MANUFACTURING – GENERAL

1992

SEPT. – DEC.

# Clewlow sees a new SA as the Japan of Africa

STAR 1/9/92. (180) (19) (237)

South Africa is the gateway to Southern Africa and a time must come according to Barlow Rand chairman, Warren Clewlow, when the country will start to play the role of "the Japan of the African continent".

In notes prepared for delivery at the annual National Productivity Institute's awards last night Mr Clewlow said that South Africa was in a sombre mood with economic and political issues in the forefront.

He said people were living in difficult times where inflation seemed to go on and regular price increases becoming a way of life.

This along with increased retrenchments by businesses to survive was compounded by the violence and uncertainty that went with political change.

Mr Clewlow stressed that for South Africa to be more successful in the future it would have to change from a mining dominated to a more manufacturing orientated economy.

He pointed to the fact that while manfacturing in major world economies had grown over the years by some five per cent, South Africa, as a supplier of raw materials, was supplying a market which had declined by 3,5 percent.

Mr Clewlow also questioned the economic cost of politics and policy saying it was unhealthy to use the large base of unskilled labour as "a pawn in the political power play" which was weakening the economy "at the worst possible time for the country."

Mr Clewlow said South Africa was starting to see the effect of a new direction in channelling the unproductive element of expenditure into more cost effective and appropriate areas.

But, this he said would take time to be effective and in the meantime the economy would have to carry the heavy burden.

Mr Clewlow highlighted the advantages favouring South Africa as the powerhouse of Sub-Saharan Africa.

These included the country's infrastructure, market economy, sophisticated formal business sector, good agricultural sector, the international success of some South African companies and competent economic policy makers.

# 'Labour not a political pawn'

BARLOW Rand chairman Warren Clewlow last night warned against using the unskilled labour pool as a "political pawn" as it was weakening the economy at "the worst possible time".

The country needed to depoliticise law and order, education and housing and the work force, Clewlow told the National Productivity Institute's awards ceremony.

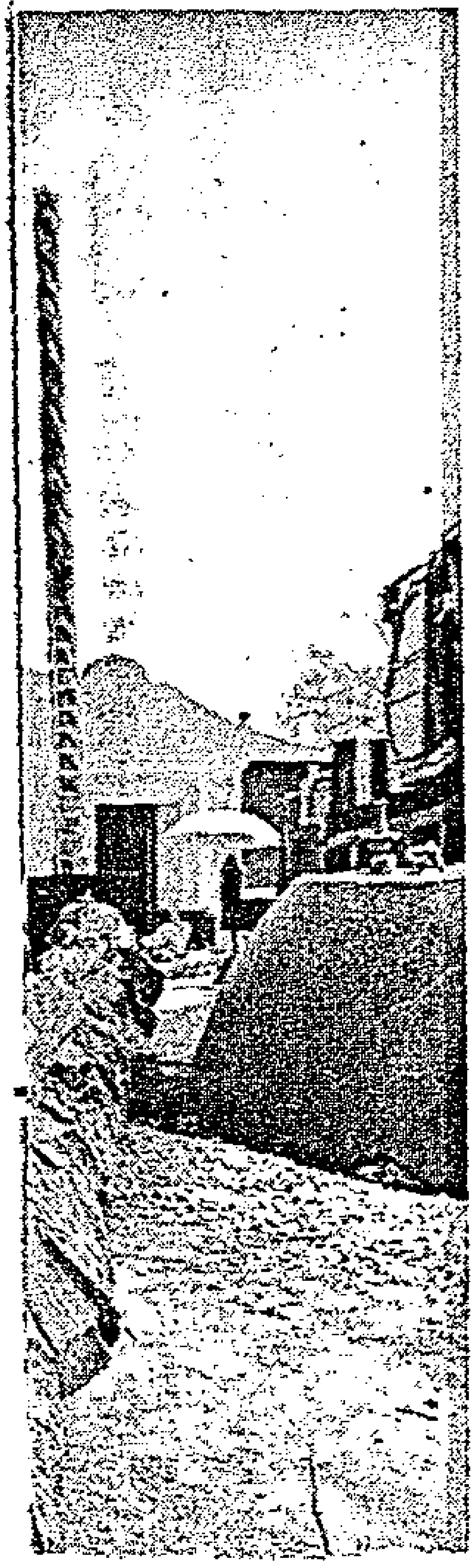
SA was in a sombre mood with economic and political issues in the forefront. People were living in difficult times, with price increases becoming a way of life. The violence and uncertainty that went with political change was compounded by increased retrenchments necessary for survival, he said.

For SA to be more successful it would have to change from a mining-dominated to a more manufacturing orientated economy. While manufacturing in major world economies had grown over the years by some 5%, SA, as a supplier of raw materials, was supplying a market which had declined by 3,5%. The change to becoming a manufacturer was a slow process, with fierce global competition.

Another inherent disadvantage, said Clewlow, was that industries had been built mainly on the Reef "to be close to the mines", when key exporting industry should be located nearer to ports.

He urged politicians to "rise above and put aside their differences", and return to negotiations. (180)

The six recipients of gold awards were: National Petroleum Refiners (Natref); Randfontein Estates Gold Mining; Robertsons — Prospecton, Durban; HL & H Tree Improvement Centre, White River; and Eskom (northern Cape region). — Sapa.



# Africa beckons as a major trade market

180

BDAY 1/9/92

GERALD REILLY

PRETORIA — SA companies were well positioned to win capital projects in Africa including World Bank project tenders, Department of Trade deputy director-general Gerrie Breyl said yesterday.

He said Africa offered vast untapped opportunities for SA products.

In 1991 only 11%, amounting to R5,1bn, of SA's total exports went to Africa. Yet in 1989 the figure had been R3,4bn and the increase was likely to quicken significantly, Breyl said.

Imports from Africa amounted to a mere 2% of total imports in 1991.

Prospects for expanded trade were particularly favourable in Kenya, Madagascar, Togo, Malawi and Angola, which had generous mining concessions.

"Trade with Africa has taken off to a point where we have trade ties with most countries on the continent and we hope to build further on what has been achieved so far," Breyl said.

On government trade representation abroad, Breyl said there were 65 economic representatives stationed in 41 foreign offices attached to embassies and consulates in 31 countries.

Five were stationed in African countries — Zimbabwe, Namibia Mozambique, Malawi and Kenya. Another would soon be based in Mauritius to develop trade ties with Indian Ocean islands.

During the past two years, offices were opened in Czechoslovakia, Poland, Hungary, Turkey and Russia.

The department's representative in Moscow was working on ties with states within the Russian federation as well as with former Soviet satellite countries.

An economic office was also to be established in Finland to promote trade with Scandinavian countries.

Breyl said countries in Europe and the Far East had shown a keen interest in partnerships with SA companies to undertake joint ventures in Africa.

He said that during the current financial year, 320 SA companies would exhibit their products at international trade fairs.

Between April and August, 275 companies had made use of the individual assistance scheme to display products abroad.

Bryel said a total of R6,4m had been allocated to fund the exhibition schemes.

# IDC sells industry sector data profiles

BDay 3/9/92

PETER DELMAR (180)

THE Industrial Development Corporation (IDC) has entered the financial information business with a product it says is unobtainable elsewhere.

MD Carel van der Merwe said yesterday the IDC would sell profiles on each of 71 manufacturing sectors based on its extensive database on manufacturing economic statistics. These highlight the economic importance and features of the industries.

The IDC will sell compact, typically 16-page sectoral profiles at R30 each. They cover the period 1972 to 1990 and the following aspects: demand and supply, employment and wages, fixed capital stock, gross operating surplus, added value, productivity, input and output price indices, imports, exports, and protection and export assistance measures for each sector.

IDC economics manager Hein Wiese said the profiles drew on data from the Central Statistical Service, Reserve Bank and Customs and Excise Department, giving a range and detail of analysis.

Complete data series on each of the 71 sectors are available at R500 each, while individual data groups not covered by the profiles can be bought for R10 each, with a minimum order of R100.

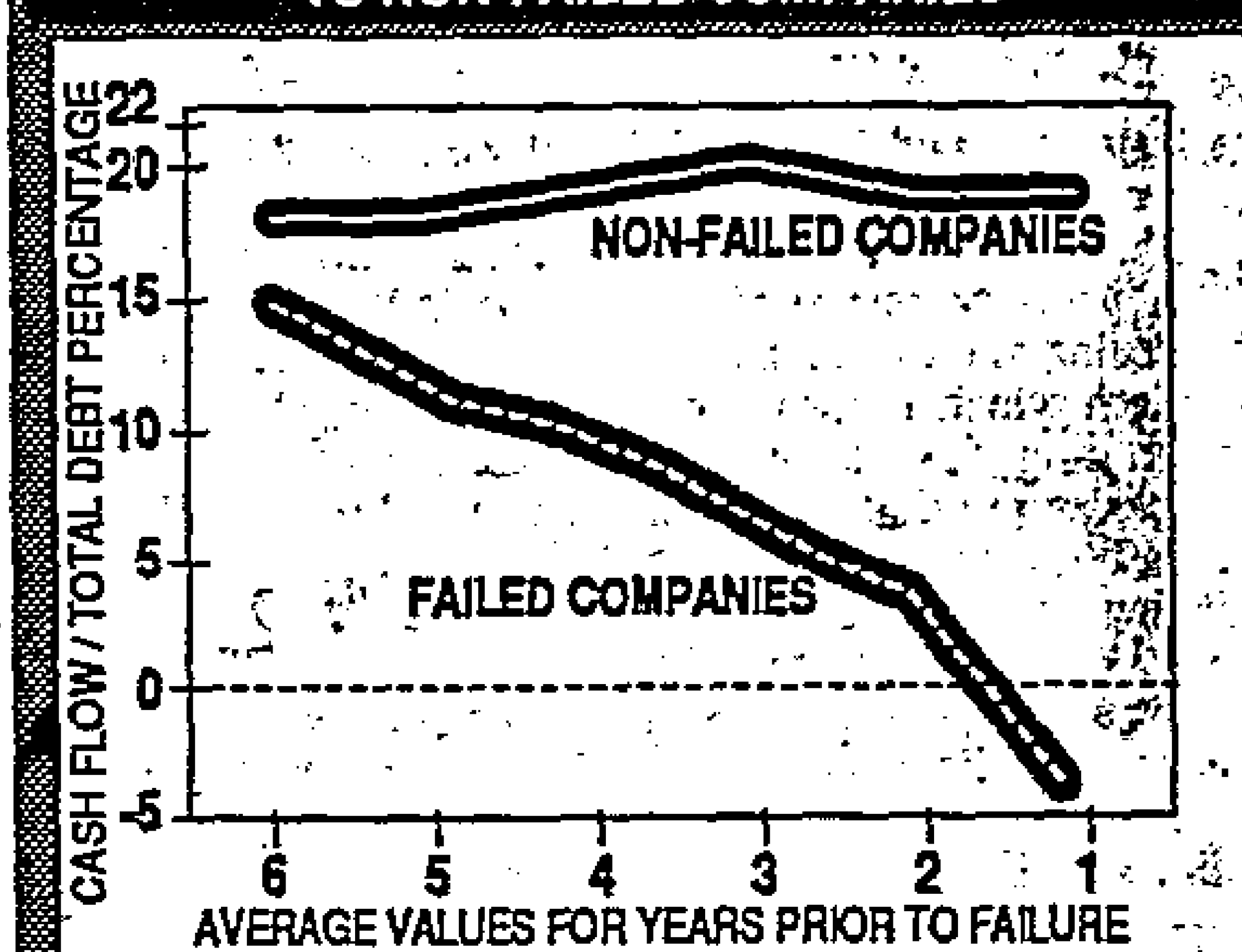
# Early signs of a failing company

S/Times (BUSS) 6/9/92 (180)

Andy Andrews

**ON BUSINESS**

**CASH FLOW / TOTAL DEBT RATIO FOR FAILED VS NON-FAILED COMPANIES**




The results show a decline in the ratio for the failed group whereas the solvent group remains fairly steady at about 18%

THE business press has been full of reports of declining profits, margins and share prices.

Many firms are in difficulty. Debt is rising and reports of record numbers of liquidations have been made.

It seems that we are in for an even tougher ride as the economy continues to decline and economists talk of depression and not recession.

Investors should "tread" carefully in times like these. I am often asked how I know when a firm is in trouble.

I think corporate failure can be predicted with surprising accuracy.

In the mid-1970s a colleague and I did some fairly basic research and found that one single ratio captures corporate vulnerability. This is the ratio of cash flow to total debt.

**Key**

Cash flow represents annual funds from operations after tax, interest, any non-cash items and working capital. Total debt includes all liabilities.

**Exhibit 1: Percentage of correctly classified "failed" firms over time**

| Year Prior to failure | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| % Correctly classified | 90 | 82 | 79 | 76 | 78 |

The ratio captures several key relationships. It reflects the ability of the company to repay its outstanding liabilities without additional external financing.

For example, a company with a ratio of 0,25 would be able to repay all debt in four years. Obviously, the ratio reflects a pessimistic view of the financial position because it includes current liabilities.

Our early research, which I expanded later with several studies, was concerned with the big "failures" of the time — Glen Anil, Van Achterberg, Lawsons and others.

We were able to show that this single, yet powerful ratio, was able to predict failure with 90% accuracy one year before failure.

Many would agree that an investor or banker needs an earlier signal. Well, the ratio did pretty well even five years before actual failure. The table shows the percentage of correctly classified firms over time.

We wanted to test the ratio and found an interesting pattern of decline when the CF/TD ratio of the failed firms was compared with a sample of so-called "blue chips". The blue chips averaged a ratio of about 19% over the five years whereas the failed groups' average ratio was found to deteriorate from 11% five years before failure to negative one year before collapse. The graph illustrates this trend.

But this was in the 1970s and a long time ago. So I decided to check the power of the ratio in the recent recession (or is it depression?) with assistance from my colleagues at Laird-Andrews.

Guess what I found? The ratio still works. Six out of eight "failed" firms examined violated the 10% cut-off that I think is a signal of possible distress while a sample of current "blue chips", including SA Breweries, Tiger Oats, Murray & Roberts and Malbak, showed an average of 20% on their CF/TD ratios.

I believe that if the ratio falls below 10% the potential for failure increases significantly and the company should be monitored carefully.

A recent case is an interesting example of the power of the ratio. In the three years before Rusfurn's difficulties, the ratio was negative in each year: -9,3%, -3,1% and -22,7% respectively.

Early action to halt a deteriorating ratio is essential and management should probe carefully to establish the reasons for decline. If the ratio is poor, three types of corrective action may help:

- Rightsize the firm and improve the cash flow by showing growth and reducing low margin product lines that do not generate sufficient cash and absorb management time.
- Focus on working capital management, concentrating on stock and debtors and reducing current debt.
- Avoid all new gearing and improve the capital structure by reducing debt exposure.

Of course, caution should be exercised. No single ratio which is itself open to "creative" accounting is infallible. To believe this is simply naive.

Go back to the basics. Cash flow has always been, and will always be critical — especially in times of recession. Declining cash flows and rising debt will kill you every time. Ignore cash flow and debt at your peril!

*Professor Andy Andrews is director of the Graduate Institute of Management and Technology, which offers the Henley Executive MBA in South Africa and is co-founder of Laird-Andrews, strategic financial consultants.*

# Fraud tops SA's GDP

S Times (Buss) 6/9/92 (180)

By CHERILYN IRETON

CORPORATE fraud has taken on critical dimensions, cases under investigation outstripping SA's gross domestic product.

The 19 982 fraud cases under investigation by the police at August 1 involve a loss or potential loss of R375-billion, says Mossie Myburg of the Commercial Branch.

Most cases are on the Witwatersrand.

The incredible figures, checked numerous times with the police to ensure their accuracy, include cases which have been under police investigation for several years.

Most involve companies and close corporations and could total R374-billion, says Colonel Myburg.

Syndicate fraud cases, which include crimes against banks, such as credit-card fraud, have a potential loss of R301,8-million. "Normal" frauds, or cases involving individuals, could total R381-million.

Witwatersrand Attorney-General Klaus von Lieres und Wilkau warns that the fraud picture is much worse than official statistics indicate because at least half are not reported.

Businessmen fear that fraud is becoming a greater problem than the recession.

Sacob legal adviser Ken Warren says: "Figures of this staggering magnitude are a further blow for business and investor confidence."

Earlier this year the World Bank suggested that SA had only two years to rid itself of the stereotyped image of black Africa where corruption is endemic.

Mr Warren says: "The kind of fraud taking place could blacken the image of South African businessmen when the political impasse and recession are taking their toll."

Peter Jordi, internal auditor at Eskom, confirms that the corporate fraud problem is vast and has been worsening since January 1991.

Mr Jordi attributes the increase in white-collar crime to the recession and the erosion of pay packets by taxes at a time when people are under pressure to maintain living standards.

"Because concealment is an element of fraud, it becomes an under-the-carpet

● To Page 3

# Fraud zooms

(180)

● From Page 1

thing which is not exposed until an actual incident is detected. Most companies tend to ignore the fact that they are at risk." S Times (Buss)

Jordi says the sanctions era made secrecy an acceptable business practice.

Business leaders agree that now that trade links have been revived with black Africa, where business ethics are sometimes questionable, the problem facing SA will increase. 6/9/92

# We'd be in the running for business Olympics

STimes. (Buss) 6/9/92.

(180)

## WE won a mere three silver medals in Barcelona. But how would we do at a business Olympics? KEVIN DAVIE reports.

ISOLATION has produced sportsmen who are now looking at the drawing board in fresh ways. Our businessmen are also feeling the breeze of international competition.

