



ACCG350

Financial Statement

Analysis

2006
Semester 1

MACQUARIE UNIVERSITY
Division of Economic and Financial Studies
ACCG350 Financial Statement Analysis
Unit Outline

Year and Semester: 2005, Semester 1
Unit convenor: Dr Philip Sinnadurai
Prerequisites: ACCG253 (P)

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

ABOUT THIS UNIT

- This is a 3 credit point unit.
- The Macquarie University Accounting and Finance Prize for ACCG350, worth \$100, will be awarded to the student with the best performance in this unit.
- This unit is about fundamental analysis of listed entities, primarily using information published in financial statements. There is particular orientation to the point of view of an equity investor. Lectures cover the five stages of analysing an organisation: strategic and business analysis, accounting analysis, financial analysis and prospective analysis (forecasting and valuation). Valuation constitutes a key component of the unit and approaches based on dividends, cash flows, earnings and balance sheets are considered. Lectures and tutorials feature a case study of a listed Australian company.
- The content of this unit draws on both ACCG101 *Accounting 1B* and ACCG253 *Financial Management*.
- This unit is relevant to students undertaking either accounting or finance programs, particularly students with an interest in both finance and financial accounting. It may be especially useful for those contemplating careers as financial analysts, or in areas such as investment and portfolio management.

UNIT WEB PAGE

- The web page for this unit is at: <http://online.mq.edu.au>.
- It contains all information provided in this unit outline, as well as copies of lecture transparencies and announcements and changes made during the semester. Please consult it regularly.

FULL-TIME TEACHING STAFF

Name	Role in unit	Room	Phone	Email
Dr Philip Sinnadurai	Unit Convenor, Lecturer, Tutor	E4A334	9850 7101	psinnad@efs.mq.edu.au
Dr Sue Wright	Lecturer, Tutor	E4A333	9850 8521	swright@efs.mq.edu.au
Professor Neil Fargher	Lecturer	E4A235	9850-9281	nfargher@efs.mq.edu.au
Ms Kym Boon	Unit Administrator	E4A342	9850-8451	kboon@efs.mq.edu.au

A consultation timetable for ACCG350 students will be provided at the beginning of the semester.

CLASSES

- There are two lecture streams. The day lectures are held on Thursdays in C5CT1 from 1 – 3 pm. The evening lectures are held on Thursdays in E7BT3 from 6-8 pm. Students must attend their allocated lecture theatre each week.
- Copies of the lecture transparencies will be generally available from the website in the week prior to the lecture.
- Details of tutorial classes can be found on the unit website. Students must attend their allocated tutorial class each week.
- Tutorial classes can only be changed during the first two weeks of classes, by emailing the unit administrator with a request for a change. Your request must specify your name, student identification and two alternative times. Changes will be confirmed (or refused if there is insufficient space at the

requested time) by return email. Requests for tutorial changes submitted after the second week of semester will only be considered if accompanied by documentary evidence of an emergency.

REQUIRED TEXTS AND/OR MATERIALS

- Lundholm and Sloan, Equity Valuation and Analysis with Eval, Irwin McGraw-Hill, 2004. You may wish to access the students' section of the WWW site for this textbook as a supplementary resource. The URL is <http://www.mhhe.com/eval>.
- Case Studies for ACCG350 Financial Statement Analysis
- ACCG350 Readings Book

These required texts are all available in the Co-op Bookshop.

Palepu, Healy and Bernard, Business Analysis and Valuation, Thomson, 2004 is recommended as a supplementary text. Copies are available in the library.

LEARNING OUTCOMES

- This unit will provide students with an understanding of the theory and practice of financial statement analysis. This will equip them to thoroughly analyse a firm's financial statements and estimate its fundamental value.
- Students will develop an appreciation of the flow of financial accounting and other information to the equity market and the way this information is used for valuation.
- They will develop generic skills in a range of areas, including:
 - analytical skills in information management, analysis and interpretation in a multi-disciplinary environment.
 - communication and negotiation skills through group work and the presentation of progress reports.

