



# Kingfish Limited **Interim Report**

30 September 2010





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## DIRECTORS' OVERVIEW

**With a surplus of just \$6,000 representing a flat performance for the six months to 30 September 2010, Kingfish shareholders could be forgiven for thinking that this has been an uninteresting six months. However, in the three months since our Update newsletter to 30 June 2010, where we noted the stumbling of global equity markets and market nervousness, the Kingfish Net Asset Value (NAV) rose 7% after adjusting for dividends paid, and the share price increased by 6%.**



In the six months to 30 September 2010, the portfolio outperformed the broad New Zealand share market by over 2% (the NZ50 Gross Index was down 2.8% for the 6 months). During the six months, Kingfish paid two dividends totalling 4.4 cents per share.

NAV performance has lifted a further 2% from 30 September to the date of this overview and the current share price is 93 cents. It is also pleasing to note that the share price discount to NAV has narrowed to 15% (11% after adjusting for the dilution effect of the outstanding warrants) from 18% as at 1 April 2010.

At Kingfish's Annual Shareholders Meeting held on 23 July 2010, directors announced an issue of new warrants. Subsequently all shareholders at the record date of 30 August 2010 received one free warrant for every two shares held. The exercise price is 95 cents and there are quarterly optional exercise dates up to a final date of 3 September 2012. With the share price already close to the warrant exercise price of 95 cents, some investors are considering when is the best time to exercise their warrants as they look to convert to shares in order to take advantage of the quarterly long term distribution policy. As always, we recommend that warrant holders should consult with their financial advisor before taking any action.

Dividends of 2.26cps and 2.12cps were paid in June and September respectively, with 44% of shareholders electing to reinvest into shares under our dividend reinvestment plan. Those shareholders who opted for dividend reinvestment received their additional shares at 83 cents and 89 cents respectively (3% discount to market price). The next quarterly dividend of 2.11cps will be paid on 17 December 2010 (record date 6 December 2010). Based on the current share price, the annual dividend yield of approximately 9.6% is one of the most attractive on the NZSX. Furthermore, under the PIE tax regime, distributions are tax free to the great majority of shareholders.

During the six months to 30 September 2010, the Company bought back 597,000 shares on market. On 1 November 2010, the Board renewed the Company's buyback policy for a further year and has the ability, but not the obligation, to purchase up

to 4.29m shares in the year to 31 October 2011. The majority of shares bought back are initially held as "treasury stock" and reissued to shareholders participating in the dividend reinvestment plan.

The Company's Manager, Fisher Funds, continues to successfully manage a strong portfolio of companies that have a proven track record and ability to continue to grow over time. Fisher Funds commentary on the portfolio and recent additions is in the Manager's report that follows.

On 14 September 2010, directors announced the appointment of James Miller as a director following a formal search carried out in accordance with the Company's succession planning. On 5 November, I advised of my intention to retire on 31 December 2010 and that directors had resolved that James should succeed me as Chairman. It has been an honour to chair the company since its inception in 2004 and I have enjoyed working with a very competent board and management team. I wish the Company and all shareholders a prosperous future.



**Rob Challinor** | CHAIRMAN | 19 November 2010

### **JAMES MILLER BCOM, FCA INDEPENDENT DIRECTOR**

James Miller will assume the chairmanship of Kingfish on 1 January 2011 upon the retirement of Rob Challinor.

James is also a director of NZX, Vector and Auckland International Airport. He was previously on the ABN AMRO Securities Board, INFINZ Board, and Financial Reporting Standards Board. He has recently retired as a director and Head of NZ Wholesale Equities with Craigs Investment Partners in Auckland. James' relevant prior roles were Head of Equities at ABN AMRO; Head of Research at ABN AMRO and as a Research Analyst focussing on energy and infrastructure sectors with Barclays de Zoete Wedde (BZW). He brings 14 years experience in capital markets.

James is a Fellow of the Institute of Chartered Accountants of New Zealand, a Certified Securities Analyst Professional and an accredited director of the Institute of Directors in NZ Inc. He holds a Bachelor of Commerce from Otago University and is a graduate of The Advanced Management Program, Harvard Business School (USA).

## MANAGER'S REPORT

**Impatience is an investor's worst enemy, but in markets such as we've experienced over the past six months, it can be a real challenge to be patient.**



The long-awaited global economic recovery has still not emerged, so markets have had little reason to shift higher. With markets meandering along, week after week, spurred into action occasionally by a piece of news, it is tempting to make investment decisions simply to combat boredom. But prudent investors should be content to sit on their hands, particularly if they know that their portfolio is of high quality and their companies are poised to benefit immediately when an economic recovery emerges. Warren Buffett once said that lethargy, bordering on sloth, should remain the cornerstone of any investment strategy. It is fair to say that investing activity for Kingfish during the interim period was somewhat lethargic. Fortunately, the performance was far from it.