The early signs are not encouraging. SA Airways has had its profitability knocked by newcomers in its territory. It is appealing to private business to buy in as part of a rescue plan.

But how well does SA business fare out there? Are we on the same playing field, or should we stick to bowls and leave the big leaguers to rugby?

The answers to these questions can be found in the latest Fortune 500, the annual survey of the world's largest industrial corporations which are ranked by sales, profits and assets.

The Fortune 500 shows that SA would be invited to a business Olympics. There would be five African players, four — Barlow Rand, De Beers, Sasol and Iscor — from SA.

### Javelin

This compares with 157 American, 119 Japanese, 43 British and 33 German companies. There are some anomalies, such as SA Breweries which does not appear. But then not all our medal hopefuls went to Barcelona. Javelin thrower Tom Petranoff was left in Helsinki.

Our biggest two companies in sales terms, Barlow Rand and De Beers, are 118th and 349th respectively. But size is not a fair measure of performance. IRI, the Italian company which Fortune decribes as a "sprawling government-owned holding company that produces everything from steel to newspapers to thousands of patronage jobs for politicans", is ranked seventh with sales of $64-billion, yet posted a $254-million loss.

General Motors, which has top ranking with sales of $123-billion, is 490th in profits with a loss of $4,4-billion.

It is also not really fair to compare companies across sectors, just as it would be unfair to expect Elana Meyer to do well at the long jump.

But the Fortune 500 publishes 26 sectoral breakdowns and here some of the SA companies come into their own. De Beers is sixth in its code, but tops in profits and profits as a percentage of both sales and assets. A gold medal, but some might cry foul because De Beers controls much of the world's diamond market through the Central Selling Organisation.

Iscor just makes it in its sector at 35th in the sales stakes. But ranked by profits it jumps to eighth. Profits as a percentage of sales and assets put it top of the metals medals.

Now some would liken this to a steroid-boosted performance, saying Iscor benefits from a pricing system which charges its domestic market up to 50% of the export price. But Iscor told Business Times that the ranking proved it was the world's most cost-effective producer.

Sasol is 39th in its sector in sales, but ninth in profits. It tops this sector in profits as a percentage of sales and is second in profits as a percentage of assets.

Critics say that regulation has made SA oil companies extremely wealthy. Sasol's Jan Krynauw says the company is a global player.

"We hope that our new projects make us even more successful."

The great leveller at the Olympics is the marathon. The Fortune 500 leveller is its comparison of performance by profits as a percentage of sales. De Beers is the world's second-most profitable company with profits of 24,6% as a percentage of sales.

### Despair

This was, of course, before the Angolan drought brought 500 diamond diggers a day to work a dry river bed.

Sasol (13,2%) is in 21st spot and Iscor (8%) is 47th. Barlow Rand (1%) does not make it to the top 50.

There is despair on the sporting front, but things look brighter for business. Former colony Namibia took two medals to our three in the Olympics, but didn't get a single company in the Fortune 500.

# Confidence dips again in August

BDAY . 8/9/92. 180

HILARY GUSH

POLITICAL uncertainty and the prolonged world recession continued to erode business confidence in August, the SA Chamber of Business said yesterday.

Sacob's business confidence index (BCI) — a short-term barometer of business mood — dropped slightly in August, by 0,1 of a percentage point, to 90 on the back of a deterioration in nine of its 13 sub-indices.

Sacob chief economist Ben van Rensburg said business mood was becoming progressively more brittle and there was a "growing danger that the economy's long downward spiral could accelerate".

The ANC's decision not to resume talks with government and the prospects of further mass action were likely to depress the business mood even further. A significant lull in the level of foreign business interest in SA in the last two months was likely to persist as long as there was political deadlock.

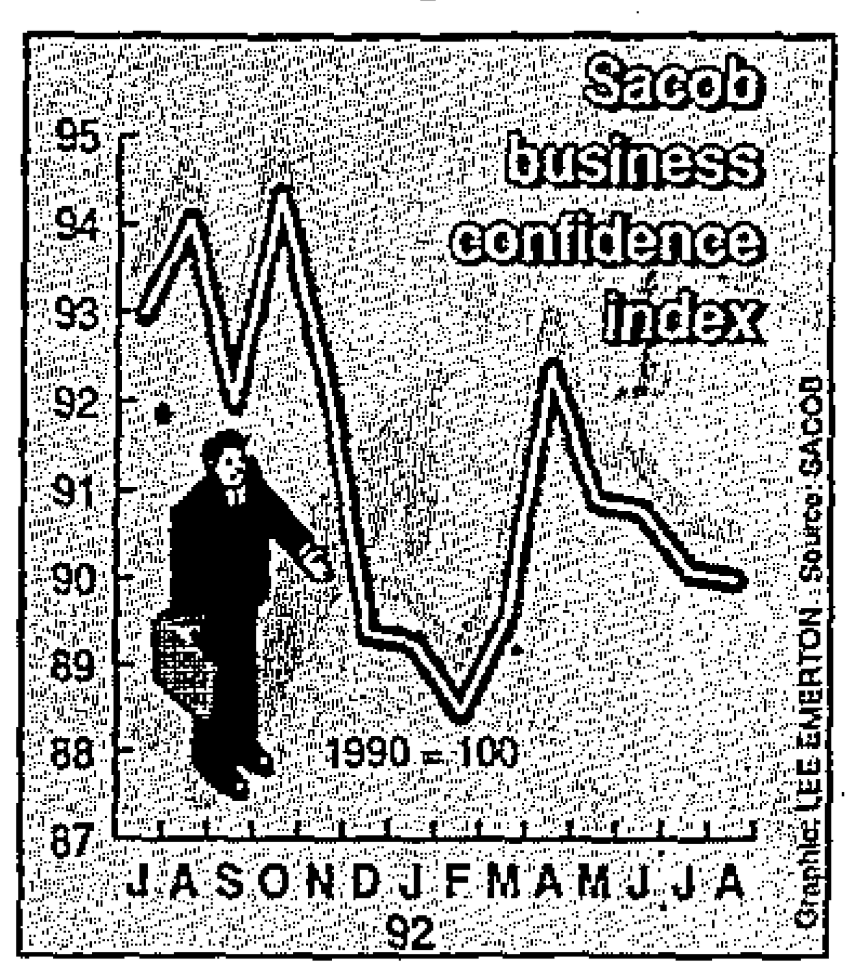
"The longer the political impasse continues, the greater the likelihood that foreign traders and investors will shift their attention to other economies, and the lower the prospects for increased foreign investment in SA."

There was, however, room for hope. "From the monetary point of view, the economy is well placed for a sustained upturn, and the recent decline in the official inflation rate should enable some reduction in interest rates within the next month."

Van Rensburg said real GDP could be expected to contract by between 1,5% and 2% this year.

While many economists looked to export-led economic growth in 1993, the fact that SA's major trading partners could only be expected to enjoy a moderate revival would make it difficult to raise exports sufficiently in the short term.

Sacob thus remained cautiously optimistic about the prospects for higher economic growth in 1993.



# State funds 'insufficient to cover education costs'

8/10 Au 8/9/92

KATHRYN STRACHAN

THE state no longer had the financial capability to finance education in its present form, National Education Minister Piet Marais said yesterday.

Speaking at the launch of the SA Institute for Distance Education, Marais said that even by introducing compulsory schooling for nine years — which might be possible provided there was positive economic growth and higher pupil:teacher ratios — the needs of millions outside the formal education system, and those adults who had never attended school, would not be addressed.

People had expectations that their living standards would increase, but, given the economic prospects, there was doubt as to whether such expectations could be met, he said.

Marais said alternatives would have to be found, and initiatives such as the institute had a major role to play in promoting educational innovation in SA.

The institute — funded by the European Commission through the Kagiso Trust — was established to promote and support distance education. Trustees include representatives from the Development Bank, the ANC, Fort Hare University and the Peninsula Technikon.

Marais said one of the most crucial facets in any education system was the establishment of a sound learning culture, but this problem could not be solved single-handedly. The involvement of all role players was needed.

The present education system was based on the constitution, which meant political progress was a prerequisite for adopting a new education system. "However, due to the seriousness of our present educational needs, we simply cannot afford to sit back and wait," he said.

# Lack of business ethics a worrying issue

8/10 Au 8/9/92

CHARLIE PRETZLIK

SA BUSINESS was losing its sense of ethics, Johannesburg Chamber of Commerce and Industry president Stuart Morris said yesterday.

"The lack of honest dealing in some business practices is becoming a matter of concern," he said. Lax controls and questionable social morality had given rise to bribery, corruption and consumer abuses.

"Obviously a business has the obligation to make a profit. The question is whether those profits should be made dishonestly." Morris called for prosecution of those found guilty of business malpractice. (180)

Long-term investments would dry up because of decay, inefficiency, rising costs, reduced state revenue and higher taxation.

# W&A earnings, dividend decline

(180) STAR 9/9/92

By Stephen Cranston

In difficult trading conditions, W & A's earnings per share fell by 29 percent to 24,6c in the six months to June.

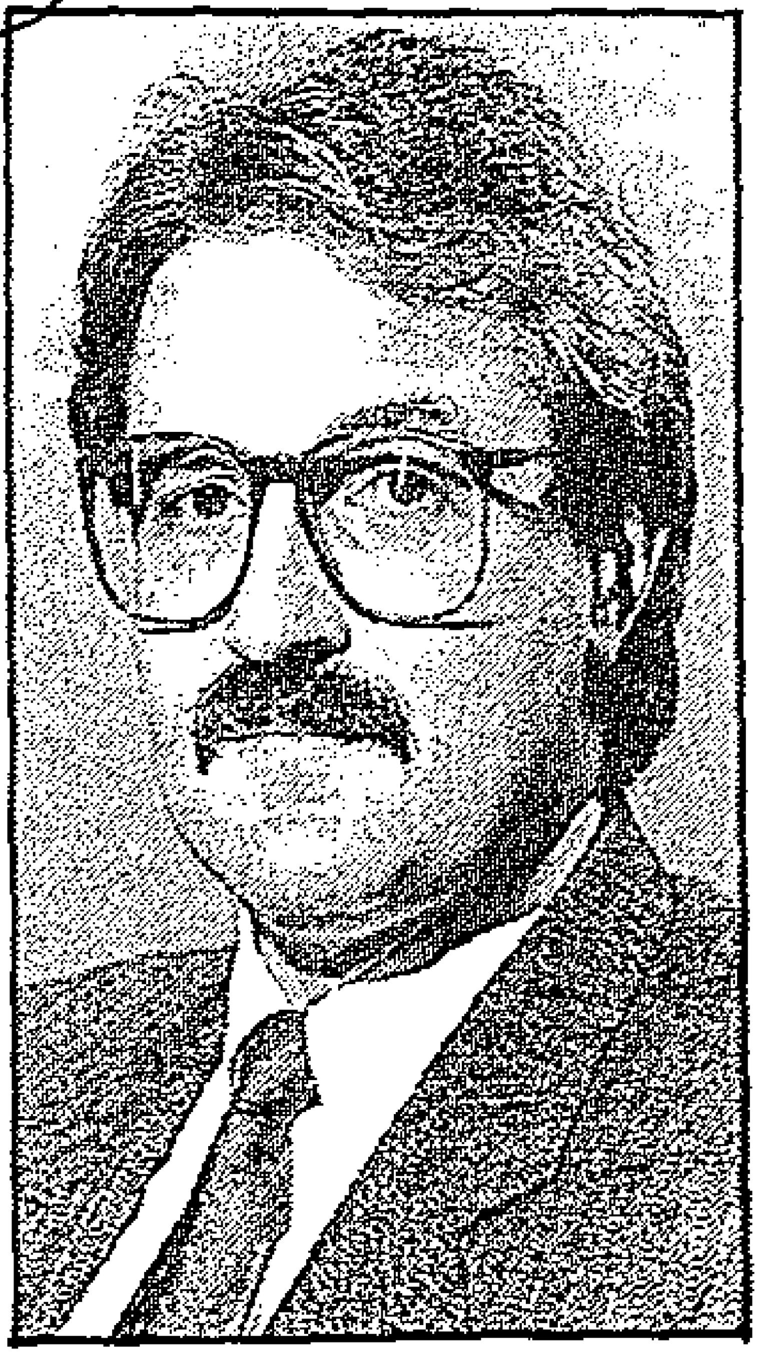
The dividend has been reduced by the same percentage to 11c.

Chairman Jeff Liebesman says W & A did not receive the proceeds from the sale of Burhose until the fourth month of the year, while it received no income from that source during the half-year.

Had the proceeds been received at the beginning of the year, net interest paid would have been reduced by R8,4 million and trimmed the drop in earnings from 29 to 14 percent.

W & A's profits continue to be bolstered by low taxes. The group accrued a tax credit of R1,1 million in the first half because of assessed losses and export incentives. Mr Liebesman says the tax charge for the year will be less than 10 percent.

The group is continuing to reduce gearing by disposals, such as the R200 million for Burhose, R85 million for its stake in Elcentre and R30 million from non-strategic properties.



Jeff Liebesman . . . acquisition will not affect earnings

Long-term debt fell from R1,5 billion in May 1991 to R1,11 billion in December to R869 million at the end of June.

Mr Liebesman says there will be substantial degearing over the next three years through improved cash flow, the sale of non-strategic assets and the listing of core businesses. But there are no plans to list W & A's main profit contributor, the scaffolding businesses.

Interest payments were reduced from R88 million in the six months to June 1991 to R57 million in the six months to June this year.

About 68 percent of operating profit came from three sources.

The worldwide scaffolding operations accounted for 33 percent of profits, Gentyre for 19 percent and AAF for 16 percent.

The automotive interests shifted their focus from the original equipment to the replacement sector.

AAF improved earnings by two percent despite the UK recession. Gentyre and Vektra held earnings near 1991 levels.

The slump in consumer spending hit retail interests, notably the furniture retailer JD Group, which reported 37 percent lower earnings.

There was overstocking in clothing and household products, a problem now being redressed.

Natbolt's profitability was eroded significantly by the withdrawal of Phase VI export benefits. Financial incentives were withdrawn, making exporting uncompetitive.

The scaffolding businesses, which operate in Southern Africa, Australasia, the US and UK, improved their earnings in the face of strong competition. The group recently acquired a major competitor in Australia, Kwikform, for R119 million and is busy rationalising operations.

Mr Liebesman says that the acquisition will not affect earnings in the current year, but it is expected to produce substantial medium-to-long-term benefits.

Almost R88 million of the purchase price was raised by issuing shares and debentures. Future acquisitions will be funded primarily by equity rather than debt, he says.

# W&A's momentum slows

(180) MARCIA KLEIN (223)

W & A Investments dropped its earnings by 29% to 24,6c (34,8c) a share in the six months to end-June as its local operations, particularly the consumer-related businesses, struggled to maintain momentum.

Chairman and CE Jeff Liebesman said had the proceeds of the R200m Burhose sale been received at the beginning of the year, the interest bill would have been reduced by R8,4m, interest cover increased to 2,4 times from 1,95 times and earnings a share down by only 14%.

He said offshore interests had fared better than the local businesses, contributing more than 50% to the group's attributable profit of R40,4m — which was 29% down on the previous year's R57m.

In line with the drop in earnings, W & A declared an interim dividend of 11c (15,5c) a share. The share lost 5c yesterday to close at a 200c low, after touching 575c in October last year.

Turnover of R1,5bn was not comparable with the previous year's R1,7bn because of the sale of JD Group's debtors' book in 1991 and the sale of Burhose. The same applied to operating profit of R115,9m (R171,9m) and net interest of R57,2m (R88m).

Liebesman said Burhose's disposal at the end of 1991 meant the group had received no income from it for the full half year, and had enjoyed the benefit of reduced interest costs for only three months.

☐ To Page 2

2/9/92

# W & A

BDAY 2/9/92

(180) (882) ☐ From Page 1

Pre-tax profit was 30% down at R58,7m. A reversal in the payment of tax brought after-tax profit to R59,8m, 21% down on the previous year. W & A expected the tax charge for the year to be less than 10%.

The attributable share of associates declined to a small loss from a R4,9m profit in the previous year. This was largely due to Milstan and to the disposal of W & A's interest in Elcentre.

An extraordinary item of R8,6m reflected restraint of trade payments, goodwill and allocation of shareholdings to management in an unlisted subsidiary.

An increase in current liabilities to R1bn reflected funding of working capital (which was seasonally high in June), funding of fixed assets by certain subsidiaries and overstocking in some of the consumer businesses. But long-term borrowings of R869,3m were down from R1,1bn in the previous year — and R1,5bn in May 1991 — mainly as a result of the sale of Burhose and marketable securities.

W & A would list core businesses with high growth potential in line with its philosophy to fund acquisitive growth through equity, Liebesman said. These could include local and international listings. He said there were plans in the pipeline for the group to become more equity funded than previously.

Liebesman said the group would at least equal these results in the full year. But in financial 1993, W & A would benefit from its overseas and local businesses and a decline in interest rates.

B/DAY 10/9/92

## Sacob calls for 'facilitation'

180

RAY HARTLEY

INTERNATIONAL facilitation could be the only way to get negotiations on track again following the massacre of 28 people at Bisho on Monday, Sacob president Hennie Viljoen said yesterday.

"Without some form of independent facilitation it may prove impossible to recreate an environment for reconciliation.

"Apart from the human costs, the Bisho tragedy has dealt a further damaging blow to economic prospects and business confidence. We are facing a confrontational decline in the economy and are forfeiting the confidence of the international business community."

