

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL FOUR

INTEGRATION OF KNOWLEDGE – PAPER 16

COMPREHENSIVE CASE STUDY

MORNING SESSION MATERIAL

FRIDAY, 30 NOVEMBER 2012

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **6 hours**.
9.00 a.m. – 11.30 a.m. (2 hours 30 minutes): Planning.
11.30 a.m. – 12.30 p.m. (1 hour): Break.
12.30 noon – 4.00 p.m. (3 hours 30 minutes): Writing.
2. The following pages contain case study material.
3. The case study questions are contained in a separate paper marked 'Afternoon Session Material'.
4. Use the answer booklet provided for all your work, both morning and afternoon. Clearly label the workings and the final answer accordingly.
5. Tables are provided on page 21.
6. Please read further instructions on the answer book, before attempting any question.

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CORE SERVICES LIMITED (CSL)

Company overview

Core Services Limited (CSL) is a manufacturer of a wide range of building and construction materials with an international market for its products. The company was incorporated 8 years ago, and has been listed on the Kapul Securities Exchange (KSE) for the last three and a half years. The company has been a star performer on the securities exchange market, with her share price increasing by over 300% in the first two years after the initial public offering (IPO). CSL employs an average of 600 workers in its 2 factories and 3 official outlets/ stores, all located in the central region of Guludo Republic.

To many of her customers, CSL has largely lived up to its brand promise, as portrayed in their tagline 'the quality beyond your expectations'. Analysts also believe that quality is the main factor behind its record capture of the market share and regional recognition, but had expressed concern that the share price was not sustainable. Over the last one year, however, CSL has faced some internal and external challenges which, together, have apparently caused its market capitalization to drop by 40% over the last six months – particularly after the release of their half-year results. Internal challenges are said to be related to internal control issues and management style, while external factors were mainly emanating from the recent global and national economic trends and some regulatory concerns.

According to the CSL managing director (MD), Mrs. Jean Abita (who was appointed one year ago), the company's performance on the capital markets is merely because investor expectations have been distorted by the media. She says the company was a victim of negative publicity generated largely by a major upcoming competitor. She believes the solution to this artificial distortion lies in the overhaul of governance, management and capital structures as well as business focus. The MD has assured various stakeholders that this overhaul shall give her the basis to triple the market capitalization within the next three years.

The company's financial year ends 31 March, and the applicable income tax rate is 25%. As at 15 November 2012, the company's shares were trading at Guludo Shillings (GShs) 1,150 per share on the KSE. As at the same date, KSE's All Share Index rose by 50 basis points to 2,962 from the previous month.

Dismal half-year financial performance

The company had delayed the release of their most recent mid-year financial statements, due to disagreements with the company's external auditors on the treatment of two transactions in the financial statements¹. And much as the majority in the management team believed that the reports did not fully disclose the transactions and/or their accounting treatment had not complied with the International Financial Reporting Standards (IFRS), management's view was that the items were by all standards immaterial in relation to the size of CSL. The disputed transactions are summarized in Appendix 1: Summary of disputed transactions. The auditor had insisted on issuing a qualified opinion on the report if the finance manager chose not to make adjustments. Management was, however, concerned that such a qualified audit opinion could further harm the company's financial standing on the securities exchange market.

When the financial statements were finally released without adjustments and without a qualified opinion, the outsourced public relations firm organized a press conference to announce what they termed 'yet another fairly successful half year'. The managing director asserted at the conference that, "... such landmark growth in sales is certainly due to customers' confidence in the company's financial and professional strengths, as well as our unparalleled quality and delivery standards". Without mentioning names, the MD said "... detractors have no place in modern society, and soon or later our business ethics and financial results shall silence them anyway". The sales revenue had increased by 19% over last year's similar period results (but with profits declining by over 15%). The MD was, however, convinced that the revenue growth was reasonable in view of the level of GDP growth over the same period, and the economy-wide business slowdown.

The MD's assurance at the conference seems to have worked – as the share price has not declined over the last two weekly trading sessions at the KSE. What remains to be proved is whether such share price stability is sustainable or recovery is indeed imminent. An extract from the mid-year financial statements is reflected in Appendix 2(a): - Summary CSL financial statements.

¹ The KSE requires that quarterly financial statements of listed companies be verified by external auditors.

