KZN GROWTH FUND
Inspired Investing

KZN GROWTH FUND TRUST

REQUEST FOR QUOTATION (RFQ)

RFQ REFERENCE NUMBER – KGFT RFQ 2021-07

PROVISION OF COMMERCIAL DUE DILIGENCE SERVICES FOR THE KZN GROWTH FUND TRUST (KGFT)

Closing date	: 14 May 2021
Time	: 16:00
Submission format	: email accounts@kzngf.co.za

Name of the respondent: ....

Late bids will not be accepted

BID DETAILS

Bid title : PROVISION OF COMMERCIAL DUE DILIGENCE SERVICES FOR THE KZN GROWTH FUND TRUST (KGFT)

Procurement Reference Number : KGFT - RFQ 2021/07

Description of Goods & Services : Due Diligence

Date of TENDER : 07 May 2021

Date of Tender CLOSING : 14 May 2021

CONTACT INFORMATION

Any enquiries regarding the bidding procedure may be directed to:

Procurement Officer: Sijabulile Ntshangase

Telephone: 031 372 3720

E-mail: accounts@kzngf.co.za

BIDDER'S DETAILS

NAME OF BIDDER...

POSTAL ADDRESS ....

STREET ADDRESS ....

CONTACT PERSON ....

TELEPHONE NUMBER Code .... Number ....

CELL PHONE NUMBER Code .... Number ....

FACSIMILE NUMBER Code .... Number ....

E-MAIL ADDRESS ....

Signature of Bidder .... Date ....

1. PURPOSE

The purpose of this Request for Quotation is to request quotations from service providers for the performance of a due diligence in student accommodation as per Annexure A, in relation to a transaction being considered for funding by the KZN Growth Fund Trust (KGFT).

2. BACKGROUND

KZN Growth Fund Trust (Trust) is a Trust, established and capitalised by the Provincial Government to provide debt and equity. The main objectives of the Trust is to provide support for creating and enabling environment for activities that create jobs and accelerate the economic development of KZN whilst promoting Broad Based Black Economic Empowerment (B-BBEE).

2.1 Procurement Philosophy

It is the policy of KGFT, when purchasing goods and obtaining services to follow a course of optimum value and efficiency by adopting best purchasing practices in supply chain management, ensuring that open and fair competition has prevailed, with due regard being given to the importance of:

a) The promotion, development and support of businesses from disadvantaged communities (small, medium, micro enterprises, as well as established businesses within those communities) in terms of its BEE Policy;
b) The promotion of national and regional local service providers and agents before considering overseas service providers and;
c) The development, promotion and support for the moral values that underpin the above, in terms of KGFT Business Ethics and Guidelines which requires that all commercial conduct be based on ethical and moral values and sound business practice. This value system governs all commercial behaviour within KGFT.

The KGFT wishes to engage with service providers who are equally committed to maintain high quality services and better pricing

3. SCOPE OF SERVICES REQUIRED

Suitably qualified and experienced service providers are invited to provide quotations based on the scope of work detailed in Annexure A, due diligence in student accommodation. At a minimum, the due diligence should cover the following aspects:

- Institutional Module
- Management Module
- Marketing and Sales Module
- Technical Module
- Financial Module
- Legal and Regulatory Module
- Environmental, Health & Safety, and business integrity module – ESG
- Information Technology Module
-

4. EVALUATION OF PROPOSALS

Stage 1

4.1 All proposals must be completed and accompanied by:

4.1.1 Company Profile

4.1.2 Evidence of registration on the National Treasury Central Supplier Database (or proof of registration);

4.1.3 Tax Compliance Status Pin

4.1.4 Valid BEE Certificate (**only BBBEE Level 1 and 2 will be considered)**

4.1.5 Proof of bank details

4.1.6 A completed supplier database form (attached);

4.1.7 Provide three written letters of reference for similar work performed

Failure to submit any of the above documents will disqualify the bidder from further evaluation

Stage 2

Functionality Criteria	Allocation of points	Maximum points to be awarded
Bidders Experience Bidders must demonstrate experience in providing similar work by means of a portfolio of the most recent complete or in progress project involvement which must include: • Corporate and project finance transactions similar to the scope of services requested herein • At least 5 complete transaction highlighting: I. Scope of work II. Transaction values III. Institutions that you have been provided with similar scope of services, 3 of these must be from the references required below. IV. A highlight of portfolio of the most recent complete or in progress project involvement. • Commercial due diligence including industry & market analysis - has capacity and experience (10) • Financial management due diligence – has capacity and experience (10) • HR and Operations Management due diligence - has capacity and experience (10) • Environmental due diligence – has capacity and experience (10) • IT due diligence – has capacity and experience (10) • Legal due diligence – has capacity and experience (10) ***The name of project, duration, contactable reference, contact number and rand value of work must be provided;**	10 X 5	50
QUALIFICATIONS AND PROFESSIONAL AFFILIATIONS	20	20

Team's qualifications, accreditation and affiliations (incl. CVs as well as relevant proof of qualification accreditation, affiliations from the relevant Professional Bodies/Council). 1. less than or up to 30% professionally qualified team – (5) 2. Between 31% to 60% professionally qualified team - (15) 3. More than 61% professionally qualified team- (20) This will be evaluated using head count of the team members registered with recognized professional affiliations as a percentage of total team to be assigned to the project.		
Methodology and Approach The service provider's detailed summary of the following: 1. Due diligence recommended acceptable methodology	15	15
Three written letters of reference from contactable references for similar work done: - 1 reference letter (5 points) - 1-2 reference letters (10 points) - >3 references letters (15 points)	15	15
Total		**100**

Bidders who fail to meet the minimum score of 70 points out of 100 points in stage 2 functionality evaluation will not be considered for evaluation in terms of Stage 3 (Price and B-BBEE).