TEACHING AND LEARNING STRATEGY

- The material in this unit is presented in the weekly lectures, and discussed in tutorials using both tutorial questions and case studies as bases for discussion.

- Rural Press Ltd (RUP) will be used as the continuing lecture example to which the topics are applied.
- The major assignment for this unit requires students to apply the theory and techniques to a current Australian company, in syndicate groups of two or three. Students will form groups in the first couple of weeks of semester and will work on the major assignment throughout the semester in those groups, facilitating their learning in a practical way. Students need to be available at mutually convenient times to be effective group members.

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

- The learning outcomes of this unit are primarily assessed by the final examination and the major assignment. The assessment for tutorial attendance and participation is designed to further ensure that the learning process occurs over the whole semester.
- The various components of the assessment are as follows:

Tutorial Attendance and Participation	10%
Major Assignment	30%
Final Examination	60%

In order to pass this unit, a student must pass the final examination and the unit overall.

- Final Examination The final examination will be of two hours duration. It will require both calculations and written answers. All aspects of the unit are examinable. Non-programmable calculators will be allowed. You will not be allowed to use any kind of dictionary in the final examination. You must attend this examination, unless clearly prevented from doing so by illness or misadventure.
- Tutorial Attendance and Participation Tutorial attendance is essential, and attendance will be recorded weekly. The assessment component will be based on the student's attendance and contribution.
- Case Study Preparation Four case studies will be investigated and discussed in tutorials throughout the semester. Students are required to prepare these prior to the relevant weekly tutorial. The purpose of the case studies is to reinforce and apply the material covered in the lectures. The final

examination will not require students to remember particular facts and details of the individual cases. However, it will be in your best interests to pay attention to the case studies when preparing for the final exam, since the principles illustrated are examinable.

- Major Assignment

In groups of two or three students, evaluate and report on the most recent annual report of an Australian company (chosen from the list below), as if you were security analysts making a recommendation on whether or not your clients should invest in it.

The report is to be handed in by 5pm on Thursday 8 June, to an assignment box in ERIC. It is to be approximately 15 – 20 pages in length and to include the following sections:

1. **Business and Strategic Analysis**, including an analysis of the economy; the industry, and the company's place in the industry; the company's competitive and corporate strategy; the company's and the industry's growth potential; and the implications of all of these for its future profitability
2. **Accounting Analysis**, including an analysis of the company's accounting policies that are likely to affect the interpretation of its financial reports; and a comparison to those of a competitor in the same industry
3. **Financial Analysis**, including the presentation and interpretation of relevant ratios for the company and a competitor; a time series analysis of these for both companies over the past three years; and an analysis of the company's overall financial position.
4. **Prospective Analysis**, including forecasts for all three financial statements in full for the company for one financial year, with reasons for major items, and valuation of the company using two different methods
5. **Recommendation** for the clients, drawing on the whole analysis of the company

A cover sheet is appended to this outline. The report should be word-processed and professionally presented, and secured with plastic spiral binding. All assumptions should be clearly stated and supported if possible. Students should consult with the lecturer-in-charge if further clarification is needed.

Assessment and marking of this assignment will be:

- 5% for a short presentation on section 1 of the assignment in the allocated tutorial (i.e., of all or the majority of group members) in week 5 (All groups members are required to speak.)
- 5% for a short presentation on sections 2 and 3 of the assignment in the allocated tutorial in week 9 (All groups members are required to speak.)
- 20% for the final report, to be submitted in week 13, on the basis of its accuracy, comprehensiveness, cohesiveness, and overall quality

LIST OF AUSTRALIAN COMPANIES TO USE FOR MAJOR ASSIGNMENT

A.B.C. Learning Centres	(www.childcare.com.au)
Angus and Coote	(www.anguscoote.com.au)
Blackmores	(www.blackmores.com.au)
Brambles	(www.brambles.com)
Caltex	(www.caltex.com.au)
CPT Global	(www.cptglobal.com)
Cockatoo Ridge Wines	(www.cockatooridge.com.au)
David Jones	(www.davidjones.com.au)
Patrick Corporation	(www.patrick.com.au)
QANTAS	(www.qantas.com.au)

The University Examination Period in first semester 2005 is from 14 June to 30 June inclusive.

