

Capital Market Update

the quarterly newsletter of the Capital Markets Development Authority

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“What is a Company Takeover?”

An interesting trade recently occurred on the South Pacific Stock Exchange (SPSE). Two of the listed companies, Fijian Holdings Limited (FHL) and RB Patel Group of Companies (RBG) announced on 27 March 2008 of a takeover bid or offer by FHL. After the announcement a detailed offer document was submitted to CMDA, SPSE and the Board of Directors of RBG. The Board of Directors then provided the detailed offer document together with an independent adviser's report on the offer to all the shareholders of the RBG. With the offer document each shareholder was to decide on whether to sell his/her shares to FHL. At the same time during the offer period, each shareholder could seek other financial advice. At the end of the offer period, FHL received the offers of the sale of shares of three shareholders and concluded the transactions. Public statements were then issued to disclose the closure of the takeover bid with Fijian Holdings Limited being now the majority shareholder of RBG.

In this article we will look at what a company take over is and some of the reasons company directors take this action. Also we will outline some of the flow on effects of these decisions to the company, shareholders, and other potential investors in the market. In doing so, we wish to highlight to investors the importance of these announcements and the need to carefully assess and monitor their investments.

“Takeover” has been defined as “the act or an instance of assuming control

or management of or responsibility for something, especially the seizure of power, as in a nation, political organization, or corporation.”¹ For the purpose of this article, we are limiting our discussion to acquiring control of a company by buying out more than 50% shares in the target company. “Takeovers” can be done in a hostile or friendly manner. The simultaneous announcements by the two companies late last month, pointed to a “friendly takeover”, meaning that both company boards probably had negotiated and were generally receptive to the move.

There are many reasons for “takeovers” (acquisitions). Studies show that usually companies try to access benefits and advantages like trying “to improve the company performance and shareholder value over the long-term.” These include cost savings through economies of scale, entry into new markets or increased market share, access to new technology or, diversification and increased tax efficiency.²

A takeover is the buying out of one company by another. In a friendly takeover, the companies cooperate in the negotiations and the due diligence process to create synergies. In a hostile takeover, the target company is unwilling to be bought out, or company board has no prior knowledge of the offer. A larger company can initiate a hostile takeover of a smaller company, by buying out the majority of shares even though the target company's board does not want to. In a takeover the acquiring

company usually offers a cash price per share to the target company's shareholders or they offer share to the shareholders of the target firm according to a specified conversion ratio. Either way, the acquiring company essentially finances the purchase of the target company, buying it outright for its shareholders.² In the case of the RBG takeover, FHL made a cash offer to buy over 50% of the shares from the Patel family's subsidiary companies to own the largest shareholdings in RBG.

Investors should always be alert to new announcements and monitor the impact on their investments. In doing so, they need to consider the effect(s) of the changes (if any) and whether these changes will add value or have adverse effects on the company. By understanding what is going on in the company or the environment it operates in, helps investors make important decisions like whether to sell out, buy or hold their investments. Investors can find out more by searching on the internet, most companies maintain websites to assist their shareholders and customers, company annual reports, media reports and attending the annual general meetings, where investors can direct their queries to the board of directors. Investors should never be embarrassed to ask questions and learn more about their investments as these actions will greatly assist them in becoming better investors.

¹ www.answers.com

² www.investopedia.com

“Mixed Returns for Capital Markets Investments”

A review of the 2007 performance of capital markets investments shows mixed returns. While some investments performed well, others have not. No doubt the challenging economic and political conditions experienced last year, contributed to increased levels of uncertainty and risk in the industry. Investor confidence was affected and this was most apparent in the stock market where there were more sellers than buyers.

For the local stock market investors, 2007 was not a very good year; the share price on most of the 16 listed companies fell during the year. This contributed to the negative returns of most of the listed companies. Only two of the listed companies posted

positive total returns and these are VB Holdings Ltd 18.09% and RB Patel Group 2.02% Total returns include the dividends or income distributed and capital growth/loss on the investment during the year.

For unit trust investments total returns ranged from 1.62% to 10.65%. Out of the nine unit trusts, Fijian Holding Unit Trust, an income and growth fund, recorded the highest total return of 10.65%. The reversal of the tax benefits previously available on income and capital gains from unit trusts by Government in 2007, significantly affects the overall net returns available to investors.

Bond investments performed very well in 2007, with total returns ranging from 20.52% for 3 year bonds to 76.58% for 15 year bonds. The higher total returns in 2007 were attributed to both high income and capital returns, following the increase in bond prices during the year and high interest rates at the end of 2006.