4.2. **Price and B-BBEE Evaluation**

Stage 3

4.2.1 Quotations will be subject to an evaluation based on an 80/20 price / BBBEE allocation - 80 points for price and 20 points for B-BBEE status of contribution.

4.2.2 Fixed price quotations are required; price must be inclusive of VAT and all costs relating to disbursements

Evaluation	**Maximum points to be awarded**
Relative competitiveness of the price	80
B-BBEE*	20
Total Price and B-BBEE Points	**100**

5. THE INFORMATION REQUIRED

You are and required to provide the KGFT with a quotation, by **no later than 16:00pm on Friday 14 April 2021.**

6. SUBMISSION DETAILS

- Submissions must be emailed to accounts@kzngf.co.za attention **Sijabulile Ntshangase** by no later than the stipulated time above.
- For queries, you can contact Andries Dlamini during business hours of 8:00am to 4:30pm, Monday to Friday on 031 372 3720.

Approved by

Nonhle Jali
Acting Chief Financial Officer

Annexure D:
STUDENT ACCOMMODATION
DUE DILIGENCE SCOPE OF WORK (TO BE SUPPORTED BY A DETAILED DUE DILIGENCE QUESTIONNAIRE)

A.	**Corporate Overview**	**<u>Business Background and Institutional Information</u>** 1. Obtain a summary of the history of the business covering: • Date of incorporation; • Evolution of the business since incorporation; • Major milestones in the evolution of the business such as changes in ownership/ shareholding, details of mergers and acquisitions, disposals of key business units, changes in capital structures i.e. rights issues, share buy-backs etc. 2. Obtain written confirmations that the company is newly incorporated and that it has never traded; 3. Obtain the MOI (or other constitutional documents), including certificates of incorporation, change of name, amendments to MOI; 4. Obtain details of registered officers or principal places of business in each jurisdiction in which the group companies operate. 5. File copies of latest company secretarial documentation such as ordinary and special resolutions, appointment and removal of directors, share transfer forms etc. 6. Review the Share register / Register of members noting: • Equity transfers from incorporation to date; • nominee holdings; • list of shareholders, including management 7. Review registers of charges/directors interests noting: • Particulars of any other businesses in which shareholders or management are interested in any significant transactions with related businesses. 8. Obtain delegations of authority / approvals framework of the company detailing the powers of management, the Board and the shareholders. 9. Obtain and review key company policies, including ESG and Risk management policies etc.

		10.Review the Minutes of Board meetings and meetings of shareholders for the previous year years, noting /evaluating: i. whether material decisions/resolutions have been minuted; ii. Major borrowing decisions approved by the Board/shareholders; iii. Key staff appointments having been approved by the Board; iv. Approvals of compensation structures including share options and bonus schemes; v. That rights issues and other changes to the capital structure of the business were considered by Board and shareholders; vi. That changes to the constitutional documents of the company were duly considered and approved; vii. Changes to delegations of authority framework have been duly approved; viii. Appointment and removal of auditors and bankers have been duly approved; ix. That details of related party's transactions were documented. 11. Obtain the Names and addresses of: • Company secretary; • Auditors; • Bankers; • Attorneys; and • Other advisors. 12.Obtain Supplementary information • Certified ID copies of all relevant parties in the transaction – ito FICA requirements as per KGF FICA Policy requirements; • Income Tax & Vat registration; • UIF registration; • RSC registration; • PAYE, SDL registration; • Proof of residence of all relevant parties in the transaction - ito FICA requirements as per the KGF FICA Policy requirements. **Corporate ownership**

1. How much of this company does the CEO/MD own? Please provide evidence (copies of share certificates)
2. How much of this company does each member of the management team own? If applicable, please provide evidence (copies of share certificates)
3. How much of the company do the outside / non-executive directors own? If applicable, please provide evidence (copies of share certificates)
4. Do any individuals outside the company own a large percentage of the company? What is their role in the company? If applicable, please provide evidence (copies of share certificates)
5. Does the company or any of its officers own 10 percent or more of the equity in any company other than the one investigated here? If so, please provide details.

Objectives and Strategy

1. Obtain the strategic plan of the business including an overview of the business and the industry in which it operates.
2. Obtain details of
   - the group structure covering legal entities within the group;
   - shareholding structure of group and group companies;
   - organizational structure covering major divisions within the group
3. Document the significant trends and dynamics prevalent in the industry.
4. Document and evaluate the critical success factors of the business in relation to the industry in which it operates
5. Review the SWOT analysis of the business as documented in the strategic plan.

Governance Structures and Decision Making

1. Obtain a chart of the governance structures within the company i.e. Manco, Exco, Board, Board Sub committees etc
2. Obtain charters / terms of reference of the various governance structures;
3. Obtain the composition of the various structures as well as resumes of the relevant committee members noting experience of the various members;

		4. Understand the frequency of meetings of the various structures; 5. Who exercises the principal authority? Is this specified in the company constitutional document. 6. Who are the members of the board of directors? What is their background and qualifications? What compensation do they receive? What actual or potential stock ownership positions do they have? 7. Who are the invitees on the board of directors' meetings? if any. What role do they play in the company? What is the frequency of the invitations? 8. What is the relationship between management and the board of directors? 9. What is the management's attitude regarding the function of the board and the investors? 10. What other outside interests influence management's decision making? 11. What are the individual duties, responsibilities, and authorities of each member of the management group? Who defines these? Do written job descriptions exist? If yes please provide copies. 12. Are successful and proven management personnel available to carry out plans, or does everything depend on one or two key persons? What happens if a key employee is not available for an extended period? Is there a succession plan in place, if yes, please provide a copy. 13. Is there a compensation plan being administered so as to attract and retain top quality personnel (retention policy, if yes please provide a copy)? Are salary levels competitive with industry norms? 14. Does the company have "Keyman" Life insurance and disability insurance on any of its officers? 15. Does the company have a pension plan, profit sharing plan, insurance plan, stock bonus plan, deferred compensation plan, or severance plan? If such a policy exists, please provide a copy. **<u>Growth Strategy</u>** 1. Potential projects/ growth strategies in place and the stage of negotiations 2. Any potential or current JV or strategic alliances. 3. Any potential Capex in the next 12 months planned, additional to the one being financed.
B.	**Marketing & Sales**	**<u>Industry & Market Overview</u>** 1. How is the market segmented?

