

Capital Market Update

the quarterly newsletter of the Capital Markets Development Authority

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“Effective Corporate Governance - Attracting Long Term Investments”

“One of the keys to attracting long term investment to particular markets is effective corporate governance – both in the sense of an effective regulatory environment, and in the sense of individual corporate”, said the Australian High Commissioner to Fiji, His Excellency Mr. James Batley, in his keynote address at the CMDA Corporate Governance Conference held at the Radisson Hotel in Nadi from 28 -30 September. Mr Batley highlighted that “in today’s globalised market, investors are looking for a predictable legal and regulatory environment, an effective dispute resolution system, proven transparency of transactions, and evidence of good corporate governance. Individual enterprises – wherever they operate around the globe - are assessed on whether or not they have sound or poor corporate governance practices. Both regulators and companies need to be responsive to these new rules of the game if Fiji is to be able to compete for the investment dollar.”

Also speaking at the opening, CMDA Chairman, Mr Daryl Tarte told the participants that “corporate governance in the wider sense is about how the business and affairs of a company are directed and managed in order to enhance performance and long-term

shareholders value. This relates to the effective functioning of the board – how it draws on different skill-sets of its directors, how it sets strategies, and how it interacts with senior management to build knowledge and make decisions in the interests of the shareholders”. Mr Tarte pointed out that “the Authority’s corporate governance agenda is anchored on the practice of effective corporate directorship, sound audit and compliance systems, and enhanced market disclosure. At the core of these regulatory initiatives is the leading role to be played by the board of directors in the overall corporate governance agenda”.

Around 60 representatives including Chief Executive Officers, Board members and top management of licensed financial intermediaries, public listed companies, private companies, public state entities and other statutory organizations gathered to review and discuss the current corporate practices in Fiji and agree on a set of governance principles that the industry could adopt as guidelines. Participants said that the high level attendee list made it worthwhile, in terms of practical and real time experiential interaction and learning.

The Conference was part of the CMDA’s three phased corporate governance

project funded by AusAID. The first phase of the project involved a field review of the Corporate Governance practices in the Capital Markets Industry. The review involved a field survey through discussions with a wide range of licensed intermediaries and state officials. The second phase of the project was the Conference and the proposed third phase will see the finalisation of a number of Corporate Governance Principles and Guidelines

The Conference also discussed the possible establishment of a Corporate Governance Council in the medium term, to oversee the implementation of Corporate Governance principles and compliance therewith. Training needs for directors include the role the board chairman, company/board secretary and the responsibilities of the board sub-committees. Participants called on the CMDA to explore partnering opportunities with local and overseas professional bodies in order to deliver such training.

At the close of the Conference CMDA CEO Mereia Volavola, thanked all the participants and AusAID, for their contribution which made the conference a success. She added that while it is important to have sound corporate policies, equally important is the effective implementation of those policies and its continuous review. ●

Yatu Lau Company Owes Its Success To Good Corporate Governance Practices

The Yatulau Arcade opposite the Suva Bus Station is one of the busiest shopping arcades in the country. This building is one of the strategic investment properties of the Yatu Lau Company, a successful indigenous public company operating for the last 35 years, without Government funding. Speaking at the CMDA Governance Conference, Yatu Lau Company Limited (YLCL), CEO Mr Michael Makasiale attributed the Company’s success to good corporate governance practices and sound leadership. Founded in 1972 by the late Ratu KKT Mara, - *Na Turaga Tui Lau sa bale*, - as an investment company for the people of Lau, it has been effective as there was a clear demarcation from the outset, between the provincial council and the Company. Mr Makasiale said that “provincial councils need to appreciate that their provincial investment company is owned by all shareholders and while it has a role to play as a major shareholder,

it must not forget that it is not the only shareholder”.

YLCL started with an authorized and paid up capital of \$7, today it has an authorized and paid up capital of \$5m with 800 shareholders comprised of companies, individuals, clubs, villages, tikina’s, mataqali’s, yavusa’s, etc. Total Company assets are currently valued at around \$20m and has averaged a 40% return on total income for the last 5 years. In May this year the Company raised \$2m through a private placement of 1.3m Class B shares at \$1.50 each with a syndicate of investors through Investment Bankers, Kontiki Capital. The Company plans to raise a further \$1m-\$1.5m through a public offering of shares later this year, and this will be open to the public.

