



Chairman's Review

Rob Challinor

July 2008



Kingfish Limited

- An investment company that invests in New Zealand companies
- Provides investors with access to a diversified portfolio of investments through a single company
- Seeks to buy and hold shares in companies for the medium to long term
- Is a long term investor aiming to achieve a high real rate of return by investing in companies that have a proven track record of growing profits

Shocker of a half-year for investors

An active approach is essential in the current market environment



BRIAN GAYNOR

THE first half of the year was a shocker for investors with the benchmark NZX-50 Gross Index falling 21 per cent and the finance company sector in serious meltdown.

It was the NZX's worst six month performance since the July-December 1990 period when the benchmark index plunged 31.7 per cent. That was during the country's last full-blooded recession when the economy experienced four successive quarters of negative GDP growth, from July 1990 to June 1991.

We are not on our own as far as current market conditions are concerned. As the accompanying table shows most of the major world markets had a dreadful half year with a number of emerging markets, particularly China and India, recording sharp declines.

The MSCI Developed World Gross Index fell 12.5 per cent and the MSCI Emerging Gross Index was down 12.3 per cent. The Emerging Index performed slightly better because Morocco, Argentina and a number of other Latin American markets had a positive half year.

Canada was the only developed market to have a positive return, mainly because natural resources like gold and energy are heavily represented in its main sharemarket indices.

International markets are clearly in bear territory as all bar Canada and the United Kingdom are more than 20 per cent below their 12 month high, the criteria used to determine a bear market.



RED INK: Only five companies in the NZX-50 Index had a positive return in the first half of the year.

PICTURE / PAULESTCOURT

Only five companies in the NZX 50 Index had a positive return in the first half of the year. These were, in order of performance, New Zealand Oil & Gas, Sanford, PGG Wrightson, ING Property Trust and Fisher & Paykel Healthcare.

The worst performing companies were Hallenstein Glasson, APN News & Media, The Warehouse, Fletcher Building and Michael Hill International in that order.

The NZX has fallen more than most other markets for a number of reasons including:

- The domestic economy contracted by 0.3 per cent in the March quarter whereas most other economies continued to grow. Australia's GDP grew by 0.6 per cent in the same period and preliminary figures show that the 30 member OECD experienced 0.5 per cent GDP growth.

- Most forecasters expect the New Zealand economy to underperform over the remainder of the year with the OECD predicting domestic GDP

growth of 1.3 per cent for 2008 compared with an OECD total of 1.8 per cent.

- The international credit crunch has had a relatively big impact on New Zealand because the economy has been fuelled by imported credit in recent years. The finance company sector has been particularly hard hit as two years ago most finance companies would have been able to arrange emergency offshore funding to keep themselves afloat.

- Overseas investors have become concerned about New Zealand's deteriorating economy, the huge current account deficit and the prospects of a weaker kiwi. As a result they have been net sellers of New Zealand shares in recent weeks, particularly Telecom, Fletcher Building and some of the other, more liquid, large stocks.

It is difficult to know where the NZX goes from here as the current downturn is unusually severe.

There have been only three similar

'The last few weeks have been as bad as it gets for investors.'

slumps in the past 50 years. The first was in the 1970s when the NZSE Capital Index — there was no gross index at the time — peaked at 405 on July 6, 1973.

It then fell steadily until November 6, 1974 when it bottomed out at 244, 39.8 per cent below its peak.

The market drop was due to a number of factors including the oil crisis, problems in the non-banking financial sector and a combination of low economic growth and high inflation.

The second was following the 1987 sharemarket crash.

The NZSE Capital Index peaked at

3969 on September 18, 1987. After the crash it dropped like a stone to hit a low of 1626 at the end of February 1988, 59 per cent below its all-time high five months earlier.

This meltdown was the inevitable aftermath of a huge speculative sharemarket bubble, which included excessive leverage and inadequate regulation.

The third started after the NZSE Index rallied 51 per cent to 2454 on September 5, 1989. It then fell steadily and bottomed out at 1143 in January 1991, 53.4 per cent below its September 1989 peak.

This decline was due to a deep economic recession and a sharp slump in the commercial property market, a legacy of the 1980s sharemarket boom.

Thus the three previous sharp downturns had the following characteristics:

- In 1973 and 1974 the benchmark index fell 39.8 per cent from top to bottom in 16 months.
- In 1987 and 1988 the index plunged

SHAREMARKET PERFORMANCES

NZX lags behind in January to June period

Country	Benchmark Index	BMI Jan - Jun 08	BMI From 12mth high	MSCI Gross Jan - Jun 08
Canada	S&P/TSX Composite	+4.6%	-4.5%	+7.4%
Japan	Nikkei 225	-11.9%	-26.3%	-10.3%
United Kingdom	FTSE 100	-12.9%	-16.7%	-11.2%
US	DJIA	-14.4%	-20.5%	-11.2%
Singapore	Straits Times	-15.4%	-24.5%	-13.4%
Australia	All Ordinaries	-16.9%	-22.4%	-15.4%
Germany	DAX	-20.4%	-21.3%	-19.5%
Hong Kong	Hang Seng	-20.5%	-30.8%	-22.1%
New Zealand	NZX 50 Gross	-21.0%	-26.4%	-25.8
France	CAC40	-21.0%	-28.0%	-17.7%
India	BSE Sensex	-33.6%	-36.5%	-36.0
China	Shanghai Composite	-48.0%	-55.3%	-26.3
MSCI World				-12.5%

New Zealand's MSCI Gross performance was relatively poor because of the higher weighting of larger NZ companies in this index.

HERALD GRAPHIC

59 per cent in just five months.

■ In the 1989 to 1991 period the market fell 53.3 per cent in 16 months.

As far as the current slump is concerned the NZX-50 Capital Index closed at 2236 on Thursday, 32.6 per cent below its recent high of 3317 on May 24, 2007.

Is the current situation more like the 1973/74, 1987/88 or 1989/91 periods as far as the NZX is concerned?

It is more similar to 1973/74 because of the oil crisis, non-banking financial sector worries, low growth, rising inflation and the relatively strong position of listed companies both now and in the 1970s compared with the late 1980s.

If that is so the good news is that we are close to the 1973/74 downturn in percentage terms and a roaring bull market developed when the NZX finally recovered in the early 1980s. The bad news is that the benchmark index did not regain its July 1973 level until April 1980.

