

## Sharing the Family Wealth:

### RB Patel's Success Story

When the RB Patel family went into business over 70 years ago, it was never their plan to let outsiders into the business, let alone the public. Today, although the family manages the RB Patel Group (RBG), they no longer own the business. They have sold off all their interests in the Group over a period of time, which started just before listing in 2001 on the South Pacific Stock Exchange (SPSE). The Company today continues to be a strong household brand and deliver good returns to its current shareholders.

By way of background, RBG was founded as a small dairy shop in Labasa in the early 1930's trading as R.K Patel & Co. In 1958 they opened a branch in Suva, and were involved in food wholesale, retail, exporting and distribution. They began opening up new supermarkets around Fiji in the mid 70's and 80's. It has since become one of Fiji's largest retailers and wholesaler of groceries and general merchandise.

So why did the Patel family open up a very successful family run business and let outsiders share their wealth and inheritance? RBG Chairman Mr Surendra Patel, stated that most family companies have been set up without any intentions of letting "outsiders" take control. Some family members considered the idea of sharing ownership with the public as not feasible and highly unworkable. However RBG, despite some reservations made an important corporate decision in July 2001 to open up ownership to the public and to list its shares on the SPSE.

### Why Did RBG Go Public?

There are many advantages and reasons for companies to go public and attain public listing of their shares. According to Mr Patel, the owner decided to open up the Company and list on the Stock Exchange due to the following reasons;

- The need for continuity and succession planning. Becoming a public company and listing provided the opportunity for "smooth negotiations on the entry and exit of family members without creating any valuation disputes, which can be biased and colored at times."

- Policy of promoting wider participation of all communities in trade, commerce and the development of the capital markets in Fiji. In other words, this would provide an opportunity for employees and customers to buy into and share in the Company's accomplishments. It was as an excellent way of retaining key employees and ensuring engagement with loyal customers.

As result of the RBG becoming a public company, it created strategic alliances with other successful companies and institutions with options for partnership in future . The top twenty shareholders in RBG includes Fijian Holdings Limited, the Great Council of Chiefs, Yasana Holdings Limited, Unit Trust of Fiji, Fiji National Provident Fund, Motibhai Group, Punjas, Tappoos and various other provincial and tikina councils and individuals.

Listing a family owned company like RBG on the Stock Exchange had no doubt provided the Patel family with many benefits. It has provided the company with a ready market for their shareholders, wider participation from the community and key stakeholders, enhanced accountability and transparency which has been reflected in the continuous improvement in the financial performance of the Company. But most importantly it has provided an exit strategy for family members who have been able to cash in on the company's value to retire or explore new horizons.

*For more information on the stock exchange listing process, please talk to a licensed investment advisor or visit the CMDA or SPSE office.*

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## MEET AN INVESTMENT ADVISOR

Rick Croker (Fortune Consultants)



### Getting Started

Rick was awarded a Masters degree in Economics, but prefers practical applications rather than all the theory. He finds working in investment and money markets very practical and satisfying, especially when a research solution achieves anticipated outcomes. Prior to operating his own investment advisory business, Rick worked as an Economic Research officer for the Australian government, a territory manager for Merck Pharmaceuticals, then was promoted to Merck's marketing department in the South Pacific head office. He is the founder and owner of Fortune Consultants.

### The Clients

Fortune Consultants works mainly with institutions, business owners, company CEOs and internationally mobile individuals such as expatriates, both within Fiji and externally. We can find solutions for investing a small monthly amount, through to a multi-million dollar lump sum.

### The Job

We offer asset protection, all insurance services and tax-effective investments such as saving plans and lump sums. Our forte is organizing superannuation alternatives to local schemes, for those who do not qualify eg contributors past retirement age, expatriates, business people, voluntary contributors etc.

### Biggest Challenge

Keeping abreast of developments in world markets to present the best opportunities for our clients – particularly at the moment.

### Best Thing about the Job

We work with all nationalities and have a client base who are spread globally – this makes a stimulating and rewarding vocation. It is satisfying to see our efforts repaid by client loyalty, referrals and repeat business, which is testimony to strong client relationships and good communication.

### Best Investor

Someone who can see the bigger picture, and works to a plan whilst remaining receptive to new ideas. A good investor is comfortable taking some risk – which all investments entail to some degree.

### Any further advice / comments

Set a strategy in place which incorporates your knowledge and research and the skill of respected advisors – then stick to it. Don't be distracted by short term phenomena and remember "Fortune favours the Brave".