Investors should note that in assessing investment returns; past performance is not necessarily an indicator of future performance. The focus in selecting investments should be on the future earning potential of the company/investment. Remember that past performance is an indicator of what has been achieved so far.

“The Basic Features of Bond Investments”

Bonds are not very common investments amongst individual investors; however every member of the FNPF is an indirect investor in bonds through their retirement fund. Most bonds investors include institutions, like commercial banks, insurance companies, unit trusts, investment companies and pension funds. The largest investor of bonds in Fiji is the Fiji National Provident Fund (FNPF). Today we begin our series on investing in bonds by looking at the basic features of bonds and the terminology commonly used.

Bonds are debt securities issued by corporations and governments when they want to raise money from investors. When investors buy bonds they are effectively lending money to the issuer for an agreed period, at an agreed interest rate which may be paid half yearly or annually. For example an investor that buys a Fiji Government Bond is actually lending money to the Government. The borrower (issuer) gets the cash it needs while the lenders earn interest. Unlike shareholders, bond holders have no ownership or equity in the organisation that issues the bonds because the bonds are a debt and the holder is only lending money to the issuer.

The interest earned on the bond is determined by the coupon rate, which will be paid by the issuer to the bondholder. For example, a \$100 bond with an 8% coupon will pay an annual interest of \$8, which may be in the form of two half yearly payments of \$4. The coupon rate will be set when the bond is issued.

The principal amount of a bond is known as its par value. It may also be referred to as nominal value or face value. It is the

amount of money that is lent to the issuer and must be repaid at maturity. Bonds are typically issued in units of \$100.

Bonds, like other forms of debt, are valid only for a limited time span. They expire on a given date i.e. the maturity date. The life span of a bond is its term to maturity which can range from the short-term (less than 3 years), to the medium-term (3-7 years) to the long-term (over 7 years).

The offer for sale or issuing of bonds to investors must be accompanied by a prospectus, which the investor should read and understand. The prospectus sets out detailed information on the issuer, including its history, operations, resources, financial performance, how the raised funds will be used, how to apply for bonds and whether there is any minimum amount that must be applied for. There are several ways in which bonds can be offered and issued. It can be by way of tender, by offer for sale at par or they may be privately placed. The tender system is used to issue all public sector bonds.

When bonds are sold to an investor for the first time by the issuer, it is referred to as a primary offering or issue. Once issued, the bonds can be traded by investors in the secondary market, which means that they maybe bought and sold through brokers, similar to the way shares of listed companies are traded on the stock exchange. The issuer gets no money from this secondary trading.

Some bonds may be issued with a call feature, which specifies whether or not the issuer will be allowed to retire the bond prematurely. For example, a Fiji

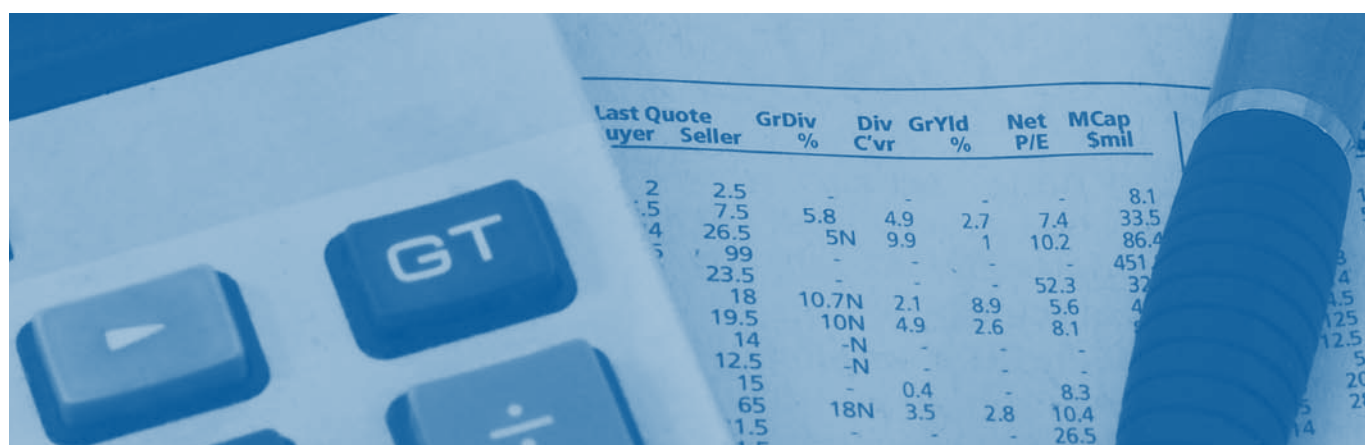
Development Bank bond with a maturity date of 5 November 2008-2009 although maturing on 5 November 2009, can be called any time after 5 November 2008 and paid up. However, the issuer must advise investors and gazette the call date three months in advance.