2. What are the regulatory matters in the industry?
3. What are the factors affecting growth and profitability?
4. Review government and trade reports and trade literature regarding the market segments of the business.
5. Analyse competitors and industry reports for unanticipated trends or developments.
6. Assess the comparative strengths and a weakness of competitors in terms of the dominant competitive factors in the industry (e.g., price, service, performance, etc.)

Customers

1. Document the nature of customer base to understand if there is concentration risk, elasticity of demand and any other customer linked risk and possible mitigating controls.
2. Review commercial viability of the proposed strategy to attract and grow customer base.
3. Who are the customers? What industry groups are they drawn from? What are the overall trends of this consumer?
4. What is the procedure for onboarding new students onto the residence? Are there pre-requisite background checks?
5. How long does the onboarding process take?
6. What do you believe to be the key variables in the buying decision? price, service, product features, reputation of selling company, credit terms, delivery speed and method, or relationship with salesman?
7. Are buying decisions affected by advertising or sales promotion?
8. What is the degree of brand loyalty among customers currently in the market? How is it measured or determined?
9. What methods are used to lock customers in?
10. What would be required to persuade the user of a competitive service to switch?
11. What alternatives does the customer have? Are there substitutes for this service?
12. What factors affect the customers' need for this product? What would cause an increase in the need? What would cause a decrease in the need?
13. How are the needs of the customers or the makeup of the customer group changing? What are the reasons for the change?
14. What do you project to be the influence of overall business conditions relating to demand for the company's services? What is the importance of disposable income, population growth, and other broad economic trends to the company's business?

15. How important is personal selling to sell this service? How good does the salesperson have to be, minimum requirements to work in the sales unit?

Customer Complaints

1. Describe the envisaged proposes procedure for the handling of complaints.

Customer Credit

1. Will the company offer its product/ service on credit terms? If so, who will establish the credit limits for customers?
2. Describe the credit approval process.
3. What role does the marketing department have in account collection process?
4. What are the normal terms of sales?

Documentation to be obtained related to the market.

1. Provide any copies of any marketing studies, newspaper articles, magazine articles etc., describing overall dimensions and configuration of markets and the customer.
2. Please provide a market penetration strategy that will be employed by the company.

Marketing and Distribution

- Analyse each significant contract regarding contingencies, extent of warranties and other service obligations, rights of cancellation, etc.
- Evaluate the effectiveness of marketing personnel.
- Are there any new products to be developed and if there are any than estimate the cost of introduction?

Product/ Service Analysis

1. Please describe the service offered by the company to its customers, give a complete physical and functional description of the service (What does the service do for its users? How does it work? What need does the product fill for its user? Is the need real, created, or imagined?)
2. Does the service have any proprietary features?
3. Is the service or any aspect of it patented? When does each patent expire? How important is the patent to the success of the business?

4. What other services goes with the main service offered?

Pricing

1. How is the service priced? What does the business consider before making a pricing change? Who establishes the prices for each service? What is the rationale for the present pricing structure? Describe the process you follow in establishing prices for your services i.e. Pricing of tuition fees, extracurricular activities and boarding fees.
2. What have been the past price trends for this and other services?
3. What are expected future price trends? Why?
4. Who is authorized to sell services at a price that differs from the approved price list? Who can discount?
5. How often are service prices reviewed?
6. Which services are projected to be the most profitable to the company?
7. Is there a relationship between the profitability of each service and the incentives for sales personnel?
8. How do pricing policies and structure compare with those of the competition?
9. What is the industry's ability to meet current and future product demand?
10. Does management believe cost increases could be passed on? Why?
11. Is the company sensitive to industry price changes?
12. Is there a price leader in the market currently? Which company? Please describe the circumstances.

Competitive Environment and Industry structure

1. What is the number of companies in the industry by size and category, national and international?
2. To what degree is the industry concentrated in one or a few companies?
3. What is the trend of business failures or successes? Are there a lot of failures? What are the causes of these failures?
4. How is the industry structured in terms of geographical location, product lines, channels of distribution, pricing policies, degrees of integration and the type of customers?

5. What factors will affect growth in the future? Analyze each of the following.

a) What are the demographic changes?

b) What are the general economic trends?

c) How will disposable income affect the industry?

d) How will interest rates affect the industry?

e) How will the composition of the industry change with respect to new business or failing businesses?

f) How will the market size change?

g) How will the market share change for each of the companies?

h) What technological innovations are apt to spur growth?

i) What product design changes will enhance productivity and perhaps spur growth?

j) What economies of scale in the industry are likely to affect growth?

k) What pricing differentials will occur, and what products will be priced differently?

l) How will advertising and other forms of market development affect growth?

m) What factors from government affect the industry?

n) How will government regulations affect the industry?

o) How will government fiscal policy in general affect this industry?

p) How will consumer buying power change and affect this industry?

q) What environmental considerations could change the growth patterns of this industry?

