1 Lahore World Travel Ltd

Part (a)

2018 Performance analysis	*LWT 2018*	*LWT 2017*	*Safari Adventure plc 2018*	*Safari Adventure plc 2017*
	Rs millions	Rs millions	£ millions	£ millions
Revenue	11,892	11,458	21.5	20.0
Profit after tax for the year to 30 June 2018	2,200	2,160	4.4	4.1
Revenue Growth (%)	**3.8%**		**7.5%**	
Profit Margin (%)	**18.5%**	**18.9%**	**20.5%**	**20.5%**
Total Market Capitalisation (Value of equity and debt)	30,000 **(W1)**	30,000	50.0 **(W2)**	50.0
Return on Capital Employed (%)	**7.3%**	**7.2%**	**8.8%**	**8.2%**

Workings

1 *LWT – 40 million shares × 500 Rs + Rs 10,000 million (debt)*

2 *Safari Adventure plc – 20 million shares × £2.50*

Revenue

LWT revenue growth in 2018 of 3.8% is significantly below Safari revenue growth of 7.5%, suggesting that the board of directors are correct that growth is slower than Safari in their core travel areas of luxury and corporate travel. However, LWT does not advertise and has no clear marketing strategy, so they could be losing ground to new competitors, which they are unaware of. Therefore LWT may consider investing in marketing to boost existing growth instead of an acquisition strategy at this point. LWT's performance reporting is limited and there is no evidence of competitor benchmarking. Recent growth in Safari is consistent with the 8% increase in customers indicated by the Safari director. However, sustainability of future growth is unclear as growth will be limited to three sites and hotel room capacity at these sites, and LWT currently knows little about the safari market.

Profit Margin

LWTs profit margin has fallen slightly by 0.4% to 18.5% which suggests either further discounting to achieve revenue targets or rising costs have not been passed on to customers in pricing. LWT lacks the detailed management reporting to understand the reasons for the fall in margin and an improvement in management reporting is advised to better understand the business and control cost. An acquisition at this time may be a distraction for senior management when there are reporting issues to address. The profit margin at Safari is 2% higher at 20.5%. However, it is unknown if this additional margin is sufficient to compensate for the additional risk of operating safari parks situated outside Pakistan.

Return on capital employed (ROCE)

Based on current equity and debt values, Safari Adventure plc offers a similar ROCE at 8.8% vs 7.3% generated by LWT in 2018. However, if LWT agree pay Safari a premium above the current share price then Safari's 8.8% ROCE will reduce as the capital employed rises and it could fall below LWT's current ROCE of 7.3% which may not be acceptable.

Advantages of acquiring Safari Adventure plc

- If the current Pakistan travel market is stagnating then acquiring a well-established, successful travel company with a proven track record in overseas markets and growth potential will aid LWT's strategic objective of achieving growth.
- The acquisition of a safari business is strategically aligned with LWT's core markets as the luxury travel and corporate travel market could be cross-sold luxury safari holidays.

- Diversification benefits may add value as LWT learns from Safari adding value to existing LWT operations, and LWT's customer service excellence could add value at Safari.

Disadvantages of acquiring Safari Adventure plc

- The acquisition risks are significant as LWT has no experience running hotels or safari parks so LWT would need to ensure sufficient existing knowledge and experience remains in Safari post acquisition. LWT may have to incentivise some key employees to remain.
- Political conditions of location of Safari parks need to be evaluated carefully as LWT risks significant losses if political change prevents visitors from obtaining travel visas or it becomes unsafe for customers to visit. Furthermore, changes in regulation, conservation or use of land could make the operation of safari parks more challenging or costly to operate. These factors could reduce bookings or impact on reputation.
- LWT already highly geared and servicing interest on further debt could be difficult. Less risky opportunities should also be considered such as for developing existing markets further by funding a new marketing strategy.
- Land and development restrictions may prevent expansion of visitor accommodation which will restrict future growth.

