiative, following the legislative changes introduced in the 2004 national budget, to introduce a "Retirement Savings Account". This facility, to be introduced in 2005, will allow members who exit the Fund to transfer all or part of their benefits net of tax to an RSA. The advantages of an RSA are the continued security of funds in retirement and the ability to make regular withdrawals from the account in line with retirement needs. In addition, earnings on RSA balances will be free of tax. Details of this facility are available from the Fund and its Fund Administrator, KISS.

Summary:

Your Fund continued to grow in financial strength during the year. There was positive real returns credited to member's' accounts, which means that there is real generation of retirement wealth. There is a word of caution though; the result is a combination of both external events, which are beyond the Board and Management control, and internal events under the control of the Board and Management.

We emphasise that your Board, Management and staff are committed to ensuring members Funds are preserved, you receive the appropriate level of service and will work towards real financial growth for your retirement. The results in this report speak for themselves.



Leon Buskens
Managing Director

MANAGING DIRECTOR'S STATEMENT *(continued)*

Management Team



From left to right: Seated:

General Manager Finance & Admin: Ms Asi Pako, *Bachelor of Commerce degree, University of PNG.* She has over 22 years working experience. 14 years in the savings & loans industry and 8 years with the Fund.

Managing Director: Leon Buskens, *Masters in Finance, Royal Melbourne Institute of Technology - Australia; Bachelor of Commerce, University of Technology PNG.*

Leon has over 16 years of working experience within the superannuation industry. .

General Manager Corporate Affairs: Mr Wayne Smith, *Bachelor in Commerce, (Accounting) Canterbury University, New Zealand.*

Wayne has over 22 years working experience, 19 years with IRC New Zealand, Coopers & Lybrand, Highlands Gold, Deloitte Touche Tohmatsu and 3 years with the Fund.

Back Row:

Manager Member Servicing: Mr Joseph Pupua, *Diploma in Business Studies, Divine Word University* Joseph has over 11 years of work experience in the car rental and real estate industry, working with Century 21, Rattel and Avis. Joseph commenced with the Fund in August 2004.

Manager HR & Administration: Mrs Loka Kula, *Bachelor of Arts (Industrial Psychology), University of PNG* Loka has over 13 years experience in HR and Administration. She has been with the Fund for 6 years and previous experience includes Elcom and QBE.

Property Manager: Mr Yuanimba Yinanguie, *Bachelor in Architecture & Building, University of Technology* Yuanimba has over 15 years experience in Property Management. He has been with the Fund for 4 years and has previous experience with Rural Bank, Bank of South Pacific and ETS Group.

Manager Legal Services: Ms Patricia Taureka, *Bachelor in Law, University of PNG.*

Patricia has over 15 years legal experience. She has been with the Fund for 3 years and has previous experience with Orogen Minerals Limited.

Manager Finance: Mr Heartly Kanaiat, *Bachelor of Commerce, University of Technology PNG,* Heartly has over 14 years of experience working with the Fund in the Finance Division.

MANAGING DIRECTOR'S STATEMENT *(continued)*

Corporate Values

The following Corporate Values underpin the business of the Fund and are important principles in guiding the behaviour of POSF management and staff:

Member Servicing:

Strive at all times to provide the best possible service 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.

In setting the Fund apart from its competitors and to ensure that it achieves its objectives, the Fund realigned its core competencies to assist in creating and maintaining its own purpose, direction and identity.

The following key core competencies are the basis from which the Fund will continue to conduct business and effectively meet the challenges and opportunities that lie ahead: -

Operational Competencies - The ability to effectively manage and develop the Fund's system and processes, significant relationships, employees, and institutional knowledge.

Special Assets – The physical and intangible assets which are difficult to duplicate and provide a competitive advantage, including the values that distinguish the identity and reputation of the Fund.

Change and Growth Supporting Competencies – Creating operational conditions which are conducive to skills articulation in such areas as post-superannuation reform organisational management, deal structuring involving multi-party entities or arrangements, risks and capital management.

Relationship Management – Establishing strategic partnership with members and service providers to optimise growth opportunities and value adding to existing relationships to help facilitate entry into new areas that are compatible with the Fund's objectives.

Comparative statistics: Summary

Statistics	2004	2003	2002	2001	2000	1999	1998
Net Asset Value (K million)	1,034.2	869.2	718.7	686.2	632.1	606.2	528.1
Net Asset Growth (%)	19.0	21.0	5.0	9.0	4.0	15.0	8.0
Total Revenue less Expenses and Benefits Paid After Tax (K million)	167.0	133.0	45.9	45.7	30.4	48.6	41.0
Interest credited to Members A/Cs (%)	15.5	19.0	10.0	10.0	10.0	13.0	12.5
Headline Inflation Rate (%)	2.4	8.4	14.8	10.3	10.0	13.2	21.8
Reserves (K million)	32.8	36.0	76.3	83.9	78.3	114.9	92.1
Member Employees' Contributions (K million)	44.6	47.1	51.2	33.6	40.4	29.7	31.4
Employer Contributions (K million)	34.1	4.1	0.0	0.0	0.0	0.0	0.0
Administration Expenses (Kmillion)	22.0	18.1	9.2	9.8	9.8	10.0	10.8
Total Exit Gross Payouts (Kmillion)	74.2	64.0	89.3	76.8	52.2	80.2	37.9
Number of exit payments	2,314	3,854	4,905	3,693	3,233	7,231	5,601
Management Expense Ratio (%) *	1.5	1.3	1.3	1.5	1.6	1.8	2.12

* The ratio for 2004 excludes life insurance provision of K7.5 million under the Fund's self insurance and rejected claims by underwriters from prior years, but includes BPNG levy fee of K2.3 million (for years 2003 & 2004).

MANAGING DIRECTOR'S STATEMENT *(continued)*

INVESTMENT PORTFOLIO

Investment Objective

The primary purpose of the Fund is to manage and grow members' contributions. The Board has determined that the principal investment objective should be to seek positive returns on members' funds without putting this basic purpose at risk.

The Board seeks an average after tax return of at least 2 % above the headline inflation rate, with negative real returns in no more than one year in five.

