

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF  
SRI LANKA**

**TOP CA CASE STUDY EXAMINATION - DECEMBER 2011**

Important - This question paper should be answered entirely in the **ENGLISH**  
Language only.

**THE EXAMINATION QUESTION, INSTRUCTIONS AND  
ADDITIONAL (IMPACT) INFORMATION**

**Time allowed : 4 Hours**

**Marks : 100 marks**

**Instructions**

1. This question paper should be answered entirely in ENGLISH language.
2. Your answer must be submitted in the answer booklets provided at the Examination Hall.
3. Any pre-prepared papers included in your answer WILL NOT be marked.
4. After the instruction to stop writing at the end of the paper, you will be given five minutes to assemble your answer.

## **CASE STUDY REQUIREMENT**

You are Vinod Jeynadhan, a supervisor of SMS Associates. You are currently working under Mr. Bandara, the Partner in charge of Business Advisory Unit of the Firm. SMS Transaction Advisory Services (Pvt.) Ltd is an associate company of SMS Associates, headed by Mr. Bandara.

Vayrees Securities PLC (VS PLC), which is a new client to SMS Transaction Advisory Services (Pvt.) Ltd. It is a recently incorporated Company Consequent to the strategic decision taken by Mr. Rashmika Gunawardhana and the other members of the Vayrees PLC. Recently the company acquired 47% of shareholdings of Arangala Leasing Company PLC.

### **Requirement**

You are to draft a report of Independent Advisor's as instructed by Mr. Bandara in his mail to you (Appendix 5) and further explained in the extract of the Letter of Engagement (Appendix 6).

You can also use additional information given in the extract of offer document. (Appendix 7) State clearly any assumptions that you make. **All workings should be attached to your answer.**

## Appendix 5

From: [Bandara@sms.lk](mailto:Bandara@sms.lk)  
To: [vinod@sms.lk](mailto:vinod@sms.lk)  
Date: 6<sup>th</sup> December 2011  
Subject: Independent Advisory Report – Arangala Leasing Company PLC

Dear Vinod,

The board of directors of Arangala Leasing PLC has requested us to produce an independent advisor's report which is to be distributed to the shareholders of Arangala Leasing Company PLC, along with the Offer document. Please find the extract of the offer document attached herewith for the purpose of information related to the offer. Accordingly we need to prepare an independent advisor's report on the offer price of the Mandatory Offer made by Vayrees Securities Ltd to the shareholders of Arangala Leasing Company PLC

As I have already requested, I hope that you have performed financial and value analysis on the provided financial Information of the ALC. These analyses will be useful in drafting the report. In addition to the information already provided to you, please note the following when you draft the report.

- Consider the requirements as given in the Company Take-overs and Mergers Code 1995(as amended in 2003) (Code).
- We need to do independent valuation by using different techniques available.
- Also we need to conclude by giving an assurance as to whether the offer price is reflective of the fair value of ALC.
- Remember to include an industry analysis (you can use a theoretical model to comment on industry attractiveness).
- Better if you can consider to include a summary of Historical financial statements analysis to the report.
- If you need to get any information from Securities & Exchange Commission, you can contact Nimali- Officer in Charge at SEC in this regard on 0112388400 or 077889001.
- I asked our team member Dilini to find some information to compute cost of equity capital and she has provided the following information and you can use the same.
  - $\beta$  Factor – Arangala Leasing Company PLC - .85
  - Risk Premium – 5%
  - Average Government Treasury Bond Yield was 8.5%

Regards!

Bandara.

## **Appendix 6 - Extract of the Letter of Engagement**

The Board of Directors,  
Arangala Leasing Company PLC  
No.196/2, Galle Rd,  
Colombo 02

5<sup>th</sup> December 2011

Dear Sirs,

### **Letter of Engagement to perform independent advisory services on Valuation of Shares of Arangala Leasing Company PLC**

Thank you for the opportunity given us to serve Arangala Leasing Company PLC on the above captioned Engagement. We are writing to confirm the terms of our engagement to perform independent advisory services on valuation of shares of Arangala Leasing Company PLC

#### **Introduction:**

On 1st December 2011, Vayrees Securities Ltd acquired 47% of the Equity of Arangala Leasing Company PLC. Accordingly Vayrees Securities Ltd has made a Mandatory Offer to buy remaining ordinary voting shares of Arangala Leasing Company PLC on 2nd December 2011. For this purpose Arangala Leasing Company PLC seeks the advice of an independent consultant with regard to valuation of its shares.

#### **Scope:**

As an independent advisor, our responsibilities in this engagement are to prepare a report of valuation and issue an independent advisor's report as per the Company Take-overs and Mergers Code 1995.

Accordingly, we would perform the following procedure under this engagement.

