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Capital Market Update

the quarterly newsletter of the Capital Markets Development Authority

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“Understanding The Value Of Listing”

A company that lists its shares on a stock exchange does so to access the many benefits and advantages of listing. One of the significant advantages includes increased marketability of its shares and a wider shareholder base, which positively impacts on the value of the company. The other significant benefit is access to new capital. Very often companies turn to bank borrowings when they require additional capital because it is a familiar method of raising money. However, high levels of debt can impose higher levels of risks, especially during periods of poor earnings. It is also common for banks to require the personal guarantees of the founding shareholders and other restrictive covenants on the company, which have hidden costs attached to it.

When a company goes to the stock market it has the opportunity to fine tune its capital structure that is most beneficial for its needs. Once it lists on the Stock Exchange, the company will be required to adhere to continuous disclosure requirements as set out by the SPSE listing and business rules and the provisions under the CMDA Act. Such requirements include, among others, the obligation to publish and file with the SPSE, audited financial statements and the immediate disclosure of material information that can have a likely effect on the share price.

Generally some business owners are reluctant to publicly disclose this kind of information, to those not involved in their business however experience shows that many companies become more efficient from the public scrutiny and; it actually benefits the business in the long

term. What do the listed companies on the South Pacific Stock Exchange really have to say about their listing experience? Are the pre-listing requirements onerous and expensive? Has revealing their financial records made them vulnerable to their competitors, has selling their shares diluted their control? To find out the answers to these questions, the CMDA had conducted a survey of the listed companies in 2002 to identify the reasons they had made a public offering of their shares and listed, whether their listing had been of any real benefit to the company and the shareholders and to determine what difficulties they encountered in the process.

Interestingly, the survey results showed that the key reason for selling some of the company's shares to the public was not only to access capital but for unique company reasons like improving the management of the company by implementing corporate governance structures and increasing shareholder value. However, nearly half of the listed companies indicated that they would be using the stock market at a later stage to raise equity capital. Companies were also driven to list because they wanted to “introduce greater financial and managerial discipline into the company” and “create a more liquid trading market for the company's shareholders. This strategic move by the directors and owners to strengthen the company's management would ultimately reflect in improved financial performance and increased shareholder value over time.

Over 60% of the companies surveyed confirmed that since going public and listing, their pre listing objectives had been met. It is interesting to note that the traditional fears of loss of control, of making financial disclosures and of public scrutiny did not rate highly in the ranking of companies' concerns. However, most respondents did admit that it was meeting the CMDA's prospectus disclosure requirements and the SPSE's on-going disclosure requirements that was initially a major concern.

The survey confirmed conclusively that listed companies do benefit from their listing. However, what is clear is that the power of the stock market to maximize shareholders value does not appear to be widely appreciated yet or actively pursued. As Fiji's stock market matures and the listed companies become more familiar and attuned to the benefits that a listing can generate, particularly in driving shareholder values higher, shareholders can expect greater rewards.

Let's look at RB Patel Ltd (RBG). In 2001, when the Company listed on the SPSE, RBG had a market value of \$30 million as at end of 2001. At the close of trading at the end of 2006, this had grown to \$51 million. After listing RBG, the shareholders had grown the value of their investment by \$21 million in only five years. A decision to list should be taken only after a careful evaluation of the company's future plans and the needs and interests of the shareholders. It takes strong leadership to list a company and take it to a higher level.

“Securities Licensing Exam Enhances Capital Markets Development”

In an effort to enhance the development of Fiji's capital markets, the Authority in conjunction with the Financial Services Institute of Australasia (“FINSIA”) designed the Securities Licensing Examination Course to enhance participant's knowledge of the securities industry in Fiji and the regulatory environment within which it operates. The Course is independently administered by the Securities Institute of Australia (Kaplan) and was created specifically to partially satisfy the educational requirements necessary for a securities licence with the CMDA.

Since its inception in March 2004, a total of 83 candidates have successfully

completed the Course as at end of 2007. The three-month self-study program comprises of two modules, (1) Financial and Investment Analysis and (2) Securities Law and Regulation in Fiji, with exams for both modules held in the months of March and September. The Course has attracted participants from banks; accounting, stock broking, insurance, law firms, companies and intermediaries in the capital markets. These institutions and individual investors will benefit from the specific financial and legal knowledge gained by these candidates of Fiji's growing capital markets industry.

