

## page+content

2. Trustee's Charter
3. Trustee's Vision, Philosophy and Strategies
4. Chairman's Review
5. Chief Executive Officer's Report
6. Trustee Board and Committee Members
7. Corporate Governance
8. Financial Performance and Member Analysis
9. Report of the Trustee
12. Investment Report
13. Fund Investment
16. Independent Auditor's Report
18. Statement of Profit or Loss and other Comprehensive Income
19. Statement of Financial Position
20. Statement of Changes in Equity
21. Statement of Cash Flows
22. Notes to and Forming part of the Financial Statements
46. Declaration by Trustee





GROW  
YOUR  
FUTURE  
WITH US

## TRUSTEE'S CHARTER

### The Trustee will:

- ▶ Act in accordance with the Unit Trust Funds Trust Deed and Securities Act, plus other governing laws.
- ▶ Act in the best interests of the Unit Holders at all times, taking into account the position of each class of member.
- ▶ Act prudently, honestly, with integrity and in good faith having taken appropriate professional advice.
- ▶ Seek to safeguard members' benefits by managing unit trust funds effectively.
- ▶ Communicate to all members regularly and in a clear and concise way.
- ▶ Deliver a high level of service to all members.





## TRUSTEE'S VISION, PHILOSOPHY AND STRATEGIES

### VISION

Our vision is to be Papua New Guinea's and Melanesia's finest home grown trustee and fund management company, supervising, protecting and building the wealth and assets of its people, local businesses and government institutions in the short to medium and long term.

### PHILOSOPHY

Our corporate philosophy is directed to providing the best shelter for hard earned savings to build financial strength, increase net worth and improving living standards. As a private trustee, fund manager, and investment and trade advisor, we are in the best position here in the country and Pacific to fulfil our corporate philosophy in every sense of the word. We are able to safe guard estates, savings and investment, multiply your net worth through the best investment vehicles available and provide excellent investment advice.

### CODE OF ETHICS

MTSL takes pride in its values of integrity, credibility and business ethics whilst striving to maintain the highest standards of client trust and confidence.

### OUR STRATEGIES

The business objectives based on the range of services we offer, come in four categories;

#### Growth Strategy

Establish appropriate investment and wealth management trusts which can provide income and capital growth over the medium to long term period.

#### Trustee Strategy

Strive towards offering the best shelter for hard-earned savings from contributors for income and future financial security.

#### Fund Management Strategies

Actively manage the fund and seek to meet its objectives of producing income while pursuing medium to long-term capital growth.

#### Investment and Trade Advisory Services

Strive towards providing the best investment and trade advisory services for clients based on local investment knowledge supported by offshore investment advisory services.







GROW  
YOUR  
FUTURE  
WITH US

## CHAIRMAN'S REVIEW

Dear Unit Holder,

Once again it is my pleasure to be able to present an annual report. This is one of our more pleasant obligations to the 20,000 unit holders in the Pacific Balanced Fund who look forward to receiving regular updates and information on the performance of their Fund.

### Years of consistent growth.

Over a decade and a half investors have seen the fund dramatically recover its value. From a total value of only K75 million in 2002 we, along with the companies in which we maintained shareholding in trust for PBF, have guided the value back to a position of impressive strength. The net assets of the Fund are nearly 7 times their value in 2002.

### Setbacks in 2016

After such strong growth, the results for 2016 have shown a write down devaluation brought about by a number of factors beyond our control. These include but are not limited to an increased country risk from 25% in 2015 to 30% in 2016, EBITDA multiples increases, and a general devaluation of blue-chip, dominated by our two larger portfolios in Trukai and Ela Motors have seen significant reductions in their valuations due to associated business conditions. These factors largely contributed to the devaluation of the entire PBF Portfolio from a high of K616 million in net assets in 2015 to 2016 net assets of K494 million. A slump, even though it comes after 15 years of remarkable growth, is a reminder of the difficult environment we operate within and similar trends have been felt right across Papua New Guinea. However, our board and management are confident that we are well on the way to recovery, with significant new investments already fuelling improved income generation in 2017.

### Electronic bank deposits speed up dividend payments

During 2016, we saw more of the results of the years of growth begin to reach many more of our unit holders. K40m has been declared for distribution to unit holders for the years 2003 to 2015. We wanted to make sure that payments to verified unit holders were made more efficiently.

With the introduction of electronic transfers to unit holders' accounts we have been able to dramatically improve the efficiency of paying distributions. It has been encouraging to hear back from so many unit holders how pleased they are to receive dividends at all and to find these paid directly to their bank accounts.



### Associated Mills

After 40 years as a shareholder of Associated Mills Limited (AML) the PBF shareholding was sold during 2016. This followed fundamental changes to revenue prospects resulting from the sale of its major shareholder, Goodman Fielder to two companies in Asia, Wilmar International and First Pacific. MTSL, in trust for PBF, sold the shares leaving Goodman Fielder as the sole owner of the company. Although it was disappointing to move away from AML the sale brought other opportunities for PBF to invest.

### PBF Properties

A wholly owned PBF subsidiary beginning to make inroads into the property market, PBF Properties began growing its property portfolio with emphasis on long term leasing arrangements with major commercial businesses. This has seen the purchase of industrial, commercial, retail and residential assets around the country.

### Metals Refining Operations

After several years of restoration work this major PBF subsidiary is about to recommence its important role in the metals trade, with key personnel due to take up their positions. This is another important asset of PBF and we look forward to it becoming an active contributor to the incomes of Unit Holders in the very near future.

In examining these financial statements I would encourage Unit Holders to take particular note of the significant reduction in Net Assets but see these in the light of 14 years growth and new investments expected to begin to show returns in 2017 and beyond.

**John Sanday | Executive Chairman**  
Melanesian Trustee Services Limited



## CHIEF EXECUTIVE OFFICER'S REPORT

Pacific Balanced Fund exists for the benefit of Unit Holders. MTSL has spent 15 years ensuring that the value of the Fund has grown and, after re-commencing payments in 2009, that Unit Holders received the benefits from their units.

The K40m in distributions declared for the years from 2003 to 2015 presented us with a practical challenge. Literally thousands of cheques needing to be processed for each of the distributions and large numbers of people waiting far too long for their payments to arrive.

2016 was the year in which we introduced electronic payments to speed up the process of passing on to Unit Holders the benefits of membership of this unique fund. As they became aware of the improved system many people began to contact our staff to express their thanks for the benefits they were receiving. Messages such as that reproduced below have been a rewarding affirmation of the value of our efforts over these years.

PBF, as a 25% shareholder in MiBank, has also arranged for attractive opportunities for its Unit Holders to establish bank accounts and receive distribution payments without the disadvantages of bank fees many experience with the main banks. Several Unit Holders have also taken advantage of opportunities to obtain loans, secured with their units.

Much has happened in 2016 as the Fund realigned a large amount of its investments. This has temporarily reduced the book value of the investment assets during a period of protracted property purchasing procedures. The newly acquired assets will be revalued and reflected in the 2017 financial statements and we look forward to sharing those results with our members early in 2018.