Fortune Consultants 20 Des Vouex Road, Suva  
Phone: (679) 3306 266 Fax: (679) 3306 265

# What are the Risks of Investing in Bonds?

*If you make your investment decisions carefully, in line with your investment objectives, you have good chance of making reasonable returns.*

[Last quarter, we looked at the relationship between bond prices and interest rates. In this quarter's article, we will examine the risk of investing in bonds.]

Risk is usually defined as the variability of the returns from an investment i.e. the returns may be higher or lower than expected. Investments with greater inherent risk must promise higher expected returns if investors are to be attracted to buying them.

When you buy bonds, the returns you obtain from the bond, from the day you purchase it to the day you sell it, can be divided into two main parts. First, the market value of the bond if you sell it and second, the income you receive from the coupon payments while you hold the bond plus any additional income from reinvesting these coupons payments. Several environmental factors affect one or both of these parts. The risks of investing in bonds are therefore the impact that these factors have on the returns from the bond. What are these risks?

The principal risk facing bond investors is that of **market or interest rate risk**. As discussed in our last article, interest rates and bond prices move in opposite directions. For an investor who plans to hold the bond to maturity (i.e. the date on which the principal will be repaid), the change in price before maturity is of no concern. However, for an investor who has to sell the bond before maturity, changes in market interest rates will affect the value of their bonds.

An increase in market interest rates will result in a capital loss on the bonds and vice versa.

Another type of risk is **re-investment risk**. It is generally assumed that the income earned from the bond is re-invested. The additional income that is obtained from re-investing the coupons received will usually depend on the prevailing interest rate levels at the time and the investment strategy employed by the investor to re-invest. Re-investment risk is the risk that interest rates at which the coupons can be re-invested will fall. Re-investment risk is greater for bonds with longer terms to maturity and higher coupons. It is important to note that interest rate risk and the re-investment risk oppose each other.

Some bonds are subject to **call risk**. As explained in our earlier articles, some bonds have "call" features which allows the issuer to redeem or to "call" all or part of the bond before the maturity date.

For investors the risk is that, firstly, the pattern of cash flows of the callable bond is not known with certainty. Secondly, because of the issuer will call the bond when interest rates are down, the investor is exposed to re-investment risk i.e. that the proceeds of the bond will have to be re-invested at lower interest rates. Thirdly, capital gains may be reduced if the bond is called earlier as the price of the bond may not have risen much above the price at which it was bought.

Bond investors are also subject to **credit risk or default risk**. This refers to the risk that the issuer of the bond may default on the payments i.e. be unable to make the principal or coupon payments. Credit ratings are often used to rate the risk of default of an issuer.

**Inflation risk** arises because of the variation in the value of the coupons you receive from the bond due to inflation, as measured in terms of purchasing power. For example, if you buy a 5-year bond with a coupon rate of 7%, but the rate of inflation increases from 3% to 5%, the purchasing power from the income of the bond falls.

**Marketability and Liquidity Risk** is the ability to sell the bond in the secondary market at or close to its real market value in a desired time frame. This is measured by the difference (i.e. spread) between the bid and the offer price. The greater the difference between the bid and offer prices of the bond, the greater its liquidity risk as matching bid and offer may take longer to eventuate. Bonds that are attractive to investors will generally have lower liquidity risk and trade at a narrower spread.

**Political or Legal Risk**. The value of bonds may be affected by actions taken by a government or regulatory authorities. For example, tax-exempt bonds may be declared taxable before the bond matures. This will have a negative impact on the price of the bond and its marketability in the secondary market.

<b>Market/ interest rate risk</b>	The possibility of a reduction in the value of a bond, resulting from a rise in interest rate.
<b>Re-investment risk</b>	The risk resulting from the fact that interest or dividends earned from a bond investment may not be able to be reinvested in such a way that they earn the same rate of return as the invested funds that generated them.
<b>Call risk</b>	The cash flow risk resulting from the possibility that a callable bond will be redeemed before maturity.
<b>Credit/ default risk</b>	The possibility that a bond issuer will default, by failing to repay principal and interest in a timely manner.
<b>Inflation risk</b>	The possibility that the value of the bond will decrease as inflation shrinks the purchasing power of a currency
<b>Marketability/ liquidity risk</b>	The risk stemming from the lack of marketability of a bond that cannot be bought or sold quickly enough to prevent or minimize a loss.
<b>Political or legal risk</b>	The risk that an investment's returns could suffer as a result of political changes or instability in a country.