The successful completion of the program will enable individuals to satisfy the minimum educational requirements for a broker/dealer representative licence or a unit trust representative licence from the CMDA. The course also opens up new opportunities for those individuals, especially new graduates, who are aspiring to join the capital markets industry in Fiji as they can also take the Course just to learn about Fiji's capital markets.

The Securities Licensing Examination Course adds value to the development of capital markets in Fiji as the learning outcomes of the subject are directly

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related to the skills and expertise that a representative licence holder must acquire to deal with investors. It provides an industry specific qualification that provides minimum standard of knowledge for licence holders. This in turn will promote greater confidence for investors

while dealing with licensed broker/dealer representatives and unit trust representatives in the market.

Enrolment for the April examination has now started with cut-off date being 22

February 2008. More information on the self-study course can be obtained from the FINSIA website at http://www.finsia.edu.au/Education/Courses/Courses_Offered/FijiSecurities or by visiting the CMDA website at www.cmda.com.fj

“Update On CMDA Legislation”

The Capital Markets Development Authority (CMDA) Act, 1996 has been under review for the past 4 - 5 years. The delay has mostly been attributed to the fast changing environment and developments in the capital markets both locally and internationally, and the need for our laws to be wide and progressive enough, so as not to require another review in the immediate future. (A good example of this type of legislation is the US securities legislation which was drafted in 1945 and which is still being used today).

In conjunction with its regulatory functions, the CMDA is charged with the development of the capital markets in Fiji under the Act. Developing the capital markets requires enabling legislation which will allow the Authority to implement developmental policies and activities aimed at moving the industry forward where market efficiency, fairness and investor confidence is continuously maintained. The challenge that the Authority faces today is to develop the legal, institutional and structural support necessary to facilitate this, not just for today but in the years to come.

The Act suffers from various inconsistencies, key omissions and outdated rule requirements that may potentially have a negative impact on the Authority's ability to take the industry forward. In view of this, it is vital that the legislation be appropriately amended to make it suitable for Fiji conditions and to allow the Authority to undertake the functions required to develop the capital markets in Fiji.

What are the expected changes?

The objectives of the amendments are not to change the whole regulatory regime of the Authority but to address some of the loopholes and issues not currently being addressed. Some examples include:

- Widening the powers of the Authority into general terms to allow the Authority the flexibility of adapting to any new developments or situations that may arise in the capital markets. At the moment, the Authority's powers are specified and very prescriptive, which means that if a new situation arises, the Authority is unable to adapt to the change without amending the Act again;
- Empowering the Authority to be able to prosecute new offences and unlawful activities. Currently, the Act only specifies only 5 types of prohibited dealings, which limits the type of offences or prohibited dealings/activities captured. The review will address these types of issues;
- Simplifying the capital raising process in the capital markets;
- Addressing the issue of prosecution of capital markets related offences;
- Specifying procedures to do with how the Authority must deal with complaints, hearings and enquiries

are also included. Currently, the Authority issues policies pursuant to the general powers under Section 15 of the Act;

- Allowing the Authority to enter into MOU's with international jurisdictions and to negotiate for membership of the International Organisation for Securities Commissions (IOSCO);
- Recognising the developments in the capital markets industry internationally and this is reflected in the terms and wider definitions used throughout the Bill.
- Widening the scope of instruments included for regulation by the Authority.
- With regards to intermediaries and licenses, the amendments extends the license period from the current 1 year to between 2 to 5 years for different intermediaries;
- Clarifying certain definitions. For example, the definition of “securities” (which are the instruments that are regulated) includes only equity securities (i.e. shares), debt securities (except high value promissory notes, bills of exchange, bank certificates of deposit, treasury notes, etc) and managed investments (e.g. unit trusts, mutual funds, cash management trusts, syndicates etc).