**Kennedy Wemin | Chief Executive Officer**  
Melanesian Trustee Services Limited



GROW  
YOUR  
FUTURE  
WITH US

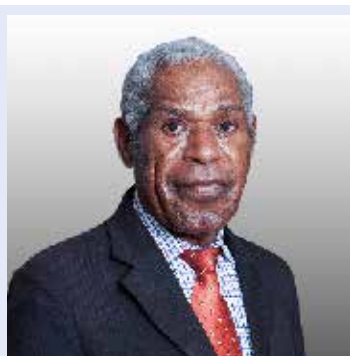
## TRUSTEE'S BOARD and COMMITTEE MEMBERS



Joshua Bakirie



Arthur Vera



Philip Kende



Warwick Vele

### TRUSTEE BOARD

The following persons held office as directors of Melanesian Trustee Services Limited Trustee during the year or since the end of the year and up to the date of this report:

- i. John Sanday  
Executive Chairman
- ii. Arthur Vera
- iii. Joshua Bakirie
- iv. Philip Kende
- v. Warwick Vele
- vi. Robert Igara (resigned 4th January 2016)

### FUND MANAGER

Melanesian Trustee Services Limited  
PO Box 847 Port Moresby  
121  
National Capital District  
Phone : +675 321 0560  
Fax : +675 321 0563

### FINANCIAL SERVICES

PricewaterHouseCoopers Ltd  
PO Box 484, Port Moresby  
121  
National Capital District  
Phone : +675 321 1500  
Fax : +675 321 1428

### LEGAL SERVICES

Albatross Law  
P. O. Box 109, Port Moresby  
National Capital District  
Phone: +675 311 3228 /  
311 3787  
Fax: +675 311 3281



## CORPORATE GOVERNANCE

As a fund that is holding the savings of ordinary Papua New Guineans, we are committed to high standards of corporate governance. The Trustee believes that the interests of unit holders are best protected through effective corporate governance principles and practices. The Fund is licensed under the Securities Act (1997) by the Securities Commission of Papua New Guinea (SCPNG) and is administered in accordance with the terms registered under the Trust Deed dated 22 October 2001. The Fund has been in compliance with the regulatory requirements and recommendations issued by the SCPNG over the years and has also adopted contemporary corporate governance practices as part of its commitment to high standards of corporate governance.



The Fund's trustee is Melanesian Trustee Services Ltd (MTSL). The Trustee Board is comprised of a number of experienced professionals who bring a diverse range of skills and experience such as in accounting, management, investment management, banking, information technology and international trade. It is also entirely comprised of non-executive Directors, namely Mr. John Sanday (Chairman), Joshua Bakirie, Arthur Vera, Phillip Kende and Warwick Vele.

As a Board that is principally responsible for the governance and oversight of the Fund, it meets regularly to discuss the operations of the Fund, key risks impacting the Fund and to evaluate new investment opportunities. Developments in the economy and investee company operations are closely monitored and evaluated. All decisions are made after careful deliberation and objective evaluation of all the facts available.

The Board is supported by the Audit, Risk and Compliance committee, which is a sub-committee of the Trustee Board. The Audit, Risk and Compliance committee assists the Board in fulfilling its fiduciary responsibilities to provide oversight on all risk and compliance matters including the integrity of the financial statements and matters pertaining to the auditors. The board, when necessary, requests for briefing from the management team of the Fund and independent professional advisors assist the Board in fulfilling its responsibilities.

The Fund also has robust risk management policies and procedures. These help the Fund identify and manage risks. This also safeguards the Fund for the benefits of the unit holders. These policies and procedures were developed in line with contemporary practices tailored to the PNG environment and are reviewed and updated regularly.

**Lawrence Stephens | General Manager Corporate Affairs and Governance**  
Melanesian Trustee Services Limited



## FINANCIAL PERFORMANCES and MEMBERS ANALYSIS

### FINANCIAL PERFORMANCES and MEMBERS ANALYSIS

FUND PERFORMANCE (K Million)	2016	2015
Fund Size	494.0	616.3
Capital Growth	-108.7	50.8
Income	1.1	13.0
Total Growth	-107.6	63.9
Growth (%)	-25%	10%
Investment Value	380.6	572.6
Return on Investment	0%	11%

The divestment of the 26% interest in Associated Mills Ltd valued at K120,117, 470 was a key Board investment decision in Financial Year 2016.

The divestment was in line with the Board's strategic Asset Allocation review undertaken in 2015 to invest in other promising export based sectors like Agriculture, metals refining (gold and silver) businesses that have the potential to give good returns to unit holders and improve fund growth into the future.

There were notable reductions in the value of two key blue chip investments, in Trukai and Ela Motors, due to general economic slowdown and macro economic factors affecting our investees across the board, notably foreign currency shortage and 6% depreciation of the Kina. The rebalancing exercise coupled with the addition of a major agricultural asset in 2017 are expected to restore the Fund value in 2017.

MOVEMENTS IN UNITS HOLDERS CONTRIBUTIONS (K MILLION )		
MOVEMENTS IN UNITS	2016	2015
OPENING BALANCE	13,237,175	13,237,175
UNITS IDENTIFIED	-	-
APPLICATION	-	-
REDEMPTIONS	-	-
INCREASE IN NET ASSETS	-	-
CLOSING BALANCE	13,237,175	13,237,175





## REPORT OF THE TRUSTEE

The directors of Melanesian Trustee Services Limited (MTSL), the Trustee of Pacific Balanced Fund, present their report together with the financial report of Pacific Balanced Fund ("the Fund") for the year ended 31 December 2016.

The Trustees are responsible for preparing the Annual Report for the year ended 31 December 2016 and the financial statements in accordance with applicable laws and regulations.

The Securities Act 1997 requires the trustees to prepare financial statements for each financial year. They are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS).

The Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Fund and its financial performance for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that Pacific Balanced Fund will continue its activities.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Pacific Balanced Fund and enable them to ensure that the financial statements comply with the Securities Act 1997.

They have general responsibility for taking such steps

as are reasonably open to them to safeguard the assets of the Pacific Balanced Fund and to prevent and detect fraud and other irregularities.

In the opinion of the Trustees:

The financial statement and notes set out on pages 18 - 45 are in accordance with the above, including:

- i) Complying with International Accounting Standards and other mandatory professional reporting requirements, and
- ii) Giving a true and fair view of the entity's financial position as at 31 December 2016 and of its performance for the financial year ended on that date.

### Principal Activities

The Fund invests in equities, unlisted property unit trusts and fixed interest securities in accordance with the provisions of the Trust Deed.

The Fund did not have any employees during the year. There were no significant changes in the nature of the Fund's activities during the year.

### Directors

The following persons held office as directors during the year or since the end of the year and up to the date of this report:

#### *Melanesian Trustee Services Limited (Trustee):*

- John Sanday - Chairman
- Joshua Bakirie
- Arthur Vera
- Philip Kende
- Robert Igara (resigned 4th Jan 2016)

Mr Igara was appointed as Chairman on 7 April 2015 when Mr Sanday resigned as Chairman. Mr Igara subsequently resigned as Chairman on 4 January 2016 when Mr Sanday was reappointed as Chairman.



## REPORT OF THE TRUSTEE (continued)

### Review of results of operations

During the year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Trust Deed.

### Results

The performance of the Fund as represented by the results of its operations was as follows:

	2016 K	2015 K
Operating profit before finance costs attributable to unit-holders	(114,076,867)	63,850,898

No income distribution was made to the unit-holders during the year ended 31 December 2016. A capital distribution of K3,141,873 for the year ended 31 December 2015 was declared to be paid to the unit holders in December 2016. The capital distribution is an event occurring after the balance sheet date and has been recognised as a distribution declared in the financial statements for the year ended 31 December 2016.



### Unit redemption

No units were redeemed during the year.

### Significant changes in state of affairs

During the year there was no significant change in the state of affairs of the Fund other than that referred to in the financial statements or notes thereto.

### Matters subsequent to the end of the financial year

There has not been any matter or circumstance that has arisen since 31 December 2016 that has significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

### Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Trust Deed.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the responsible entity believes it would be likely to result in unreasonable prejudice to the Fund.



## REPORT OF THE TRUSTEE (continued)

### Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of the investment manager, the Trustee or the auditors of the Fund. So long as the officers of the investment manager and the Trustee act in accordance with the Trust Deed and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

### Donations

Donations of K84,185 were made during the year ended 31 December 2016 (2015: K114,272).

### Independent Audit Report

The financial statements have been audited and should be read in conjunction with the independent audit report on pages 16 - 17. The amounts paid to the auditors for the audit or other services during the year are shown in Note 4.