- I. We will prepare a report of valuation in accordance with Company Take-overs and Mergers Code 1995, based on the information compiled by the management of the company.
- II. We will review the reasonability of assumptions and data used by the management in compiling the information for the different valuation approaches discussed in the report.
- III. We will issue an independent advisor's report with an assurance on valuation of shares of the company.

**Appendix 7 - Extract of the Offer Document**

**VAYREES SECURITIES LTD  
No. 2110/2, T.B.Jayah Mawatha  
Colombo 10**

..... 2011

**To: The Shareholders of Arangala Leasing CompanyPLC**

**MANDATORY OFFER BY VAYREES SECURITIES LTD TO PURCHASE ALL THE REMAINING ORDINARY SHARES OF ARANGALA LEASING COMPANYPLC OTHER THAN THE SHARES ALREADY OWNED BY VAYREES SECURITIES LTD**

**1. BACKGROUND TO THE OFFER**

VAYREES SECURITIES LTD (Offeror) by the purchase of 8,293,320 shares of Arangala Leasing PLC (Offeree) on the Trading Floor of the CSE on 1st December 2011 representing 47% of the issued shares of the Offeree at a price of Rs.97/- per share, triggered the Company Take-overs and Mergers Code 1995 (as amended in 2003) (Code) in terms of Rule 31 (1)a), which states as follows:

“Where any person acquires, whether by a series of transactions over a period of time or, otherwise, shares which taken together with shares held or acquired by persons acting in concert with such person, carry Thirty per centum or more of the voting rights of a company such person shall extend within 35 days, an offer in accordance with this rule to the holders of any class of equity shares which carry voting rights and in which such person or persons acting in concert with him holds shares”.

In terms of Rule 31 (1) b) above referred to, it has become obligatory on the part of Offeror to make an offer under the said Rule to all the other shareholders of Offeree to purchase their shares at a price not less than the highest price paid by Offeror for the shares of the Offeree within the preceding twelve months.

The Offeror not having dealt previously in shares of the Offeree, the highest price paid by the Offeror for the shares of the Offeree is Rs.97/- per share on 1st December 2011 as aforesaid.

## **2. THE OFFER**

Offeror hereby offers to purchase from the shareholders of Offeree all the issued and paid up shares of Offeree (other than the shares currently held by Offeror) under the terms and conditions set out herein at a price of Rs. 97/- per share.

## **3. INFORMATION ON VAYREES SECURITIES LTD**

### **3.1 Brief Profile and Principal Activities of Offeror**

The Offeror, Vayrees Securities Ltd was incorporated on 9<sup>th</sup> of November 2011 under the Companies Act No. 7 of 2007 bearing Registration No. PB 3901. The registered Office of the Offeror is situated at No. 2110/2, T.B Jayah Mawatha, Colombo 10.

70% of the shares of the Offeror is owned by Vayrees PLC and the balance 30% is owned by LK Ceramic PLC.

In terms of the Provisions of the Companies Act No.07 of 2007, subject to the Provisions of any Written Law of Sri Lanka or of any other country and the Provisions of the Articles of Association of the Offeree, the Offeree has both within Sri Lanka and outside Sri Lanka, the Rights, Powers and Privileges necessary to carry on or undertake any business or activity and to do any Act or enter in to any transactions.

The Offeror, being incorporated on 9<sup>th</sup> November 2011, acquisition of shares of the Offeree is the first business activity undertaken by the Offeror.

### **3.2 Names of the Directors of Offeror**

Dr. Jamiseelan Jayakhan

Mr. Bimal Perera

### **3.3 Financial Information**

The Offeror being incorporated on the 9<sup>th</sup> day of November 2011, and not commenced business, until the acquisition of shares of the Offeree on 1<sup>st</sup> December 2011, there are no published audited accounts or any interim financial statements.

## Appendix 8

Historical Market Prices –Arangala Leasing Company PLC – (Source; Stock Market Monthly Report & Official web site of the CSE)

	2008	2009	2010	3Q2011
Volume Weighted Average Price (Rs.)	108.18	122.08	125.62	103.64
Highest Traded Price (Rs.)	154.11	148	153.75	114
Lowest Traded Price (Rs.)	68.57	90	86.50	92.50
Average No. of Shares traded daily	976	675	847	585
Total Shares in issue	12,100,005	17,645,840	17,645,840	17,645,840

Date	Lowest Rs.	Highest Rs.
5/11/2011	110.25	110.75
7/11/2011	110.00	110.00
13/11/2011	112.00	112.00
24/11/2011	148.50	159.00
28/11/2011	105.00	105.00
29/11/2011	101.00	101.25
1/12/2011	96.80	97.00
2/12/2011	145.00	159.00
5/12/2011	227.50	250.00
6/12/2011	223.00	235.50

Source:CSE