In the secondary market bonds will be traded at market prices. This happens because of changes to prevailing market interest rates. Bonds with market values lower than par are called discount bonds, which have coupons less than those being offered to new issues.

Bonds with market values greater than par are called premium bonds and have coupons greater than those currently being offered on new issues. Bond investments are attractive to investors who want to receive a steady income i.e. a set amount of interest on a regular basis. At the time of issuance, the investor will earn a competitive interest rate, as the coupon rate of the bond will be set at the prevailing market interest rates. Within a domestic setting, investing in Government bonds is considered a very safe investment because of Government's ability to repay the amount borrowed at maturity. This repayment ability comes from Government's taxation powers.

Investing in bonds allows you to diversify your investments. As bonds may be traded on the stock exchange, you may sell your investment at any time.

However, you should be aware that the value of your bonds may fluctuate as market interest rates change over time. In addition, the value of longer-term bonds may erode if inflation is high. ●



DID YOU KNOW...

An action taken by a company, to make itself less attractive to a potential takeover bid is called the “poison pill” e.g. shareholder rights agreements that involve a distribution of a special right for each issued ordinary share, and effectively gives the holder the right to buy additional shares at an advantageous price.

Total Returns on Selected Government Bonds as at 31/12/07

Issue	Income Return %	Capital Return %	Total Return %
3 year Bond	8.80	11.72	20.52
5 Year Bond	8.90	15.59	24.49
10 Year Bond	10.75	29.90	40.65
15 Year Bond	13.49	63.09	76.58

Source : Reserve Bank of Fiji

Regulatory Matters

On regulatory matters, during the quarter, the CMDA received no complaints and no inquiries into potential breaches of the CMDA Act, Regulation and Rules.

The CMDA granted approvals to:

- Mr. Dinesh Shankar to act as an Investment Adviser representative for FijiStockbrokers Ltd (FSB) from 11 March 2008 to 10 March 2009.
- PricewaterhouseCoopers Corporate Finance Ltd (PWCCFL) to conduct the business of investment adviser from 1 December 2007 to 30 November 2008.
- Ms Jenny Seeto to act as a licensed investment adviser representative for PWCCFL from 1 December 2007 to 30 November 2008.
- Mr Chirk Yam to act as a licensed investment adviser representative for PWCCFL from 1 December 2007 to 30 November 2008.
- Mr Jerome Kado to act as a licensed investment adviser representative for PWCCFL from 1 December 2007 to 30 November 2008.
- Mr Nitin Gandhi to act a licensed investment adviser representative for PWCCFL from 1 December 2007 to 30 November 2008.

- KPMG Financial Advisory Services (Fiji) Ltd (KPMGFASL) to conduct the business of investment adviser from 1 December 2007 to 30 November 2008.
- Ms Lisa Apted to act as a licensed investment adviser representative for KPMGFASL from 1 December 2007 to 30 November 2008.
- Mr Bruce Sutton to act as a licensed investment adviser representative for KPMGFASL from 1 December 2007 to 30 November 2008.
- FHL Securities Ltd (FHLS) to conduct the business of investment advisor from 1 December 2007 to 30 November 2008.

New license issued

- Ms. Elenoa Qalotaki to act as a broker representative for FSB from 21st February 2008 to 20th February 2009.

License cancelled

- Ms. Elenoa Qalotaki to act as a broker representative for FHLS.
- Mr. Nitesh Kumar to act as a broker representative for FSB.

Meet a Broker Rep



Elenoa Qalotaki (FiiStock Brokers Limited)

Getting Started: Elenoa is a licensed broker representative with FijiStock Brokers since February 2008. She first became interested in the stock market whilst completing her Diploma in Business Studies from the Fiji Institute of Technology in 2005 and was attached to the Fijian Holdings Limited and Merchant Finance & Investment Company Limited for six months. She later joined Fijian Holdings Securities in 2006, completed the Fiji Securities Licensing Examination and worked as there as a licensed broker rep from 2007.

The Clients

Our clients come from all walks of life, from institutional investors to grassroots people.

They mostly look for opportunities that will give the best return on their investment, as a broker I try and ensure that my clients gain from his/her investment.