### Fees paid to and interest held in the Fund by fund manager, the Trustee or their associates

Fees paid to the fund manager, the Trustee and their associates out of Fund property during the year are

disclosed in Note 15 of the financial statements. No fees were paid out of Fund property to the directors of the investment manager or the directors of the Trustee during the year.

The number of interests in the Fund held by the investment manager, the Trustee or its associates as at the end of the financial year are disclosed in Note 15 of the financial statements.

### Interests in the Fund

There was movement in units on issue in the Fund during the year as disclosed in Note 6 of the financial statements.

The value of the Fund's assets and liabilities is disclosed on the Statement of Financial Position and derived using the basis set out in Note 2 of the financial statements.

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

Philip Kende

Director

12<sup>th</sup> June 2017

Warwick Vele

Director

12<sup>th</sup> June 2017







GROW  
YOUR  
FUTURE  
WITH US

## INVESTMENT REPORT

### Fund Objective

The fund seeks to achieve income and capital growth over the medium to long term period and will invest in equities, fixed income and cash management primarily in the Papua New Guinea, and the balance in the Pacific Region.

### Investment Policy

To create a prudent mix of equities and fixed income securities in line with the Funds' objective.

### Investor Profile

Investors seeking to invest in Pacific Balanced Fund should have the following investor profile features;

- < Conservative to moderate risk-reward temperament;
- < Medium to long-term investor – 5 Years or more; and
- < Preference for receiving some income and a respectable measure of capital growth.







## FUND INVESTMENT

FUND INVESTMENT (%)	2016
UNLISTED SECURITIES	99.8%
LISTED SECURITIES	0.2%

### TOP HOLDINGS AS AT DECEMBER 31 2016

UNLISTED SECURITIES	% HOLDING	% ASSETS IN PBF
SECURITIES	2016	2016
Amalpack Ltd	30%	3.8%
BOC PNG Ltd	26%	4.7%
South Pacific Brewery	0.1%	0.4%
Kumul Hotels Ltd	27%	2.0%
Marsh Ltd	31%	2.1%
Origin Energy Ltd	33%	6.3%
Toyota Tsusho PNG Ltd	24%	33.2%
Trukai Industries Ltd	34%	16.9%
JKJL Properties Ltd	20%	1.1%
Markham Culverts Ltd	25%	3.3%
Metals Refining Operations	100%	3.4%
PBF Properties Limited	100%	13.0%
Nationwide Micro Bank Ltd	25%	0.2%
PBF Agro Business Ltd	100%	0.4%
PBF Power Limited	100%	0.0%
Agmark	12%	0.9%
Other		0.7%
LISTED EQUITY		
BSP		0.2%

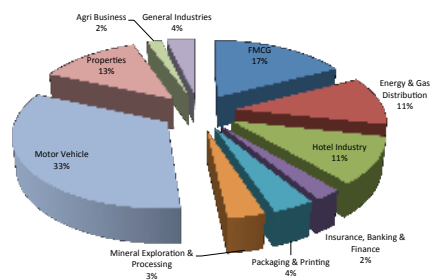




GROW  
YOUR  
FUTURE  
WITH US

## EQUITY SECTOR DISTRIBUTION 2016

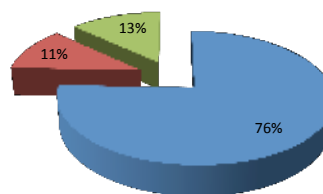
	VALUE	(%) Distribution
FMCG	66,059,030	17.4%
Energy & Gas Distribution	42,074,888	11.1%
Hotel Industry	39,577,023	10.4%
Insurance, Banking & Finance	9,068,014	2.4%
Packaging & Printing	14,343,000	3.8%
Mineral Exploration & Processing	12,833,653	3.4%
Motor Vehicle	126,542,525	33.2%
Properties	49,300,000	13.0%
Agri Business	7,130,000	1.9%
General Industries	13,720,297	3.6%
	380,648,430	100.0%



## PBF ASSET ALLOCATION

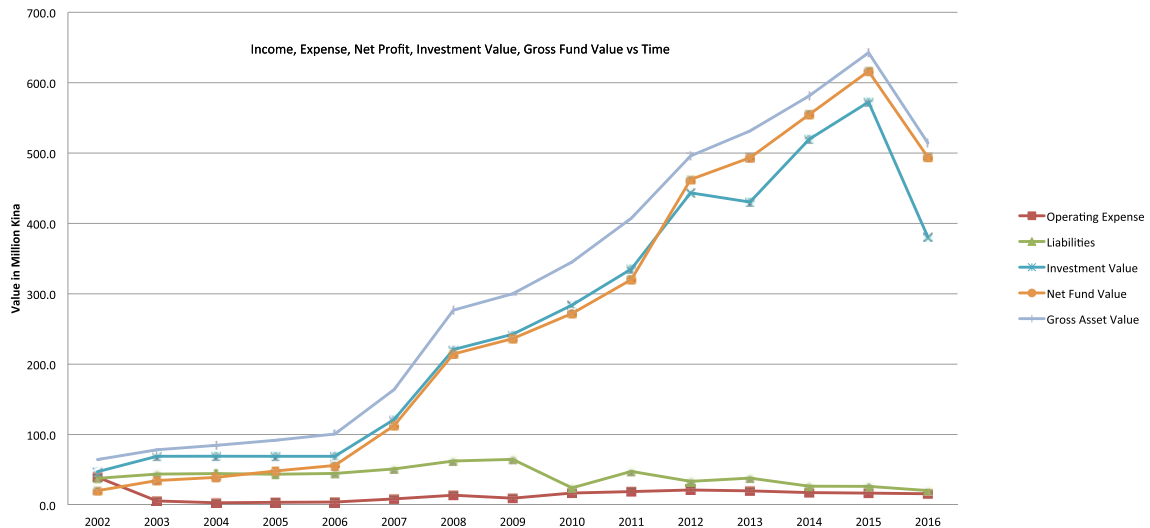
### Asset Distribution: 2016

	PGK VALUE (M)	(%) Allocated
Equity Investments	330	75.6%
Property	49	11.3%
Cash	57	13.1%
	437	100%





## PBF PERFORMANCE



“PNG and Melanesia’s finest home - grown trustee and fund management company”





GROW  
YOUR  
FUTURE  
WITH US

# Deloitte.

Deloitte Touche Tohmatsu

Level 9, Deloitte Haus  
MacGregor Street  
Port Moresby  
PO Box 1275 Port Moresby  
National Capital District  
Papua New Guinea

Tel: +675 308 7000  
Fax: +675 308 7001  
[www.deloitte.com/pg](http://www.deloitte.com/pg)

## Independent Auditor's Report to the Unit Holders of Pacific Balanced Fund

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of Pacific Balanced Fund (the "Fund") which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, the Report of the Trustee and Declaration by Trustee.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Fund's financial position as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the *Securities Act 1997* and the Trust Deed.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

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

#### *Other Information*

The Directors of Melanesian Trustee Services Limited, "the Trustee" are responsible for the other information. The other information obtained at the date of this auditor's report comprises the information included in the Fund's Report of the Trustee for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of Trustee for the Financial Report*

The Directors of the Trustee of the Fund is responsible for the preparation of the financial report in accordance with International Financial Reporting Standards and the *Securities Act 1997* and the Trust Deed and for such internal control as Directors of the Trustee determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, Directors of the Trustee are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Directors either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.





# Deloitte.

## *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

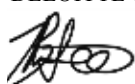
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management and Directors of the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on Other Legal and Regulatory Requirements**

The financial report of Pacific Balanced Fund is in accordance with the *Securities Act 1997* and the requirements of the Trust Deed and proper accounting records have been kept by the Fund. We have not provided other services to the Pacific Balanced Fund during the year ended 31 December 2016.

