



Institute of Certified Management Accountants of Sri Lanka

May 2015 Examination

Integrative Case Study (ICS - 405)

Instructions to candidates:

The Integrative Case Study (ICS - 405) of May 2015 Examination comprises of two scenarios; **Scenario I**, **Scenario II** and the **Question** paper.

Scenario I

Scenario I is provided in this web site and has information about the company and industry, on which the question paper will be based.

This is **not** allowed in the examination hall.

Scenario II

Scenario II is a continuation of **Scenario I**. **Scenario I** together with **Scenario II** will be provided with the **Question paper**, at the **Examination**.

Question paper

The question paper will be of **3 hours** duration and will have **one** question based on **Scenarios I** and **II**.

The Fall of an Agro-Forestry Company

Scenario I

Introduction

Touchwood Investment Plc (TWI) commenced its operations in 1999 as a private limited liability company and was listed on the Colombo stock exchange in 2007. It was carrying agro-forestry business in Sri Lanka until 2014 when investors challenged the company in a winding up case.

The main business of TWI was to cultivate and sell high value tropical timbers and forest products such as Mahogany, Vanilla, Sandalwood, Teak and short-term cash crops. Agro Forestry industry is recognized as a promising business around the world with appealing profitability in the long run. TWI captured the market by maintaining a momentum of growth within a short period of time. Mr. and Mrs. Maloney, major shareholders of the company had incorporated similar companies in other countries such as Thailand, Hong Kong, Dubai, Cambodia and Australia through separate investments.

TWI had been showing improved financial performance, over the time mainly due to the recognition of unrealized profits arising from fair value accounting for biological assets as per International Accounting Standard 41: Agriculture. However, the financial performance for the year ended 31st March 2013 was only Rs.81 million with a 42% drop compared to the previous year's results. The revenue of TWI was growing steadily until 2011 and then it started gradually to slow down. The composition of revenue for the last five years is given in appendix 4.

TWI was undergoing serious internal control issues pertaining to cash managements, payment systems and related party transactions. Hence, the financial performances of TWI were not supported by real cash flows from operating activities. There were some news articles and rumours spreading about cash flow problems and frauds within the company in the recent past. However, the real crisis of the company arose when it was struggling to settle dues to investors and clients who had invested in trees in Sri Lanka and in Thailand.

When the cash crises aggravated, the management requested clients to whom cheques had been issued to delay the collection of money for cheques until the company would deposit adequate cash in the bank account. Meantime, some of the cheques issued were bounced by the bank as that bank account was closed. Then, the new CEO issued them his personal cheques with a view to settle the matter without jeopardizing the survival of the company but such efforts failed. The registered address of the company was changed from one place to other and newspaper articles appeared indicated that the salaries of the employees were also not paid over more than one year.

Roscoe Maloney, a founder of the company was the chairman until September 2013 when Mr. Kiwlegedara took over the chairmanship as the new CEO at the verge of winding up challenge. Mr. Maloney and his wife held around 63% stake of the company shares before it was listed on the CSE in 2007 and the percentage of holding came down to 15% consequent to the public issue of shares. The public holding of shares was 55% when TWI was listed on the CSE in 2007 and more than 75% when the company faced the challenge of winding up in 2014. Mr. Maloney held 17% of shareholdings as at 31st March 2013 as per the last annual report issued. The wife of Mr. Maloney, who was a board member and the deputy chairman until 2013, held a 9% stake of the company as on that date. However, Mrs. Maloney disposed all the shares she held in the company whereas the shares held by Mr. Maloney were gradually sold out by reducing his stake. As per the interim financial report for the quarter ending 30th June 2013, the stake of shares held by Mr. Maloney was just 9%.

The share price of TWI was soaring with speculations of high returns on investment after its listing on the CSE until the year 2010. Year-end share price was as high as Rs.104.75 at the end of year 2010. Then the market price of a share was significantly dropping. The highest share price during the period from 2007 to 2013 was Rs.178 which was reported in the year 2007. Consequent to the negative information, winding up challenge and financial control issues, the market price of a share went down even to Rs. 0.80 during the year 2014. The movement of share prices is given in table 1.

Table 1: Movement of Share Prices of TWI (Rs.)

Year	Year-end	High	Low
2013	5.70	22.00	5.30
2012	15.50	33.00	12.80
2011	23.50	110.00	21.50
2010	104.75	165.00	49.25
2009	50.50	160.00	40.00
2008	90.25	160.00	31.00
2007	56.00	178.00	51.00

The new chairman and CEO, Mr. Kiwlegedara showed some hopes of reviving the company by proposing several plans to meet the liabilities of the clients during the process of legal proceeding to wind up the company. Despite the fact that the present management was trying hard by taking lots of measures to avoid the threat of winding up, the commercial high court issued a winding up order in June, 2014. TWI then filed an appeal in the Supreme Court against the Commercial High Court order but failed. Subsequently a liquidator was appointed and the company is now in the process of liquidation.

Company Profile

The principal activities of TWI were reforestation, maintenance and sale of reforested areas to investors with guaranteed revenue from timber and related products. The last annual report indicated that TWI has adopted global best practices across every aspect of its operations. A summary of all the trees planted from the inception of the company up to the year 2012 is given in appendix 10.

The total asset of the company as at 31st March 2013 was more than Rs.8 billion whereas the total liabilities at the same date stood at just below Rs.5 billion. Summarized statements of financial positions at the ends of last five years are given in appendix 2. The stated capital as at 31st March 2013 comprised of 71,270,400 Ordinary Shares and 3,040 preference Shares. The preference shares were issued on 3rd July 2003, at a redemption premium of Rs.196,500/-, which is payable together with 1% annual dividend. These Preference Shares were redeemable at the end of the 18th year from the date of allotment.

Financial performances of the company were positive all the time despite the fact that it fluctuated over time significantly mainly due to changes in fair value adjustments to biological assets. Summarized income statements for the last five years are given in appendix 1. However, TWI has shown an operating loss all the time over the same period as per the reconciliation with cash flows. There were net cash used in operating activities over the last three years. Summary of cash flow statement for the last five years is given in appendix 3.