Conclusion

The advantages of acquiring Safari mean the acquisition warrants further investigation. However, a major concern is that the risks identified are too high for the potential margin of 20.5% and ROCE of 8.8% as these are only marginally higher than LWT is currently generating on its existing travel agency business. This suggests further market development of the luxury and corporate travel markets could be a preferred strategic alternative that is worth further investigation.

Part (b)

Free cash flow valuation of a combined group

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6 and onwards*
Lahore World Travel Ltd (Rs millions)	2,500	2,700	2,900	3,000	3,100	
Safari Adventure plc (£ millions)	5.0	5.2	5.4	5.5	5.5	
Safari Adventure plc (Rs millions) at Rs 150 : £1	750	780	810	825	825	
Revenue synergy (Rs millions)	150	150	150	150	150	
Sale of surplus land (Rs millions)	500					
Total	**3,900**	**3,630**	**3,860**	**3,975**	**4,075**	
Perpetuity year 6 onwards (4,075/0.09)						45,278
Total free cash flows for the combined group	**3,900**	**3,630**	**3,860**	**3,975**	**4,075**	**45,278**
Discount Factor 9%	0.917	0.842	0.772	0.708	0.650	0.650
Present Value (PV)	**3,576**	**3,056**	**2,980**	**2,814**	**2,649**	**29,431**

Total Market Capitalisation for the combined group of LWT & Safari	**44,506**	The total PV represents the value of Equity and the value of debt in the new combined group
Less: existing LWT loans	(10,000)	The loan be deducted to determine the value of shares only
Value of Equity in new combined group	**34,506**	
Current equity value of LWT only	(20,000)	40 million shares at Rs 500 each
Maximum price for Safari Adventure plc	**14,506**	This represents the shareholder value if Safari was added to LWT, so it's the maximum LWT should pay.

Advice to the Board

A maximum value of Rs 14,506 million suggests the offer price of Rs 9,000 million would generate Rs 5,506 million in value on acquisition. However, this significantly relies on the following:

(1) All forecast assumptions are valid. This may not be case as:

- The assumed growth in the cash flows may be unachievable if there is a reduction in consumer interest in safari holidays, barriers preventing the acquisition of additional safari sites or issues increasing existing hotel capacity.
- Despite Adeena's optimism, revenue synergy of Rs 150 million from existing LWT customers may not be realised.
- It may not be possible to sell land in Malawi for Rs 500 million for development as this may be restricted under a government preservation order. Also, this land may be essential to safari operations by providing a habitat for existing wildlife.
- The assumption that the exchange remains constant at Rs 150 : £1 may not hold.

(2) The required return of 9% is acceptable to shareholders based on the risk of the new venture.

- Running an overseas safari parks in Africa is riskier than LWT's current operations, particularly as LWT rely on the retaining local management experience and stabilise political conditions of Africa region. It is likely the required return will need to be higher. It is suggested LWT must re-evaluate the required return for this acquisition.

Conclusion

The acquisition does have its merits, and therefore we advise the acquisition is considered further subject to the satisfactory completion of due diligence. As Safari Adventures plc clearly intends to sell then this provides an opportunity for LWT to negotiate a lower price. A price closer to the current share price of Rs 7,500 million (20 million × £2.5 × Rs 150 : £1) may be acceptable and will provide a greater return to LWT for the risks identified.