  
DELOITTE TOUCHE TOHMATSU



Benjamin Lee  
Registered under the Accountants Act 1996  
Partner  
Port Moresby, 29<sup>th</sup> June 2017



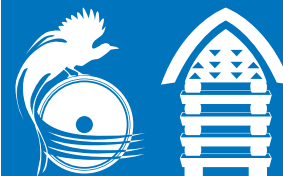
GROW  
YOUR  
FUTURE  
WITH US

PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Statement of Profit or Loss and Other Comprehensive Income

	Note	2016 K	2015 K
<b>Investment income</b>			
Interest income		2,573,296	34,590
Dividend income		9,715,139	31,941,351
Gain on sale of investments		682,529	-
Net (loss)/gain on financial instruments held at fair value		(108,727,813)	50,849,805
Directors fees		14,471	140,207
Other operating income		306,858	3,100,577
<b>Total</b>		<b>(95,435,520)</b>	<b>86,066,530</b>
<b>Expenses</b>			
Management fees	16	7,057,905	6,382,961
Trustee fees	16	3,528,953	3,191,481
Performance fees	16	-	2,884,331
Office and administrative		3,530,789	2,558,420
Accounting fees		63,656	84,007
Audit fees	4	100,000	91,725
Depreciation		224,960	230,851
Directors fees		674,138	594,654
Legal fees		194,148	249,339
Travel and entertainment		521,726	509,437
<b>Total operating expenses</b>		<b>15,896,275</b>	<b>16,777,206</b>
<b>Operating (loss)/profit before income tax</b>		<b>(111,331,795)</b>	<b>69,289,324</b>
Income tax expense	5	(2,745,072)	(5,438,426)
<b>Operating (loss)/profit after income tax</b>	6	<b>(114,076,867)</b>	<b>63,850,898</b>
<b>Attributable to unit-holders:</b>			
(Decrease)/Increase in net assets attributable to unit-holders		(122,253,337)	61,322,716
Distributions to unit-holders	6	8,176,470	2,528,182
<b>Profit(loss) for the year</b>		<b>-</b>	<b>-</b>
Other Comprehensive Income		-	-
<b>Total Other Comprehensive Income</b>		<b>-</b>	<b>-</b>

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Statement of Financial Position

	Note	2016 K	2015 K
<b>Assets</b>			
Cash and cash equivalents	9	57,067,591	61,236,337
Other receivables	10	4,377,903	7,812,655
Financial assets at fair value through profit and loss	12	380,648,429	572,578,719
Financial assets - Loans	11	71,421,067	-
Property, plant and equipment	13	873,473	960,713
<b>Total Assets</b>		<b>514,388,463</b>	<b>642,588,424</b>
<b>Liabilities</b>			
Trade and other payables	14	1,271,591	4,523,600
Distribution payable	15	18,761,665	21,298,280
Income tax payable		347,870	505,870
<b>Total Liabilities</b>		<b>20,381,126</b>	<b>26,327,750</b>
Net Assets attributable to unit-holders	6	<b>494,007,337</b>	<b>616,260,674</b>
Liability attributable to unit-holders		<b>(494,007,337)</b>	<b>(616,260,674)</b>
Net Assets		-	-

The above Statement of Financial Position should be read in conjunction with the accompanying notes.



GROW  
YOUR  
FUTURE  
WITH US

PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Statement of Changes in Equity

	Equity Attributable to Unitholders	Total
	K	K
Balance as at 1 January 2015	-	-
Profit for the period	-	-
Movement in unit holders	-	-
<b>Balance as at 31 December 2015</b>	<b>-</b>	<b>-</b>
Balance as at 1 January 2016	-	-
Profit for the period	-	-
Movement in unit holders	-	-
<b>Balance as at 31 December 2016</b>	<b>-</b>	<b>-</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.





PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Statement of Cash Flows

	Note	2016 K	2015 K
<b>Cash flow from operating activities</b>			
Dividends received		13,719,042	28,991,525
Interest received		1,918,392	34,590
Other receipts		308,724	3,135,167
Operating expenses paid		(21,570,038)	(22,611,209)
Payment of taxes		(104,171)	-
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(5,728,051)</b>	<b>9,550,073</b>
<b>Cash flow from investing activities</b>			
Proceeds from disposal of securities		120,800,000	-
Investment in money market securities		(30,011,968)	-
Purchase of unlisted investments		(6,956,855)	(2,044,446)
Loans issued	11	(75,000,000)	-
Proceeds from repayments		3,578,933	-
Payments for plant and equipment		(137,720)	(169,215)
Proceeds from plant and equipment		-	32,062
<b>Net cash inflow/(outflow) from investing activities</b>		<b>12,272,390</b>	<b>(2,181,599)</b>
<b>Cash flow from financing activities</b>			
Distribution to unit holders	15	(5,678,485)	(1,853,691)
Redemption of units	6	(5,034,600)	-
<b>Net cash used in financing activities</b>		<b>(10,713,085)</b>	<b>(1,853,691)</b>
Net increase in cash and cash equivalents held		4,168,746	5,514,783
Cash and cash equivalents at the beginning of the year		61,236,337	55,721,554
<b>Cash and cash equivalents at the end of the year</b>	9	<b>57,067,591</b>	<b>61,236,337</b>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.



GROW  
YOUR  
FUTURE  
WITH US

PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 1. GENERAL INFORMATION

The Pacific Balanced Fund (PBF) is a commercial Unit Trust Fund established under the *Securities Act 1997* and is administered in accordance with the terms of a registered Trust Deed dated 22 October 2001.

This registered Trust Deed succeeded the Management Declaration made on the 1st July 1973, the terms under which the Trust was administered by the Investment Corporation of Papua New Guinea (ICPNG) as Trustee and Fund Manager up until its expiration on 31st December 2001.

By virtue of the ICPNG's approval of the new Trust Deed and its registration with the Securities Commission of Papua New Guinea, MTSI became the Trustee succeeding ICPNG.

The Trustee, MTSI, in accordance with its powers under the Trust Deed appointed Pacific Equities & Investments Limited (PEIL) as the fund manager replacing ICPNG. PEIL were removed as fund manager on the 11 November 2008 and MTSI were appointed as interim fund manager.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

#### 2.1 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Fund has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

#### *Annual Improvements to IFRSs 2012-2014 Cycle*

The Fund has applied the amendments to IFRSs included in the Annual improvements to IFRSs 2012-2014 Cycle for the first time in the current year. The application of these amendments has had no impact on the disclosures or amounts recognised in the Fund's financial statements.

#### 2.2 New and revised IFRSs in issue but not yet effective

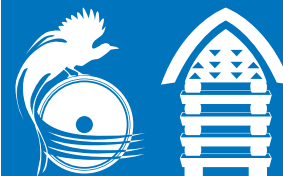
The Fund has not applied the following applicable new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>2</sup>	The directors of the Trustee anticipate that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Fund's financial statements. However we are in progress of our assessment to provide a reasonable estimate of the effect of IFRS 9 until the Fund performs a detailed review.
IFRS 15	Revenue from Contracts with Customers <sup>2</sup>	The directors of the Trustee anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Fund's financial statements. However it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Fund performs a detailed review.
Amendments to IAS 7	Disclosure Initiative <sup>1</sup>	The directors of the Trustee do not anticipate that the application of these amendments will have a material impact of the Fund's financial statements.
IFRS 16	Leases <sup>3</sup>	The directors of the Trustee do not anticipate that the application of these amendments will have a material impact of the Fund's financial statements.
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>	The directors of the Trustee do not anticipate that the application of these amendments will have a material impact of the Fund's financial statements.

<sup>1</sup>Effective for annual periods beginning on or after 1 January 2017 with earlier application permitted.

<sup>2</sup>Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

<sup>3</sup>Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 2.2 SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of compliance

These financial statements are presented in accordance with the Securities Act 1997, the Trust Deed and the International Financial Reporting Standards.