Largely reversing the negative June quarter NAV performance, the Kingfish NAV rose 7.1% during the September quarter, slightly ahead of the NZ50 Gross Index which rose 6.9%. For the half year ended September, the NAV was down slightly at 0.5%, but again beating the broader market with the NZ50 Gross Index down 2.8% over the same period. This NAV performance is after adjusting for dividends paid (but excluding imputation benefits).

### THE NEW ZEALAND SHARE MARKET ENVIRONMENT:

The New Zealand economy continues to flatline. GDP was a modest 0.2% in the June quarter, well below market expectations. Economic data continues to soften, with business confidence weakening (off a high base). Notwithstanding this, a double-dip recession is unlikely, in our opinion. The Reserve Bank has decided to leave the cash rate at 3% to keep stimulating the economy and tax reductions become effective from this quarter (albeit coupled with a GST increase). Most companies have aligned their businesses for the current economic environment and will reap the benefits when the economy inevitably rebounds. Investors and companies have keenly waited for signs of a lift in economic activity, but in virtually every sector and industry, improvements have been sporadic with one good week followed by an ordinary one. The current environment has been described as a 'muddle through recovery' and the last six months have certainly featured a fair bit of muddling through, with no clear trend emerging.

The Kingfish portfolio itself continues to be in good shape. Forecast earnings growth

## MANAGER'S REPORT CONTINUED

for the portfolio is 15% for the year ahead (using average analysts' consensus forecasts) with a prospective P/E of 12.4x. The portfolio has better forecast growth than the broader market, at a lower P/E, which is exactly where we want to be positioned. Balance sheets remain robust with net debt / EBITDA of only 1.2x and an interest cover of over 10x average across the portfolio.

### PORTFOLIO COMMENTARY

**Abano** sold its 6.5% stake in National Hearing Care for NZ\$26m in September, a gain of \$11m on the \$15m investment it made late last year – equivalent to 53c/Abano share. Abano has announced a 1:4 compulsory capital cash return at \$5.23 (amounting to \$27m) to better align its balance sheet with the earnings of its existing businesses. Abano now derives most of its earnings from its Australasian dental division, but is investing in greenfield audiology clinics in Australia and Asia on a 50/50 JV with Peter Hutson. Audiology will take some time to make a meaningful earnings contribution, but has the biggest upside potential to add value for shareholders, in our opinion.

**Delegat's** is confident that it can increase profitability over the next few years, despite a significant industry over-supply of sauvignon blanc. It plans to do this by increasing case sale realisations through better country and varietal mix (eg less to the UK, more sparkling wine), and through lower cost of production from lower grape prices. Case sales are expected to be down 8.5% in the current year, as the company moves sales away from the UK where weakness in the sterling has reduced Delegat's margins – and towards relatively untapped markets like the USA and Canada.

**Fisher & Paykel Healthcare** expects to achieve full year trading earnings growth of 10% in constant currency terms in the current year, and revenue growth of 15% in the medium term. Both of its divisions (Obstructive Sleep Apnea and Respiratory Care) continue to perform well on a constant currency basis. New growth areas in Respiratory Care (eg Oxygen therapy, non-invasive ventilation) now comprise 28% of total respiratory revenue and are growing rapidly. Fisher & Paykel's new flow generator (the ICON) has recently been released worldwide and should increase its market share in obstructive sleep apnea and drive earnings growth.

**Freightways** noted a positive turnaround in the second half of its full year result to June. In the Express Package and Business Mail division (80% of total), EBITA was up 4% in the second half following a 12% fall in first six months. In the Information Management division (20% of total), second half EBITA was up 28% following a 4% fall in the first half. The company is expecting a continual but gradual improvement in its markets although monthly turnover remains volatile. First quarter 2011 EBITA was up 3%.

**Infratil** has had a good start to the year - Greenstone Energy (Shell NZ) has benefitted from higher margins and market share gains since being purchased in April. Infratil Energy Australia has now established a meaningful on-going earnings stream from its customer base and energy assets. Infratil upgraded its earnings guidance at its half yearly result largely due to better than expected results from Greenstone and Infratil Energy Australia.

**Kathmandu** missed its prospectus earnings forecasts (by around 5%) following a warm winter over the crucial winter sales period, but operating earnings were still above last year's result. The company is confident it can again increase profitability in the current year. It is looking to add another 12 stores this year, refurbish many of its older stores and is expanding its product range.

**Metlifecare** posted a record year of resales in 2010, with 301 retirement village units resold compared to 200 last year. Occupancy at its villages is now 90% (88% excluding its Takapuna development (The Poynton - 30% occupied), which continues to sell slowly. Selling the rest of The Poynton village is the company's biggest area of upside and a strong focus of management. Net asset backing rose from \$3.58 to \$4.13 as at 30 June 2010 following an independent revaluation of its retirement village portfolio, significantly above the current share price.