Part (c)

Current position	*LWT*	*Safari Adventure*	*Comments*
Profit after tax in 2018 (Rs millions)	2,200	660	£4.4m × Rs 150 : £1 = Rs 660
Current value of equity (Rs millions)	20,000 (40m × Rs 500)	7,500 (20m × £2.5 × Rs 150 : £1)	
Current value of debt	10,000	–	Using book value
EPS (Rs per share)	55	33	
Gearing	33.3%	0.0%	Measured as debt/(debt + equity)

After acquisition position	*Financed by New Debt*	*Financed by a share for share exchange*	
Combined group profit after tax in 2019 (Rs millions)	3,400	3,400	From part (b) – Rs 3,900 million – Rs 500 million for sale of surplus land. Reasonable to assume free cash flow is equivalent to profit after tax.
Additional post tax loan interest at 6% (Rs millions)	(540)	N/a	New loan of Rs 9,000 million × 0.06
Revised group profit after tax (Rs millions)	2,860	3,400	
Number of LWT shares (millions)	40	60 (40 + 20)	One-for-one share exchange 20 million new LWT shares issued to Safari Adventure plc shareholders replacing 20 million Safari shares. This will result in the existing shareholder's ownership in LWT reducing from 100% to 66.6% (40m/60m).
Earnings per share (Rs)	**71.5**	**56.7**	
Combined Value of Equity (Rs Millions)	34,506	34,506	From Part (b)
Value of Debt (Rs millions)	10,000 + 9,000 = 19,000	10,000	
Gearing	**35.5%**	**22.5%**	Measured debt/debt + equity

Impact of funding decision

This analysis assumes LWT pay the price of Rs 9 million for Safari Adventure plc.

Control and gearing

An acquisition with cash is preferred as existing LWT shareholder retain 100% control. However, credit availability to arrange a further loan may not be available to LWT from its existing or other banks. Furthermore, existing shareholders may consider the financial risk of increased gearing to 35.5% be unacceptably high. However, this may not be a problem as this is largely unchanged.

The impact on working capital cash flow may be a greater problem as borrowing Rs 9,000 million at 6% will mean an additional Rs 540 million of interest must be paid annually and this may be difficult to service in the early years of acquisition where capital investment in the new venture is likely to be required. Also, it is possible that existing Rs. 10,000 million loan will have used available security, making an additional Rs. 9,000 million loan unsecured. Therefore a higher rate of interest on the loan may ultimately be charged.

A share-for-share exchange will reduce gearing from 33% to 22.5%. However, the terms of one LWT share for one Safari share is generous as it values the Safari at Rs 11,500 million (Rs 34,506 million × 33% ownership) which is Rs 2,500 million above the offer price of Rs 9,000 million.

Earnings per Share (EPS)

Both financing methods predict an increased in EPS from Rs 55 in 2018 to Rs 71.5 if financed by debt and Rs 56.7 if financed by equity. The debt option is more attractive as the profit is retained by LWT's existing shareholders.

Conclusion

Debt finance is cheaper than the equity finance option and it maximises post acquisition EPS at Rs 71.5.

However, LWTs current gearing of 33.3% may be considered high and therefore shareholders may not be comfortable with additional borrowing, particularly as LWT had problems integrating the Lux Travel subsidiary four years ago. New acquisitions tend to demand cash investment in the early years, so it may be difficult for LWT to meet the annual interest and capital repayments on Rs 19,000 million of loans in the early years post-acquisition.

It is recommended that LWT discuss additional borrowing with the banks, to confirm credit availability, and with shareholders to confirm they will support higher borrowing at Rs 19,000 million. Detailed forecasts are recommended to confirm that LWT can service the annual interest at this level of debt and only proceed with further borrowing subject to securing confirmation of loan affordability.

If debt finance is not affordable or acceptable to LWT shareholders then an acquisition financed with a share-for share exchange is recommended. However, it is recommended that revised share for share terms are negotiated so LWT minimises the dilution of ownership to its existing shareholders.

Proceeding with an offer under either finance arrangement is subject to satisfactory completion of due diligence procedures.

Part (d)

The following are key areas that should be examined during a due diligence process which must be completed prior to finalising the decision to purchase Safari Adventure plc. The due diligence exercise could affect the purchase decision, valuation or offer price.