He said there was "an urgent need for adherence to the law and negotiated agreements regarding the rules by which mass actions are to be governed in future".

The national peace committee or the Goldstone commission needed to review the ground rules surrounding mass action to avert similiar tragedies, he said.

"In the meantime Sacob sees forums — such as the national economic forum and the National Manpower Commission — as vital mechanisms for seeking consensus," Viljoen added.

A business source said it was significant Sacob had referred to international facilitation and not mediation because this meant it still believed SA parties bore primary responsibility.

# ANC to form coalition for Mmbatho action

B/DAY 10/9/92

RAY HARTLEY

A BROAD coalition of political and community groups would be convened by the ANC before the end of the month to spearhead action against Bophuthatswana's independent status, ANC PWV spokesman Ronnie Mamoepa said yesterday.

Mamoepa said the PWV action council — a forum of ANC-aligned community, union and student groups — decided at the weekend to convene an alliance with the ANC's western Transvaal and northern Cape regions.

In a separate development, the SA National Civic Organisation vowed to intensify action this month to "topple the homeland dictators in the Ciskei, Bophuthatswana, KwaZulu and QwaQwa".

Meanwhile, protests against the Bisho killing of 28 people on Monday continued around the country yesterday.

Mamoepa said ANC protesters picketed the Ciskei consulate in Johannesburg and that they planned to picket the homeland's Pretoria embassy today.

In Durban, the SA Students' Congress began a sit-in at the Ciskei consulate to protest against the massacre and to call for the dismantling of the homeland system.

The 10 students said they would remain at the consulate, which was locked and deserted, until a Ciskei government representative heard their grievances.

The sit-in followed an ANC march in the city.

Southern Natal ANC organiser Bheki Cele told the crowd the ANC's Natal regions would meet soon to discuss a march on Ulundi to demand the dismantling of the KwaZulu government.

Inkatha warned on Tuesday that any attempts to topple the KwaZulu government would be resisted until "the last drop of blood".

In Maritzburg 500 ANC supporters staged a placard demonstration calling for Ciskeian leader Brig Oupa Gqozo's removal.

In Cape Town, ANC supporters continued the Ciskei consulate sit-in they began on Tuesday.

"We will remain until Gqozo no longer has a presence in the western Cape," said one protester.

Meanwhile, eastern Cape DP MP Errol Moorcroft yesterday urged the ANC to sever links with the SACP, saying the actions of MK intelligence chief Ronnie Kasrils had caused Monday's shooting.

The SA Catholic Bishops' Conference said recriminations would fuel an already volatile situation. "Instead of slinging accusations at each other, our leaders should be concentrating their energies on finding ways to remove the obstacles impeding progress towards a just and peaceful future," it said.

☐ Sapa reports that right-wing parties yesterday warned the ANC/SACP alliance not to proceed with mass action.

The CP called on white local authorities not to grant permission for marches.

But, it said, if government neglected its duty to ensure people's safety, the CP would appeal to its people to do everything within their power to counter any ANC/SACP threat.

The CP also demanded that government ensure SA territory was not used as a springboard for attacks against independent neighbouring states.

The AWB warned the ANC that illegal marches in white areas would lead to greater bloodshed than in Bisho and Boipatong.

The HNP called on all whites to mobilise against a reported ANC plan to make right-wing controlled towns a target of mass action.

● Comment: Page 6

# Industrial interests do for JCI sterling work

180 STAR 11/9/92.

By Derek Tommey

Helped by increased income from Argus, Premier and SA Breweries, mining house Johannesburg Consolidated Investment (JCI) has come through an extremely difficult year with higher profits, says chairman Pat Retief.

Attributable earnings in the year to June grew 5,2 percent from R418,0 million to R439,6 million. Earnings a share rose from 283c to 298c.

However, equity-accounted earnings, which include JCI's share in the undistributed earnings of associate companies, declined slightly from R576,1 million — equal to 391c a share — to R572,1 million — equal to 389c.

The profit figures take virtually no account of the PP Rust and Lebowa dividends in specie, which have been used to create a provision against possible investment losses.

An unchanged final dividend of 90c has been declared, making an unchanged total of 132c for the year.

The figures suggest the description "mining house" for JCI is becoming something of a misnomer.

Pat Retief . . . lower level of earnings expected in 1993

Earnings from industrial and property investments in the year just ended exceeded earnings from minerals and mining, though admittedly it is the first time this has happened.

Mining's contribution to profits fell from R314,5 million to R242,8 million, or from 54,8 percent to 42,4 percent of the total.

But income from property and industry rose from R203,4 million to R267,3 million — from 35,2 percent to 46,7 percent of the total.

Income from platinum slumped by R76,1 million to R120,1 million, but income from gold rose R4,6 million to R15,9 million.

Diamond income fell R10 million to R68,8 million.

The coal unit's results were disappointing, its contribution to JCI's profits dropping by R7,7 million to R41,1 million.

Mr Retief says the coal unit is a good one and that a far higher return had been expected, with almost R500 million having been invested in it over the past few years.

But the export coal market has become difficult, with spot coal prices recently dropping by $5 to $7 a ton.

Mr Retief says this will affect price negotiations for 1993.

The lack of a linked Eskom power station had also made JCI's coal division more vulnerable to a downturn.

Industrial investments produced income of R242,62 million (R205,3 million), while the ferrochrome division had a R13,4 million swing from loss to profit.

Mr Retief says the group is expecting a lower level of earnings in 1993, but is well positioned to benefit from an upturn in the world economy.

The South Deep gold deposit, which JCI is preparing to develop, is the most important unexplored deposit in the world, he says.

JCI is in a unique position at South Deep because the twin haulage from Western Areas has enabled it to inspect the ore body at the proposed shaft site.

Before JCI can go ahead with a mine at South Deep it has to be confident gold can be produced at a low price.

JCI is looking for new prospects oveseas, including Australia. However, all the platinum prospects so far investigated have proved worthless.

JCI's shares had a net asset value of R68,86 each at June 30, up from R61 a year ago.

Its investments had a market value of R9,67 billion (R8,25 billion), while total assets were R2,96 billion (R2,48 billion).

Current assets at June 30 were R1,8 billion. Current liabilities were R2,32 billion, resulting in net current liabilities of R446,4 million (R428,3 million a year ago).

# AVI beats the recession with earnings rise of 16%

BDAY 11/9/92. (180)

MATTHEW CURTIN

ANGLOVAAL Industries (AVI) has beaten the recession in the year ended June 1992.

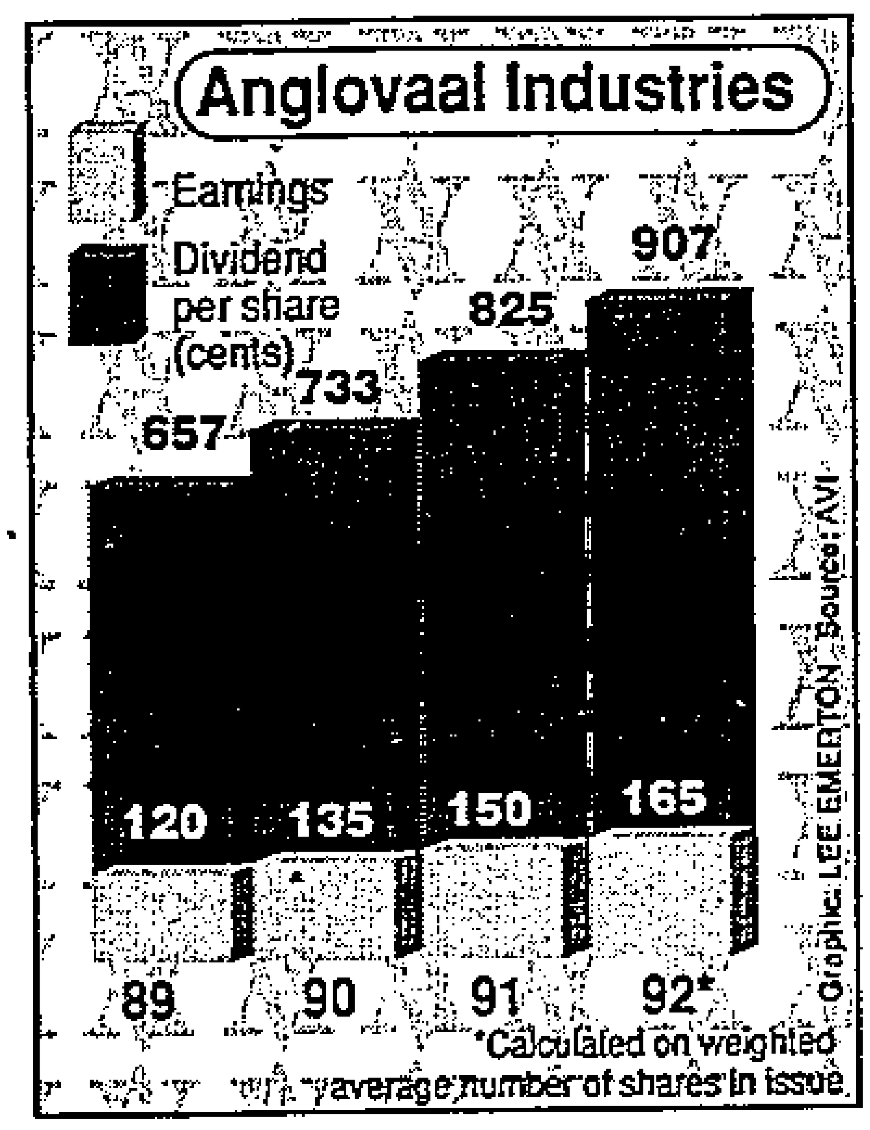
Interest earned on money raised from its September 1991 rights issues and from the sale of its stake in Cadschweppes enabled the group to report a 16% increase in attributable earnings despite tough trading conditions faced by most subsidiaries.

Attributable earnings rose to R271m from R234m in 1991. Earnings a share rose only 10% to 907c from 825c, diluted by the larger number of ordinary shares in issue. AVI increased its total dividend by 10% to 165c from 150c a share.

MD Jan Robbertze said last night that AVI's results were "flattered" by the money earned from the group's improved cash position. AVI raised R547m from the rights issues and R177m for the Cadschweppes sale.

Several of AVI's core businesses suffered tough trading conditions in the year, and even "stalwarts like packaging and rubber group Consul felt the draught".

"AVI is concerned that as we are a consumer-driven business, our consumers are under great pressure," he said. Robbertze said AVI was disappointed with the lack of progress on the political front.




AVI had identified no clear opportunities for spending its cash, but the group had a "shopping list" for when the right opportunities arose.

Group turnover rose 8% to R7,96bn from R7,34bn. Tighter margins ate into operating profit, and AVI's pre-tax profit margin before interest payments fell to 9,8% from 10,5% in 1991. Pre-tax and pre-interest profit was unchanged at R777m. After paying R43m in net financing costs in 1991, AVI earned R21m in interest, and total interest paid rose only 8% to R96m from R89m. After-tax profit was almost unchanged at R390m against R389m.

After taking into account AVI's share of associated companies' earnings and a 16% fall in income attributable to outside shareholders of the group's subsidiaries (principally their stakes in electronics and construction group Grinaker, Consol and frozen foods company Irvin & Johnson), attributable earnings climbed to R271m.

AVI converted a net borrowing position of R272m in 1991 to a net cash position of R470m.

He said that I & J had recovered strongly, and Consul turned in a sound performance. National Brands — which makes, markets and distributes a wide range of consumer products from biscuits and perfume to pizza — had gained market share and had performed well, he said.

# It's all sytems go for business indaba

Sowetan 1/9/92 (180)

By Joshua Raboroko

**VIGOROUS SPIRIT** Business will only flourish if SA solves its problems:

A MORE VIGOROUS SPIRIT of entrepreneurship was one of the gateways to the creation of jobs and wealth in Africa.

This was said by the general manager of the World Bank's Africa Project Development Facility, Mr Alexander Keyserlink, on his in South Africa from the United States on Wednesday.

He is the key speaker at the *Sowetan* Business and Entrepreneurial Development Conference which starts at Eskom's Training College in Midrand on Sunday at 6 pm.

Keyserlink, whose subject is Entrepreneurial Development - Lessons from Africa, said the continent had great potential to create wealth and jobs.

"Africa has a challenge to compete against the world because it has many resources which many countries do not have," he added.

He was optimistic that as a new government was created, South Africa would become one of the main contributors to the eradication of poverty and inequality of wealth.

## Solved its problems

He stressed that it was important that South Africa solved its problems soon so that it could join the rest of African traders in creating its own version of the European Economy Community.

This, he said, could only be achieved if we cultivated the spirit of entrepreneurship in the continent.

However, he remarked that the immense challenge of the mobilisation of resources and the delicate matching of priorities and available inputs could only be successfully achieved in a predictable political framework.

Keyserlink's career in international finance has taken him to many developing countries in the world and he has worked through transition periods in the Middle East, Asia, Colombia, Venezuela, Guyana and Mexico.

The Africa Project Development Facility, which he is heading, is a project of the Internal Finance Corporation, an arm of the World Bank and the African Development Bank.

Keyserlink is accompanied by AFDF's independent consultant, South African-born Mr Charles Mckudu, now based in Washington. They will be joined on Sunday by another executive, Mr Omarie Issa, based in Harare.

TECHNOLOGY

# Electronics for speeding up training and learning

BIOAN 11/9/92

SIGNIFICANT benefits are accruing from technology-based training (TBT), and this form of training and education has a special role to play in developing human resources in SA.

At this week's Institute of Personnel Management/TBT special interest group conference organised by Strategic Business Services, visiting US TBT specialist Gloria Gery of Gery & Associates said computers were being used to accelerate learning and job performance. (181)

Research showed that up to 75% of medium-sized and large US companies were using TBT in some way, with training on software application packages being the major use.

"Companies are seeing the time taken to learn reduced by 30% to 50%, and knowledge retention improves by about 25%," she said.

Organisations like IBM, Bell and Allstate are using interpersonal simulators comprising video cameras, microphones and computers to train staff.

"Users respond to various questions, choose answers, and do role playing which is recorded by the system so it can be analysed by the student."

Gery said an emerging trend was towards electronic performance support systems (EPSS) which integrated information from sources such as manuals or training programmes.

W&A/FSI (180) FM 11/9/92

# Could have been better

**W&A's interim** results were not the disaster the recent halving of its share price suggests was being anticipated by the market. Pre-tax profit would have declined only 14% had there not been a delay in receiving the Burhose disposal proceeds.

Net interest costs would have been R8,4m less, had it not been for this delay — the result of waiting for Competition Board approval — chairman Jeff Liebesman reckons. Even so, interest cover of 2,4 times (after deducting R8,4m from the R57,2m interest charge) remains low and further asset disposals are needed.

But the 63% drop in pyramid holding company FSI's EPS, reflecting its sensitivity to a drop in W&A's performance, warrants comment. Simply, FSI's interest rate charges did not drop in line with the decline in W&A's profit. FSI's trading profit reflects W&A's, as FSI consolidates W&A's results.

However, FSI's interest charges reflect those of W&A (through the consolidation) as well as its own, as FSI has debt of its own. However FSI's interest charges declined only marginally, as interest rates dropped moderately. As a result FSI's EPS declined sharply.

That said, FSI's cash inflows, reflecting dividends and interest received, and outflows, being dividends paid and interest charges, is more material. The accounts show this has not deteriorated.

W&A's results indicate its increased reliance on a few activities for most of its profit. Form-Scaff, Gentyre and the overseas operations contributed 69% of trading profit, reflecting the beating being taken by the consumer division, particularly JD Group.

JD Group's first-half EPS dropped 38%, in line with a marked downturn in trading activity in the retail furniture industry. Gentyre's EPS declined only 4%, creditable in the current climate, particularly as imports continue to flood the local market. Scaffolding operations, local and foreign, reported increased profit.

Gentyre accounted for R23m of group trading profit of R115,9m, the London-listed AAF accounted for R18,5m, suggesting local and foreign scaffolding contributed about R38m.

FM 11/9/92

(180)

What is interesting, though, is ~~that~~ overseas activities accounted for around 26% of its trading profit and half of attributable earnings, indicating the low interest charges carried by the foreign investments.

One can ascribe the higher foreign contribution at earnings level only to interest charges, as no tax was paid by W&A in the six months to June. In fact, the lack of tax paid means pre-tax profit in the second six months will have to rise significantly if Liebesman's predictions are to be met.

## FOREIGN HELP

| Six months to | Jun 30 '91 | Dec 31 '91 | Jun 30 '92 |
|---|---|---|---|
| Turnover (Rbn) ...... | 1,7 | 3,2 | 1,5* |
| Operating inc (Rm) | 172 | 335 | 116* |
| Attributable (Rm) .. | 57 | 129 | 40 |
| Earnings (c) .......... | 34,8 | 78,7 | 24,6 |
| Dividends (c) ........ | 15,5 | 42,0 | 11,0 |

* Not comparable due to sale in 1991 of JD Group's debtors book and the Burhose sale.

He reckons second-half earnings "should at least equal the first half's," even though the tax rate could jump. He says "it is anticipated the tax rate for the year will be less than 10%."

Cash flow — not given at interim stage — remains the big unanswered question when analysing W&A. Nonetheless, the share could provide long-term value for those willing to hold a higher risk investment, even though the interim dividend has declined 29% to 11c, in line with the EPS drop.

*William Gilfillan*

ECONOMIC CONCENTRATION

# Unchain those hearts

180

FM 11/9/92

## Company analyst Robin McGregor finds virtue in unbundling conglomerates

**Unbundling means** different things to different people. There are three specific areas where it can have different implications — depending on definition.

