



**COMMISSION OF INQUIRY INTO ASPECTS**

**OF THE**

**FOREST INDUSTRY**

**INTERIM REPORT No. 2**

**THE GADAI SU TIMBER PERMIT - ANGUS  
(PNG) PTY LIMITED**

**PART ONE**

COMMISSION OF INQUIRY INTO ASPECTS

OF THE

FOREST INDUSTRY

INTERIM REPORT NO.2

THE GADAI SU TIMBER PERMIT - ANGUS (PNG) PTY LIMITED

PART ONE

i

*January, 1988*

## FOREWARD

This Interim Report is divided into two parts.

PART 1. This Part sets out in simple narrative form the history of the Angus group of companies' involvement in the Papua New Guinea timber industry; particularly in the Gadaisu permit area of Central Province. It also sets out findings of fact relevant to the Commission's Terms of Reference.

An attempt has been made to keep the narrative free from technical and legal jargon and not to clutter it with the documentation which supports the findings. This documentation is set out in appendices however, and there are frequent references throughout the text to these numbered Appendices.

Part 1 includes also a list of matters which I have recommended should be referred to the Commissioner of Police and to other authorities for follow-up action.

PART 2. The Appendices are all set out in Part 2 as a separate volume of this Interim Report. Most of the appendices consist of photocopies of some of the key documents which were tendered during the Commission's hearings. Some appendices however continue, and form an important part of, the Part 1 narrative and have their own schedule of supporting documents. I have adopted this

approach where the subject matter is a side issue which only merits a passing mention in the **main text (such as liquor smuggling)** or where the full expansion of the subject matter in the main text required the introduction of technical jargon (such as Transfer Pricing).

**The following appendices are of this nature and require careful study by those interested in reading the continuation of the narrative which on these topics has merely been introduced in Part 1.**

Appendix 8 - **"Manipulation of Shareholdings and Directorships in Angus' ONG Subsidiaries"**

**The manipulations referred to were complex and require a study of lawyers' instruction sheets and various company documents. These are set out as a schedule to the Appendix.**

Appendix 35 - **"Angus PNG's Transfer Pricing Schemes"**

**To adequately describe the way the Angus principals set about constructing and implementing their schemes for transfer pricing on various log shipments required reference to the relevant letters of credit, inter-company correspondence and financial calculations. It is a story in itself. After a general introduction in Part 1, the full detailed story of transfer pricing is told in Appendix 35 with key documents attached as a Schedule.**

Appendix 39 - **"Allocation of Kupiano Permit TP3-4 to Goodwood Pty Ltd - Some Key Dates"**

**Although this Interim Report concerns inquiries into Angus some disturbing evidence was given in the closing stages of the Angus inquiry concerning the Allocation of a Permit to Goodwood over the Kupiano permit area. As this involved two key figures in the Angus investigation, Messrs E R Diro and O Mamalai, and' as it occurred contemporaneously, and also involved the Gadaisu permit area, it was given a brief mention in the 'text of Part 1. Appendix 39 elaborates that text by setting- out key dates. The supporting documentaflOp is not appended as I hope to make the allocation'of the perMit to Kupiano/Goodwood Pty Ltd the subject of a separate report.**

Appendix 50 - **"Apparant Liquor Smut:ft:ai m:"**

The way duty free liquor was smuggled into Papua New Guinea on the Angus **log ships is tenuously connected to the Commission's Terms of Reference as an improper benefit** which has been obtained by those involved in the timber industry. It receives a brief, passing mention in the text of Part 1. As there is evidence that this practice also exists in some other operations I have included a full description of the evidence uncovered in this Inquiry and a schedule of supporting documents.

**Appendix 51 .- "The Jimuar Vehicle"**

The complicated story and documentary evidence involved in the importation and use of this Jaguar motor car has been elaborated upon in this appendix so as to avoid cluttering up the narrative in Part 1.



.....  
T E BARNETT,  
COMMISSIONER.

CONTENTS

Page.

(i)	Foreward	(i) - (iv)
-----	----------	------------

PART 1

1.	INTRODUCTION .....	
2.	EARLY ATTEMPTS TO EXPLOIT GADAI SU FOREST .....	3
3.	THE BIRTH OF ANGUS .....	6
4.	WORKING FOR ANGUS (SINGAPORE) .....	9
5.	MINISTERIAL APPOINTMENT- DIRO'S DILEMMA .....	11
6.	MANIPULATING MAGI:WOPFEN .....	13
7.	THE ANGUS PROPOSAL .....	15
8.	NEGOTIATING PERMIT CONDITIONS .....	18
9.	OWNERSHIP OF ANGUS (PNG) PTY LTD .....	20
10.	FINANCE PROBLEMS .....	23
11.	EARLY MARKETING CONSPIRACY -- TRANSFER PRICING	24
12.	'REGULARISING' ANGUS .....	27
13.	ON-GOING TRANSFER PRICE AGREEMENT .....	29
14.	TRANSFER PRICING PROPOSAL FOR SECOND SHIPMENT ..	34
15.	F.I.C. MANAGEMENT - FIGHT FOR SURVIVAL .....	34
16.	CUTTING LOOSE FROM SINGAPORE .....	35
17.	DIRO TURNS AGAINST ANGUS .....	37
18.	THE TORATO APPROACH .....	38
19.	OFFICIAL MANAGEMENT .....	39
20.	THE ROLE OF EDWARD RAMU DIRO .....	40
21.	RELEVANCE OF FINDINGS TO COMMISSION'S TERMS OF REFERENCE .....	50
22.	POSSIBLE <b>CRIMINAL AND</b> OTHER OFFENCES .....	56
23.	CONCLUSION .....	61

PART 2**List of Aopendices**

<i>Appendix 1</i>	Letter Diro to Mamalai	20-12-84
<i>Appendix 2</i>	Letter Gabina to Lucas Waka	25-07-84
<i>appendix 3</i>	Telex Cc'nstantinou to Mamalai	20-09-84
<i>Appendix 4</i>	Letter Vanuawaru to Lucas Waka	14-02-85
<i>appendix 5</i>	Telex Bougainville Development Corp. to G. Goldings	:24-09-85
<i>Appendix 6</i>	Memo E Bates to Secretary DOF	08-10-85
<i>Appendix 7</i>	Letter Diro to Waka	14-10-85
<i>Appendix 8</i>	Manipulations of Shareholdings and Directorships in Angus' PNG Subsidiaries	
<i>Appendix 9</i>	J Kasaipwalova's "Newsflash" telex to Angus Singapore	21-11-85
<i>Appendix 10</i>	Details of Diro Companies	
<i>Appendix 11</i>	Kassman instruction sheet	
<i>Appendix 12</i>	Telex Kasaipwalova to PNG Ambassador Brussels	08-11-85
<i>Appendix 13</i>	Telex Cheah to Angus Singapore	26-11-85
<i>appendix 14</i>	Letter Magi Wc'pten to Secretary Dept. of Forests	02-12-85
<i>Appendix 15</i>	Minutes of Meeting Central Province Leaders	04-12-85
<i>Appendix 16</i>	Letter Mamalai to Cheah	20-12-85
<i>Appendix 17</i>	Memo Diro to Secretary D.O.F.	09-01-86
<i>Appendix 18</i>	Letter Kasai pwal ova to Mamalai	20-12-85
<i>appendix 19</i>	Memo to Secretary D.O.F.	24-12-85
<i>appendix 20</i>	Memo FAS Ops. to Mamalai	02-01-86
<i>appendix 21</i>	Letter Cheah and Kasapwalova to Secretary Dept. of Forests	13-01-86
<i>Appendix 22</i>	Memo Secretary to FAS Operations	14-01-86
<i>Appendix 23</i>	Memo Kar i to Secretary D.O.F.	17-01-86
<i>appendix 24</i>	Memo Secretary to Deputy Secretary	27-01-86
<i>Appendix 25</i>	Memo McNeill to Secretary D.O.F.	30-01-86
<i>Appendix 26</i>	Memo Kari to Secretary	04-02-86
<i>appendix 27</i>	Mamalai to A/Deputy Secretary	11-02-86
<i>appendix 28</i>	Letter Ka;aipwalova to Diro	25-02-86
<i>Appendix 29</i>	Telex Mamalai to Angus (PNG)	25-02-86
<i>appendix 30</i>	Telex Diro to Angus (PNG)	25-02-86
<i>appendix 31</i>	Memorandum Cheah to Chan Lang Wai	01-03-86
<i>Appendix 32</i>	Letter Magi Wopten to Diro	21-04-86
<i>appendix 33</i>	Fax Kasaipwalova to Cheah setting out Questions in Parliament by Jack Genia, MP and Mr Diro's answers	17-03-86



Appendix 34	Reports on <b>inspections of Angus</b> Operations	
Appendix 35	<b>Angus Transfer Pricing Schemes</b>	
Appendix 36	<b>Travel Lodge Memo to Charlie Koh</b>	<b>17-08-86</b>
Appendix 37	<b>Letter Cheah to Ang</b>	<b>25-10-86</b>
Appendix 38	<b>Memo Mamalai to Diro</b>	<b>23-10-86</b>
Appendix 39	<b>Allocation of Kupiano Permit to</b> <b>Goodwood Pty Ltd - Some Key Dates</b>	
<i>Appendix 40</i>	<b>Letter to Sir Tore Lokr'I oko</b>	<b>10-02-87</b>
<i>Appendix 41</i>	<b>Memo Secretary DOF to Minister</b>	<b>18-02-87</b>
<i>Appendix 42</i>	<b>Secretary DOF to First Legislative</b> <b>Counsel</b>	<b>03-03-87</b>
<i>Appendix 43</i>	<b>Advice to Governor GenorAl</b>	<b>05-03-87</b>
<i>Appendix 44</i>	<b>Letter O. Mamalai to</b>	<b>13-03-87</b>
<i>Appendix 45</i>	<b>Angus (PNG) Pty Ltd - Statement</b> <b>of Affairs</b>	<b>Feb. '87</b>
<i>Appendix 46</i>	<b>List of An06 Creditors</b>	
<i>Appendix 47</i>	<b>Notice to Show Cause</b>	
<i>Appendix 48</i>	Extracts from Mr 066dmay's final <b>submissions on behalf of E R Diro</b>	
<i>Appendix 49</i>	<b>Minutes of Angus •PNG Meeting</b>	<b>30-09-86</b>
<i>Appendix 50</i>	<b>Apparant Liquor Smuggling</b>	
<i>Appendix 51</i>	<b>The Jaguar Vehicle</b>	

## THE GADAI SU TIMBER PERMIT - ANGUS (PNG) PTY LTD

### 1. INTRODUCTION

The Angus timber operation at Gadaisu in Central Province was selected for the Commission's first detailed inquiry because it was a recently commenced operation close to Port Moresby and something had obviously gone very seriously wrong. Available evidence suggested that the Permit had been issued to Angus in a way which contravened forestry policy and the N.I.D.11. '0ct and that, during the operation, the resource had been severely damaged. There were persistent rumours also of ministerial misconduct, official corruption and transfer pricing on a large scale associated with the operation. After only nine months of operation, the company had gone into official management owing K1,600,000 with assets of only K193,000. all the company's record would be freely available to the Commic:..sion as Angus .PNG) Pty Ltd was under official management and the Manager, Mr Graham Parker, had promised full cooperation.