The vision of the company was as a world where forest products are obtained from sustainable managed Agro-forestry leaving their natural forests just as nature intended them to be. In line with the vision of the company, the mission states that it is to grow trees that are commercially viable and environmentally sustainable, to make their clients wealthy and healthy; creating an environment for their employees that promotes job satisfaction, safe in the knowledge that they are saving the rainforests whilst acquiring wealth. The company further states that a set of values and beliefs based on the concept of triple bottom line comprising People, Planet, and Profit are upheld. The values of TWI focus on the following.

- All stakeholders are given equal importance.
- The culture of every employee and organization is respected.
- Diversity and objectivity of employment is maintained.
- Integrity and honesty are valued even at the risk of a loss in profits.
- Compete as a team.

TWI won the national quality award in 2011 and was successfully complying with ISO standards in relation to environmental management. TWI conducted its operations in conformity with the ISO 14001 standards, as well as the ISO 9001 process standard for Quality Management. The ISO 14000 standards represent effective environmental management and provide both a model for streamlining environmental management, and guidelines to ensure environmental issues influential on decision-making practices. The compliance levels of ISO 14001 were self-disclosed in the annual report as given in table 2.

Table 2: Compliance Levels

Aspect	Compliance Level (%)
Aspect registers maintained, audited and improved annually	95
Environmental Impact Assessment records maintained	95
Water – (all natural sources are protected)	100
Energy – (90% of our plantations utilize solar energy)	90
Bio diversity – (maintained everywhere possible)	40
Soil protection - prevention of erosion through ground cover crops, bio diversity etc...	80

Breach of Listing Rules

The Securities and Exchange Commission (SEC) of Sri Lanka, the main regulator of capital market operations had concerns about the conduct of TWI. In the report, that SEC submitted to the court in connection with winding up case has mentioned that TWI had deliberately ignored the compliance requirements of SEC. Further, it was also noted that the proceeds from the rights issue of shares were not utilized as mentioned in the prospects.

TWI was also blamed for market manipulation and involvement of directors in siphoning off of company funds. As a result, SEC had issued directives in 2013 and 2014 by restricting on managing and alienating company assets. Finally, the trading of share on the CSE was suspended by SEC after considering the status of court proceedings and the magnitude of possible frauds surfaced. However, SEC was not in the favour of winding order on the ground that such news could have a negative impact on the market.

Valuation of Biological Assets and Audit Opinions

The external auditors of the company were Kulathunga & Co., until Mr. Lakshman Kulathunga, a partner of the audit firm joined the management team as the head of finance. Subsequently he was appointed to the board as an independent director. Mr. Kulathunga held the chairmanship of the audit committee as well. The successors to Kulathunga and Co., were messes KPMG, Ford Rhodes, Thornton and Company and they worked as the auditors until 2013 when the new auditors, Dayananda Samarawickrama and Co., were appointed.

TWI opted to value its plantations in accordance with the International Accounting Standard (IAS) 41: Agriculture from the year 2004/2005 onwards on a consistent basis. During the year 2006/2007, the company auditors KPMG, Ford Rhodes, Thornton and Co., qualified the audit opinion; on the ground that the discount rate used (12%) was too low and did not reflect the long term risk free rate and the premium for other risk factors thus resulting an overstatement of biological assets as at 31st March 2007 by Rs.783,621,031/-.

The audit opinions for the years 2007/2008, 2008/2009 and 2010/2011 given by KPMG, Ford Rhodes, Thornton and Co., were unqualified. However, the both audit opinions for the years 2011/2012 and 2010/2011 were qualified by KPMG, Ford Rhodes, Thornton and Co., as follows.

Audit Opinion (2010 / 2011)

“The fair values of the biological assets are estimated using discounted cash flow method. Accordingly, the Sandalwood trees planted during the year were valued and an initial recognition gain of Rs.1.1 billion was recorded. However due to the unavailability of growth patterns corresponding to relevant height of trees, we were unable to verify the appropriateness of the above initial recognition gain from fair valuation with census records obtained through physical verification of trees”

Audit Opinion (2011 / 2012)

“The fair value of the biological assets is estimated using discounted cash flow method. Accordingly, the Sandalwood trees which were planted during 2010/2011 and valued at Rs.1.1 billion have been revalued at Rs. 1.3 billion as at 31st March 2012 and a gain of Rs. 200 million has been recorded for the year ended 31st March 2012. However, due to the limitation of information demonstrating that the growth patterns corresponding to the relevant trees have been integrated in to the financial valuation, we were unable to verify the appropriateness of the above gain from fair valuation”.

The new auditors expressed that the company had maintained proper accounting records and the financial statements give a true and fair view of the financial position of the company and of its financial performance and its cash flow in accordance with Sri Lanka Accounting Standards by giving a clean opinion for the year 2012/2013 without highlighting any clue about the potential winding up threats and financial difficulties faced by TWI. It was noted that the audit fee for the current year 2012/2013 amounted to Rs. 1,700,000. The last audit fee paid to previous auditors was Rs. 1,525,000.

Agro Forestry Industry

Agro-forestry is the management of trees for forest products. Hence, the industry ensures demand for forest products, such as timber, plant oils and medicinal components of plants are made accessible without depleting available limited resources. The agro- forestry industry contributes towards multiple environmental benefits, such as prevention of soil erosion, conservation of wild life and bio diversity, while generating employment opportunities as well.

The average annual rate of return on timber over last 25 years was above 15% compared to 13% for the Standard & Poor’s 500 stock index. Agro-forestry industry is said to have a poor correlation with global commodities, stocks and bonds as a result it was possible to be resilient in the face of global financial crisis with a least effect.

The forest cover in Sri Lanka has been declining continuously over several decades. Statistics on forests highlight that Sri Lanka's closed canopy forest cover has declined to 44% by showing a 50% drop by 1956 when compared to the situation prevailed in 1880s. Further it fell to 22% percent in 1996. Due to stringent protective and other measures undertaken by the government on felling of natural forests in the country in 1990, and increasing concerns on environmental protection in the society may have contributed to the deceleration of the rate of depletion since the beginning of the last decade. Meanwhile, the total extent of forest plantations, established for commercial or protective purposes, was estimated as 1.4% of the total forest cover of the country in 1996.

