SCM Steyn Capital Management

A Primer on Detecting Accounting Fraud

Firm Overview

- Steyn Capital Management is a **long term, value-orientated investment manager** which manages approximately R12bn in listed equities across South Africa, Pan-African, Frontier and Emerging Markets.

- Clients include US Endowments, European Family Offices, Insurance companies, Pension funds, Multi-Managers, HNWI's, and the investment team.

- All strategies are run with the same **long term, value-orientated philosophy and research-intensive methodology**, and have been **among the top performers** in their respective categories since inception. As at 31 December 2022:
  - Our **SA long/short strategy has produced annualised net returns of 17.5% since its inception (May 2009),** outperforming the JSE ALSI TRI by 4.7% p.a. (in ZAR), with 23% average beta adjusted net exposure
  - Our **SA long only strategy has produced annualised gross returns of 19.2% since May 2009**, outperforming the JSE SWIX/Capped SWIX TRI by 7.3% p.a. (in ZAR)
  - Our **Africa ex-SA strategy has produced annualised net returns of 5.3% since its inception (Sep 2011)**, outperforming the MSCI EFM Africa ex-SA TRI by 4.9% p.a. (in USD)
  - Our **Frontier strategy has produced annualised net returns of 3.0% since inception (Jan 2018),** outperforming the MSCI FEM TR Index by 6.9% p.a. (in USD)
  - Our **Global Emerging Market long/short strategy launched Feb 1, 2022**, and has outperformed the MSCI EM TR Index by 14.2% to date (in USD).

- Our team of 15 includes 3 Portfolio Managers, 7 Analysts, an Execution Trader, Chief Operating Officer, Chief Administrative Officer and Head of Institutional Business.

- Team credentials include two CFAs, eight CA(SA)s, a CGMA, a Masters degree in Economics, and two Honours degrees in Financial Analysis & Portfolio Management, providing strong financial analysis and forensic accounting skills.

WINNER Fund of the Year HedgeNews Africa Awards 2021

WINNER Long/Short Equity HedgeNews Africa Awards 2021

WINNER Pan-Africa HedgeNews Africa Awards 2021

Portfolio Manager: Andre Steyn, CA(SA), CFA

2001-2002:

ANDERSEN MERGERS & ACQUISITIONS, NEW YORK

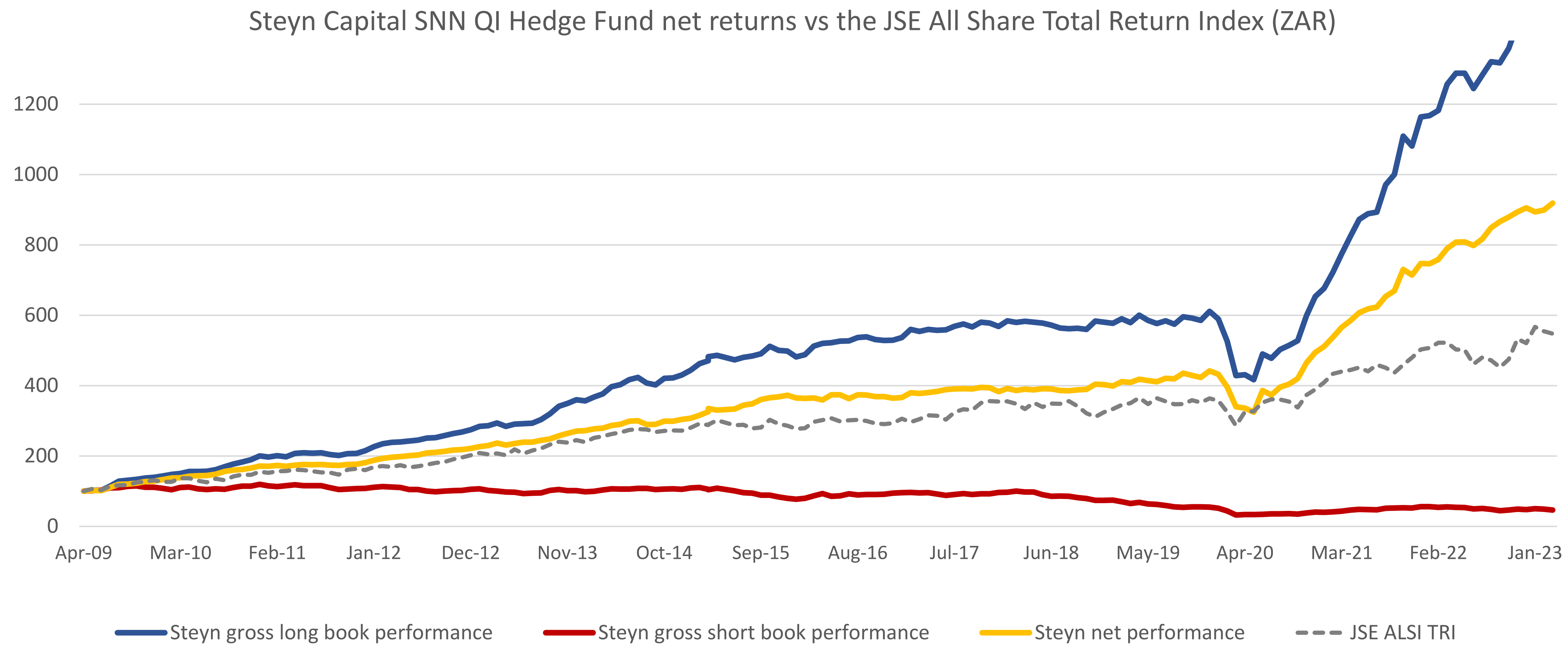
2002-2004:

ZIFF BROTHERS INVESTMENTS, ANALYST

2004-2008:

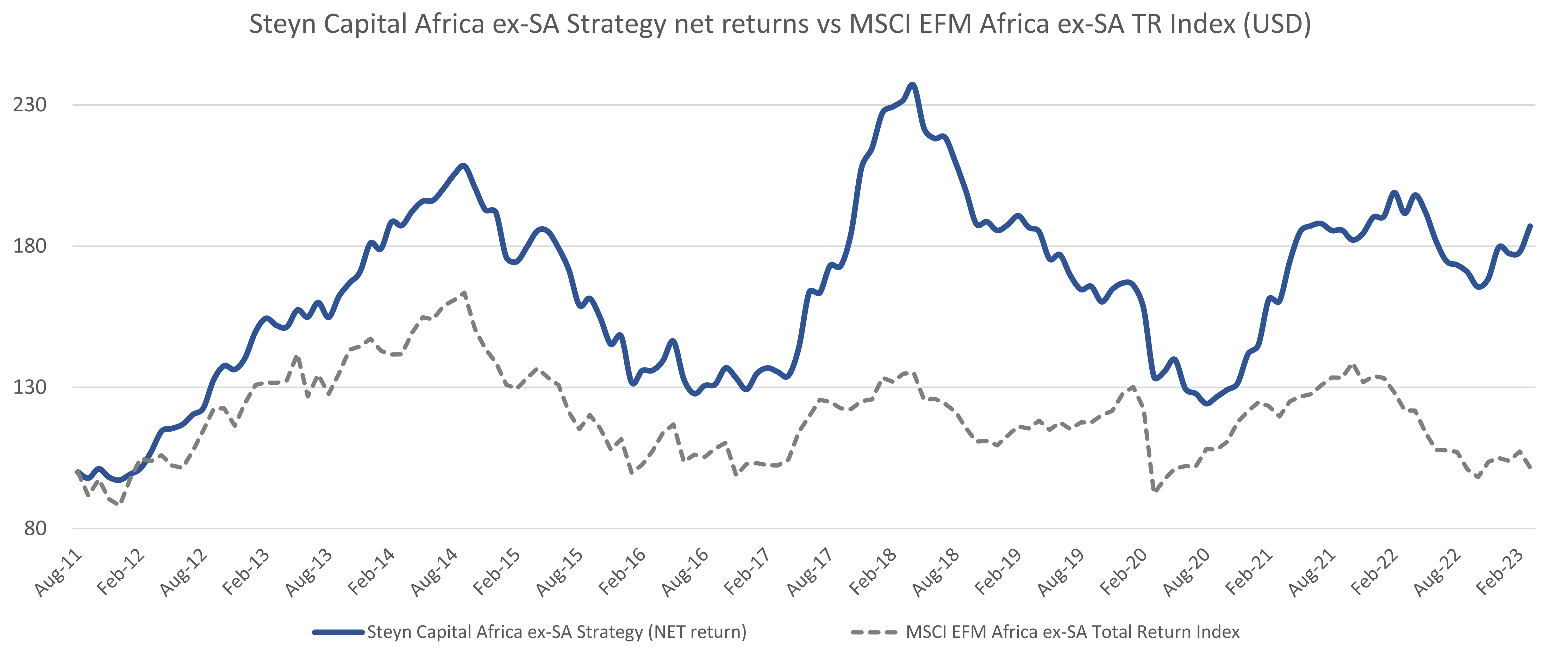
TEMUJIN FUND MANAGEMENT UK, CEO & PARTNER

South African equity long/short strategy performance since inception



	May to Dec 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q1 2023	Total since Inception	Annualised since Inception
Steyn gross long book	39.13%	43.93%	7.21%	27.89%	30.96%	19.01%	15.68%	6.23%	7.44%	1.81%	4.65%	6.86%	78.14%	23.43%	0.87%	1348.44%	21.18%
Steyn gross short book	-10.62%	-8.36%	10.06%	1.27%	3.10%	-4.35%	29.91%	-17.75%	-3.38%	30.78%	35.48%	19.80%	-29.53%	15.00%	2.21%	56.65%	3.28%
Steyn net performance	28.21%	33.63%	5.67%	22.03%	22.55%	12.28%	22.53%	-2.31%	5.14%	5.26%	9.74%	11.85%	51.04%	21.25%	1.48%	818.57%	17.28%
JSE All Share TRI	30.57%	18.98%	2.57%	26.68%	21.43%	10.88%	5.13%	2.63%	20.95%	-8.53%	12.05%	7.00%	29.23%	3.58%	5.17%	447.52%	12.99%

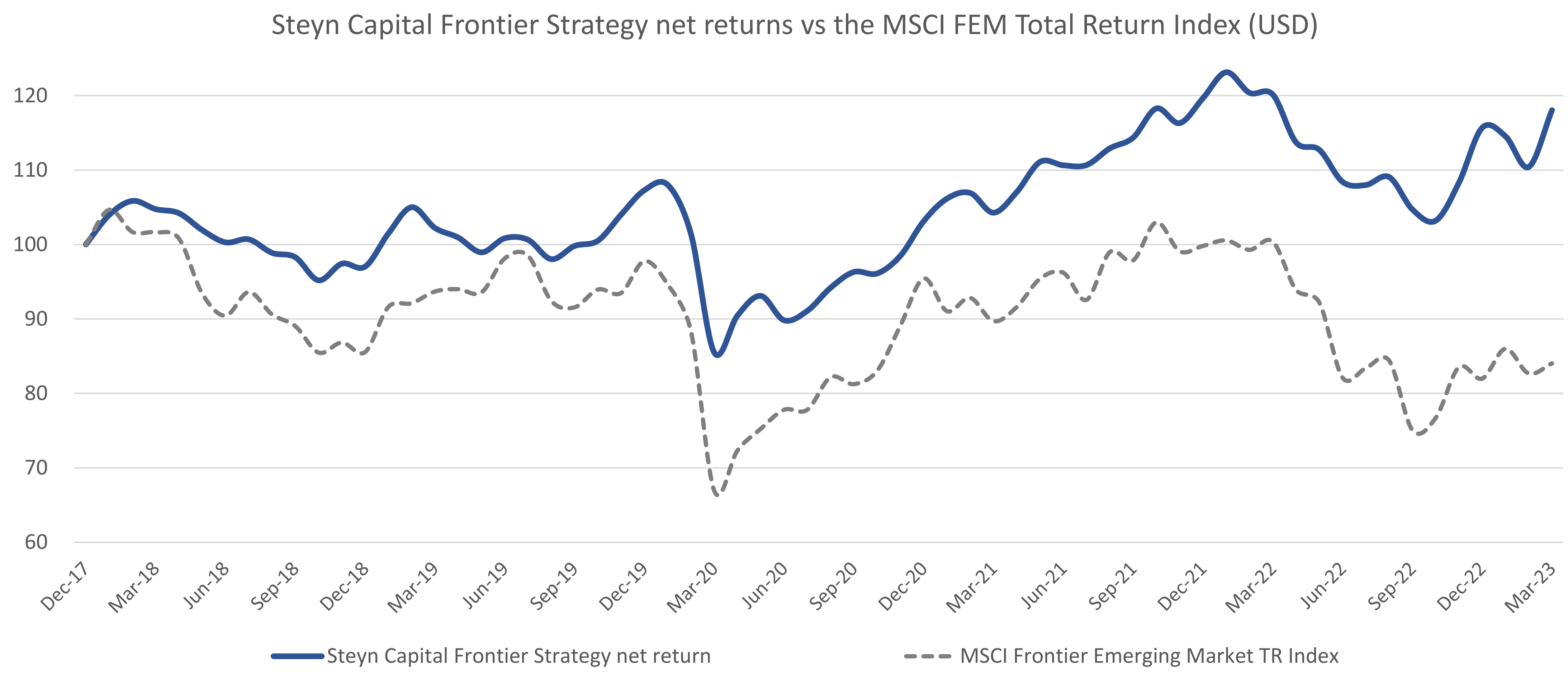
Steyn Capital Africa ex-SA Strategy performance