At the commencement of the inquiry I summonsed all the business records of Angus (PNG) Pty Ltd and Commission staff 'Analysed them mot carefully. The documents studied supported thf.' tmours a. indicated very serious misi:onduct hv Mr P Di/o, the formcyr Minister tor i'ocests who at the .. mmenf:em9nt was minister for Foreign Affairs Rid leade, rct the rPonl..=!i, Aclion Party. They also sho,,ed th,,kt thP- former r:iovernor General, Sir Tore Lok ' k)1",), was involved as Chairman of Annus, that MY Gerard Kassman,

**former President of, the PNG Law Society had a significant role, that Mr Oscar Mamalai, then Secretary of the Department of Forests, had questions to answer and that some notable foreigners would be implicated in the Inquiry.**

**For these reasons I directed that the roles of those key people be traced through the documentary evidence and that they be then made aware of the nature of the evidence concerning them and that they be given an opportunity to come forward. Consequently, at the commencement of the public hearings, the following persons were either notified or given a copy of the Opening Address and invited to make statements or to be represented before the Commission:**

**E R Doro,**

**Tan Sri Ghazali Shafei**

**M A Ang**

**J Kasaipwalova**

**F C Cheah**

**Sir Tore Lokoloko**

**Gerard Kassman**

Only Sir Tore came forward voluntarily to assist the Commission. Tan Sri Ghazali Shafei's lawyer sought relevant transcripts and Messrs Kasaipwalova and Cheah visited the Commission and indicated statements would be provided but submitted nothing. Mr Doro came to be a major focus of the Inquiry because he was the former Chairman of Angus and was Minister for Forests at the material times. He was the only person who sought leave to appear before the Commission. Leave to appear by Counsel was granted. He was firstly represented by Mr Peter Steele and later by Mr Michael Goodman, both of **Steeles Lawyers.**

## **2. EARLY ATTEMPTS TO EXPLOIT GADAIKU FOREST**

**Although there had been previous unsuccessful attempts to exploit the forests of Bonua-Gadaisu-Magarida in the Amazon Bay Area of Central Province this Inquiry has focussed on the attempts which were made from 1984 onwards.**

**Attempt by Magi Wopten and Magi Manda:**

**During 1984 there appears to have been a concerted push to gain the rights to exploit the Gadaisu forest area. There were two local contenders for the permit: a group known as Magi Wopten, which was being advised by the Member for Central, Mr E R Diro and a rival group known as Magi Manda which was being advised by Mr John Kasaipwalova. Mr Diro was then supporting the concept of the Timber Permit being issued to Magi Wopten Development Pty Ltd (*Appendix 2*). Amazon Bay Sawmilling and Timber Pty Ltd was already established (illegally) nearby at Magarida and it negotiated an agreement with Magi Wopten Development Pty Ltd to act as its manager and logging contractor to log Gadaisu. Amazon Bay Sawmilling and Timber Pty Ltd (supported by another local member Mr Jack Genia, MP) then assisted Magi Wopten to apply for a Timber Permit over the Gadaisu area. Although the timber rights purchases were not yet completed the political pressure was such that Minister Lucas Waka finally granted Permit No.TP3-17 to Magi Wopten in April 1985. (*See Appendices 2,3,4 demonstrating the political pressure*). On receiving the State Solicitors' advice that the permit was invalid, it was cancelled on 16 May 1985.**

Attempt by MOIC Investment Pte Ltd: ,

The large Malaysian government supported, Malaysian Overseas Investments Corporation (M.O.I.C" (KL)) became interested in projects in PNG in late 1984. One of the projects suggested to it in February 1985 by the Deputy Premier of Central Province was the "abundance of timber concessions especially around the Amazon Bay".

At this time John Kasaipwalova was gl,aiming to be MOIC's Cultural Consultant and he and MOTC's Port Moresby manager, Foong Chin Cheah commenced the task of preparing the Magi Wopten<sup>4</sup>)eople4on, a partnership with MOIC to exploit their timber res<sup>06r5e</sup>, Theaimwas to restructure the Board of Directors of their 18cal -fandowners company to achieve a Board favourably disposed towards MOIC. On 14 June 1985 Mr CheaWattended a .meeting of Magi Wopten Directors and Mr George Cons'tantinou of Amazon Bay Sawmilling and Timbers Pty Ltd at which it was agreed to release portion of the area previously tied to Amazon Bay Sawmilling and Timbers Pty Ltd for exploitation by MOIC. A deed of release was later drawn up by Mr Gerard Kassman, a lawyer then employed by **Gadens**, and executed on the 21 June 1985. The way was thus cleared for **MOIC to** submit a joint propos with MFTcli Wopten over the Gadaisu area.

It vocv relevant that the third party mentioned in the- deed was MOIC investments Pte Ltd, a Singapore company which h;d ,Jcppt ly been formed by M A Ang, the Managing o<sup>4</sup> (MOTC (KL)). ihe two companies had no legal connec n tholkgh MOIC In'zestmots took advantage of market- confsion in the early 04ys to imply a non-existing nonnction wLth the preHl.,iclious MOIL (KL). When he formed the c:inwArio' comptly M A Arm was on the -'ercle of breaking away from MOIC (KL).

In July 1985, at a meeting in the Malaysian High Commissioner's residence, Mr Somare appointed Mr Diro as joint head of a task force to help coordinate the MOIC (KL) projects in PNG - including the Bonua-Gadaisu timber project. From then on Mr Diro took a very active interest in promoting this MOIC/Magi Wopten timber operation.

At that time Mr **Diro was the leader of** the political alliance known as the Papuan Independent Group and he was formulating plans for his political party which eventually **was formed under the name Peoples Action Party**. Mr Kasai-pwalova and the lawyer Kassman were **LATER to become active participants in that Party**.

On the 1 August, Mile Investments Pte Ltd and Magi Wopten Development Pty Ltd submitted a joint venture proposal to the **Department of Forestry** to exploit the Bonua-Gadaisu-Magarida timber area and to establish a follow-up **agricultural project**. The proposal itself had been prepared in Singapore and was brought into PNG by Deidre Low, a former employee of MOIC (KL) who had been recruited to work for MOIC Investments in PNG. The proposal put forward the concept of two joint venture companies.

**Company A** was to exploit the timber and was to be predominantly foreign owned with gradually increasing involvement by Magi Wopten over the years.

Company A. (Timber)	<u>Ownership</u>		<u>Years</u>
	MOIC	M.W.	
	80%	20%	1 - 5
	75%	25%	6 - 9
	70%	30%	10 onwards

**Company B was to manage the Agricultural project and was to be owned predominantly by Magi Wopten in the following proportions;**

<b>Company B.</b>	<b>MOIC / M.W.</b>
<b>(Agriculture)</b>	<b>25% / 75%</b>

**but for the first ten years MOIC Investments would be employed as Manager for a fee.**

**Evidence of Mr Diro's involvement can be seen from the fact that the MW/MOIC Joint Venture agreement dated 1/8/85 bears a signed notation:**

**"I have read this agreement**

**(Sgd) E R Diro**

**E FRDIRO,, CBE, O S,TJ, MP  
MP for Central"**

### **3. THE BIRTH OF ANGUS**

**While the proposal was being assessed in the Department of Forests the Malaysian Overseas Investment Corporation was failing in Malaysia and went into liquieation in September 1985. In that same month M A Ang, who had finally severed his links with that corporation, registered Angus Investments Pte Ltd and Angus Trading Pte Ltd as the apex of the Angus Group of Companies, which claimed to have subsidiaries in Hong Kong, Nigeria, Malaysia, Thailand, Korea and England as well as in Papua New Guinea.**

**In Papua New Guinea, Messrs Diro, Kasaipwalova and Kassman had joined forces with F C Cheah as active members of the Angus Group to be controlled from Singapore. Three Gaden's shelf companies had previously been purchased, named**

**Boomi No.93, Boomi 94 and Boomi No.96.** On the 19 September 1985 these were renamed respectively Angus (PNG) Pty Ltd, Angus (Joint Venture) Pty Ltd and Marine Resources Pty Ltd. They were intended to be subsidiaries of Angus Singapore.

The evidence is quite clear that the initial shareholdings and directorships of these companies as at the 19 September was

**Angus (PNG) Pty Ltd**

*Shareholders:*

John Kasaipwalova  
Gerard Kassman 1 [Trust Deed in favour of Tamworth 35 Pty Ltd (Diro's Company) and a Deed of Indemnity from Tamworth 35 in favour of Kassman as Director]

*Directors:*

John Kasaipwalova  
Gerard Kassman

**00(445 (Joint Venture) Pty Ltd**

*Shareholders:*

John Kasaipwalova  
Gerard Kassman 1 [Trust Deed in favour of Tamworth 35 Pty Ltd]

John Kasaipwalova and Gerard Kassman

**Marine Resources Pty Ltd**

*Shareholders:*

Gerard Kassman 1 [Trust Deed in favour of Tamworth 35 Pty Ltd]  
Tamworth 35 Pty Ltd

L R and John Kasaipwalova



These were intended to be accepted Companies to avoid the necessity of obtaining approval under the *NIDA Act* and to gain the more favourable treatment afforded to National Companies in matters of resource allocation and development. Subsequent manipulation of share issues however show that there was always an intention to have a secret majority foreign ownership situation. (See Appendix 8)

The potential importance of Mr Ted Diro's political connections for the Gadaisu timber operation was highlighted when Kasaipwalova telexed Cheah in Singapore on the 24 September 1985 when Central Premier Kone Vanuawaru won a 'Vote of No Confidence'.

"Kone Vanuawaru has won the vote. Ted in control of Central Provincial Government. Abau (Gabina) nominated Minister for Forestry."

From July to October, Diro's links with MOIC Investments/Angus grew wider and deeper. In July-August Diro received considerable financial assistance regarding the purchase of a second hand jaguar motor vehicle. Mr Diro's evidence regarding ownership of the vehicle was and remains, very confusing. Under cross examination he handed his story to fit the facts being presented to him by Counsel Assstino. Interpreting the evidence in the way most favourable to Mr Diro although it is clear that he paid the deposit (through one Hardv Lee), MOIC definitely paid the balance of \$700 and K3,000 for repair of the new hub cap as well as the freight charge. It is noted that MOTC paid out a total of K10,000 at least on Mr Diro's behalf. (The detailed denial and documents are set out in Appendix 8)

Mr Diro was by now strongly committed to NMIL Investments/Angus by way of shareholding and directorship in its PNG subsidiaries and by reason of substantial benefits received and other business connections. For instance Mr Diro's company Tamworth No 35 rented its apartment No.306 Pacific View to Angus for K400 a month and Angus Investments was beginning to make various payments on his behalf (and see Appendix 5: Fuel Oil tender in joint venture proposal with HOW for BBC. At this time Mr company TamNorth No 35 was to be renamed INDEC PTY LIMITED),

Despite the apparent conflict of interest he now accepted also a written authority to "represent the Magi Wopten people in securing Forestry's acceptance of its joint venture proposal with MOIC Investments).

This proposal was in fact being assessed very unfavourably by the Department of Forests as being vague, lacking in details of financial aspects, contrary to the 1979 Guidelines, lacking reforestation or firm agricultural follow-up proposals and unfair to Magi Wopten. (Appendix 6 - Memo of 8 October 1985). Despite Mr Diro's letter of the 14 October 1985, which strongly supported the proposal. (Appendix 7) the proposal was rejected on 1 October 1985.