Site Ownership, and restrictions on land use or land sale

- Confirm that Safari owns all three safari sites by reviewing ownership deeds and confirm any restrictions on the use of land, such as sale rights or development rights as this may prohibit the sale of land in Malawi which is assumed in the valuation.
- A buyer for the 2019 sale of the Malawi land of Rs 500 million should ideally be found and confirmation should be obtained that this sale will not impede operations in any way at the Malawi site.

Operations, key management and employees

- An LWT representative should visit each site to confirm it exists as described, it is currently operational with guests and safaris taking place, and detailed operational checks should be completed to ensure each safari site operates as described by Safari Adventure plc.

- LWT have no experience in running hotels or safari parks so key talent in both management and operations should be identified by obtaining a list of staff, roles and responsibilities, experience and performance reports. This will allow LWT to plan for the retention of key staff post acquisition.

Industry and political outlook in Malawi and Botswana

- Political analysis and expert advice should be sought to understand the risk to foreign-owned commercial operations from political change or unrest.
- A review of the safari park industry should be conducted for legal and regulatory compliance, and ethical requirements to identify areas of non-compliance. The directors will need to evaluate the significance of these on the acquisition.

Financial history, position and forecast assumptions

- Evidence of the pipeline of future safari bookings for the next year to confirm the feasibility of forecast growth assumption.
- Compare hotel capacity and past occupancy data with growth assumptions to confirm that growth forecasts are reasonable.
- A detailed forecast profit and loss should be compared with actual revenue for the five months and the costs to identify potentially understated or missing costs in the forecasts.
- LWT should review the board minutes of Safari Adventure plc and interview key directors to understand the reasons why the company is being sold.

Commitments, contingencies and legal claims

- Information about past and ongoing legal claims should be discussed with Safari's legal advisors to identify potential additional costs or actions which may result in park closures or operational issues.

Part (e)

Note to the board of directors

I have evaluated all the three matters and my advice on each matter is as follows:

Viewpoint of Mr. Shahbaz Karim

Controlled Foreign Company (CFC)

Mr. Shahbaz Karim correctly identifies that the concept of CFC has been introduced through Section 109A of the Income Tax Ordinance, 2001. Under this section, a company is considered as CFC only when it meets all the four requirements mentioned in this section. One of the requirements is that the shares of the company are not traded on any stock exchange which is recognized by the law of the country in which the company is resident for the tax purposes. Since SA is listed on London Stock Exchange, it would not be considered as CFC.

Group taxation

Under section 59AA of the Income Tax Ordinance 2001, group taxation is restricted to companies locally incorporated under the Companies Ordinance 1984. Therefore, the option mentioned by the director would not be available to LWT.

Treatment of dividends to be received from SA

Under Section 5 read with the First Schedule, 15% tax shall be imposed on LWT when it would receive dividend from SA. The tax imposed shall be considered as final tax on the amount of dividend and:

(i) no deduction shall be allowable for any expenditure incurred in deriving the amount of dividend;

(ii) the amount of dividend shall not be reduced by any deductible amount or set off of any loss;

(iii) tax payable by LWT on dividend shall not be reduced by any tax credits.

Financing option considering by LWT

Option 1: Borrow and acquire with Cash

Under section 28 of ITO 2001, LWT would be allowed to claim a deduction for any interest on loan incurred.

Option 2: Acquire with a share for share exchange

No tax implications as acquisition of a foreign subsidiary would not attract any group taxation (Section 59AA) or group relief (Section 59B).

2 The Fresh Fish Company

(a) The Fishing Division

	2018	*2017*	*Change*	*%*
Turnover of market sector (Rs million)	24,950	23,750	1,200	5.1%
Turnover of the Fishing Division (Rs million)	2,940	2,688	252	9.4%
Market share	11.8%	11.3%	0.5%	
Gross profit (Rs million)	138	131	7	5.3%
Volume of fish caught and farmed (tonnes)	53,400	52,125	1,275	2.4%
No of fishing vessels	202	200	2	1.0%

The Fishing Division accounts for 11.8% of the Pakistan fishing market, which is consistent with its fleet size of 10% of fishing vessels operating in the Karachi Harbour. Despite evidence of falling fish stocks, the value of the market is growing due to the increasing price of fish. A 1% increase in the number of fishing vessels in 2018 to 202 and a secure supply of fish from fish farms account for the Fishing Division's increasing market share from 11.3% to 11.8%.