For the investor, unbundling results in the distribution of investments directly to a conglomerate's shareholders, thereby eliminating holding and pyramid companies. This adds value as it eliminates the cost of multi-tiered control and unlocks value by re-appraising undervalued assets. It focuses management attention on core business.

For management itself, unbundling is the process by which an organisation divides its operations into autonomous units which have maximum independence and are run as separate profit centres. It can be applied equally to a company with 100 employees or to a conglomerate with 40 000 people running 500 different companies. In other words, the "top-down" system of management is replaced by a small "head office" function with many independent units operating either as companies or divisions.

As for the State, the government of the day may decide it is in the interests of the economy and consumers to increase competition. To achieve this, conglomerates could be compelled to divest themselves of operations in industries deemed to be non-competitive. This can be done by using either coercive or incentive measures.

The management of the SA economy for the past 40 years has been of secondary importance to both the Verwoerdian ideology of apartheid and the expansion of Afrikaner socialism. Apartheid not only attracted international condemnation and sanctions, but spawned an ever-expanding public sector. This led to such steep increases in private-sector taxation that the all-important profit incentive was seriously eroded.

As a result, the economy sped downhill — rescued spasmodically by rises in the waning gold price.

Andersen

In the Seventies and early Eighties — unable to invest abroad — cash-flush mining houses had little alternative but to invest in greenfields projects or to expand existing investments; more frequently, they bought existing businesses. Most of these were initially their suppliers, but when this option was exhausted, companies with no relevance to their core businesses became targets as well. Where subsidiary suppliers had excess production to the group's requirements, a captive market was created by buying outlets down the distribution line to the end-consumer.

Thus, SA conglomerates were born.

South Africans are world leaders in mining techniques, mining management, oil from coal technology, etc; but they lag behind in the dynamics of corporate structure.

# Keeping future shock down

(180) South 12/9 - 16/9/92.

HEADED by Mr Clem Sunter, Anglo American's scenario team acts as the company's "radar system", scanning the future business environment for surprises and pitfalls and sensitising management to change.

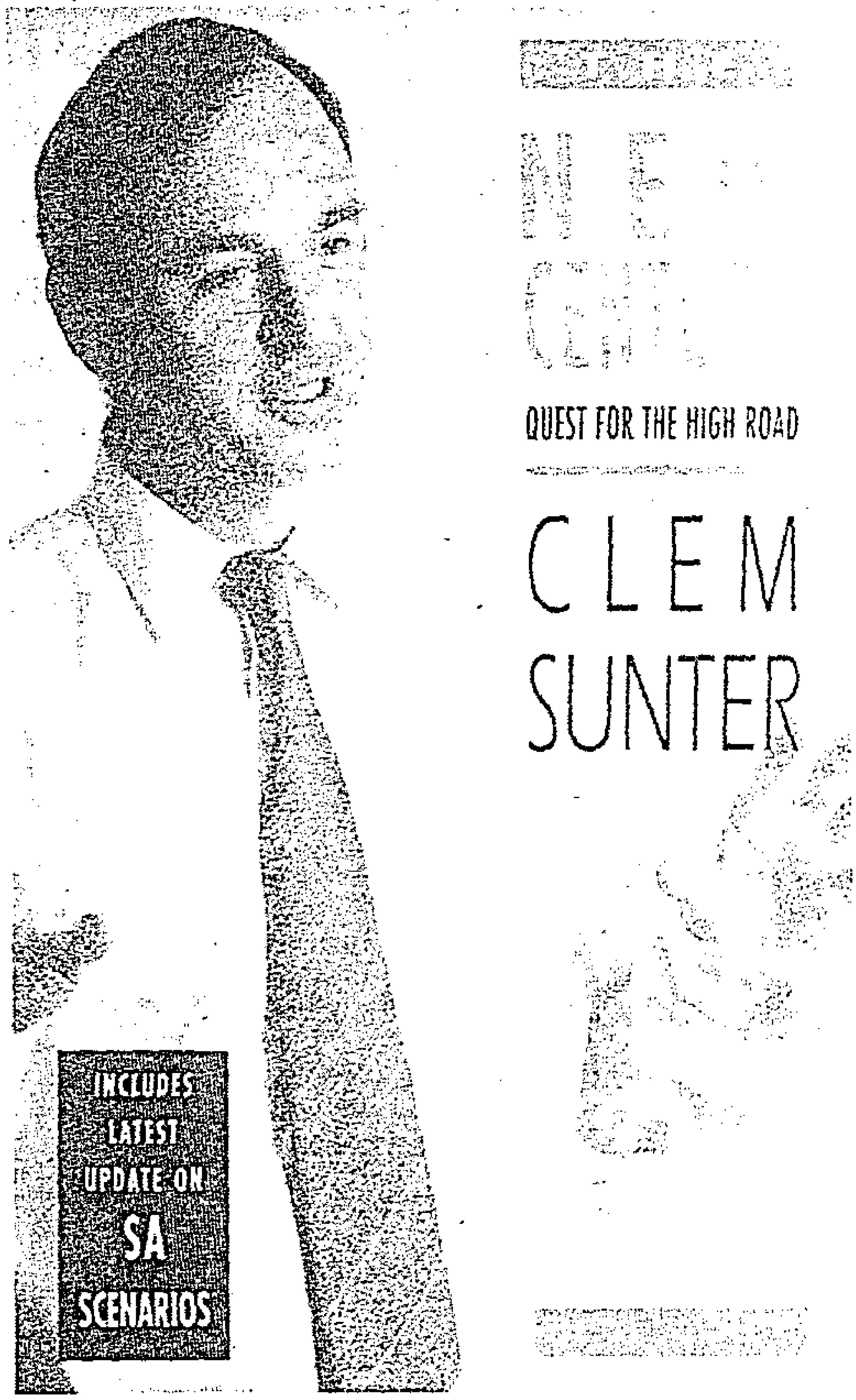
"Every company has a certain resistance to change," says Sunter. "It's a natural human condition. Scenario planning is there to lower that resistance by stretching the imagination. It is therefore a very useful process since change in any form — economic, political or technological — can make or break a company."

The first Anglo scenario was developed in 1985 and has been constantly updated since. The book and video on the scenarios have been read and seen by thousands, including government and liberation movement leaders.

The scenarios have been uncannily accurate — they forecast the disintegration of the Soviet Union 21 months before it took place — and, even if you don't agree with with some of the values in the scenarios, they contain a great deal of food for thought.

Sunter says the scenarios are based on sets of certainties and uncertainties about the future.

For example, it is likely that no matter what happens in the future, nations will still be around and will still be fighting one another. There will be money in circulation and people will be trading with each other.




The Anglo team took four things as certain — continued population growth in poor countries, the revolutionary impact of technology on society, the shift of values from crude materialism to a more balanced approach to life, and the unchanging characteristics of a winning nation.

When looking at uncertainties about the future, it realised these could include the effect of Aids on population growth, what fundamentalist Islam could do to geopolitics, and what changes in the global climate could do to agriculture.

In the end, however, it realised that perhaps the greatest deciding factor in the future would be whether rich nations "will rise to the challenge of assisting the poor to become winners in their own right, or will they turn their back?"

The articles on this spread look at various possible answers to this question.

# Investors served best by a company that can buy itself

BDay 14/9/92 **MICHAEL ALLMAN** (180)

THE Association of Corporate Treasurers of SA (Actsa) recently called for the legalisation of corporate share repurchases — to make it possible for companies to purchase their own shares. There are good reasons to support this call.

Corporate share repurchases act as a valuable tool to allow companies to correct mispricing of their securities, providing a more efficient market and improving the allocation of scarce capital resources.

The simplest form of a share repurchase is the open market repurchase. Here, a company purchases its own shares through conventional means, just as if it were buying any other shares. The prices paid are market prices, and the amount of shares repurchased tends to be relatively small. These shares are held as treasury shares and do not carry any voting rights or receive dividends.

Economically, an open market repurchase is similar to a dividend in that cash is transferred out of the company and into the hands of shareholders. Unlike dividends, however, the cash is paid only to those who sell their shares. This gives shareholders the flexibility of deciding if they want to realise their "dividend" by selling all or some of their shares, or "reinvest" the dividend by holding on to their shares. Investors who do not sell will see their proportion of ownership in the company increase slightly (just as if they had reinvested their dividend) without the associated transaction costs.

AN open market repurchase also provides a mechanism for the company to distribute cash without changing its dividend policy. Many companies use their dividend policy as a signal of the company's prospects. When times look good, dividends can be raised to communicate to investors management's confidence in the future. This is the reason share prices increase when a dividend increase is announced. It is not the dividend that causes the share price to increase, but the signal that the future cash generating capability of the company is likely to be sufficient to cover any future dividends.

While the open market share repurchase is a flexible tool for corporate treasurers to help them manage the corporate cash position effectively, the other form of corporate share repurchase, the self-tender offer, is a powerful mechanism that can be used to eliminate a corporate misvaluation.

Every CE occasionally, if not regularly, believes that the company's shares are undervalued. This "value gap" — the difference between what management thinks the company is worth and the share price — can occur because management has information that is not or cannot be fully revealed.

Management often tries to reduce a value gap by instigating a concentrated public relations effort. Most analysts and investors can be forgiven for taking such puffing as mere smoke. After all, isn't corporate management supposed to be optimistic? The self tender offer gives managements the chance to "put their money where their mouth is".

In a conventional self-tender offer, a company offers to buy a specified number of its shares — typically 15% to 20% — at a given price, usually at about a 20% premium to recent stock market values.

Investors then decide if they would like to accept the company's offer. If they do, they "tender" their shares to the company. If the tender is undersubscribed, the company buys back all of the shares tendered. If the offer is oversubscribed the company prorates the purchased shares across all of the tendered shares.

If everyone tenders his shares and is given a pro-rata distribution, each shareholder is no better or worse off than before. His original shareholding is reduced and each share is worth less than before, but shareholders also have the cash from the repurchased shares and their total net worth is unchanged.

THIS is when management makes an important undertaking. Corporate insiders, including management and members of the board, agree not to tender their own shares. Thus, if everyone except insiders tender their shares, a disproportion of outsiders' tenders is accepted and the ousiders end up collecting the tender premium, being subsidised by the insiders.

Investors must ask, at this point, why management would purchase their company's shares for more than they thought they were worth, knowing that management personally couldn't participate and would therefore be left holding shares worth less than before.

The answer is, of course, that they wouldn't. Managers, who have access to inside information on the company's prospects, are in a better position to assess the "true" worth of the company than other investors. Since they wouldn't want to hurt their own pocket books, they wouldn't agree not to participate in a premium self-tender offer unless they were confident that the company was undervalued.

Thus the premium self-tender offer acts as a signal to investors. Management is saying: "Our shares are undervalued, and to prove it we will offer to repurchase a significant fraction of our shares at a premium to the market price and not tender ourselves, thus putting us at financial risk if the company is not worth more than the market price". Suddenly, management's assertion about undervaluation is more credible.

Does it work? Do investors find the undervalued signal of a self-tender offer credible?

The Alcar Group, a financial and management consulting firm headquartered in Chicago, performed a study of the tender offers conducted in the US during the 1980s. Their conclusion is irrefutable. Investors, on average, believed management and were impressed by their financial commitment. They revalued the companies and increased their share price by an average of 12%, adding billions of dollars to the capitalisation of these companies. A powerful signal indeed.

The study also found that the amount of the value added was positively related to the size of the premium offered, the fraction of the shares repurchased, and the percentage of shares held by insiders. In other words, the more financial risk management assumed, the more believable the signal and the greater the revaluation. No pain, no gain.

Moreover, the evidence indicates that the signals were valid. In the period after the share repurchases, the company's earnings did improve.

In spite of the obvious improvements in market efficiency offered by share repurchases and the associated benefits that come with more efficient markets, many national legislatures and regulators have a negative attitude towards this practice. Their stated desire is usually to protect non-insider investors from insiders giving false signals to the market.

YET the studies have found no evidence that non-tendering shareholders are expropriated. Both tendering and non-tendering shareholders can be better off if the share price stays high, and the evidence indicates that the increases are permanent.

All the evidence indicates that share repurchases improve market efficiency by allowing companies to eliminate value gaps and correct inappropriate pricing of their shares.

Paradoxically, while many argue for government intervention to solve the problems of insider information, government intervention has been depriving companies of an important signalling tool by denouncing share repurchases as illegal. One hopes this will end soon.

☐ **Allman is a director of Alcar Metric Consultancy.**

# Anglo 'happy' to talk to Cosatu

ANGLO American would be happy to meet Cosatu to find constructive solutions to "prevent conflicts" as nothing positive could be achieved by attacks on individuals or organisations, Anglo executive director Bobby Godsell said yesterday. BDAY

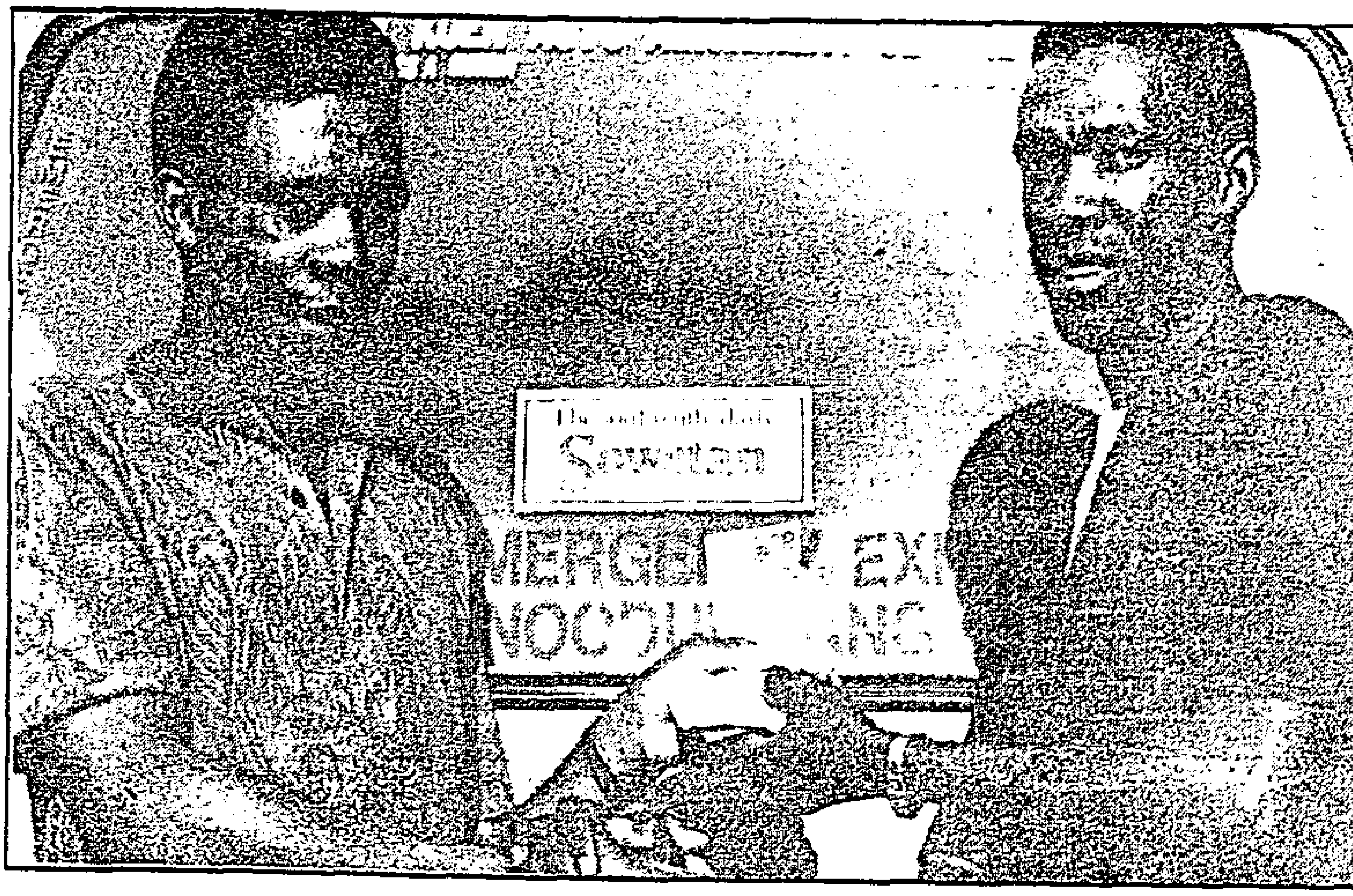
Godsell was responding to Cosatu's decision at the weekend to target the company with industrial action because of dismissals during the recent metalworkers' strike. 16/9/92.

Meanwhile DP spokesman Robin Carlisle condemned Cosatu's call for more mass action as "another season of dark madness".

Cosatu has meanwhile called on employers to respect the desire of workers to commemorate the Bisho massacre on Friday when the victims are to be buried. Cosatu said many workers wanted to attend the funeral and should be given the day off.

Workers will stay away in the eastern Cape and Border regions and Cosatu has asked employers to "demonstrate their concern" by shutting down for the day.

● Comment: Page 6



Mr Phineas Rakgabale (right) of Mahwelereng won R200 for displaying his *Sowetan* bumper sticker. Mr Johannes Monama of Tritex filling station in Potgietersrus gave him his prize.

# Violence must 'be stopped'

Sowetan 16/9/92

(180)

## ■ CRITICAL PERIOD Premier boss warns of effects of political instability:

**By Joshua Raboroko**

CERTAIN ACTIONS by political parties damaged the economy and would weaken the ability of the corporate world to help small business develop and create jobs for the disadvantaged.