Students are expected to present themselves for examination at the time and place designated in the University Examination Timetable. The timetable will be available in draft form approximately eight weeks before the commencement of the examinations and in final form approximately four weeks before the commencement of the examinations. The relevant URL is <http://www.timetables.mq.edu.au/exam>.

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances a student may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at <http://www.reg.mq.edu.au/Forms/APSCons.pdf>.

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled as soon as possible after the conclusion of the official examination period.

Students are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester (i.e., the final day of the official examination period).

PLAGIARISM

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. Students must read the University's practices and procedures on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at: <http://www.student.mq.edu.au/plagiarism/>.

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if a student is found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

UNIVERSITY POLICY ON GRADING

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. The final result will include one of these grades plus a standardised numerical grade (SNG).

It is unlikely that the raw mark for a unit (i.e., the total of the marks for each assessment item) will be the same as the SNG. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results.

The policy does not require that a minimum number of students are to be failed in any unit. On the contrary, it requires examiners to explain their actions if more than 20% of students fail in a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.

For an explanation of the policy see <http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc> or <http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>.

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

The Division of Economic and Financial Studies operates the Economic Resources and Information Centre (ERIC), which provides useful resources for students, as well as an assignment collection facility.

TUTORIAL QUESTIONS

WEEK 2

1. Summarise the findings of Brown (1970) in no more than three pages. Regarding the Australian share market, Brown concluded that
“However, the annual income report does not rate highly as a timely medium, since most of its content (about 85 to 90 per cent) is captured by more prompt media which perhaps include interim reports”. (Brown, 1970, p.282)

It is likely that the share market is more efficient now than it was in 1970.

- What are some of the “more timely media”?
 - What are the implications of Brown’s findings for financial statement analysis?
2. Summarise the assessment of state of U.S. corporate governance provided by Holmstrom and Kaplan (2005) in no more than three pages. Discuss the applicability of the arguments to Australia. To what extent is it fair to blame corporate collapses such as HIH and OneTel on poor corporate governance?

WEEK 3

Adapted from Chapter 2 Discussion Questions in Palepu, Healy and Bernard, Business Analysis and Valuation, Third Edition, Thompson, 2004

1. Coca-Cola and Pepsi are both very profitable soft drinks. Inputs for these products include sugar, bottles/cans, and soft drink syrup. Coca-Cola and Pepsi produce the syrup themselves and purchase the other inputs. They then enter into exclusive contracts with independent bottlers to produce

- their products. Use the five forces framework and your knowledge of the soft drink industry to explain how Coca-Cola and Pepsi are able to retain most of the profits in this industry.
2. It could be argued that the QANTAS Frequent Flyer program has only enjoyed mixed success. Use the competitive advantage concepts to explain why.
 3. Explain why you agree or disagree with the following statements. In each case, use an example of an Australian company to illustrate your view.
 - (a) "It's better to be a differentiator than a cost leader, since you can then charge premium prices."
 - (b) "The reason why industries with large investments have high entry barriers is that it is costly to raise capital."
 4. What are the ways that a firm can create entry barriers to deter potential competitors? What factors are likely to determine the success or otherwise of these barriers?

WEEK 4

1. A type of pro-forma earnings figure is EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation). It is not uncommon for firms to publish EBITDA figures in published annual and half-yearly financial statements. Managers claim that EBITDA is relevant for market participants, who may otherwise calculate it for themselves for use in analysis and valuation.

However, disclosure regulators have been sceptical of EBITDA and other pro-forma earnings numbers. In the U.S., listed firms are required to reconcile pro-forma earnings numbers to earnings based on U.S. GAAP. In the future, the Australian Stock Exchange (ASX) may follow the lead of its U.S. counterpart.

- a. Why may some investors be interested in EBITDA? What are its potential advantages over GAAP earnings?
- b. Why may regulators be wary of EBITDA? What are its possible limitations?