Date / performance in USD	Sep-Dec 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q1 2023	Total since inception	Annualised since inception
Steyn NET return	-2.81%	44.49%	28.92%	6.05%	-22.85%	-12.72%	66.01%	-13.53%	-10.05%	-15.06%	34.17%	-5.58%	4.13%	87.05%	5.55%
MSCI EFM Africa ex-SA TR Index	-11.82%	41.13%	18.31%	-5.76%	-19.52%	-7.91%	22.31%	-12.95%	16.65%	-4.80%	10.17%	-21.65%	-3.15%	1.65%	0.14%

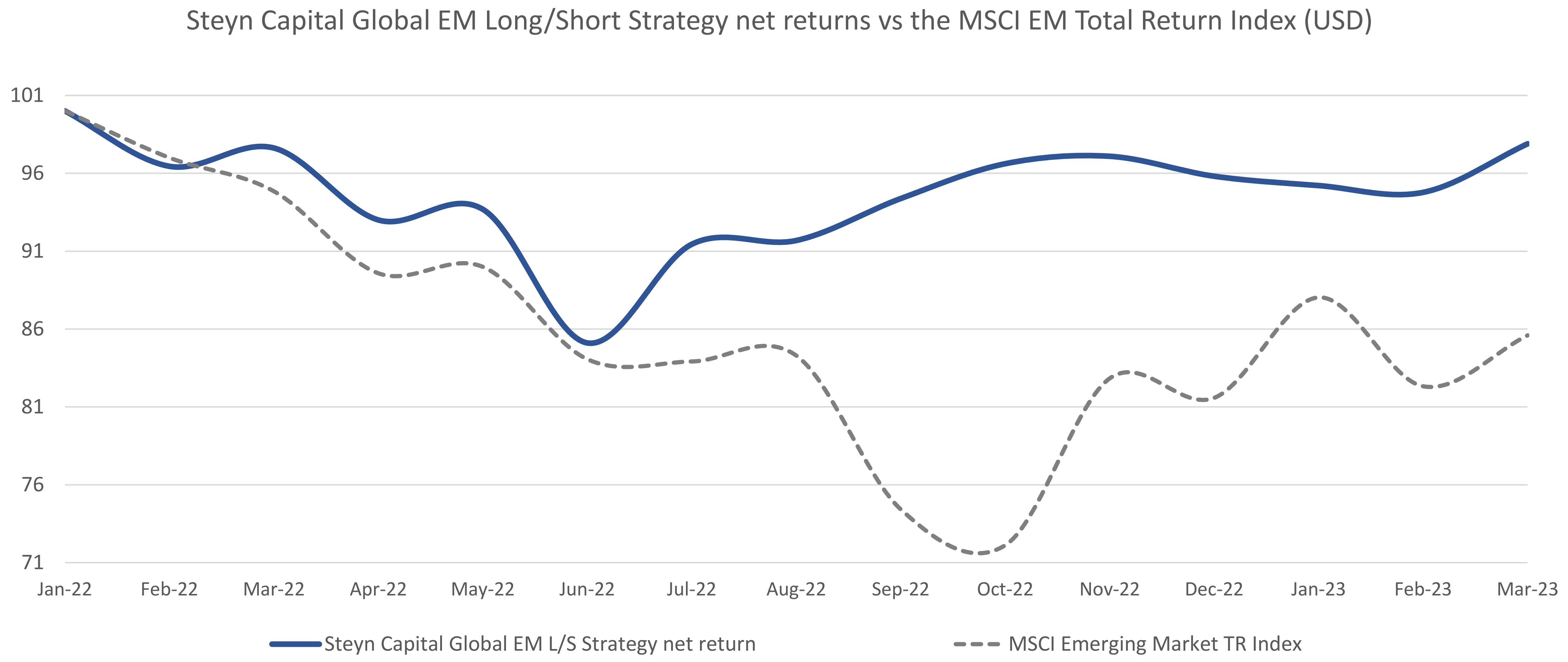
Steyn net return includes a 50% impairment on Nigerian exposure, whereas the indices do not

Steyn Capital Frontier Strategy Performance



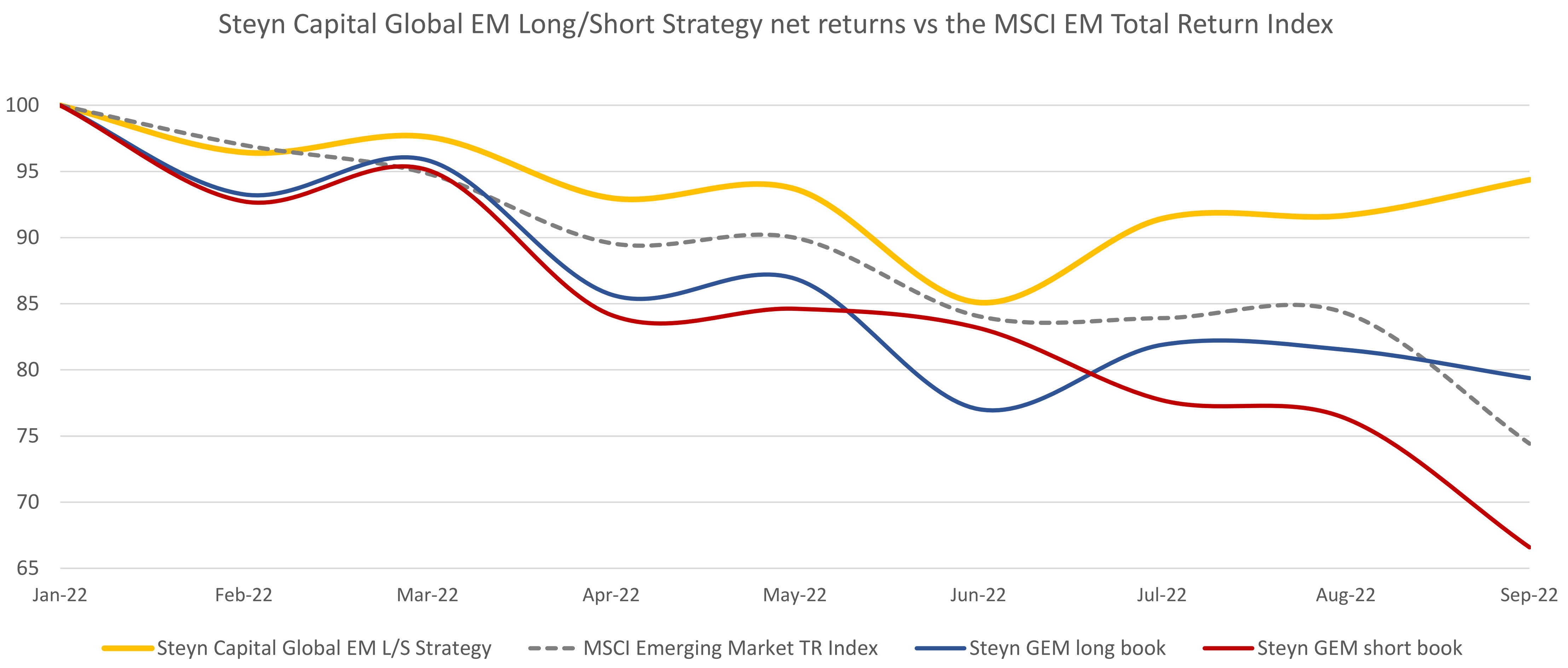
Date/performance in USD	2018	2019	2020	2021	2022	Q1 2023	Total since Inception	Annualised since Inception
Steyn Capital Frontier Strategy net return	-2.97%	10.58%	-3.88%	16.03%	-3.32%	2.04%	18.05%	3.21%
MSCI Frontier Emerging Market TR Index	-14.44%	14.28%	0.83%	4.58%	-17.85%	2.49%	-15.96%	-3.26%