The demand for forest products such as sawn timber, pulpwood, board, and wood-based panels has been increasing significantly over the past 50 years. The volume of trade in wood-based panels has increased in many folds during past few decades. Hence, only the natural forests cannot sustainably meet this increasing global demand. Prevailing conditions to some extent, have paved the way for illegal black markets around world. Therefore, the need for investment in agro-forestry is admired in many aspects. This industry converts a significant amount of land area in to wood forests every year. Therefore, properly managed agro-forestry is regarded as a sustainable solution for global timber demand.

TWI had been expanding the area of its plantation with different types of plantations over time. The total land area of plantation as per the annual report of 2013 had extended over more than 2,600 acres. Around 26% of the land area covers with purely Mahogany plantation. A summary of its plantation as disclosed in the annual report of the company as of 31st March 2013 is given in table 3 below.

Table 3: Type of Plantation, Location and Land Extent

Type of Plantation	Location	Plantation Name	Land Extent Acres
Mahogany	Ratnapura	Ihalakanda	68
	Ratnapura	Munihinkanda	47
	Ratnapura	Kalugalahena	37
	Ratnapura	Footprint	84
	Ratnapura	Gomaragala	67
	Ratnapura	Sr Anthony's	43
	Mathugama	Harley	45
	Mathugama	Pelawatta	33
	Mathugama	Leelajan	46
	Mathugama	Kukulaganga	40
	Mathugama	Panthiya	117
	Matale	Rusigama	23
	Matale	Pallethanna	10
	Matale	Pamunuwa	23
Mahogany and Vanila	Ratnapura	Liyanagama	70
	Matale	Ambanganga	108
	Matale	Salagama	49
	Kandy	Burnside	47
Mahogany, Vanila and Teak	Matale	Seelani	91
	Matale	North Matale	67
	Matale	Kent	29

Mahogany, Vanila and Rubber	Kandy	Cliveland	56
Sandalwood	Badulla	Lower Ley Grow	26
	Badulla	Palugedara	95
	Badulla	Kandekatiya	47
	Badulla	Soranathota	69
	Badulla	Meegahakiwla	25
	Badulla	Aggalaulpatha	32
	Badulla	Kivlegedara	51
Sandalwood and Teak	Ratnapura	Panketiya	48
Sandalwood, Coconut and Mango	Badulla	Farm Grow	374
Coconut	Polonnaruwa	Carson	600
Teak	Anuradhapura	Doramadalawa	49

Selected Accounting Policies

Valuation of Biological Assets and Agricultural Produce

The biological assets are stated at its fair value less estimated point of sale cost, with any resultant gain or loss recognized in the Comprehensive Statement of Income. Point of sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market. The biological assets are classified as Consumables and Bearer biological assets. Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Bearer biological assets are those other than consumable biological assets. Bearer biological assets are not agricultural produce but, rather, are self-regenerating. Mahogany, Teak and Sandalwood trees are considered as Consumable biological assets and Vanilla vines are considered as Bearer biological assets. (See appendixes 5 to 9 for details of matured trees and the impact of the application of fair values on income and the value of assets).

Value of Mature Mahogany Tree, Sandalwood Tree and Vanilla

Market value is determined by considering the average market price as per the standard specification as at the reporting date, net of selling cost.

Provision for Purchase back Guarantee

Provision for Purchase back guarantee is created for the guarantees given to purchase back the harvest at an agreed price at a specific time. The liability is measured based on the present value of the cost expected to be required to settle the obligation. Further, as per the agreement entered into with customers, the value of purchase back guarantee will be reduced to 50% or 33 1/3 % of the initial agreed amount, if the payment of maintenance fee defaulted for more than 3 years. Where volume back guarantees are provided considered as contingent liability and those trees are not considered as Biological assets accordingly.

Revaluation of Lands

The company revalues its lands at least once in every three years at its fair value at the date of revaluation less any subsequent impairment losses. On revaluation of land, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognized in the Statement of Comprehensive Income. A decrease in value is recognized in the Statement of Comprehensive Income where it exceeds the increase previously recognized in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

Business Strategy

TWI adopts the latest techniques and technologies throughout all the plantations while constantly engaging in research and development activities to explore new opportunities and serve customers better. The investment in TWI is labeled as a socially responsible investment as the outcome of the investment is supposed to produce ecological and environmental benefits.

During its boost, TWI was able to maintain a good corporate image. TWI was ranked within Sri Lanka's Top 100 Brand Index for successively four times. The ranking was done by Brand Finance (Lanka), a subsidiary of Brand Finance PLC, a global company. This information was disclosed in Lanka Monthly Digest (LMD), a business magazine. The annual report of the company for the year 2013 mentioned that TWI is in the business of creating a brighter future for their investors, future generations and for mother Earth.

Business Model

The main business model of TWI goes through five steps; acquisition of land, cultivation, crop maintenance, harvest and distribution of returns.

Step 1 – Acquisition of Land

Expert opinion and consultation are obtained from forestry management, horticultural and bio-diversity experts before acquiring large extents of land. A particular attention is given on the factors such as the nature and crop species, rainfall, soil type, land typology, climatic and soil conditions.

Step 2 – Cultivation

The focus of cultivation is on high value timbers which have been protected by the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES). The demand for such crops well exceeds the supply and therefore is capable of giving a high yield to investors. In order to achieve sustainable production, land use is optimized through integrated farming and agro forestry technologies and implementation of appropriate, sustainable agricultural practices.

Step 3 – Sustainable Crop Maintenance

High commitment is given to protect plantations and these efforts have been recognized as the standard in Asia for managed forestry maintenance practices. Accordingly, experts engaged in providing support for agro-forestry, forest silviculture, forest management, horticulture and carried out bio-diversity Research and Development activities to quantify the total carbon sequestration and development of a Geographic Information System (GIS) for TWI's forest plantations.

Internal auditors monitored the plantation health through a random sampling process in collaboration with independent auditors. Clients of TWI were said to have been given the opportunity to visit their plantations with TWI's staff. A special report on how the plantations are maintained is sent to clients those could not visit their plantations.