#### b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period as, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the market approach, the cost approach or the income approach valuation techniques as appropriate. In estimating the fair value of an asset or liability, the Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at measurement date. The above approach to fair value measurement does not apply to leasing transactions within the scope of IAS 17 Leases or measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability. The principal accounting policies are set out below.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

All amounts are expressed in PNG Kina (K) which is the reporting and functional currencies. All amounts are rounded to the nearest Kina.

For the purpose of preparing the financial statements, the Fund is a for-profit entity.

#### c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

##### *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate (EIR) applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.



## Notes to and forming part of the Financial Statements

### **c) Revenue recognition (cont'd)**

#### *Dividend income*

Dividend income from investments is recognised when the Fund's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably).

### **(d) Expenses**

All expenses, including responsible entity's fees, are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

### **(e) Net assets attributable to unit-holders**

Units are redeemable at the unit-holders' option and are therefore classified as financial liabilities. The units can be redeemed by the Fund at any time for cash based on redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance sheet date if unit-holders exercised their right to redeem their units.

Trust distributions are recognised on an entitlement basis.

### **(f) Financial instruments**

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### **(i) Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term, or on initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.





PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### Financial assets (cont'd)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Dividends or interest earned on the financial assets, gains or losses on sale of the financial assets, and fair value gains or losses on remeasurement of the financial assets are disclosed separately in the profit and loss statement. Fair value is determined in the manner described in note 12.

### Loans and receivables

Loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, amounts due from loans and advances to customers are subsequently measured at amortised cost using the EIR, less allowance for impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

#### (ii) *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

### Loans and receivables

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. A provision is established if there is sufficient evidence as determined by management that the Fund will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount.

When a loan is uncollectible, it is written off against the related provision for loan impairment in the year in which the debt is recognised as being irrecoverable. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequently recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors' credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognised in the income statement.



## Notes to and forming part of the Financial Statements

### (iii) *Derecognition of financial assets*

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Fund retains an option to repurchase part of a transferred asset), the Fund allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

### (g) **Financial Liabilities**

#### *Classification as debt or equity*

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

#### *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### *Derecognition of Financial Liabilities*

The Fund derecognises liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### (h) Plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Subsequent cost are included in the asset's carrying amount 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 cost are charged to the statement of comprehensive income during the period in which they are incurred.

Depreciation is calculated on the straight line method so as to write off the net costs of the various classes of fixed assets during their effective useful lives. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The depreciation rates in use are:

- 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%

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognised.

The residual values and useful lives of property, plant and equipment are reviewed at each financial year end.

### (i) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in income or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

### (j) Cash and cash equivalents

Cash and cash equivalents include balances held with banks and highly liquid financial assets with maturities of that are subject to an insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from investing activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

### (k) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid at balance date.

The distribution amount payable to unit-holders as at the reporting date is recognised separately on the balance sheet when unit-holders are presently entitled to the distributable income under the Fund's Trust Deed.



## Notes to and forming part of the Financial Statements

### (l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### *Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Fund expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

#### *Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### (m) Distribution to unit holders

In accordance with the Trust Deed, the Fund distributes income adjusted by the amount determined by the Trustee, to unit holders by cash or reinvestment. The distributions are recognised in profit and loss as finance costs attributable to unit holders.





PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### **(n) Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Fund's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### Valuation of financial instruments – Unquoted shares

As described in note 2(f) and note 12, the Fund uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 2(f) provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

#### Property, plant and equipment

Useful lives and residual value of property, plant and equipment are reviewed annually. Judgement is applied in determining the useful lives of property, plant and equipment. Any reassessment of useful lives and residual value in a particular year will affect depreciation and amortisation expense (either increasing or decreasing) from the date of reassessment through to the end of the reassessed useful life for both the current and future years.

#### Impairment of loans and receivables

Management's judgement is applied in determining the provision for doubtful debts. If the estimated recoverable amount of the debtor is less than the carrying amount recognised, the difference is recognised in the provision for doubtful debts.



## Notes to and forming part of the Financial Statements

### 3. FINANCIAL INSTRUMENTS

The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Fund uses different methods to measure different types of risk to which it is exposed.

The Fund's financial instruments comprise cash, receivables, and financial assets at fair value through profit and loss, other financial assets, payables and borrowings.

	2016 K	2015 K
<b>Financial assets</b>		
Cash and cash equivalents	57,067,591	61,236,337
Receivables	71,421,067	7,812,655
Financial assets at fair value through profit and loss	380,648,429	572,578,719
Financial assets - Loans	71,421,067	-
	<b>570,558,154</b>	<b>641,627,711</b>
<b>Financial liabilities</b>		
Trade and other payables	1,271,590	4,523,600
Distribution payable	18,761,665	21,298,280
Income tax payable	347,870	505,870
	<b>20,381,125</b>	<b>26,327,750</b>

#### (a) Market risk

##### (i) Price Risk

The Fund's listed and unlisted equities are exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. All securities investments present a risk of loss of capital.

The price risk is mitigated through diversification in the industries and type of entities and a careful selection of securities and other financial instruments.

*The table below is a summary of the sector concentrations within the equity portfolio.*

	2016		2015	
	Total Assets K	Percentage of total assets %	Total Assets K	Percentage of total assets %
Consumer goods	288,184,673	76%	483,552,239	85%
Industrial	29,941,265	8%	44,893,337	8%
Property	49,300,000	13%	29,100,000	5%
Other	13,222,491	3%	15,033,143	2%
<b>Total</b>	<b>380,648,429</b>	<b>100%</b>	<b>572,578,719</b>	<b>100%</b>



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### (b) Market risk

#### (i) Price Risk

The table summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at 31 December 2016. The analysis is based on the assumptions that the equity investment increased by 1% (2016: 1%) and decreased by 1% (2015: 1%). The impact below arises from reasonable possible change in the fair value of the listed equity investment.

	2016 K	2015 K
Effect on net assets of an increase in equity prices	3,806,484	5,725,787
Effect on net assets of an decrease in equity prices	(3,806,484)	(5,725,787)

#### (ii) Foreign exchange rate risk

The Fund does not have any material exposure to volatility in foreign currency exchange rates.

### (c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Credit risk primarily arises from cash and cash equivalents, deposits with banks and other financial institutions. None of these assets are impaired nor past due but not impaired.

None of the financial assets and financial liabilities is offset in the statement of financial position. The Fund does not have financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instrument.

### (d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors, which has established an appropriate liquidity risk management framework for the management of the Fund's short-, medium- and long-term funding and liquidity management requirements. The Fund manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Fund is exposed to daily cash redemptions of redeemable units. The liquidity policy ensures that the Fund will be able to pay out the redemptions as necessary.



GROW  
YOUR  
FUTURE  
WITH US

PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 3. FINANCIAL INSTRUMENTS (cont'd)

#### (e) Interest rate risk management

##### *Interest rate risk*

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.

The Fund's exposures to interest rates on financial assets and financial liabilities are detailed in the fair value measurement section of this note below.

##### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	2016 K	2015 K
Effect on net assets of an increase in equity prices	25,733	346
Effect on net assets of an decrease in equity prices	(25,733)	(346)

#### (f) Fair value measurement

The carrying amount of the Fund's assets and liabilities at the balance sheet date approximate their fair values.

	2016 K		2015 K	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	57,067,591	57,067,591	61,236,337	61,236,337
Receivables	71,421,067	71,421,067	7,812,655	7,812,655
Financial assets at fair value through profit and loss	380,648,429	380,648,429	572,578,719	572,578,719
Financial assets - Loans	71,421,067	71,421,067	-	-
	<b>570,558,154</b>	<b>570,558,154</b>	<b>641,627,711</b>	<b>641,627,711</b>
<b>Financial liabilities</b>				
Trade and other payables	1,271,590	1,271,590	4,523,600	4,523,600
Distribution payable	18,761,665	18,761,665	21,298,280	21,298,280
Income tax payable	347,870	347,870	505,870	505,870
	<b>20,381,125</b>	<b>20,381,125</b>	<b>26,327,750</b>	<b>26,327,750</b>



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 3. FINANCIAL INSTRUMENTS (cont'd)

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss is expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss is measured at fair value with changes in their fair value recognised in the statement of profit or loss and other comprehensive income.