There are a number of points worth noting about the last three major sharemarket slumps including:

- The depth of a downturn is mainly dependent on the degree of speculation that occurred beforehand and the performance of the domestic economy. If the current economic downturn is mild the market will recover reasonably quickly. If we have three, four or more quarters of negative or flat GDP growth then a market recovery will take longer.
- There is a far greater onus on individual stock selection in a bear or

flat market. For example, in the late 1970s a large number of companies, particularly the listed radio companies, had fantastic returns even though the benchmark index went sideways.

- It is critically important that inflation remains under control because price/earnings ratios (P/E) are lower and dividend yields higher in a high inflation environment. In the late 1970s and early 1980s, when inflation was above 10 per cent, the average market P/E dropped below 5 and the net dividend yield touched 9 per cent.

The last few weeks have been as bad as it gets for investors with the NZX-50 Gross Index plunging 11.9 per cent in June, and July has started on an equally sour note.

The next big test for the market is the June 2008 year reporting season, which occurs in August. This will give an important indicator of the state of the domestic economy and the outlook for corporate profitability.

Most of the announcements will have a negative tone but a number of companies will go against the trend by reporting positive earnings growth and an optimistic outlook.

That is a compelling reason to stay in the market but an active, rather than a passive, approach is essential in the current market environment.

Disclosure of interest: Brian Gaynor is an executive director of Milford Asset Management. bgaynor@milfordasset.com



Results to 31 March 2008

	2008	2007
Net Asset Value *	\$1.31	\$1.60
Change in Portfolio Value for year	(\$36m)	\$36m
Dividend paid	4.5cps	3.5cps
Net Asset Value growth since March 2004	+36%	
Accumulated dividends paid since March 2004	15 cents	

* diluted



Other Highlights to 31 March 2008

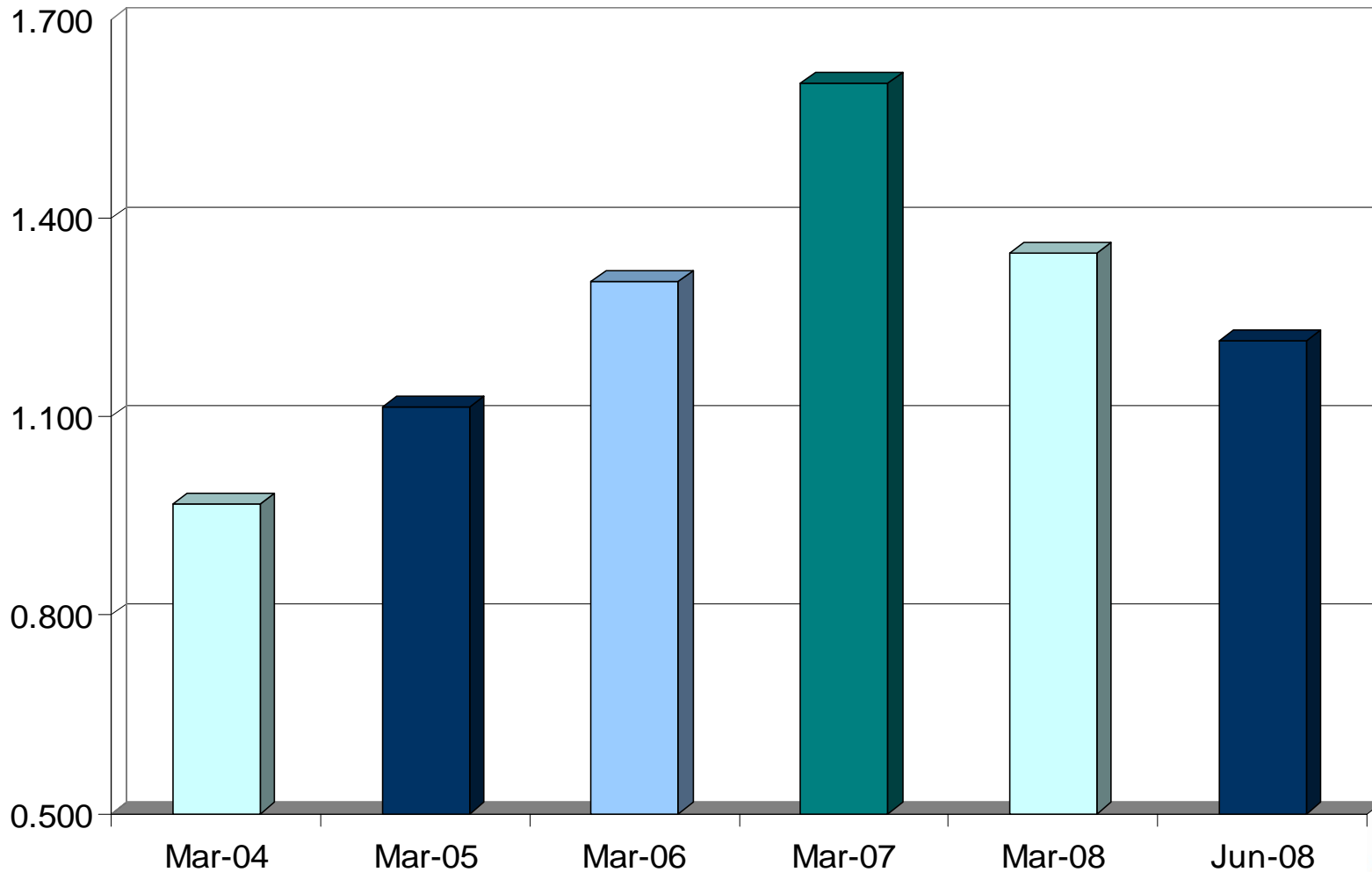
Amalgamation of subsidiary companies	- Cost & admin efficiencies
Registration as Portfolio Investment Entity (PIE)	- Tax effectiveness
Final exercise of warrants	<ul style="list-style-type: none"> - 21.3m new shares issued - 21.5m warrants lapsed - 1,117 warrant holders exercised
Continuation of share buyback programme	<ul style="list-style-type: none"> - Reduced dilution - Effective use of investment capital