The Authority is working towards sending the CMDA Amendment Bill to the Minister of Finance during the year. The Regulations and Rules to accompany the Amendments will be drafted thereafter. These Regulations and Rules will be a form of secondary legislation which will be used to appropriately implement the CMDA Act and to take account of particular circumstances or factors emerging during the gradual implementation of, or during the period of the Act. For example issues concerning mergers & acquisition, licensing and prosecution of prohibitive dealings are some areas of concern to the Authority that needs to be appropriately addressed through Regulations and Rules.

DID YOU KNOW...

...that under Section 14 of the CMDA Act, the Authority has the powers to inquire either on its own motion or at the request of any other person into the affairs of any person which the Authority has approved or to which it has granted a licence and any public company whose securities of which are traded on the SPSE.

Regulatory Matters

On regulatory matters, during the quarter, the CMDA received no complaints and inquiries however the Authority is carrying out 2 investigations into potential breaches or compliance issues of the CMDA Act, Regulation and Rules.

The CMDA granted approvals to:

- Mr. Dinesh Shankar to act as a Licensed Broker/Dealer Representative for FijiStock Brokers Ltd from 20 December 2007 to 19 December 2008 (both dates inclusive).
- Mr. David Oliver to act as a Licensed investment adviser Representative for Kontiki Capital Ltd from 12 November 2007 to 11 November 2008 (both dates inclusive).
- Mr. David Oliver to act as a Licensed Broker/Dealer Representative for Kontiki StockBrokers Ltd from 12 November 2007 to 11 November 2008 (both dates inclusive).
- Mr. Josua Satavu to act as a Licensed Broker/Dealer Representative for FHL Securities Ltd from 10 October 2007 to 9 October 2008 (both dates inclusive).
- Rowena Fong to act as a Licensed Broker/Dealer Representative for FHL Securities Ltd from 20 December 2007 and ending 19 December 2008 (both dates inclusive).
- Mr. Trevor Labati to act as an approved Unit Trust Representative for Unit Trust of Fiji from 10 October 2007 to 9 October 2008 (both dates inclusive).
- Mr. Karun Gandhi to act as a Licensed Unit Trust Representative for Colonial First State Investment from 1 January 2008 and ending 31 December 2008 (both dates inclusive).

News in Brief

- Flour Mills of Fiji Limited (FMF) together with Atlantic & Pacific Packaging Company Limited (APP) and Rice Company of Fiji (RCF) announced their forecasts for the year ending June 2008. FMF's forecast for 2008 is brighter due to a number of reasons. One of the reasons was that a flour price template has been developed and put in place which adjusts the flour price automatically to cater for the movements in international wheat price. FMF also expects to pay a higher dividend for year 2008.
- Fosters Group Pacific (FGP) Limited announced its 50th Annual General Meeting which was held on the 23rd October 2007 at FGP's Board Room, Walu Bay. FGP further announced a final dividend of 20 cents per share for the year ended 30th June 2007. The Company also announced the retirement of Mr. Hugh Ragg and the appointment of Mr. Ross Shaw, the General Manager Pacific of FGP as a Director. FGP also announced a new beer brand called Fiji Premium Beer will be launched on 8th December 2007 and also proposes to launch all existing RTD brands in 24 by 355 ml bottles on or about the same date.
- Fijian Holdings Limited (FHL) announced the payment of an interim dividend of \$0.10 on "A" class shares and \$0.05 on "B" class shares for the year ended 30th June 2007. The Board of FHL had appointed Mr. Isoa Kaloumaira and Mr. Ioane Naiveli to the Board of FHL to fill casual vacancies. The Company further announced the appointment of Ulai Baya as a director representing B-class shareholders replacing Foana Nemani at the Annual General Meeting held on 31st October 2007.
- Amalgamated Telecom Holdings (ATH) Limited announced an interim and unaudited consolidated net profit after tax and minority interest of \$23.5 million for the half-year ended 30 September 2007. ATH also announced the temporary suspension of the trading of its shares on the South Pacific Stock Exchange (SPSE) in order to quell speculation, and allow for a cooling down period following the agreement between Government and Telecommunication Industry players for the deregulation of the industry. The Company also announced the relocation of its Corporate Office to 2nd Floor, Harbour Front (old Burns Philips Building) on Rodwell Road, in Suva with all other contact address remaining the same.
- Fiji Sugar Corporation (FSC) Limited announced the retirement of two of its directors, Mr. Jaoji Koroi and Ratu Savenaca Qomate, and the appointment of two new Directors to its Board. Mr. Isoa Kaloumaira also resigned as Deputy Chairman of their board of directors. The new appointees are Mr. Peni Sikivou (Deputy Secretary Budget and Sugar Industry) and Joveci Tuinamua (Deputy General Manager-Operations, NLTB). FSC also announced that there were some improvements in their operating results for the year ended 31st May 2007 from a net loss of \$3.6 million in 2006 to a net profit of \$6.2 million in 2007 during a Brokers/Media briefing presentation.