Labour of the Industry

1. Is the supply of skilled labour adequate for this industry?
2. Are the pay rates in this industry competitive with those of other industries?
3. Will the company be part of an industry bargaining council?
4. Will the company recognise labour force structures? If yes, have the recent wage negotiations been accounted for in the projections?
5. Have there been any new labour contracts or renewals in this industry? What were the results of the settlement and negotiations?
6. To what degree is the industry as a whole unionized? And how will this affect the company?

7. What is the best labour practice regarding unionisation and how influential is the union as a whole in the industry?

Government Regulation of the Industry

To what extent is the company regulated by the government?

1. What regulatory agencies are responsible for regulating this industry?
2. Is there a trend toward more government regulation in this industry?
3. Are there any unique reporting requirements by this industry to government agencies?

Patents, Trademarks, Copyrights and other Intellectual Properties

5. Are any patents, trademarks and copyrights important to the company's line of business?
6. To what degree do the patents, trademarks and copyrights determine which company in the industry will succeed?
7. Are there any household names in this industry?

Industry Associations and Trade Marks

1. Is the company a member of any trade or industry association? If so, list the name, address, phone number and association manager.
2. Is the company represented at any trade shows? If so, list.
3. Is the company represented at any conventions? If so, list.

Documentation of the Industry

1. Provide current periodicals, news clippings, trade association clippings and company prepared documents.
2. Provide government data and publication and census studies that provide background information on the industry and the competition.

Competition

1. What is the level of price competition between players?
2. What is the threat of substitute/ alternative service provider?

3. What is the possible reaction from competitors on Company's strategic and expansion plans?
4. What is the scope for consolidation / exit in the industry?
5. Who are the major competitors at present?
6. Please provide a comparative detail of the competitors' products and services
7. What is the financial strength of the present competition?
8. What is the basis of competition in the industry i.e. is it technology/know-how, price, location, relationships, strength of branding, established /closed feeding?
9. Are there market entrants expected in the market in the near future?
10. What are the present and expected future competitive shares of market?
11. What is the relative ease of entry into the field? What are the capital and other requirements for entry? What is the importance of intangibles such as lead time, goodwill, patents etc? What are the barriers to entry in this industry?
12. How does the company compare with competition in each of the present market share, marketing capability, financial resources, financial management, R & D capability, overall management strength and other strategic advantages?
13. Construct a chart indicating the degree of competitiveness with each significant competition on a 1 to 3 scale where 1 = superior, 2 = competitive, 3 = below average or nor competitive.
14. Compare the company's service with that of the competition, stressing uniqueness of this company's service.
15. Compare the company's price points against the competition's price points.
16. What is the strategy for other companies in the industry?
17. To what extent will trade practices and cooperation among businesses change the industry?
18. What barriers to entry might change in order to increase competition?
19. What key factors of success may change and allow the competition to get ahead?
20. What impact would change in government policy and legislation have on the industry?

Documentation to be obtained.

1. Provide a list of the company's competition with names, addresses and telephone numbers.
2. Provide product literature on the competitors.

		3. Provide literature on the competition.
C.	**Technical Analysis**	**<u>Technical module</u>** 1. Please provide copies of the title deed, indicating the size of the land, spatial zoning/ zoning confirmation 2. Please determine adequacy of the size of the proposed site for the intended development. 3. Please provide Geotech studies and EIAs on the proposed site 4. Please provide a copy of the bill of quantities as determined by a quantity surveyor, inclusive of bulk services if they are to be financed through the project and contingencies. 5. Please provide the listed below on Professional services appointed to participate in the project. Including, but not limited to the construction contractor, surveyors, architecture, required engineers etc. a) Business profiles b) Related experience and where applicable CIDB grading c) BEE ratings, d) key contact person. e) Professional insurance/indemnity f) Signed or proposed contracts for the services, contracts must outline undertakings and responsibilities, fees, and payment structure. 6. Please provide approval of building plans by the municipalities 7. Please provide any other Municipal or government agency approvals related to the site. 8. Please provide a detailed overview of the proposed business operations and processes, including: a. The process of selecting students and onboarding them onto the residence; b. The conduct of background checks and the process of determining appropriate students to reside at the property; c. The process of obtaining accreditation with a recognised institution of higher learning;

		d. The process of billing for monthly rental and the process of collecting the relevant monies from responsible people; e. The proposed repairs and maintenance plan for the property; f. The proposed safety measures put in place to ensure the residents are safe; g. The process of evicting defaulting tenants and legal requirements for such;
D.	**Human Resources**	<u>**Management as a Team**</u> 1. Provide an organization chart and job description indicating proposed management areas of responsibility. 2. Are there any loans to and from management or key shareholders? 3. Does the company have the right to repurchase shares held by employees if they leave or are fired? For how long does this right continue? Can the company repurchase shares at cost? 4. What are the proposed salary levels of management? 5. Will key employees sign non-competent agreements? 6. Is there presently any litigation or any potential liability resulting from management's previous relationships with another company? 7. How often will performance by members of the management team be reviewed? By whom? 8. What policies will be put in place for training of successors or the process of obtaining new staff to succeed the present executives; 9. Are suitable replacements readily available? 10. What experience does the proposed management team have in this industry? <u>**Management & Employees**</u> 1. Analyse the staff compliment according to race and gender across hierarchical levels. 2. Evaluate performance evaluation criteria and bonus compensation/ incentive. 3. Provide copies of any employment agreements, non-compete agreements, or agreements with respect to the purchase of shares owned by management. 4. Provide detailed resumes (including past experience, salary and promotions history, and academic qualifications) and business and personal references of each key members of management and each department head.