Speaking at the Business and Entrepreneurial Development Conference in Midrand yesterday, the chief executive of the Premier Group, Mr Peter Wrighton, said black economic empowerment could not take place in an atmosphere of violence and political instability.

"We all know that the regeneration of business cannot take place without peace and political stability. We plead with our leaders to act more like statesmen in this critical period of our history," Wrighton said.

He appealed to the corporate world to help township entrepreneurs.

"Big brother must help small brother grow," he said.

National Sorghum Breweries' Professor Mohale Mahanyele said one of the stumbling blocks to black advancement was lack of finance.

He saidbig business and the Government should pump money towards black economic empowerment.

# Cosatu's appeal to employers

Sowetan 16/9/92.

## Deadline to taxes nears as protests increase:

**By Ike Motsapi**

THE CONGRESS of South African Trade Unions has set December 1 as a target date for employers to stop deducting the Pay As You Earn tax from workers' salaries.

Cosatu media officer Mr Neil Coleman yesterday said they expected companies to support the call as part of he ANC-led mass action.

Instead, employers would be asked to pay the tax into a fund for "peace and democracy" to be established soon.

The federation also agreed to step up the mass action campaign.

It would also call for the occupation of government buildings.

# SA companies converge on Dubai

PETER DELMAR

180

MORE than 100 SA companies will take part next month in a trade exhibition in Dubai, in the Middle East — said to be SA's biggest foreign trade outreach yet. BI DAY 18/9/92

The trade fair is being organised by the SA Foreign Trade Association (Safto) and the departments of Trade and Industry and Foreign Affairs.

Safto area manager Gyfford Fitchat said yesterday more than 200 delegates would attend the fair, which coincided with Flitestar's first flight to the Gulf.

Dubai, in the United Arab Emirates, had been selected because of its position as the trade centre of the Middle East. Last year Dubai imported goods worth $1bn.

"The show is the biggest of its kind ever put on for SA industry in the foreign market," Fitchat said. He added that businessmen exporting to Dubai could expect to reach virtually the whole Middle East and beyond.

The participating companies represent a wide range of manufacturers and traders. From October 10 to 16, a number of SA companies will take part in an exhibition in Oman.

FM 18/9/92 (180)

ANGLOVAAL INDUSTRIES

## Financial swing (180)

**Rights issues** held by Anglovaal Industries (AVI) and two of its subsidiaries last year mostly explain the holding company's creditable results. FM 18/9/92

Thanks to a favourable turnaround in net financing costs, EPS increased 10% despite unchanged trading profit. Finance costs switched from R43,2m paid in 1991 to interest income of R20,9m.

Proceeds from the rights issues held last October, which increased consolidated cash resources by R547m, and the R177m disposal of the Cadbury Schweppes holding last September, explains this swing.

Consolidated underlying investments include AVI Diversified Holdings; listed glass, packaging and rubber group Consol; listed construction and electronics business Grinaker Holdings; and food companies Irvin & Johnson (listed) and National Brands (unlisted).

Earnings contributions changed marginally, aside from Grinaker. It made no contribution, against last year's 7%, following losses on the back of sharply lower activity in the electronics and construction arms.

AVI Diversified Holdings, constituting textile, engineering and steel trading interests, among others, accounted for 21% (1991: 23%) of group earnings; Consol 30% (29%); I&J 19% (20%); and National Brands was unchanged at 22%.

AVI Diversified Holdings' engineering results improved, though this was offset by a significantly lower contribution from textiles. These performed poorly, except Gelvenor Textiles, whose profit improved.

Consol was again the largest profit contributor. Its own rights issue was the reason, as its trading profit fell 9%.

### RIGHTS SUPPORT

| Year to June 30 | 1991 | 1992 |
|---|---|---|
| Turnover (Rbn) | 7,4 | 8,0 |
| Operating income (Rm) | 777 | 777 |
| Attributable (Rm) | 234 | 271 |
| Earnings (c) | 825 | 907 |
| Dividends (c) | 150 | 165 |

AVI increased its holding in Consol, which partly explains why earnings attributable to outside shareholders of subsidiaries dropped to R134m from 1991's R159m. Also, nothing was set aside for the minorities of loss-making Grinaker.

I&J turnover increased 16%, but margins tightened as trading profit rose only 10%. The Cadbury proceeds helped National Brands report 18% better earnings.

A highlight of the year was the R320m acquisition of an effective 25% of cement group Anglo-Alpha, explaining the surge in AVI's share of associated companies' retained earnings, to R14,9m (R4,8m).

There are few apparent advantages in holding a stake in tightly owned AVI, aside from exposure in the unlisted National Brands and AVI Diversified Holdings. However, the share remains well regarded, as shown by its 14,1 p:e. This rating partly reflects the healthy balance sheet with year-end net cash holdings increasing to R470m (R271m).

*William Gilfillan*

# SA must find niche in world markets

South 19/9 - 23/9/92. (180)

SCENARIO planners tend to agree that South Africa should become an outward-looking, export-orientated, internationally competitive, technologically-driven, market-orientated economy — but can it?

Although the outward-looking arguments are compelling, there are many people who still push for a more "autarchic" or inward-looking thrust to redress past social and economic imbalances instead of market-related policies that will limit redistribution.

It is difficult to predict who will win the day.

But the experience of neighbouring countries point to the dangers of ignoring the scenario planners' advice. True, they are economists, not politicians, and will not have to deal with the pent-up expectations of South Africans who want to see some improvement in their living standards *SOON*.

But, as economists, they also have a grasp of how redistribution and populism of the Icarus type, could build up pressures in the economy that will, as Zimbabwe recently found out, be a greater threat to the politicians than not meeting the initial expectations of the masses.

The irony, of course, is that no matter what politicians decide, all their good intentions could come to naught for the simple reason that the economy is in no condition to support change.

Metals and minerals, on which the South Africa economy is still based, have gone out of fashion in the world market. Developed countries don't buy them as much as they used to, and when they do, they set the prices. This means countries that rely mainly on exporting these basic commodities are poorer than they should be.

One of the main reasons why commodities have gone out of fashion is rapid technological change, mainly from Japan.

The argument is that countries like South Africa should be tapping into the new technologies to transform basic commodities into value-added products that will earn more on world markets.

South Africa should become a manufacturer, not just a producer of raw materials. It should become an exporter, and not remain an importer of manufactured goods.

This, however, is easier said than done. It requires painful structural change — and the world might not always play along.

To become an exporter, you first have to find out what you can make better than anyone else, and find out where you can sell it. This is called finding your "niche". It involves a lot of research and development work — something many companies might not have either the skills, money or verve to do.

That niche is particularly important because of protectionism in world markets, something all the scenarios complain about but which is not likely to change.

This underlies the inherent contradiction in their argument, which Clem Sunter recognises in his Low Road scenarios. They want countries such as South Africa to open their markets to the outside world, but much of that world — apart from Africa, perhaps — is gradually closing its markets.

The so-called Triad — Europe, Asia and North America — is developing into regional trading blocks, which might cut out the rest of the world altogether.

In retaliation, Africa has already started establishing its own regional market, which could provide a democratic South Africa with a huge market.

But most African countries have already, under the guidance of the World Bank, started their own "economic structural adjustment programmes" or ESAPs, aimed at making them more export orientated as well — so it will have to be a game of give and take for South Africa.

Bringing in technology and changing production lines will also mean a major reshuffle in many industries, sometimes at the cost of jobs as machines take over from people. Is this a good idea at a time of rapidly rising unemployment?

Of course not, say the scenario planners. But it will be necessary and can be countered by an equal emphasis on the promotion of small businesses and the informal sector. Worldwide, these are now the major sources of jobs while providing individuals and communities with the opportunity to improve living and working conditions.

What worries many South Africans is that it will lessen the power of the unions. Fewer workers in the formal economy have already dented the power of the once-strong unions in Britain, while the informal sector is often used by big companies through sub-contracting arrangements to side-step negotiations with unions.

This poses the painful question — which is most important: union power or more jobs? Technology means you cannot easily have both.

*'Good intentions could come to naught if the economy can't support change'*

# Widening the mental map

South 19/9 - 23/9/92

SCENARIO planning is helping to widen South Africans' narrow "mental map" while also contributing to the development of a democratic culture.

According to the director of the South African office of the German Friedrich Ebert Stiftung (FES), Dr Winfried Veit.

He says the development of the Mont Fleur scenarios, in particular involved economists of widely differing political persuasions — and saw them emerge after a year of intensive sessions with a remarkable common understanding.

That does not mean they agreed on everything, but that they agreed on more than they used to.

This, believes Veit is a major contribution to the development of a democratic culture in South Africa — the give-and-take needed by representatives of different political views to come up with common views on major issues for the best long-term interests of the country as a whole, not necessarily their own political parties.

The Mont Fleur scenarios were funded by FES and the Swiss government and are now being presented around the country in a bid to further stimulate debate about the way forward.

Veit, who developed foreign policy scenarios in Germany in the eighties, said FES became involved with the Mont Fleur scenarios because of his personal interest in scenario planning and because of FES's long-standing relationship with Prof Pieter le Roux, director of the Institute for Social Development at the University of the Western Cape, who led the scenario team.

"This has been one of the most successful programmes we have been involved in here. Although we do not expect it to change South Africa, we hope that it can make a modest contribution to changing the way people look at economic options," said Veit.

Of particular importance was the need for a greater sense of urgency about getting the economy going again, and to involve all parties in the identification of policies that will change the present "lame duck" scenario to the "flight of the flamingoes".

Some people (including SOUTH columnist Sweetness B Rat) have criticised the symbols chosen for the scenario, but Veit said this was a well-known scenario tool to make relatively staid and boring issues more accessible to as many "ordinary" people as possible.

And, as this writer knows all too well, people's eyes tend to glaze over if there is too much talk about balance of payments, export-orientated strategies and the like — so why not flamingoes, lame ducks and even Icarus?

● The Friedrich Ebert Stiftung is named after a former Social Democratic president of Germany. It has had strong links with the anti-apartheid movement since the eighties and in 1990 opened its first office in South Africa.

Most of its programmes involve assisting the democratic movement to share international experiences and help clarify policy options.

# Investment in four possible 'new SAs'

180

S Times (Buss) 20/9/92.

ED Hern Rudolph portfolio managers Andre du Plessis and Steve Meintjes have taken the political scenarios theme a step further with investment strategies pertinent to each of four possible outcomes.

The four are widely acknowledged under various headings. We can follow the highway (1), go up the cul-de-sac (2), have to return to go (3), or suffer a smash at speed (4).

In the highway scenario, negotiations resume before the yearend and an elected interim government will work through a decisive transition period. A constituent assembly, requiring a 70% majority for all decisions, will be elected in the first half of next year.

The ANC wins 55%, Nats 25% and Inkatha 8% of the vote. A year later, a new constitution entrenches powers for 10 federal regions with 10 senate members each. No party has an outright majority in the senate.

The constituent assembly becomes the lower house and elects Nelson Mandela president. An ANC cabinet rules from March 1994, FW de Klerk leads the opposition and Mangosotho Buthelezi governs Natal. But the ANC has to compromise on vital issues, such as the economy. All sanctions go by March 1993.

| Equity sector allocation (%) | Scenarios 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Mining and exporters | 20 | 20 | 35 | 30 |
| Finrand hedges | 15 | 75-80 | 25 | 40 |
| Finance | 10 | — | 5 | 5 |
| Infrastructure/GDFI | 25 | — | 15 | 10 |
| Consumer | 30 | 0-10 | 20 | 15 |
| Blue Chips | 70 | 100 | 80 | 90 |

This scenario leads to high growth and good times. But after an initial decline, inflation climbs and the rand weakens from 1994. Prescribed investments are reintroduced.

The scenario team rates at better than even the chance of hitting the highway.

Blue chips will be first to benefit and the economic revival will help small companies. Shares such as Driefontein, Rusplats, Samancor, Gencor, Anglo American, Barlows and SA Breweries, will find their way back into foreigners' investment portfolios.

Infrastructural and capital goods stocks, such as Murray & Roberts, Afrox, Powertech, LTA, Anglo Alpha and Boumat, will do well, as will cyclical and recovery stocks — Barlows, Unitrans, Datakor, Imperial, Holdains and Ellerine. Trade and tourism will help Safren, SunBop, Safcor and Bidcorp. A strong weighting in selected consumer stocks is advocated.

The cul-de-sac scenario follows a breakdown in negotiations. There is an alliance of moderates and certain black groups. But it all leads to more violence, confrontation and mass action, with sit-ins at State and corporate offices, retaliatory attacks, defence force intervention and a state of emergency. In spite of FW's efforts to brief the international community, sanctions are reimposed.

Mr Du Plessis and Mr Meintjes foresee no growth in a siege economy, strikes, high unemployment — the worst of everything. In this case — if you are still in the country — high liquidity must be maintained with preferably no property or equity as affairs deteriorate. It must be 100% investment in equities with foreign assets and hard-currency earnings — Richemont, Charter, Oceana, Minorco and Fit.

Mining and other exporters with a strategic advantage — platinum shares, Samancor, Sappi, Royfood, Trencor — could be bought, with marginal involvement in a few defensive consumer stocks providing basic requirements, such as Pep and Tiger Oats.

Twelve months into the cul-de-sac we proceed to scenario 3 — return to go. Renewed negotiations will lead to a return to scenario 1. But by then, the economy will have been seriously damaged, inflation soaring. There is a slow return to square 1.

The Ed Hern team recommends shares and property only on signs of successful negotiations. Otherwise, copy the cul-de-sac path for equity investments before gradually hitting the highway strategy.

Scenario 4, the smash at speed, is arrived at through negotiation, but involves an unrestricted ANC government with a two-thirds majority required in a constituent assembly. Federal regional power is not entrenched and the ANC controls the senate and Natal.

This is better than the cul-de-sac, but a greater risk than the highway. It leads to low growth and high inflation, violence from excluded parties, misallocation of resources, economic interference and controls and government paper issued well in excess of prescribed investment-generated demand.

CHOICES OUTLINED: Andre du Plessis and Steve Meintjes

Property and gilts are largely inappropriate, say the analysts, and equity still offers the best protection and flexibility in a rapidly changing socio-political and inflationary environment. But beware of haphazard and arbitrary government action which from time to time will affect particular sectors.

The Ed Hern team believes nationalisation has been largely discarded as an economic policy. Although higher social spending and redistribution are inevitable, indications are that they will be realistic relative to the economy's capacity.

IMF and World Bank funding awaits a transitional government and any meaningful private-sector investment requires an end to violence and a new constitution.

But until the odds of hitting the highway shorten and because international markets remain unsettled, Mr De Villiers and Mr Meintjes still advocate a high cash holding while equity selection is still in "smash at speed" mode.

TALLEST BUILDING IN THE REGION: The 210-metre-high office tower of the Dubai World Trade Centre

# Monument to a sheikh of vision

SITimes (Buss) 20/9/92 (180)

MORE than 100 South African companies will soon be setting up their displays at the Dubai World Trade Centre, considered by many to be the Gulf's premier exhibition venue.

A monument to the late Sheikh Rashid bin Saeed Al Maktoum, who had the vision to build it, the centre is the tallest building in the Gulf.

Opened in 1979, it has played a vital role in making Dubai a prime business and commercial centre.

The complex comprises a 210-metre-high office tower, three apartment blocks, three exhibition centres and the Dubai Hilton hotel.

## Largest

Its three exhibition halls are built to international standards. The halls have been used for the largest exhibitions in the region.

Numerous national exhibitions, including those of Italy, Taiwan, China, Greece and Korea, have been held at the centre.

This year's tightly booked schedule included a Made in the USA exhibition, Turkish Week, International Camel Symposium, Britain in the Gulf '92 and a Thailand National Show.

The line-up for next year includes the International Spring Trade Fair, Woman '93 and the Middle East International Motor Show.

According to Obaid Al Tayer, first vice-president of the Dubai Chamber of Commerce and Industry, a business-orientated exhibition at the centre usually attracts 5 000 to 10 000 business visitors.

Events that appeal to the public, such as a motor show, draw up to 50 000 people.

Statistics of recent business exhibitions show that 40% of the visitors came from outside Dubai.

The World Trade Centre's office tower is considered a desirable address. Among the 120 companies with offices there are Ernst & Young, General Motors, Lloyds Bank and Johnson & Johnson.

# Over 100 SA companies to go on show

# Lift-off for trade in the Middle East

S/Times (Bus) 20/9/92. 180

**NEXT month manufacturers will be given a major and unprecedented opportunity to exhibit and promote their wares and services at a South African trade fair in Dubai.**

**ZILLA EFRAT reports on the importance of this new market for SA manufacturers and on the initiation of trade between this country and the Gulf.**

A HIGH-PROFILE South African exhibition will be held in Dubai, part of the United Arab Emirates, next month.

Titled A new link: SA and the Gulf, the exhibition will take place from October 6 to 9 at Dubai's World Trade Centre. It will be opened by Deputy Minister of Trade and Industry David Graaff.

The fair has been organised by the Department of Trade and Industry (DTI) and the South African Foreign Trade Organisation (Safto) in association with the Department of Foreign Affairs (DFA).

## Biggest

More than 100 SA companies will be represented. They will promote a host of goods and services.

Products will range from insulated copper telephone cables, satellite equipment and tractors to confectionery, handmade ceramics and jewellery.

Both corporations and budding small enterprises will be represented. They will come from all corners of SA.

Several organisations representing industry will be there, including the SA Stainless Steel Association, the SA Sack Exporters Association and Aluminium Federation of SA.