Update since 31 March 2008

	30 June 2008
Net Asset Value	\$1.21
Share Price	\$0.99
Dividend paid 20 June 2008	4.5 cps
Dividends reinvested	41%

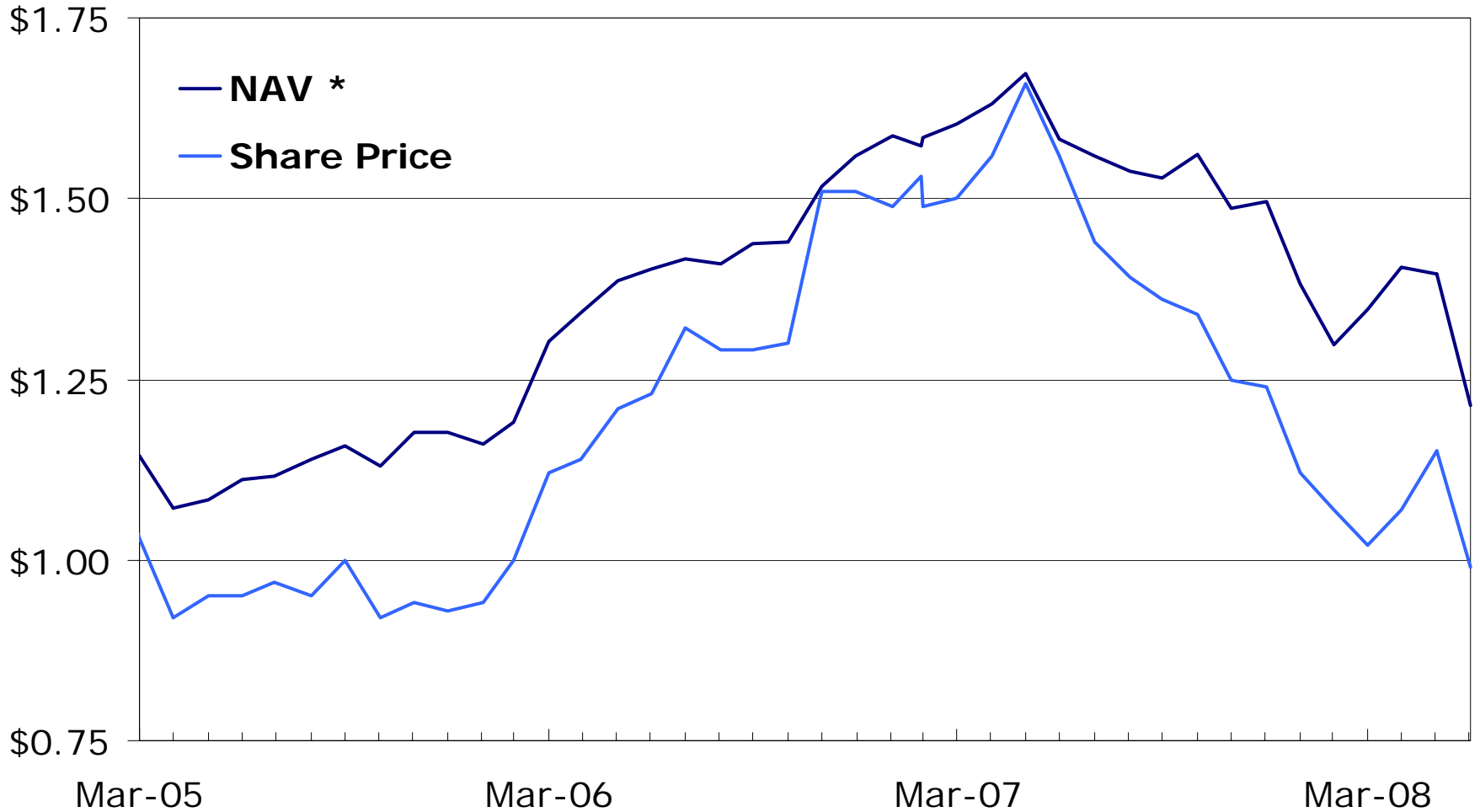
Net Asset Value* March 2004 to June 2008



* diluted



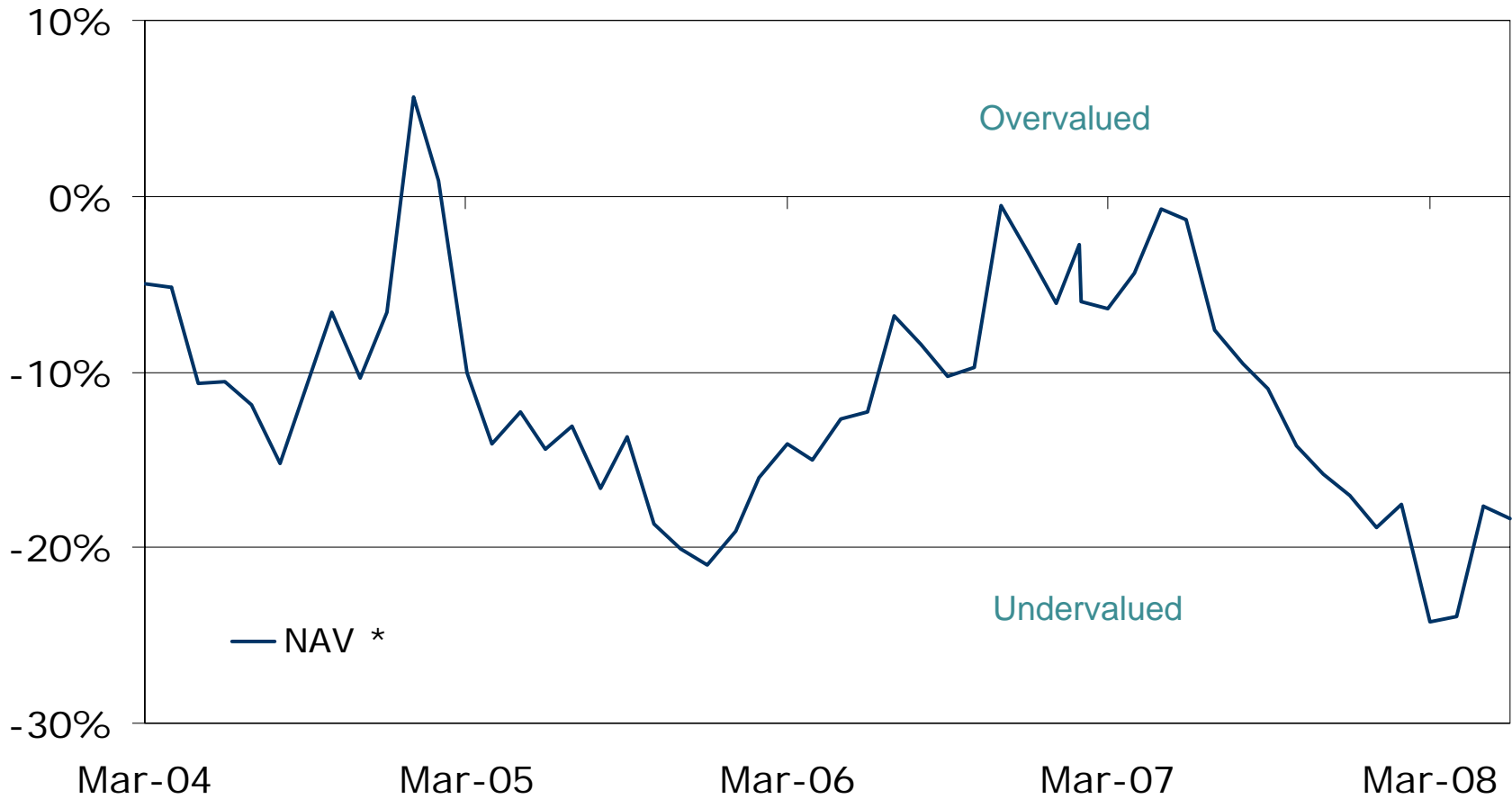
Share Price & Net Asset Value Performance *