5. Provide details of management share ownership.
6. Evaluate any union labour agreements.
7. Summarize the names, ages, titles, education, experience, and professional biographies of the senior management team.
8. What decision making committees are available in the Company? And what are the responsibilities of each?
9. Determine whether any significant defections from management are imminent and assess their effect on competitiveness.
10. Review educational material to be distributed to employees in compliance with Health and Safety Act legislation.
11. Assess the adequacy of the labour supply for each business unit/division.

Management Characteristics

1. What experience does the management team have in this industry?
2. Have any of the officers, directors, or major stockholders been involved in legal proceedings? Criminal proceedings? If yes, please provide details.
3. Has any officer, director, member of the management group, or the company, (including subsidiaries and /or affiliates) ever filed a petition under the bankruptcy code or state receivership, or made any assignments for the benefit of creditors? If so, please provide details.
4. Has any officer, director, member of management group or the company (including subsidiary and/or affiliates ever been indicted or convicted of any crime other than a minor traffic offence? if so, please provide details.
5. Are there any actions, lawsuits, proceedings pending or threats against the company or any officers or directors? If so, please provide details.
6. Does the company have a management contracts? If so, please share details on the terms of such contract; performance measures, fees, tenure amongst others and a copy of the management contract.
7. Do any affiliated transactions exist between the company and any of the officers, directors, or their relatives other than in their capacity as an officer or director? If so, please provide details.

Proposed Employee Benefits

		1. Determine the proposed type of pension benefit plan. 2. What is the proposed Company contribution percentage? What is the level of employee participation? 3. Review management, employment, incentive, deferred compensation, and bonus agreements.
E.	**Financial Management**	**<u>Analysis of Financial Operations</u>** **<u>Accounting Policies</u>** 1. Are any accounting policies unique to the company's industry? 2. What are the accounting policies that differ from industry practice, represent alternative methods where other preferable methods exist, or are excessively conservative or aggressive? 3. Are there any proposed accounting pronouncements or government regulations that may have a significant impact on the company? 4. Obtain detailed analysis of differences (quantifying effect of restatement) between "'local GAAP" and IFRS in the event that the company has not adopted IFRS. **<u>Accounting Methods and Costing Practices.</u>** 1. What accounting practices will the company use with respect to the recognition of revenue and expense? 2. Will there be any deferred costs or other intangible assets on the company's balance sheet? Over what period are these amortised? 3. What depreciation method will be used for fixed assets? will this method be used consistently? What is the rationale for any difference in methods, if any? **<u>Assets</u>** 1. Determine the extent of the proposed asset base for the company (fixed and financial, current, and noncurrent). 2. Determine the adequacy of the proposed asset base. 3. Obtain any maintenance agreements on Company buildings and equipment. **<u>Property, Plant & Equipment</u>**

1. Obtain list of all proposed real properties, leased or owned, with description of use.

Intangible Assets

1. Obtain a list of all product names from the Company. If any.
2. Ensure all product names have been duly registered as trademarks of the Company.
3. Obtain a list of all patents, trademarks, copyrights and trade names so as to order searches.
4. Determine the status of such patents, trademarks, copyrights and trade names.
5. Determine if there are any disputes or infringement claims regarding any of the foregoing or any intellectual property claims of other persons.
6. Obtain a list of proprietary processes controlled by the Company.
7. Review contracts granting or receiving licenses for intellectual property rights.
8. Review contracts granting rights to future products developed by the Company.

Liabilities

1. Determine the list, quantum of proposed liabilities (current and noncurrent) Review the current accounts payable listing.
2. Investigate any potential warranty, environmental, legal, and regulatory non-compliance issues.

Equity

1. Obtain a shareholder list that notes the number of shares held and any special voting rights.
2. Review all Board resolutions authorizing the issuance of shares to ensure that all shares are validly issued.
3. Review all documents affecting ownership, voting or rights to acquire the Company's shares for required disclosure and significance to the purchase transactions, such as warrants, options, security holder agreements, registration rights agreements, shareholder rights, or poison pill plans.
4. Determine if any share option or purchase plans exist for officers or employees of the Company.
5. Compare the Company's share option or purchase plans with those of competitors (if obtainable) to assess the Company's ability to obtain and retain skilled employees.

Financial management

Budgeting and Controls

1. What are the company's proposed budgeting procedures? How often will the budgets be assembled? Will they be modified on interim basis?
2. How will budget figures be derived? Will there be supporting schedules prepared? What will be the lowest unit component of the budget?
3. Will the company utilize a "top-down" budgeting process wherein goals are established by management? If not, how will corporate objectives integrated with the budgeting process?
4. What kind of variance analysis will the company use? How will this help to improve its budgeting process?
5. How will overall coordination between budgeted goals and operations be achieved?
6. How often will performance relative to the budget be measured?
7. Who will be held responsible for deviations from budget?
8. Will the budgeting system monitor the accuracy of forecasts? Will there be explanations of major variations?

Cash Management

1. How many bank accounts will the company have?
2. Describe the envisaged cash management process. What procedures will the company utilize to minimize the transfer time for collected cash balances?
3. Who is authorized (cheque signatories) to make payments of company funds and what amounts are they authorized to disburse?
4. What procedures are utilized to ensure proper adherence to disbursement limits and authorization procedures?
5. What is the minimum amount of cash which the company needs to maintain for transaction purposes? How is this amount determined?
6. How much will be maintained in short-term securities? How will these amounts and maturities of these marketable securities be determined?
7. Describe the company's proposed working capital policy and provisions.