Focus on organizational philosophy

When the current MD had just joined CSL, she embarked on building a new philosophy that would 'involve everybody in the company'. The philosophy was revolving around making every employee constantly ask him/herself the question that "How do we become more profitable?" She claimed that this way, all employees were constantly thinking of how to improve business for CSL. Organizational development (OD) specialists indeed agree that this is a valid question for people who live and function in the world of business, or who are involved in any form of organization. The MD is, therefore, always organizing events where OD practitioners come and address employees so that they do not lose sight of this philosophy and vision.

On the other hand, corporate governance proponents are wondering whether this is the right question to be asking. They are asking, 'is it really *profit* that needs to be focused on?', or should the question be, "What can we do that will make our organization better?". Their proposition is that CSL should focus on 'being fair to all stakeholders', which they say will help the company develop a corporate culture that fosters active participation by all. They further claim that the current focus of CSL is behind its relative decline in the eyes of the market actors as seen from its recent performance in financial markets, and ratings from customer satisfaction surveys.

It is, however, clear that both groups are in agreement that it is the human resources that keep organizations alive. It is also common knowledge that even in this age of technology, people cannot be replaced. People are the customers and driving force behind every organization, but how and to what extent they are engaged in organizational development is what differs.

Attraction of new customers and the new credit system

CSL has done so well in attracting new customers through its recently introduced credit sales system. The system is such that if a customer can commit to making monthly remittances through their employer or surety over say one year, the company can provide goods worth up to 150% of such cumulative value immediately. The value above 100% can be secured by a cash guarantee through selected financial institutions. Another aspect is that customers cannot be affected by price increases over the credit period, but can benefit from price reductions.

While introducing the new credit system in June 2012, the marketing manager said "... We cannot afford to run business as usual any more in these turbulent and fast changing times. We have to show the customer that we care for them and we understand their challenges". She reminded her listeners of the saying that "It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change."²

On her part, the MD had said that her acceptance of the job was due to her inspiration to make a change at CSL. She said, "I came to spearhead innovation and not to administer; to inspire trust but not to control individuals; and to help employees always ask themselves the 'what and why' questions – but not 'how and when'³. She further asserted that these are very rare leadership attributes which few MDs have, and that these attributes were responsible for this new innovation in customer credit.

Her assertions are, however, not necessarily backed by practice. For instance, her critics say that of recent, many managers at the company behave as if they know it all; they have widely ignored mutual consultations; and the MD is responsible for this behaviour. According to these critics, a manager needs to be someone who "brings out the best in people, someone who communicates well with others, and helps an employee learn from a mistake instead of criticizing them for it". They add that in business, seeking a variety of opinions "can save you a lot of time and money." Many employees are, however, in agreement that the current policy on staff terms and conditions has principles that facilitate engagement of staff as indeed claimed by the MD. This group believes that it is general job insecurity that is currently inhibiting dialogue.

Human resource management - general

In the recent past, it was observed that the company's staff turnover had greatly increased in the last 15 months, and that the company has no plans to avert it. The view of the human resource (HR) manager is that the high turnover is good for the company as it allows new faces and new ideas every time a new member of staff arrives. She, therefore, plans to continue 'to attract the best brains in the country' regardless of how many employees are leaving the company. However, for some specialized skills, the HR manager has been

² Charles Darwin on adoption to changes in nature.

³ Apparently the MD was quoting from the book *On becoming a leader* – by Warren Bennis.

given powers to negotiate and offer higher salaries and promise future promotions to staff who indicate desire to move on but are 'perceived' difficult to replace.

Unfortunately, this discretionary treatment has created displeasure among some employees, who feel that the powers have been abused. It has also created significant distortions in salary structures, to the extent that salary levels are now largely influenced by how many times one has threatened to leave the company, and not anywhere near performance or experience with the organization.

Some heads of department (HODs) feel that there should be improvements in this area, but they have failed to agree on how it should be tackled. The HODs have also observed that their performance evaluations are not as regular as those of their juniors, and further that there has not been a meaningful mechanism to implement the results of performance appraisals. One vocal member, however, thinks that it is because HODs' areas of operation are so diverse and dependent on external factors such that evaluation never becomes meaningful. The member has always openly wondered whether actually the HR manager has any meaningful performance indicators – other than 'allow members to leave and recruit afresh'.