Step 4 – Harvesting

Harvesting is carried out with the intention of maximizing the value of the final product. Therefore, harvesting and processing centres were said to have been equipped with both the technology and the know-how to ensure the quality of final product. Products are placed in the market for sale through its global network thus assuring a price at or above prevailing market prices. Alternatively, clients have the option of selling the product independently if the price offered at harvest does not meet their expectations.

Step 5 - Distribution of Returns

Global network is said to have the potential of selling products with an earnings ability that exceeds ten times the outflow at maturity. Due to the nature of the business, it lends itself conducive for Carbon Trading thus extending the earnings capability. Bio culture and cash crops create a scenario for increased returns whilst the model also lends itself towards eco-tourism prospects. At the inception of each investment plan, a harvest certificate is issued and the company claimed that it was a legally binding and tradable certificate. As per the agreements, the harvest will either be delivered or purchased back at the prevailing market value on a future date.

Promotional information revealed that a right of ownership of the land and trees is also given with respect to all the investment plans. In addition, it was mentioned that all the plantations have been fully insured and harvest is guaranteed in all the cases. Investment plans in relation to three major products are given below.

Vanilla Plantation

Vanilla grows as a vine and can be grown in a wood. Vanilla plant grows best in a hot, humid climate, in an elevation of around 1,500 meters. The ideal growing conditions are moderate rainfall, 150-300 cm, evenly distributed through 10 months of the year. Vanilla is harvested every nine months and therefore, allows for an annual return on yield. This enhances the returns to investors who will be able to avail themselves of the annual return from the vanilla yield as well as a lump sum return. Vanilla remains the single most popular flavouring agent in culinary works and is also used in cosmetics and perfumes. The global demand for vanilla continues to exceed production. There are three main commercial preparations of natural vanilla: whole pod, powder, and extract.

The investment proposal of TWI in vanilla comes as a 12 year investment term. Investors can expect an annual recurring income from the beginning of the year 3 onwards for 10 consecutive years. The area of plantation, guaranteed harvest, cost of investment and return and IRR of each investment are given in table 4.

Table 4: Details of Investment in Vanilla Plantation

No. of Perches	No. of Vines	Guaranteed Harvest (KG)	Total Plantation Cost	Projected Harvest Return	IRR %
40	250	1,900	825,000	2,955,062	16
80	500	3,800	1,562,000	5,910,124	17
160	1,000	7,600	2,970,000	11,820,248	18

Determination of Harvest patterns

- Time period to obtain harvest is 4th year from date of planting.
- A mature Vanilla vine would give a total harvest of 15Kg during its maturity.
- Value per immature Vanilla vine is determined by considering expected harvest pattern of wine.
- Rate of return on capital is assumed to be 20% all the time.

Sandalwood Plantation

Sandalwood is one of the oldest known sources of perfume. The origins of the tree is reported from China, India and Egypt, it is now also grown in other locations such as Philippines, Indonesia and Sri Lanka as well. The oil of Sandalwood is extracted from the heartwood through a steam distillation. Traditional medicines incorporate sandalwood oil as an expectorant and an anti-spasmodic. The oil is incorporated in soaps, incense, medicines, aromatic timber and is used as an essential oil.

The price of Sandalwood is on a rising trend. The price of Sandalwood has increased at about 20% per annum, over the past 25 years. Sandalwood timber and oil prices have risen significantly over the years and it is projected to continue. The present production around the world is estimated at below 50 tons while the global demand is expected to reach 80 tons in the near future. Each tree yields up to 30-35 kilograms of saleable timber at a price averaging of Rs.10,600 (USD 106) per kilo. Approximately 10-14 tons of heartwood can be harvested from a hectare.

The investment proposal of TWI in sandalwood comes as a 16 year term and the guaranteed harvest is 25 Kg of timber per tree after 16 years. A down payment is required to be paid for each volume of investment and 10% of each down payment should be paid as annual maintenance fee for 15 years in order to be eligible for the return on the investment at the end of year 16. Number of trees, Down payment, and annual maintenance fee, total cost of investment, return and IRR of each investment are given in table 5.

Table 5: Details of Investment in Sandalwood Plantation

No. of Trees	Down Payment (Rs.)	Annual Maintenance Fee (Rs.)	Total Cost of Investment (Rs.)	Projected Harvest Return (Rs.)	IRR %
50	850,200	80,520	2,013,000	25,000,000	21
100	1,536,700	153,670	3,841,750	50,000,000	22
200	2,928,200	292,820	7,320,500	100,000,000	22

Determination of growth patterns

- Time period for maturity estimated at 16 years.
- Average mature tree would contain 25 kg of heart wood.
- Fully mature tree expected to have average girth (Root Collar) of 70 cm.
- Discount Rate of 13% in 2013 and 2012 (12.5% in 2011 and 2010 was used).

Mahogany

Mahogany is a luxurious timber and has been listed by the CITES as an endangered species. It is very durable and used for manufacturing of yachts, high-end furniture and interior constructions. It has a reddish-brown colour, which darkens over time, and displays a beautiful reddish sheen when polished. Maturity for the Mahogany timber is at the age of 15 years, if fertilized and maintained. To obtain the optimal value, trees are felled at 18 years, allowing for the timber to acquire substantial graining and to be well seasoned.

The investment proposal of TWI mentions that the 18 year investment in Mahogany gives an IRR of 17%. A down payment is required to be paid for each volume of investment and 10% of each down payment should be paid as annual maintenance fee for 17 years in order to be eligible for the return on the investment at the end of year 18. Number of trees, Down payment, and annual maintenance fee, total cost of investment, return and IRR of each investment are given in table 6.

Table 6: Details of Investment in Mahogany Plantation

No. of Trees	Down Payment (Rs.)	Annual Maintenance Fee (Rs.)	Total Cost of Investment (Rs.)	Projected Harvest Return (Rs.)	IRR %
40	393,750	39,375	1,063,125	10,000,000	17
80	743,750	74,375	2,008,125	20,000,000	17
160	1,450,000	145,000	3,915,000	40,000,000	17

Determination of growth patterns

- Time period for maturity is 18 years.
- Average mature tree would contain 0.9 cubic meters of timber.
- Fully mature tree is expected to have an average height of 64 feet.
- Discount Rate of 13% in 2013 and 2012 was used (12.5% in 2011 and 2010) as the rate of return on the capital. This rate is based on the current accepted rates of returns expected by investors and general rates used by the valuers.