#### 4. WORKING FOR ANGUS\_CSINGAPORE,

at 21 Oct 1985. Dir 1 travel, to Vankit:..  
and 1...?v, at 1... air s expense thfh'

r;awc. AriCA W.F, PI : Ltd and presum:Abiv, to

P 1.1 1.1 1.1tr On 1

| 1" IC i . hr l l ,(is x/1

**office at Gadens and** the companies were  
**bring in a degree of** overt foreign ownership. wa,  
**done in the 'cases** of Angus (PNG) Pty Ltd and Anqus (Joint  
**Venture) Pty Ltd** by issuing one share **to** the Malaysian  
**citizen F C Cheah.** To qualify as a national company under  
**the *N.I.D.k.*** Pet it is necessary to maintain 75% overt  
**national ownership.** To achieve this poportion an  
**additional share** was issued to Diro's Company Tamworth 35  
**bringing the total** number of issued shares in each company  
**up to four.** For Marine Resources Pty Ltd ,it.,was decided to  
**bring in two** foreigners F C Cheah and a Vic:tor Lee each"of  
**whom were** issued one share. To maintain 75% national  
ownership in this compapy,,,it was necessary to issue a total  
**of six shares** to natioh'als:-: This was done by issuing three  
shares to John Kasaipwalova and one new <sup>2</sup>share was issued  
directly to Tamworth 35. Mr Cheah wasMade managing  
director and Mr Diro chairman of Directors in all three  
companies. The full history of this and Subsequent changes  
to shareholdings and directorships in these Anqus companies  
is set out in *Appendix 8).*

The instructions for these changes were given to lawyer  
Kassman by Kasaipwaiova. All the necessary documents were  
prepared anr1 forwarded by Kassman to Kas&ipwalova to be  
kept f,n the various corporate registers. (A copy of the  
documents prepared in relation to Angus (PNG) Pty Ltd is  
attached as *Xippendix 8.03).* Before the Returns concerning  
the 1 November 1905 gene,.al meeting were filed at the  
Company's Office, howeve, there was a change of government.

5. MINISTERIAL APPOINTMENT - DIRO'S DILEMMA

On 21 November 1985, Mr E R Diro was appointed to the Ministry of the wingti Coalition government and on 27 November he was appointed Minister for Forests, to the obvious delight of his associates at Angus (See Kasaipwalova's and Cheah's telexes in November - 10pendices 9 & 13).

Mr Diro now faced a moment of choice. He had become Minister for Forests at a time when he was already heavily involved, originally with MOIC Investments Pte Ltd, and now with the foreign owned Angus Group of Companies. He had already received substantial benefits from MOIC/Angus in the form of assistance with the jaguar motor vehicle, payment of vehicle repair bills and diners card expenses. Only a few days before he had become Chairman of the three Angus subsidiary f\_ompanies in PNG and, through his company Tamworth 35, he was legal and beneficial owner of shares in those companieF,. Angus was renting his Pacific View Apartment (through Tamworth 35) and he was hopeful it would rent his duplex in Moonbi 9treet (owned by his Company Tamote House Pty Ltd). 3EE. Pppendix 10 for details of Diro's curopanic:5), He had already made a trip to Vanuatu at Thiair expense but on Angus' business and he had esth11 :,(/Pd close business and personal relationships ki4j 6 Anciw; principals; M A And and Tan E; i Ghazali Shafei. Throug Talift). ct.h 35 (to be renamed INDEC) he had tendered for a fuel oLl 5u,3ply contract with Boudainville Copper Ltd. This w;.1 to he a jcilnt venture with MOIL Investments Pte Ltd but came to nAhinci as their tender was too high (Xlppepdic 5 & II - Kass:pa 1D5tract3op .sheet/^ He was als« involvd with the proposed purchase of Mamai Estate as also indicated in Pppepdix 11,

**Other deals in the pipeline involving Mr. Diro**  
**MOIC/Angus included an agency arrangement for**  
**firm manufacturing vehicles under the trade name "Roman".**  
**This project was being pursued in conjunction with**  
**Bougainville Development Corporation then under Leo Hannett**  
**as Chairman (Appendix 12).**

**Mr Diro knew that MOIC/Angus** was committed in its  
**endeavour to exploit the** Bonua-Magarida-Gadaisu timber  
concession. **As Minister** for Forests he was now bound,  
under Section 6 of the Organic Law on the Duties and  
Responsibilities of Leaders, to sever his links with  
Angus and to disclose the whole situation to the National  
Executive Council and to the Ombudsman Commission.

*"Section 6. - Personal interest.*

**(1)** A person to whom this Law applies  
who fails to reveal to the Ombudsman Commission  
and the appropriate authority the nature and  
extent of his interest, or the interest of an  
associate, in a matter with which he has to deal  
in his official capacity is guilty of misconduct  
in office.

(2) A person to whom this Law applies -

- (a) who, or an associate of whom, has  
an interest in a matter which he  
has to deal with in an official  
capacity and
- (b) who does deal with that matter  
(whether by way of or on a question  
concerning it or otherwise),

is guilty of misconduct in office."

On the other hand he also knew that as Minister for  
Forests he would be in a position to substantially assist  
Angus to acquire the Gadaisu Timber Permit and to become a  
very profitable enterprise.

Despite Mr Diro's cover-up and blocking tactics throughout this long inquiry the evidence clearly shows, and at the end he finally admitted, that he chose to retain, and in fact to increase, his beneficial ownership in Angus, to hide that fact by a series of trust arrangements, and to make no disclosures to anyone. To clean up the public record Mr Diro resigned as Chairman of the Angus (PNG) subsidiaries but he continued to receive substantial benefits. He also began actively to use his position as Minister to promote the interests of Angus (PNG) Pty Ltd.

## **6, MANIPULATING MAGI WOPTEN DEVELOPMENT PTY LTD.**

The Angus Group immediately appreciated the importance to it of Diro's appointment and realised that it put the group in a very favourable position, but that Diro would now have to "maintain a very low profile" in company affairs (*Appendix 13 Cheah notifies Lingas HO*). Instructions were sent to all Angus offices in other countries to delete all reference to Diro's name. From now on he is referred to in Angus Group correspondence and documents as "Andrew" - a codename which Mr Diro ultimately admitted referred to him.

On the 2 December 1905 the Chairman of Magi Wopten wrote the Department with a new sense of confidence and in untypically correct language, surely perhaps the penmanship of Johri Kasaipwalova of Anclus (*Appendix 14*). On the 4 December, at a meeting in Mr Diro's office attended by the Secretary of the Department of Forests, Mr Mamalai, the Hon. Minister, Mr Prarar Pravinie, Mr Genla, the national member for Abau electorate, Mr Pravinie, Mr Kasaipwalova,

## 7. THE ANGUS PROPOSAL

The proposal which was prepared by Angus was basically the previously rejected MOIC proposal verbatim except that the company details of Angus (PNG) Pty Ltd. and the Anqus Group were substituted for those of MOIC Investments Pte Ltd. Another difference was that in the Anqus proposal the permit holder was to be Angus (PNG) Pty Ltd itself not a joint venture company with Magi Wopten Development Pty Ltd. The function of the joint venture company seemed to have been forgotten. (Angus (Joint Venture) Pty Ltd remained a shelf company until August 1986 when there was an attempt to activate it for the purpose of transferring to it some K550,000 book debts owed by Angus (PNG) Pty Ltd).

While the Department was urgently trying to find out some details about Angus (PNG) Pty Ltd, and assessing the proposals, Mr Diro and his wife Veitu Diro accepted an invitation by Angus Singapore and flew to Singapore and Malaysia with the new Angus PNG Chairman, Sir Tore Lokoloko, at Angus' expense. (Mrs Diro did not travel to Malaysia).

In Port Moresby the senior officers assessing the Angus proposal were unanimous in their recommendations that it must be rejected. They pointed out that Angus 0:'1\1(3) Pty Ltd was not known and not preregistered with Forestry. Another was that **B C** "on planned that Gadaisu should be allocated to Ulabo Timber Company, a Forest Development Corporation which was rapidly cunning out of resource on an adjacent concession *(ppndix Z2), (Appendix 20),*

Three day's after his return from Singapore Mr Diro, on the 9 January 1986, directed Secretary Mamalai to "take immediate steps to issue the Timber Permit in due course" (Appendix 17) and, in his evidence, Mr Mamalai swore that he accepted that as the Minister's final decision. Diro's direction was issued four days before Angus' proposals were even received by the Department. (appendix 21)

When the proposal did arrive Mamalai made it clear to his staff that a permit would be issued firstly over the Gadaisu TRP area only, but that the Bonua-Magarida area would be included when purchases were completed. (appendix 22).

The staff found the proposal quite unsatisfactory for a number of reasons, and again, recommended that it be rejected, (appendix 23) but Mr MaMa10 persisted in his intention to issue the permit (kppiindi\* 24). On the 30 January the Secretary received a detailed report from senior officer McNeill setting out compelling reasons why the proposal should be rejected, as it failed to comply with the 1979 Policy Guidelines in many respects:

- (a) **Angus (PNG) Pty Ltd had no experience or expertise;**
- (b) **There were insufficient details of financial status;**
- (c) **There was vagueness about structure and contracting arrangements;**
- (d) **Angus was not registered with Department of Forest. (14ppendix 25)**



Mr McNeill noted the fact that the proposal showed that Anthony Diro, was a 35% shareholder in Angus (PNG) Pty Ltd and that hi had queried this on the 29 January by telephone with Kasaipwalova and Gadens, Lawyers.

On 4,February the Secretary received another report from acting Deputy Secretary Kari (Appendix 26) which pointed oUt that the Angus proposal ' fell far below the ideal. He said that the idsealwouLd\_ihclude a large sawmill, follow up landuse or rkihff Ation and clearly defined infrastructure requirements ^ pe&ilying an extension oil the Magi Highway, with bridges and feeder roads to villages. Mr Kari .supported; McNeill's criticisms and his Minute provides a 600d \*afiMent of Forestry Policy as it should have worked in "relation to ttiis application. He also commented on the Minister':poSsible conflict of interest regarding Anthony Diro's shares. Mr Kari also objected to the fact that the proposal was not for Gadaisu only but also for Bouna-Magarida which he felt was forcing the Department to wrongly allocate that additional resource.

Mr Mamalai's difficulty in reconciling the Minister's decision (that the permit be issued) with the department's correct, but contrary, view is obvious from his Minute of 11 February 1986. (Appendix 27) which directed that a Permit in favour of Angus (PNG) Pty Ltd be prepared, incorporating some of the additional matters suggested by his staff. His attempt to justify his direction, put at its hicihest. seems to be pure waffle.

## S. MCGOTIATINS PERMIT CONDITIONS

Having decided, on very dubious grounds, that the permit would be issued to Angus, the Secretary now proceeded to conduct the detailed negotiations with Angus in a way which was most unusual. Firstly he took the task upon *himself*, bypassing the staff who would normally have performed the detailed work. Secondly he conceded almost every point pressed by Angus and finally he allowed the final permit document to be typed up outside the Department under Angus' supervision. The final version was then given to the Minister by Kasaipwalova for signing before being proof-read by the Secretary. The Minister signed without the Secretary being present and eventually a copy of the signed permit was delivered to the Department by Mr Kasaipwalova. The original permit was found amongst the Angus files produced to the Commission on summons.

During the negotiations, while Minister Diro was being briefed and consulted by the Secretary, the Minister was also in regular, secret, contact with Mr Kasaipwalova.