CSL Staff productivity

With all the happenings around CSL, there has been additional talk that there is a pending staff restructuring. This rumour has caused untold unease amongst junior and senior staff alike, and further affected productivity. This followed discussions at the most recent senior management meeting (held over five months ago), where the HR manager was tasked to provide a detailed plan for staff lay-offs, or otherwise provide proposals for improvements in staff productivity. This was in reaction to the recent annual performance reports which indicated that staff productivity had drastically reduced especially in the face of the global economic downturn.

The marketing manager had recommended that the headcount be reduced by 30% by December 2012, which the HR manager had thought was too drastic and not backed by sufficient data and/or analysis. In the background, however, the proponents of the headcount reduction had based their figure on the

reduction in customer numbers over the last one year (said to be in the range of 25%), and the increasing cost of inputs which had reduced the gross profit margin from 55% to close to 40% over the last two years. They had further argued that the same staff numbers could even be sufficient for 5 outlets, if the expansion of the distribution network had been approved as discussed at the end of last year. With an increasing following, the marketing manager had proposed that there should even be more automation than was currently being applied – an issue many senior managers believe should be made part of the equipment replacement project.

Employees are increasingly concerned that there is no plan or forum to address any of the current challenges. For example, the MD has recently insisted that there is no longer any need for senior staff meetings. Her argument is that in this era of information technology, face-to-face meetings are a mere waste of time. She has instead encouraged all employees to send her emails and text messages any time rather than insisting on or waiting for meetings. But many officers are against this approach, saying that it is a misguided quest for efficiency. Many concur that problems are more difficult to solve by text or e-mail, and “there is nothing efficient about allowing a small problem to escalate”.

Some members of senior management have secretly resolved to bypass the MD and lodge a complaint to the board of directors (BOD), requesting for the establishment of mechanisms to defuse the growing unease, declining employee morale and productivity.

Proposed governance and capital restructuring

At the MD's insistence, the BOD has already discussed a paper on 'corporate restructuring', said to be aimed at introducing changes in board composition, general improvements in corporate governance, as well as introduce capital structure changes. Insiders, however, believe that the MD is merely interested in replacing the majority of the male-dominated BOD, who are mainly senior citizens (and have been the same members since incorporation). Her ultimate objective is said to be gender balancing, and increasing the number of members who are professionals – specifically accountants and engineers, given the current nature of the CSL business. This speculation is based on sentiments the MD has always expressed individually to her junior colleagues – since the company has limited channels of communication of late. The wildest rumour is

that she is scheming to have a number of her former workmates join her on the CSL BOD.

Regarding capital restructuring, her focus is said to be a rights issue to generate up to GShs 1.65 billion. Corridor talk has it that the main target of application of these funds is to acquire a perceived advantage over a major upcoming competitor on the local market (with 18% market share by sales) that is also listed on the KSE⁴. The scanty information on this strategy is not only due to the limited communication channels, but due to the perceived sensitivity of the transaction, remembering that similar moves failed in the past because they leaked to the press at crucial execution stages.

What is officially communicated at CSL is that proceeds of the rights issue are to be applied to import replacement equipment at the two 8-year old factories (but this would require only up to 60% of the targeted share issuance proceeds), and the balance would settle a USD 12 million locally-sourced floating-rate loan that is apparently one of the main causes of CSL's financial woes.

When challenged on why she opted to undertake restructuring when the company is not doing well on the securities exchange, the MD seems to prevail over the '*doubting Thomases*' saying that the exercise is even more timely, adding that "... even in the dictionary, the words strive and struggle come before the word success". The assurance that she is putting across is that with her proposed streamlining of the capital structure, and getting a supportive and more technical BOD, all shall be well sooner than later.

With the uncertainty surrounding the potential rapid transformation of the company and particularly the rumoured acquisition move, some critics doubt whether the company shall continue to meet the going concern criteria as required by the framework for financial reporting issued by the IASB⁵. This fear is significant to investment bankers, market analysts and investors because CSL's main banker (BankOne Group Limited) is anticipated to be in liquidation before year end (in which case the loan settlement shall fall due immediately). It is also considered very likely that the target firm could make a successful

⁴ Guludo Republic has Antitrust laws, but it has been confirmed that the combined market share would still be below the threshold.