**Mainfreight** recently re-iterated its medium term goals which it aims to achieve by 2015. One of Mainfreight's great strengths is that it aims high and stretches itself. If successful, these aspirational goals would dramatically change the face of the company and considerably grow shareholder value, in our opinion. The company's goals include 1) achieve annual revenue of \$2 billion per year (currently \$1.2 billion; 2) USA operations to earn more than Mainfreight's Australian and New Zealand operations; 3) to have in excess of 300 branch locations around the world; 4) to be located in six European countries; 5) to be located in three South American countries; 6) to have a branch network throughout Asia, including India.

**Michael Hill International's** underlying full year net earnings for the 2010 year were up 60% following a strong 2H performance from its Australasian divisions but the annual result is only up 5% when compared to 2008. USA and Canadian operations continue to be a drag of profits, although in the case of the USA these will be reduced following the closure of eight loss-making stores. Store roll-outs in Australia and Canada will continue over the next few years, but the company has resolved to get the US model working properly with existing stores, before it considers expanding there. The first quarter 2011 same store sales were strong across all countries although the up-coming Christmas sales period is key.

## MANAGER'S REPORT CONTINUED

**NZX** has been a poor share price performer recently due to subdued trading volumes, delays in getting its new trading and settlement platform operational and limited new capital raisings. Over the last 18 months it has restructured its business away from straight cash equity trading (which has been down worldwide by around 20%-30%), towards an integrated information/markets/infrastructure model and this restructure has prevented earnings falling significantly. With its trading platform up and running it is looking to add new revenue streams to its business in areas like whole milk powder futures and equity derivatives, whilst bedding down acquisitions made over the last year.

**Opus International Consultant's** first half net earnings were up 104% when compared to a poor period last year where Opus's offshore operations made losses. Operations in the UK, Australia and Canada now contribute to earnings following a re-aligning of staff numbers, although the New Zealand operations continue to be the cornerstone of Opus's operations (88% of total EBIT). Opus is a key beneficiary of major infrastructure work in New Zealand, with a long forward pipeline of work.

**Pumpkin Patch** has opened the first of its dual brand stores (Charlie & Me) aimed at the playwear end of the market. This part of the market accounts for over 70% of the \$3 billion pa Australasian childrenswear industry. This model is run by many other international clothing companies (eg Gap, Gymboree) and aims to leverage Pumpkin Patch's existing infrastructure and retail expertise to benefit both brands. The company is looking to open 22 stores in the current year, eight of which will be "Charlie & Me" stores. These will be focused in Australia along with a further eight Pumpkin Patch stores opening in that marketplace.

**Ryman's** 'wave of earnings' continues to gather momentum as it expands its retirement village portfolio. Realised profits for the half year ended September were up 24% so the company is well on track to achieve its medium term target of 15% growth in realised profits for the full year. It also announced that it actively seeking a site for its first village in Australia, and is keen to push into that marketplace.

**Tower** made a \$118m unsolicited bid for Fidelity Life Assurance – a complementary company to Tower in the areas of life insurance, personal protection, business insurance, and savings and investment products in New Zealand. Fidelity's major shareholders have rebuffed the offer and Tower has now let the offer lapse whilst it 'decides upon any future course of action'. Tower has been looking for some time for bolt-on acquisitions having raised \$81m of new equity in September of last year to fund such a purchase. The Fidelity takeover, if ultimately successful, would lift Tower to become the third largest player in life assurance area in New Zealand.

**Wakefield Health's** earnings have been impacted by lower ACC funded patient numbers and less DHB funded work. Wakefield's private hospitals, by their very nature, have high fixed costs and need high utilization at its operating theatres to make solid returns on invested capital. We see the downturn in the number of private surgical procedures as transitory, as demand for elective surgery will continue to grow as the population ages and DHBs struggle to meet the demands of the public's need for surgery.

**Waterman** distributed surplus cash to shareholders following the sale of its stake in Express Logistics during the half year period and is left with two businesses – paint and decorator Guthrie Bowron, and David Reid Homes. As a result of setting up a new fund, Waterman Holdings is not actively seeking new investment opportunities. Through dividends and a share buyback, Kingfish has already received 70% of its original investment back.

## PORTFOLIO CHANGES

Since our June quarter report, we have added two new stocks to the portfolio – Infratil and Fisher & Paykel Healthcare. As suggested in our last report, we have increased our exposure to some of the slightly larger companies in the market, whilst still adhering to our STEEPP process. These stocks give the portfolio more liquidity which can be useful to meet the cash needs from the quarterly dividend payments, whilst still meeting our investment criteria.