Even at this early stage the financial difficulties of Angus (PN3) Pty Ltd were acute and, for this reason, its principals were already trying to sell off 20% of the equity to foreigners, in order to raise working capital to get the operation started. They were negotiating with several parties, including a party in mainland China, and in order to emphasise the financial attractiveness of the Angus operation Angus successfully persuaded both Mamalai and Minister Diro to telex the intention of adding Bonua-Magarida to the concession in the near future. (Appendix

In his evidence Mamalai said that he tried to make his telex sound like a "less than full commitment" (Appendix 29) but N. Diro had no hesitation in making a full commitment

brought the telexed decision to extend the Permit to the attention of Angus (Hong Kong) in order to help in the negotiations for Chinese capital. The Gadaisu area was expected to be cut out in five years but by claiming rights over Bonua and Magarida Cheah was able to offer a thirteen year operation to potential purchasers. This was the basis for his calculations in the 1 March facsimile message in which he proposed a price of USD3 million for the sale of 20 percent of the equity in Angus (*4ppendix 31*). On 24 April 1966, in a letter most probably drafted and typed by Angus, Magi Wopten referred again to the two vital telexes in a letter to Minister Diro, requesting him to include their subject matter "in a clause of intent within the Timber Permit No.3-22". (*4ppendix 32*). On the back of the Magi Wopten letter Mr Mamalai scribbled out a draft of the clause which was later included in the permit in accordance with this request.

The fact that both the Minister and the Secretary were well aware of Angus' financial plight, which was obliging it to try and sell off equity to meet commencement expenses, is yet another reason why the permit should never have been granted to Angus (PNG) Pty Ltd.

The reasons for Mr Dirici's determination to grant the permit to Angus are easy to see. He was a 35% beneficial owner of the company and, as will be shortly shown, he held very high hopes of making a great deal of profit for himself personally and possibly, as he later claimed, for his political party. If it is true, as he now claims, that he also had high hopes of benefiting the Magi Wopten people, I can see no evidence of it. In fact the evidence suggests he was party to the reckless destruction of their forests, by virtue of the logging practices adopted, and party to a plan to systematically cheat them of their rightful profits, by the marketing schemes adopted.

**It is not so easy to decide upon the activities of Secretary, Otcar Mamalai, who seems to have been unusually compliant. As a professional forester and head of the Department he was under a duty to put the professional view strongly to a new Minister. On 16 June, does he appear to have done this.**

**The permit was eventually signed by Mr Diro on the 29 April 1986.**

4  
9. OWNERSHIP WV OK, PNG PTY LTD

**A great deal of the Commission's time was spent in background investigations and public hearings trying to establish the beneficial ownership of the Angus companies especially the permit holder Angus (PNG) Pty Ltd, which was also the logging and marketing company until this role was eventually taken on by the Forest Industries Council and its appointed contractor Santa Investments Pty Ltd.**

The fact that the original proposal showed on its face that Mr & P Diro's brother Anthony held 35% of the shares raised the possibility that this block was actually held in trust either by Diro himself or for and to his company. The Department queried Anthony Diro's holdings because of a possible conflict of interest for the Minister.

Mr Diro's sworn evidence about the conclusion Anthony Dirliko; name in the proposal, Al walk that when he saw it he was surprised and angry. He swore that he directed Michael A/a and Mamalai to 'remove his brother's name'.

Right up until the last few days of the public hearing he maintained, on oath, that he held no interest legal or beneficial in Angus (PNG) Pty Ltd. The omission summonsed Sedan's files and lawyer G Kassman's files to try and uncover the true situation. When confronted with the evidence from these files Mr Diro finally admitted that 35% of Angus (PNG) Pty Ltd shares were indeed held by Kasaipwalova in trust for him\*

The result of the painstaking research through those files disclosed what had happened so that there was really no room left for evasion and lies. The embarrassing question by the court raised Kassman to rewrite the Minutes of the 1 November meeting and the associated company documents to show Anthony Diro's 35% shareholding. Even though questions were asked by Mr Jack Genia in Parliament on 19 March 1986, including a question about Angus' shareholders which threatened public disclosure of the improper connection between the Minister and Anthony Diro (Appendix 33 which includes Mr Diro's answers). Mr Genia's questions caused a flurry of activity as recorded in Kassman's file from Gadens. After unsuccessful attempts to contact Diro and Kasaipwalova on the 19 March, Kasaipwalova was contacted on 25 March and Kassman was instructed to hide Minister Diro's shares under deeper cover "Delete Diro Anthony in total". The Minutes of the 1st November 1986 were re-written yet again to delete all reference to Anthony Diro. This version of the 1 November Minutes also recorded the appointment, at that meeting, of Sir Tore Lokoloko as a director and Chairman of the Board, though this clearly must have happened at a later date.

**The Return of Allotment of Shares and Particulars of Directors, etc, which eventually found its way to the Registrar of Companies was this third and patently false version prepared by Gerard Kassman on the instructions of J Kasaipwalova and forwarded to the Registrar on 25 March 1986. (appendix 8 sets out the full story of the manipulation of shareholding in Angus (PNG)).**

**On the last day of the Commission's public hearing into Angus, through his Counsel, Mr Diro made the following admission about his beneficial interests in Angus (PNG) Pty Ltd.**

**"Secret retention by Mr Diro of a block of shares being 35% of the issued capital of Angus (PNG) Pty Ltd ... Mr Diro concedes that this allegation is substantially true subject to the qualification that the block of shares was for the use of the party."**

I find as a matter of fact that **at all material times** the percentage beneficial ownership of Angus (PNG) Pty Ltd was as follows:

Angus Investment Pte Ltd (Singapore)	51%
direct	20%
Kasaipwalova (& later Sir Tore) in trust	31%
E R Diro (held by Kasaipwalova in trust)	35%
J Kasaipwalova	5%
F C f: Theah (a Malaysian citizen) held by Kasaipwalova in trust	9%
	47%
	100%

**The Return of Allotment of Shares and Particulars, of Directors, etc, which eventually found its way to the Registrar of Companies was this third and patently false version prepared by Gerard Kassman on the instructions of J Kasaipwalova and forwarded to the Registrar on 25 March 1986. (Appendix 8 sets out the full story of the manipulation of shareholding in Angus (PNG)).**

**On the last day of the Commission's public hearing into Angus, through his Counsel, Mr Diro made the following admission about his beneficial interests in Angus (PNG) Pty Ltd.**

**"Secret retention by Mr Diro of a block of shares being 35% of the issued capital of Angus (PNG) Pty Ltd ... Mr Diro concedes that this allegation is substantially true subject to the qualification that the block of shares was for the use of the party."**

I find as a matter of fact that at all material times the percentage beneficial ownership of Angus (PNG) Pty Ltd was as follows:

Angus Investment Pte Ltd (Singapore)	51%
direct	20%
Kasaipwalova (& later Sir Tore) in trust	31%
E R Diro (held by Kasaipwalova in trust)	35%
J Kasaipwalova	5%
F C Cheah (a Malaysian citizen) direct	5%
held by Kasaipwalova in trust	47%
	<hr/> 100%

**Thus, when the Gadaisu permit was issued, Angus was 60% foreign owned and should have been registered with N.I.D.A. and 35% of the company was held at the direction and use of the Minister for Forests through J Kasaipwalova.**

## **10. EMANGLAUBLIRS**

**The scheme to sell off twenty percent of the equity came to nothing and Angus PNG was facing a desperate liquidity problem. It was having difficulty meeting basic requirements such as the payment of wages, insurance on equipment and the K76,000 guarantee required by the Department of Forests as a condition of the permit. Angus Singapore itself was now facing a financial crisis also and, far from being able to lavishly finance the initial expenses of the PNG operation, it was already beginning to look to Angus (PNG) for financial assistance.**

**Angus' first attempts at running a timber operation were not successful. The Company had no road construction skills and it followed no forestry working plan. Early reports by Forestry Inspectors show that the logging techniques caused great wastage and environmental damage. This was made worse by the fact that they were threatened by fear of imminent financial collapse both in Singapore and Papua New Guinea. To keep its creditors happy Angus needed large profits from log shipments quickly. To achieve this its operators chased after pockets of the highly priced rosewood wherever they were reasonably accessible and left the less valuable species. As a consequence the timber resource has been badly and unnecessarily damaged.**

**(Appendix 34). To gain quick access to a site for the log pond the company bulldozed Sabiribo Village from its peaceful situation on the beach and left the people to**



**rebuild a temporary "shanty" village perched on bare hillside. In the process the church was destroyed, graves were desecrated and the pastor's house was occupied by the company as its headquarters. The company has not honoured its promises to rebuild the village on a suitable site and to provide it with electric power and reticulated water.**

**In order to survive, Angus desperately needed to start receiving log payments. It was crucial that the logs could be harvested quickly and that marketing could be arranged satisfactorily. While the expatriate Malaysian and Philipino operators floundered in mud on poorly constructed roads, the headquarters people from Port Moresby and Singapore planned the marketing.**

11. **Y MARKETING CONSP R V – T AN FE ICI**  
*(First Shipment)*

**It is quite clear from the documentary evidence that from the very early days of the Gadaisu timber operation there was a conspiracy between M A Ang, Tan Sri Ghazali Shafei, F C Cheah, J Kasaipwalova and, once he joined the group a bit later, Charlie Koh. The conspiracy commenced with the very first contract and it involved transferring USD10 of the true price per cubic meter, across the total contracted shipment, to Angus Singapore.**

The specific details of this and other transfer pricing schemes, on subsequent contracts are set out in *Appendix 35* which includes schedules of documents related to each scheme.

**At the beginning of operation Angus (PNG) Pty Limited attempted to manage the logging operation and to do its own marketing. There were several contracts entered into - all with the Japanese firm Sanyo Nagoya.**

**Angus' inefficiency however resulted in there being a shortfall in making up the first contracted shipment. This caused a delay and in fact the first shipment did not finally load until October 1986, and it loaded under the terms of the second contract;-**

**The simple basis of the scheme for transferring part of the profits on this contract was for Angus (PNG) Pty Ltd to receive in PNG a modest price based on the minimum export price per species (MEP), as published regularly by the Department of Forests. The actual price paid however would be far higher than that, but the difference between total price and PNG price would be paid to an account in Hong Kong. The potential for transferring such profits was greatest for Rosewood because there was a great difference between MEP for Rosewood and actual market price. Rosewood thus formed the basis for illegally transferred profits from the first shipment.**

For this first shipment the scheme involved using back to back letters of credit and back to back invoices. The letter of credit and the invoice between Sanko and the proposed middle company showed the true agreed price of Rosewood at USD161.25 per m<sup>3</sup> whereas the letter of credit between the proposed middle company and Papua New Guinea showed USD117 per m<sup>3</sup>. The difference to be taken offshore (USM... 741-1.7b9. The letters of credit were already in place from the first, not yet fulfilled, contract and merely needed adjusting.