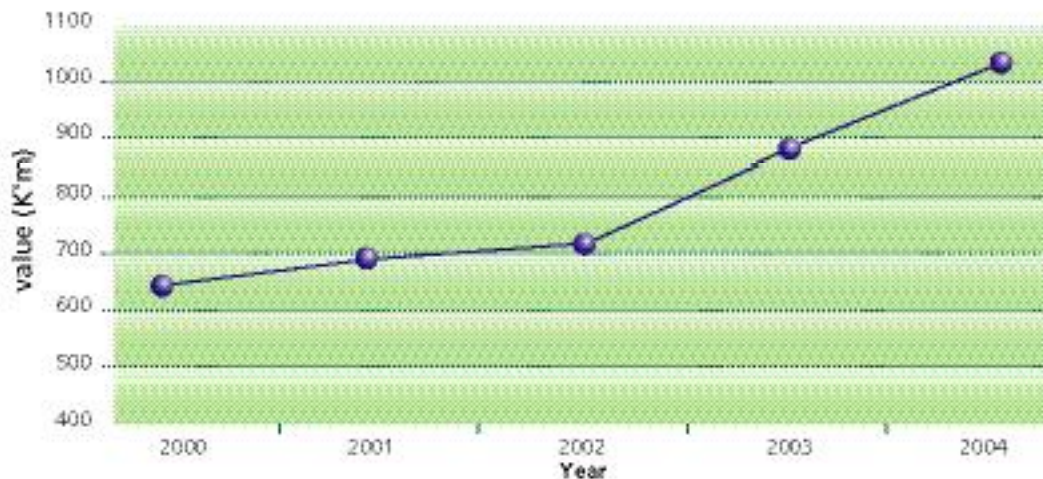
Risk Management

In developing the investment strategy, the Board in consultation with the Investment Manager has analysed the risks of various forms of investment, and sought to devise means of mitigating the greatest risks. This involves the exclusion of investment in asset forms considered to have unacceptable levels of risk, and limits on exposure to individual assets. More generally, asset diversification seeks to mitigate risk through diversifying investments across different asset sectors and different markets. The specific determinations within which the Investment Manager is to operate are summarised in the table below.

Asset Class	Sector Range Low – High	Benchmark Return Rate
Cash	5 – 10 %	Average TBill rate for 63 days less 2%
Fixed Interest	15 – 40 %	Average 180 days Tbill rate
Equity – Listed & Unlisted	20 – 50 %	KSI & Strategy
Property	10 – 30 %	Define responsibility
International	15 – 25 %	Official cash rate and indexes

Net asset value has shown a strong and steady increase since inception. The graph depicts the values for years 2000 to 2004.

NET ASSET VALUE



ASSET ALLOCATION 31 DECEMBER 2004



MANAGING DIRECTOR'S STATEMENT *(continued)*

Domestic Investment Portfolio

Cash Portfolio

The Fund's Cash portfolio Portfolio comprises Cash, Interest Bearing Deposits (IBD) and Treasury Bills (TB) with maturity up to 90 days. At the year end, the fund was carrying Cash total of K170.1 million or 17% of the total portfolio asset. This holding was slightly above the allocation range limit for this asset. Being overweight in this asset class can attribute to the strategy to hold funds in short-term investment whilst awaiting high yield investment opportunities.

Fixed Interest

The Fixed Interest portfolio comprises government, semi government, corporate securities and debt including development loans. This also includes TB and IBD with maturity of over 90 days.

The Fund was holding K348.4 million or 34% of the total portfolio in Fixed Interest in 2004, which was within the allocation range for this asset

Commercial Equity Securities

The Commercial Equities portfolio consists of listed and unlisted shares. In 2004 the Fund's equity portfolio was valued at K282.3 million, which constituted 28% of the total asset value of the Fund and reflected an increase of value by 25.23% from the beginning of the year. The increase was due to the appreciation of listed shares on POMSoX and ASX and an increase in the value of the unlisted equity portfolio.

a) Listed Equity Securities

As 31 December 2004, the listed portfolio was K172.9 million. An increase of K 44.6 million from the 2003 balance of K128.3 million. This includes a year end revaluation increment of K 36.2 million fair value gain arising from the change in the net market value of the securities.

Total dividend received during the year in this sector was K4.3 million.

The table below sets out all listed companies in which the Fund has an equity interest:

Listed Equity	Stock Exchange	Industry/Sector
Bank South Pacific Ltd	POMSOX	Banking/Finance
Bougainville Copper Ltd	ASX	Mining
CBA Commonwealth Bank of Australia Ltd	ASX	Banking/Finance
Credit Corporation Ltd	POMSOX	Finance
Highlands Pacific Ltd	POMSOX/ASX	Mining
Lihir Gold Ltd	POMSOX/ASX	Mining
Mirvac Group Ltd	ASX	Property diversified Trust
New Britain Palm Oil Ltd	POMSOX	Agriculture
Oil Search Ltd	POMSOX/ASX	Mining & Petroleum
Ramu Sugar Ltd	POMSOX	Agriculture
TasGold Ltd	ASX	Mining
Telstra Corporation Ltd	ASX	Communications

MANAGING DIRECTOR'S STATEMENT *(continued)*

b) Unlisted Equity Securities

The unlisted equity portfolio was revalued by an independent valuer, Deloitte Touche Tohmatsu at the end of the year 2004 resulting in a net fair value gain of K18.1 million. The portfolio balance at year end amounted to K114.6 million in December 2004. The balance at end of 2003 was K97.2 million.

A total of K15.7 million was received as dividends from the unlisted equity sector.

The table below details the relevant unlisted companies together with the percentage holding:

Unlisted Equity	Industry	Percentage Holding (%)
Alotau International Hotel Ltd	Hospitality	33
Arnotts Biscuits Holding PNG Ltd	Food & Snacks	17
Big Rooster Ltd	Fast Food	100
BPT PNG Ltd – Ela Motors	Motor Vehicle	4
Brian Bell Ltd	Wholesale Retailing	34
Marsh Insurance Services Ltd	Insurance Brokering	10
Hunter Pty Ltd	Property	30
Kumul Hotels Ltd	Tourism & Hospitality	55
Moki No.10 Ltd	Real Estate	100
Nationwide Rent A Car Ltd – Avis	Motor Vehicle Hire	6
Pacific Capital Limited	Finance	9
Pacific Vista Apartments Ltd*	Real Estate	100
Peachester Ltd*	Property	100
Post Courier Ltd	Media	21
PNG Bag Distributors Ltd*	Property	100
PNG Water Ltd	Utilities	30
SP Brewery Ltd	Brewery - Manufacturing	20
Tabubil Hotels Ltd	Tourism & Hospitality	26
Tanga Holdings Ltd*	Property	100
Westpac Bank Ltd	Finance & Banking	7

* These four property holding companies have been amalgamated into the Fund on 1 January 2005.

MANAGING DIRECTOR'S STATEMENT *(continued)*

Property Portfolio

The Property portfolio of the Fund is made up of office commercial, residential units, industrial warehouses and a land bank. At the end of 2004 the Fund was holding K134.4 million in the property portfolio, which represents 13% of the Fund's aggregate asset value. This reflects an increase of 27.4% in the total value of the portfolio from the beginning of the year. The increase in the value of the portfolio was mainly due to the following:

- Independent revaluation of the property portfolio in 2004 which resulted in a net fair value gain
- Acquisition of Revenue Haus and an industrial property in Lae.