* diluted



Share Price Discount to Net Asset Value



* diluted





Manager's Report

Carmel Fisher
Fisher Funds



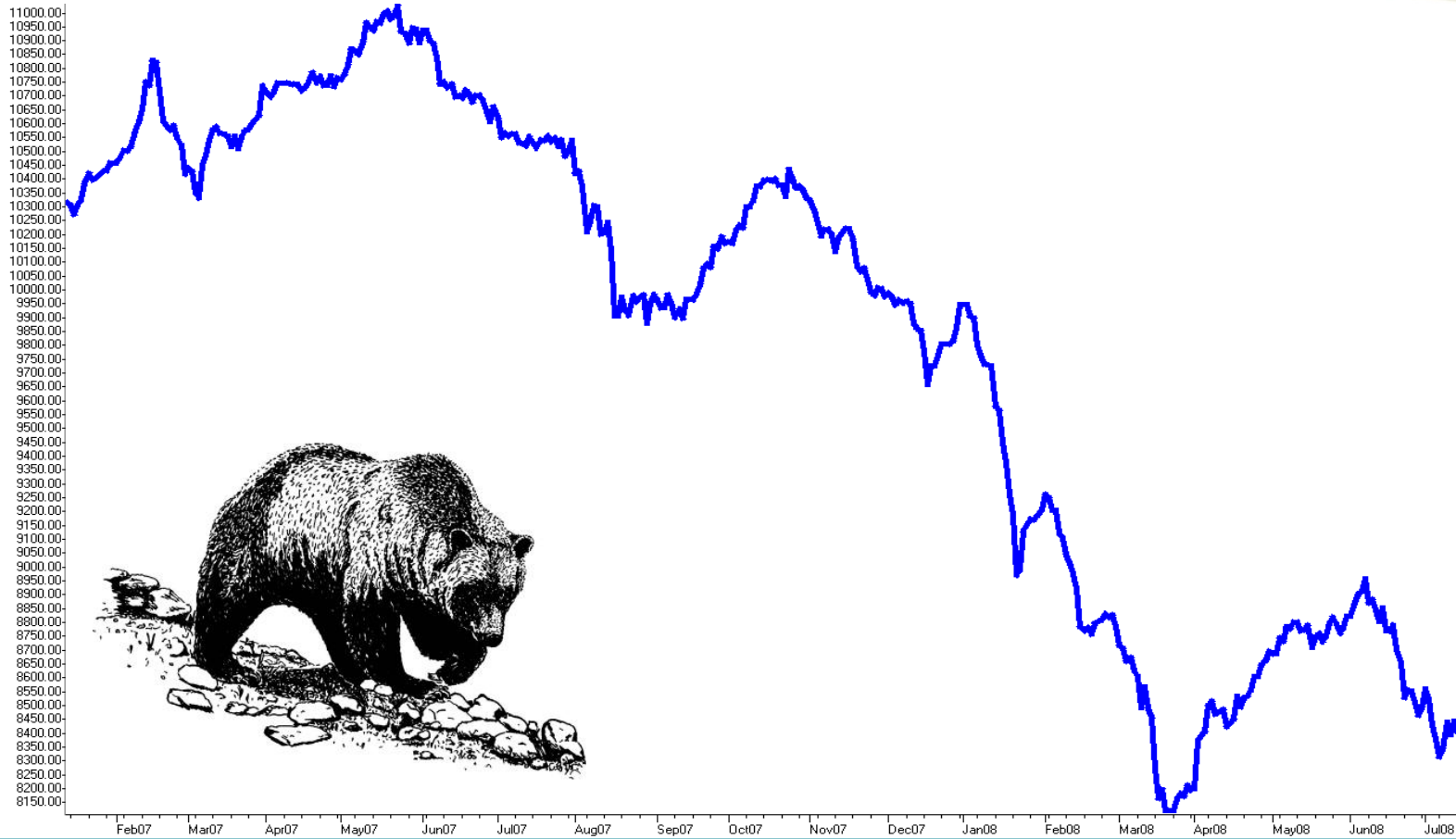


Market Review

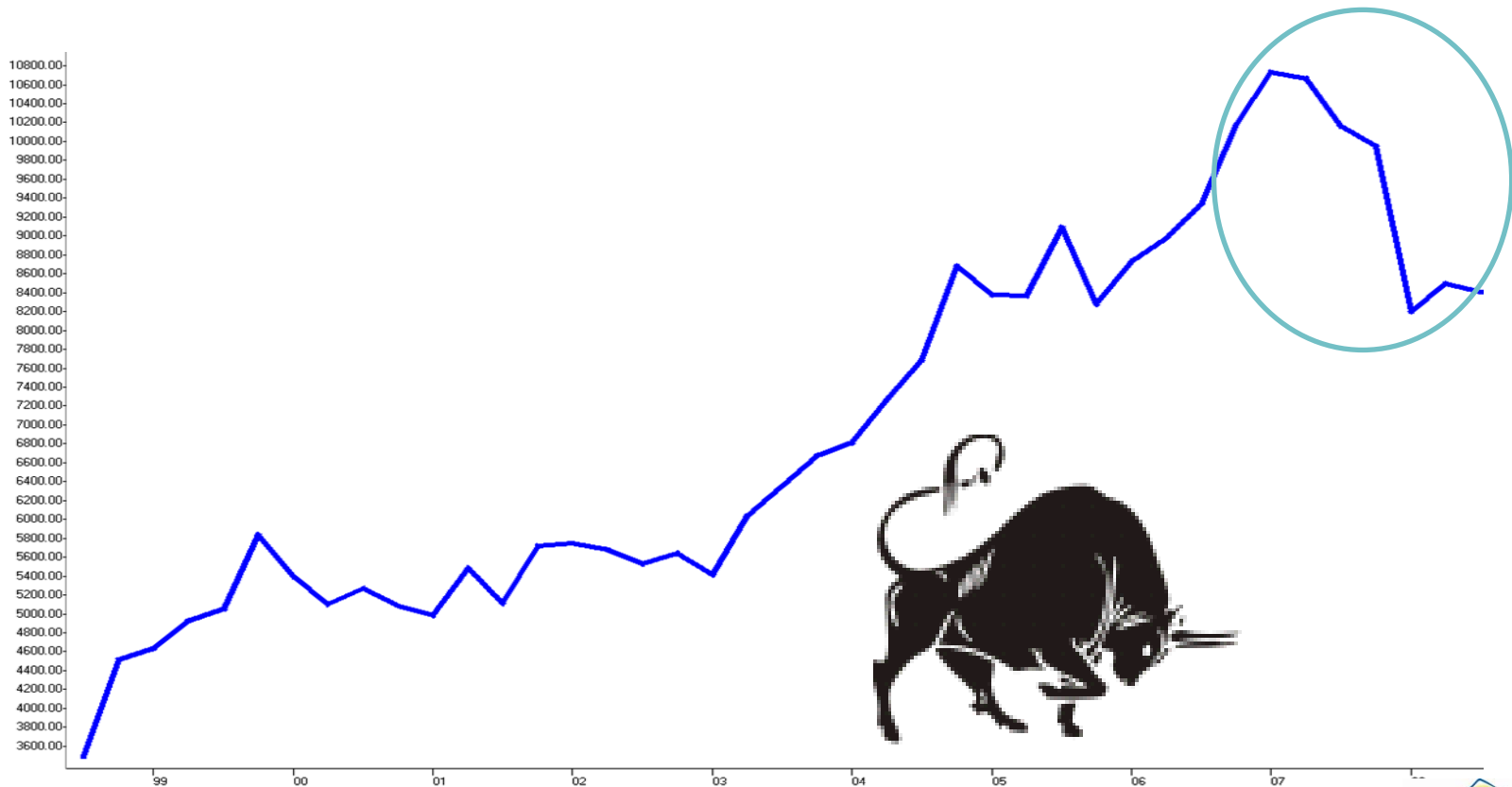
“It is a fine balancing act to summarise a bad twelve months without ‘gilding the lily’ or providing too rational an explanation for what was a **largely irrational scenario**”

Kingfish Annual Report 2008

A Shocker of a Year



But, providing perspective for long term investors ...