Turnover has increased by 9.4%, which is higher than the 2.4% increase in fish caught and farmed. This suggest the wholesale price of fish is increasing. This may well be because supplies are constrained by government fishing quotas.

Gross profit has increased 5.3% to Rs 138 million which is not in line with growth in turnover, suggesting ineffective divisional cost control.

The Fishing Division is strategically important as a supplier to both the Fish Processing Division and the Fish Restaurant Division. With only 11.8% market share, further expansion of the fishing fleet is feasible by purchasing further boats or removing competition by competitor acquisition which will provide further growth as the popularity of fish with consumers is unlikely to decrease. Currently, 50% of fish is sold to Fish processing division so there is potential for growth by increasing the proportion of fish sold to the Fish Processing Division and Restaurant Divsion, whilst maintaining its current external customers. Fishing capacity may be further increased by expanding its fish farms.

The Fish Processing Division

	2018	*2017*	*Change*	*%*
Turnover of market sector (Rs million)	5,580	5,100	480	9.4%
Turnover of The Fish Processing Division (Rs million)	2,212	2,065	147	7.1%
Market Share	39.6%	40.5%	0.9%	
Gross profit (Rs million)	194	218	(24)	(11.0)%
Volume of fish processed (tonnes)	32,040	31,850	190	0.6%

The Fish Processing Division holds 39.6% of market share and is likely to be the market leader although its share has decreased slightly by 0.9% which suggests increasing competition. A significant percentage of its fish is provided by The Fishing Division although the majority of fish processing is under contract with other companies.

It is a profitable division with an increase in turnover of 7.1%. The volume of fish processed in 2018 has only increased by 0.6% as the market price for processed fish products is increasing as processing volumes are static. This may also suggest that the division is near capacity as its machinery and manually intensive processing methods are unchanged since acquisition 20 years ago.

Gross profit is disappointingly flat at Rs 194 million despite a 7.1% increase in turnover which suggests the division is dealing with possible cost control challenges.

The Fish Processing Division could potentially be a more profitable division of the Karachi Fishing Company as the price and popularity of processed fish products increases. One possible growth area is negotiating with the Fishing Division to process more of its fish, subject to capacity. This arrangement should benefit the profit of both divisions as processing business is diverted from competitors.

The Fish Processing Division could also look at increasing processing capacity by introducing modern machinery, expansion at its processing site or through acquisition of other small fish processing companies.

The Fish Restaurant Division

	2018	*2017*	*Change*	*%*
Turnover (Rs million)	7,388	7,677	(289)	(3.8%)
Gross profit (loss) (Rs million)	(700)	(628)	(72)	(11.5)%
No of restaurants	20	20	–	0%
Average number of meals served by the Restaurant Division per day	7,768	8,340	(572)	(6.9%)

The Fish Restaurant Division is the most recent addition to the Karachi Fishing Company group and is now a significant contributor to group revenue with Rs 7.4 million in 2018.

However, the average number of meals served per day has fallen by 6.9% in 2018 suggesting operational problems or falling consumer interest. Revenue has fallen by 3.8% suggesting the division has been protected to a degree by price increases in its restaurants. One factor could be the menu has not changed since the diners launched eight years ago and an increase in menu prices could be causing some customers to eat elsewhere. Other contributing factors could be a decline in meal quality or service, new competition or changing consumer food tastes and further market research is advised.

The division's gross loss has increased by 11.5% to Rs 700 million, which is significant. However, it is not unusual for restaurant chains to turnaround to profit as they find their optimum operating model.