⁵ IASB is the International Accounting Standards Board.

counter-offer to the move by CSL – much as the MD has always dismissed all this speculation and assured them that she will be in full control.

Financing the proposed acquisition

The BOD has asked management to provide details of the most appropriate financing for the acquisition project. Indications are that most financial institutions in the country are willing to be party to such a transaction, except for the extent and cost of involvement. It is known that most financial institutions undertake secured lending, yet most of the CSL's assets are already pledged to different lenders. The apparently embattled BOD, however, still believes that the best options for CSL at the moment are: to have the rights issue proceed, the factory equipment replaced, and the expensive loan to be repaid – given the news of the likely liquidation of BankOne Group Limited. They think the acquisition should come as an afterthought.

In response to the BOD directive, management is considering various options of financing the acquisition, but key among the options is to recommend a non-cash acquisition. In the extreme, they could recommend a further share issuance and suspension of dividend payments over the next two years – as part of the financing or stabilization of finances.

Details of the rights issue

The company has not yet disclosed the details of the rights issue. The finance manager, Dr Leo Tegu, has, however, indicated that “the share price shall be determined after we have carried out a revaluation of the company's assets and assessed the overall corporate value”. He, however, adds that market expectations and conditions at the time will play a big role in the final decision on the share price and number of rights – which has kept analysts guessing.

The MD has also stated (in an exclusive interview with a leading local tabloid) that the business growth outlook is currently lower than it was anticipated at the time acquisition discussions started. She had also told the secretive negotiations team that, “... the outlook for the impact of synergies in the near term is considerably weaker than even three months ago when we started these discussions. I think it is very hard to give a worst-case scenario from that transaction (the proposed acquisition). Many things could happen and an awful lot will depend on the politics of it. What I can say more generally is that we

are facing a situation in which some painful adjustments need to be made after this acquisition” she added. And her view, the pricing will need to be very subsidized if the issuance is to be successful.

Valuation of the favoured target firm

The finance manager is on the other hand, suggesting that if there is to be any acquisition, the firm should be Techno-Extra Limited (TEL). He thinks that it is a combination with TEL that can help diversify some key risks of CSL and increase profit margins and enable CSL reach customers more efficiently and economically. Not many details have so far been advanced as to how this would be achieved.

Information available indicates that TEL is a specialized logistics management firm, incorporated and operating in Guludo Republic. Half of TEL’s revenue comes from the EAC and the COMESA regions – economic blocks in the trading proximity of the country. TEL is a cross-listed company, but because of its nature, it is significantly different from SCL in capital structure and distribution channel set up. Because of its apparent long history on the KSE, it is said to be more advanced in compliance requirements and has largely managed investor expectations better. But with the kind of her market share, it is largely believed that TEL’s share price performance is currently based on an understated price earnings ratio.

Some key facts and figures based on the TEL’s financial statements as at 30 September 2012, are reflected in Appendix 2(b): Extracts from TEL’s financial statements.

Internal control challenges

It is apparent that the internal control system of CSL did not grow as fast as its customer base and turnover. As result, it is estimated that the company is making significant losses through mismanagement of cash, inventory and even credit recovery. It has also been mentioned that one of the factors affecting profitability was the rising inventory holding costs that the company is incurring. There is also a pointer that framework contracts with the various international suppliers are not being enforced and as such, numerous breaches have occurred with recourse remedies not being invoked.

Besides, the inventories' manager is currently pressured to explain a significant potential loss in inventory write-offs, mainly as a result of the discovery of overstated balances. The overstated balance was discovered recently when a customer was promised some 125 boxes of a fixture, but only to discover that only 45 items were in store. At the last inventory count on 30 September 2012, the storekeeper had indicated that they had seen no need of reaching the part of the store with this slow moving item. No movement in these goods has been traced since August 2012, when the balance was updated to 135 boxes. In his initial investigations of this occurrence, the manager has been told that a lot of pilferage is actually taking place, and that their previous discussion with security officers has not yielded any results. They admit that they did not pursue the matter with their superiors since they are not protected – say by a whistleblower policy in the company. The items are valued at GShs 1,150 per box, with a selling price of GShs 1,370 per box, and with a replacement cost of GShs 1,200.