The exhibition will be the biggest trade fair sponsored by the DTI. It will also be the first step in a programme aimed at putting SA back on the map in a highly visible way as sanctions fall away.

It will be the first opportunity for many SA companies to openly market and promote themselves in the Middle East.

The cash-flush Arab countries, which are large suppliers of oil but have to import most of their requirements, are a market virtually untapped by SA.

The DTI believes the trade fair could be instrumental in restoring SA to its position in the region. Before sanctions were introduced by the Arab states in the early 1970s, SA was an established and reputable supplier.

The broad range of items it sold then included food, building materials, steel, timber and electrical goods.

Safto Gulf manager Gyff Fitchat says: "Although there has been no formal lifting of Arab League sanctions, the region is wide open for South African exporters."

Opportunities are many, but Mr Fitchat warns that establishing business will take time.

SA will face competition from countries all over the world who have been dealing with the Gulf for many years.

As a result, the market is extremely conscious about price and quality.

But Mr Fitchat believes that some unique SA products will gain immediate acceptance.

In addition to tourism, the DTI expects SA companies to benefit from the many investments being made in Arab countries. They include commercial enterprises, tourism development, precious metals, transport systems and property.

Contact between SA and the Arab countries has been growing. In June this year, a high-level delegation from the Dubai Chamber of Commerce and Industry visited SA to market trade and investment in the emirate.

It also stressed Dubai's importance as a spring-board into other countries.

The large attendance at its seminar in Johannesburg indicated how much SA interest there is in the Middle East.

The Dubai officials expected about 200 people, but more than 400 turned up.

Now there is talk of a SA government office being opened in Dubai.

## Sponsors

But DFA officials, who will attend the exhibition, are reluctant to say how soon this will happen.

Safto has appointed Fairs & Exhibitions, an international exhibition organiser with strong Gulf links to co-ordinate the show.

It will be marketed by Gulf-based Bain Communications.

Bain will target chief executives and purchasing officers of major business houses, industrial corporations, chambers of commerce and the public.

It will also run a programme directed at the media in the United Arab Emirates and 12 surrounding countries, including India, Pakistan, Egypt, Saudi Arabia and Iran.

Sponsors of the exhibition are Absa, Burlington Ocean & Air Express, Unicorn Lines and Flitestar.

# Alleviating plight of casualties of recession

STAR. 22/9/92

By Stephen Cranston (180) (181) (183) (182)

More and more companies are restructuring, merging or off-loading in South Africa's deepest economic recession for decades.

In their wake they are leaving increasing numbers of redundancies of highly skilled management and technical staff to find new jobs and carve out careers in a shrinking market.

But it's not only the recession that's to blame, says Barrie Jack, a director of outplacement consultants Career Transition International.

"The phenomenon is also part of a fundamental change in the way in which organisations are in general being restructured," he says.

"In addition, many organisations are shedding their peripheral activities and embarking on a route back to core business.

"As companies slim down, many take the opportunity to contract out functions previously managed in-house, resulting in better cost controls as services are only used when necessary."

Mr Jack forecasts that the trend will gather pace, even when the recession is past.

"More and more organisations will have fewer layers of management, together with less in-house support functions," he says.

"Merger and acquisition activity in the post-recessionary era will also result in retrenchment and redundancies as merged organisations slim down to maximise structural and cost savings made possible by their coming together."

Mr Jack says Career Transition International is working with a number of major organisations in South Africa and abroad on counselling casualties of the recession.

"Outplacement is not placement; it involves coaching those being released to rebuild their dignity and self-worth, together with training them in skills needed to start them in new careers."

It includes the coaching of managers charged with the stressful responsibility of handling the termination interviews so as to ensure the least amount of damage to both those being asked to leave, and those who survive.

Executive career development, together with rebuilding and revitalising organisations after significant restructuring, is a difficult process to manage.

Research has shown that the morale of the survivors of any restructuring is usually very low, as a result of lack of confidence both in themselves and the company.

Trust and open communication are among the first casualties of a retrenchment programme when key people among the survivors seek to relocate themselves away from what they perceive to be a threatening environment, says Mr Jack.

BUSINESS DAY, Wednesday, September 23 1992

# Sacob tackles talks jam

RAY HARTLEY

Sacob deputy president Spencer Sterling, PAC first deputy president Johnson Mlambo, Sacob president Hennie Viljoen and PAC foreign affairs secretary Gora Ebrahim at a meeting in Johannesburg yesterday. Picture: ROBERT BOTHA

SACOB would try to help break the political deadlock because business was an important stakeholder in the success or failure of political negotiations, Sacob president Hennie Viljoen said yesterday.

Viljoen told a meeting of Sacob and PAC leaders a future government would find it impossible to meet the expectations of South Africans if it inherited "an economic wasteland".

"All around us we see potentially profitable businesses impeded by work stoppages, we see political violence persisting, we see the continued devaluation of the rand in international terms and we still face an impasse on negotiations.

"The normalisation process which started in February 1990 should by now, according to our views, have brought peace, reconciliation, economic revival and prosperity to all South Africans," he said.

Sapa reports PAC foreign affairs secretary Gora Ebrahim said democracy and the establishment of a consituent assembly would restore confidence and economic growth.

He reiterated the PAC's commitment to redistribution of wealth but said this policy was one of creating wealth, rather than expropriation and handouts.

180

23/9/92

BDT

# 'Faith begins at home'

STAR 23/9/92 (180)

By Jo-Anne Collinge

Unless South African businessmen demonstrated confidence in their own country, they could not expect the international community to have faith in the country's future, the Urban Foundation's London director, Sir John Leahy, said yesterday.

"Like charity, confidence begins at home," he quipped, in an otherwise sobering address to about 120 businessmen at a South Africa Britain Trade Association luncheon in Johannesburg.

Sir John, a former ambassador to South Africa, expressed the conviction that the future stability and prosperity of South Africa were linked closely to its ability to address underlying social problems.

"The nub of your problem is that the economy has to grow fast enough to provide better education, housing, health services and employment prospects for all South Africans," Sir John said.

He noted that predictions for the next few years came nowhere near this level.

Furthermore, social problems were growing rather than diminishing.

Sir John stressed that political violence remained the greatest deterrent to British investment in South Africa, a factor against which "all others pale into insignificance".

Effective management of violence, a speedy conclusion of the negotiating process and the instalment of an interim government which plainly governed with broad consent were all essential to regaining foreign investor confidence.

Whatever the damage caused by apartheid, South Africans should not delude themselves that the international community stood ready to mount anything like a Marshall Plan of assistance, he cautioned.

They might find that the most meaningful foreign assistance was forthcoming in areas such as curbing political violence, monitoring transitional arrangements, and transforming mechanisms for maintaining law and order.

# Anglovaal earns less pays more

STAR (180)
23/9/92

Despite the severity of the recession and a three percent decline in attributable profit for the year to June, Anglovaal has raised its final dividend by 5c to 67c a share, making a total payout of 100c.

Gold accounted for much less revenue than previously, the company drawing the bulk of its earnings from base metals and minerals (20 percent), packaging and rubber (20 percent) and finance, interest and other income (21 percent).

Consumer goods accounted for a further 25 percent.

The company says the lower earnings at R278 million were the result of the continuing recession, combined with weak foreign demand for some mining products.

## Turnover

Turnover was six percent higher at R8,20 billion, while operating profit was eight percent lower at R747,8 million.

Major contributors to earnings were Anglovaal Industries and, to a lesser degree, Associated Manganese Mines, which became a subsidiary in the course of the year.

Both companies posted higher earnings which were, however, insufficient to offset lower net contributions from gold mining, base metals and mineral investments. — Sapa.

# Sacob meets PAC group

SMC 23/9/92 (180)

By Michael Sparks

The South African Chamber of Business (Sacob) met a delegation of five Pan Africanist Congress members yesterday as part of its efforts to get negotiations on a new constitution back on track.

The meeting was one of a number arranged by Sacob with political organisations — including the ANC, the Congress of SA Trade Unions and the Inkatha Freedom Party — to discuss political and economic issues.

At a press conference after the meeting, Sacob president Hennie Viljoen reiterated his group's view that it was the obligation of politicians to put any new political structure in place, and that a strong economy was necessary to underpin any new dispensation.

Since it appeared that no end was in sight to negotiations, the economic downward spiral would continue, he said.

PAC foreign affairs secretary Gora Ebrahim said the political problem had to be solved first, since the economy could prosper only in a climate of tranquillity and peace.

# focus on Africa

Sowetan 23/9/92.

Private enterprise has only received lip service in Africa, says **Joshua Raboroko**, who reports on the *Sowetan*/Development Bank SA summit on business and enterpreneurial development in Africa:

(180)

PRIVATE enterprise has long been recognised as a key factor in the development process in Africa.

Owners of capital innovate and assume risks. They employ hundreds of people and manage large labour forces. They open up markets.

They find new combinations of materials and products. They initiate change and facilitate adjustment in dynamic economies.

Yet, private business ownership has been played down in many African countries over the past 30 years. In part this has occured because indigenous entrepreneurs were presumed to be scarce and foreign businesses were distrusted.

During his visit to South Africa Harare-based manager of Africa Project Development Facility (APDF) World Bank Mr Omari Issa put it aptly: "We have demonstrated that African entrepreneurs are plentiful."

Earlier, the belief was that African men/women were confined to the informal sector. In a short period of time, APDF has confirmed the existence of small and medium-sized businesses that are owned by Africans.

*Sowetan* and Development Bank of Southern Africa last week presented a three-day summit that focused on Business and Entrepreneurial Development in Africa.

Participants were African entrepreneurs; Commercial and Development Finance Bankers; International Finance and Development Agencies; Representatives of the APDF; liberation movements and chambers of commerce.

The conference focused on how indigenous African entrepreneurs could work together and promote/cultivate the spirit of competitive business on the continent.

APDF general manager Mr Alexander Keyserlingk said as soon as a political settlement was reached in South Africa "we will enter with the aim to help business people".

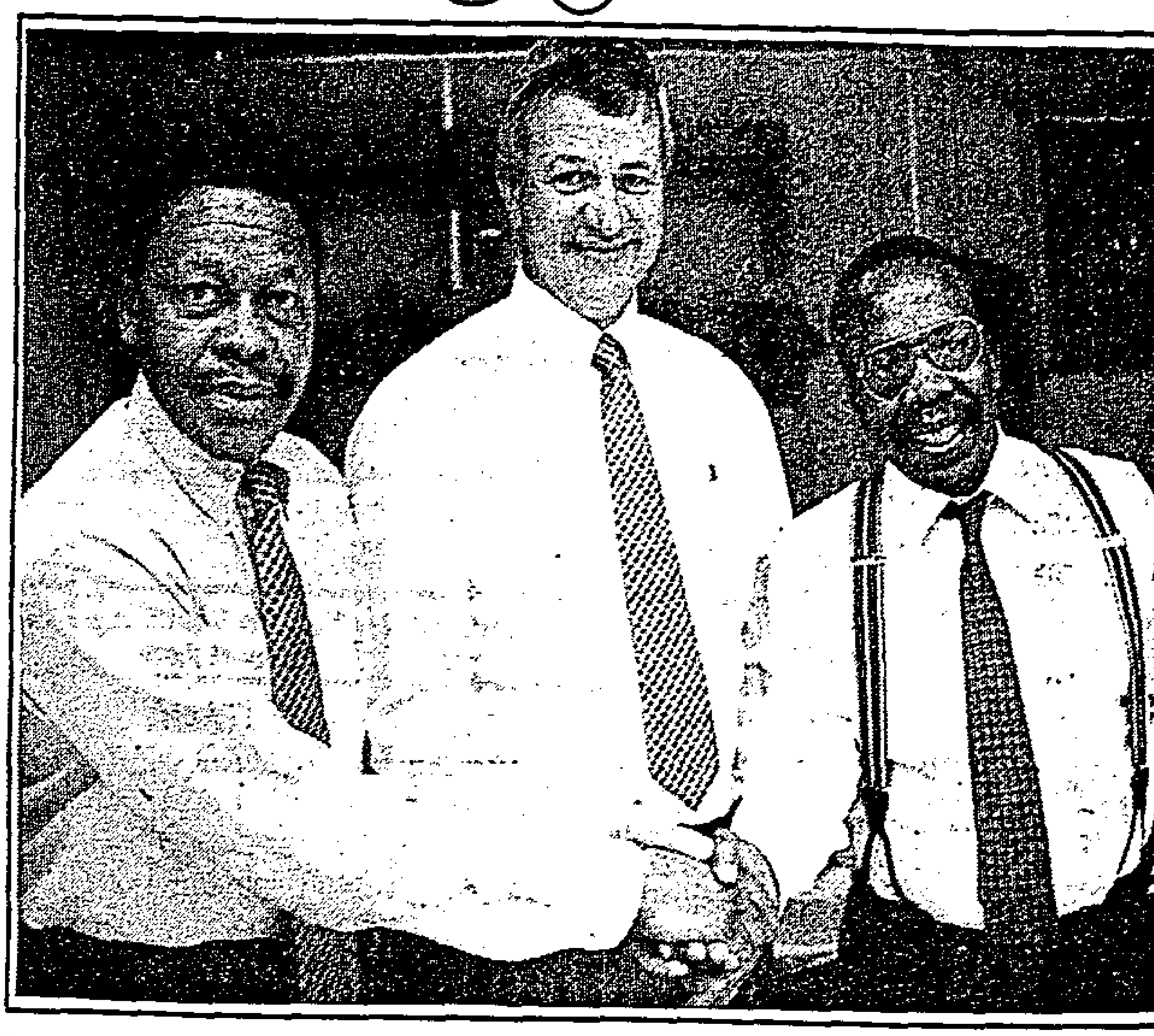
After his visit to some of Soweto's entrepreneurs, he said there was a great potential for business to create jobs and wealth.

"This shows that Africans are genuine entrepreneurs. The success of many businesses depends directly upon a climate supportive of vigorous small businesses.

"APDF, by assisting African entrepreneurs in taking advantage of new opportunities, contributes substantially to the creation of that nurturing business environment and the new jobs that are an important consequence."

The conference outlined the problems encountered by African entrepreneurs in obtaining debt and equity financing.

This problem was appropriately put by SBDC general manager Mr Jo Schwenke when he said: "In South Africa we have a dilemma that many businesses cannot be viable with high gearing while those same businesses would do moderately well if financed with equity.



Mike Mohohlo and Frans van Rensburg of the Development Bank meet Sowetan Day Editor Thami Mazwai. The three organised the three day conference.

To solve this problem, he said, it was proposed that the Government each year for five years grant R2 billion, which would be invested into properly constituted development venture capital funds.

The role and importance of promoting more African women entrepreneurs were highlighted by women who have a long tradition of commercial activity in the African private sector.

Businesswoman Mrs Mokgadi Tlakula said women grew more than half the food produced in the world; yet governments and aid programmes tended to exploit their labour without supporting it, maintaining it, or enhancing it.

She said black women could not hold title to land, married women were not legally capable of entering contracts without the consent of their husbands.

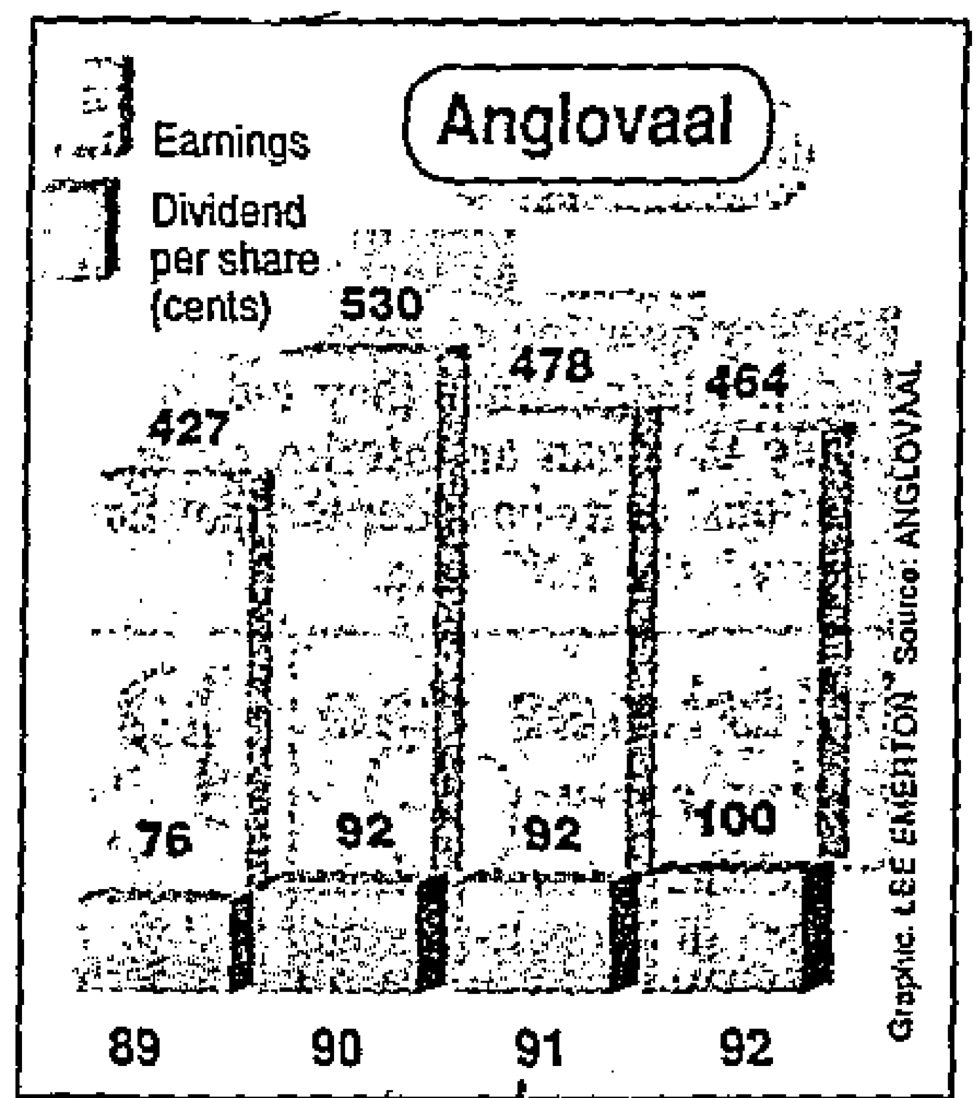
For example, she said, rural black women in the Northern Transvaal have carved a niche in making candles, making clothes, producing food, making sweets, vaseline, bricks, building latrines and houses, baking cakes, bread, selling liqour and achaar.