Determination of growth patterns-Teak

- Time period for maturity is 18 years.
- Average mature tree would contain 0.7 cubic meters of timber.
- Fully mature tree is expected to have an average height of 70 feet.
- Discount Rate of 13% in 2013 and 2012 (12.5% in 2011 and 2010 was used).

Composition of Shares and Right Issue of Shares

The Board of directors resolved to recommend a right issue of shares to the existing shareholders on 1:1 basis thus increasing the total number of share to 17,817,600 in the year 2010. The right price of a share was Rs.60/-. Then all the shares were subdivided in to 71,270,400 shares by applying 4:1 ratio. Subsequently, the total number of ordinary shares was increased up to 106,905,600 shares through a capitalization of reserves made in November 2012. The consideration per share which was based on an assessment by a professional valuer had been set as Rs.8.75 per share. Shareholding of Both Mr. and Mrs. Maloney and few other significant shareholding over the history of TWI are given in Table 7.

Table 7: Significant Shareholders as a percentage of total shareholdings

Shareholder	2013	2012	2011	2010	2009	2008	2007	2004
Lanka ORIX Leasing PLC					29.20	29.20		
Galleon International Master Fund					13.50	11.28		
Mr. R.A. Maloney	16.37	16.37	16.37	16.37	5.61	5.61	5.61	38.16
Mrs. S.G. Jamburegoda (Wife of Mr. Maloney)	8.99	8.99	8.99	8.99	8.99	8.99	8.99	24.79
Touchwood limited	3.38	3.55	3.55	3.55				
Nuwara Eliya Property Developers		1.06	1.25	2.92				
HSBC international Nominee		2.51	2.65					

Related Party Transactions

TWI was carrying out and disclosing lot of related party transactions. Accordingly, it had had transactions with two of its subsidiaries namely, Twood Flooring (Pvt) Ltd and Farm Grow (Pvt) Ltd and other affiliated companies namely Touchwood Ltd, Touchwood (Pvt) Ltd, Touchwood Asia Ltd and Green Forestry Ventures (Pvt) Ltd., Lanka ORIX Leasing and Farm Grow (Private) Ltd where both Mr. and Mrs. Maloney were common directors except Lanka ORIX Leasing. Table 8 summarizes the related party transactions that took place over last five years.

Table 8: Related Party Transactions

Name of the Related Party	Nature of the transaction	2013	2012	2011	2010	2009
Touchwood Ltd (TL)	Agar wood Annual Fee	(1,251,935)		18,050,509		
	Agar wood Sales Commission	15,284,514		(210,667)	12,444,942	8,050,540
	Local Product Reinvestments	26,259,230				
	Local Product Investments against Agar wood Return	16,699,040		(797,650)	(15,979,639)	727,850
	Payments made on behalf of TL	2,121,823		(12,653,634)		(674)
	Annual fee set off against return	1,652,125				
	Return paid on Agar wood Product	69,980,042				(12,200,244)
Touchwood (Pvt) Ltd (TPL)	Payments made on behalf of TPL	(32,130,911)	15,000	324,243		
	Debenture Interest	(2,538,710)				
	Write Off of Balances	(1,156,643)				
Twood Flooring (Pvt) Ltd (TFL)	Interest on loan	2,959,966	18,466,667	(7,000,000)		
	Payments made on behalf of TFL	737,459	26,540,794			
	Short Term Loans Given	25,346,413	20,000,000	(88,000,000)		
	Cash Receipts		(50,000,000)	122,221		
	Payment for Expenses			(14,899,241)		
	Share Purchases			14,700,000		
Touchwood Asia Ltd	Technical Fees	(1,556,300)	(1,370,350)	(1,344,560)	(1,380,480)	(6,926,400)
	other Expenses	139,482		(3,161,434)	259,350	
	Interest Expenses				(1,493,702)	
Green Forestry Ventures (GFV)	Audit Fees and other expenses	40,000			91,950	
	Payments made on behalf on GFV	(337,732)	1,500	25,000		
	Sale of Trees		37,383,720	17,325,000	14,300,000	
Farm Grow (Private) Ltd	Expense on Buildings		517,900	(752,837)	3,448,530	
	Expenditure over land		299,990	(6,015,025)	4,600,000	
	Audit Fees		17,500	(10,000)	15,000	
	Directors Loan				24,980	
Lanka ORIX Leasing	Loans Obtained					35,000,000
	Repayment of Loans					(20,000,000)
	Interest					(5,148,749)

Appendices

Appendix 1: Income Statements (Rs.)

	2013	2012	2011	2010	2009
Revenue	1,132,547,641	1,196,403,047	1,466,429,264	857,482,369	727,010,387
Direct expenses	<u>(90,447,543)</u>	<u>(104,073,597)</u>	<u>(74,675,144)</u>	<u>(78,815,172)</u>	<u>(67,659,133)</u>
	1,042,100,098	1,092,329,450	1,391,754,120	778,667,197	659,351,254
Other Income	10,125,819	14,642,494	88,415,157	5,188,622	3,434,559
Selling Expenses	<u>(83,652,893)</u>	<u>(98,306,094)</u>	<u>(63,580,438)</u>	<u>(40,197,664)</u>	<u>(64,602,316)</u>
Administration Expenses	<u>(144,629,684)</u>	<u>(151,693,803)</u>	<u>(142,786,601)</u>	<u>(70,384,349)</u>	<u>(87,932,340)</u>
Other Expenses	<u>(740,934,281)</u>	<u>(714,622,817)</u>	<u>(862,908,633)</u>	<u>(311,607,493)</u>	<u>(245,807,745)</u>
Profit from operating Activities	83,009,059	142,349,230	410,893,605	361,666,313	264,443,412
Net finance Income/ (Expense)	<u>(13,398,864)</u>	<u>31,314,687</u>	<u>(11,165,274)</u>	<u>(20,640,281)</u>	<u>(9,538,329)</u>
Profit Before taxation	69,610,195	173,663,917	399,728,331	341,026,032	254,905,083
Taxation credit /(Expense)	<u>11,544,939</u>	<u>(48,589,810)</u>	<u>(42,727,364)</u>	<u>(50,421,456)</u>	<u>(284,607)</u>
Profit for the year	81,155,134	125,074,107	357,000,967	290,604,576	254,620,476
Other Comprehensive Income					
Actuarial gain /(loss)	<u>(1,481,395)</u>	<u>128,475</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Revaluation Gain on Land	<u>131,603,599</u>	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Comprehensive Income for the year	<u>211,277,338</u>	<u>125,202,582</u>	<u>357,000,967</u>	<u>290,604,576</u>	<u>254,620,476</u>
EPS	0.76	1.17	5.28	6.83	28.55

Appendix 2: Statements of Financial Positions (Rs.)