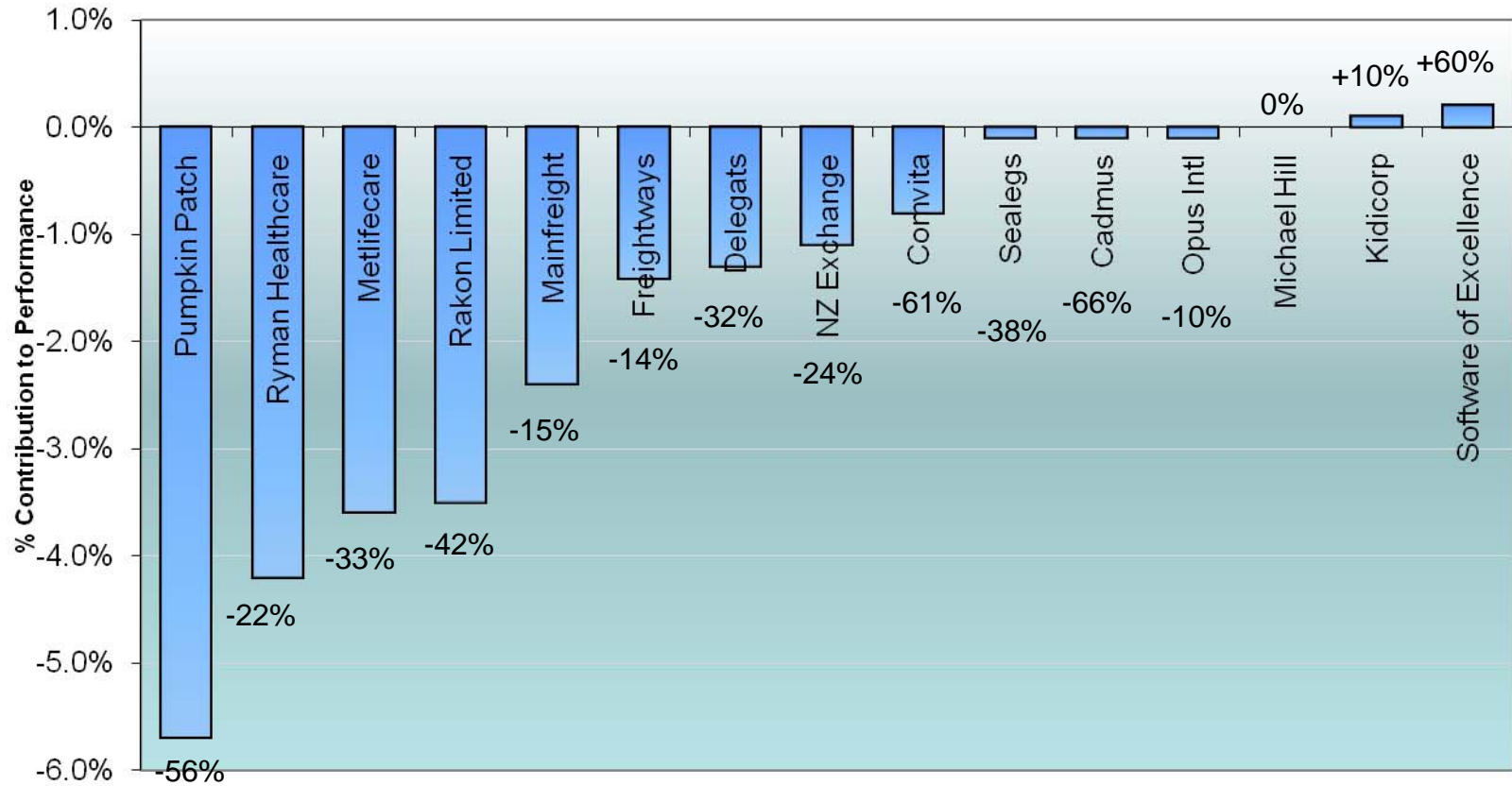


Portfolio Review

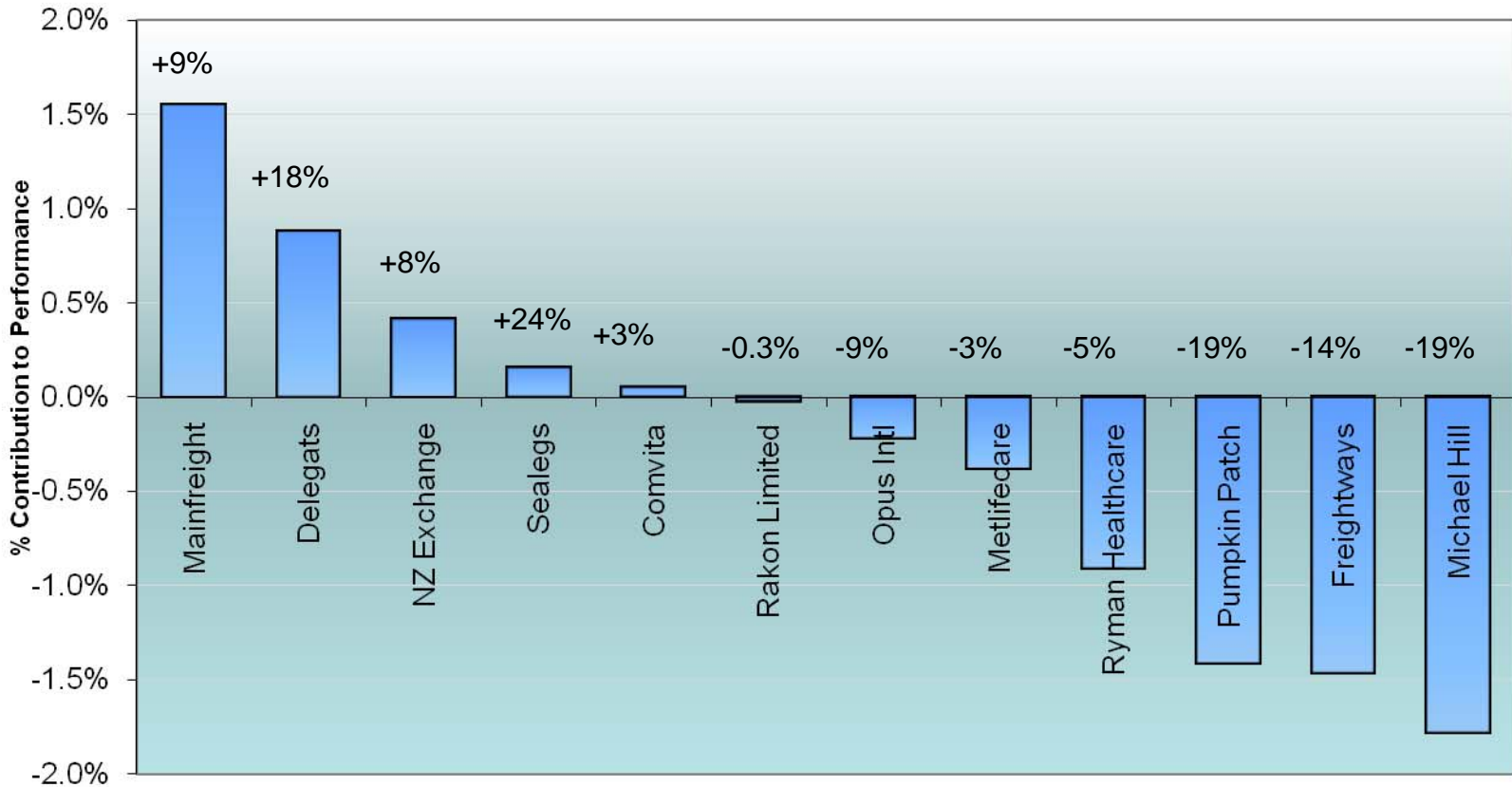
“Falling share prices are **not a reflection of deteriorating fundamentals** of your companies, but simply a desire by investors to get their money out of risky assets ... at any price”

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Performance year to March 2008



Performance June quarter 2008

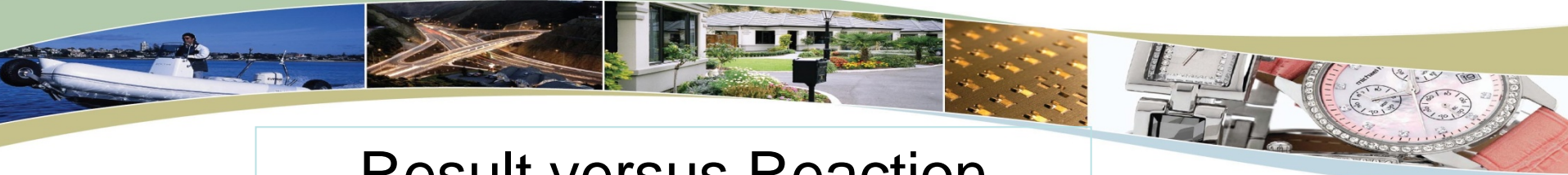




Company Review

“Share prices reflect short-term views and sentiments of **investors**, whereas company profits reflect long-term efforts and the focus of **company management** and their teams”