Eventually, she added, they would capture some of the business and make it their own, the only thing was that competition was unfair.

She urged the Government and industrialists to consider giving contracts to women.

The conference felt a massive affirmative action must be embarked upon by the corporate world business.

Premier Group chief executive Mr Peter Wrighton said many companies had affirmative action on their agenda.




# 'Long recession' hurts Anglovaal

(180) MATTHEW CURTIN

ANGLOVAAL, whose interests range from gold mining to diamonds, construction and biscuits, reported a 3% fall in earnings a share in the year ended June 1992.

Earnings fell to 464c from 478c a share in 1991, but the group raised its total dividend by 9% to 100c from 92c a share.

A spokesman said yesterday lower earnings stemmed from "the continuation and, in fact, worsening of the longest recession in SA in 50 years, combined with weak demand for certain of the group's mining products by its major overseas customers, whose own economies performed poorly".

Earnings were sustained by strong contributions from diversified industrial group Anglovaal Industries and ore and alloy producer Associated Manganese, which became a subsidiary during the year. Turnover rose 6% to R8,2bn from R7,7bn, but operating profit fell 8% to R748m (R816m). BDAY 23/9/92.

With a jump in investment income to R49m from R39m, the fall in pre-tax profit was limited to 7%, down at R332m from R376m. After-tax profit fell only 3% to R466m (R479m) because of a 12% lower tax bill, although the contribution from equity accounted earnings fell to R76m (R83m). Including that income, after-tax profit fell 4% to R541m (R562m). Attributable earnings fell R278m from R285m.

Finance, interest and other income remained the largest contributor to Anglovaal's earnings in spite of lower interest rates in the year. The next largest contributors were the group's base metal and mineral interests, packaging and rubber

☐ To Page 2

## Anglovaal

BDay 23/9/92

(180) ☐ From Page 1

operations, and consumer goods interests.

Gold mining contributed a meagre R0,5m to earnings, compared with the R10m it contributed in 1991.

☐ Anglovaal has pointed out that the omission of a paragraph in a report yesterday may have given the impression that deputy chairman Clive Menell was referring to the results released today when he said: "We're budgeting for slightly higher profits than last year, but there are so many unknowns."

The previous paragraph, which put the comment in context, was omitted during sub-editing. It stated: Anglovaal says the uncertainties that make SA a difficult country to operate in are continuing in the current financial year. However, the group remains cautiously optimistic that it will pull through.

ANGLOVAAL (180)

## Hobbled by gold (180)

**A sharp decline** in the contribution from the gold mining operations was largely behind the dip in Anglovaal's group earnings. The gold operations' earnings contribution crumbled to R500 000 (1991: R10,4m), while group earnings declined to R278m (1991: R285m). FM 25/9/92

Anglovaal's tighter margins, shown in the 8% drop in trading profit drop despite the 6% rise in turnover, reflects difficult economic times. The deterioration in the group performance was somewhat disguised by the lower tax charge and EPS fell only 3%.

The increase in the dividend, on a lower cover, reflects the strong balance sheet rather than any optimism about near-term prospects.

Fortunes of the trading operations have changed, with the packaging and rubber activites, held through Consol, displacing base metals and minerals as the largest contributor to earnings. Packaging and rubber contributed R55m (1991: R46m), while base metals and minerals accounted for R54m (R49m). Notably, JCI last week reported that its income from industry had for the first time exceeded that from mining.

Major earnings contributors were Anglovaal Industries and Associated Manganese Mines, which became a subsidiary during the year. Both companies reported higher earnings. But these increased contributions were more than offset by lower contributions from gold mining and other base metal and mineral investments, as well as reduced interest earned on central cash resources.

Anglovaal's results were also hit by the poor performance from its construction and electronics operations, held through Grinaker Holdings, whose contribution plummeted to R4m (R13,2m).

In assurance and financial services, The Board of Executors reported higher earnings but at a slower rate than in the past. Direc-

FM 25/9/92 (210) (180)

tors say life assurers Crusader Life and AA Life are operating in "increasingly unfavourable market conditions" because of shrinking disposable incomes.

A provision has been made against the carrying value of the AA Life investment as "it may take several years to achieve a market related return."

Turning to diamonds, 87,5%-held Saturn Mining receives a minimum royalty of 12,5% of the Venetia Mine's profits (before capital expenditure appropriations), pending the recoupment of capital expenditure by De Beers. The royalty amounted to R7m (R29 000) in fiscal 1992.

The group reckons earnings growth will be a major challenge in view of the long recession, with consequent lower mineral and metal prices. However, the strong balance sheet should ensure the dividend is at least maintained.

*William Gilfillan*

# Eskom will rectify 'shocking' bills

Sowetan 25/9/92.

**By Joshua Raboroko**

## BIG SHOCK Traders charged tariffs of between R4 000 and R10 000:

ESKOM HAS UNDERTAKEN to rectify the huge electricity bills charged to businesses in Soweto.

This was said by the corporation's sales and customer manager, Mr Paul Mare, at a meeting at the Standard Bank Hall in Jabulani yesterday with members of the Greater Soweto Chamber of Commerce (GSCC), the Soweto Independent Shopkeepers Association (Soinsa), Soweto Civic Association (SCA) and professional people.

Mare was responding to complaints by traders that they had received "shocking electricity bills" ranging from R4 000 to R10 000 although their shops did not have meters.

One businessman asked how the electricity company calculated consumption when many businesses either had faulty meters or none at all.

"How do you come to this conclusion?" the businessman asked.

Businessmen said they felt that they should be included in the Soweto Accord which cancelled arrears for the majority of Soweto residents earlier this year.

Mare said there were 11 service centres where complaints could be made. If any mistakes were found, they were prepared to rectify them.

Eskom would install and repair electricity meters in Soweto and the business community would not be excluded, he said. The corporation would charge small businesses such as spaza shops and others the same tariffs - as low as possible - as residential dwellings. He added that "we are prepared to help the informal sector grow".

"Business people will begin paying a market-related tariff for their electricity, paying accounts which are based on how much electricity you use as measured by your meters," Mare said.

GSCC's executive director, Mr Max Legodi, said they felt concerned about the supply of electricity because in the past they were not consulted.

Soinsa's secretary general, Mr Thami Skenjana, said business people were promised they would pay a flat rate when Eskom took over the supply of electricity in Soweto in April.

# Strong gains in industrials, financials

(180)

CT 25/9/92

JOHANNESBURG. — Index-linked industrial and financial blue chips posted strong gains in afternoon trade yesterday on what analysts said was "window-dressing" of portfolios by unit trust funds ahead of the month-end.

"Investors are still cautious about the overhang of potential violence which may result from the ANC's planned march on Kwazulu," a dealer said.

The industrial index rose 20 points to 4 181 to lift the overall index by 7 points to 3 190. The gold index fell 10 points to 907 as gold shares drifted lower on the back of the easier bullion price and recovery in the financial rand unit.

Analysts said the JSE market should remain firm until month-end, which marks the end of the September quarter for unit trusts and the year-end for one of the major institutions, Sanlam.

Features were shares in the Rembrandt, Gencor, Liberty, Pick'n Pay and Altron group of companies.

Remgro rose 50c to R27,50, Rembeheer was up 15c to R19,25 and TIB added 50c to R17. After good half-year results and news of a planned share split, retailer Pick'n Pay jumped R1,25, or 6,02% to R22 and parent Pikwik rose 50c to R10,25.

Banking group Absa was most active with 1 3631702 shares changing hands in two deals at an unchanged R9,75 price. Institutional sources said the buyer was Sanlam which has been taking advantage of the recent weakness in the Absa share price to accumulate the shares. Absa shares fell to a R7,40 low recently, before staging a strong recovery in active trade.

In the insurance sector, Libhold and Libvest posted strong gains, while M & F, SA Eagle and Santam were firm. Among industrials, Suncrush jumped R15 to R440 as the share approached its all-time R450 high.

Barlows attracted interest after a presentation to analysts on Wednesday on the group's prospects and its previously announced proposal to "unbundle" its mining arm, Rand Mines. The share added 75c to R51,25.

# Business sector optimistic

(180)

STAR 28/9/92

Staff Reporters

Organised business yesterday expressed the hope that the resumption of constitutional negotiations would have a positive impact on South Africa's embattled economy — particularly if the ANC were to rethink its mass action campaign.

South African Chamber of Business (Sacob) president Hennie Viljoen and Afrikaanse Handelsinstituut president Attie du Plessis were reacting to the successful summit between President de Klerk and ANC leader Nelson Mandela at the World Trade Centre outside Kempton Park on Saturday.

Mr Viljoen said the renewed commitment of the two leaders to reconciliation and negotiation was an important recognition of the deep concern expressed by the business community at the rising human and economic costs of the political logjam and violence that had persisted since the breakdown of Codesa 2.

Sacob urged the parties involved in the negotiations to bear in mind the "lessons of Codesa 2", as another serious setback would cause further and possibly irreversible damage to the economy and to investment.

Mr du Plessis said the summit — and particularly the ANC's promised rethink on mass action — would hopefully hasten the successful launch of a national economic forum. such a forum could play a key role in generating economic growth and job creation, which in turn would halt the socio-economic deterioration which had been fuelling political violence over the last two years.

He said the installation of a government of national unity, on which agreement was reached during the weekend summit, could exert a positive influence on the economic and business climate if such a government:

- Displayed an adequate regard for the interests and concerns of all substantial minorities.
- Made effective provision for the "regional character of our country".
- Acted effectively to visibly reduce crime and violence.
- Implemented sound economic policies which addressed the country's socio-economic inequities while simultaneously limiting the direct involvement of government.

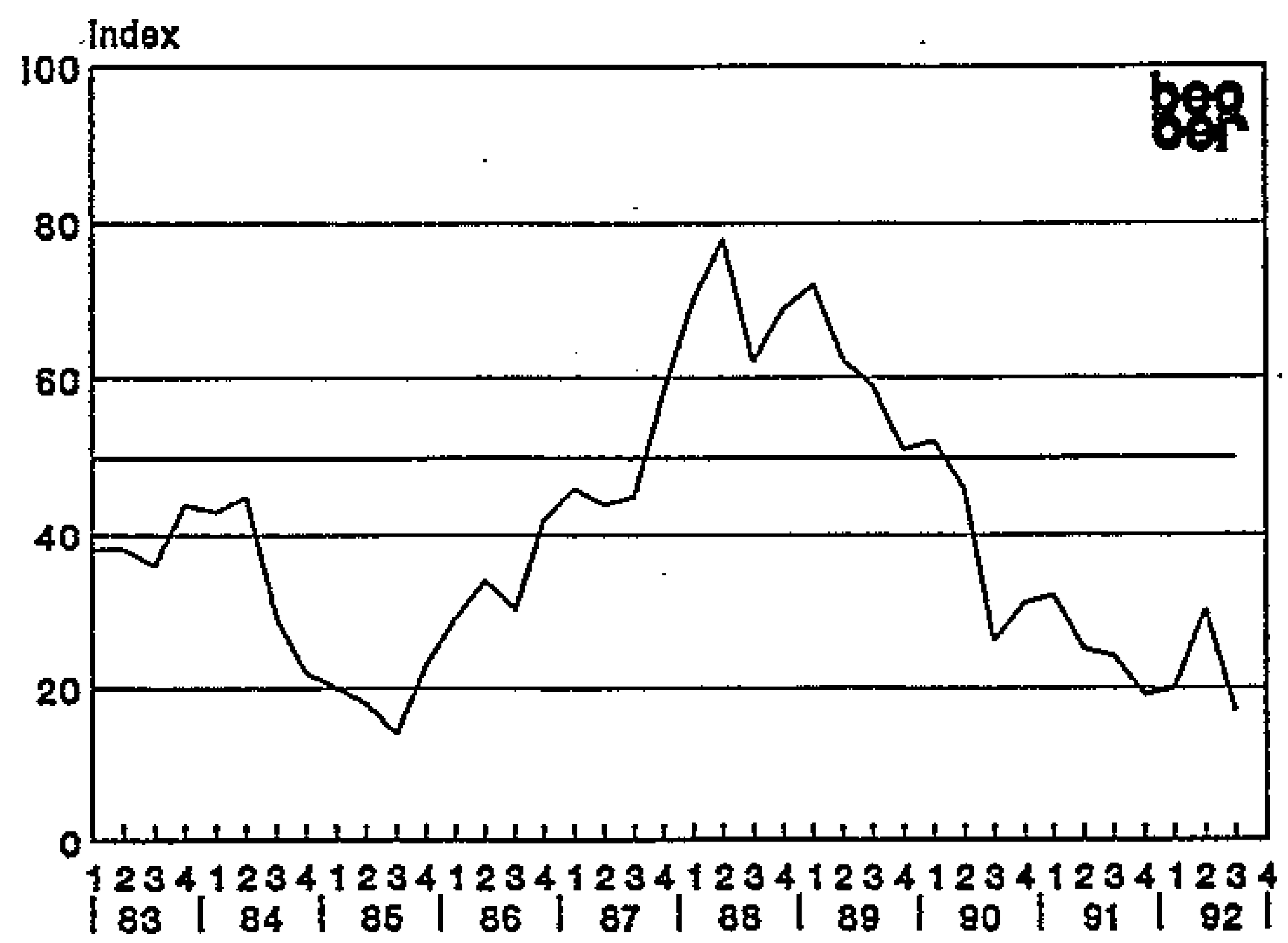
# Business confidence at post-Rubicon level

STAR 29/9/92.

(180)

By Magnus Heystek

MANUFACTURING BUSINESS CONFIDENCE
(Survey results)




Business confidence levels are back to where they were after then-President PW Botha's infamous Rubicon speech in 1985.

This is the main finding of the latest survey of confidence levels in the manufacturing sector conducted by the Bureau for Economic Research (BER) at the University of Stellenbosch.

A major culprit in this further decline has been recent political developments.

The main factor, however, still remains insufficient demand.

The business mood among South Africa's major manufacturers — the largest sector in the economy — unexpectedly turned negative in the third quarter of the year.

It was not only expectations that turned negative; so did actual sales, where a significant turnaround took place, mainly because of foreign sales that did not take place, while orders from abroad failed to materialise.

While the longer-term outlook for exports still remains positive, it is more subdued.

A disturbing factor is that the sales volume of food, normally immmune to a recession, continued a decline started in the last half of 1991, after a limited recovery in the first half of this year, says the BER.

The influence of the general political climate is judged to be the second most serious constraint on business activity, following very closely on the heels of insufficient demand.

All subsectors were affected by the deteriorating political climate.

It is also reported to be one of the most serious limiting factors against businessmen's ability to invest over the next twelve months.

Political uncertainty is increasingly hampering the economy.

But, as the BER points out, the economy runs the risk of being sucked into a downward spiral as economic conditions, in turn, have a negative impact on the political situation.

The BER survey confirms the trend highlighted by the Reserve Bank that fixed investment levels have dropped to new lows.

According to the BER's findings, the outlook for new investment over the next twelve months decreased in the third quarter.

In a previous survey, manufacturers expected fixed investment to increase, mainly to replace ageing machinery and equipment.

The confidence to continue with these plans seems to have been put on hold as a larger percentage of respondents reported a decline in new investments.

For the sector as a whole, inventory disinvestment is expected to take place over the next twelve months, while building and construction work is expected to be significantly lower, compared with current levels.

The deterioration in fixed investment, now also concerning the replacement of ageing machinery and equipment, can be ascribed to the impact of the deteriorating political climate and sharply weakening domestic demand.

The other constraints, namely cost of credit and the tax structure, are still judged to be less serious constraints on investment activity.

According to the BER, the current slump in real capital expenditure in the manufacturing industry should continue deep into 1993.

At the same time, manufacturing production will be under pressure until the need for inventory investment re-occurs.

To date there have been no signs of this happening.

# 'Prepare now for upturn'

(180)

CT 30/9/92

By AUDREY D'ANGELO
Business Editor

SA industrialists must prepare now to take advantage of the upturn expected at the end of this year or early next year, the Cape Chamber of Industries (CCI) executive council advises in the annual report.

It points out that although political agreement is the key to recovery business, too, must play a part in strengthening the economy.

The report, released yesterday in preparation for the AGM next month, coincided with one from the Stellenbosch Bureau for Economic Research (BER) on the manufacturing sector.

The BER report says that business conditions and confidence are now "on a level comparable to the third quarter of 1985, in the trough of the previous recession and the wake of the Rubicon speech".

The CCI report points out that the SA economy has shown remarkable resilience.

But it urges "all the players who take part in our political debate" to reach agreement as quickly as possible.