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Meet a Broker Rep



Josua Satavu (FHL Securities Limited)

Getting Started: Josua joined FHL Securities Limited in August 2006 as a Graduate Trainee before becoming a Broker Rep. He holds a BA in Economics & Information Systems from the University of the South Pacific and has also completed the Fiji Securities Licensing Examination. Prior to joining FHL, Josua worked at the Commissioner Central's office as an accounts clerk. Josua was attracted to FHL as it gave him the opportunity to serve people from the villages and rural areas by assisting them in growing their wealth, creating awareness of investment opportunities available and assisting them with any queries they may have.

The Clients: Our clients range from individuals, institutions and groups from the rural areas to those living in towns/cities along with some business firms. They seek investment opportunities available in Fiji and my job is also to help them understand the benefits and risks involved with investing.

The Job: My job as a broker is comprehensive. Apart from my Broker role of buying and selling shares on behalf of clients on the South Pacific Stock Exchange (SPSE), I also get to meet existing and potential clients and help them understand the investment opportunities available on the SPSE. I also provide necessary public information about listed companies and at times make presentations on investment opportunities to institutions and groups.

Biggest Challenge: My biggest challenge would be to try and get the required volume of trades to satisfy a certain client's Buy or Sell Orders. Another challenge for me is to ensure clients fully understand the risks involved with investing for the medium to long term and to ensure they have confidence in the market.

Best Investor: I would describe a good investor as a person who has established their objectives for investing in the medium to long term and has fully understood the risks involved. Also a person who is patient to enable his or her investment to grow in the medium to long term and keeps updated with their investment portfolio.

Best Thing about the Job: The best thing about the job is the opportunity to interact with different types of people from various walks of life and in the process I also get to learn a few things from them.

FHL Securities Limited

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News in Brief

■ Toyota Tsusho (South Sea) Limited (TTS) announced their financial results for the half-year ended 30 September 2007 which recorded an after tax profit of \$1.17 million. The Company also announced an interim dividend of 2.5 cents per share or \$350,805 from its operating results for the half year ending 30th September 2007.

■ R B Patel Group (RBG) Limited announced that the Company had awarded the tender of almost \$8 million for the construction of the first two stages of its Multiplex development in Martintar, Nadi that will include an R B Patel Supermarket. Furthermore, RBG announced an interim dividend of 4 cents per share or \$1.2 million for the half year ended 30th September 2007.

■ Yaqara Group Limited (YGL) announced that it had entered into a further agreement with Resorts & Properties International Limited (RPI) for residential land development at the Yaqara City site on 18th October 2007. YGL further announced to all C Option Holders that the expiry date to exercise Series C Options had been extended from 24 November 2007 to 23 November 2008. The Company announced their six monthly reports ended 30 September 2007 which recorded a net loss of \$515,997. Compared to same period last year a net loss of \$731,857 was recorded. YGL also announced the results of its Annual General Meeting held on 18th December 2007. Board has given approval for the Company to issue 5,863,272 fully paid ordinary B Class shares to Resorts and Property

International Limited (RPI) or such other number as may be required to provide them with 25% of all issued shares in YGL following the issue.