The inventories manager is also faced with a recent discovery of two deliveries in August 2012 that turned out to be full of counterfeits. At the time they were assessed as counterfeit (during the recent inventory count), he had insisted that they could still be disposed of (to customers) at a price equal to their cost; and consequently, the items were included in inventory values. The internal auditors have, however, raised a red flag, that such disposal contravenes company practice of never compromising on quality and, therefore, recommend that the goods be destroyed. Some managers on their part are arguing that since the matter was not raised by the external auditors, it should be 'swept under the carpet' so that losses are averted. Given the current stage of discussions, an adjustment to the financial statements is imminent, so that a more accurate report can be used for tax returns for their first half year. The affected goods are valued at GShs 7,550,000.

The unfortunate thing is that blame is apparently shifting from those responsible, to the external auditors, who some members argue, should have detected such apparent fraud with ease. In their defence, the external auditors have reminded management of the wording of their report, and also of the respective responsibilities of management and directors on one part, and those of external auditors of on the other.

The finance manager, who initially dismissed such a response as shallow, has stated that the only thing that appears constructive in the auditor's response is the recommendation that management should quickly review overall procedures in the management of assets, and develop a system that will address the key elements of a sound internal control system.

Post-acquisition strategic considerations

The firm is considering more regional expansion immediately after any successful merger/ acquisition – targeting to build at least one factory in each of the neighbouring economic blocks – EAC and COMESA. Those in support argue that the slowed down foreign direct investment (FDI) in developing countries creates ample opportunity for regional firms to fill this gap without competition from more financially powerful investors from developed countries. The company is assured of market in the countries in the said economic blocks. Some economic data on some countries in these economic blocks is reflected in Appendix 3.

Much as regional expansion is touted as a key to growth, no analysis has been made to determine the strategic fit the bigger CSL would achieve. For example, there is talk that barriers of entry to new companies in these countries are so high that it would immediately drain CSL resources. It is also said that these economic blocks are for now focused on growth of consumer industries, and not the type of business CSL specialises in. Another clear challenge appears to be the kind of skills the company will find in these countries. But again to emphasize, no investment appraisal has been undertaken.

What also remains unsaid is that there has been growing discomfort among staff over the many drastic changes being proposed at CSL. But the MD never wants even to hear her 'informers' talk of this 'utter nonsense' as she prefers to call alternative views. She insists that companies are not future-proof, and nothing lasts forever, adding that "... an entrepreneur should be prepared to adapt, and avoid being nostalgic about the company itself. Sometimes you have to take your company in a new direction because circumstances and opportunities have changed". She concludes that employees and the BOD are merely not ready for even the slightest of changes. However, critics respond by saying that she has not bothered and/or managed to properly execute any of her recent change proposals.

The company SWOT analysis

As part of an initiative to support the post-acquisition growth strategies and solving of the current challenges, some senior managers have compiled a preliminary strengths, weaknesses, opportunities and threats (SWOT) analysis of CSL. An initial version of the analysis is attached as Appendix 4: CSL SWOT analysis.

PROFILE AND POLITICS OF GULUDO REPUBLIC

Country profile

Some key facts and figures about Guludo Republic are represented in Appendix 5: Social economic facts about Guludo Republic. Whereas the politicians are comfortable that they are taking the country in the right direction, there are valid concerns on rising inflation and the associated rises in interest rates. The business community is concerned that little is being done to curb the trends, and that whatever has been gained in the past could be eroded. Officials of the central bank, however, insist that nothing much can be done on interest rates in a free market economy, adding that "... such rises would eventually cure themselves".

The government's view of economic recovery

The country's minister of planning has always expressed optimism on the growth prospects of the private sector, in response to 'favourable economic policies instituted by the ruling Guludo Consensus Congress (GCC). She was recently quoted as saying, "... the economic downtown in the country is over. Companies should now design strategies, not just aimed at survival of the hard times, but to take them to the next level of growth". The minister is also constantly referring to the country's 20-year development plan, noting that government shall provide the necessary infrastructure and support to enable them enjoy doing business in the country. She has also heralded the stable growth of capital markets as a factor that assures her of a brighter future for businesses in Guludo Republic (refer to capital markets growth strategy below).

However, the government's focus and growth strategy are widely criticized by the opposition parties. They maintain that what must be fixed now are the high levels of unemployment; high population growth rate, drastic climate change, and unfocused education system that does not empower the young generation.