Statement of Financial Position	2013	2012	2011	2010	2009
<u>Non-Current Assets</u>					
Property Plant and Equipment	846,608,050	690,094,213	633,979,312	558,364,043	289,054,958
Investments	252,668,995	22,700,000	19,700,000	5,000,000	
Leasehold Right over Bare Land	6,722,419	6,962,506		21,403,300	16,046,667
Mature Trees	162,016,125	162,237,439	147,237,439	107,373,011	107,373,011
Biological Assets	6,396,093,611	5,510,385,663	4,525,951,667	3,316,555,856	2,692,811,187
Other Non-Current Assets	<u>164,501</u>	<u>53,000</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
	7,664,273,701	6,392,432,821	5,326,871,418	4,008,696,210	3,105,285,823
<u>Current Assets</u>					
Inventories	6,833,216	8,196,114	9,109,164	5,339,681	15,108,137
Trade Receivable	39,255,652	31,981,504	26,465,733	13,465,162	12,695,886
Amounts due from Related Parties	279,621,743	144,661,867	111,127,005	8,972,880	462,880
Short term Investments	-	11,791,860	20,000,000	-	-
Other Current assets	79,728,541	59,929,309	36,667,119	-	-
Cash and Cash Equivalent	<u>19,808,749</u>	<u>197,982,426</u>	<u>371,582,255</u>	<u>29,218,118</u>	<u>14,605,570</u>
	<u>425,247,901</u>	<u>454,543,080</u>	<u>574,951,276</u>	<u>56,995,841</u>	<u>42,872,473</u>
	<u>8,089,521,602</u>	<u>6,846,975,901</u>	<u>5,901,822,694</u>	<u>4,065,692,051</u>	<u>3,148,158,296</u>
<u>Equity and Liabilities</u>					
Stated Capital	935,424,000	623,616,000	623,616,000	89,088,000	89,088,000
Revaluation Reserve	297,246,429	477,450,830	479,346,332	479,346,332	213,491,560
Capital Reserve	2,396,946,029	2,233,868,483	1,968,070,728	1,621,569,800	1,308,608,448
Preference Share Redemption Reserve	104,358,594	83,809,778	66,394,383	51,564,502	39,075,834

Other Reserves	(1,352,920)	128,475	-		
Retained Earnings	(466,880,869)	(364,409,640)	(199,143,557)	(194,813,715)	(25,645,422)
	3,265,741,263	3,054,463,926	2,938,283,886	2,046,754,919	1,624,618,420
Liabilities					
Non-Current Liabilities					
Preference Share Capital	27,949,728	27,945,728	27,936,728	27,919,728	27,917,728
Provision for purchase back Guarantee	3,869,706,289	3,147,075,885	2,501,462,361	1,651,693,858	1,349,582,697
Debenture	55,765,004	47,731,546	40,900,383	35,123,210	30,060,359
employee Benefits	6,072,425	6,938,926	5,883,433	2,754,096	2,046,951
Deferred Taxation	240,315,387	250,796,536	216,893,100	177,081,816	184,462
Deferred Revenue on annual maintenance	256,735,387	118,869,242	47,345,299	24,612,392	11,250,797
Accumulated Preference Dividends Payable	2,822,619	2,518,619	2,214,619	1,910,619	1,606,619
Reservation and Establishment fee advances	86,726,653	41,472,407	25,095,193	32,637,403	28,100,361
Borrowings	36,518,136	29,126,790	22,631,238	4,793,125	1,500,000
	4,582,611,628	3,672,475,679	2,890,362,354	1,958,526,247	1,452,249,974
Current Liabilities					
Borrowings	42,308,460	14,101,528	7,198,732	5,266,584	36,771,374
Amounts due to related Parties	10,511,526	9,094,708	19,148,404	16,576,721	10,427,192
Income tax payable	6,469,570	10,729,583	10,430,572	7,688,456	232,214
Trade Payable	147,723,882	73,952,237	25,313,826	19,003,633	14,318,494
Other current Liabilities	9,867,776	7,547,225	11,084,920		
Bank Overdraft	24,287,497	4,611,015		11,875,491	9,540,628
	241,168,711	120,036,296	73,176,454	60,410,885	71,289,902
Total Liabilities	4,823,780,339	3,792,511,975	2,963,538,808	2,018,937,132	1,523,539,876
Total Equity and Liabilities	8,089,521,602	6,846,975,901	5,901,822,694	4,065,692,051	3,148,158,296
Net asset per share	31	29	27	230	182

Appendix 3: Statements of Cash Flows (Rs.)

	2013	2012	2011	2010	2009
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>					
Net Profit before Income Tax Expense	69,610,194	173,663,917	399,728,331	341,026,032	254,905,084
Adjustment for;					
Gain arising from changes in fair value	(885,707,950)	(926,211,695)	(1,249,260,239)	(623,744,669)	(502,314,798)
Depreciation & Amortization	21,592,415	20,007,444	11,916,860	7,030,134	4,354,019
Profit Disposal of Property Plant and Equipment	(428,638)	(3,415,139)	(3,404,962)		(1,780,000)
Interest Income	(15,939,617)	(47,335,636)	(43,278,758)	(1,168,043)	(1,372,686)
Interest Cost	29,123,644	15,758,064	11,165,274	20,336,281	9,538,329
Provision for purchase Back Guarantee	737,613,831	660,413,940	862,894,883	310,783,317	244,160,910
Transfer from Deferred Income Provision/(Reversal) for Retiring Gratuity	(9,227,826)	(4,203,437)	(2,276,532)	(1,861,151)	(321,493)
	3,502,389	1,725,516	3,748,478	1,069,486	(522,189)
Retirement Benefit Obligations - Actuarial gains/(losses)	1,481,395	128,475			