Receivables Management – Credit and Collection Policy and Procedures

1. How is revenue collected by the business from its clients?
2. What percentage of the company's sales are projected to be on a credit basis? If any.
3. What are the normal credit terms?
4. What is the discount policy?
5. What credit information and credit analysis does the company use to determine the eligibility and amount of credit for individual customers?
6. How are credit extension procedures coordinated with sales activities?
7. How frequent is customer credit information updated?
8. How will delinquent accounts be identified and monitored? How often will accounts receivable ageing schedules be prepared?
9. What collection procedures will the company employ?
10. What impact is the financial crisis currently experienced by the NSFAS have on the business' cash conversion cycle?

Profitability on the projections

1. Provide a comprehensive list of all proposed revenue sources;
2. Determine the drivers of each of the identified revenue source;
3. What pricing methodology will be followed by the company in pricing its services offering;
4. Will the company independently set its own prices or will it be a price taker?
5. What is direct expense as a percentage of revenue?
6. Are the proposed operating expenses reasonable and complete, for a business of this nature?
7. Review the projected working capital requirements.

Taxes

- Request copies of all applicable tax registration documents.
- To provide advice on the tax effect regarding the assets acquisition structure (Tax leak and other Tax implications);
- What allowances and income tax incentives exist in the tax legislation to provide relief to this business;

- What are the VAT implications on the acquisition of the property and is VAT input claimable, based on the nature of this business?

Insurance & Risk Management

- Does the Company have an overall risk mitigation plan that it will update regularly?
- Review all existing and proposed corporate insurance, using a schedule from the Company's insurance agency. If there is material pending litigation, determine the extent of insurance coverage and obtain insurance Company confirmation.
- What is the sum of the proposed insurance premiums.
- To what extent will the Company self-insure its activities? Will there be uninsured risks that the Company will be aware of, but ignore?
- Review various types of insurance including key-man policies, asset covers, third party liabilities and construction based insurances during the development stage of the project;
- Will the company enter into a bespoke contract or a standard form contract?
- If a standard form contract is entered into, what type of standard form contract will be entered into?
- What impact will recent "Fees must fall" and other related demonstrations by university students have on the property?
- Is there an adequate contingency provided for in the project cost for unforeseen costs and general cost escalations?

Projected Financial Statement Analysis

1. What is the basis for the projected occupancy rates?
2. Investigate the occupancy rates experienced by competitors in the region and compare these to the proposed occupancy rates;
3. What is the basis for the projected annual revenue increase? Is it feasible?
4. Are the assumptions concerning sales growth (volume and price), gross margins, working capital requirements, operating expenses, capex, operating expenditures, financing requirements and terms reasonably based on, trends, industry and overall business expectations?

		5. Identify potential future earnings adjustments: a) Significant business risks and opportunities which might affect the projections b) Identification of synergy benefits arising from the proposed transaction. c) Outline any contingencies included in the forecasts or projections. d) Expected changes in material and other costs e) Incremental depreciation and amortization charges resulting from expected asset / liability revaluation f) Different tax provision due ownership structure g) Cost savings from elimination of different facilities, overhead and synergy h) Identification of non-recurring material items affecting projected cash flows 6. What are the anticipated industry changes / trends in accounting principles and effect upon present and future operations? 7. Consider adequacy of working capital in the light of projected activity levels, of bank facilities and availability of other external finances. 8. Consider the adequacy of capital expenditure in the light of projected activity levels. **Sensitivity analysis** 1. What effect does variation in key assumptions underlying financial projections have on income statement, cash flow and projected balance sheet? 2. What are realistic best case and worst-case projections? 3. Was a computer model used for this analysis? 4. Sensitivity analysis could include- effect of changes in selling prices, currency fluctuations, changes in raw material prices and other input costs.
F.	**Information & Technology**	**Information Technology** 1. Why accounting system will be employed by the business in its financial reporting framework? 2. What systems use third-party software, and which ones use custom-built solutions?

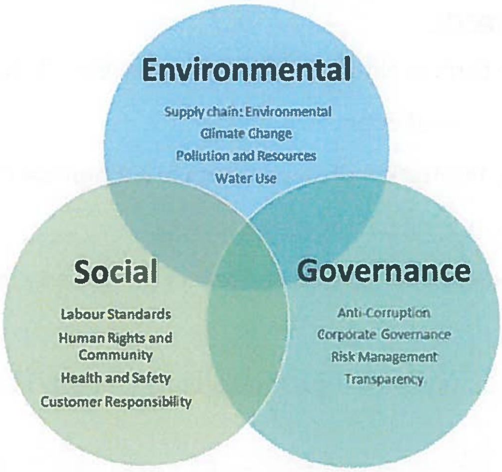
		3. Are the third-party systems under maintenance contracts, and are the most recent versions installed? 4. Are user computers monitored for unauthorized software installations? 5. Are software copies secured and only released with proper authorization? 6. Are there adequate backup systems in place with offsite storage, both for the corporate-level databases and for individual computers? 7. What is the proposed level of security required for access to the Company's servers? **<u>Internet</u>** 1. Will the web site usage statistics tracked? If so, how will it be used for management decisions? 2. Will the students resident be provided with free WiFi and what securities will be employed to protect users against cyber attacks?
G.	**Legal**	**General** 1. Obtain the articles of incorporation and bylaws. Review for the existence of pre-emptive rights, rights of first refusal, registration rights, or any other rights related to the issuance or registration of securities. 2. Review the bylaws for any unusual provisions affecting shareholder rights or restrictions on ownership, transfer or voting of shares. 3. Obtain certificates of good standing for the Company. 4. Review all contracts that are important to operations. Also review any contracts with shareholders or officers. In particular, look for the following provisions: o Default or termination provisions o Restrictions on Company action o Consent requirements o Termination provisions in employment contracts o Ownership of technology o Cancellation provisions in major supply and customer contracts o Unusual warranties or the absence of protective provisions 5. Obtain copies of all asset leases, and review for term, early payment, and bargain purchase clauses. 6. Obtain copies of all office space lease agreements, and review for term and renewal provisions.