■ Communications Fiji Limited (CFM) expressed disappointment at the sudden and unexpected imposition of new license fees on the broadcast industry. The new fee structure effectively imposes a turnover tax of 1.5% on CFM's operations. Communications Fiji Limited (CFM) announced that the Company will pay an interim dividend of 3 cents per share based on a review of its third quarter results for the year ending 31 December 2007. CFM also announced the resignation of its Company Secretary, Artika Sharma and the appointment of Joyti Solanki to replace Ms Sharma.

■ Kontiki Growth Fund (KGF) Limited announced that the net asset backing per share of the KGF was 96.01 cents per share as at 30th November 2007. This compares with 96.80 cents a share as at the date of listing 16 December 2004 on the SPSE.

■ Fiji Television Limited (FTV) announced the re-appointment of Mr. Tarun Patel as its Chief Operating Officer. He has held this position since 2004, before it was re-advertised last month due to the expiration of his previous contract. Furthermore, FTV announced the retirement of its Chairman, Mr. Oloti Rokovunisei and company director, Adi Litia Qionibaravi from its Board of Directors. The shareholders' have endorsed the appointment of Mr. Pita Mawi and Mr.

Isiromi Bayameyame as directors of FTV.

■ VB Holdings Limited (VBL) announced their eleven months financial results for the period ended 30th November 2007 which recorded a positive growth compared to same period last year. VBL also announced a second interim dividend for 11 months of 6 cents per share or \$91,800.

■ The Minister of Finance in his 2008 Budget address announced the following;

□ Tax benefits on dividends and capital growth have been removed from Unit Trust of Fiji and Fijian Holdings Unit Trust effective 1/1/08. This follows a similar announcement made in March 2007 for the removal of tax benefits from Fijian Holdings Properties Trust and Colonial First State Managed Funds.

□ The CMDA and the Ministry of Finance to set up a Committee to review relevant legislations affecting the development and regulations of the capital markets in Fiji.

□ CMDA to conduct a study on the impact of real time gross settlement (FijiClear) on market trading activities.

□ The Authority will also be changing its regulation approach to be risk-based to anticipate and deter illicit activities.

□ FIRCA has clarified that any income received from unit trust dividends in excess of \$200 will be subject to income tax. ●

Quarter 4 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 4- Qtr 3 % change	Earnings Per Share (cents)	Price/Earnings Ratio (times)	Dividend Yield (%)	Market Capitalisation (\$m)
Atlantic & Pacific Packaging	-	-	-	0.80	-	3.60	22.25	4.38	6.40
Amalgamated Telecom Holdings	22,180	17,795	15	0.79	(7.06)	9.84	8.03	7.59	333.46
Communications (Fiji)	8,592	15,147	7	1.75	(2.23)	0.36	482.52	3.43	6.23
Fosters Group Pacific	2,188	29,582	6	12.00	(27.27)	77.19	15.55	3.33	124.90
FijiCare Insurance	10,894	6,536	1	0.60	(7.69)	6.44	9.32	-	3.46
Flour Mills of Fiji	230,140	189,719	9	0.80	(9.09)	n/a	n/a	1.50	120.00
Fiji Sugar Corporation	7,900	2,607	4	0.33	-	14.06	2.35	-	14.65
Fiji Television	6,175	20,622	12	3.35	(6.94)	8.32	40.27	5.37	34.51
Kontiki Growth Fund	6,100	5,490	2	0.90	(6.25)	1.36	66.18	2.21	3.18
Pacific Green Industries	1,500	3,225	1	2.15	(4.44)	n/a	n/a	-	16.38
R B Patel Group	54,900	87,633	13	1.63	-	11.41	14.29	6.13	48.90
The Rice Company of Fiji	1,704	4,260	1	2.50	(16.67)	24.66	10.14	5.40	15.00
Toyota Tsusho	6,723	13,177	3	1.96	(0.51)	19.68	9.96	3.06	27.50
VB Holdings	9,976	28,930	2	2.90	(1.70)	27.33	10.61	6.55	4.44
Yaqara Group	-	-	-	1.18	-	n/a	n/a	-	17.99
Fijian Holdings	32,446	105,271	88	3.15	(6.80)	73.52	4.28	6.35	32.96
TOTAL	401,418	529,994	164	Market Capitalisation as at 31 December 2007					\$809.96