The experiences shared by the Company highlight the importance of ensuring that the basic legal framework like the Memorandum and Articles of Association

are tailored to the company’s objectives and shareholders needs, the need for corporate planning, timely and accurate and reporting of the company performance, maintaining a good mix of shareholders and ensuring regular reporting to its shareholders. It is interesting to note that in YLCL’s 35 history only once, has the Company missed out on holding a board meeting. The Board of Directors have comprised of a good mix of professional and competent people in the business, including a minimum representation of women and a provision for traditional leadership.

For other provincial companies, the key lessons that they can learn and adopt include, ensuring good corporate governance and, due diligence practices are in place, and the involvement of key professional people in the operation of the company. YLCL has delivered a sustainable dividend margin of 8-10% for the last 10 years which speaks volumes for

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the Company and the involvement of professional advisers. The success story of Yatu Lau Co Ltd can be emulated by other provincial companies who, can explore the many opportunities that exist

in the capital markets. In doing investors are recommended to seek advice from licensed professional investment advisers.

In its efforts to promote the many opportunities for investing in Fiji's capital

markets, the CMDA will be hosting a one day awareness workshop in Suva targeted for Provincial and Tikina Investment companies. Interested participants should contact the CMDA office for more details.

Using the FNPF Share Investment Scheme (SIS)

In 2002, the Fiji National Provident Fund (FNPF) introduced the FNPF Share Investment Scheme (SIS) in response to FNPF members' desire to self manage some of their retirement savings. The SIS allows Members to use a portion of their FNPF savings to buy and sell the shares of selected profitable companies listed on the South Pacific Stock Exchange (SPSE). Using the SIS is totally voluntary and a FNPF member should make this decision after carefully considering the benefits and risks of investing in shares. As there are over 50,000 members who qualify to use the SIS, more people have the opportunity to invest directly in shares. At the end of 2006, 1,392 members have used this scheme with a total value of around \$4.2 million.

To protect the interests of members certain safeguards have been built into the SIS. These include clearly identifying the SPSE listed companies that members can invest in and the amount of their FNPF savings that members can utilize under the SIS. There are currently eight approved listed companies; Amalgamated Telecom Holdings Ltd (ATH), Flour Mills of Fiji Ltd (FMF), Rice Company of Fiji Ltd (RCF), Fijian Holdings Ltd (FHL), Fosters Group Pacific Ltd (FGP), Fiji Television Ltd (FTV), Pacific Green Industries Ltd (PGI) and RB Patel Group Ltd (RBG). Members are limited to 1/3rd of the Member's accumulated savings less all previous withdrawals or \$20,000, whichever is the lesser amount.

Table 1 below summarises the total investments made by Members under the FNPF Share Investment Scheme as at end of 2006.

Table 1: Member investments under the FNPF Share Investment Scheme

	No. invested	No. of shares held	Market value of shares
PGI	3	6,398	\$14,395
ATH	996	2,389,678	\$2,509,161
FHL	349	375,405	\$1,482,849
RBG	4	4,400	\$7,920
FMF	11	60,500	\$65,340
RCF	2	1,700	\$5,865
FGP	11	2,360	\$66,080
FTV	16	7,140	\$14,395
Total	1,392	2,847,581	\$4,191,736

Source: FNPF website (www.fnpf.com.fj)

How does using the SIS affect your retirement savings?

FNPF currently invests members' contributions (i.e. retirement savings) in various asset classes such as shares, bonds, loans, term deposits and properties, in order to ensure that it can meet the future pension commitments of its members. These investments earn a rate of return based on the interest, dividends, realized capital gains and rental income paid by the investments. The annual interest credited to a member's account is based on this return. As a general rule, the rate of return should be sufficient to make the fund grow and at the same time protect its value from being eroded by inflation.

In 2006, the FNPF earned a rate of return of 7.63% (inclusive of realized capital gains) based on its current composition of investments at that time. The interest credited to a member's account was 6.5%. The FNPF 2006 Annual Report showed 13% of the FNPF's investments are held in the local equity market.

When you use the SIS to buy shares, you are effectively increasing the proportion of your retirement savings that is invested in shares compared to the proportion decided by the FNPF investment managers i.e. you will be increasing it beyond 13%. While investing in shares does involve some degree of risk, studies have shown that in the longer term the returns from investing in shares have historically been higher than investing in other types of investments. If you invest a higher portion of your retirement savings in the shares of companies that perform well (i.e.

enjoys strong profitability and growth) then it is likely that you will add greater value to your retirement savings over the longer term. However, if the shares perform poorly than your retirement savings may be lower. This is why it is important to clearly understand the benefits and risks of investing in shares and to make sure that you select the right companies. Contact the CMDA if you would like to learn more about this.