Transferred from Reservation and Establishment Advance	(186,756,200)	(148,467,259)	(179,503,190)	(232,900,262)	(35,247,121)
Preference Dividends	304,000	304,000	304,000	304,000	
Impairment of RP Balances	0	1,156,643			
Provision for Land loss	0	2,122,623			
Provision for Loss on Vanilla Process Beans	0	1,827,000			
Profit / (Loss) on sales of Shares	2,671,663	(7,626,586)			
Over Provision of Income Taxes	(3,926,188)	0			
Provision For Shares		19,880,018			
Operating Profit/(Loss) Before Working Capital Changes	(236,086,888)	(240,272,112)	(187,965,855)	(179,124,875)	(28,599,945)
(Increase)/Decrease in Working Capital	(149,424,244)	(26,186,540)	(34,516,916)	11,722,369	1,893,805
Cash Generate from Operations	(385,511,132)	(266,458,652)	(222,482,771)	(167,402,506)	(26,706,140)
Gratuity Paid	(4,368,890)	(670,023)	(619,141)	(362,341)	(386,758)
Vanilla Return paid	(14,983,427)	(14,711,023)	(13,126,381)	(8,672,156)	(6,130,177)
Interest Paid	(21,065,184)	(8,683,274)	(5,333,101)	(7,731,375)	(3,377,014)
Tax Paid	(1,286,537)	(14,387,363)	(173,963)	(789,227)	(509,698)
Advance received on Reservation and establishment fee	232,010,446	164,844,472	171,960,980	237,437,304	42,032,587
Rental received in Advance on Annual Maintenance	147,093,970	75,727,380	25,009,439	15,222,746	182,188
Net Cash from /(Used in) Operating Activities	(48,110,754)	(64,338,483)	(44,764,938)	67,702,445	5,104,988
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Acquisition of Property, Plant and Equipment	(18,255,562)	(88,205,265)	(39,613,734)	(10,088,251)	(39,946,773)
Proceeds from Disposal of Property, Plant and Equipment	221,314	3,545,000	7,041,713		1,780,000
Proceeds from Right issue of shares			534,528,000		
Investment in shares & other Investments	(155,000,000)	(13,000,000)	(20,000,000)		
Investment in Subsidiaries			(14,700,000)		
Net proceed from shares	9,120,197	5,954,708			
Work in Progress Payments	(6,287,500)				
Interest Income	15,939,617	27,561,291	32,838,171	1,168,043	1,372,686
Investment in trees		(32,222,300)			
Disposal of Matured Trees					502,643
Net Cash from /(Used in) Investing Activities	(154,261,934)	(96,366,566)	500,094,150	(8,920,208)	(36,291,444)
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>					
Calls received for Preference Shares	4,000	9,000	17,000	2,000	70,816
Loans taken during the year	50,800,034	4,000,000		10,000,000	36,500,000
Loans paid during the year	(26,260,210)		(5,219,782)	(48,520,218)	(20,000,000)
Loans Granted			(88,000,000)	(5,000,000)	
(Redemption of Debentures) / Proceeds Received for Debentures	(25,000)	(40,000)	(55,000)	(75,000)	(80,000)
Lease Rentals Paid	(19,996,295)	(14,347,755)	(7,831,803)	(2,911,334)	
Dividend Paid		(7,127,040)			
Net Cash from/(Used in) Financing Activities	4,522,529	(17,505,795)	(101,089,585)	(46,504,552)	16,490,816

Net Increase / (Decrease) in Cash and Cash Equivalents	(197,850,159)	(178,210,844)	354,239,627	12,277,685	(14,695,640)
Cash and Cash equivalent at the beginning of the period	193,371,410	371,582,254	17,342,627	5,064,942	19,760,582
Cash and Cash Equivalents at the End of the Year	(4,478,749)	193,371,410	371,582,254	17,342,627	5,064,942

Note: The difference between cash and Cash equivalent as per the statement of cash flows and the statement of financial position is due the bank overdraft balance which has been shown as a liability in the statement of financial position.

Appendix 4: Breakdown of Revenue (Rs.)

Breakdown of Revenue	2013	2012	2011	2010	2009
Plantation Establishment and Maintenance Income					
Local -Establishment	148,241,586	148,467,259	155,485,353	151,159,005	151,543,624
Local- Maintenance	80,218,277	78,177,278	100,094,396	70,474,599	64,876,218
Foreign	689,504	18,054,925	882,089	4,038,073	727,850
Commission from Agarwood Sales	17,690,324	25,491,890	571,615	5,320,073	8,050,540
Maize Sales	-	-	-	2,745,950	-
Gain from changes in fair value of Biological Assets	885,707,950	926,211,695	1,209,395,811	623,744,669	501,812,155
	<u>1,132,547,641</u>	<u>1,196,403,047</u>	<u>1,466,429,264</u>	<u>857,482,369</u>	<u>727,010,387</u>

Appendix 5: Matured Trees (Rs.)

Matured Trees	2013	2012	2011	2010	2009
Balance at the beginning of the year	162,237,439	147,237,439	107,373,011	107,373,011	107,875,654
Fair Value surplus during the year	-	15,000,000	39,864,428	-	-
Sale of trees	(221,314)	-	-	-	(502,643)
Balance at the end of the year	<u>162,016,125</u>	<u>162,237,439</u>	<u>147,237,439</u>	<u>107,373,011</u>	<u>107,373,011</u>

Appendix 6: Movement of Biological Assets: Mahogani (Rs.)

	2013	2012	2011	2010	2009
Carrying amount at the beginning of the year	2,666,716,774	2,354,247,066	2,377,575,507	2,046,091,179	2,039,736,432
Fair value Gain/(loss) due to					
Physical Change	147,466,393	170,402,862	253,674,863	230,629,419	(126,426,953)
Price Change	293,814,024	279,611,955	(277,003,304)	100,854,909	132,781,700
Discount Rate change	-	(137,545,109)	-	-	-
Carrying amount at the end of the year	<u>3,107,997,191</u>	<u>2,666,716,774</u>	<u>2,354,247,066</u>	<u>2,377,575,507</u>	<u>2,046,091,179</u>

Appendix 7: Movement of Biological Assets: Vanilla (Rs.)