**A problem for Angus (PNG) Pty Ltd occurred when Charlie Koh, the Angus Group Manager in Singapore, decided to intercept the advance money due to Angus (PNG) through the Bank of South Pacific. The whole arrangement had been set up by three way negotiations between Angus (Singapore), Angus (PNG) and Sanko and this is manifestly obvious from studying Angus files. (See *examples in Appendix 35*) Koh arranged for the full USD300,000 advance, which Angus (PNG) was awaiting in PNG, to be telex transferred to the account of Angus Trading Pte Ltd at the Bank of Credit and Commerce Hong Kong. He then creamed off USD200,000 and forwarded on only US100,000 to Angus (PNG). This left the Bank of South Pacific over-exposed as it had already allowed Angus (PNG) overdraft accommodation to K350,000. This "treachery" by Angus Singapore brought-forth, a heartfelt cry from F C Cheah to Chairman M A Ang in which W, har accurately summarises the financial straits of Angus (PNG). (Appendix 35.25).**

**To save the credibility of Angus (PNG) Pty Ltd with the banks, and in fact to save the company itself, Tan Sri Ghazali Shafei established a personal credit line of USD150,000 with the BCC Hong Kong which then made the necessary advances to Bank of South Pacific Port Moresby to cover its advances to Angus (PNG).**

**The result of all this was that the Transfer Pricing scheme worked and a tax free profit of USD59744.644 was taken in Hong Kong by Angus trading Pte Ltd. This was later set off against the debt owed by Angus (PNG) Pty Ltd to Angus (Singapore).**

**While negotiations were continuing to get the first shipment away a substantial re-arrangement or as Ang expressed it, a "regularisation" of Angus (PNG) was being planned by M A Ang and Charlie Koh in Singapore.**

**They came to Port Moresby on the 15 August 1986 and while Koh proceeded on to inspect the operation at Mamai, Ang remained in Moresby at the Travelodge. This was just after Angus (Singapore) had intercepted the USD300,000 advance expected by Angus (PNG) Pty Ltd and feelings were very high. Ang came to remove Kasaipwalova as Company Secretary and to replace him with Gerard Kassman. He also wished to transfer the 31% of shares which Kasaipwalova held for Angus (Singapore) to Sir Tore Lokoloko to be held in trust for Singapore.**

**Mr Ang held meetings with Kasaipwalova, Sir Tore Lokoloko and Mr Ted Diro and, while at the Travelodge, wrote a memo to Charlie Koh setting out the substance of the agreements and the instructions which were to be given to Gerard Kassman. The full text of the memo was as follows:**

"17/8/86

Charlie,

Andrew, myself, John K & F.C. Cheah agreed to appoint Gerard Kassman as our Company Secretary. (He is now a director of Angus PNG) and appoint TOUCH ROSS as our Company Auditor.

At present Angus PNG shares are:-

- |    |                          |     |
|----|--------------------------|-----|
| 1) | Angus Investment Pte Ltd | 20% |
| 2) | F C Cheah                | 5%  |
| 3) | John                     | 75% |

**Please instruct Gerard Kassman to re-issue share as followsi-**

- |    |   |     |
|----|---|-----|
| 1) | <b>Angus Investment Pte Ltd</b>   | 20% |
| 2) | <b>F ,C Cheah</b>   | 5%  |
| 3) | <b>John K.</b>  | 9%  |
| 4) | <b>John K. - (This to hold for Andrew, John K. will let us have the blank transfer form &amp; Share Certificate to retliOct-:25%)</b> | 357 |
| 5) | <b>Sir Tore</b>   | 31% |
- (ThOseistollitild for Angus Inviitmeht Pte Ltd & Sir Tore will let us have the blank Shar\*.Certificate to reflect 31%)'- Charlie, we need also both John K. & Sir Tore to effect the trust deed of these shares of 35% & 31% respectively.**

**Kindly study with F.C. Cheah & John K. on the day to day policy of Angus PNG to conform with local law and to keep in line with Angus Group policy.**

**SIGNED BY:**

**M A ANG**

**F C CHEAH**

**JOHN K."**

**This memo is clear evidence of the beneficial ownership of Angus PNG Pty Ltd and specifically highlights Mr Diro's 35% held by Kasaipwalova for him in the Code name "Andrew". The document is clearly genuine, is signed by Ang, Cheah and Kasaipwalova and was in fact acted upon. (See photocopy at Xlppendix 36). Mr Diro admitted in evidence that he did meet Mr Ang at the Travelodge on the morning of the 17th but denied that they discussed the subject matter of that memo except for some discussion about replacing Kasaipwalova with Kassman as Secretary and appointing Touche Ross as auditor. On the other hand Sir Tore Lokoloko swore that Anq gave him the original of the memo and that he discussed it with Diro the same day**

over "lunch" at the Islander Hotel poolside. Although I later denied that conversation, Sir Tore was never examined or challenged on it. I have no hesitation in accepting Sir Tore's explanation as that of a man whom I believe was honestly trying to tell the truth over that of Mr Diro who was evading the truth whenever it was in his interests to do so. Accordingly this document is further evidence of Diro's ownership of Angus Shares and of his continuing involvement in the management of Angus' affairs.

On his return to Singapore after this trip M A Ang was arrested on charges of criminal breach of Trust concerning MOIC (KL) for which he was extradited to Malaysia, convicted and sentenced to eight (8) years imprisonment.

### 13. ON-GOING TRANSFER PRICE AGREEMENT

While efforts were still being made to solve the practical difficulties concerning the first shipment Angus' leaders in Singapore and Papua New Guinea were already well advanced in planning, with Sanko and the Bank of Credit and Commerce in Hong Kong, a far more ambitious transfer pricing scheme. The second shipment (combining the first and third contracts with Sanko) was already agreed upon. The new ambitious scheme was to be applied to contracts four to nine involving a total of shipments of 6000 m3 each.

On HQ dokA.Ameni. ally evidence, COMP of which is set out 35, it is clear that fan Sri Ghazali ShAfPi, voh, r C Cheal- and J Kas3pwalova were all deepiv Lroi"ed tr. anniuu this scheme, which was based

on a revolving letter of credit from bank... d  
**real potential for raising** a non disclosed offsn.;,re, to:x-  
**free profit of US\$9.48jMillion as well** as a substantial  
**disclosed onshore p;rofit for Angus (PNG)** Pty Ltd of  
**1JSD\$5.071 million, aftter tax. The Angus** files clearly show  
**the scheme developing/and then it is** made quite explicit by  
**a fax transmission from Angus (Singapore) to Angus (PNG)**  
**of 26 September, 1986 (Appendix 3\$4;)**. This describe  
**the scheme and'discus es the4StabljAiiitent of a Jersey**  
**Island Company, Valou e Ltd into, whose 'Oong Kong account**  
**at BCC the offshore p ofiti were tb** bercialir. A draft of  
**a proforma revolving letter ,of creditwas,communicated for**  
**comment and the preci e** theprojOcted offshore  
**profits per cubic metre were set 'out. The fax also**  
**illustrated how the ailing Sinpapcire parent company was**  
**by then looking to An"4 -47NG) for,financial support.**

There is no direct evidence that Minister **Diro knew,**  
in September, about the details of this **scheme being worked**  
up. On the 17 October 1986 however Tan Sri **Ohazali Shafei,**  
Charlie Koh and Mr Daroovala of the **Bank of Credit and**  
**Commerce in Hong Kong aU flew to Port Moresby. It is most**  
likely that the party brought with them a memo **dated the**  
14 October 19,86 which had been typed in Singapore (Appendix  
35,45). From studying the document **and the evidence of**  
other documents typed in the same series I am **quite sure**  
it is a nennine document. This crucial document, **which**  
was tenileced as exhibit ""103", was subjected **to minute**  
examination and detailed discussion during the hearings.

Fx'libit 102 specifies that the Directors of Valouse Ltd  
t): 11 be ;

ANDPLW (Di . 7 ) sh a 1  
'1E3 ( '1 kr. '1 -1 ) - s o -  
ini A6 ,13

**It estimates that the offshore profits to be transferred to Valouse will be USD240,000 per month when Angus' production rate is increased from 6,000 m3 to 15,000 m3 per month.**

**The memo continues -**

**"Management and Profit Sharing**

- 6. Running of this company will be done by two nominee directors from Arthur Young acting on a standing instruction from the beneficiary shareholders that all funds received by Valouse Ltd will be paid out to five separate accounts as follows:**

<b>A</b>	<b>ANDREW'S Account</b>	<b>-</b>	<b>35%</b>
<b>B</b>	<b>1/S's Account</b>	<b>-</b>	<b>25.5%</b>
<b>C</b>	<b>MAA's Account</b>	<b>-</b>	<b>25.5%</b>
<b>D</b>	<b>F.C.'s Account</b>	<b>-</b>	<b>9%</b>
<b>E</b>	<b>.I.K's Account</b>	<b>-</b>	<b>5%</b>

- 7. For payment under paragraph 6, it is suggested that each shareholder establish separate nominee companies on personal accounts to receive your funds on your behalf.**

**Re: .....r.p\_jacted\_ or Annus (.1\_46)**

- 1. The production plan for Angus PNG is that wef December, production will be increased from 6,000 m3/mth to 9,000 m3/mth with a further increase of 6,000 m3/mth wef January through sub-contractors. Please see cash flow prepared by AG PNG at *nymex, B*.**

**Based on this figure, profits for Angus PNG is projected to be US\$19.399m for the duration of the permit.  
(*Se Xinnex. C*)**



3. **The above profit is based** on p.e.tit of US\$39/m<sup>3</sup> wef January 1907, US\$16/m<sup>3</sup> of this US\$39/m<sup>3</sup> retained in HKG and balance US\$23/m<sup>3</sup> retained in PNG. Of this US\$23/m<sup>3</sup> retained in PNG, actual profit to AG PNG is US\$17.25/m<sup>3</sup> (75% equity in JV Co), before tax
4. **For projected timing and value of profit disbur%em@mts to shareholders, after tam; please see Annex. D."**

**On the evidence I am satisfied beyond all reasonable doubt that Tan Sri discUSeed this memo with Cheah and Kasaipwalova. A trusted Angus employee, who gave "in camera" evidence of having helped prepare materials annexed to the document, wPre that Cheah showed the document to that witness in Port Moresby at the time of Tan Sri's visit in Octobers**

**Throughout the hearing Mr Diro categorically denied all knowledge of Exhibit 103, its contents and the scheme itself. On the 2 November 1987, however, in cross examination and after being faced with compelling circumstantial evidence, Diro finally conceded that he *did* have discussions with Tan Sri at that time and that they ma'y have included general discussions about the proposed scheme.**

Mr )it 's own firiancial situation at that period was Pt~lte desperate. Evidence from his bank files **and** income 17 . returns shows he was facing bankruptcy from having recklesslv "mitked" hls wrivate companies for political purposEs His financial situation was ir=trlcalely involved with that of Angus (PNO) as its inability to pay the rent on

**his Pacific View Apartment was a major cause of Mr Pirc's... own liquidity problems. From his own evidence he stretched in September/October that he was forced to obtain 1(2000 from Angus to pay his wife's confinement expenses.**

**During the hearing I reached the conclusion that Mr Diro was not a witness of credit and that in order to put forward apparently innocent explanations he was prepared to lie on oath to whatever extent he thought he could get away with. On this question I am convinced that Tan Sri discussed this very document with Diro. In fact it is quite likely that it was prepared in such formally explicit terms precisely in order to put it to Diro and gain his approval. Of those intended to profit from the scheme, all except Diro already were fully aware of the details. Diro was to be the major beneficiary, sharing in the same proportion as that of his admitted ownership in Angus.**

**As a matter of fact therefore I find that Mr E F Diro as well as Tan Sri Ghazali Shafei, C Koh, F C Cheah and J Kasaipwalova all had full knowledge of, and participated in the planning of, this scheme.**

**It was not merely a theoretical idea. On the evidence before me it appears to have been a detailed conspiracy to cheat and defraud the State of income tax and customs duties and to cheat Magi Wopten Development Pty Ltd of its share of the true profits. Clear steps were taken to put this scheme into effect. A contract between Sank and Angus (PN(3) Pty Ltd for six shipments each of 6000 m<sup>3</sup> was concluded. The company Valquie Ltd was purchased and the directors appointed were Ratingdon Company Ltd and Silvercreek Ltd Ltd of Hong Kong. An associate of Mr Div<sup>o</sup>, Mary Jean Kayo, signed deeds of indemnity, as beneficiary owner, to those nominee shareholders and both documents were witnessed by J Kasaipwalova.**