Acknowledgement This question has been adapted from P20.1 in Sutton, T., 2004, *Corporate Financial Accounting and Reporting*, Pearson Education Ltd, second edition.

2. Pleasure Pty Ltd is a small company that is about to float on ASX. It operates solely in the leisure industry, managing a chain of gambling casinos in NSW and Victoria. Pleasure Pty Ltd disclosed in the float prospectus that it has experienced significant positive growth in the last two years, and that it anticipates this will continue indefinitely after the float. However, the amount of capital raised via the initial public offering (IPO) will be within the bottom quartile of Australian floats during the past twelve months.

Imagine you are a potential investor in the IPO. Do you anticipate that the forecasts of earnings in the prospectus are more likely to be managed upward or downwards? Explain your answer.

3. "It is more appropriate to rely on consolidated, rather than parent entity figures for financial statement analysis and corporate valuation". Discuss
4. A disclosure published by the directors of Scitech Ltd on 17 July, 1995 has been reproduced in Appendix A. Evaluate this disclosure in terms of the "rules of engagement" proposed by Fuller and Jensen (2002).

WEEK 7

1. Calculate the P/E ratio and P/BV ratio for the company you have chosen for your major assignment. Classify it into one of the following categories, and, using Penman (1996), describe the market's view of the company's future prospects:
 - (a) a high PE and a low market-to-book ratio
 - (b) a high PE and a high market-to-book ratio
 - (c) a low PE and a low market-to-book ratio
 - (d) a low PE and a high market-to-book ratio
2. James Broker, an analyst with an established brokerage firm, comments "The critical number I look at for any company is operating cash flow. If cash flows are less than earnings, I consider the company to be a poor performer and a poor investment prospect." Do you agree with this assessment? Why or why not?
(from Palepu, Healy and Bernard, Business Analysis and Valuation, 3rd edition, Thomson Southwestern.

WEEK 8

1. What Industry is That?

Below are the condensed common size financial statements for four companies that operate in four different industries, drawn from the following list. (All amounts are expressed as a percentage of sales).

1. Retail department store (with store credit card)
2. Electricity generation
3. Credit union
4. Advertising agency
5. Pharmaceutical and medical products

Required: For each company, identify the industry in which it operates, giving three reasons for each decision.

	Company A	Company B	Company C	Company D
Cash	1.0	22.7	14.4	1.6
Receivables	7.8	21.3	70.6	26.2
Inventories	11.4	13.0	7.5	24.4
Property, plant and equipment	398.4	65.9	18.4	37.5
Accumulated depreciation	(109.6)	(27.4)	(9.3)	(12.0)
Other assets	8.7	16.7	22.1	2.2
	317.7	112.2	123.7	79.9
Current liabilities	30.4	43.6	87.1	35.1
Non-current borrowings	126.0	3.3	4.3	11.6
Other non-current liabilities	23.1	12.9	7.8	6.8
Shareholders' equity	138.2	52.4	24.5	26.4
	317.7	112.2	123.7	79.9
Sales or service income	100.0	100.0	100.0	100.0
Cost of sales or service expense	(51.6)	(28.1)	(44.7)	(65.3)
Employee expenses	(6.2)	(6.9)	(34.7)	(12.3)
Depreciation expense	(10.2)	(4.2)	(2.6)	(2.6)
Interest expense	(10.1)	(1.1)	(1.2)	(1.3)
Advertising expense	0.0	(1.8)	(2.3)	(10.1)
Research and development expense	0.0	(16.0)	0.0	0.0
Income tax expense	(8.2)	(9.9)	(3.9)	(2.9)
Other expenses	5.5	(14.1)	(6.6)	(1.2)
Net profit after tax	19.2	17.9	4.0	4.3

2. For the company you have chosen for your major assignment, provide an example of a presentational distortion. (If none have been made, find an example from another company's report.) What are the pressures on the company's management to show enhanced financial performance in this way?

WEEK 12

1. Graceland Ltd had its IPO three months ago. You are a sophisticated investor who believes in using fundamental analysis to identify mispriced stocks. Why might you consider each of the following factors in deciding whether to follow the stock?