The Fish Restaurant Division has the potential to be a more significant division if it can turnaround, return to profit and expand the Karachi Fish Diner brand both in Pakistan and overseas by marketing the appeal of a fresh, high quality and delicious fish-based menu.

Therefore, the Karachi Food Company must consider whether to avoid the risk of further losses by divesting the Fish Restaurant Division now and focus on growth in the other divisions, or to implement a turnaround strategy and provide further investment to allow the Restaurant Division to expand. The demand for dining out is likely to rise as the population in Pakistan becomes more affluent as the economy grows.

Conclusion

The Fishing Division and Processing Division both have growth potential and should be retained. The Restaurant Division will need to demonstrate a credible turnaround plan and business case to ensure the retention of this division is worthwhile.

Part (b)

The Karachi Fish Diner chain of restaurants are loss making and customer volume is reducing. A strategic turnaround is required to be implemented quickly and should focus on getting the existing business right before any new restaurant sites are considered. The following points would be vital to a successful turnaround strategy.

- **Leadership** – The eventual success of a turnaround strategy will depend on the divisions ability to prioritise necessary activities and to deliver fast, significant improvements. Therefore, a change leader should be appointed who is empowered to deliver the turnaround programme and report regularly on progress. This could include a series of workshops to consult with management and employees to create a compelling strategic vision.

- **Brand and customer feedback** – The Karachi Fish Diners have a strong brand and reputation for being fashionable and serving fresh quality meals. However, it is vital that management understand precisely why customers are choosing to eat elsewhere through gathering customer feedback and using the results to identify changes. Such changes may include, for example, staff training to improve service or updating the menu to reflect more contemporary tastes. The division may need to refresh and relaunch the 'Karachi Fish Diner' brand as a result.

- **Menus and options –** The restaurants offer too many meal options, which is expensive to operate and can increase food waste. The range of menu options should be reduced to include only its most popular items and trial new meals based on customer feedback.

- **Pricing and promotion –** Management should complete a benchmarking review of competitor restaurants to understand areas of competitive weakness. For example, management should consider reducing its meal prices if evidence suggests its restaurant pricing is too high. An increase in customer bookings may offset this price decrease. Short-term offers such as 'meal of the day' or promotional discounts could attract new customers, but care must be taken not to devalue the brand.

- **Cost control** – Improving employee productivity and reducing non-essential costs is necessary to limit current losses. In reducing costs, it is vital that the brand is not compromised. Interdivisional pricing and decision making could be updated to avoid competitors being chosen over the Fish Processing Division.

- **Key performance reporting** – it is unclear whether the performance of each restaurant is analysed separately against targets or against each other. The worse 25% performing restaurants should be identified for a turnaround focus, with the possibility of changing restaurant management on evidence this is major contributing factor as indicated by recent employee comments regarding poor management. Poorly performing restaurants could be closed where it is clear a turnaround strategy will not work.

Part (c)

New Technology

With a fresh product such as fish, it is essential that the product is transported to processing sites, wholesalers and restaurants as quickly as possible. An integrated customer order and logistics system can optimise delivery routes to customers which reduces the risk of fish becoming spoiled. Additionally, planned fishing activity can be linked to seasonal demand which avoids unnecessary fishing and wastage in low demand periods. A logistics system can aid the planning of third-party fishing vessels at peak times which will reduce the size and cost of a permanent fleet.

Updating the fish processing plants (including for example increased automation) will improve plant efficiency, improve processing capacity at existing sites and reduce the number of plant operatives if the process is less manually intensive.

In the restaurant division, an online booking system will make it easier for customers to book and will also provide customer data which can be used for marketing communications, such as the launch of new seasonal menus and other promotional offers.

Customer relationship management (CRM)

A CRM system can keep a record of all customer interactions and analyse previous orders which will highlight trends in demand and types of fish requested. The fishing of particular varieties, such as shrimp or tuna, can be flexed to customer needs. This will avoid the over-fishing of stocks which cannot be sold and will allow better planning of fish varieties and volumes in fish farms.