Investing at higher rates of return over the long term can have a significant effect on the amount of your retirement savings. This is due to the effect of compounding. Compounding refers to the process when an investor reinvests the interest earned with the initial investment and therefore earns interest on the interest as well as on the initial investments. For example, if you had \$20,000 to invest at 6.0% and you could earn a rate of return of 7.5% for 20 years, compounded annually. This would earn \$84,957 rather than \$64,142. This is \$20,814 more and as a proportion of your initial investment it is significant. This shows that improving the rate of return on your retirement savings by reinvesting the return which increases the overall return by an additional 1.5% can greatly enhance your wealth in the long term.

Table 2 and Table 3 on facing page show the rates of returns of the approved companies over the past three years and the rate of interest credited to members' accounts in the same period. The interest paid by FNPF includes realized capital gains but not unrealized capital gains. When considering this information, one should note that past performance does not necessarily reflect the future performance of the companies.

Members cannot withdraw their retirement savings under the SIS. Applications to open an investment account under the SIS must be made to FNPF. Transactions are processed on behalf of the member by FNPF Nominees Limited, the FNPF subsidiary company that manages the SIS. It charges a fee of \$50 for processing transactions and for custodian fees. Other fees relate to brokerage commissions payable to the brokers of 1.5% and the CMDA and SPSE fees, which, together, amount to 1%. Under the SIS however, a Member can withdraw the net realized profit

DID YOU KNOW...

... that a financial adviser's work requires a range of skills and knowledge. The financial adviser's primary role should be to help clients achieve their financial goals. To do this, they need to know as much as possible about their clients, their goals, objectives, current financial situation and how much risk the client is comfortable with.

Table 2: SIS Approved Companies Rate of Returns (2004-2006)

	2004 (%)			2005 (%)			2006 (%)		
	Divid end Yield	Capital Gains	Total Return	Divid end Yield	Capital Gains	Total Return	Divid end Yield	Capital Gains	Total Return
PGI	4.07	7.69	11.76	-	-3.36	-3.36	-	-2.17	-2.17
ATH	5.71	3.81	9.52	6.25	-11.93	-5.68	5.77	8.33	14.10
FHL	6.41	4.49	10.90	5.63	8.90	14.53	4.89	15.21	20.10
RBG	7.87	17.98	25.85	6.34	27.62	33.96	6.03	26.87	32.90
FMF	3.38	89.19	92.57	6.19	73.21	79.40	1.25	-1.03	0.22
RCF	6.75	27.50	34.25	4.35	21.57	25.92	4.50	-3.23	1.27
FGP	-	-	-	1.42	82.76	84.17	2.12	-10.94	-8.82
FTV	5.45	17.95	23.40	4.04	20.92	24.97	3.20	25.62	28.82

Source: CMDA Annual Reports 2004-2006 Note: FGP listed in 24/6/05 following the integration and name change of CBF and SPD to FGP.

on the sale of shares under certain conditions and with FNPF Board approval. If you are not sure about planning your investments you may find the services of a licensed investment adviser or broker extremely helpful. Investors are recommended to seek investment advice from a licensed broker or investment adviser.

Table 3: FNPF Rate of Return (2003-2006)

FNPF Rate of Return	2004 (%)	2005 (%)	2006 (%)
Rate of Return on Investment	5.98	5.73	7.63
Rate of Interest Credited to Members Accounts	6.0	6.25	6.5

Source: FNPF 2006 Annual Report

Meet a Broker Rep



Nijeshni Wati (Kontiki Stockbroking Ltd)

Getting Started: Nijeshni joined Kontiki in December 2006. She holds a BA in Accounting & Financial Management and Information Systems from USP and has also completed the Fiji Securities Licensing Examination. Whilst pursuing her degree, she obtained work experience from various organizations, like Clariti (South Pacific) Limited, Dominion Finance Company Limited and KPMG. At present, she is pursuing further studies at USP. The prospects of interacting with people to help them understand the investment products and make smart investments in accordance with their personal and financial objectives drew her to Kontiki.

The Clients: Our clients come from all walks of life, ranging from grassroots investors to high net-worth individuals and institutional clients. Typically they are looking to build wealth via income returns and growth in the value of their investments over the medium to long term.

The Job: My job involves advising clients on various investment alternatives available, helping them make informed investment decisions consistent with their personal and financial needs and executing their financial strategies. In order to effectively and efficiently carry out this process, we also provide market updates via Kontiki Weekly newsletters, daily KSPX Index Summaries and provide research reports by utilizing our research facilities.