**I have recommended that this matter be referred to the Commissioner of Police to consider whether all or any of those involved should be charged with a criminal offence.**

#### **14. TRANSFER MINS PROPOSAL FOR BKONROIENENT**

While that, ambitious continuing scheme was being set in place, negotiations continued between Angus (PNG), Angus (Singapore) and Sanyo to combine the unfulfilled first contract and a third contract to make up the second shipment. The way the scheme was set in place, adjusted and confirmed is fully set out in appendix 35 under the Headings "A. FIRST CONTRACT" and C. THIRD CONTRACT". **At the final stages of negotiations the contemplated price transfer was to be US\$52,536.05.**

#### **15. E.A.L.P. MANAGEMENT F I FOR SURVIVAL**

On the 3 November 1986 however the Angus Group in Singapore went into liquidation and the liquidator began to inquire about the debts owed to it by Angus, (PNG) Pty Ltd. The PNG company was also in very bad shape and clearly unable to pay its creditors. (See Cheah's letter to Xin9'6f 25 Octobe)- 1986 Ppendix 37). It was actually facing cancellation of its permit. This was recommended by Seretz;yy Mamalai on 23 October cappendl 38) but Minister Dirc) rejected the advice and instead he (D)oprevd a (D)se\_ e operation which involved the Forest indkur.es r,ouncil miimagind Angus. When it tot:4k over nei:clotiation t th 'A shioffl ont (fi rSA/third contract)

**the F.I.C. dropped the transfer price scheme and renegotiated prices in a way which ensured that the full Legitimate price was to be payable in PNG for Angus (PNG)Ps benefit (*skim Appendix 35 p 8*). The gross price for that second shipment received by Angus (PNG) Pty Ltd was U8D487 # 023.03 from which FIC deducted 3.5% Commission amounting to USD12,523.21.**

Angus however was still **unable to pay royalties or to furnish the K76,000 bank guarantee required by the Department. Mr Diro finally approved the issue of a 'Show Cause Notice' allowing one month to show cause why the permit should not be cancelled. This was served on the 5 November 1986.**

#### **16. GUEMECIaggiag—MWShegng.**

**The principals of Angus (PNG) must have been growing desperate at this stage. They knew of the immense illegal profits which could flow from the transfer price agreement with Sanko if they could only hold on and somehow find the funds to trade out of their financial difficulties.**

During November 1986, **with the F.I.C. managing Angus PNG and its Singapore parent company being then in liquidation, a scheme to raise equity capital was hatched which would dilute Singapore's controlling interest away to almost nothing. It seems that the PNG directors first turned upon Singapore's man F C Cheah and demanded his resignation.**

**A General Meeting on the 19 November, 1989, was absent, then approved an increase in authorized capital from K10,000. to K400,000. On 4 December 1989, 89,900 shares were allotted to Chairman Sir Tor LokoLoko and 127,600 one kina shares were allotted to John Kasaipwalova. Kasaipwalova raised and actually paid cash K225,000 for these shares but K7,500. was applied by G Kassman against the initial issue of 7,500 shares not yet paid for.**

**The legal advice for the share issue was provided by Angus' lawyer G Kassman but his involvement did not stop there. As a Director of the Company, and as Company Secretary, Kassman must also accept personal responsibility for what happened.**

**In the witness box Mr Kassman eventually admitted that proper notice of the meeting to increase authorised capital, and of the massive share issue, was not given to Angus (Singapore)., He must have known Angus Investments Pte Ltd was then in liquidation and that fact may well have given him confidence that the fraud about to be attempted would either go unnoticed or would not be pursued by the Singapore liquidator.**

The effect of the December share issue was to reduce the 51% controlling interest previously held by Angus (Singapore) down to 22.6 percent.

Even if the share issue was not valid, because of the lack of proper notice, it will appear that at least an attempt to establish a company was made and the latter also be referred to the Commissioner of Police to consider whether criminal charges

17. **DIRO TURNS AGAINST ANGUS**

**By the 5 December deadline** no reply to the 'Notice to Show Cause' had been received. **Unknown** to himself Mr Diro had only four more days to serve as Minister for Forests before the sudden reshuffle of portfolios which occurred on the 9/10 December. In his own evidence Mr Diro conceded that he thought Angus "was a gonner" and that he had lost interest in th& Company. He was in fact working with the very compliant Oscar Mamalai to cancel Angus' permit and to issue a new permit, in record time, to a company previously unknown in Papua New Guinea, Goodwood Pty Ltd which wished to operate both the Gadaisu (including Bonua-Magarida) and Kupiano permit areas. The speed with which this was being arranged was absolutely astounding and highly suspicious. Time permitting it should be the subject of a further separate investigation. (Appendix 39)

On the 10 December Mr Diro did in fact sign an Advice to the Governor General to cancel Angus' permit over Gadaisu. He also signed an Advice to Cancel the A.N.G. Permit 3-4 over Kupiano on the 11 December and on that same day signed a document granting that Permit to Goodwood Pty Ltd. (11 Instruments of Advice to Cancel were dated the 10 and 11 December respectively but for technical reasons they were returned by the Governor General, through the First Legislative Counsel. unsigned. (9e 2 dpepd.IN

18. **THE TORATO APPROACH**

After his appointment as Minister for Forestry on the 15th of December 1987, after receiving a full briefing from Mr Mamalala, apparently vacillated about the cancellation of Angus' Permit. Men, on 11, 10 1987 he seemed to make up his mind and Angus was allowed to continue, with its operations being conducted by the F.I.C.'s newly appointed contractor Santa Investments Pty Limited. (*appendix 40*)

This decision took the Department by surprise. Former Minister Diro had previously advised the Governor General to cancel the permit and had without waiting for the Governor General to act on the Advice, then issued a Letter of Intent to allow Goodwood Pty Ltd to develop the resource. Consequently Mr Mamalala again recommended cancellation of **the Angus Permit on 18 February** (*appendix 41*). In **March Mr Torato again turned against Angus and directed the necessary instruments to be drawn up to cancel the permit. This was put in motion** (*appendix 42*) and the Advice to the Governor General and the instrument itself were actually drawn up (*Appendix 43*). Then on **13 March 1987 Mr Torato jumped the other way and instructed the Secretary to allow Angus to continue.** (*appendix 44*) Angus was by that time under official management and Santa Investments was still the logging contractor.

**The circumstances of Minister Torato's changes of mind are now being investigated in the light of certain documentary evidence which was discovered after a police raid on the offices of Santa Investments Pty Ltd.**

19. OFFICIAL MANAGEMENT

**Towards the end of February the inevitable could be postponed no longer and a Meeting of Angus' creditors resolved to place Angus (PNG) Pty Ltd under official management. Mr Parker took over as official manager on 29 February 1987. At that stage Angus had assets of only K193,000 against debts of K1.6 million. (Appendix 45 - Statement of Affairs). The equipment was owned by Credit Corporation the main creditor. Sixty national employees were found abandoned at Sabiribo village without wages or food (Parker arranged urgent food parcels and K60 for each family and then repatriated them all). The Philipino staff who had long been unpaid, had all left sometime before. No royalties had been paid under Angus' management and there was some K27,000 outstanding. Likewise the premium due to Magi Wopten of K6 per m3 had not been paid.**

On the other hand the very high salaries of F C Cheah and J. Kasaipwalova (K50,000 p.a.) plus very generous expense accounts and benefits were being paid. Parker immediately terminated their employment and paid out their entitlements. (A list of Angus' creditors prepared by the Official Manager is set out at Appendix 46).

Santa's logging operation was almost at a standstill because most of the equipment had been stood down by Credit Corporation and because of the poorly constructed roads, which were unusable after even light rain. In April for instance total production was 750 m<sup>3</sup> and in July it was 270 m<sup>3</sup>, well below the targeted 6000 m<sup>3</sup> per month.

The resource itself was badly damaged, with cleared and polluted sites, and a substantial amount of wasted timber both standing and felled.



**A recent survey shows** there is only about 10 months of logging left to be done at a rate of 6000 m<sup>3</sup> per month - far less than was expected.

Under the official manager Angus began to trade out of its difficulties and paid royalties and the Premiums due to **Maisi Trust, a** Group which has **split off from Magi** Wopten. **It then faced another** 'Show Cause Notice', however, served on the **8 September** 1987. This is attached as **,Appendix 47** and it should be noted that most of the alleged permit breaches occurred when Angus was still under its former management. **Angus' Permit** was finally cancelled on 31 January 1987.

## **20. THE ROLE OF 'EDWARD RAMU DIRO**

It was inevitable that the Commission would focus on the activities of Minister for Forests, E R Diro. This is because, firstly, he was Minister for responsible for allocating and attempting to cancel Angus' timber permit and, being Minister, the Commission's Terms of Reference required that he be investigated with regard to possible benefits received, secondly the inquiry was into Angus and, on his own belated admissions he held a substantial interest through his ownership of Angus' (Private) Lidiaries, and until his appointment as Minister, the chairman of a company. Thirdly Angus' financial records disclosed many benefits which he, his wife and company received from Angus. Finally, through his companies or his wife's company, Diro was

**involved in various business dealings** with AnQus **there** included rental arrangements, tendering for contracts. **the attempt to purchase Mamai Estates and a proposed agency deal with a Rumanian firm.**

**After the Commission completed its preliminary investigations, which included studying all the Angus business records which had been produced on summons, it was obvious that Mr Diro could play a key role in the Inquiry. At face value those preliminary investigations suggested that he may have been deeply and improperly involved with Angus during his term as Minister for Forests; that he may indeed have been the person code named "Andrew" under which name Angus kept a "Research and DevelopmvtInt" account which recorded many payment's.**

**On the 6 August 1987 he was summonsed to produce all relevant documents in his possession but said that he had none.** For his opening address on the Angus inquiry, given on 6 August 1987, Mr Reeve prepared a very detailed document. On that day Mr Diro was served with a copy of the Commission's Terms of Reference and a transcript setting out all allegations which were to be made during the Inquiry about Angus and his involvement in Angus. Each gift and benefit allegedly received was specified including **Offt** that he was the person codenamed "Andrew" in the Angus accounts records. The opening address accused Mr Diro of being at all times the owner of 35% of the shares of Angus (PNO) **Inc/** Ltd and of using his position as Minister to improperly grant it **the** Gadals timber perm3t. **The fourth major allegation levelied at him in the opening ad'Address was that **see w;,. p.' v to Angt.m" sc'leTes to mae ii legal** offt re profit., by triwisrey i5ri(ing. Nothing was held back; the evidence superiorAno thcp al'egations was outlined**

so he could consider his position. As he was a senior Minister in the government it was hoped that his approach might lead him to come forward to offer explanations or make admissions.

Mr Diro however applied for and was granted representation before the Commission. He then briefed counsel, at public expense, and began a long fight to cover up his involvement.

Initially he adopted an aggressively defensive posture, denying all allegations. Counsel assisting the Commission was then obliged to search out every voucher, airline ticket, accounting record, telex, facsimile, and restaurant bill to put together a conclusive case based largely on circumstantial evidence. This was done meticulously by working day and night but it added some two months to the length of the proceedings. Only when confronted with an overwhelming volume of documentary evidence did Mr Diro begin to make concessions and he did so grudgingly, fact by fact, admitting only as much as he was obliged to at any one time. In the process he told a mixture of reluctant truths, half truths and untruths.