- the market capitalisation
- the size of the float underwriter
- whether the firm is audited by a Big 4 auditor

Acknowledgement This question has been adapted from Discussion Question 13.1 from Palepu, Healy and Bernard, 2000, *Business Analysis and Valuation*, South-Western College Publishing, first edition.

2. Graceland's stock has a market price of \$20 per share and a book value of \$12 per share. If its cost of equity is 15% pa and its book value is expected to grow at 5% pa indefinitely, what is the market's assessment of its steady state rate of return on equity? If the stock price increases to \$35 and the market does not expect the firm's growth rate to change, what is the revised equilibrium ROE? If instead the price increase was due to an increase in the market's assessments about long-term book value growth, rather than long-term ROE, what would the price revision imply for the steady state growth rate?

Acknowledgement This question has been adapted from Question 13.9 in Palepu, Healy and Bernard, 2000, *Business Analysis and Valuation*, South-Western College Publishing, first edition.

3. Sometimes firms experience substantial share price declines on the date of release of their annual earnings, notwithstanding that the number announced represents a substantial increase over earnings for the previous year. Explain two different reasons why this may occur. Use the concept of abnormal returns.

Acknowledgement This question has been adapted from Question 4.7 in Scott, W., 1997, *Financial Accounting Theory*, Prentice-Hall Inc., first edition.

4. Global Ltd is a listed public company, operating in a volatile industry. Its share price is highly sensitive to reported earnings. At the most recent Annual General Meeting (AGM), the Chief Executive Officer (CEO) was

criticised by a disenchanted group of shareholders. They complained that the company's use of reducing balance depreciation policy is flawed. The shareholders contended that the policy results in an understatement of earnings and hence market undervaluation. They pointed to other companies in the same industry which used straight line depreciation. Imagine you are the CEO. Prepare a draft memo responding to the shareholders.

Acknowledgement This question has been adapted from Question 4.8 in Scott, W., 1997, *Financial Accounting Theory*, Prentice-Hall Inc., first edition.

WEEK 13

1. Macquarie Ltd plans to acquire Sydney Ltd for \$60 per share, a 50% premium over the current market price. Noela Hayes, the Chief Financial Officer (CFO) of Macquarie Ltd, argues that this valuation is valid, using a PE analysis.

“Macquarie Ltd has a PE ratio of 15 and we expect that we will be able to generate long-term earnings for Sydney Ltd of \$5 per share. This implies that Sydney Ltd is worth \$75 to us, well below our \$60 offer price.”

Do you agree with this analysis? Critically evaluate the assumptions made by Hayes.

Acknowledgement This question has been adapted from Discussion Question 15.5 in Palepu, Healy and Bernard, 2000, *Business Analysis and Valuation*, South-Western College Publishing, first edition.

2. What types of firms are likely to increase in value after Leveraged Buyout (LBO) transactions? Why?

Acknowledgement This question has been adapted from Question 26.10 in Damodaran, 2001, *Corporate Finance – Theory and Practice*, John Wiley and Sons, Inc., first edition.

3. The following details currently pertain to two potential merger candidates, East Ltd and West Ltd.

	<u>East Ltd</u>	<u>West Ltd</u>
Revenue for the previous financial year	\$4,400,000	\$3,125,000
Cost of Goods Sold, as a percentage of Revenue, for the previous financial year	87.50%	89.00%
Depreciation for the previous financial year	\$200,000	\$74,000
Tax rate	30 % pa	30 % pa
Working Capital requirement	10% of Revenue	10% of Revenue
Market Value of Equity	\$2,000,000	\$1,300,000
Outstanding Debt	\$160,000	\$250,000

East Ltd is expected to grow at 5% pa for the next two years and 1% pa indefinitely thereafter. West Ltd is forecast to grow at 2% pa in perpetuity. The beta for both firms is 1 and the expected return on the market is 13% pa. Both firms have a current interest rate of 8.5% pa.