*All investments are subject to risks of varying kinds and bonds are no different. The returns that you can make on your investments will compensate you for the risks that you bear in making the investment. Hence it is important to understand the nature of the risks that may affect your investment and its expected returns. If you make your investment decisions carefully, in line with your investment objectives, you have good chance of making reasonable returns.*

*For more information on capital market issues, contact CMDA on phone 3304944, email [info@cnda.com.fj](mailto:info@cnda.com.fj) or visit [www.cnda.com.fj](http://www.cnda.com.fj)*

“...deal only with Investment Advisers licensed by CMDA.”

# Investor Beware - CMDA Issues Warning!!

We have all heard the saying - “If it sounds too good to be true, then it usually is.” Even so, investment scams are not new in Fiji, and the Capital Markets Development Authority (CMDA) warns investors to exercise care and deal only with those that have been licensed by the CMDA.

The Authority is warning the members of the public to be very cautious and alert when dealing with individuals and companies who offer investment advice and solicit funds. Any person or company that deals with the business of accepting public funds for investment or provides advice on funds management or investment in securities (shares, bonds) must hold a valid license issued by the CMDA. The CMDA is the only regulatory entity in Fiji that authorizes the issuance of such a license.

While a company might be registered and issued with a foreign investment registration certificate from the Fiji Trades and Investment Bureau (FTIB), such certification does not authorize any power for a person or company to provide investment advice or conduct any funds or securities investments related business.

Although a vast majority of financial advisers are trustworthy, the Authority is warning the public to be on the look-out for those that are not. Being an investor requires education and attentiveness. Any person who intends to engage the services of such professionals must first request for their license. If they cannot provide a license issued by the Authority, please do not deal with them and report them immediately to the Authority.

You can contact us on [info@cmda.com.fj](mailto:info@cmda.com.fj) or phone (679) 3304 944. All information received will be kept in its strictest confidence.

## Warning

The Authority is warning the members of the public to be very cautious and alert when dealing with individuals and companies who offer investment advice and solicit funds.

On regulatory matters, during the quarter, the CMDA conducted 2 investigations, received 2 complaints, and 1 inquiry into potential breaches of the CMDA Act, Regulation and Rules.

## LICENSED INVESTMENT ADVISERS

## Licensing

1) FHL Securities Ltd.  
Location:  
Ra Marama  
91 Gordon Street  
Suva, Fiji Islands  
Phone: (679) 3307018  
Fax: (679) 3309090  
Licensed Investment Adviser  
Representatives  
1) Mr Jaajj Korai  
2) Mr Tevita Gonelevu

4) Westpac Banking Corporation  
Location:  
1 Thomson Street  
Suva Fiji Islands  
Phone: (679) 3300 666  
Fax: (679) 3300 718  
Licensed Investment Adviser  
Representatives  
1) Mr Deven Magan

5) Nalin Patel  
Location:  
c/- G. Lal & Company  
Level 10 FANF Place  
Victoria Parade  
Suva Fiji Islands  
Phone: (679) 3314 768  
Fax: (679) 3301 811  
E-mail: npatel@deloitte.com.fj

6) Pradeep Patel  
Location:  
c/- G. Lal & Company  
Level 10 FANF Place  
Victoria Parade  
Suva Fiji Islands  
Phone: (679) 3314 768  
Fax: (679) 3301 811  
E-mail: ppatel@deloitte.com.fj

7) KPMG Financial Advisory Services (Fiji) Ltd  
Location:  
c/- KPMG  
Level 10, Suva Central Bldg,  
Renwick Road  
Suva Fiji Islands  
Phone: (679) 3301 155  
Fax: (679) 3301 312  
Licensed Investment Adviser  
Representatives  
1) Ms Lisa Apted  
2) Mr Bruce Sutton

2) FijiStock Brokers Ltd.  
Location:  
Level 2, Provident Plaza 1  
Ellery Street  
Suva, Fiji Islands  
Phone: (679) 3304 675/3307 128  
Fax: (679) 3304 679  
Email: [fijistock@connect.com.fj](mailto:fijistock@connect.com.fj)  
Licensed Investment Adviser  
Representatives  
1) Semi Leiwere  
2) Dinesh Shankar

3) Kontiki Capital Ltd.  
Location:  
Level 4, Provident Plaza 1  
Ellery Street  
Suva Fiji Islands  
Phone: (679) 3307 284/3309 772  
Fax: (679) 3307 241  
Email: [KontikiCapital@connect.com.fj](mailto:KontikiCapital@connect.com.fj)  
Web: [www.KontikiCapital.com](http://www.KontikiCapital.com)  
Licensed Investment Adviser  
Representatives  
1) Mr Jack Lawenstein  
2) Mr John Courtney  
3) Mr George Niumataivalu  
4) Mr David Oliver  
Approved Investment Adviser  
Representatives  
1) Griffon Emose  
2) Mr Jignesh Pala