Commercial Office	Location
Revenue Haus	Port Moresby
Era Rumana	Port Moresby
Mogoru Moto	Port Moresby
Aopi Centre	Port Moresby
Vulupindi Haus	Port Moresby
Shirin Haus	Port Moresby
Taurama Squash Centre	Port Moresby
IPI Building	Lae
Vele Rumana	Lae
Lightfoot Arcade	Madang

Industrial Warehouse	Location
Bowmans (Gordons Industrial)	Port Moresby
PNG Motors (Eriku)	Lae
Madang Service Station (BP)	Madang
Angco Lot 1 Sec 5 (Banz)	Mt Hagen
Angco Lot 1 Sec 6 (Banz)	Mt Hagen
Angco Lot 2,3,5 Sec 6 (Banz)	Mt Hagen
Angco L5,6,19 & 20S34	Lae
Lae Warehouse	Lae

Commercial – Residential	Location
Pacific Vista Apartments	Port Moresby
Touaguba Apartments	Port Moresby
Bayside Apartments	Port Moresby
Lawes Road Apartments	Port Moresby
Ela Makana	Port Moresby
Devon Lodge	Port Moresby
Webb St. Apartments	Port Moresby
Tanatana St Apartments	Port Moresby
Touaguba Residence	Port Moresby
Konenamo Residence	Port Moresby
Angco L3S105	Goroka



Above:
Vulupindi Haus



Left:
Mogoru Moto

The K134.4 million or 13% holding in property was within the allocation range for this asset. A study was commenced in late 2004, with a view to developing some of the vacant land lots that the Fund owns with upmarket residential and low cost units.

MANAGING DIRECTOR'S STATEMENT *(continued)*

International Investment Portfolio

As at the end of 2004, the Funds International holding was K84.2million representing a 8% of the total portfolio under management.

In 2004, a total of K82.9 million was invested offshore as allowed for under the Superannuation (General Provisions) Act 2000. The investments are in equities and fixed interest including floating rate notes.

The objectives of the offshore investments are: -

- to provide a counterweight to the impact of the PNG economic cycle in its impact on POSF's earnings
- to secure greater investment opportunities pending stronger growth within PNG
- to provide greater sector diversity than is available in PNG
- to provide access to asset forms not available in PNG.

Member's contributions

In 2004, the Fund received a total of K 78.7 million in member contributions made up of: -

Employee contributions K 44.6 million

Employer contributions K 34.1 million

This is an increase of K27.5 million, compared to the In 2003, total member contributions received of was K51.0 million in 2003.

Benefits Paid

A total of 2,314 claims were processed and paid out in 2004. This represented a payout of K74.2.0 million compared to 3,783 854 claims in 2003. During the year, a total of 879 claims were processed as unemployment benefits.

The different types of benefits paid:

Benefit Type	Amount	Claims Amount	2003	Amount Claims
Unemployment	K 34.6 million	1,257	K 24.3 m	2,135
Retirement	K 27.4 million	449	K 25.5 m	659
Death	K 10.0 million	608	K 14.2 m	989
	K 72.0 million	2,314	K 64.0 million	3,854



STATEMENT FROM THE FUND ADMINISTRATOR

■ KINA SUPERANNUATION SERVICES LIMITED



2004 – Moving Forward

As outlined in 2003, Kina Investment and Superannuation Services (KISS) was determined to implement a frank and honest assessment of its Customer Service Performance by benchmarking and measuring the processing of members contributions and benefit payments.

We are very pleased to report that through the involvement of all staff, the process of re-engineering and using greater team co-operation, service standards were consistently improved throughout the year.

As at December 2004, 100% of all benefit payments were being completed in 5 days while 98% were processed in 2 days. Considering that KISS was processing 70% of benefits in 2 days in January 2004 the improvement by year end, is a credit to the hard work and co-operation of KISS staff.

Even greater improvements were made with respect to the crediting of member contributions into their accounts. The contributions team was processing 30% of contributions in 2 days in January 2004 to over 90% by 31 December 2004.

The effect of these improvements was very evident with a dramatic fall in customer complaints. Customer complaints fell by 85% from January to December 2004.

Although this level of service is good for members, there is always room for improvement. KISS will continue to listen to Fund members as to how best to improve its performance in servicing member needs.

Member Awareness

It was rewarding and encouraging witnessing the results of “meet and greet” services rendered at various functions and facilities throughout the year. The events were crucial in getting to know members of the Fund and their perceptions of the Fund. Giving members a forum in which they can ask questions frankly and receive information first hand is critical in operating a valuable superannuation fund.

KISS looks forward to being involved in a greatly expanded member awareness program in 2005 where it can look to personally reaching out to more of the Fund members across the country.

Expanded Services

KISS took the initiative in 2004 to increase its customer service hours to 8.30 am to 4.00 pm. More and more members also took advantage of the internet in greater numbers as well lodging enquiries by email. KISS looks forward to working with POSF management to expand internet services in 2005.

I believe, 2005 will give us the opportunity to implement new services such as retirement counselling and a complimentary new superannuation account called a Retirement Savings Account. These services will help members better plan and manage their financial needs upon ceasing work.

In conjunction with POSF Member Services, KISS looks forward to another great year of serving POSF members.

Stephen Brown
Fund Administration Manager

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INVESTMENT MANAGER'S STATEMENT

■ KINA FUNDS MANAGEMENT LIMITED



2004 was another record year for POSF Limited with a total investment income of K153.4 million. This comprises K96.3 million from investments operations and K 57.1 million as net fair value gained from revaluation.

Kina Funds Management Limited (KFM) remitted a total of K82.9 million offshore as allowed under the Superannuation (General Provisions) Act 2000. This was done with the aim of providing a counterweight to the impact of the PNG economic cycle in its impact on POSF's earnings, to secure greater investment opportunities pending stronger growth within PNG, to provide greater sector diversity than in is available in PNG and to provide access to asset forms not available in PNG.

2004 has seen a full operation year for KFM as Investment Manager for POSF. The Fund's total investment portfolio has grown from K724.7 million in December 2003 to K1.02 billion in December 2004 an increase of K299.3million.

The positive result was achieved by strict adherence to the new Superannuation Act and the Fund's Investment Strategy to facilitate the core objectives of the Fund and its valued members. KFM and POSF compliance with the new legislation has automatically instituted transparent investment decisions and strengthening of good corporate governance.

The investment strategy was reviewed in 2004 to align with the prevailing investment climate in PNG and overseas. The review resulted in changes to neutral allocation and benchmarking of performance. Also in the year, KFM has managed to rebalance the entire portfolio to conform to the required neutral allocation, except in Cash where the KFM has held funds in short term deposits pending investment opportunities. 2005 and onwards KFM will continue to provide independent investment advice within the framework of the investment strategy and the new Superannuation Act.

2005 will be a challenging year given the declining trend of interest rates but KFM will endeavour to maintain the level of returns and remain above benchmark performances. With the same level of support and co-operation, as seen in 2004, by the Trustee, its directors and management and staff, KFM is committed to continue to enhance and increase the returns for POSF in 2005.