Only when applications were made that he be charged with six separate acts of perjury did Mr Diro begin to make substantial concessions. Then in the last few days, during cross examination, while making revised statements and finally by concessions made by his counsel in final address Mr Diro admitted virtually every fact which had been alleged against him during the opening address and every additional significant matter which had been raised during the hearings. (See "The Facts of the Case" - Goodman's final submissions (1984), With regard to the hearing on the edge of and

involvement in Angus' pricing scheme, however Mr Diro made only a partial admission in that, through Mr Goodman, he admitted:

was in possession of sufficient [Arts to establish that there was a sum of money was to be created by virtue of transfer of offshore and which was also under his control as leader of the Parliamentary Wing with control over the expenditure of funds. The evidence is that Mr Diro did not consent to the transfer pricing activities and his fault was to fail to further investigate matters which came to his notice in relation to transfer pricing and he accepts that to that extent he is at fault".

**During this Inquiry it has been my duty pursuant to Terms of Reference 8, to consider whether Mr Diro received any direct or indirect benefits during his period as Minister for Forests and, if so, whether it was improper. After careful consideration I have reached the following conclusions**

//

hcimill\_pgnmikts Received:

/

**Mr Diro received very substantial benefits from or related to the Angus Group of Companies, (including MOIC Singapore) both before and after his appointment as Minister**

the Forests. These benefits which were received by himself, his wife or his companies included, but were not limited to:,, the following: 11.4g

- "(a) use of a Jaclu (tr XJL Saloo, which Mr Diro conceded was owned; 1; the time of its importation into Papua New Guinea in October 1985 by MOIC Investments Pte Limited, and payment by Angus of costs and expenses associated with such vehicle amounting to at least K10,000. (see Appendix); 5/)
- (b) payments by MOIC Investments Pte Ltd and Angus Trading Pte Ltd charged on intercompany loan accounts to Angus (PNG) Pty Limited of:-
  - i. airfares for Mr Diro & Mrs Veitu Diro from Port Moresby to Singapore and return in December 1985 amounting to S\$8,622.20 (K3,919.10),
  - ii. airfares for Mr Diro from Singapore to Kuala Lumpur and return in January 1986 amounting to S\$365.00 (K165.91)
  - iii. accommodation expenses for Mr Diro & Mrs Veitu Diro in December 1985/ January 1986 amounting to USD1,500 (K1,418.18)
- (c) payment by Angus Trading Pte Limited charged on intercompany loan accounts to Angus (PNG) Pty Limited of airfares for Mr Diro from Port Moresby to Vanuatu (via Australia) and return in February 1986 amounting to S\$3,439 (K1,563.18)
- (d) payment in October 1985 by Angus (PNG) Pty Limited of K1,600 rent for Unit 306 Pacific View Apartments for the month of October 1985.
- e) payment in June 1986 by Angus (PNG) Pty Limited of K4,800 rent in respect of the said Unit 306 for the months of November and December 1985 and January 1986.

- 4
- (f) payment in September 1985 by Angus (PNG) Pty Limited of K4,000 in respect of an unauthorised transfer of interest to Angus (PNG) Pty Ltd of Toyota Corolla AEO 374 which was then under lease from AGC (Pacific) Limited to Tamworth No.35 Pty Limited which payment was made to Meridien Motors Pty Limited as part payment of deposit on Mercedes Sedan AEL 810.
  - (g) payment by Angus (PNG) Pty Limited in **September 1985 of Diners Club charges of K300.00**
  - (h) **payment in December 1985 by Angus (PNG) Pty Ltd of Directors fees of K300.00**
  - (i) **payment by Angus (PNG) Pty Ltd of service charges in connection with Nissan Patrol AEL 19.0. of K231.45 in October 1985, and in December 1985 of K166.84**
  - (j) **payment by Angus (PNG) Pty Limited of airfares for Mrs Veitu Diro in May 1986 and July 1986 from Port Moresby to Sydney and return amounting in each case to K632.00**
  - (k) **Payment by Angus (PNG) Pty Ltd of Talair flights for Diro's associates.**
  - (l) **payment by Angus (PNG) Pty Ltd of Golden Bowl Restaurant bills.**
  - (m) **payment by Angus (PNG) Pty Ltd of Veitu Diro's confinement expenses.**
  - (n) **payment by Angus (PNG) Pty Ltd of Port Moresby-Brisbane return fares for Diro and Mr Keith Anderson.**
  - (o) **payments by Angus (PNG) Pty Ltd of Boroko Motors bills on Mr Diro's Nissan Patrol vehicle.**
  - (p) payment by Pars Pam Puni \$A1,500-00.
  - (q) payment by Talair of airfares en route to Van'iatu and return.

Through his company Tamworth 35 then through his brother Anthony Diro and finally through John Kasaipwalova Mr Diro was at all material times the beneficial owner of 35% of the issued share capital of Angus PNG Pty Ltd. With this holding he stood to benefit directly from the company's onshore and offshore profits. His estimated share of the offshore profits from the proposed continuing transfer price scheme was to be USD3,292,800. and his share of the profits taken in Papua New Guinea was to be USD1,774,700.

I am fully satisfied that he had knowledge of the details of this scheme and approved it.

Mr Diro's claim that the block of 35% of the shares was to be held in trust for the Peoples Action Party I treat with some scepticism. On this matter he first denied knowledge of the shares, then said they were to be held in trust for the people of Central Province and only when those claims were proved to be untenable did he offer up the P.A.P. as the true beneficial owner. It appears also that he testified to Parliament on this issue. (See his answer to Jack Topenais question - Appendix .73). I do not find it possible to make a firm decision on this issue because, even if his claim is true, it would still be a benefit indirectly by him. If money was received, it was to be received for the political party of which Mr Diro was to be the Parliamentary leader I consider that would be a direct or indirect benefit to Mr Diro within the meaning of the Reference. At the time of the scheme the Party had not yet been formed and Mr Diro admitted that he intended to have control over those funds.

**Whatever the propriety of receiving benefits before being appointed as Minister there is no doubt that all benefits received after that appointment were highly improper. As soon as he was appointed Minister for Forests Mr Dirt, had a duty under the Leadership Code to sever all links with Angus/MOIC and to disclose his interests and all benefits received to the National Executive Council and to the Ombudsman Commission. In view of the fact that he had just resigned as Chairman of Angus I consider he should also have made special arrangements with the Prime Minister which would have allowed him to openly stand back from all decisions relating to Angus. Instead of that he not only retained his Angus interests but took active steps to cover them up behind a series of trust arrangements.**

**Then, as has been shown, he continued to receive substantial benefits and, worse still, he used his position as Minister to grant very substantial favours to Angus.**

**Favours to Angus:**

The very allocation of the Permit in the unchecked "fast run" way in which it was done was a completely improper favour given to Angus. Had it not been for Mr Diro's express directions there is no way Angus would have received that Permit if established forestry policy had been followed.

Another favour granted to the financially ailing Angus was to allow him to occupy his company's apartment even after rent was at least eleven months and K17,600.00 in arrears. This was in spite of the fact that he had to this debt owed to Tamworth 35 (under this improper lease agreement when attempting to put forward some justification for receiving one K2,000 payment personally from Angus).



**Finally, when it was clear to the senior officers in the Department of Forests that the Angus permit should be cancelled before irreparable harm was done to the resource and its owners, still Diro refused advice to revoke it.**

**When he was painfully aware of Angus' financial difficulties, and that it had commenced an apparently irreversible descent into debt, he actually chaired a meeting on the 30 September /986 in Angus' offices where he tried to obtain assistance for Angus from a Mr Pars Ram Punj regarding the Vanimo Timber extension area. (Mr Pars Ram Punj is a businessman from Brisbane who three weeks earlier had delivered a \$A1,500 "gift package" to Mr Diro in Brisbane at the telexed request of Mr Cowan of the ForP;t Industries Council. At the time Mr Diro was travelling on air tickets purchased for him by Angus. In evidence he claimed that he later repaid the money to Pars Ram but quoted a lesser amount). At the 30 September meeting Mr Diro put up two proposals to Mr Punj both of which would be of great benefit to the collapsing Angus. (appendix 49 - Minutes of Meeting). This meeting clearly showed that Mr Diro was prepared to help Angus by improperly allocating the Vanimo extension resource either to Mr Punj's group which would pay royalties to Angus, or to Angus itself, after Punj had injected it with substantial funds in return for the exclusive right to buy Kwila 100s. (Mr Punj gave i)) camera evidence in Brisbane).**

### **Ruaniftyy of Mr Diro's Conduct:**

o's conduct in relation to Angus, while he was Minister for Forests, was disgraceful and dishonest.

His co 1,) relation to some other matters, as disclosed

**during cross examination as to credit, was equally disgraceful. Before the Commission he was also dishonest as he clearly lied on oath and, to a large extent eventually admitted those lies. In addition to his lies before the Commission he gave evidence which shows he has deliberately made false declarations in his annual returns to the Ombudsman Commission and in his income tax returns, both of which are criminal offences.**

**While trying to explain various payments which he received Mr Diro gave evidence which seriously compromises the government of Vanuatu, probably without justification. At first he swore that he received consultancy fees from the Vanuatu Government while he was a Minister of State. He subsequently "revised" this evidence and said it was received from a firm known as "Mr Juicy".**

One of two alternative explanations **given for receiving** cash sums amounting to US\$134,000 dollars seriously compromised General Benny Murdani, the Chief of the Indonesian Defence **Force**. The other explanation was that the money was raised for him by an Australian Company, of which he is or was a Director, and which was seeking a **timber concession on behalf of** Chinese clients. He swore, in this **version, that the money was brought in secretly for him by an Indonesian Military Attache stationed in Port Moresby.** The implications of this Indonesian **connection** are sinister and its disclosure was followed by Mr Diro's resignation from the Ministry and had ramifications in Papua New Guinea's foreign relations and within the Defence Force.

**Although evidence given to the Commission should not be used as evidence in subsequent criminal or civil proceedings I recommend that these matters should be referred to the Chief Ombudsman and to the Chief Collector of Taxes for independent investigation and follow up.**

## **21. RELEVANCE**

## **Formal Inquiry**

**The Commission's inquiries are limited to matters which are directly or indirectly related to the Terms of Reference given it by the Prime Minister. A full coverage of the terms of reference will be given in the Commission's final report but in relation to Angus the following comments are offered in this interim report.**

### **Terms of Reference 2 (F.I.C. involvement in marketing and the benefits to PNG)**

**At a time when Angus (PNG) Pty Ltd was clearly insolvent and flagrantly in breach of many of its conditions the Secretary of the Department of Forests, very belatedly, recommended the cancellation of its permit. In a desperate attempt to keep the company trading however Minister Diro allowed the F.I.C. to manage Angus, as had been requested by the Credit Corporation. The Forest Industries Council commenced as marketing manager on 27 October 1986. In its capacity as manager the F.I.C. took full responsibility for marketing and charged 3.5 per cent commission for its services. By December 1986, the F.I.C. had taken over the full management and in this regard signed an agreement with Santa Investments Pty Ltd, appointing Santa as the logging contractor.**

**The Forest Industries Council also took over management of Angus' financial affairs controlling the disbursement of the proceeds-of log sales paid through the F.I.C's bank account.**

**The Forest Industries Council took responsibility for marketing at a time when Angus and Sanko Nagoya had already carried out transfer pricing arrangements on the first shipment, had put in place another scheme for the second shipment and had commenced setting more sophisticated transfer pricing arrangements into contracts for future shipments. The evidence available at this stage indicates that these transfer pricing arrangements were dismantled once the F.I.C. took over the management. If this is the case then Papua New Guinea's foreign earnings and perhaps its revenue was increased by the F.I.C. involvement.**

**The full study of this arrangement will be reported on later in a report on F.I.C. activities. At this stage there seems to be considerable doubt whether there was legal authority in the F.I.C's charter for it to take over the management of Angus in this way.**

Terms...4 **(Policy), 5 (Functions), 7 (Interference with functions)**

If (PNG) Pty Ltd had been treated as a foreign enterprise involved in a large log exporting operation it have been expected to fit, within Part 3 or Part 4 of the 1979 Guidelines. Under Part 3 (Processing plus some log export;) its primary focus would have had to be on local processing and it would have had to show experience in local operations and the marketing of the processed timber. Under Part 4 (log exporting only) its activities

would have had to be combined with substantial additional activities such as an agro-industrial project. Once again a foreign enterprise would have had to demonstrate sufficient experience, expertise, capital and marketing skill in *all* aspects of the operation.