The fair values of financial assets and financial liabilities are determined as follows:

#### (i) Fair value in a quoted market

Fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

#### (ii) Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, capitalisation of maintainable earnings or any other valuation technique that provides a reliable estimate of prices. This exercise is undertaken by an expert independent external party and the fair values are determined in accordance with generally accepted pricing models.

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred. During the year ended 31 December 2016, there were no transfers between levels of the fair value hierarchy.

#### Unlisted shares

The financial statements include holdings in unlisted shares which are measured at fair value. Fair value is estimated using valuation methods such as capitalisation of maintainable earnings ("CME") approach applying an EBITDA multiple, discounted cash flow ("DCF") valuations and share of net assets. The CME and DCF methods include assumptions that are not supported by observable market prices or rates. Investment valuation methods and analysis of key unobservable inputs is disclosed below.

##### Amalpack Limited

The net asset based approach has been used to value the investment. There are no significant unobservable inputs in the net asset based approach.

##### Associated Mills Limited

This investment was disposed of during the year. (2015: Capitalisation of maintainable earnings approach has been used to value the investment and the key unobservable input in the valuation is the capitalisation multiple. Management used a capitalisation multiple of 4.50. If this input into the valuation model was 5% higher/lower while all the other variables were held constant, the K120,117,470 carrying amount of the shares would increase/decrease by K16,662,637.)

##### BOC Gases (PNG) Limited

Capitalisation of maintainable earnings approach has been used to value the investment and the key unobservable input in the valuation is the capitalisation multiple. Management used a capitalisation multiple of 3.30 (31 December 2015: 4.50). If this input into the valuation model was 5% higher/lower while all the other variables were held constant, the K18,057,182 carrying amount of the shares would increase/decrease by K4,013,009.





## Notes to and forming part of the Financial Statements

### 3. FINANCIAL INSTRUMENTS (cont'd)

#### Fair value estimation (cont'd)

##### Kumul Hotels Limited

Discounted Cash Flows method was used to value the investment and the key unobservable input in the valuation are the Future Estimated Cash Flows and the discount factor using the Weighted Average Cost of Capital ('WACC').

If the Future Estimated Cash Flows in the valuation model was 5% higher/lower while all the other variables were held constant, the K39,577,023 carrying amount of the shares would increase/ decrease by K4,158,941.

##### Markham Culverts Limited

Capitalisation of maintainable earnings approach has been used to value the investment and the key unobservable input in the valuation is the capitalisation multiple. Management used a capitalisation multiple of 5.00 (31 December 2015: 5.00). If this input into the valuation model was 5% higher/lower while all the other variables were held constant, the K9,400,137 carrying amount of the shares would increase/decrease by K1,214,060.

##### Metal Refining Holdings Limited

The net asset based approach has been used to value the investment. There are no significant unobservable inputs in the net asset based approach. The entity is not operating and the Company's main asset is a property in Waigani, Port Moresby.

##### Niu Marsh

Capitalisation of maintainable earnings approach has been used to value the investment and the key unobservable input in the valuation is the capitalisation multiple. Management used a capitalisation multiple of 4.00 (31 December 2015: 5.00). If this input into the valuation model was 5% higher/lower while all the other variables were held constant, the K7,816,100 carrying amount of the shares would increase/decrease by K1,462,231.

##### Origin Energy (PNG) Limited

Capitalisation of maintainable earnings approach has been used to value the investment and the key unobservable input in the valuation is the capitalisation multiple. Management used a capitalisation multiple of 4.00 (31 December 2015: 5.00). If this input into the valuation model was 5% higher/lower while all the other variables were held constant, the K23,961,300 carrying amount of the shares would increase/decrease by K6,277,700.

##### SP Holdings Limited

Capitalisation of maintainable earnings approach has been used to value the investment and the key unobservable input in the valuation is the capitalisation multiple. Management used a capitalisation multiple of 8.75 (31 December 2015: 9.70). If this input into the valuation model was 5% higher/lower while all the other variables were held constant, the K1,660,038 carrying amount of the shares would increase/decrease by K264,196.

##### Toyota Tsusho (PNG) Ltd

Capitalisation of maintainable earnings approach has been used to value the investment and the key unobservable input in the valuation is the capitalisation multiple. Management used a capitalisation multiple of 4.50 (31 December 2015: 5.00). If this input into the valuation model was 5% higher/lower while all the other variables were held constant, the K126,542,525 carrying amount of the shares would increase/decrease by K53,678,175.

##### Trukai Industries Ltd

Net assets basis has been used given the progressive decrease in revenue and earnings of the Company. In 2015, capitalisation of maintainable earnings approach has been used to value the investment and the key unobservable input in the valuation is the capitalisation multiple. Management used a capitalisation multiple of 5.00.



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 3. FINANCIAL INSTRUMENTS (cont'd)

#### Fair value estimation (cont'd)

##### Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### 31 December 2016

	Level 1	Level 2	Level 3	Total
	K	K	K	K
<b>Financial assets at FVTPL</b>				
Listed equities	586,213	-	-	586,213
Unlisted equities	-	-	380,062,216	380,062,216
<b>Total</b>	<b>586,213</b>	<b>-</b>	<b>380,062,216</b>	<b>380,648,429</b>
<b>Financial liabilities at FVTPL</b>				
Financial liabilities designated at fair value through profit or loss	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

There were no transfers between Level 1 and 2 in the period.

#### 31 December 2015

	Level 1	Level 2	Level 3	Total
	K	K	K	K
<b>Financial assets at FVTPL</b>				
Listed equities	483,143	-	-	483,143
Unlisted equities	-	-	572,095,576	572,095,576
<b>Total</b>	<b>483,143</b>	<b>-</b>	<b>572,095,576</b>	<b>572,578,719</b>
<b>Financial liabilities at FVTPL</b>				
Financial liabilities designated at fair value through profit or loss	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

There were no transfers between Level 1 and 2 in the period.



## Notes to and forming part of the Financial Statements

### 3. FINANCIAL INSTRUMENTS (cont'd)

#### Fair value estimation (cont'd)

#### *Fair value hierarchy - Reconciliation of Level 3 fair value measurements of financial assets*

	FVTPL	
	Unlisted equities	
	2016	2015
	K	K
Opening balance	572,095,576	519,224,516
Total gains or losses:		
- in profit or loss	(108,727,813)	50,849,805
- in other comprehensive income	682,529	-
Purchases	-	2,044,446
Disposals	120,800,000	-
Transfers out of level	-	-
<b>Closing balance</b>	<b>380,062,216</b>	<b>572,095,576</b>

### 4. AUDITORS REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	2016	2015
	K	K
(a) Audit Services		
Audit and review of financial reports	100,000	91,725
(b) Other non-audit services	-	-
<b>Total remuneration to auditors</b>	<b>100,000</b>	<b>91,725</b>

Audit fees of K100,000 accrued to be paid to Deloitte Touche Tohmatsu in relation to the audit of the financial reports for the year ended 31 December 2016.