Key performance indicators

Key performance indicators can improve margins by facilitating faster decision making or providing early indicators of operational problems. Examples may include:

- **Fishing division** – % waste compared to target can be monitored so the fishing fleet can target on catching fish which are only in demand by customers.
- **Processing division** – Time to process per tonne, or unused capacity can be monitored to improve efficiency which will reduce costs. Performance monitoring will identify regular times of low utilisation. In such times, lower processing charges can be offered to external customers to utilise spare capacity and free up busier times.
- **Restaurant division** – The use of customer surveys will allow the division to react to adverse feedback. Customer complaints and time to serve a meal can also be monitored to understand and improve the dining experience which will encourage new and returning customers through better customer reviews.

Shared service centre

Services such as invoicing, procurement, management reporting and logistics can be provided by a single centralised service centre which can free up management time to focus on specific divisional issues, customer relationships, revenue growth strategies and operational efficiency.

The shared use of resources and competencies can reduce costs and create value by removing duplicate processes in each division and improve the efficiency and quality of the shared service.

3 Techcon Ltd

Part (a)

Ethics

The behaviour of the CEO raises several significant ethical concerns. It should be considered against the requirement of the 2017 Code of Corporate Governance Regulations, which states that:

'…the board of directors of a company shall carry out its fiduciary duties with a sense of objective judgement and in good faith in the best interests of the company and its stakeholders.'

The fact that the CEO has lost his temper with shareholders and walked out of a meeting suggests that he is not showing appropriate courtesy and professional behaviour to that key stakeholder group. One of the critical roles of the CEO is to maintain a positive relationship with major shareholders.

In addition, the CEO's remark on social media about his satnav, even if it was intended as a joke, shows a disregard for the interests of the company and cast doubt on the reliability of the company's products. It will be demoralising for employees, shareholders and anyone else with an interest in it. The fact that he thought it was an appropriate to make this comment to over 500,000 social media followers and the lack of a subsequent apology, shows a concerning lack of professional judgement expected from a CEO.

A further reason for concern is that a flippant comment was made about the reliability of his products when, as the accident illustrates, an unreliable satnav can be very unsafe for customers. This suggests that he may not take customer safety seriously and casts doubt on his integrity.

Commercial

In addition, there are several commercial concerns about the CEO's behaviour. His treatment of shareholders, and attitude towards safety, as shown in his walking out of a meeting and comments about the accident, are likely to make the shares less attractive and so the share price will fall. This fall may mean that Techcon has difficulty raising capital in future, or be vulnerable to a takeover bid.

These events are also likely to lead to a fall in sales of satnavs, and possibly other products if the brand is seen as unreliable. Even if the satnav was not to blame for the accident, it is likely that the social media remark and the accident will be linked by the media, the public and even the competitors.

If Mr Iqbal believes that the satnav was to blame for his accident, it is quite possible that he will launch a legal case against Techcon. This will require management time and money to defend, and may result in Techcon paying compensation or a fine.

Part (b)

A comparison of Techcon's current practice with best practice, as set out in the Listed Companies (Code of Corporate Governance) Regulations, 2017, shows several significant deficiencies.

Firstly, the Code requires that the roles of Chairman and Chief Executive Officer should be separated. This is to avoid any one person acquiring too much dominance over the company and exercising decision-making without proper discussion and scrutiny. The board minutes show Salmaan Umaar very much dominating the discussions, suggesting that by combining these roles, he is indeed exercising too much dominance and a separate, independent Chairman of the Board would help to address this.

The Code also requires that there should be at least two independent directors, or one-third of the total directors, whichever is higher. While there are three non-executive directors currently on the board, one represents a shareholder and the other is the CEO's brother and a shareholder himself. This leaves only NED2 as apparently independent, which reduces his ability to challenge decisions. There are eight directors in total, so three should be independent. Suitable new independent directors should be recruited.