Infratil has an enviable long term track record of adding to shareholder value, and owns a portfolio of infrastructure assets that we cannot easily replicate. Its target of achieving a 20% annual return for shareholders meets our criteria, and it has recently rejuvenated its portfolio. Fisher & Paykel Healthcare has long been one of New Zealand's true growth companies. What has changed is a wider product range which dramatically increases its addressable market of new potential patients, underwriting an estimated 15% growth in revenues in the medium term.

Kathmandu has had a volatile share price performance since we first began buying shares in the company in April of this year. We have purchased further shares post its earnings downgrade in August. We reduced holdings in NZX and Delegat's, and our cash position is currently 10.3%.

## OUTLOOK

Buffett's advice to be lethargic does not mean we should do nothing! We continue to monitor our companies and search for new ones to add to the portfolio. A tentative economic recovery presents opportunities to double-check our investment thesis – if for example, there are signs of a pick-up in a certain sector, even if it is temporary, we

## MANAGER'S REPORT CONTINUED

can gauge how our portfolio companies in the sector respond. Those that experience an immediate lift are obviously well leveraged to economic activity and will be the better beneficiaries when the recovery gathers pace. The Kingfish portfolio has a good mix of defensive and cyclical companies, and the stocks are well priced yet offer better growth prospects than the broad New Zealand share market. As investors we should therefore feel pleased with the portfolio, knowing that the only missing ingredient now is an economic recovery. As patient investors, we are happy to wait for its arrival.

### KINGFISH PORTFOLIO STOCKS AS AT 30 SEPTEMBER 2010

### PORTFOLIO WEIGHTING

Mainfreight	18%
Ryman Healthcare	14%
Metlifecare	9%
Pumpkin Patch	8%
Freightways	7%
NZ Exchange	6%
Delegats	5%
Opus International	4%
Abano Healthcare	4%
Michael Hill	4%
Wakefield Hospital	3%
Tower Limited	2%
Kathmandu	2%
Fisher & Paykel Healthcare	<2%
Waterman Holdings	<2%
Infratil	<2%



**Carmel Fisher** | 19 November 2010

**STATEMENT OF COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	NOTES	6 months ended 30/09/10 unaudited	6 months ended 30/09/09 unaudited
		\$000	\$000
Interest income		140	99
Dividend income		1,120	1,098
Net changes in fair value on investments	1(i)	(108)	21,137
<b>Total net income</b>		<b>1,152</b>	<b>22,334</b>
Operating expenses	1(ii)	(998)	(961)
<b>Operating profit before tax</b>		<b>154</b>	<b>21,373</b>
Total tax (expense)/benefit	3	(148)	103
<b>Net operating profit after tax attributable to shareholders</b>		<b>6</b>	<b>21,476</b>
Other comprehensive income after tax		(351)	0
<b>Total comprehensive (loss)/income after tax attributable to shareholders</b>		<b>(345)</b>	<b>21,476</b>
<b>Earnings per share</b>			
<b>Basic earnings per share</b>			
Profit attributable to owners of the Company (\$000)		6	21,476
Weighted average number of ordinary shares on issue net of treasury stock ('000)		86,992	85,322
		<b>\$0.00</b>	<b>\$0.25</b>

The Notes to the Financial Statements set out on pages 16 to 21 should be read in conjunction with this Statement of Comprehensive Income.

**STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	NOTES	6 months ended 30/09/10 unaudited	6 months ended 30/09/09 unaudited	year ended 31/03/10 audited
		\$000	\$000	\$000
<b>Total profit for the period attributable to shareholders</b>		6	21,476	24,451
Other comprehensive income		(351)	0	800
<b>Total comprehensive (loss)/income for the period attributable to shareholders</b>		<b>(345)</b>	<b>21,476</b>	<b>25,251</b>
<b>Contributions from owners</b>				
- Ordinary shares issued	2	1,098	0	327
- Treasury stock re-issued	2	614	1,814	3,243
<b>Distribution to owners</b>				
- Dividends paid		(3,806)	(4,311)	(8,219)
- Share buybacks	2	(551)	(229)	(1,849)
<b>Movements in equity for the period</b>		<b>(2,990)</b>	<b>18,750</b>	<b>18,753</b>
Equity at the beginning of the period		96,952	78,199	78,199
<b>Equity at the end of the period</b>		<b>93,962</b>	<b>96,949</b>	<b>96,952</b>

The Notes to the Financial Statements set out on pages 16 to 21 should be read in conjunction with this Statement of Changes in Equity.