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 5. INCOME TAX EXPENSE

The income tax charged on total revenues less expense is determined as follows:

	2016 K	2015 K
<b>(a) INCOME TAX EXPENSE</b>		
Current tax	2,745,072	5,438,425
Deferred tax	-	-
	<b>2,745,072</b>	<b>5,438,425</b>
<b>(Loss)/Profit before income tax</b>	<b>(111,331,795)</b>	<b>69,289,324</b>
Prima facie tax payable at 30% (2015: 30%) on profit before income tax	(33,399,539)	20,786,797
<b>Tax effect of:</b>		
(Expenditure)/Income not subject to tax	32,618,344	(15,254,942)
Deferred tax asset not recognized	(520,208)	(510,075)
Exempt income (gross of DWT)	(4,233,569)	(4,511,747)
Dividend withholding tax as final tax expense	2,789,900	4,928,393
Adjustments for current tax of prior periods	-	-
	<b>2,745,072</b>	<b>5,438,425</b>

The deferred tax asset will not be recognized in the accounts as it is not probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

### 6. NET ASSETS ATTRIBUTABLE TO UNIT-HOLDERS

Movements in number of units and net assets attributable to unit-holders during the year were as follows:

	2016 Units	2015 Units
Units on issue at the beginning of the year	13,237,175	13,237,175
Applications	-	-
Redemptions	-	-
Closing balance	13,237,175	13,237,175



GROW  
YOUR  
FUTURE  
WITH US

PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 6. NET ASSETS ATTRIBUTABLE TO UNIT-HOLDERS (cont'd)

	2016 K	2015 K
Net assets attributable to unit-holders at beginning of the year	616,260,674	554,937,958
Applications	-	-
Redemptions	(5,034,600)	-
Distributions	(3,141,870)	(2,528,182)
(Decrease)/Increase in value per unit	(114,076,867)	63,850,898
<b>Net assets attributable to unit-holders at end of the year</b>	<b>494,007,337</b>	<b>616,260,674</b>

As stipulated within the Trust Deed, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

### 7. DISTRIBUTION TO UNIT-HOLDERS

A distribution of K3,141,870 was declared for the year ended 31 December 2015. The capital distribution has been recognised as a distribution declared in the financial statements for the year ended 31 December 2016.

### 8. CAPITAL RISK MANAGEMENT

The Fund manages its net assets attributable to unit-holders as capital, notwithstanding net assets attributable to unit-holders are classified as a liability.

#### 31 December 2016

	Weighted Average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Carrying amount
Non-interest bearing	-	-	1,691,461	-	-	-	<b>1,691,461</b>
Distributions payable	-	-	-	-	18,761,665	-	<b>18,761,665</b>
<b>Total</b>	-	-	-	-	18,761,665	-	<b>20,381,126</b>

#### 31 December 2015

	Weighted Average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Carrying amount
Non-interest bearing	-	-	5,029,470	-	-	-	5,029,470
Distributions payable	-	-	-	-	21,298,280	-	21,298,280
<b>Total</b>	-	-	-	-	<b>21,298,280</b>	-	<b>26,327,750</b>

**Assets** – Cash is available on demand and receivables are due according to terms of the receivable. All other assets are unlisted equity investments which are not liquid and are not held for sale.





PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 9. CASH AND CASH EQUIVALENTS

	2016 K	2015 K
Cash at bank	27,055,623	61,236,337
Term deposit	30,011,968	-
<b>Total</b>	<b>57,067,591</b>	<b>61,236,337</b>

### 10. OTHER RECEIVABLES

	2016 K	2015 K
Dividend receivable	1,063,680	7,812,655
Prepayments	2,646,714	-
Interest receivable	654,904	-
Other debtors	12,605	-
<b>Total</b>	<b>4,377,903</b>	<b>7,812,655</b>

#### *Age of receivables past due not impaired*

60-90 days	1,063,680	7,812,655
91-120 days	-	-
<b>Total</b>	<b>1,063,680</b>	<b>7,812,655</b>

### 11. LOANS

	2016 K	2015 K
<sup>1</sup> Loans	71,421,067	-
Less: Allowance for impairment	-	-
<b>Total</b>	<b>71,421,067</b>	<b>-</b>

<sup>1</sup>As part of the debt financing arrangements with Super Value Stores (SVS) signed on 1 November 2016, the Fund provided financing to repay ANZ K65 million and working capital K10 million. The facilities are summarised as follows:

- Five year loan of K65 million secured against property with an estimated value of K83.85 million. This was effectively a sale and lease back whose characteristics are debt financing. The fund is entitled to monthly rentals of K400,000 in the first year and K500,000 from year two to five. At the end of the five years, SVS has the option and first refusal to 'buy-back' the properties at the market value on that date.
- Three year draw down facility of K10 million with an effective interest rate of 6.5%.

#### *Loans can be classified as:*

	2016 K	2015 K
Short term	1,42,067	-
Long-term	70,000,000	-
<b>Total</b>	<b>71,421,067</b>	<b>-</b>



GROW  
YOUR  
FUTURE  
WITH US

PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2016 K	2015 K
Unlisted securities <sup>1</sup>	380,062,215	572,095,576
Listed securities	586,214	483,143
	<b>380,648,429</b>	<b>572,578,719</b>

#### <sup>1</sup>Comprising: Unlisted securities

	Equity %	2016 K	2015 K
Amalpack Limited	30.0	14,343,000	14,637,070
Associated Mills Limited	26.0	-	120,117,470
BOC Gases (PNG) Limited	26.0	18,057,182	22,070,191
Kumul Hotels Limited	26.9	39,577,023	35,418,081
Markham Culverts Limited	25.0	9,400,137	8,186,076
Metal Refining Holdings Limited	100.0	12,833,653	13,050,002
Niu Marsh	30.8	7,816,100	6,353,869
Origin Energy (PNG) Limited	33.0	23,961,300	30,239,000
SP Holdings Limited	0.1	1,660,037	1,924,233
JKL Properties Limited	20.0	4,320,160	4,792,600
Toyota Tsusho (PNG) Limited	24.1	126,542,525	180,220,700
Trukai Industries Limited	33.8	64,398,992	104,486,284
Nationwide Microbank	13.6	665,700	1,500,000
PBF Agro Limited	100.0	1,390,000	-
PBF Power Limited	100.0	56,406	-
PBF Properties Limited	100.0	49,300,000	29,100,000
Agmark	12.0	3,240,000	-
Other	0.0	2,500,000	-
<b>Total financial assets at fair value through profit and loss</b>		<b>380,062,215</b>	<b>572,095,576</b>

#### Fair value estimation

As disclosed in note 2(f), investments in the above financial assets are carried at their fair values. Management engaged an independent party, KPMG to perform a valuation of the investment portfolio. The methodology used in the analysis was a combination of maintainable earnings, discounted cash flows of net dividend yields and net assets as appropriate. The independent valuation provided a range of values for the investments. Management reviewed and adopted values as they deemed appropriate within the range of values provided.



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 13. PLANT AND EQUIPMENT

2016	Plant and equipment	Furniture and Fittings	Motor Vehicles	Improvements at Cost	Total
<b>Cost</b>					
At 1 January 2016	2,503,828	65,309	106,110	-	2,675,247
Additions	64,005	15,998	-	57,714	137,719
Disposal	-	-	-	-	-
<b>At 31 December 2016</b>	<b>2,567,833</b>	<b>81,307</b>	<b>106,110</b>	<b>57,714</b>	<b>2,812,965</b>
<b>Accumulated depreciation</b>					
At 1 January 2016	1,658,270	39,173	17,091	-	1,714,535
Depreciation	178,836	7,876	26,705	11,543	224,960
Disposal	-	-	-	-	-
<b>At 31 December 2016</b>	<b>1,837,106</b>	<b>47,049</b>	<b>43,795</b>	<b>11,543</b>	<b>1,939,494</b>
<b>Net book value at 31 December 2016</b>	<b>728,728</b>	<b>34,257</b>	<b>62,315</b>	<b>46,171</b>	<b>873,471</b>