Steyn Capital Global EM Long/Short Strategy Performance



Date/performance in USD	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Total since Inception
Steyn Capital GEM L/S Strategy net return	-3.56%	1.22%	-4.73%	0.74%	-9.16%	7.45%	0.26%	2.94%	2.37%	0.49%	-1.32%	-0.63%	-0.46%	3.29%	-2.11%
MSCI Emerging Market TR Index	-3.01%	-2.22%	-5.55%	0.46%	-6.59%	-0.17%	0.45%	-11.71%	-3.09%	14.85%	-1.51%	7.90%	-6.48%	3.97%	-14.41%

Steyn Capital Global EM Long/Short Strategy Performance



Date/performance in USD	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Total since Inception
Steyn Capital Global EM L/S Strategy net return	-3.56%	1.22%	-4.73%	0.74%	-9.16%	7.45%	0.26%	2.94%	-5.63%
MSCI Emerging Market Total Return Index	-3.01%	-2.22%	-5.55%	0.46%	-6.59%	-0.17%	0.45%	-11.71%	-25.57%

Typical short investments

- Earnings manipulation/Accounting Fraud
- Anticipated liquidity problems
- Flawed business models
- Overvaluation due to a fad
- Tool to accomplish arbitrage

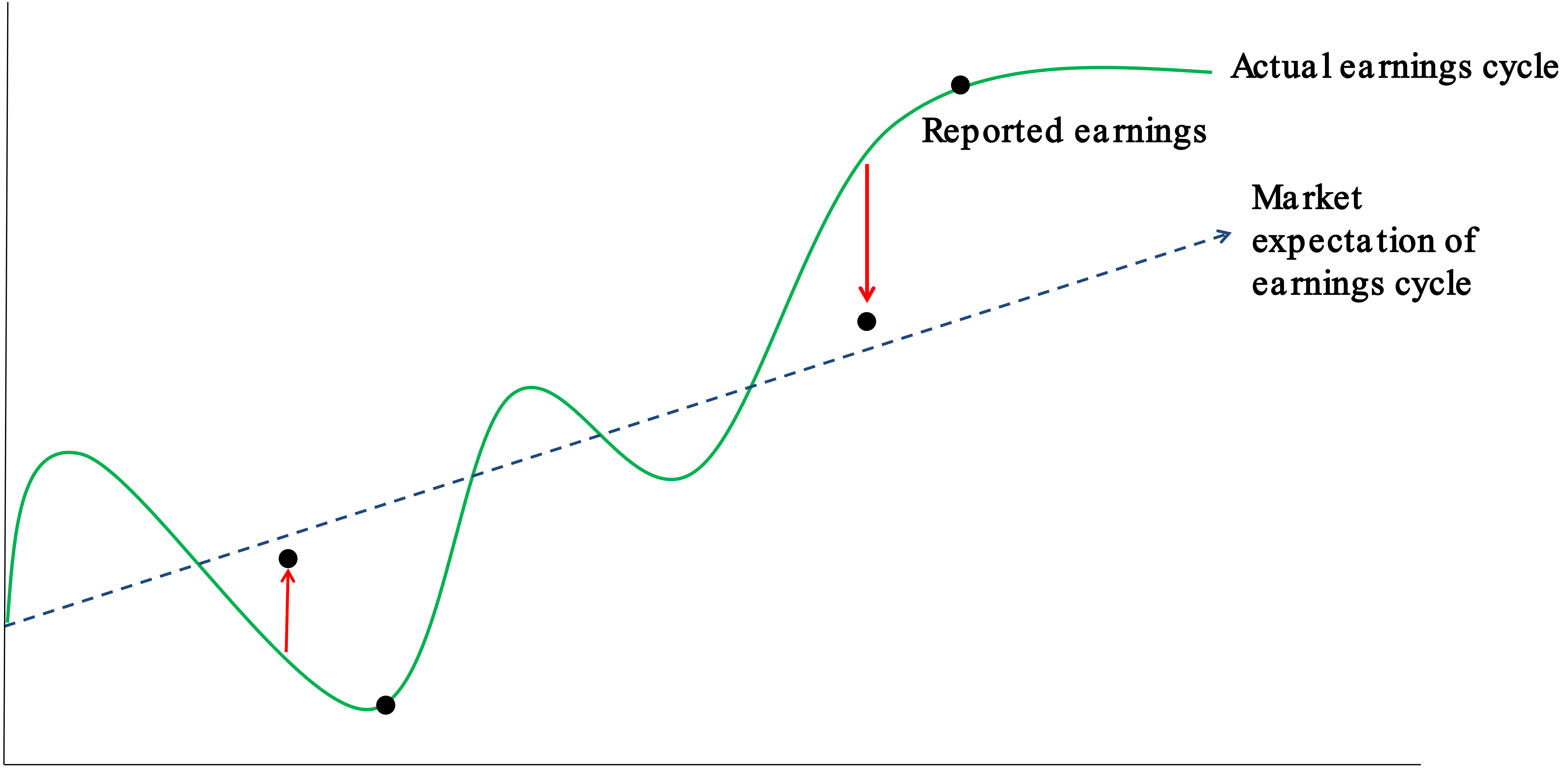
- 25-30 single stock shorts
- Not valuation shorts!

Forensic Accounting Approach to Short Selling

- Forensic accounting approach to identifying frauds
- Businessweek Study

"Our books are balanced. 50% of our numbers are real and 50% are made up."

Forensic accounting analysis



Accounting Policies Matter!