It appears from the minutes that the previous board meeting was held on 4 April, meaning a gap of nearly six months before the next meeting was held on 29 October. This is too long a gap to allow for proper discussion of issues affecting the company. Ideally, the board should meet at least quarterly.

It is also concerning that the Operations Director and Company Secretary did not attend the board meeting, despite being critical members of the board. In particular, the Code states that the Company Secretary should attend all meetings, or a nominee appointed by the board if a Company Secretary is not able to attend.

The duties of the board include ensuring that 'a system of sound internal control is established' but the discussions documented in the minutes seem to suggest a lack of internal controls, with decisions being made at the personal direction of the CEO. For example, a branding consultant was appointed without any involvement even from the Marketing Director. There is scope to improve the quality of discussion and challenge by having key decisions brought to the board for scrutiny before being finalised, rather than simply made by the CEO.

It is important that the internal audit function operates independently of senior management, reporting functionally to the audit committee to ensure their independence. From the board minutes, it seems that the CEO is personally directing the focus of the internal audit function, which is not appropriate. As chair of the audit committee, NED2 needs to assert the independence of the function to focus on areas they see as highest risk.

Part (c)

Person specification

The items included in the draft person specification are important but there are some additional points that could usefully be included.

Firstly, it would be helpful for the candidates to have CEO or senior management experience at a quoted company. Managing a quoted company and dealing with the shareholder relationships and compliance issues that result in very different from a privately-owned company. The new CEO will have to rebuild relationships with shareholders and quite probably regulators, so previous experience of doing this would be helpful.

A good candidate would also be skilled at building relationships with board members. It seems that the relationship between the CEO and board has been quite poor, which makes it very difficult to run the company effectively. Rebuilding this relationship will be a key task of the new CEO and it would be helpful for them to have experience of this.

In its rapid growth, Techcon may have failed to develop appropriate controls, as seen by the centralised decision-making by the previous CEO and concerns over the safety and reliability of products. It would be useful for a new CEO to have experience of putting more formal controls in place and strengthening an organisation's overall control environment.

One other point that could usefully be added is a preference for the candidate to have a strong focus on quality of products. While Techcon's products have been innovative and successful, the CEO's tweet and apparent lack of concern for quality and safety suggest that some of the focus on customer satisfaction may have been lost. A CEO with a strong track record in this area could help re-establish this focus.

Candidates

Candidate A:

Both candidates do appear strong and worth considering. Candidate A has experience of running a major technology company, which is highly relevant, as well as an emphasis on talent management, which will be important for an innovative, fast-growing company like Techcon. They also have experience of managing relationships including with the board, and in being proactive in communicating with them.

Candidate A is a qualified accountant and former Finance Director, which should ensure a good commercial understanding and focus on effective internal control. On the other hand, Candidate A does not seem to have direct experience of running a fast-growing business, as DYJ is already a large company. It is also owned by a private equity firm, which means that A will not have experience of dealing with the compliance aspects of being a quoted company or dealing with institutional shareholders, at least not recently.

Candidate B:

Candidate B has direct experience of leading a company through a floatation and adjusting to the new environment that this required, including the focus on controls, managing relationships and hiring a suitable management team. This seems like very relevant experience to improve Techcon in its current situation, as it adjusts to being a quoted company.

Candidate B also has a very successful record, with growth of 300% in turnover under his/her leadership, although further investigation would be needed to identify the causes of this, and how effectively that revenue was translated into profit.

Candidate B also focuses on the customer, an emphasis that will be important to Techcon in recovering their situation.

Candidate B's education is not specified, and this would also need to be the subject of enquiry.

Conclusion and recommendation

Candidate A and B are both strong candidates and further investigation is needed, but based on the information supplied Candidate B has more relevant skills and experience to lead the improvements required at Techcon, particularly having led a fast-growing company and managing the transition to being quoted.