Kingfish Newsletter December 2008



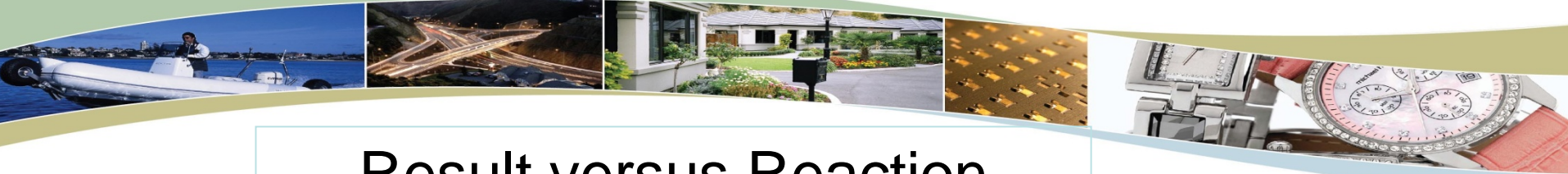
Result versus Reaction

Company	News/Event	12-mth Price reaction
Mainfreight (May 2008)	Record profit result (up 15% for year) <i>“we expect to continue to see growth in all operations ... we will continue to provide growth and increasing returns”</i>	-16.7%



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Ryman Healthcare (Feb 2008)	Record profit result (up 22% for year) <i>“the company is committed to its long-term growth targets ... well positioned for further growth ... there is a burgeoning need for our services”</i>	-25.6%



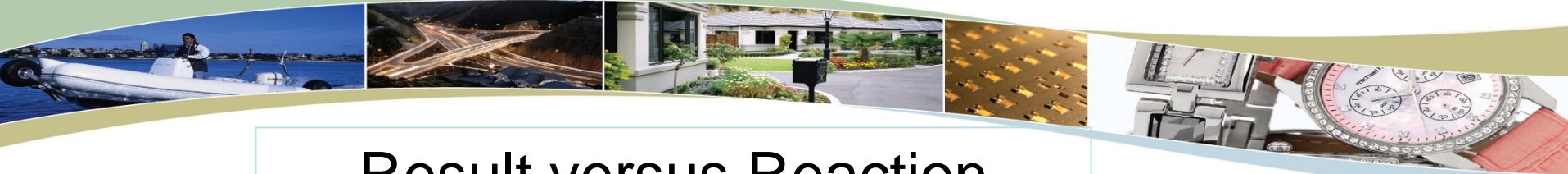
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Metlifecare (June 2008)	Company visit <i>“We are exceptionally strongly positioned for the current environment. We are selling units to people who are not worried about saving every cent for their kids inheritance”</i>	-45.2%



Result versus Reaction

Company	News/Event	12-mth Price reaction
Freightways (Feb 2008)	Record half-year profit result <i>“in the near term, management expects performance to continue to grow positively while delivering a very good dividend to its shareholders”</i>	-26.5%



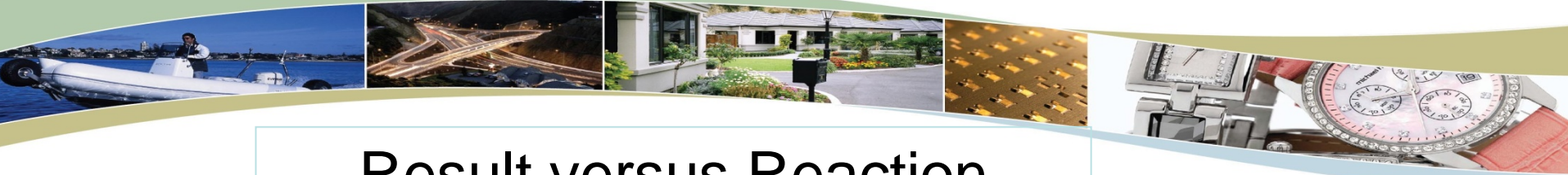
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Michael Hill (Feb, June 2008)	Half-year profit result (up 27%) <i>"The Group's philosophy of controlled profitable growth will continue"</i> Company visit <i>"we are very pleased with our performance in Canada and confident of significant growth potential"</i>	-20.7%



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Delegat's (June 2008)	Company visit <i>“We are comfortable with the June year and the year ahead. Supply is under control, we are holding our market share, our brand is well positioned everywhere.”</i>	-19.2%



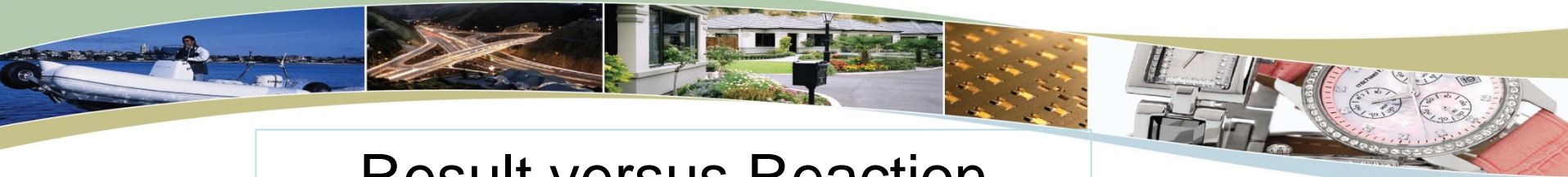
Result versus Reaction

Company	News/Event	12-mth Price reaction
Rakon (May 2008)	Profit result <i>“Revenue and EBIT have been strong over a sustained period. The GPS market remains strong with robust demand from our customers for the financial year and years to follow”</i>	-47.0%



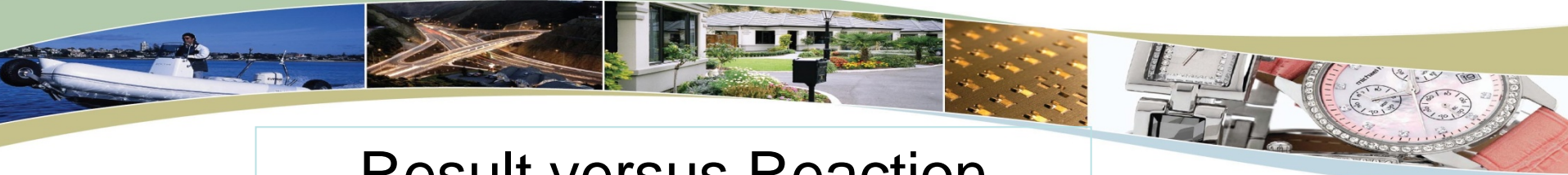
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NZ Exchange (May 2008)	Profit result <i>“The NZX franchise has strengthened and in these conditions the business remains healthy and continues to grow.”</i>	-41.3%