KFM is now extremely pleased to announce that the positive outcome for 2004 would not have been possible without the commitment and dedication shown by both POSF and KFM management and staff.

We therefore, take this opportunity to congratulate you all and trust that we maintain this good relationship and continue to work together as a team to deliver and safeguard the interest of the members of the Fund again in 2005 and beyond.

Kong Wong
Kina Funds Management Limited

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INDEPENDENT AUDIT STATEMENT



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Independent audit report to members of the Public Officers Superannuation Fund ("POSF")

Audit opinion

In our opinion,

- a) the financial report of the Public Officers Superannuation Fund ("POSF"):
- gives a true and fair view of the financial position of POSF ("the Fund") at 31 December 2004, and of its performance for the year ended on that date, and
 - is presented in accordance with the Superannuation (General Provisions) Act 2000, Companies Act 1997 and International Financial Reporting Standards & other generally accepted accounting practice in Papua New Guinea
- b) proper accounting records have been kept by the Fund as far as appears from our examination of those records; and
- c) we have obtained all the information and explanations we have required.
- This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and the trustee's and directors' responsibility

The financial report comprises the Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows, and the accompanying notes to the financial statements for the Fund for the year ended 31 December 2004.

The directors of POSF Limited, the Trustee of the Fund are responsible for the preparation and true and fair presentation of the financial report in accordance with the Superannuation (General Provisions) Act 2000 and the Companies Act 1997. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Fund. Our audit was conducted in accordance with International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Superannuation (General Provisions) Act 2000, Companies Act 1997, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea, a view which is consistent with our understanding of the Fund's financial position, and of its performance as represented by the total revenue less expenses and benefits paid after income tax and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

We read the other information in the Annual Report to determine whether it contained any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls. Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of the Certified Practising Accountants Papua New Guinea and the Companies Act 1997.

PricewaterhouseCoopers

By: J C Seeto.

Registered under the Accountants Act 1996
Port Moresby. 31 March 2005

AUDITOR GENERAL'S REPORT



CONTENTS

Statement of Changes in Net Assets	19
Statement of Net Assets	20
Statement of Cash Flows	21
Notes to and forming part of the Financial Statements	22 – 35
Declaration by Trustee and Management	36



FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

STATEMENT OF CHANGES IN NET ASSETS

	Note	2004 K	2003 K
REVENUE			
Investment income			
Interest	3(a)	53,804,037	61,437,400
Dividends	3(b)	20,021,955	15,326,035
Property rentals	3(c)	22,530,493	16,951,040
Fair value gains arising from changes in net market value of investments	3(d)	57,050,714	60,416,254
		<u>153,407,199</u>	<u>154,130,729</u>
Contribution income			
Members' contributions		44,614,797	47,115,097
Employer contributions		34,089,125	4,084,900
		<u>78,703,922</u>	<u>51,199,997</u>
Other income	3(e)	8,445,936	16,216,745
Total		<u>240,557,057</u>	<u>221,547,471</u>
Less:			
EXPENSES			
General and administrative expenses	4(a)	21,967,506	18,084,403
Benefits paid (including housing advances/housing withdrawals)		32,697,117	34,079,106
Direct investment expenses	4(b)	7,725,921	6,983,466
Total		<u>62,390,544</u>	<u>59,146,975</u>
Total revenue less expenses and benefits paid before income tax		178,166,513	162,400,496
Income tax expense	5(a)	11,475,823	13,664,398
Total revenue less expenses and benefits paid after income tax		166,690,690	148,736,098
Net assets available to pay benefits at the beginning of the year		<u>867,464,680</u>	<u>718,728,582</u>
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR	11	<u>1,034,155,370</u>	<u>867,464,680</u>

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

STATEMENT OF NET ASSETS

	Note	2004 K	2003 K
INVESTMENTS			
Government securities	6(a)	455,349,356	288,322,114
Other fixed interest securities	6(b)	100,681,641	53,629,484
Loans and debentures	6(c)	46,100,000	51,750,000
Shares in listed securities	6(d)	172,959,495	128,311,883
Shares in unlisted securities	6(e)	114,613,583	97,213,003
Investment properties	6(f)	134,364,576	105,479,348
Total investments		<u>1,024,068,651</u>	<u>724,705,832</u>
OTHER ASSETS			
Cash and cash equivalents	7	28,586,134	36,865,666
Receivables	8	12,842,655	128,751,959
Property, plant and equipment	9	6,318,079	7,367,790
Total other assets		<u>47,746,868</u>	<u>172,985,415</u>
TOTAL ASSETS		<u>1,071,815,519</u>	<u>897,691,247</u>
Less:			
LIABILITIES			
Benefits payable		1,062,517	1,332,904
Trade and other creditors	10	26,756,061	14,697,052
Current income tax liabilities	5(b)	9,750,541	1,379,145
Deferred income tax liabilities	5(c)	91,030	12,817,466
TOTAL LIABILITIES		<u>37,660,149</u>	<u>30,226,567</u>
NET ASSETS AVAILABLE TO PAY BENEFITS	11	<u>1,034,155,370</u>	<u>867,464,680</u>

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

STATEMENT OF CASH FLOWS

	Note	2004 K	2003 K
Cash flow from operating activities			
Interest received on fixed interest securities		53,191,241	62,310,688
Interest received on State Share receivables		50,703,927	-
Dividends received		20,021,955	15,326,035
Property rentals received		21,084,866	15,730,203
Employer contributions received		34,089,125	4,084,900
Member contributions received		44,614,797	47,115,097
State Share of benefit payments received		117,921,397	23,695,331
Other income and receipts		5,511,666	6,427,109
General administration expenses paid		(16,176,502)	(24,912,648)
Trust share of benefits paid (incl. housing withdrawals)		(32,697,117)	(34,079,106)
State share of benefits paid (incl. housing withdrawals)		(42,418,163)	(29,024,411)
Income tax paid		(15,830,863)	(6,872,077)
Net cash provided by operating activities	15	<u>240,016,326</u>	<u>79,801,121</u>
Cash flow from investing activities			
Receipt of development loan repayments		5,650,000	5,100,000
Proceeds on maturity of Government securities		1,727,379,669	1,307,348,000
Payment of purchase of Government securities		(1,894,406,911)	(1,348,199,999)
Placement of other fixed interest securities – net		(47,052,157)	(23,629,484)
Payment for acquisition of shares in listed equities		(14,366,845)	(918,142)
Payment for acquisition of shares in unlisted equities		-	(150,000)
Proceeds on sale of shares in listed equities		7,745,974	2,929,484
Proceeds on sale of shares in unlisted equities		1,027,960	-
Payment for investment property development & acquisition		(27,233,770)	(4,497,520)
Payment for investment property assets		(350,671)	(430,593)
Payment for property, plant and equipment		(344,693)	(265,025)
Proceeds on sale of investment properties		1,351,841	1,351,841
Proceeds on sale of investment property assets		29,666	-
Proceeds on sale of property, plant and equipment		-	40,949
Direct investment expenses paid		(7,725,921)	(6,983,466)
Net cash used in investing activities		<u>(248,295,858)</u>	<u>(68,303,955)</u>
Net increase / (decrease) in cash & cash equivalents held		(8,279,532)	11,497,166
Cash and cash equivalents at the beginning of the year		<u>36,865,666</u>	<u>25,368,500</u>
Cash and cash equivalents at the end of the year		<u>28,586,134</u>	<u>36,865,666</u>

FINANCIAL STATEMENTS

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**1. GENERAL INFORMATION**

Public Officers Superannuation Fund ("POSF" or "Fund") is an approved fund under the Superannuation General Provisions Act 2000 ("Act"). The Fund is primarily a defined contribution (or accumulation) fund which provides benefits to its members in accordance with the Act. The Fund is governed by a board of directors, pursuant to their responsibilities to POSF Limited, the Fund's Corporate Trustee.