7. Review all related party transactions, proposed management agreements.
8. Review the terms of any outbound or inbound royalty agreements.
9. Was any Company software (either used internally or resold) obtained from another Company? If so, what are the terms under which the code is licensed? Are there any associated royalty payments?
10. Review all pending and threatened legal proceedings to which the Company or any of its subsidiaries is a party. Describe principal parties, allegations, and relief sought. This includes any governmental or environmental proceedings. Obtain copies of existing consent decrees or significant settlement agreements relating to the Company or its subsidiaries.
11. Review the auditors' letter to management concerning internal accounting controls and procedures, as well as any management responses.
12. In respect of all material contracts, review for assignability, enforceability, breaches and escalation clauses.
13. Obtain copies of all:
    - Property zoning certificate and obtain satisfaction that it is appropriate;
    - Detailed bills of quantities as prepared by the appointed Quantity Surveyor
    - Obtain approved building plans;
    - license agreements and ancillary documents;
    - government licenses and permits;
    - secrecy or non-competition agreements;
    - membership agreements;
    - powers of attorney and agency agreements;
14. Review proposed contracts or negotiations.
15. Obtain and review the tender submission documents to the KZN Department of Public works.
16. Engage the KZN Department of public works and obtain satisfaction that the tender for the acquisition of the subject property is valid, legitimate and was issued after having followed necessary laws and regulation.
17. Assess that the proposed use of the property as a student accommodation, is inline with the use as approved in the tender award letter.
18. Investigate if there are no outstanding legal proceedings involving the target property

		<u>Intellectual Property</u> 1. Review all current patent, trademark, service mark, trade name, and copyright agreements, and note renewal dates. 2. Obtain an itemization of all pending patent applications. 3. Determine annual patent renewal costs. 4. Obtain copies of all licenses of intellectual property in which the Company is the licensor or licensee. 5. List all lawsuits pertaining to intellectual property in which the organization is a party. **<u>Regulatory compliance</u>** 6. Determine if there are or were any enforcement or disciplinary actions or any ongoing investigations or suggestions of violations involving the Company. 7. Review any correspondence during the past five years with the Environmental authorities 8. Review any required regulatory compliance and verify that necessary licenses and permits have been maintained, as well as ongoing reports. 9. Obtain copies of any open charges of discrimination, complaints, or related litigation, or any such cases that have been closed within the past five years.

G. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) MODULE

In today's economy, financial metrics informs only part of a company's value story. Intangibles such as brand reputation, talent and customer reach, are increasingly becoming important factors in investment decision-making. These intangible ESG factors (as depicted on the figure below) have become more topical amongst decision makers and companies who aspire to drive long-term sustainable performance and resilience in the ever-changing environment are more likely to attract investors.



Environmental Aspects

The environmental section seeks to investigate the company's compliance to various National and Regional environmental laws and regulations. You are required to provide an explanation and proof where required for your answers.

Key Issue	Description	Questions	Response/Comments and Evidence
Environment Regulations	Environmental Authorisations	Does the company have an Environmental Management policy in place?	
		Did the company undertake an environmental impact assessment? Please provide a copy of the environmental management programme (EMP) for the construction and operation the facility.	
		Have the relevant subdivisions been approved for rezoning? Please provide zoning certificate	
		Have the SDP and building plans been approved by the municipality? Please provide approval as well as proposed floor plan.	
Waste Management	Pollution prevention	Does the company have a waste management plan in place?	

		What type of waste streams will the facility produce and how each will be managed (e.g., solid domestic, hazardous, wastewater)?	
		What quantity of domestic wastewater (effluent) is produced by the business monthly? What is the estimated size of the proposed onsite effluent tanks? How will the effluent be discharged once tank is full?	
Bulk services	Access to bulk services	Has the company secured access to bulk services? Please provide service agreements from the service provides and Municipality.	
Environmental risk management	Environmental risk management	Are there any environmental appeals lodged against the company?	
		Are there signs of contamination of land from past activities on site (agricultural & industrial)?	
		Has the company received fines or penalties relating to environmental issues within the last 5 years?	
Climate change		Is the company a significant greenhouse gas producer?	

Social Aspects

Social factors look at how a company treats people (protecting human rights) and focuses on employee relations and diversity, working conditions, local communities, health and safety, and conflict. This section seeks to investigate the company's compliance to various National and Regional social and labour laws and regulations. You are required to provide an explanation and proof where required for your answers.

Key Issue	Description	Questions	Response/Comments and Evidence

Basic Conditions of employment	Policies	Does the company have the following policies in place? If yes, please provide copies. 1. HR policy. 2. Occupational Health and Safety policy. 3. Training and Development policy.	
	Salaries and Wages	Kindly state what is the minimum and average salaries and wage of employees at the company. Are wages at or around the level of the minimum wages? Are salaries market related?	
	Employee contracts	Do all employees have signed employee contracts? If yes, please provide a sample of one or two (where possible) for each level of occupation.	
	Employee benefits	Does the company offer benefits to staff i.e., leave, pension fund, performance bonus, overtime, medical aid, employee incentive schemes, etc?	
	Union Representation	Are staff free to join unions of their choice?	
	Committees	Does the company have the following committees in place? 1. Employment Equity or Transformation committee?	
	Industrial Actions	Has the company had an industrial action taking place in the last 5 years? Where there any retrenchments due to industrial actions?	
Human Rights Principles	Policies and Procedures	Does the company have policies in place that protect the human rights principles and ensure that they are adhered to: 1. No Child Labour 2. Anti-Discrimination 3. Access and protection of people with Disability. 4. HIV /AIDS policy. 5. Forced labour practice.	