**STATEMENT OF FINANCIAL POSITION**

AS AT 30 SEPTEMBER 2010

	NOTES	30/09/10 unaudited	30/09/09 unaudited	31/03/10 audited
		\$000	\$000	\$000
<b>ASSETS</b>				
<b>Current Assets</b>				
- Cash and cash equivalents		10,672	8,484	10,351
- Trade and other receivables		396	687	735
- Investments at fair value through profit or loss	4	83,370	87,035	83,645
<b>Total Current Assets</b>		<b>94,438</b>	<b>96,206</b>	<b>94,731</b>
<b>Non-current Assets</b>				
- Available-for-sale financial assets	5	1,279	1,000	2,280
- Deferred tax asset		0	166	148
<b>Total Non-current Assets</b>		<b>1,279</b>	<b>1,166</b>	<b>2,428</b>
<b>Total Assets</b>		<b>95,717</b>	<b>97,372</b>	<b>97,159</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
- Trade and other payables		1,755	111	207
- Current tax payable		0	312	0
<b>Total Current Liabilities</b>		<b>1,755</b>	<b>423</b>	<b>207</b>
<b>Total Liabilities</b>		<b>1,755</b>	<b>423</b>	<b>207</b>
<b>EQUITY</b>				
- Share capital	2	86,901	85,604	85,740
- Available-for-sale reserve		449	0	800
- Retained earnings		6,612	11,345	10,412
<b>Total Equity</b>		<b>93,962</b>	<b>96,949</b>	<b>96,952</b>
<b>Total Equity and Liabilities</b>		<b>95,717</b>	<b>97,372</b>	<b>97,159</b>

These financial statements have been authorised for issue for and on behalf of the Board by:



**R L Challinor** | Director | 19 November 2010



**A M Cotton** | Director | 19 November 2010

The Notes to the Financial Statements set out on pages 16 to 21 should be read in conjunction with this Statement of Financial Position.

**STATEMENT OF CASH FLOWS**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	6 months ended 30/09/10 unaudited	6 months ended 30/09/09 unaudited	year ended 31/03/10 audited
	\$000	\$000	\$000
<b>Operating Activities</b>			
<i>Cash was provided from:</i>			
- Sale of investments	8,354	10,023	17,049
- Interest received	140	99	211
- Dividends received	1,486	1,206	2,776
- Tax received	0	154	0
<i>Cash was applied to:</i>			
- Purchase of investments	(5,932)	(6,333)	(8,196)
- Operating expenses	(1,028)	(449)	(1,400)
- Taxes paid	0	0	(155)
<b>Net cash inflows from operating activities</b>	<b>3,020</b>	<b>4,700</b>	<b>10,285</b>
<b>Financing Activities</b>			
<i>Cash was applied to:</i>			
- Share buybacks	(605)	(229)	(1,795)
- Dividends paid	(2,094)	(2,497)	(4,649)
<b>Net cash outflows from financing activities</b>	<b>(2,699)</b>	<b>(2,726)</b>	<b>(6,444)</b>
<b>Net increase in cash and cash equivalents held</b>	<b>321</b>	<b>1,974</b>	<b>3,841</b>
Cash and cash equivalents at beginning of period	10,351	6,510	6,510
<b>Cash and cash equivalents at end of period</b>	<b>10,672</b>	<b>8,484</b>	<b>10,351</b>

All cash balances are comprised of short-term cash deposits.

The Notes to the Financial Statements set out on pages 16 to 21 should be read in conjunction with this Statement of Cash Flows.

**STATEMENT OF CASH FLOWS CONTINUED**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	6 months ended 30/09/10 unaudited	6 months ended 30/09/09 unaudited	year ended 31/03/10 audited
	\$000	\$000	\$000
<b>Reconciliation of operating profit after tax to net cash flows from operating activities</b>			
<b>Net profit after tax</b>	<b>6</b>	<b>21,476</b>	<b>24,451</b>
<i>Items not involving cash flows:</i>			
- Change in deferred tax	148	(102)	(84)
- Unrealised loss/(gain) on revaluation of investments	1,437	(20,325)	(18,292)
	<b>1,585</b>	<b>(20,427)</b>	<b>(18,376)</b>
<b>Impact of changes in working capital items</b>			
- Increase/(decrease) in fees and other payables	1,602	(31)	11
- Decrease in interest, dividends and other receivables	339	202	154
- Decrease/(increase) in current tax payable	0	154	(156)
	<b>1,941</b>	<b>325</b>	<b>9</b>
<b>Items classified as financing activities and investments</b>			
- Net amount received from investments	2,422	3,690	8,853
- Realised gains on investments	(1,329)	(812)	(4,494)
- Increase in purchases of investments payable	(1,618)	0	0
- Increase/(decrease) in investment sales receivable	13	448	(158)
	<b>(512)</b>	<b>3,326</b>	<b>4,201</b>
<b>Net cash inflows from operating activities</b>	<b>3,020</b>	<b>4,700</b>	<b>10,285</b>

The Notes to the Financial Statements set out on pages 16 to 21 should be read in conjunction with this Statement of Cash Flows.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

## General Information

### Entity Reporting

The financial statements for Kingfish Limited (“Kingfish” or “the Company”) have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

### Legal Form & Domicile

The Company is incorporated and domiciled in New Zealand.