Change in revenue recognition wording from "on registration" to "on the earlier of registration or occupation" leads to a 32% rise in revenue, and a 37% rise in earnings

	Unaudited six months ended August 2016 (With amended change in accounting estimate R'000	Unaudited six months ended August 2016 R'000	Unaudited six months ended August 2015 R'000
Revenue	986 635	749 918	823 405
Cost of sales	(586 163)	(435 970)	(467 068)
Gross profit	**400 472**	**313 948**	**356 337**
Other income	7 645	7 645	6 315
Operating expenses	(86 359)	(86 359)	(43 870)
Share based payment charge	–	–	–
Operating profit	**321 758**	**235 234**	**318 782**

EOH: Taking the stairs up and window down

- South African ICT services company, formerly a market darling
- Became increasingly aggressive in its accounting
- It ultimately emerged (in the Zondo Commission) there was a culture of pervasive corruption in addition to accounting malfeasance and overstating of earnings

Earnings call highlights

- **“This is the 37th time we’ve delivered results with a HEPS growth of 20%+”**
- **“its not a cash problem, it’s a cash conversion problem”**
- **Frequent references to the limitations /“not liking” IFRS by the CFO**
- **Increasingly bizarre acquisitions in new business lines**

Problems at EOH: Earnings quality issues

Cash generation told a very different story to profit

Figures in Rand thousand		Notes	GROUP 2016	GROUP 2015
Profit before taxation	PBT +39% YoY		1 323 921	951 327
Net cash inflow from operating activities	CFFO -24% YoY		398 303	527 446
Cash flows from investing activities				
Purchase of property, plant and equipment			(194 068)	(143 518)
Proceeds on the sale of property, plant and equipment	FCF is negative!		64 358	23 747
Purchase of other intangible assets			(183 656)	(139 358)
Net cash outflow from acquisition of businesses		28	(71 222)	(73 082)
Cash outflow on equity-accounted investments			–	(259)
Cash (outflow)/inflow relating to financial assets			(77 604)	5 605

Problems at EOH: Earnings quality issues

Inflated receivables and deteriorating collections

10. Trade and other receivables

Figures in Rand thousand	GROUP 2016	GROUP 2015
Financial instruments	3 421 103	2 200 077
Trade receivables	3 396 614	2 179 468
Trade debtors	2 536 380	1 797 346
Work in progress/Revenue accruals	860 234	382 122
Other receivables	24 489	20 609

DSO from 83 to 98 days

WIP revenue +125% YoY

Trade and other receivables past due but not impaired

Figures in Rand thousand	GROUP 2016	GROUP 2015
– 30 days	429 401	–
– 60 days	251 451	–
– 90 days	115 895	185 863
– 120 days and over	458 403	267 353

(in '000's…)

Trade and other receivables amounting to R1 617 784 (2015: R337 068) have been pledged to the Group's bankers for facilities as per note 14.

Problems at EOH: Earnings quality issues

Aggressive acquisition accounting

28. Acquisition of businesses

Figures in Rand thousand	GROUP GCT group of companies 2016	Mehleketo 2016	Other 2016	Total 2016	Total 2015
Consideration payable					
Cash paid	(119 167)	(15 000)	(190 880)	(325 047)	(236 582)
Shares issued#	(114 181)	(59 996)	(98 653)	(272 830)	(209 561)
Cash to be paid	(309 872)	(15 000)	(436 484)	(761 356)	(403 923)
Shares to be issued	(324 841)	(115 032)	(370 294)	(810 167)	(240 477)
Total consideration	(868 061)	(205 028)	(1 096 311)	(2 169 400)	(1 090 543)
Purchase price	868 061	205 028	1 096 311	2 169 400	1 090 543
Cash consideration paid	(119 167)	(15 000)	(190 880)	(325 047)	(236 582)
Less: Cash and cash equivalents acquired	(23 766)	60 332	217 259	253 825	163 500
Net cash (outflow)/inflow on acquisition	(142 933)	45 332	26 379	(71 222)	(73 082)
Goodwill	604 593	160 993	723 313	1 488 899	651 224
Purchase price	868 061	205 028	1 096 311	2 169 400	1 090 543

3% of acquisition cost paid in net cash…

70% of acquisition cost was for Goodwill…

Problems at EOH: Earnings quality issues

Acquisition accounting continued…

+100% of 2016 profit growth driven by 2015/6 acquisitions…

28. **Acquisition of businesses** continued

Figures in Rand thousand	GROUP GCT group of companies 2016	Mehleketo 2016	Other 2016	Total 2016	Total 2015
Contribution to trading results					
Revenue	297 689	196 789	746 926	1 241 404	1 096 436
Profit before taxation*	33 961	43 111	75 876	152 948	138 610
Acquisition related costs				22 000	19 600

** Shown after the effect of amortisation on identifiable assets of R85 million.*

Limited disclosure of acquisition details for majority of acquisitions…

Contribution had the effective date been 1 August 2015

Figures in Rand thousand	GROUP GCT group of companies 2016	Mehleketo 2016	Other 2016	Total 2016	Total 2015
Revenue	399 650	206 997	1 654 794	2 261 441	1 413 759
Profit before taxation	46 456	45 347	174 558	266 361	166 881

Overly long amortization periods

Item	Useful life
Contracts purchased	2 to 5 years
Customer relationships	2 to 15 years
Intellectual property	2 to 10 years
Internally generated software	3 to 15 years
Other intangible assets	2 to 13 years
Computer software	2 to 3 years

Normally over 3-5 years

…Inflating earnings by 5%

EOH – how it ended

A R1.2bn pot of toxic soup at EOH
17 Jul 2019 — Corruption allegations first rocked IT company EOH in 2017 and precipitated the share price plunge from R178 in 2017 to **R18.70** today. However, ...

EOH warns of big loss – and that's before fraud costs
18 Sept 2019 — In a trading statement on Wednesday **EOH** said its results were impacted by write-offs, and the **accounting** classification of certain .

EOH shareholder lost R24bn since graft saga started
20 Jul 2021: Since allegations of corruption and poor governance started at JSE-listed technology services company EOH, shareholders have lost about R24 billion…

EOH implicated in tender award corruption activities
29 Jul 2019 — EOH Holdings' share price **declined by more than 2 percent** on the JSE after the information technology (IT) group was implicated in another set of corruption ... Novcember 2020:

The Russian Oligarch, the ripped pants and the solar company that wasn't

oerlikon

A Swiss Industrial Group producing coatings, materials and machines for high-tech industrial applications, known for its brand ambassador Niki Lauda and its supply of coatings to Formula 1…

…and the large stake acquired by controversial oligarch Viktor Vekselberg

The Russian Oligarch and the thin film solar company that wasn't

oerlikon

The contribution margin on Work in Progress accounted for under Percentage of Completion miraculously went from 21% to 51%, and accounted for a third of EBIT

The accrued sales under the POC method pertain to customer orders in the segment Oerlikon Balzers Coating (business unit Oerlikon Solar) and the segment Oerlikon Components (business unit Oerlikon Space), which can be summarised as follows:

in CHF million	**2006**	2005
Realised POC sales	222	173
Realised POC project costs	–109	–137
Realised contribution from POC projects	**113**	**36**

The Russian Oligarch and the thin film solar company that wasn't

œrlikon

Other income, driven by investment speculation, was more than a third of reported EBIT

Other income and expenses[1]

in CHF million	2006	2005
Licensing, patent and know-how income	2	2
Gain from sale of operating real estate	4	6
Change in post-employment benefit plan accruals	1	1
Gain on sale of securities	76	62
Gain on sale of business activities and investments	12	23
Impairment reversal operating real estate	6	0
Impairment reversal property, plant & equipment	5	0
Rental income from investment property	2	3
Gain on sale of investment property	4	1
Other income and expenses	15	11
Other income	**126**	**110**

The Russian Oligarch and the thin film solar company that wasn't

œrlikon

The company started capitalizing development costs in 2006, boosting earnings by 15%