Regarding the much hyped 20-year development plan, they argue that this is a mere political statement meant to just appease the voters. They say that the plan has good statements on what should be achieved, but nothing that amounts to strategies to have it implemented. Besides, no specific funding has been identified for the proposed development initiatives.

Capital markets growth strategy

The strategy of the CEO of KSE is to do widespread publicity of the benefits of capital markets. His message is heralded by the recent release of 2010 data of the top 400 taxpayers, which indicates that salaries have increased by 257% over the last 8 years, while returns on the capital markets – themselves topped by capital gains, have increased by close to 850%. He also spices up the message that over the same period, capital gains tax has reduced from 25% to 15% in the current financial year. His message is coined around, 'people are not getting richer from wages but from their investments'. The growth of the All Share Price Index of the KSE over the last 5 years seems to reflect growing interest in capital markets.

The CEO, who also chairs the Securities Exchange Proprietors' Association (SEPA) has assured everyone who bothers to listen that his vision is shared by all exchanges in the country. He has also indicated that in partnership with the central bank, funding shall be availed to sensitize masses, and prepare near-ready firms to get listed on the various exchanges in the country. The attractiveness to firms, he says, shall be through relaxation of some of the listing conditions currently used in the capital markets.

APPENDICES:

Appendix 1: Summary of disputed transactions

Transaction 1: Purchase of forklifts.

CSL acquired and received 3 forklifts worth USD 324,000 from their foreign supplier on 1 March 2012; the foreign exchange rate at that time was GShs 64/USD. The equipment was first commercially deployed on 2 April 2012, after its final assembling, servicing and commissioning. The invoice was still unsettled as at 30 September 2012, when the exchange rate was GShs 68.5/USD.

The financial reporting team had capitalized the items at the latter exchange rate.

Transaction 2: Capitalization of an office block by CSL

This transaction involved the capitalization of an office block, which CSL had initially constructed on behalf of a client. When the client failed to pay on the 2 final certificates representing 22% of the contract sum (in all amounting to Gshs 3.2 million), management got an interim court order refraining the client from taking possession of the property. The order has been in force for the last one and a half years as at 30 September 2012.

The re-valued amount of the property – GShs 12.2 million has been included under property, plant and equipment. The financial reporting team's argument is that the former client seems not to be interested in paying the balance and reclaiming the property, and further that the amount outstanding from the client no longer meets the receivables' criteria.

Appendix 2(a): Extracts from CSL's financial statements

Half year ended/ as at:	30-Sep-12	31-Mar-12	30-Sep-11
Total assets - GShs '000'	2,895,336	2,876,808	2,798,256
Assets turnover (annualized) (times)	6.8	5.6	4.9
Net profit margin (%)	17	22	24
Gearing ratio (%)	56	48	47
Price earnings ratio	8.5	10.8	12.5
Effective income tax rate (%)	24.50	24.35	23.75
Total number of shares (million)	8,400	8,400	7,000

Appendix 2(b): Extracts from TEL's financial statements.

Extracts from annual financial statements as at 30 September

	2012	2011
	GShs '000'	GShs '000'
Revenue	6,103,368	5,238,943
Cost of sales	(2,899,100)	(2,446,498)
Gross profit	3,204,268	2,792,445
Other income	29,790	18,456
Total operating expenses	(1,762,348)	(1,619,618)
Profit before tax	1,471,711	1,191,283
Income tax expense	(301,701)	(254,935)
Profit after tax	<u>1,170,010</u>	<u>936,348</u>
Other figures:		
Net assets	745,000	742,920
Total number of shares (million)	6,000	6,000
Price earnings ratio	10.5	10.2

Appendix 3: Key facts about Gulodo Republic's trading partners

Ref	Country	Population (million)	GDP growth (%) ⁶	Population growth rate (%)	Literacy levels (%)
A.	Burundi	10.2	4.2	3.46	66.6
B.	Rwanda	11.3	7.0	2.79	70.7
C.	Uganda	34.5	6.4	3.58	73.3
D.	Tanzania	42.7	6.1	2.00	72.9
E.	Kenya	41.1	5.3	4.46	84.2
	Total/ average	139.8	5.8	3.26	73.5

⁶ Based on year 2011 economic data – source Wikipedia (Feb 2012)