Kingfish Limited is a limited liability company, incorporated under the Companies Act 1993 on 30 January 2004.

Kingfish Limited is listed on the New Zealand Stock Exchange and is an issuer under the terms of the Financial Reporting Act 1993.

The Company is a profit-oriented entity and began operating as a listed investment company on 31 March 2004.

The Company’s registered office is disclosed in the Directory.

### Authorisation of Financial Statements

The Kingfish Board of Directors authorised these financial statements for issue on 19 November 2010.

No party may change these financial statements after their issue.

## Accounting Policies

### Period Covered by Financial Statements

These financial statements cover the unaudited results from operations for the six months ended 30 September 2010.

### Statement of Compliance

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”), the Companies Act 1993 and the Financial Reporting Act 1993. They comply with New Zealand equivalent to International Accounting Standard 34 (“NZ IAS 34”) and International Accounting Standard 34 Interim Financial Reporting.

The interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s annual financial report for the year ended 31 March 2010.

The Company has applied consistent accounting policies in the preparation of these interim financial statements as for the 2010 full year financial statements.

### Critical Accounting Estimates and Judgements

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Specifically this relates to the fair value of available-for-sale financial assets disclosed in these financial statements which are based on historical experience and various other factors that are believed to be reasonable in the circumstances. The Directors’ estimate of the fair value of available-for-sale financial assets has been based on the latest available information. Actual results may differ from these estimates; however the Directors believe that any difference is unlikely to be material.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

**Note 1 - Statement of Comprehensive Income**

	6 MONTHS ENDED 30/09/10 UNAUDITED \$000	6 MONTHS ENDED 30/09/09 UNAUDITED \$000
<b>(i) Net changes in fair value of financial assets</b>		
<b>Investment (losses)/gains</b>		
<i>Investments designated at fair value through profit or loss</i>		
- New Zealand listed equities	(477)	21,617
<i>Available-for-sale financial assets</i>		
- New Zealand unlisted equities (note 5)	18	(480)
- Reclassification from reserve	351	0
<b>Total (losses)/gains</b>	<b>(108)</b>	<b>21,137</b>
<b>(ii) Operating Expenses</b>		
Audit fees	19	17
Manager's fees (note 6)	651	628
Directors' fees	55	54
Brokerage fees	40	47
Custody and NZX fees	39	38
Personnel	53	50
Administration & other	17	16
Investor relations	96	78
Professional services	27	21
Bank fees	1	12
<b>Total operating expenses</b>	<b>998</b>	<b>961</b>

**Note 2 - Share Capital**

	6 MONTHS ENDED 30/09/10 UNAUDITED \$000	6 MONTHS ENDED 30/09/09 UNAUDITED \$000	YEAR ENDED 31/03/10 AUDITED \$000
<b>Ordinary shares</b>			
Opening balance	85,740	84,019	84,019
Proceeds of shares issued from treasury stock under the dividend reinvestment plan	614	1,814	3,243
New shares issued under dividend reinvestment plan	1,098	0	327
Share buybacks held as treasury stock	(551)	(229)	(1,849)
<b>Closing balance</b>	<b>86,901</b>	<b>85,604</b>	<b>85,740</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

**Note 2 - Share Capital continued**

As at 30 September 2010 there were 88,265,205 (30 September 2009 and 31 March 2010: 86,636,917) fully paid Kingfish shares on issue, including treasury stock. There were no shares held as treasury stock at 30 September 2010 (30 September 2009: 11,166 shares; 31 March 2010: 137,649 shares).

All ordinary shares are classified as equity, rank equally and have no par value. All shares (with the exception of treasury stock) carry an entitlement to dividends and one vote attached to each fully paid ordinary share. All the shares acquired under the buyback scheme are initially held as treasury stock but are available to be re-issued. The net cost of treasury stock is deducted from share capital.

**Warrants**

On 31 August 2010, 43,670,377 new Kingfish warrants (KFLWB) were allotted and listed on the New Zealand Stock Exchange. One new warrant was issued to all eligible shareholders for every two shares held on record date, exercisable at \$0.95 on the following dates: Tuesday 23 November 2010, Tuesday 22 February 2011, Tuesday 24 May 2011, Tuesday 23 August 2011, Thursday 27 October 2011, Tuesday 24 January 2012, Tuesday 24 April 2012, Tuesday 24 July 2012 and Monday 3 September 2012 (Final Exercise Date). Holders can elect to exercise some or all of their warrants on any of these exercise dates subject to a minimum exercise of 500 warrants.

**Note 3 - Taxation**

The tax rate used is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law (30 September 2009 and 31 March 2010: 30%).