8) PricewaterhouseCoopers Corporate Finance Ltd  
Location:  
c/- PricewaterhouseCoopers  
8th Floor Civic Tower  
Victoria Parade  
Suva Fiji Islands  
Phone: (679) 3313 955/3315 199  
Fax: (679) 3300 981/3300 947  
Licensed Investment Adviser  
Representatives  
1) Mr Jerome Kado  
2) Ms Jenny Seeto  
3) Mr Chirk Yam  
4) Mr Nitin Gandhi

9) Riek Croker  
Location:  
c/- Fortune Consultants  
20 Des Vouex Rd  
Suva, Fiji Islands  
Phone: (679) 3306266  
Fax: (679) 3306265  
Email: [admin@fortune.com.fj](mailto:admin@fortune.com.fj)

10) Gilbert Veisamasama  
Location:  
P.O.Box 14844  
Suva Fiji Islands  
Phone: (679) 3396427  
Mobile: 9921 427

## Renewals

- Mr Semi Leiwere to act as a broker representative for the FijiStock Brokers Ltd from 26 September 2008 to 31 December 2008
- FijiStock Brokers Ltd to conduct brokerage services from 24 September 2008 to 31 December 2008
- Mr Semi Leiwere to act as an investment adviser representative for the FijiStock Brokers Ltd from 30 July 2008 to 31 December 2008
- Mr Tevita Gonelevu to act as an investment adviser representative for the FHL Securities Limited from 13 September 2008 to 31 December 2008
- Mr George Niumataivalu to act as an investment adviser representative for the Kontiki Capital Limited from 27 August 2008 to 31 December 2008
- Mr Nalin Patel to act as investment adviser from 29 August 2008 to December 2008
- Mr Pradeep Patel to act as an investment adviser from 29 August 2008 to 31 December 2008
- Ms Rowena Fong to act as a unit trust representative for the Fijian Holdings Trust Management Ltd from 19 August 2008 to 31 December 2008
- Mr Jignesh Pala to act as an investment adviser representative for the Kontiki Capital Ltd from 10 July 2008 to 31 December 2008
- Mr John Ridgway to act as an investment adviser from 13 February 2008 to 31 December 2008
- Ms Alice Heffernan to act as a unit trust representative for the Colonial First State Investment Ltd from 28 July 2008 to 31 December 2008
- Dr Peter Mario to act as unit trust representative for the Unit Trust of Fiji (Management) Ltd from 17 March 2008 to 31 December 2008

# Licensing

- Mr Vilash Chand to act as a unit trust representative for the Unit Trust of Fiji (Management) Ltd from 7 January 2008 to 31 December 2008
- Mr Gyanesh Reuben to act as a unit trust representative for the Unit Trust of Fiji (Management) Ltd from 3 December 2007 to 31 December 2008
- Ms Reema Chand to act as a unit trust representative for the Unit Trust of Fiji (Management) Ltd from 25 July 2008 to 31 December 2008
- Unit Trust of Fiji (Management) Ltd to conduct the business of unit trust management from 1 February 2008 to 31 December 2008
- Fijian Holdings Unit Trust to conduct the business of unit trust management from 30 July 2008 to 31 December 2008

## New License

- Ms Elenoa Kaloumaira to act as broker/dealer representative for the Kontiki Stockbroking Ltd from 8 July 2008 to 31 December 2008

Surendra Patel (RB Patel Group) and Hari Punja (Flour Mills of Fiji) who shared their experiences in capital raising and listing on the Stock Exchange, for the benefit of potential companies considering these options.

## 2008 School Essay Winners Announced

The CMDA has announced winners for the 2008 Secondary Schools Essay Competition. This is the second year for the competition and it attracted 41 entries from 22 secondary schools. There was one entry from a home school student in Idaho, United States.

The competition is aimed at raising the level of awareness and advocating the importance of financial responsibility amongst the younger generation. CMDA Chief Executive, Mereia Volavola said that she was very impressed with the quality of essays submitted as students were able to demonstrate their understanding of the capital market's role in the economy, and how to apply savings and investments concepts in practical situations.

The first prize of \$300 for the top category was won by Josiah Moimoi, a seventh former and head boy of the Fiji LDS Church College. Other category winners were spread out amongst schools in the central, western and northern divisions. Students around the country are encouraged to apply when the 2009 competition is advertised.