Intangible assets

in CHF million	Purchased goodwill of Group companies	Purchased Software	Purchased[1] other intangible assets	Development costs	**2006 Total**
Cost					
Balance at January 1, 2006	209	32	2	0	243
Conversion differences	–8		–3		–11
Changes in Group companies	1 518	8	146		1 672
Additions		9	23	49	81
Disposals		–6			–6
Balance at December 31, 2006	1 719	44	167	49	1 979

The Russian Oligarch and the thin film solar company that wasn't

oerlikon

Old trick of using acquisitions to refill provisions, and then releasing them to earnings, boosting EBIT by more than 20%

Other Provisions in CHF million	Product warranties	Product liability	Onerous contracts	Long-term employee benefits	Restructuring	Other provisions[1]	**2006 Total**
Balance at January 1, 2006	45	4	53	20	33	61	215
Conversion differences			1	1	1	1	3
Changes in Group companies	43		37	16	21	47	164
Additions	20		5	8	12	20	65
Amounts used	–24		–10	–6	–20	–12	–72
Amounts reversed	–12	–3	–18	–1	–14	–24	–72
Balance at December 31, 2006	**72**	**0**	**68**	**38**	**32**	**93**	**303**

Oerlikon– how it ended

oerlikon

Oerlikon went on to post losses of CHF422m in 2008, and CHF592m in 2009, and required an emergency rights issuance to avoid bankruptcy.

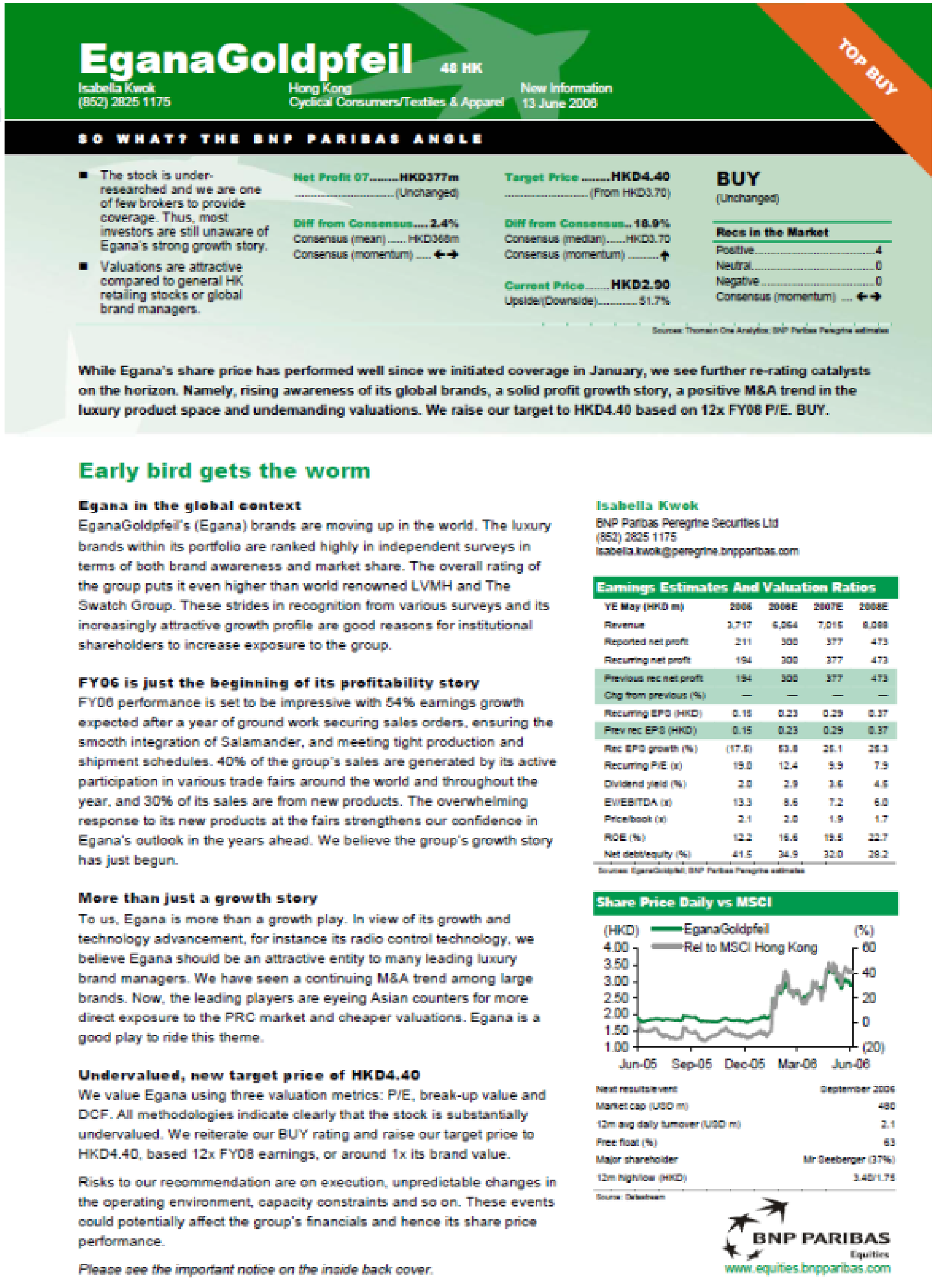
Vekselberg faces record fine in Oerlikon case

28 Jan 2010 - Swiss authorities are seeking to impose a record SFr120m ($114m) fine on Russian oligarch Viktor Vekselberg and two Austrian investors for allegedly breaching reporting rules in building stakes in the troubled Oerlikon industrial group...

EganaGoldpfeil

Listed in Hong Kong in 1993, and headed by charismatic founder Hans-Joerg Seeberger, EganaGoldpfeil built a portfolio of brands, including Goldpfeil, Madler, Pierre Cardin, Carrera, Junhans, Joop, Sioux and Salamander

"Der Globetrotter" Hans-Joerg Seeberger, Chairman and CEO of EganaGoldfeil (Manager Magazin, 2004)



EganaGoldpfeil 48 HK

Isabella Kwok
(852) 2825 1175

Hong Kong
Cyclical Consumers/Textiles & Apparel

New Information
13 June 2006

TOP BUY

SO WHAT? THE BNP PARIBAS ANGLE

- The stock is under-researched and we are one of few brokers to provide coverage. Thus, most investors are still unaware of Egana's strong growth story.
- Valuations are attractive compared to general HK retailing stocks or global brand managers.

Net Profit 07........HKD377m
..............................(Unchanged)

Diff from Consensus.....2.4%
Consensus (mean)......HKD368m
Consensus (momentum) ..... ←→

Target Price HKD4.40
..........................(From HKD3.70)

Diff from Consensus...18.9%
Consensus (median)......HKD3.70
Consensus (momentum) ....↑

Current Price.......HKD2.90
Upside/(Downside)...........51.7%

BUY
(Unchanged)

Recs in the Market
Positive.....................................4
Neutral......................................0
Negative 0
Consensus (momentum) .... ←→

Sources: Thomson One Analytics; BNP Paribas Peregrine estimates

While Egana's share price has performed well since we initiated coverage in January, we see further re-rating catalysts on the horizon. Namely, rising awareness of its global brands, a solid profit growth story, a positive M&A trend in the luxury product space and undemanding valuations. We raise our target to HKD4.40 based on 12x FY08 P/E. BUY.