POSF Limited is domiciled in PNG and the registered office is :

Level 6, Era Rumana
Champion Parade
PO Box 483
Port Moresby

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

These financial statements are presented in accordance with the requirements of the Act and the Papua New Guinea Companies Act 1997 and comply with generally accepted accounting practice, including applicable financial reporting standards approved for use in Papua New Guinea ("PNG") by the Accounting Standards Board ("ASB"). The ASB has approved all current International Financial Reporting Standards ("IFRS") as financial reporting standards.

All amounts are expressed in PNG Kina rounded to the nearest Kina.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the fair value adjustments to investments and other financial assets and liabilities at fair value through the Statement of changes in net assets. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Some of the comparative information has been conformed for consistency with the current year presentation. (See note 18).

The preparation of 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 financial statements include the accounting for pensioner funds and certain liabilities.

(b) Revenue recognition

Investment income, comprising of interest on government securities, term deposits, debentures, loans and rental income, is brought to account on an accruals basis. Dividends from shares are accounted for on a cash received basis. Changes in the net market value of assets are recognized in the Statement of changes in net assets in the periods in which they occur. Transfers from other funds are brought to account when received. Contribution revenue is recognized upon receipt.

(c) Foreign currency translation

The financial statements are presented in PNG Kina, which is the Fund's functional and presentation currency. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of changes in net assets. Such balances are translated at year-end exchange rates at balance date. Translation differences on non-monetary items, such as equities held at fair value through the Statement of changes in net assets, are reported as part of the fair value gain or loss.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**(d) Property, plant and equipment**

Property, plant and equipment comprise mainly residential and office buildings, and motor vehicles. All these assets are shown at cost, less subsequent depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of changes in net assets during the financial period in which they are incurred.

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%

(e) Investments

Assets of the Fund or plan assets that are treated as investments are recorded at fair value as at the reporting date and the changes in fair value are recognized in the Statement of changes in net assets in the period in which they occur.

- Listed shares are valued at balance date by reference to their market value and in the case of foreign denominated shares, are translated using the closing rate on that date.
- Unlisted shares are valued at fair value at balance date, as determined by an independent professional valuer. The main factors used in determining fair value include a combination of dividend yield, net tangible asset backing and future maintainable earnings, as appropriate.
- Investment properties are valued at fair value at balance date, determined by qualified independent professional valuers.

The Fund's interest in controlled entities are treated as plan assets or investments of the Fund available for sale and therefore not consolidated in these financial statements.

(f) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is based on management's best estimates and is recognized in the Statement of changes in net assets.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and where applicable, bank overdrafts.

(h) Income tax

Tax effect accounting procedures are followed using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Income tax on temporary differences is set aside to the deferred tax liability and deferred tax asset accounts at current enacted tax rates. Deferred tax assets relating to deductible temporary differences and tax losses are only carried forward as an asset to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**(i) Provisions**

A provision is recognized when there is a present obligation to transfer economic benefits as a result of past events. The amount provided is the best estimate of the expenditure that would be required to settle the obligation that existed at the balance sheet date.

(j) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, trade creditors and investments. These instruments are generally carried at their estimated fair value. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

(k) Employee benefits

Liabilities for employees' entitlements to wages and salaries, annual leave, and other employee entitlements are accrued at nominal amounts calculated having regard to period of service, statutory obligations, and on the basis of current wage and salary rates.

(l) Trade and other creditors

Trade and other creditors represent liabilities for goods and services provided to the Fund prior to the end of the financial period and which are unpaid. The amounts are unsecured.

(m) Benefits payable

Benefits payable are benefits attributable to members but had not been paid by balance date.

(n) Liability for accrued benefits

The liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries, inclusive of any statutory reserves, and has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of liabilities as at the reporting date.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. INCOME

The following categories of income were credited to the Statement of changes in net assets:

	2004 K	2003 K
INVESTMENT INCOME		
(a) INTEREST		
<i>Interest from:</i>		
Government securities	42,422,396	47,245,014
National Government loan	1,471,019	1,467,000
Debentures and/or loans	4,286,818	5,508,135
Term deposits	5,623,804	7,217,251
	<u>53,804,037</u>	<u>61,437,400</u>
(b) DIVIDENDS FROM INVESTMENTS		
Shares in listed securities	4,305,145	2,924,693
Shares in unlisted securities	15,716,810	12,401,342
	<u>20,021,955</u>	<u>15,326,035</u>
(c) PROPERTY RENTAL		
Gross rental income	<u>22,530,493</u>	<u>16,951,040</u>
(d) CHANGES IN NET MARKET VALUE OF INVESTMENTS		
<i>Investments held at the end of the year:</i>		
Shares in listed securities	36,210,010	40,075,544
Shares in unlisted securities	18,102,580	13,608,102
Investment properties	2,738,124	6,732,608
	<u>57,050,714</u>	<u>60,416,254</u>
TOTAL INVESTMENT INCOME	<u>153,407,199</u>	<u>154,130,729</u>
(e) OTHER INCOME		
Directors fees received	43,218	80,100
Profit/(loss) on assets disposed	(198,308)	1,010,642
Interest on state share receivable	3,695,739	14,756,048
Foreign exchange gain/(loss)	1,533,341	-
Bad debt recovered	2,146,996	204,378
Other income	1,224,950	165,577
	<u>8,445,936</u>	<u>16,216,745</u>

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

4. EXPENSES

Expenses charged to the Statement of net assets comprised of:

(a) GENERAL AND ADMINISTRATIVE EXPENSES

	2004 K	2003 K
Management expenses		
Staff	4,295,252	4,797,592
Vehicles	174,133	182,465
Travel	97,512	86,148
Professional fees	587,807	1,188,218
Directors fees & expenses	352,417	311,294
Conferences	37,229	19,353
Office expenses	943,863	990,069
Staff housing	471,847	459,068
Office building expenses	<u>160,895</u>	<u>152,545</u>
	<u>7,120,955</u>	<u>8,186,752</u>
Outsourcing expenses		
Fund administration	1,392,758	1,615,229
Investment management	<u>2,285,984</u>	<u>355,500</u>
	<u>3,678,742</u>	<u>1,970,729</u>
BPNG license fees	<u>2,319,754</u>	<u>-</u>
Contributor expenses		
Contributor liaison	452,232	407,403
Life insurance expense	<u>7,543,851</u>	<u>5,752,256</u>
	<u>7,996,083</u>	<u>6,159,659</u>
Other expenses		
Doubtful debts	169,919	1,018,000
Depreciation of fixed assets	<u>682,053</u>	<u>749,263</u>
	<u>851,972</u>	<u>1,767,263</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>21,967,506</u>	<u>18,084,403</u>
(b) DIRECT INVESTMENT EXPENSES		
Maintenance expenditure on investment properties	<u>7,725,921</u>	<u>6,983,466</u>

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. INCOME TAX

The income tax charged on total revenues less expenses and benefits paid is determined as follows:

(a) INCOME TAX EXPENSE

	2004 K	2003 K
Current	25,509,438	15,993,815
Deferred	(12,685,860)	2,105,022
Prior year expense/ (credit)	(1,347,755)	(4,434,439)
Income tax expense for the year	<u>11,475,823</u>	<u>13,664,398</u>

(b) PROVISION FOR INCOME TAX

Prima facie tax payable at 25% (2003: 30%) on total revenues less expenses and benefits paid before income tax	44,541,628	48,720,149
Tax effect of permanent differences	(31,718,050)	(30,621,312)
Tax effect of temporary differences	12,685,860	(2,105,022)
Tax paid - credit for interest withholding tax	(8,184,070)	(6,871,077)
Tax paid	<u>(7,646,793)</u>	<u>-</u>
	9,678,575	9,122,738
Prior year (over)/under provision	71,966	(7,743,593)
	<u>9,750,541</u>	<u>1,379,145</u>

(c) DEFERRED TAX LIABILITY

Opening balance at the beginning of the year	12,817,466	10,751,578
Movement in year	(12,685,860)	2,105,022
Prior year	(40,576)	(39,134)
Closing balance at the end of the year	<u>91,030</u>	<u>12,817,466</u>

Comprising:

Interest receivable	1,954,857	13,545,342
Rent receivable	1,173,651	774,983
Consumable stores	2,512	2,513
Depreciation	(98,328)	(8,533)
Less:		
Employee benefits	(293,176)	(208,785)
Doubtful debts	(525,736)	(483,257)
Doubtful Loans	(268,048)	(804,797)
Insurance payments – death claims	(1,854,702)	-
Deferred taxation	<u>91,030</u>	<u>12,817,466</u>

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INVESTMENTS

Investments are made up as follows:

	2004 K	2003 K
(a) Government Securities	455,349,356	288,322,114
(b) Term deposits		
Onshore term deposit	17,435,000	51,700,000
Less: Provision for doubtful deposit	<u>(1,000,000)</u>	<u>(1,000,000)</u>
	16,435,000	50,700,000
Offshore term deposit	8,680,035	2,929,484
Offshore fixed interest deposits	<u>75,566,606</u>	<u>-</u>
	<u>100,681,641</u>	<u>53,629,484</u>
(c) Loans and debentures		
<i>National Government</i>		
Balance at the beginning of the year	10,000,000	10,000,000
Payments received	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>10,000,000</u>	<u>10,000,000</u>
<i>Companies</i>		
Balance at the beginning of the year	41,750,000	46,850,000
Payments received	<u>(5,650,000)</u>	<u>(5,100,000)</u>
Balance at the end of the year	<u>36,100,000</u>	<u>41,750,000</u>
	<u>46,100,000</u>	<u>51,750,000</u>
(d) Shares in listed securities		
Balance at the beginning of the year	128,311,883	56,613,937
Reclassification from Shares in unlisted securities (Bank South Pacific Ltd)	-	32,308,000
Divestments in the year:		
Macmin Ltd	-	(1,603,740)
Bougainville Copper Ltd	(477,096)	-
Oil Search Ltd	(5,452,147)	-
Investments during the year		
Bank South Pacific Ltd (Dividend reinvestment plan)	2,173,846	-
Ramu Sugar Ltd	1,480,000	854,330
New Britain Palm Oil Ltd	239,823	63,812
Mirvac Group Ltd	453,769	-
AMP Capital – China Fund	1,039,273	-
Commonwealth Bank of Australia Ltd	1,319,282	-
Telstra Corporation Ltd	510,097	-
Tasgold Ltd (Bonus Shares)	76,952	-
Mahogany Capital Investment Ltd	7,073,083	-
Fair value gain from change in net market value	<u>36,210,010</u>	<u>40,075,544</u>
Balance at the end of the year	<u>172,959,495</u>	<u>128,311,883</u>

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2004 K	2003 K
(e) Shares in unlisted securities		
Balance at the beginning of the year	97,213,003	116,312,9018
Reclassification to Shares in listed securities (Bank South Pacific Ltd)	-	(32,308,000)
Investment in Alotau International Hotel	-	150,000
Redemption of shares in Ramu Sugar Ltd	-	(550,000)
Divestment of shares in Metals Refinery Holdings Ltd	(702,000)	-
Fair value gain from change in net market value	18,102,580	13,608,102
Balance at the end of the year	<u>114,613,583</u>	<u>97,213,003</u>
(f) Investment properties		
<i>Land and buildings</i>		
Balance at the beginning of the year	97,069,060	89,740,229
Additions	29,473,365	1,761,188
Divestments for the year	(1,395,128)	(1,173,298)
Reclassification from fixed assets (Refer Note 9)	717,157	8,333
Reclassification to fixed assets (Refer Note 9)	(63,089)	-
Fair value gain (Refer Note 3(d))	2,738,124	6,732,608
Balance at the end of the year	<u>128,539,489</u>	<u>97,069,060</u>
<i>Furniture and fittings</i>		
Cost at the beginning of the year	5,588,664	5,369,860
Additions	132,954	218,804
Disposals	(28,263)	-
Cost at the end of the year	<u>5,693,355</u>	<u>5,588,664</u>
Accumulated depreciation	2,494,760	2,063,606
Depreciation charge for the year	411,491	431,154
Disposals	(11,675)	-
Total	<u>2,894,576</u>	<u>2,494,76</u>
Net book amount	<u>2,798,779</u>	<u>3,093,904</u>
<i>Plant and equipment</i>		
Cost at the beginning of the year	3,466,573	3,254,784
Additions	217,717	211,789
Disposals	(36,124)	-
Cost at the end of the year	<u>3,648,166</u>	<u>3,466,573</u>
Accumulated depreciation	1,879,026	1,635,784
Depreciation charge for the year	244,390	243,242
Disposals	(12,316)	-
Total	<u>2,111,100</u>	<u>1,879,026</u>
Net book amount	<u>1,537,066</u>	<u>1,587,547</u>
Total Investment Properties	<u>132,875,334</u>	<u>101,750,511</u>
Capital works in progress on investment properties	<u>1,489,242</u>	<u>3,728,837</u>
	<u>134,364,576</u>	<u>105,479,348</u>
TOTAL INVESTMENTS	<u>1,024,068,651</u>	<u>724,705,832</u>