**Note 4 - Financial assets at fair value through profit or loss**

	30/09/10 UNAUDITED \$000	30/09/09 UNAUDITED \$000	31/03/10 AUDITED \$000
<i>Financial assets at fair value through profit or loss unaudited are summarised as follows:</i>			
New Zealand listed equity investments	83,370	87,035	83,645
<b>Total financial assets at fair value through profit or loss</b>	<b>83,370</b>	<b>87,035</b>	<b>83,645</b>

Although investments at fair value through the profit or loss are treated as current assets from an accounting point of view, the investment strategy of the Company is to hold for the medium to long term.

**Note 5 - Available-for-sale financial assets**

	30/09/10 UNAUDITED \$000	30/09/09 UNAUDITED \$000	31/03/10 AUDITED \$000
<i>Investments in unlisted companies are held as available-for-sale assets</i>			
New Zealand unlisted equity investments	1,279	1,000	2,280
<b>Total available-for-sale investments</b>	<b>1,279</b>	<b>1,000</b>	<b>2,280</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

Available-for-sale assets were originally recognised at cost as the Directors believed this was approximate to fair value. Subsequently, this fair value has been assessed by the Directors for each reporting date using recent arm's length sales transactions and other available information. The following table presents the movement in unlisted equity instruments for the period ended 30 September 2010:

	UNLISTED EQUITIES UNAUDITED \$000
<b>Opening balance</b>	<b>2,280</b>
Purchases	0
Sales	(1,019)
Gains/(losses) recognised in profit and loss	18
<b>Closing balance</b>	<b>1,279</b>

**Other Disclosures****Note 6 - Related Party Information**

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The Manager of Kingfish Limited is Fisher Funds Management Limited ("Fisher Funds" or "the Manager"). Fisher Funds is a related party by virtue of the Manager's common directorship and a management agreement.

Management fees paid or payable (inclusive of GST) to Fisher Funds Management Limited for the six months ended 30 September 2010 totalled \$651,000 (30 September 2009: \$628,000, 31 March 2010: \$1,318,000).

The management agreement with Fisher Funds provides for the provisional payment of a management fee equal to 1.25% per annum of the Gross Asset Value, calculated weekly and payable monthly in arrears. This management fee will be reduced by 0.10% for each 1.0% per annum by which the Gross Return achieved on the portfolio during each financial period is less than the change in the NZX 90-Day Bank Bill Index over the same period but subject to a minimum management fee of 0.75% of the average Gross Asset Value for that period.

At period end, no adjustment was made to include a future rebate due to the Gross Return being below the change in the NZX 90-Day Bank Bill Index over the same period (30 September 2009 and 31 March 2010: Nil).

A performance fee may be earned by the Manager provided certain benchmarks have been met. No performance fee has been earned by the Manager for the six months ended 30 September 2010 (30 September 2009 and 31 March 2010: Nil).

Off-market transactions between Kingfish and other Funds managed by Fisher Funds take place for the purposes of rebalancing portfolios without incurring brokerage costs. These transactions are conducted after the market has closed at last sale price (arm's length). During the period ended 30 September 2010, off-market transactions between Kingfish and other funds managed by Fisher Funds totalled \$2,182,000 for purchases and \$2,712,000 for sales (period ended 30 September 2009: purchases \$645,000 and sales \$1,880,000).

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

**Note 7 - Financial Risk Management Policies**

The Company is subject to a number of financial risks which arise as a result of its investment activities, including; market risk, credit risk and liquidity risk.

The management agreement between Kingfish Limited and Fisher Funds details permitted investments. Financial instruments currently recognised in the financial statements also comprise cash and short term deposits, trade and other receivables and trade and other payables.

**Capital Risk Management**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, undertake share buybacks, issue new shares and make borrowings in the short term.

The Company was not subject to any externally imposed capital requirements during the year.

**Market Risk**

All equity investments present a risk of loss of capital often due to factors beyond the Company's control such as competition, regulatory changes, commodity price changes and changes in general economic climates domestically and internationally. The Manager moderates this risk through careful stock selection and diversification, daily monitoring of the market positions and monthly reporting to the Board of Directors. In addition, the Manager has to meet the criteria of authorised investments within the prudential limits both of which are defined in the management agreement.

The maximum market risk resulting from financial instruments is determined by their fair value.

**Price Risk**

The Company is exposed to the risk of fluctuations in the underlying value of its listed portfolio companies and changes in the fair value of its unlisted portfolio companies. The following companies individually comprise more than 10% of Kingfish's portfolio: Mainfreight and Ryman Healthcare.

**Interest Rate Risk**

Short-term deposits subject the Company to interest rate risk. The Company invests surplus cash in the New Zealand money market (short-term investments only) and interest income is therefore subject to changes in local interest rates.