As a result of the merger, the combined entity is anticipated to have Cost of Goods Sold of 85% of total revenues. The combined firm does not plan to raise any additional debt in the foreseeable future.

Required

- (a) Estimate the value of each firm operating independently.
- (b) Estimate the value of the combined firm, ignoring synergies.
- (c) Estimate the value of the combined firm, including synergies.
- (d) Discuss the results.

Acknowledgement This question has been adapted from Problem 26.1 in Damodaran, 2001, *Corporate Finance – Theory and Practice*, John Wiley and Sons, Inc., first edition.

WEEKLY LECTURE AND TUTORIAL PROGRAM

WEEK	TOPIC	READINGS	LECTURER	TUTORIAL ASSIGNMENT (due in the weekly tutorial)
Week 1 - 27 February, 2006	Introduction and Management Communication and Corporate Governance	Brown (1970) Holmstrom and Kaplan (2005) Lundholm and Sloan, Chapter 1	Philip	No tutorials in Week 1
Week 2 – 6 March, 2006	Strategic and Business Analysis	Lundholm and Sloan, Chapters 2 and 3 Healy, Palepu and Bernard (2000), Chapter 2	Philip	Tutorial Questions Week 2
Week 3 – 13 March, 2006	Accounting Issues	Lundholm and Sloan, Chapter 4 (4.1 – 4.3); Fuller and Jensen (2002); Healy and Palepu (2001)	Philip	Tutorial Questions Week 3
Week 4 – 20 March, 2006	Accounting Analysis	Lundholm and Sloan, Chapter 4 (4.4 – 4.6)	Philip	Tutorial Questions Week 4
Week 5 – 27 March, 2006	Financial Analysis (including Market Ratios) (First Lecture)	Lundholm and Sloan, Chapter 5	Sue	Presentation 1 for Major Assignments
Week 6 – 3 April, 2006	Financial Analysis (including Market Ratios) (Second Lecture)	Lundholm and Sloan, Chapters 6 and 11 Penman (1996)	Sue	Case Study – “Bigger Isn’t Always Better”

WEEKLY LECTURE AND TUTORIAL PROGRAM
[CONT'D]

WEEK	TOPIC	READING	LECTURER	TUTORIAL ASSIGNMENT (due the following week)
Week 7 – 10 April, 2006	Prospective Analysis – Forecasting (including time-series and cross-sectional analysis)	Lundholm and Sloan, Chapters 7 and 8 Foster, Chapters 6 and 7 Beattie and Jones (1999)	Sue	Case Study – “Playing the Numbers Game” Tutorial Questions Week 7
INTRA – SEMESTER BREAK				
Week 8 – 1 May, 2006	Prospective Analysis – Valuation using Dividends and Cash Flows	Lundholm and Sloan, Chapters 6 and 10	Neil	Case Study – “Body Shop International” Tutorial Questions Week 8
Week 9 – 8 May, 2006	Prospective Analysis – Valuation using Earnings and Balance Sheets	Lundholm and Sloan, Chapter 10	Neil	Presentation 2 for Major Assignments
Week 10 – 15 May, 2006	Estimation of Cost of Capital and Miscellaneous Valuation Topics	Lundholm and Sloan, Chapter 9 Selling and Stickney (1989) Nissim and Penman (2001)	Philip	Case Study – “Rocky Mountain Genome”
Week 11 – 22 May, 2006	Equity Security Analysis	Scott (1997), Chapter 4	Philip	Tba
Week 12 – 29 May, 2006	Mergers and Acquisitions	Palepu, Healy and Bernard (2000), Chapter 15	Philip	Tutorial Questions Week 12
Week 13 – 5 June, 2006	Revision etc.		Philip	Tutorial Questions Week 13

**APPENDIX A – LETTER TO SHARE AND OPTION HOLDERS ISSUED BY
SCITECH LTD (SCS) ON 17 JULY, 1995**

3=====

LETTER TO SHARE & OPTION HOLDERS

=====3

SCITEC LIMITED

17 JULY 1995 SIGNAL G

HOMEX - SYDNEY

We have attached the letter which was posted to all shareholder/optionholders and would like to make this as the ASX announcement to the Australian Stock Exchange.