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

7. CASH AND CASH EQUIVALENTS

	2004 K	2003 K
Bank balance	25,484,080	3,779,004
Cash in hand	1,885	1,885
Bank call deposit	3,100,169	33,084,777
	<u>28,586,134</u>	<u>36,865,666</u>

8. RECEIVABLES

Rental debtors	4,715,478	3,099,933
Less: Provision for doubtful debts	(1,102,945)	(933,027)
	<u>3,612,533</u>	<u>2,166,906</u>
Staff housing scheme and advances	165,569	229,752
Loan debtors	4,923,438	3,675,000
Sundry debtors	1,453,307	2,226,290
Department of Finance (State share)	-	117,352,252
Interest accruals	2,385,447	3,021,089
Associated funds	292,312	70,621
Other	10,049	10,049
	<u>12,842,655</u>	<u>128,751,959</u>

9. PROPERTY, PLANT AND EQUIPMENT

Non-investment fixed assets used in the operations of the Fund are included in Property, plant and equipment, as set out below. Property, plant and equipment associated with investment properties are included under Investments, note 6.

	HOUSING		OFFICE BUILDING		VEHICLES		Total
	Land & Building	Plant & Equipment	Land & Building	Furniture & Fittings	Plant & Equipment	Motor Vehicles	
COST							
At 1 January 2004	1,002,525	132,267	3,550,000	2,281,039	3,119,862	1,276,810	11,362,503
Additions	214,877	31,510	11,578	3,553	83,175	-	344,693
Reclassification to							
Investment Properties (refer note 6)	-	-	63,089	(973,964)	(1,730,159)	-	(2,641,034)
Disposal	-	-	-	-	(260,467)	(108,400)	(368,867)
At 31 December 2004	1,217,402	163,777	3,624,667	1,310,628	1,212,411	1,168,410	8,697,295
DEPRECIATION							
At 1 January 2004	134,778	72,745	160,125	918,487	1,854,296	854,278	3,994,709
Depreciation	11,794	10,272	152,588	152,232	235,443	119,724	682,053
Reclassification to							
Investment Properties (refer note 6)				(667,670)	(1,319,295)	-	(1,986,965)
Disposals	-	-	-	-	(229,466)	(81,115)	(310,581)
At 31 December 2004	146,572	83,017	312,713	403,049	540,978	892,887	2,379,216
NET BOOK VALUE							
At 31/12/04	1,070,830	80,760	3,311,954	907,579	671,433	275,523	6,318,079
At 31/12/03	867,747	59,522	3,389,875	1,362,549	1,265,565	422,532	7,367,790

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

10. TRADE AND OTHER CREDITORS

	2004 K	2003 K
Creditors	4,093,148	2,798,482
Rental bond fees	1,230,034	804,255
Member insurance payable	7,418,807	3,541,356
Net State-share received in advance*	5,997,618	-
State pension liability	6,720,000	6,720,000
Accruals	<u>1,296,454</u>	<u>832,959</u>
	<u>26,756,061</u>	<u>14,697,052</u>

* This represents net amounts received in advance from the State in relation to its share of retrenchment and other benefit payments.

11. LIABILITY FOR ACCRUED BENEFITS AND RESERVES

Liability for accrued benefits is represented by contributor funds, contributor housing withdrawals and pensioner funds. Contributor funds are credited with contributions on a cash received basis due to the practical difficulties in determining accrued contributions. For 2004, interest allocated to contributor funds was determined on member balances at a rate of 15.5% on a time weighted basis. In 2003 interest allocated was 19% and as in prior years was determined on the member balances at the beginning of the period, rather than on a time weighted basis.

Contributor housing withdrawals comprise of withdrawals from contributor funds, which are repaid by way of additional contributions at a minimum rate of 2%.

(a) CONTRIBUTOR FUNDS

Balance at the beginning of the year	779,117,868	637,478,328
Add:		
Contributions received during the year	78,703,922	51,199,997
Interest allocation	<u>122,260,500</u>	<u>117,978,945</u>
	980,082,290	806,657,270
Deduct:		
Member benefits paid during the year	<u>30,860,262</u>	<u>27,539,402</u>
Balance at the end of the year	<u>949,222,028</u>	<u>779,117,868</u>

(b) CONTRIBUTOR HOUSING WITHDRAWALS

Balance at the beginning of the year	(12,451,700)	(12,993,570)
Advances or member withdrawals	(3,202,476)	(1,081,910)
Repayments	<u>1,450,823</u>	<u>1,623,780</u>
Balance at the end of the year	<u>(14,203,353)</u>	<u>(12,451,700)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

c) PENSIONER FUNDS	2004 K	2003 K
Balance at the beginning of the year	64,777,000	17,900,000
Add:		
Allocated during the year	1,554,648	53,597,000
Deduct		
Adjustment to correct over invoicing to State	-	(6,720,000)
Balance at the end of the year	<u>66,331,648</u>	<u>64,777,000</u>
LIABILITY FOR ACCRUED BENEFITS	<u>1,001,350,323</u>	<u>831,443,168</u>
SECTION 35 (2) (c) RESERVE	21,278,097	21,278,097
UNALLOCATED RESERVES	11,526,950	14,743,415
TOTAL LIABILITY FOR ACCRUED BENEFITS AND RESERVES	<u>1,034,155,370</u>	<u>867,464,680</u>

The Trustee's Board of Directors 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. In 2003 an allocation to recognize an increase of K53.597 million was made from unallocated reserves. The 2003 balance was also 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 Funds.

12. FUNDING ARRANGEMENTS

(a) Exited members

Before 2003, employer obligations, being obligations of the State of PNG, were met on an emerging basis. As members exited from the Fund, the State was legally obliged to match the benefit accruing to the member from the member's contributions in the ratio of 8.4% to 6%. The total benefit was paid to the member by the Fund, with the State reimbursing the Fund for its share.

At the end of 2004 the potential liability of the State to members was estimated to be K1,271million.

(b) Employer contributions

From 2003, employers commenced remitting directly to the Fund the full 8.4 % employer contributions on behalf of their members.