Angus (PNG) Pty Ltd managed to avoid these onerous 'policy requirements by passing itself off as a national company and by making token proposals for installing a sawmill and for establishing some unspecified type of agricultural project on land yet to be purchased.

If it had been treated as a foreign controlled enterprise Angus(PNG) Pty Ltd would also have been expected (according to forestry policy) to finance itself largely from overseas capital. In fact, although it commenced with an opening funds injection of about USD250,000. from Singapore, Angus (Singapore) retrieved USD200,000. when Charlie Koh intercepted the money due to Angus (PNG) Pty Ltd from he first shipment advance (*see page 26*). The bulk of Angus (PNG) funds was actually raised locally from the following sources

- (a) Bank of South Pacific overdraft facility guaranteed by Angus (Singapore) and John Kasaipwalova;
- (b) Lease finance from Credit Corporation guaranteed by J Kasaipwalova;
- (c) Oft extended credit from many and varied trade creditors;

- (d) **Procoptance of part salary payipients by staff and executives;**
- (e) **Non payment of group tax from employees' salaries.**

**The only explanation why the resource was granted to such an inappropriate and foreign controlled company was that Minister Diro directed it and Secretary Mamalai complied with the direction against the unanimous, and correct, advice of all senior departmental officers involved in considering the proposal.**

**Mr Diro's motives in directing the allocation of the resource to Angus (PNG) Pty Ltd were for personal gain (either for his personal financial gain or for the political party which would benefit him personally). The conflict between his role as Minister, in which he was expected to receive and act upon correct departmental advice, and his role as a 35% owner of Angus (PNG) Pty Ltd was acute. This conflict led him to by-pass departmental advice on some occasions and to ignore it on others. Thus for instance, he decided to allocate the Gadaisu permit area to Angus and had actually directed the Secretary to this effect four days before the Angus proposal was received. When contrary, and clearly correct, departmental advice was received, he ignored it.**

### **Term 2g (Improper Benefits)**

**Edward Ramu Diro: Me Diro and all his associates in Amur sought or received direct and indirect benefits from the allocation of the permit to Angus.**

**(Diro's benefits have been itemised in Section 19 above).**

**Oscar Masalai:** The only apparent explanation for his actions is that he was receiving some benefit or that he was subjected to some outside pressure which resulted in him acting in favour of Angus and contrary to sound forestry policy. Although he has admitted receiving improper benefits in relation to other matters no direct evidence of that nature was uncovered in relation to Angus.

**ICA, Aipwalova and F C Cheah:** They received benefits by way of very high salaries and allowances. To the extent that they were taken from an ailing company which was unable to pay its creditors and unable to pay the royalties owing to the government and landowners these benefits could be described as excessive. This however is really a question of morality in the internal management of Angus and not strictly within the Terms of Reference of this Commission. They benefited from Angus' transfer pricing schemes.

**Magi Wopten Directors:** These directors received a regular stream of minor benefits in the way of trips to, and accommodation in, Port Moresby, pocket money and some quite substantial lump sums. Under the influence of these benefits they supported the application for the Gadaisu timber permit and acquiesced in the manouvers which resulted in their own company and people being pushed to the side by Angus and cheated of their rightful profit from the exploitation of their own timber resource.

**Michael Cowan: Executive Director, F.I.C. From Angus**  
**Mr Cowan apparently received S\$1736. 55 (about K790) for accommodation expenses in Singapore in June 1986. What other benefits he may have received through F.I.C. connections is the subject of a separate inquiry.**

**Dennis Hoivos This Forestry Officer from Central Provincial Forest Office admitted receiving a bribe of K1,000 to acquiesce in the loading and departure of the first shipment of logs from Angus' Operation before payment of royalty and export tax.**

**Smuggling goods in on timber ships: One of the "side benefits" to persons involved in shipping logs appears to be smuggling duty free goods into Papua New Guinea. The Commission has uncovered evidence of several instances of this. In relation to Angus there is evidence that duty free liquor was smuggled in on log ships loading at Mamai on a regular basis. .The details of this evidence and supporting documents are set out at *Appendix 50*.**

### **Term 9 (Transfer Pricing)**

**All those who were party to the various Angus transfer pricing schemes described in detail in *Appendix 35* have been deliberately frustrating government policy within the meaning, of this term of reference. The main people involved were: M A Ang, Tan Sri Ghazali Shafei, Charlie Koh, F C Cheah, John Kasaipwalova and E R Diro.**

**The purpose of the completed transfer pricing schemes applied to the first two shipments was, apparently, to avoid tax in Papua New Guinea (by creating artificially high early losses), to defraud Magi Wopten Development Pty Ltd and its**



**shareholders and to benefit Angus (PNG) Pty Ltd as the tax free profits taken by Angus (Singapore) in Hong Kong were eventually credited in the inter company loan accounts against Angus (PNG) Pty Limited debts. This whole arrangement was done contrary to foreign exchange regulations and without reference to the Central Bank. The purposes behind the huge illegal profits anticipated from the proposed six months continuing scheme are not so clear. The beneficiaries were to set up separate personal nominee company accounts to receive their shares. fir Diro states he intended to hold his share in some sort of trust for the Peoples Action Party, but under his own control. Whether any portion would have been used for his own personal benefit (as happened to some of the so-called "campaign" funds in his Boroko US dollars account") and what would have happened to the shares of his co-conspirators must remain matters for conjecture.**

**The transfer pricing arrangements disclosed in the Angus investigations are by no means isolated incidents. The Commission's investigations so far suggest that many other companies are engaged in similar activities. Angus is unique only in the fact that the whole scheme has been so meticulously documented and that the documents were "captured" by the Commission.**

## **22. POSSIBLE CRIMINAL AND OTHER OFFENCES**

**It is no part of the Commission's role to prosecute and convict for criminal offences disclosed during its inquiries. I have taken the view however that where the inquiries disclose the likely commission of criminal or other of fences, and where independent evidence of those offences is available, those matters should be referred to the police or other appropriate authority for investigation.**

or other offences, and where independent evidence of those offences is available, those matters should be referred to the police or other appropriate authority for investigation,

accordingly recommend that the activities of the following people and the following matters should be so referred for investigation:

**(a) Referral to the Commissioner of Police -**

Mohammad Abdullah Ang, Tan Sri Ghazali Shafei, Foong Chin Cheah, John Kasaipwalova, Charlie Koh, Edward Ramu Diro to consider appropriate criminal charges relating to their conspiracy to defraud the State, Magi Wopten Development Pty Ltd and, perhaps, Angus (PNG) Pty Ltd by completed and attempted transfer pricing schemes.

**(b) Referral to N.I.D.A. -**

J Kasaipwalova, F C Cheah, Gerard Kassman and R Diro for offences committed under the provisions of section 14.0, AgA. These offences relate to the failure to declare the foreign interest and control in Angus (PNG) Pty Ltd and failure to apply for N.I.D.A. registration which resulted in Angus (PNG) Pty Ltd carrying on business in Papua New Guinea without NIDA approval.

**(c) Referral to the Commissioner of Police -**

C Cheah and J Kasaipwalovcia for breaches of the  
*(Foreign Exchange Regulation 5)*

**This offence concerns the acknowledgment (finder seal) of a foreign debt to Angus Investments Pte Ltd of \$(Singapore) 529,000 in contravention of the Act. Consideration should be given to charging G Kassman with this offence.**

**(d) Referral to the Commissioner of Police, the Registrar of Companies and the Papua New Guinea Law Society —**

**6 Kassman: The circumstances in which three serially, late and different minutes all purporting to be valid Minutes of the Angus (PNG) Pty Ltd Directors Meeting held on the 1 November 1985 were prepared by G Kassman and the lodging of false Returns at the Companies office signed by J Kasaipwalova should be referred to the Registrar of Companies and the Commissioner of Police. The professional ethics of Mr Kassman's actions in this matter should be referred to the Papua New Guinea Law Society for attention.**

**c ) Referral to the Chief Collector of Taxes and the Chief Ombudsman Commission -**

**E R DIRO: The false Declarations made by Mr Diro in his Returns to the Ombudsman Commission and to the Chief Collector of Taxes, as detailed in this Report, should be referred to those authorities to be investigated for possible prosecution or other follow up action.**

**(f) Referral to the Commissioner of Police -**

**6 Kassman, J Kasai pwal ova and Sir Tore Lokoloko: These three were involved in the issuing and allocating of new share capital in Angus (PNG) Pty Ltd without giving proper notice to Angus Investments Pte Ltd which was then in liquidation. The intention was to reduce that Company's beneficial ownership in Angus (PNG) Pty Ltd from 51 per cent to 2.266 per cent. It seems that a serious criminal offence was committed at least by Mr Kassman and possibly by all three.**

It should be referred to the Commissioner of Police for investigation as, even if the purported share issue was legally ineffective, the attempt would constitute a criminal offence.

**(g) Referral to the Commissioner of Police -**

**P. ,is Hoivo: Mr Hoivo's action in receiving the sum of K1,000 from Angus (PNG) Pty Ltd to clear the first shipment should be investigated -f fence relating to the acceptance of a bribe as a public servant.**

**(h) Referral to the Collector of Customs -**

**F C Cheah: The circumstances surrounding the importation of the Jaguar motor car, the preparation and presentation of false documents and the evasion of duty should be referred to the Collector of Customs. It is quite clear that a false invoice was prepared at the request of F C Cheah and presented to Customs and this would be an offence under the *Customs Act, Ch. No.101*. The role of the Customs Agent and Mr Diro's involvement should also be investigated.**

**It seems clear that the Jaguar itself should be forfeit to the State pursuant to Section 146 *Customs Act*.**

**(i) Referral to the Collector of Customs -**

**The circumstances whereby duty free liquor was apparently smuggled into the country on Angus WNG) Pty Ltd log ships, as referred to at page 52 and detailed in Appendix 50 should be investigated.**

**23, MICLUMEI**

**The months spent on the Angus inquiry confirmed most of the suspicions which had originally attracted the Commission's attention and this is shown by the findings. The Inquiry has also disclosed valuable information on deficiencies in forestry policy and legislation and the various devices being employed by some timber companies to benefit from these deficiencies. These matters will be drawn together in the Commission's final report.**

**Although I have tried to limit this interim report to matters relating to the Angus Group of Companies and the Gadaisu permit area there is of course considerable overlap with other matters being investigated by the Commission. Some of the people involved will no doubt appear again in later reports.**