Appendix 4: Summary SWOT analysis for CSL

<p>Strengths:</p> <ul style="list-style-type: none"> · Significant market share; · History of growth on the KSE; · Strong quality and brand; · Stable BOD membership; · Dynamic leadership – MD; · Focus on internal control improvements; · Attractive credit policy; · Ability to attract new customers. 	<p>Weaknesses:</p> <ul style="list-style-type: none"> · Declining market capitalization; · Deliberate misreporting; · Limited top management cohesion; · Gender unbalanced BOD; · High costs of inputs; · Inadequate distribution channels; · Inadequate communication; · Lack of risk management policy.
<p>Opportunities:</p> <ul style="list-style-type: none"> · High population growth rate; · Expanding/growing regional market; · Growing housing market; · Growing focus on corporate governance; · Vibrant capital markets in the economy; · Increased automation / technology; · Potential synergies from acquisition. 	<p>Threats:</p> <ul style="list-style-type: none"> · Growing competition; · High inflation rates in the country; · Global insecurity concerns; · Erratic infrastructure growth; · Apparent auditor compromise; · Potential counter acquisition offer; · Competition from other FDI destinations; · Reducing customer numbers; · Slow global economic recovery.

Appendix 5: Social economic facts about Guludo Republic

Ref	Variable	Position / trend
a.	Capital city:	<ul style="list-style-type: none"> • Kapul
b.	Currency:	<ul style="list-style-type: none"> • Guludo Shillings (GShs); exchange rate at GShs 79.5/USD⁷
c.	Population:	<ul style="list-style-type: none"> • 8.5 million (year 2011); growing at 3.1% per annum; • Population is dominated by 2 ethnic groupings which together form 85% of the population.
d.	Infrastructure:	<ul style="list-style-type: none"> • 22% unemployment rate, common among the youth; • Well distributed road network; 4,300 kms of railway line; • Country lacks 175,000 housing units; current average ratio of 11 people per permanent house.
e.	Geography:	<ul style="list-style-type: none"> • Country is landlocked; 20 years ago seceded from a bigger country that has access to the sea. • 65% of the country is arable land on a rolling plateau covered by tropical climate; • Significant level of deforestation and the associated soil erosion, and natural habitat loss; • Recent discovery of undersea gas and widespread diamond deposits – all not commercially exploited.
f.	Economics:	<ul style="list-style-type: none"> • Economic growth rate averaged 4.7% over the last 3 years; • Per capita income estimated at USD 850; • Narrow tax base but growing based on regional trade; • Dependence on semi-commercialized farming; • High rate of urban migration but with limited industries. • Country is ranked very high in institutional corruption; • The rich are getting richer; income inequality on the rise.
g.	Party politics:	<ul style="list-style-type: none"> • The Guludo Consensus Congress (GCC) is in power for a second 7-year term; • GCC promises economic freedom for all households, with per capital income of USD 3,000 in the next 25 years.

⁷ Today's ruling exchange rate between the country's currency (GShs) against the USD; note: US\$ /USD is assumed at 2,620.

Appendix 6: Financial Tables

Table 1: PVIF- Present Value of Shs 1 Due at the End of n Periods

Period	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.847	0.833
2	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.718	0.694
3	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.609	0.579
4	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.516	0.482
5	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.437	0.402
6	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.370	0.335
7	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.314	0.279
8	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.266	0.233
9	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.225	0.194
10	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.191	0.162
11	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.162	0.135
12	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.137	0.112
13	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.116	0.093
14	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.099	0.078
15	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.084	0.065

TABLE 2: PVAF - Present Value of an Annuity of Shs 1 per Period for n Periods

Period	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.847	0.833
2	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626	1.605	1.566	1.528
3	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283	2.246	2.174	2.106
4	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855	2.798	2.690	2.589
5	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	3.127	2.991
6	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784	3.685	3.498	3.326
7	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160	4.039	3.812	3.605
8	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487	4.344	4.078	3.837
9	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772	4.607	4.303	4.031
10	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019	4.833	4.494	4.192
11	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687	5.453	5.234	5.029	4.656	4.327
12	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660	5.421	5.197	4.793	4.439
13	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122	5.842	5.583	5.342	4.910	4.533
14	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002	5.724	5.468	5.008	4.611
15	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142	5.847	5.575	5.092	4.675