Early bird gets the worm

Egana in the global context

EganaGoldpfeil's (Egana) brands are moving up in the world. The luxury brands within its portfolio are ranked highly in independent surveys in terms of both brand awareness and market share. The overall rating of the group puts it even higher than world renowned LVMH and The Swatch Group. These strides in recognition from various surveys and its increasingly attractive growth profile are good reasons for institutional shareholders to increase exposure to the group.

FY06 is just the beginning of its profitability story

FY06 performance is set to be impressive with 54% earnings growth expected after a year of ground work securing sales orders, ensuring the smooth integration of Salamander, and meeting tight production and shipment schedules. 40% of the group's sales are generated by its active participation in various trade fairs around the world and throughout the year, and 30% of its sales are from new products. The overwhelming response to its new products at the fairs strengthens our confidence in Egana's outlook in the years ahead. We believe the group's growth story has just begun.

More than just a growth story

To us, Egana is more than a growth play. In view of its growth and technology advancement, for instance its radio control technology, we believe Egana should be an attractive entity to many leading luxury brand managers. We have seen a continuing M&A trend among large brands. Now, the leading players are eyeing Asian counters for more direct exposure to the PRC market and cheaper valuations. Egana is a good play to ride this theme.

Undervalued, new target price of HKD4.40

We value Egana using three valuation metrics: P/E, break-up value and DCF. All methodologies indicate clearly that the stock is substantially undervalued. We reiterate our BUY rating and raise our target price to HKD4.40, based 12x FY08 earnings, or around 1x its brand value.

Risks to our recommendation are on execution, unpredictable changes in the operating environment, capacity constraints and so on. These events could potentially affect the group's financials and hence its share price performance.

Please see the important notice on the inside back cover.

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Earnings Estimates And Valuation Ratios

YE May (HKD m)	2005	2006E	2007E	2008E
Revenue	3,717	6,064	7,015	8,088
Reported net profit	211	300	377	473
Recurring net profit	194	300	377	473
Previous rec net profit	194	300	377	473
Chg from previous (%)	—	—	—	—
Recurring EPS (HKD)	0.15	0.23	0.29	0.37
Prev rec EPS (HKD)	0.15	0.23	0.29	0.37
Rec EPS growth (%)	(17.5)	53.8	25.1	25.3
Recurring P/E (x)	19.0	12.4	9.9	7.9
Dividend yield (%)	2.0	2.9	3.6	4.5
EV/EBITDA (x)	13.3	8.6	7.2	6.0
Price/book (x)	2.1	2.0	1.9	1.7
ROE (%)	12.2	15.6	19.5	22.7
Net debt/equity (%)	41.5	34.9	32.0	28.2

Sources: EganaGoldpfeil; BNP Paribas Peregrine estimates

Share Price Daily vs MSCI

Next results/event	September 2006
Market cap (USD m)	480
12m avg daily turnover (USD m)	2.1
Free float (%)	63
Major shareholder	Mr Seeberger (37%)
12m high/low (HKD)	3.40/1.75

Source: Datastream

BNP PARIBAS Equities
www.equities.bnpparibas.com

Source: SMU School of Accountancy presentation, Accounting Fraud in Asia

EganaGoldpfeil – The deception

And where did they get the money to invest in these wonderful promissory notes? They borrowed it – debt was up 150%.

(e) Analysis of cash and cash equivalents:

	Group	
	2006	2005
	$'000	$'000
Cash and bank balances	**398,957**	336,208
Promissory notes with maturity within three months*	**986,294**	476,687
	1,385,251	812,895

* *Promissory notes with maturity within three months represented receivables from certain independent third parties which were unsecured and bore interest at commercial rates. At 31st May, 2006, all the above promissory notes receivable were due for repayment in the period from June to August 2006 of which approximately $693,675,000 was rolled over upon maturity for another one to three months.*

EganaGoldpfeil – The deception

Increase in receivables drove DSO from 44 to 92 days

23. ACCOUNTS RECEIVABLE, NET

In general, the Group grants an average credit period of 30 to 120 days to its trade customers. An aging analysis of accounts receivable at 31st May, 2006 after provision for bad and doubtful debts was as follows:

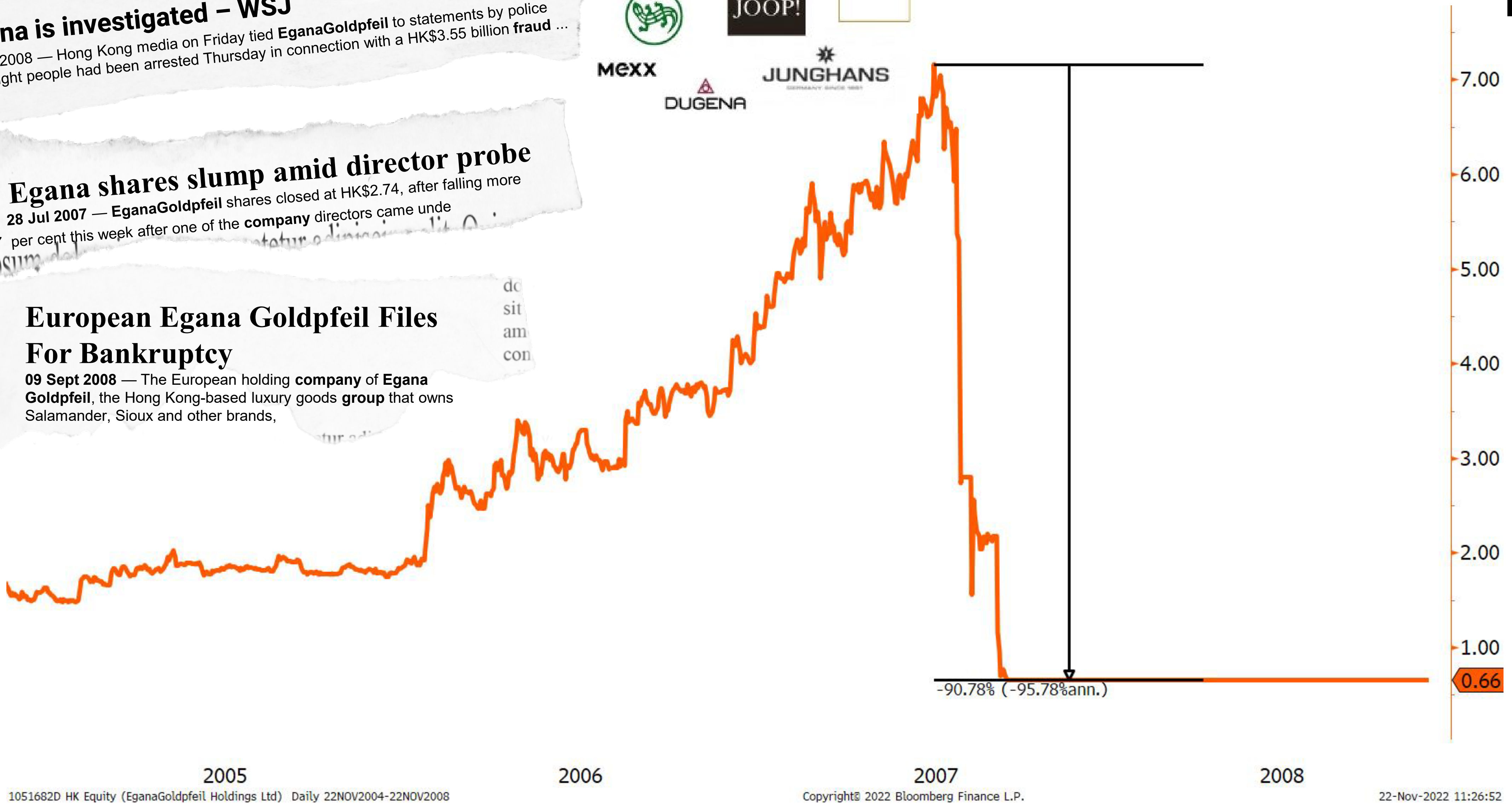
	Group	
	2006 $'000	2005 $'000
Due		
In current month	**1,360,020**	308,254
Between one to two months	**41,618**	51,404
Between two to three months	**12,722**	24,744
Between three to four months	**10,781**	16,780
Over four months	**76,521**	48,854
	1,501,662	450,036