2015	Plant and equipment	Furniture and Fittings	Motor Vehicles	Total
<b>Cost</b>				
At 1 January 2015	2,428,077	65,309	90,546	2,583,932
Additions	75,751	-	93,464	169,215
Disposals	-	-	(77,900)	(77,900)
<b>At 31 December 2015</b>	<b>2,503,828</b>	<b>65,309</b>	<b>106,110</b>	<b>2,675,247</b>
<b>Accumulated depreciation</b>				
At 1 January 2015	1,456,326	32,640	26,779	1,515,745
Depreciation	201,944	6,533	22,373	230,851
Disposal	-	-	(28,062)	(28,062)
<b>At 31 December 2015</b>	<b>1,658,270</b>	<b>39,173</b>	<b>17,091</b>	<b>1,714,535</b>
<b>Net book value at 31 December 2015</b>	<b>845,558</b>	<b>26,136</b>	<b>89,020</b>	<b>960,712</b>



## Notes to and forming part of the Financial Statements

### 14. TRADE AND OTHER PAYABLES

	2016 K	2015 K
Trade creditors	74,853	374,174
Other creditors	330,000	35,900
Accrued audit fees	101,875	91,725
Accrued accounting fees	60,000	112,282
Accrued management fees	337,472	551,022
Accrued trustee fees	168,736	275,511
Accrued performance fees (MTSL)	-	2,884,331
Payroll deduction scheme (PDS) contributions	198,655	198,655
	<b>1,271,591</b>	<b>4,523,600</b>

### 15. DISTRIBUTION PAYABLE

	2016 K	2015 K
Opening balance	21,298,280	20,624,159
Payments	(5,678,488)	(1,854,061)
Distributions during the year	3,141,873	2,528,182
Ending balance	<b>18,761,665</b>	<b>21,298,280</b>

The opening distribution payable is monies that will be paid to unit holders as distribution for the financial year 2003 to 2011 except 2010. The distribution during the year is the distribution of capital for the year ended 31 December 2014 that was declared by the directors in December 2015. The distribution has been recorded in the current year.

### 16. RELATED PARTY TRANSACTIONS

#### Intercompany transactions

Intercompany transaction balances are attributed to the following:

#### *Melanesian Metals Corporation (MMC)*

In 2010 PBF advanced an amount to MMC in order for MMC to settle its liabilities that had been incurred. The total receivable at 31 December 2012 was K2, 289,065. The amount is fully provided and written off in prior years. This year PBF gave an additional K2,044,445 as a capital contribution to MRO to refurbish the refinery and buy new equipment in preparation to open up for trading in 2016.



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 16. RELATED PARTY TRANSACTIONS (cont'd)

#### Fund Manager

The fund manager of PBF for the period 1 January 2008 to 11 November 2008 was PEIL. PEIL ceased to be fund manager from 11 November 2008 and MTSL was appointed as interim fund manager.

#### Fund manager's fees and other transactions

Under the terms of the Trust Deed, the fund manager is entitled to receive management fees, calculated as follows:

- (i) 1.00% (2015: 1.00%) per annum of the aggregate of the Value of the Assets plus the commitments to purchase or acquire Assets;
- (ii) (a) 7.5% (2015: 7.5%) of the amount (if any) by which the Annual Return for the Financial Year exceeds the Benchmark Return for the Financial Year; or  
(b) nil if the Annual Return for the Financial Year does not exceed the Benchmark Return for the Financial Year.

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are reimbursed in accordance with the Trust Deed.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the investment manager were as follows:

	2016 K	2015 K
Management fees for the year	7,057,905	6,382,961
Accrued management fees at the end of the year	337,472	551,022

#### Key management personnel

##### (a) Directors

Key management personnel include persons who were directors at any time during the financial year as follows:

##### Melanesian Trustee Services Limited (Trustee)

- Robert Igara
- John Sanday
- Joshua Bakirie
- Arthur Vera
- Philip Kende

##### (b) Other key management personnel

There were no other persons responsible for the planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

The Chief Executive Officer of MTSL for year ended 31 December 2016 was Kennedy Wemin, the Secretary was Peter Mase and the Chairman was John Sanday.

#### Key management personnel compensation

Key management personnel are paid by MTSL. Payments made from the Fund to MTSL do not include any amounts attributable to the compensation of key management personnel.





## Notes to and forming part of the Financial Statements

### 16. RELATED PARTY TRANSACTIONS (cont'd)

#### Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

#### Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund since the end of the previous financial year and there were no material contracts involving director's interests subsisting at year end.

#### Trustee

The Trustee of PBF for the period 1 January 2015 to 31 December 2016 was MTSL.

#### Trustee's fees and other transactions

Under the terms of the Trust Deed, the Trustee is entitled to receive fees, calculated as follows:

- (i) 0.5% (2014: 0.5%) per annum of the Value of the Assets plus any commitments to purchase or acquire assets

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are reimbursed in accordance with the Trust Deed.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the investment manager were as follows:

	2016 K	2015 K
Trustee fees for the year	3,528,952	3,191,481
Accrued trustee fees at the end of the year	168,736	275,511

#### Performance fees and other transactions

Under the terms of the Trust Deed, the Trustee is entitled to receive fees, calculated as follows:

- (i) 0.75% (2014: 0.75%) per annum of the amount by which the Annual Return exceeds the Benchmark Return.

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are reimbursed on accordance with the Trust Deed.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the investment manager were as follows:

	2016 K	2015 K
Performance fees for the year	-	2,884,331
Accrued performance fees – MTSL	-	2,884,331



PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Notes to and forming part of the Financial Statements

### 16. RELATED PARTY TRANSACTIONS (cont'd)

#### Other related parties

Entity	Note	Country of incorporation	Ownership Interest
Melanesian Metals Corporation (MMC)		PNG	100%
Mineral Resources Operations (MRO)		PNG	100%
PBF Properties Limited		PNG	100%
PBF Agro Limited		PNG	100%
PBF Power Limited		PNG	100%

### 17. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Events that have occurred since balance date which would impact on the financial position of the Fund disclosed in the balance sheet as at 31 December 2016 or on the results and cash flow of the Fund for the year ended on that date.

#### (a) Units Verification exercise

MTSL embarked on rebuilding the shareholder registry with 83% of units of unit holders now verified through the nationwide road show. The last road show to verify unit holders was carried out in 2016.

#### (b) Distribution To Unit-Holders

A distribution of K3,141,870 was declared for the year ended 31 December 2016. The capital distribution has been recognised as a distribution declared in the financial statements for the year ended 31 December 2016.

#### (c) Appointment of Director

Warwick Vele was appointed as a director to the board of MTSL on 1 February 2017.

### 18. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

There are no outstanding contingent assets or commitments as at 31 December 2016.

#### Contingent Liabilities

The Fund lost the Unit Holder register in 2002 and this resulted in the Unit Holder register not being appropriately maintained.

A contingent liability exists as at 31 December 2016 due to the total number of unitholders not being fully verified. The total number of units currently being used is 13,237,175 (refer to note 6) and is based on existing information from the unitholder database. This number is not fully verified and confirmed and there is potential of unverified units that management is not aware of being presented by valid unitholders in the future.

In the event that these valid units are being presented, verified and validated, an obligation would arise to PBF for previously declared and unpaid unitholder distributions. The extent to which outflow of funds that may be required is dependent upon the number of units identified.

Since losing the Unit Holder register the Fund has been undertaking procedures with respect to reconstructing and confirming the register. The process of reconstructing and confirming unit holders has been substantially completed with approximately 83% of unit holders verified as at 31 December 2016.

### 19. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue by the Board of Directors on the 12th of June 2017.



GROW  
YOUR  
FUTURE  
WITH US

PACIFIC BALANCED FUND  
For the year ended 31 December 2016

## Declaration by Trustee

In our opinion the accompanying statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, together with the notes to and forming part of the Financial Statements, have been properly drawn up so as to respectively exhibit a true and fair view of state of affairs of the Fund as at 31 December 2016, and its performance for the year then ended.

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

Philip Kende

Director

12<sup>th</sup> June 2017

Warwick Vele

Director

12<sup>th</sup> June 2017

[illegible]

[illegible]