Biggest Challenge: Educating new clients on the nuances of the investing world. Investing in equity for example, can potentially realise a return far higher than the "traditional" bank deposits, however, involves risks. This balancing act, which also must take into account the client's investment objectives, can be bewildering at first and can require a whole new mindset.

Best Investor: One who takes the time to analyse his or her financial situation, learn about the available alternatives and work with me to develop the appropriate investment strategy. In doing so the investor has to be patient and open-minded.

Best Thing About The Job: Interacting with clients and assisting them to devise a road map for their investment journey. Similarly the ability to gain in-depth and latest knowledge in this field and share this with clients so that they invest wisely and grow their wealth.

Kontiki Stockbroking Ltd

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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:

- Ms Alice Heffernan to act as a Licensed Unit Trust representative for Colonial First State Investments from 28 July 2007 to 27 July 2008.
- FijiStock Brokers Limited (FSB) to conduct the business of a Stock Broker from 24 September 2007 to 23 September 2008.
- Mr Semi Leiwere to act as a Licensed Broker representative for FSB Ltd from 26 September 2007 to 25 September 2008.
- Ms Raghni Khatri to act as an Approved Broker/Dealer representative for KSB Ltd from 25 September 2007 to 24 September 2008.
- FHLS to conduct the business of a Broker/Dealer from 1 September 2007 to 31 August 2008.
- Ms. Priscilla Greig to act as an Approved Property Trust representative for Fijian Holdings Property Trust Fund from 5 September 2007 to 4 August 2008.
- Mr. Pradeep Patel to act as an Investment Adviser from 29 August 2007 to 28 August 2008.
- SPSE to act as a securities exchange from 30 September 2007 to 29 September 2008.
- Ms Rowena Fong to act as an Approved Unit Trust Representative for Fijian Holdings Unit Trust from 19 August 2007 to 18 August 2008.
- Mr. Ashwin Singh to act as an Approved Unit Trust Representative for Fijian Holdings Unit Trust from 20 August 2007 to 19 August 2008.
- Mr. George Niumataiwalu to act as a Licensed Investment Adviser Representative for Kontiki Capital Ltd from 27 August 2007 to 26 August 2008.
- Mr. Tevita Gonelevu to act as a Licensed Investment Adviser Representative for FHLS from 13 September 2007 to 12 September 2008.
- Ms Reema Chand to act as a Unit Trust Employee Representative of the Unit Trust of Fiji (Management) Limited for a period of one year beginning 25 July 2007 and ending 24 July 2008 (both dates inclusive).
- Mr Ashwin Singh to act as a Unit Trust Representative of Unit Trust managed by Fijian Holdings Trust Management Limited for a period of one year beginning 20 August 2007 and ending 19 August 2008 (both dates inclusive).