EganaGoldpfeil – how it ended

Egana is investigated – WSJ
6 Jun 2008 — Hong Kong media on Friday tied **EganaGoldpfeil** to statements by police that eight people had been arrested Thursday in connection with a HK$3.55 billion **fraud** ...

Egana shares slump amid director probe
28 Jul 2007 — **EganaGoldpfeil** shares closed at HK$2.74, after falling more than 57 per cent this week after one of the **company** directors came unde

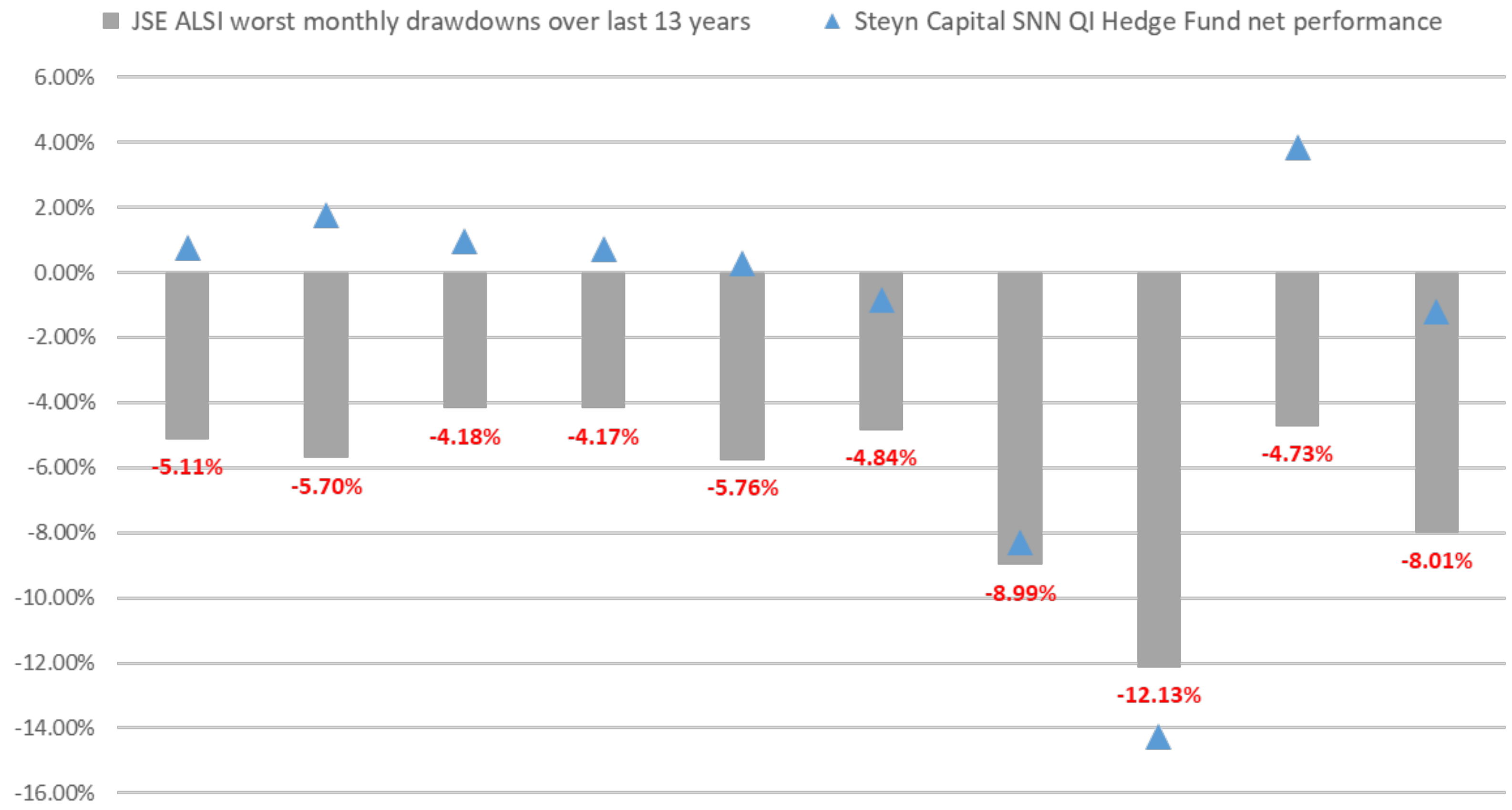
European Egana Goldpfeil Files For Bankruptcy
09 Sept 2008 — The European holding **company** of **Egana Goldpfeil**, the Hong Kong-based luxury goods **group** that owns Salamander, Sioux and other brands,



Equity-like returns with significantly lower volatility

- The **Steyn Capital SNN QI Hedge Fund** has significantly outperformed the market in 9 of the 10 largest monthly market drawdowns over 13 years, and delivered positive performance in 6 of the 10
- Very low correlation of monthly returns with the JSE ALSI since inception (R^2 of 15.6%)

Steyn Capital hedge fund performance in worst JSE market drawdowns



Month	May '10	Jun '13	Mar '18	Sep '18	Oct '18	May '19	Feb '20	Mar '20	Oct '20	Jun '22
SCM Alpha	5.9%	7.5%	5.1%	4.9%	6.0%	4.0%	0.7%	-2.1%	8.6%	6.8%