The Job

Currently I'm the only Broker that executes orders on the stockmarket for our clients. My job also involves advising clients on the share investment and assisting shareholders that want to do an off-market transfer. I like interacting with people and helping them to understand the different type of investment products.

Biggest Challenge in this role

My biggest challenge is to create awareness on type of investment products available on the capital market and advising them the best option to take to create more wealth through investment.

Best Investor

I would describe a best investor, as a person who carefully plans his investment and does his investment for long term, monitoring it and committed to achieve his investment objectives.

Best Thing about the Job

The best thing about my job is helping investors money makes more money. It makes me feel better, knowing that I am doing something that is important for investors and the economy as a whole.

FijiStock Brokers Limited.

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News in Brief

- SPSE lifted trading on ATH shares on 18th January, 2008, following the signing of the Settlement Deed between Government and representatives of the telecommunications industry, which allows the deregulation of the local telecommunication industry to proceed.
- FijiCare Chairman Ross Porter announced that based on unaudited preliminary management accounts for the financial year ended December 31st 2007, the Company was expecting a pre tax profit in excess of \$750,000. This is a very healthy improvement over the 2006 result. The Company expects to release its audited financial statements by March 31st, 2008.
- Rice Company of Fiji and Pea Industries Ltd (RCF) announced that the Company would be scaling down operations in both their mills in light of the reduction in import duty on these two products. However they would not be closing down operations or delisting.
- ATH declared an interim dividend in February 2008 of \$16.9 million or 4 cents per share, a record 33% increase on the amount that was paid for the same period last year.
- Fosters Group Pacific (FGP) released unaudited six months results ending 31 December 2007. Sales revenue was \$38,971 an increase of 8% for the same period in 2006. Net profit before tax was \$8,892 up by 3%. Net profit after tax was \$6,577 an increase of 54% from 2006.
- Fiji Television (FTV) released unaudited six month results ending 31 December 2007. Whilst sales revenue is down by 3% to \$12.67 million, net profit before tax was \$2.07 million, an increase of 18.24% for the corresponding period in 2006. Net profit after tax was \$1.67 million up by 11.47% for the corresponding period.
- Fijian Holdings (FHL) released their six month unaudited results for the period ending 31 December 2007, sales revenue was \$55,544, an increase of 2% from the previous corresponding period. Net profit after tax was \$14,496, an increase of 44% for the previous corresponding period.
- Kontiki Growth Fund (KGF) announced that net asset backing was 94.7 cents as at 31 January 2008, compared to 96.8 cents a share at the date of listing on 16 December 2004 on SPSE.