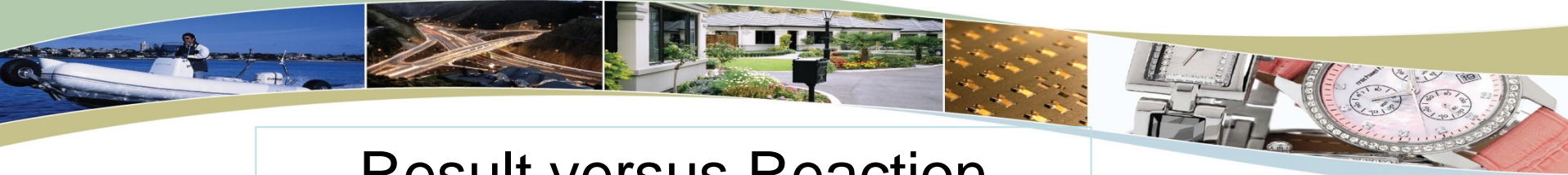
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NZ Exchange (May 2008)	Profit result <i>“The NZX franchise has strengthened and in these conditions the business remains healthy and continues to grow.”</i>	-41.3%
Pumpkin Patch (June 2008)	Company visit <i>“Most of last year’s issues were one-off and a reversal will see an immediate bottom-line impact. We won’t have quota issues next year, any currency relief will result in immediate profit uplift, we are selling well everywhere ... we just need to get people back in the malls again ... and they will”</i>	-59.4%



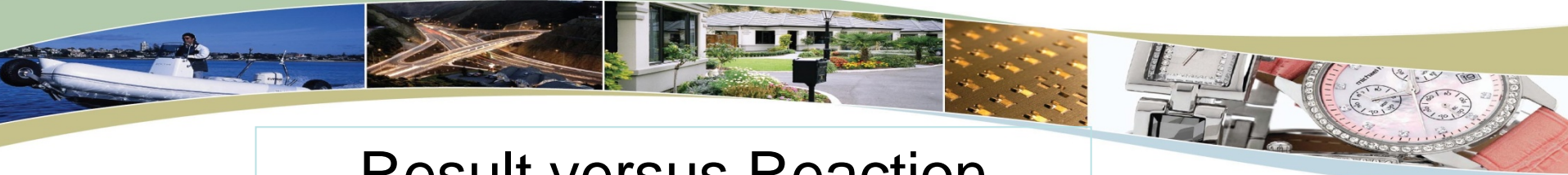
Result versus Reaction

Company	News/Event	12-mth Price reaction
Opus Consulting (May 2008)	<p>Company visit</p> <p><i>“We are relatively immune to economic conditions because of our long-term contracts and the number of infrastructure projects being commissioned on an ongoing basis. An annual growth expectation of 15% is quite reasonable”</i></p>	-21.4%



Result versus Reaction

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Comvita (June 2008)	<p>Company visit</p> <p><i>“We had headwinds – currency, supply squeeze and a regulation change in the EU. We were tipped on our head for six months, but are back on track. Manuka honey gives protection from a downturn as customers are prepared to pay a higher price. In woundcare we have no competition.”</i></p>	-53.7%



Result versus Reaction

Company	News/Event	12-mth Price reaction
Sealegs (June 2008)	Company visit <i>“Demand is outstripping our ability to supply. We know our leisure craft has a significant and growing market, but we are equally excited about our rescue craft and other new planned models. Our order book gives us confidence that we will meet projections”</i>	-45.5%

Current Kingfish Portfolio

Stock	Weighting	P/E	Earnings Growth (2 yr)
Mainfreight	18%	11.6	+28%
Ryman Healthcare	17%	14.2	+36%
Metlifecare	12%	11.4	+30%
Freightways	9%	10.9	+12%
Michael Hill	7%	9.6	+22%
Delegat's	6%	8.3	+48%
Rakon	5%	19.6	+61%
NZ Exchange	5%	16.8	+35%
Pumpkin Patch	5%	9.8	+35%
Opus Consulting	4%	14.1	+12%
Wakefield Hospital	3%	14.0	+11%
Waterman Holdings	2%	n/a	n/a
Comvita	1%	n/a	n/a
Sealegs	1%	n/a	n/a
PORTFOLIO		10.3	+28.2%

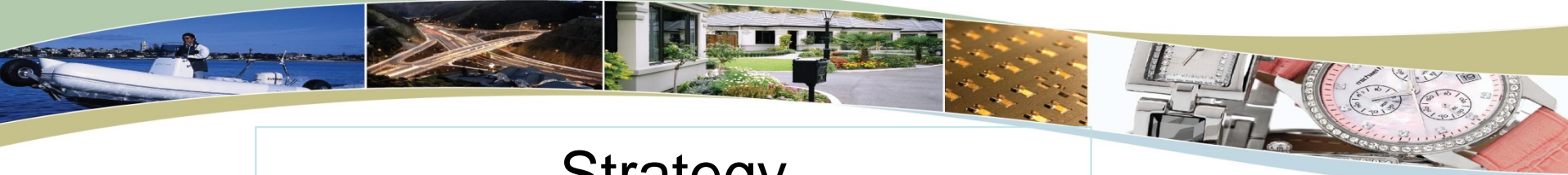




Price/Value disconnect

“Kingfisher share holders suffered the double ignominy of **reduced asset values** and a **widening gap** between share price and net asset value”

Kingfisher Annual Report 2008



Strategy

- Focus on what we know rather than what the market thinks
- Be prepared for continued volatility
- Refer to experience and history
 - Share prices follow profit performance
 - Downturns do come to an end
 - Good companies typically remain good companies
 - Paying a low multiple for significant earnings growth has never been a losing strategy



Outlook

“Our view is that ... the worst is behind us and the Kingfish portfolio is in excellent shape despite, or perhaps because of, the last year’s performance ”

Kingfish Annual Report 2008



Thank you