## CMDA Views on the Global Financial Crisis

The downward spiral in the US financial sector has contagion effects on other economies around the world; however, the CMDA believes that Fiji will not be as adversely impacted compared to other emerging economies around the world, particularly those in Asia and Europe. Our relative isolation from the main international financial systems has provided a buffer. The Stock Exchange do have some overseas investors but at a very small number.

Global credit is expected to be tight which will slow down economic activity. The CMDA believes that given the contraction of the local economy in the last two years there are also many opportunities for local businesses

to recover and rebuild, with international oil prices and local interest rates falling. With the falling interest rate, investment in the capital markets would provide an attractive option for investors.

## Stock Market Performance this Quarter

Positive news for stock market investors! The bear market experienced for the past 2 years in the stock market has started to vanish as most listed securities recorded increases in their share prices over the last quarter. Nine of the sixteen listed securities recorded increase over the quarter 2 to quarter 3 periods, of which APP and CFM stood out as it recorded double digit percentage increases on their share price. The bull market situation should present an opportunity for investors to actively participate.

The most traded security this quarter includes ATH and FHL, both of which accounts for more than 50% of the overall market capitalization. RBG, FGP, FMF and FTV stocks were also traded actively during the review period (Refer to quarter 3 trading table below for detailed statistics).

## CMDA Proposes Amendments to Licensing Framework

The CMDA will be seeking the views and comments on proposed changes to the licensing framework in the capital markets industry from its intermediaries up until 31 October 2008.

The review is aimed at rationalising and modernising the existing regulatory framework for the capital market in order to cater for the ever-changing financial landscapes both domestic and globally and also to remove any administrative burdens on both the licensee and the Authority. The Authority aims to implement the proposed changes beginning January 2009, and believes that improved licensees will have an overall positive impact on capital market.

To obtain a copy of the consultation paper, please contact CMDA on (679) 3304944 or via a request email to [info@cma.com.fj](mailto:info@cma.com.fj)

# News in Brief

## CMDA and SPSE Collaborates

A special seminar promoting capital raising and listing was jointly organized by the Capital Markets Development Authority (CMDA) and the South Pacific Stock Exchange (SPSE). The seminar held on 8th August 2008 at the JJ's on the Park, brought together around 60 participants including senior executives of the various companies (listed and unlisted), intermediaries, investment advisers and other interested stakeholders.

Speakers at the seminar included prominent businessmen, Nitish Niranjana (VB Holdings Ltd),

## Quarter 3 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 3-Qtr 2 (% Change)	Earnings Per Share Traded (cents)	Price/Earnings Ratio (times)	Divided Yield (%)	Market Capitalisation (\$m)	
Atlantic & Pacific Packaging	7,000	5,760	2	0.88	25.71	3.60	24.48	2.84	7.04	
Amalgamated Telecom Holdings	93,144	98,4861	32	1.11	6.73	10.93	10.15	8.11	468.54	
Communications (Fiji)	500	900	1	1.80	20.00	12.39	14.53	5.56	6.40	
Fosters Group Pacific	1,799	24,290	6	13.60	4.62	96.95	14.03	3.31	141.55	
FijiCare Insurance	0	0	0	0.65	0.00	9.21	7.06	6.15	4.04	
Flour Mills of Fiji	54,900	39,812	5	0.75	2.74	n/a	n/a	2.67	112.50	
Fiji Sugar Corporation	7,000	2,520	2	0.36	2.86	n/a	n/a	0.00	15.99	
Fiji Television	5,000	16,834	5	3.36	0.00	26.56	12.65	5.36	34.61	
Kontiki Growth Fund	0	0	0	0.87	0.00	n/a	n/a	0.00	3.08	
Pacific Green Industries	0	0	0	2.10	0.00	5.43	38.70	0.00	16.00	
R B Patel Group	53,000	90,100	7	1.70	1.80	14.26	11.92	8.24	51.00	
The Rice Company of Fiji	1,000	2,460	1	2.46	0.41	24.66	9.97	6.91	14.76	
Toyota Tsusho	0	0	0	1.96	0.00	8.82	22.23	2.55	27.50	
VB Holdings	3,970	11,910	2	3.00	0.00	16.08	18.66	2.00	4.70	
Yaqara Group	0	0	0	1.18	0.00	n/a	n/a	0.00	17.99	
Fijian Holdings	117,300	254,285	72	2.17	0.46	73.52	2.95	9.22	22.71	
<b>TOTAL</b>	<b>344,613</b>	<b>547,332</b>	<b>135</b>	<b>Market Capitalisation as at 30 September 2008</b>						<b>\$948.41</b>