News in Brief

- The Fiji Sugar Corporation (FSC) announced the appointment of Mr. Deo Saran as its Acting Chief Executive Officer. The appointment comes into effect from 1 March 2008.
- Pacific Green Industries (Fiji) (PGI) announced that the High Court at Lautoka had ruled in favour of PGI and Sun Insurance Ltd as insurers are liable for losses incurred by PGI in a fire that destroyed their factory in Sigatoka on 6 November 2004.
- FTV announced the appointment of the new Chairman of its Board of Directors, Mr. Isoa Kaloumaira. He replaces Mr. Olota Rokovunisei, who retired from the Board at its last AGM in December 2007. MR. Kaloumaira has been a director of FTV since 1996, and has also served as Chairman from 1999 to 2000. Also appointed to the Board as Deputy Chairman is Mr. Isiromi Bayameyame, who is also the CEO for Yasana Holdings the majority shareholder in FTV. Ms. Tanya Waqanika is the new Company Secretary.
- FTV also signed an exclusive deal with the Fiji Rugby Union for the broadcast of local rugby union games for 2008 season on its network of channels. FTV's broadcast deal covers all FRU sanctioned matches in both the 7s and 15s code.
- FTV further announced that the declaration of an interim dividend of 9 cents per share or \$927,000 to the Company's shareholders for the half year ended 31st December 2007.
- VB Holdings Ltd (VBL) announced the appointment of Mr Kuar Singh as a Director of the Company for a one year period effective from 7 March 2008. He replaces Mr. Nirmal Niranjana.
- Communications Fiji Limited (CFM) announced a final profit after tax of \$440,806 (2006: \$88,279) following a review of the final results for the year ended 31st December 2007. The Company enjoyed a strong 2007 which showed good growth across all profit centers. Following this, the Board has agreed to restore dividend levels to 6 cents per annum with a second interim dividend payment of 3 cents or \$106,740 for the year.
- Atlantic & Pacific Packaging (APP) Company Limited announced their six monthly financial results for the period ended 31st December 2007. The Company recorded a net profit after tax of \$161,000 which is an increase by 40% compared to previous corresponding half year.
- Flour Mills of Fiji (FMF) Limited announced their six monthly financial results for the period ended 31st December 2007. The Company experienced an increase in sales revenue by 15% however its net profit after tax declined by 24% from \$2,997,000 to \$2,272,000.
- The Rice Company of Fiji Limited announced their six monthly financial results for the period ended 31st December 2007. Even though the Company recorded a decline in sales revenue by 3%, there was an increase in net profit after tax by 198%.
- Toyota Tsusho (South Sea) Limited (TTS) announced the closure of its Share Register on Monday 14th April 2008 for the purpose of determining dividend entitlement. The Directors have proposed to pay a second interim dividend of 2.5 cents per share totaling \$350,805 from the operating results for the year ending 31st March 2008.
- Fijian Holdings Limited (FHL) announced that the partial takeover offer to existing RB Patel Group Limited shareholders through its wholly owned subsidiary, FHL Retailing Limited. The terms and conditions of the offer have been sent to all the current shareholders of RB Patel Group Limited. The takeover offer has been made under the approved process of the Capital Markets Development Authority and the South Pacific Stock Exchange.
- FHL further announced that the FHL Group Managing Director, Mr Sitiveni Weleilakeba was charged by the Fiji Independent Commission Against Corruption (FICAC) with misdemeanors under the penal code. The offenses related to corporate and secretarial matters of FHL in 1992 and 1993 relating to the recording and confirmation thereafter of the 30th September 1992 Annual General Meeting resolutions. The allegations and charges are being defended by the Company Solicitor. The court placed no travel restrictions on Mr Weleilakeba.
- RB Patel Group (RBG) Limited announced the partial takeover offer made by FHL through its subsidiary, FHL Retailing Limited for 50.2% of the shares in RBG for a fixed price of \$1.40 per share. The offer is conditional on FHL acquiring a minimum of 15,046,450 shares.
- Kontiki Growth Fund (KGF) Limited announced that the net asset backing per share of the KGF was 89.04 cents per share as at 29th February 2008. This compares with 96.80 cents a share as at the date of listing 16 December 2004 on the SPSE.

Quarter 1 2008 Trading on the South Pacific Stock Exchange

Company	Total No. of Shares Traded	Total Value of Shares Traded (\$)	No. of Trades	Last Price Traded this Qtr (\$)	Qtr 1- Qtr 4 % change	Earnings Per Share (cents)	Price/Earnings Ratio (times)	Dividend Yield (%)	Market Capitalisation (\$m)
Atlantic & Pacific Packaging	151,519	120,415	8	0.70	(12.50)	3.60	19.47	5.00	5.60
Amalgamated Telecom Holdings	142,302	112,286	37	0.91	15.19	9.84	9.25	7.69	384.12
Communications (Fiji)	20,000	29,200	1	1.46	(16.57)	0.36	402.56	4.11	5.19
Fosters Group Pacific	14,260	185,379	15	13.20	10.00	77.19	17.10	3.03	137.39
FijiCare Insurance	37,735	24,118	5	0.65	8.33	6.44	10.09	-	3.74
Flour Mills of Fiji	230,150	183,561	6	0.75	(6.25)	n/a	n/a	1.60	112.50
Fiji Sugar Corporation	685	233	1	0.34	3.03	14.06	2.42	-	15.10
Fiji Television	2,888	9,699	7	3.35	-	8.32	40.27	8.06	34.51
Kontiki Growth Fund	19,559	16,789	6	0.87	(3.33)	1.36	63.90	2.29	3.08
Pacific Green Industries	-	-	-	2.15	-	-	-	-	16.38
R B Patel Group	492,260	769,971	31	1.59	(2.45)	11.41	13.94	6.29	47.70
The Rice Company of Fiji	2,000	4,900	1	2.45	(2.00)	24.66	9.93	5.51	14.70
Toyota Tsusho	4,540	8,898	3	1.96	-	19.68	9.96	2.55	27.50
VB Holdings	35,510	104,044	1	2.93	1.03	16.48	17.78	4.10	4.48
Yaqara Group	-	-	-	1.18	-	-	-	-	17.99
Fijian Holdings	62,681	168,705	45	2.44	(22.54)	73.52	3.32	4.10	25.53
TOTAL	1,216,089	1,738,198	167	Market Capitalisation as at 31 March 2008				\$855.51	