The Company may use short-term fixed rate borrowings to fund investment opportunities. There is no hedge against the risk of downward movements in interest rates.

**Currency Risk**

The Company holds assets denominated in New Zealand dollars. It is therefore not directly exposed to currency risk. The portfolio companies that Kingfish invests in may be affected by currency risk that in turn has an impact on the market value of the underlying portfolio company.

**Credit Risk**

In the normal course of its business, the Company is exposed to credit risk from transactions with its counterparties.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

Other than cash with bank, there are no significant concentrations of credit risk. The Company does not expect non-performance by counterparties, therefore no collateral or security is required.

All transactions in listed securities are paid for on delivery according to standard settlement instructions. The Company invests cash with banks registered in New Zealand which carry a minimum short-term credit rating of A-1.

Listed securities are held in trust by an independent trustee company.

The maximum credit risk of financial assets is deemed to be their carrying amount as reported in the Statement of Financial Position.

### **Liquidity Risk**

The Company endeavours to invest the proceeds from the issue of shares in appropriate investments while maintaining sufficient liquidity, through daily cash monitoring, to meet working capital and investment requirements. Such liquidity can be augmented as necessary by short-term borrowings from a registered bank to a maximum value of 20% of the Gross Asset Value of the Company.

The combined investment portfolio is typically invested 90-95% in equities.

### **Note 8 - Net Asset Value**

The unaudited Net Asset Value per share of Kingfish as at 30 September 2010 was \$1.06 per share (30 September 2009: \$1.12, 31 March 2010: \$1.12).

### **Note 9 - Subsequent Events**

On 19 November 2010 the Board declared a dividend of 2.11 cents per share with a record date of 6 December 2010 and a payment date of 17 December 2010.

There were no other events subsequent to 30 September 2010 which require adjustment of, or disclosure in, the financial statements (30 September 2009: None, 31 March 2010: None).

# ACCOUNTANTS' REPORT



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188 Quay Street  
Private Bag 92162  
Auckland 1142  
New Zealand  
Telephone +64 9 355 8000  
Facsimile +64 9 355 8001  
www.pwc.com/nz

## Accountants' Report

To the shareholders of Kingfish Limited

We have reviewed the interim financial statements (the "financial statements") on pages 11 to 21. The financial statements provide information about the past financial performance and cash flows of the Company for the period ended 30 September 2010 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 16.

This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our review procedures, for this report or for the opinions we have formed.

### Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which present fairly the financial position of the Company as at 30 September 2010 and its financial performance and cash flows for the period ended on that date.

### Accountants' Responsibilities

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

### Basis of Opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Company for the period ended 30 September 2010 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We have no relationship with or interests in the Company other than in our capacities as accountants conducting this review and auditors.

### Review Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* do not present fairly the financial position of the Company as at 30 September 2010 and its financial performance and cash flows for the period ended on that date.

Our review was completed on 19 November 2010 and our review opinion is expressed as at that date.

Chartered Accountants

Auckland

# KINGFISH LIMITED DIRECTORY

## NATURE OF BUSINESS

The principal activity of Kingfish Limited is investment in New Zealand companies.

### MANAGER

#### **Fisher Funds Management Limited**

Level 2  
95 Hurstmere Road  
Takapuna  
North Shore City 0622

#### **Corporate Manager**

Nivedita Findlay

### DIRECTORS

#### **Independent Directors**

Rob Challinor (Chairman)  
Annabel Cotton  
Ian Hendry  
James Miller

#### **Director**

Carmel Fisher

### REGISTRAR

*Shareholders with enquiries about transactions and changes of address should contact Kingfish's share registrar:*

#### **Computershare Investor Services Limited**

Level 2  
159 Hurstmere Road  
Takapuna  
North Shore City 0622  
Phone: 09 488 8777  
Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

#### *Managing your shareholding online:*

To change your address, update your payment instructions, and to view your investment portfolio including transactions, please visit [www.computershare.co.nz/investorcentre](http://www.computershare.co.nz/investorcentre)

### DIRECT CREDITING OF DIVIDENDS

To minimise the risk of fraud and misplacement of dividend cheques, shareholders are strongly recommended to have all payments made by way of direct credit to their nominated bank account. This can be done by notifying the share registrar in writing.

### AUDITORS

#### **PricewaterhouseCoopers**

188 Quay Street  
Auckland 1010

### SOLICITORS

#### **Chapman Tripp**

Level 35  
23 - 29 Albert Street  
Auckland 1010

#### **Hesketh Henry**

Level 11  
41 Shortland Street  
Auckland 1010

### BANKERS

#### **Australia New Zealand Banking Group Limited**

Level 9  
ANZ Tower  
215 – 229 Lambton Quay  
Wellington 6011

### INVESTOR ENQUIRIES

#### **Kingfish Limited**

Level 2  
95 Hurstmere Road  
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