Owen Gilbert
Executive Director Finance

14 July 1995

Dear fellow shareholder/optionholder,

We have pleasure in enclosing the first Scitec dividend cheque for the shareholders since November 1991. The recommencement of dividend payments is a measure of the confidence of the board in the overall health of the company.

1994/95 Performance

We will be providing you with a full commentary in our 1995 Annual Report. However, it is worth noting that the export performance of Scitec over the past year has been commendable. The European team has performed very well. They have been led by Malcolm Roe who has since been promoted and returned to our head office in Australia. Anthony Wong and his team have achieved similarly superb results for Asia. The company will continue to focus on exports. Scitec recently opened an American office and intends to open a support office in Southeast Asia within the next six months.

Unfortunately, the Australian sector has not performed as hoped. While the first six months were good, there has been some slippage against expectations in the second half which were partially compensated by excellent results in May and June. Overall however, it does appear as if the company will comfortably exceed last year's net earnings of \$1.1 million.

1995/96 Expectations

Exports, particularly on the back of the Cray Communications's OEM Agreement, are again budgeted for strong performance. However, we are cautious about growth in

Australia. The key economic driver for Scitec is capital investment. In the past three months most Australian economic analysts have significantly reduced their growth expectations for this economic factor for the 1995/96 year. Estimates for Australian investment growth rates have been halved from 16% to 8%. For Scitec to achieve the 15% growth in EPS next year as mentioned in our march letter to shareholders/optionholders is a challenge for management to meet.

Next Letter

The present plan is for the board to approve the preliminary results for release to the Australian Stock Exchange on the 17th August 1995 and we will send you a summary immediately. Much of the hard work over the past three years is now starting to bear fruit and this should be reflected in growth in revenues and profits.

Christopher G Golis
Chairman

End/jb

APPENDIX B – MAJOR ASSIGNMENT COVER SHEET

The template coversheet for submitting group assignments has been reproduced on the following two pages.



Division of Economic and Financial Studies

GROUP ASSESSMENT COVER SHEET

UNIT CODE		<i>Please write clearly in capital letters</i>	
DUE DATE		GROUP NUMBER <small>(if allocated)</small>	
ASSESSMENT TOPIC			

GROUP MEMBERS *(Please write clearly in capital letters)*

NUMBER	STUDENT ID
1*	
2	
3	
4	
5	
6	

ALL GROUP MEMBERS MUST SIGN THE DECLARATION OVERLEAF

* Assessments will be sorted for return according to the Group Number (if allocated) or the student number of the group member listed at 1 above.

This coversheet is for use with all assessments submitted in ERIC: <http://www.efs.mq.edu.au/services/eric.htm>

MARKER'S COMMENTS**GRADE**

--

DECLARATION

We certify that:

- This assessment is our group's work, based on our personal study and/or research;
- We have acknowledged all material and sources used in the preparation of this assessment, including any material generated in the course of our employment;
- Neither the assessment, nor substantial parts of it, have been previously submitted for grading in this or any other institution;
- We have not copied in part, or in whole, or otherwise plagiarised the work of other students;
- We have read and we understand the criteria used for assessment;
- The assessment is within the word and page limits specified in the unit outline;
- The use of any material in this assessment does not infringe the intellectual property / copyright of a third party;
- We understand that this assessment may undergo electronic detection for plagiarism, and a copy of the assessment may be retained in a database and used to make comparisons with other assessments in future. *Work retained in a database is anonymous and will not be able to be matched to individual students;*
- We take full responsibility for the correct submission of this assessment in the appropriate place with the correct cover sheet attached and we have retained a duplicate copy of this assessment.

NUMBER	SIGNATURE	DATE
1		/ /
2		/ /
3		/ /
4		/ /
5		/ /
6		/ /

This declaration is a summary of the University policy on plagiarism. For the policy in full, please refer to Student Information in the Handbook of Undergraduate Studies or www.student.mq.edu.au/plagiarism/