The State is only required to contribute 25 % of the 8.4 % employer contribution for 2003 and 2004, 50 % for 2005 and 2006, 75 % for 2007 and 2008 and 100% from 2009 onwards. As contributions are only recognized on a cash basis, the total amount owing by the State is not recognized in the Fund's Statement of Net Assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

13. FINANCIAL INSTRUMENTS

The investments of the Fund (other than cash held for liquidity purposes) are managed on behalf of the trustee by Kina Funds Management Limited ("KFM"). The investment manager is required to invest the assets managed by it in accordance with the terms of a written investment mandate. The trustee has determined that appointment of this manager is appropriate for the Fund and is in accordance with the Fund's investment strategy. The trustee obtains regular reports from the investment manager on the nature of the investments made on its behalf and the associated risks.

a) Use of Derivative Financial Instruments

The Fund's investment manager generally does not use derivative financial instruments to reduce risks in the share and currency markets and to increase or decrease the Fund's exposure to particular investment classes or markets.

b) Credit Risk Exposures

The Fund has no significant concentrations of credit risk. It has policies in place to ensure that there is an appropriate spread of risk. The Fund does not have any significant exposure to any individual counterparty or industry.

c) Interest Rate Risk Exposures

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in the market interest rates.

d) Currency Risk Exposures

The Fund is exposed to foreign exchange rate movements on international investments. It does not have any specific hedging policies to mitigate against this risk but the Fund does monitor the impact of this risk on an ongoing basis.

e) Net Fair Values of Financial Assets and Liabilities

The Fund's financial assets and liabilities, including derivative instruments, are included in the Statement of net assets at amounts that approximate net fair value.

14. EVENTS SUBSEQUENT TO STATEMENT OF ASSETS DATE

As at 31st March 2005, the Fund's investments in three listed securities had a significant appreciation in their market values, amounting to a total of K 64.7 million, comprising as follows:

Bank South Pacific Ltd	K 43.4 m
Oil Search Ltd	K 14.6 m
Credit Corporation (PNG) Ltd	K 6.7 m

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

15. NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents

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:

	2004 K	2003 K
Cash on hand	1,885	1,885
At call deposits	3,100,169	33,084,777
Balance at Bank	<u>25,484,080</u>	<u>3,779,004</u>
	<u>28,586,134</u>	<u>36,865,666</u>
Reconciliation of Cash flow from Operations with Total Revenues less expenses and benefits paid		
Total revenues less expenses and benefits paid after income tax	166,690,690	148,736,098
Add/(less) non-cash items:		
Depreciation on property, plant and equipment	682,053	749,376
Depreciation on investment property assets	655,881	674,396
Loss on disposal of property, plant and equipment	58,286	(14,333)
Loss on disposal of investment property assets	10,730	-
Loss on disposal of investment property	43,284	329,435
Profit on sale of shares in listed equities	(1,816,731)	(1,325,744)
Profit on sale of shares in unlisted equities	(325,960)	-
Direct investment expenses	7,725,921	6,983,466
Fair value gain arising from changes in net market value of investments	(57,050,714)	(60,416,254)
Other	-	42,131
Net cash provided by operating activities before change in assets and liabilities	<u>116,673,440</u>	<u>95,758,571</u>
Changes in assets and liabilities during the year:		
(Increase)/decrease in receivables	115,909,304	(29,578,017)
(Increase)/decrease in stores and consumables	-	1
Increase/(decrease) in benefits payable	(270,387)	(15,675)
Increase/(decrease) in trade and other creditors	12,059,009	6,843,920
Increase/(decrease) in current income tax liabilities	8,371,396	4,726,434
Increase/(decrease) in deferred income tax liabilities	(12,726,436)	2,065,887
Cash flow from operating activities	<u>240,016,326</u>	<u>79,801,121</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

16. RELATED PARTY DISCLOSURES

- (a) The Trustee of the Fund throughout the year was POSF Limited. The names of persons who were directors of the trustee company at any time during the financial year are:

Sir Nagora Bogan, KBE	Mr Kerenga Kua
Mr Ravu Vagi	Mrs Aivu Tauvasa
Mr Greg Taylor	Mr Leon Buskens

- (b) During the financial year the Fund earned interest on term deposits of K354,172 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 2004, the term deposits placed with Kina Finance Limited was K 3.3 million. These transactions were carried out on commercial terms and market rates.
- (c) During the financial year the Fund charged its wholly owned unlisted investment, Moki No.10 Limited an interest of K1,228,356 at a annual rate of 10% for the loan given to this investment. As at 31 December 2004, the loan receivable from this investment is K12,500,000.
- (d) Big Rooster (PNG) Limited is a wholly owned investment of POSF. Transactions between the Fund and Big Rooster are conducted on normal commercial terms and conditions.

17. CONTINGENT LIABILITIES

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

The Fund over invoiced the Independent State of Papua New Guinea ("the State") for its share of pension payments and therefore 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 it, arising from its over-invoicing of the pension payments. As the amount of the interest earned by the Fund from over invoicing the State can only be determined subsequent to a full review of all pension payments received from the State, no further provision has been made as at balance sheet date.

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

The Fund had over invoiced the State for its share of pension payments and therefore 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.

18. RESTATEMENT OF THE PRIOR PERIOD AND COMPARATIVE INFORMATION

As set out in note 2(a) the accounting policies adopted in the preparation of these financial statements are consistent with those of the previous years. However, these financial statements have been conformed to comply with IAS 26 "Accounting and Reporting by Retirement Benefit Plans". Accordingly, certain comparative information has been amended.

In addition, the directors resolved to recognize certain liabilities in relation to member benefits that were not recognized in the prior year amounting to K1,777,756. This resulted in an adjustment to increase 2003 expenses by K1,777,756 and an equivalent reduction in the net assets available to pay benefits at the end of 2003, resulting in a balance of K867,464,680, rather than the prior year amount of K869,242,436.

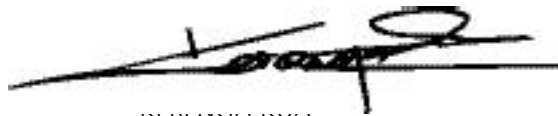
DECLARATION BY TRUSTEE

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash flows, together with the Notes to and forming part of the accounts, have been properly drawn up so as to respectively exhibit a true and fair view of the state of affairs of the Fund as at 31 December 2004, and its performance for the year then ended.

For and on behalf of the Board of Directors of the Trustee.



SIR NAGORA BOGAN, KBE
Chairman of Board



KENNETH BROWN
Deputy Chairman of Board

Declaration by Management

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash flows, together with the Notes to and forming part of the accounts, have been properly drawn up so as to respectively exhibit a true and fair view of the state of affairs of the Fund as at 31 December 2004, and of its performance for the year then ended. We are of the opinion that:

- (a) the results of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- (b) no circumstances have arisen which would render any amount shown in the Statements misleading;
- (c) the current assets of the Fund, including debtors, are expected to realize in the ordinary course of business at least the value at which they are included in the Statement;
- (d) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due.



LEON BUSKENS
Managing Director



ASI PAKO
General Manager
Finance & Administration

31 March 2005

DECLARATION BY TRUSTEE

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