		6. Sexual harassment policy 7. Support and respect for protection of other Human rights principles. 8. Gender, race, sexuality, religion, political opinion, etc.	
Community and stakeholder Engagements	Community and stakeholder Engagements	Kindly indicate the company strategy to manage local Communities and other company stakeholders such as 1. Public Participation Process 2. Managing community Expectation 3. Strategy to address Community Health and safety	
CSI/SED	Corporate social initiatives/ social-economical development.	Has the company established/ identified any CSI/SED projects to support?	

Governance Aspects

Governance sections seeks to investigates the company's corporate governance system, practices and alignment to the King IV principles of corporate governance. You are required to provide an explanation and proof where required for your answers.

Key Issue	Description	Questions	Response/Comments and Evidence
Board of Directors	Custodian of Corporate Governance	Does the company have a Board of Directors? If yes, please provide a charter.	
		Does the Board composition follow good practice e.g. separation of Chairman and CEO; independent directors? If yes, please provide evidence.	
Key Individuals	Major shareholder and Directors	Are there any potential issues/ pending investigations/ inquiries/ commissions with any of the key individuals linked to the company in relation to. 1. Their source of wealth?	

		2. Their previous business activities or practices? If yes, please provide details.	
		Are any of the key individuals linked to the company the subject of local or international investigation in relation to economic crime?	
		Does the company have a code of business ethics / conduct that is endorsed by the CEO / Chairman and Board?	
	Performance Assessment	Does the company conduct performance evaluation for the Directors? How often are these evaluations done? Who conducts them?	
Risk Management Strategies	Risk Management Strategies	Does the company keep and monitor a risk register, if yes, please provide Does the company have a risk management strategy in place?	
	Risk Management Policies	Does the company have the following Risk Management policies in place? 1. Political donation 2. Anti-competitive Practice 3. Delegation of Authority 4. Anti-corruption 5. Gift policy.	
	Succession planning	Does the company have a Succession planning policy? If not, how is succession planning managed in the company?	
	Disclosure and Reporting	Does the company have a policy to disclose materiality issues to the shareholders?	

IDENTIFICATION OF POTENTIAL BUSINESS INTEGRITY RISKS

In a similar manner to HSES issues KGF would expect the LRCO to rate the deal as high, medium or low from a business integrity perspective. The inherent risk has to be considered on a case by case basis but it is likely that certain industries e.g. infrastructure (telecoms, construction, government contracts, etc) are more likely to be rated high risk from a business integrity perspective.

1.	Keyman Probity	Yes/No	Comment / Note Ref
a.	Are there any potential issues with any of the key individuals linked to the company in relation to:		
a1.	- their source of wealth?	Yes ☐	
		No ☐	
	- has this been investigated at all by KGF?	Yes ☐	
		No ☐	
a2.	- their previous business activities or practices?	Yes ☐	
		No ☐	
	- has this been investigated at all by KGF?	Yes ☐	
		No ☐	
b.	Do any of the key individuals linked to the company have links (past or present) to government?	Yes ☐	
		No ☐	
c.	Are any of the key individuals linked to the company the subject of local or international investigation in relation to economic crime?	Yes ☐	
		No ☐	
d.	Has the identity of key individuals been verified in accordance with anti-money laundering procedures?	Yes ☐	
		No ☐	
2.	**Ethical Issues**		
a.	Does the company have a mission or vision statement that includes core values (such as trust, integrity, etc)?	Yes ☐	
		No ☐	
b.	Does the company have a code of business ethics / conduct?	Yes ☐	
		No ☐	
b1.	Is it endorsed by the CEO / Chairman and Board?	Yes ☐	
		No ☐	

b2.	Is the code made available to all employees?	Yes ☐	
		No ☐	
b3.	Is the code given and explained to all new employees?	Yes ☐	
		No ☐	
c.	If the company does not have a formal code of similar document, does it give guidance to staff on how to deal with any of the following ethical issues:		
c1.	Bribery and other unconventional payments?	Yes ☐	
		No ☐	
c2.	Anti-competitive practices?	Yes ☐	
		No ☐	
c3.	Conflict of interest?	Yes ☐	
		No ☐	
c4.	Gifts and entertainment?	Yes ☐	
		No ☐	
c5.	Insider dealing?	Yes ☐	
		No ☐	
c6.	Political activity?	Yes ☐	
		No ☐	
c7.	Use of corporate assets?	Yes ☐	
		No ☐	
d.	Is there a person designated in the company to deal with ethical matters?	Yes ☐	
		No ☐	
e.	Is compliance with ethical issues monitored and are breaches properly dealt with?	Yes ☐	
		No ☐	

f.	Do employees have means to raise ethical concerns without being penalised (e.g. a whistle blowing helpline)?	Yes ☐	
		No ☐	
g.	If no consideration is currently given to ethical issues, is the company prepared to develop & implement something in line with KGF's expectations?	Yes ☐	
		No ☐	
3.	**Corporate Governance**		
a.	Are appropriate systems in place for recording and reporting financial and tax information?	Yes ☐	
		No ☐	
b.	Are Board meetings held regularly with proper notice and papers?	Yes ☐	
		No ☐	
c.	Does the Board have effective procedures for identification of all financial and non-financial risk?	Yes ☐	
		No ☐	
d.	Does the Board composition follow good practice – e.g. separation of Chairman and CEO; independent directors	Yes ☐	
		No ☐	
Completed by:		**Date:**	