	2013	2012	2011	2010	2009
Carrying amount at the beginning of the year	321,244,400	242,879,000	208,845,000	161,435,400	151,262,600
Fair value Gain/(loss) due to					
Physical Change	(12,878,500)	11,128,200	34,034,000	47,409,600	10,172,800
Price Change	22,948,160	67,237,200	-	-	-
Discount Rate change	-	-	-	-	-
Carrying amount at the end of the year	<u>331,314,060</u>	<u>321,244,400</u>	<u>242,879,000</u>	<u>208,845,000</u>	<u>161,435,400</u>

Appendix 8: Movement of Biological Assets: Sandalwood (Rs.)

	2013	2012	2011	2010	2009
Carrying amount at the beginning of the year	2,202,251,908	1,872,159,020	683,279,886	433,248,284	0
Fair value Gain/(loss) due to					
Physical Change	189,588,180	305,880,224	1,188,879,134	-	-
Price Change	181,453,774	167,545,863	-	-	-
Discount Rate change	-	(143,333,199)	-	250,031,602	433,248,284
Carrying amount at the end of the year	<u>2,573,293,862</u>	<u>2,202,251,908</u>	<u>1,872,159,020</u>	<u>683,279,886</u>	<u>433,248,284</u>

Appendix 9: Movement of Biological Assets: Teak (Rs.)

	2013	2012	2011	2010	2009
Teak					
Carrying amount at the beginning of the year	320,172,582	56,666,582	46,855,463	52,036,324	0
Fair value Gain/(loss) due to					
Physical Change	40,567,932	230,994,286	9,811,119	-	-
Price Change	22,747,986	45,441,406	-	-	-
Discount Rate change	-	(12,929,692)	-	(5,180,861)	52,036,324
Carrying amount at the end of the year	<u>383,488,500</u>	<u>320,172,582</u>	<u>56,666,582</u>	<u>46,855,463</u>	<u>52,036,324</u>

Appendix 10: Number of trees planted in each year (Rs.)

Year Planted	Mahogani	Vanilla	Sandalwood	Teak
1998	926			5
1999	162			54
2000	317			306
2001	1,297			945
2002	4,797			2,368
2003	14,242			3,635
2004	28,298	7,011	30	2,928
2005	39,049	8,552	240	1,933
2006	40,946	15,951	1,175	1,499
2007	34,606	0	3,393	1,263
2008	25,756	2,992	8,046	988
2009	16,711	2,837	9,364	744
2010	9,074	20,626	14,602	447
2011	3,288	7,850	18,859	127
2012	438	5,894	37,558	33
Total Number of Trees	219,907	71,713	93,267	17,275

Appendix 11: Provision for Buyback Agreements (Rs.)

	2013	2012	2011	2010	2009
Provision at the beginning of the year	3,147,075,884	2,501,462,361	1,651,693,859	1,349,582,697	1,111,551,804
Provision made during the year	737,613,831	660,324,546	862,894,883	465,156,819	388,729,134
Payment made	(14,983,427)	(14,711,023)	(13,126,381)	(8,672,155)	(6,130,177)
Reversal for non performing agreements				(154,373,502)	(144,568,064)
Balance at the end	3,869,706,288	3,147,075,884	2,501,462,361	1,651,693,859	1,349,582,697

CMA INTEGRATIVE CASE STUDY – (ICS - 405)

May 2015 Examination - Marking Grid

	Marks	A	B	C	D	E
1. Management Accounting Sound technical knowledge in Management Accounting	20	High level of Management Accounting awareness relating to world examples 17-20	Good Management Accounting awareness relating to case study examples 11-16	Some level of Management Accounting awareness relating to few case study examples 10-14	Low level Management Accounting awareness 5-9	Lack of Management Accounting awareness 0-4
2. Application of theories Diverse knowledge clearly applied in an analytical and practical manner in solving the problems in the case study.	20	High level of application of theory in an analytical manner in solving problems in the case study 17-20	Good level of application of theory in an analytical manner solving problems in the case study. 11-16	Some level of application of theory in an analytical manner solving problems in the case study. 10-14	Low level of application of theory in solving problems in the case study 5-9	Lack of application of theory in solving problems 0-4
3. Identifying key issues Issues to be identified and prioritized in a logical manner with a clear rationale.	10	High level of recognition of key issues and these being prioritized logically with a clear rationale. 8-10	Good level of recognition of issues and these being prioritized logically 5-7	Some level of recognition of issues and these being prioritized 3-4	Low level of recognition of issues 1-2	Lack of recognition of issues 0
4. Decision making skills Ability to recognize and present appropriate alternate solutions and make effective judgment in a logical & rational manner.	20	High level of ability to recognize and present appropriate alternate solutions and make effective judgment in a logical and rational manner 17-20	Good level of ability to recognize and present alternate solutions and make effective judgment in a logical and rational manner. 11-16	Some level of ability to recognize and present alternate solutions in a logical and rational manner 10-14	Low level of ability to recognize alternate solutions 5-9	Lack of ability to recognize alternate solutions 0-4
5. Logical arguments Ability to communicate effectively with realistic recommendations in a concise and logical manner.	20	High level of ability to communicate effectively with realistic recommendations in a concise and logical manner 17-20	Good level of ability to communicate effectively with realistic recommendations in a concise manner 11-16	Some level of ability to communicate effectively with realistic recommendations in a concise manner 10-14	Low level of ability to communicate effectively 5-9	Lack of ability to communicate effectively 0-4
6. Communication skills Style and synthesis in evaluation of a good report to higher management.	10	High level of combining ideas and experiences in a professional manner using relevant appendixes 8-10	Good style in writing a Management Report encompassing ideas and recommendations with some appendixes 5-7	Some style in writing a Management Report encompassing ideas and recommendations 3-4	Poor style in writing a Management Report 1-2	Lack of knowledge in writing a Management Report 0
TOTAL	100					