News in Brief

- Fijian Holdings Limited (FHL) Group announced that FHUT declared a final dividend of 1.54cents per unit for the financial year ended 30 June 2007 with a total funds under management of \$28 million. FHPT declared a final dividend of 1.7cents per unit for the financial year ended 30 June 2007 despite the negative effect of the removal of tax concessions on FHPT income effective from 1 January 2007. The investment portfolio of the property fund totaled \$10.8 million. FHL also announced that the Group's consolidated earnings before tax declined by 10.7% from the previous year to \$21.7 million mainly because of increase in Group operating expenses from increase in prices of raw materials and increase in finance costs. The Company recorded a net profit after tax of \$14.67 million for the year ended 30th June 2007 compared to \$16.99 million for the same period last year.
- Kontiki Growth Fund Limited (KGF) announced their half year results ending 30th June 2007 recorded a net profit after tax and extraordinary item of \$72,988. This is an increase by 2.37% compared to same period last year. The net asset backing per share of the KGF was 98.25 cents per share as at 31st August 2007. This compares with 96.80 cents a share as at the date of listing 16 December 2004 on the SPSE.
- Yaqara Group Limited (YGL) announced their first quarter (April 2007 to June 2007) results recorded a decrease in their net loss after taxation from \$315,790 in the same period last year to \$218,798.
- Communications Fiji Limited (CFM) announced that the Company recorded a profit of \$48,469 for the first six months as at 30th June 2007. This compares to a loss of \$139,240 for the same period last year.
- Fiji Television Limited (FTV) announced the appointment of Mr Nitesh Lal as its new Manager Finance & Administration. He replaced Mr Arvin Datt who left the Company on 13th July 2007. FTV also announced the company's audited financial results for the 12 months ended 30th June 2007 recorded a net profit after tax (NPAT) of \$856,903. The Board of Directors' approved the Company's final dividend of \$0.09 per share or \$927,000 to be paid out on 29th October 2007.
- Pacific Green Industries (PGI) announced that the Group recorded a net profit of \$476,407 as at June 2007 with sales of \$3.7 million compared to a loss of \$190,260 for the same period in 2006.
- FijiCare Insurance Limited (FIL) announced the submission of the Company's financial statements for the six months ended 30th June 2007. The Company recorded a profit after tax of \$349,635 compared to a profit of \$203,707 in June 2006.
- Fiji Sugar Corporation (FSC) announced that the Group recorded an operating profit of \$7.2 million for the financial year ended 31st May 2007, compared to an operating loss of \$5.9 million in the previous year. Net profit for the year after taking into account equity accounting of investments and interest was \$6.2 million while improvements in operating results directly attributed to an additional \$4 million derived through sugar sales to the EU market.
- RB Patel Group (RBG) announced the appointment of Mr Isoa Kaloumaira as a Director of the Company. He is the Chief Executive Officer of Fijian Trust Fund Board and a nominee of that Board.
- Vishal Bharteeya Holdings Limited (VBL) announced that the Company recorded a positive growth in its first half year period compared to the same period last year. The Board of Directors declared an interim dividend of 6 cents per share and the Company announced that its total revenue for the financial year 2007 will increase by 14%. Net profit after tax is estimated to increase by 19% in 2007 through efficient cost and working capital management.
- Atlantic Pacific Packaging Limited, Flour Mills of Fiji and Rice Company of Fiji announced the appointment of Mr Kumar Shankar as Company Secretary effective from 16th August 2007 replacing Mr Rajesh Marolia.
- Amalgamated Telecom Holdings Limited (ATH) announced that the Group recorded a consolidated net profit after tax and minority interest of \$41.5 million for its financial year ended 31 March 2007. This was an increase of 18.9% over the previous financial year, which recorded a net profit after tax and minority interest of \$34.9 million. The Company declared a final dividend of 3 cents per share or \$12.66 million and is in addition to the interim dividend of 3 cents per share paid on 28th February 2007.
- Foster's Group Pacific Limited (FGP) announced their full year unaudited financial results for the period ending 30th June 2007. The Company recorded a net profit after tax of \$10,792,000 compared to \$8,787,000 in 2006.

Quarter 3 2007 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 3- Qtr 2 % change	Earnings Per Share (cents)	Price/Earnings Ratio (times)	Dividend Yield (%)	Market Capitalisation (\$m)
Atlantic & Pacific Packaging	23,350	18,680	3	0.80	(32.77)	1.86	42.97	4.38	6.40
Amalgamated Telecom Holdings	86,410	67,914	42	0.85	7.59	9.84	8.64	7.06	358.79
Communications (Fiji)	1,800	3,222	3	1.79	(2.72)	0.36	493.55	1.68	6.37
Fosters Group Pacific	5,112	74,628	13	16.50	(5.71)	83.00	19.88	2.42	171.73
FijiCare Insurance	22,890	14,879	3	0.65	(7.14)	6.44	10.09	-	3.74
Flour Mills of Fiji	16,500	14,180	4	0.88	3.53	1.30	67.49	1.36	132.00
Fiji Sugar Corporation	126,311	42,870	9	0.33	(5.71)	14.06	2.35	-	14.65
Fiji Television	6,404	27,133	9	3.60	(20.00)	34.95	10.30	5.00	37.08
Kontiki Growth Fund	1,000	960	1	0.96	-	1.36	70.51	2.07	3.40
Pacific Green Industries	-	-	-	2.25	-	n/a	n/a	-	17.14
R B Patel Group	1,317,900	1,924,345	40	1.63	5.16	11.41	14.29	6.13	48.90
The Rice Company of Fiji	800	2,400	1	3.00	-	10.18	29.47	4.50	18.00
Toyota Tsusho	8,010	15,780	3	1.97	(1.50)	19.68	10.01	3.05	27.64
VB Holdings	-	-	-	2.95	-	27.33	10.79	4.41	4.51
Yaqara Group	-	-	-	1.18	-	n/a	n/a	-	17.99
Fijian Holdings	25,501	87,313	35	3.38	(3.43)	89.32	3.78	5.92	35.37
TOTAL	1,641,988	2,294,304	166	Market Capitalisation as at 30 September 2007					\$903.72