"Each day that passes without political advancement increases the persistence of violence and lessens the opportunity for the new SA to have the economy necessary for a happy, peaceful and successful country," it warns.

Discussing the harm mass action has done to the economy, it continues: "This year has seen an unprecedented number of foreign political and business visitors to SA, many of whom have seen the CCI in their investigation of future opportunities to invest or do business with this country.

"Indeed, if only a small percentage of those visiting us traded or invested in this country it would have a significant impact on local investor confidence.

"But, regrettably and understandably, the visitors want to see local confidence before they themselves consider entering this market.

"Confidence amongst local investors is, regrettably, at a very low ebb what with political impasse, economic stagnation and endemic violence amongst portions of our population.

"To correct these adverse features requires principally an input by politicians. But it also does include a recognition by business interests that they, too, have a part to play."

The hoped-for recovery by the major economies late this year or early next year "could spark off a healthy increase in demand for exports from SA."

But to benefit from this SA industrialists should "gear up to take advantage of demand increases before they arrive.

"Increases in overseas demands will quickly be followed by improved local demand."

This would create a situation likely to attract foreign investment.

# Manufacturing sector in slump

B/DM 30/9/92 (180)

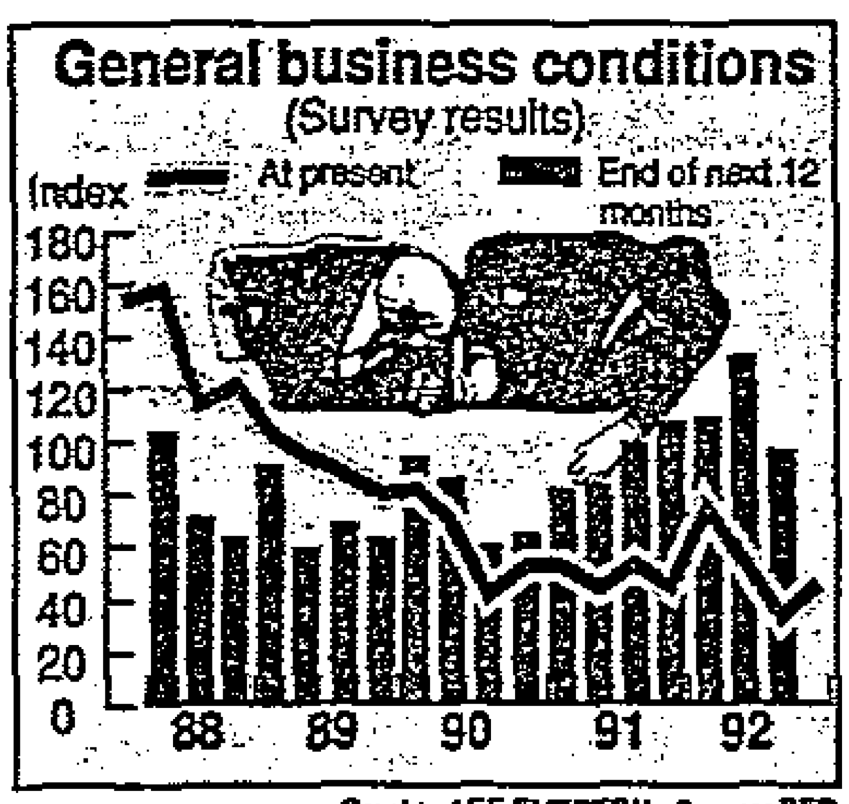
LINDA ENSOR

CAPE TOWN — Business conditions in the manufacturing sector worsened considerably during the third quarter as expectations of sales, orders and production volumes failed to materialise.

"Business conditions and confidence are on a level comparable to the third quarter of 1985 — in the trough of the previous recession and the wake of the Rubicon speech," Stellenbosch University's Bureau for Economic Research said in its manufacturing survey for the third quarter 1992.

"The assessment of general business conditions in the survey quarter is on a new low and negativism replaced previous optimism regarding expected conditions over the next 12 months. While positive net figures for business conditions were reported for the first two quarters, these turned negative in the third quarter."

Expectations were for further deterioration in domestic sales and orders in the fourth quarter, albeit at a slower pace, while unemployment for the fourth quarter was expected to increase at the same pace as previously.



Graphic: LEE EMERTON Source: BER

All the subsectors of the manufacturing industry reported lower levels of domestic sales and orders for the third quarter on a year-on-year basis.

"A disturbing factor is that the sales volumes of food, normally immune to recession, continued a decline started in the last half of 1991, after a limited recovery in the first half of this year. Expectations for orders, sales, and production are negative for the fourth quarter and beyond — the net balance reported for business expectations over the next 12 months changed from 36 to minus 24 in the food sector."

The textile leather and machinery subsectors increased production volumes to meet foreign demand. Otherwise, foreign sales and orders from abroad failed to materialise and expectations for the fourth quarter were more pessimistic. The longer term outlook for exports, while still positive, was more subdued.

The bureau said manufacturers estimated the rate of increase in both average labour and total cost per unit of production decreased in the third quarter, with the average rate of increase in the purchase price per unit of raw materials revealing an even sharper declining trend.

The current high level of stocks of raw materials and finished goods meant that continuing stock depletion would dampen production and employment even after demand rose.

Manufacturers cited the general political climate as the second most serious constraint on business activities in the third quarter after insufficient demand.

## Rains late, but don't panic yet

B/DM 30/9/92

GERALD REILLY

PRETORIA — The rains are late, but there is no need to panic yet, say agricultural economists.

The fragile agricultural economy, crippled by three successive drought years cannot afford another dry summer, they say.

The National Maize Producers' Organisation says if no significant rains fall in October there will be cause for concern.

The weather bureau says that, statistically, summer rains start in the first 10 days of October.

Nampo says the planting deadline in the eastern Transvaal, where about a third of the total crop is normally harvested, is the end of October. In the western Transvaal and northwestern Free State planting deadlines are later.

Meanwhile, co-ops are "frantically" processing farmers' applications for government production loans.

Nampo fears bottlenecks in the supply of seed, fertilizers and other materials could cause costly planting delays unless orders reach suppliers within the next three or four weeks.

Not only is last summer's drought costing SA R2,5bn in foreign exchange for grain imports but hundreds of farmers have been forced out of the industry despite receiving state aid.

Causing additional pain are the losses from grain exports in a "normal" year.

Thousands of farm workers have been laid off, causing an unprecedented crisis in rural economies.

The fertilizer and farm machinery industries, and other industries reliant on the agricultural sector, have also been hard hit.

# Businesses find refuge in the Cape

BIDAY 2/10/92

INDUSTRIALISTS are looking to the Cape as a city to conduct business under more normal conditions than elsewhere in SA, says Christie's Property Brokers' David Christie. (180)

"The Cape has been regarded as the poor relation of the Reef over the years but is now coming into its own. The western Cape workforce is less subject to intimidation than in other parts of the country, while businesses are not as critically affected by strikes and mass action," he says.

As a result, a number of businesses — ranging from one-man operations to major industrial groups — are looking to establish themselves or expand in the western Cape.

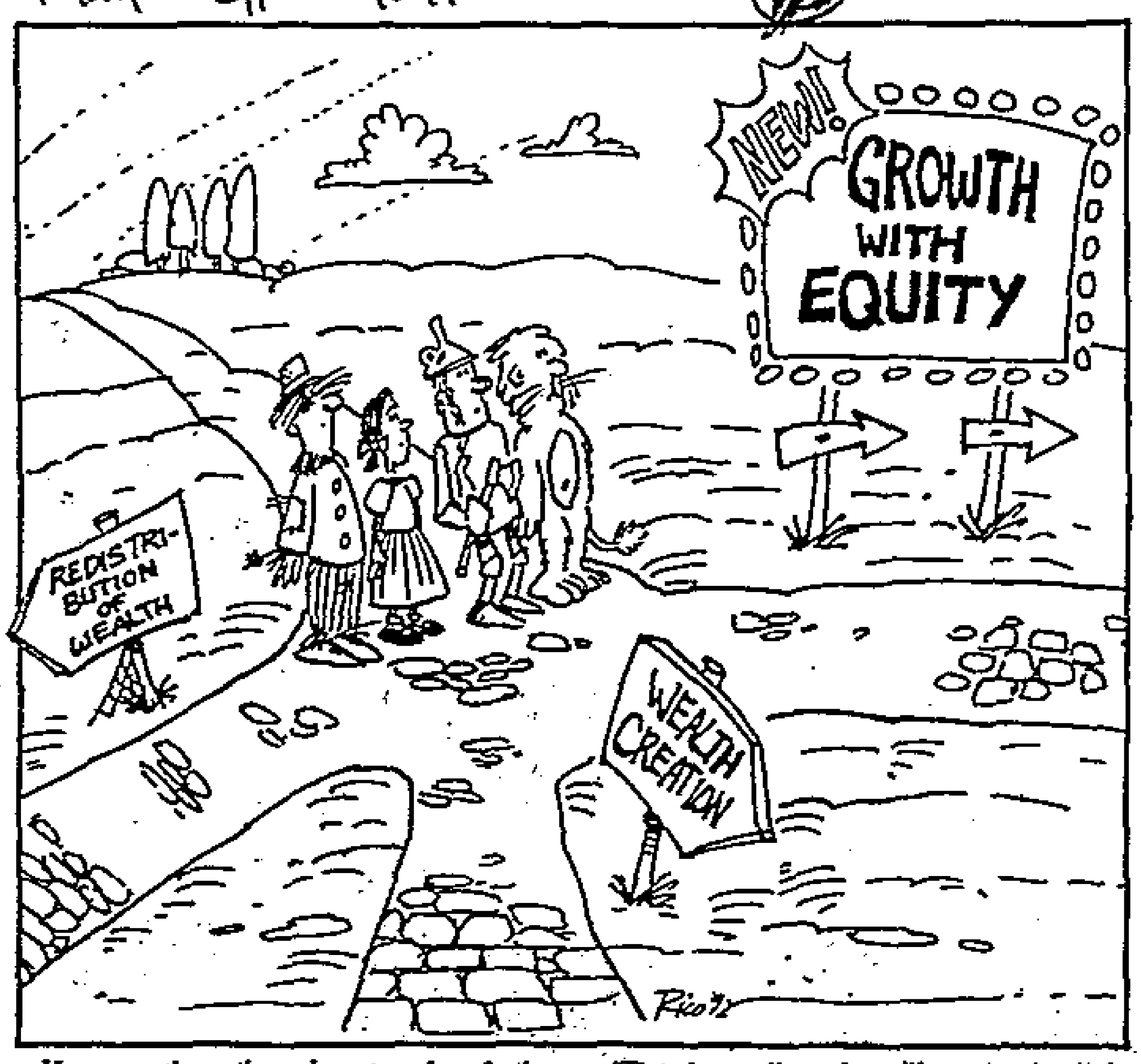
Another positive factor is industrial rentals in the Cape are below those of the Reef and Durban, with factories of $500m^2$ or less to be found for $R10/m^2$ and larger units in good areas, such as Epping, at $R6,50/m^2$, he says.

**BUSINESS**

# Third path to achieve equity in SA

W/Mail 2/10 - 8/10/92

*'Growth with equity' sounds snappy and seems appealing. It glosses over conflicts of vested interests, but is a starting point, reports* **REG RUMNEY**




ECONOMIC growth, social equity and democracy can be compatible in South Africa and are indeed interdependent, suggests a group of middle-of-the-road Stellenbosch economists.

In an occasional paper on economic policy put out by the Stellenbosch Economic Project, professors Servaas van der Berg, Colin McCarthy, Ben Smit and Sampie Terreblanche add to the lexicon of South African economic slogans, suggesting "growth with equity", as a future economic policy is not only possible but advisable.

Their focus is the familiar theme of balancing the demand of redressing apartheid's wrongs through redistribution and ensuring economic growth to achieve prosperity and make this sustainable.

The paper's contention is that an emphasis on investment in human capital and the targeting of the disadvantaged will stimulate growth as well as enhance equity.

Another measure, the authors believe, which will serve the demands of both equity and growth is the removal of discriminatory access to resources.

"The market mechanism can function optimally only if access to capital, land and jobs is not constrained by discriminatory measures. An important issue in this regard is the concentrated nature of ownership in the business sector; the question that needs to be addressed is whether market and ownership structures in South Africa form obstacles in access to resources."

However, the authors do not explore further whether South Africa's concentration of ownership is actually a problem or what to do about.

They go on to point out social security and transfer systems need to be equalised. Because of the high unemployment rate (an estimated 40 percent of the workforce is not employed in the formal sector) a case can be made for special employment programmes.

"But above all, equity will require that linkages be developed between the process of political empowerment and social equity, that is, equity must exist in the channels of communication or expression that give rise to the allocation and use of resources."

Much of what is argued is not, on the surface, particularly contentious. Few observers seriously doubt sustained high growth rates, well above the 2,3 percent population growth rate, are necessary to tackle poverty and unemployment.

Except for the far left, the need for macro-economic stability, including a stable currency, increased access to foreign markets, growing productivity, increased investment, an enhanced saving performance and an inflow of foreign capital will be broadly acceptable.

It remains to be seen how a future government will deal with the need for labour productivity or institute an entrepreneurial, market economy as a way of ensuring efficiency and competitiveness.

Many whites realise that some form of redistribution is on the way. The debate has been over how it can and should be done. The authors plump for restructuring of government spending rather than raising taxes, though this does imply trade-offs between growth and equity.

Van der Berg rejects substantial increases in tax, along with nationalisation as a means of state intervention to achieve equity. Consensus is that a better route is spending more on social programmes and redirecting spending towards the poor.

The present inequalities in social spending mean blacks get some R11-billion less in social services than their population share warrants. "If these inequalities in expenditure are eliminated during the next decade the total effect on black secondary incomes could indeed be enormous.

"Admittedly there would be white opposition to reducing expenditures for their benefit, but racial discrimination in social expenditures is clearly unjust and cannot continue in a democratic dispensation."

Surely the implication of such redirection of social spending is equivalent to an increase in taxes for whites?

Other hints of some of the conflicts any future government will face in shaping its economic policy show through the optimistic gloss of the paper.

South Africa, it is argued needs a competitive market economy, integrated into the world economy. This in turn requires a lowering of tariff barriers and other protection. The General Agreement on Trade and Tariffs almost certainly will require a lowering of present tariff barriers.

It is noted that caution will have to be exercised in lowering these barriers, because of the high levels of unemployment in our society.

More likely there will be strong union and labour resistance to such change. Recently one local television manufacturer threatened to close down local production of TV sets completely because of the reduction of protection against cheap imports, implying that jobs would be lost as a result.

Nonetheless, the paper is an attempt to find a third way through the "growth through redistribution", "redistribution through growth" debate and bring us closer to the practical issues.

Van der Berg, for instance, notes reshaped social spending should:

●Contribute, as far as possible, to providing long-term assets and raising the long-term growth potential of the economy.

●Be visibly just to achieve the legitimacy of a new political dispensation.

●Go only on programmes where there is a demonstrable capacity to absorb it productively.

## 'Education isn't top priority'

W/Mail 2/10 - 8/10/92

ANY future increase in social spending as a means of redistribution should not focus on education, despite the skills shortage and the legacy of apartheid education, argues Professor Servaas van der Bergh.

Van der Berg contends in an appendix to the Stellenbosch Economic Project's occasional paper that it takes a long time before the benefits of education are felt. Also, there may be capacity constraints on expanding education at the required rate (such as shortages of teachers and a deficient educational administration).

"Until these problems have been overcome, it may pay better dividends to increase expenditure on housing, special employment programmes, and perhaps nutritional interventions (for example special feeding programmes), if the administration of this appears feasible.

"Expansion of the pension system may have beneficial short-term impacts in that it is one of the few programmes that reaches the rural poor, but against this should be noted that such expenditure is mainly consumption."

### BUSINESS BAROMETER

**Inflation down slightly in August**

INFLATION, as measured by the Consumer Price Index, slowed to 14,3 percent year on year in August. This is down slightly from July's 14,6 percent. Food price inflation came off its July high of 30,4 percent year on year, but was still high at 28,5 percent. W/Mail 2/10 - 8/10/92

A breakdown of food price inflation at larger chain stores and at smaller food outlets, supplied for the first time by the Central Statistical Services, showed the supermarkets only did marginally better at keeping prices in check. The breakdown, over three months, showed food price inflation since at May chain stores was 5 percent, against 6,3 percent at smaller stores.

**Standard sees modest growth in 1993**

AFTER three years of decline a tentative upturn in the economy can be expected next year, says the economics division of Standard Bank. But the 2 percent growth in the real, ie adjusted for inflation, gross domestic product will merely take the economy back to where it was in 1989.

The key to the projected turnaround is a normal harvest next year, along with a moderate build-up in inventory levels once companies expect better business conditions domestically and in the world. W/Mail 2/10 - 8/10/92

**Back to the Rubicon**

BUSINESS conditions and confidence are on a level comparable to the trough of the previous recession in the third quarter of 1985, after PW Botha's famous Rubicon speech, according to the Stellenbosch Bureau for Economic Research.

The BER reports in its survey of the manufacturing sector that general business conditions deteriorated considerably in the third quarter of this year, and expectations for the next 12 months became negative. W/Mail 2/10 - 8/10/92.

# Guide to beating the recession

South 3/10 - 7/10/92 (180)

ONE OF the biggest headaches facing businesses of all shapes and sizes is coping with the seemingly never-ending recession.

The founder and chief executive of the Progro Consultancy Group, Mr John Hendrickse, says business people need to "recognise that there will always be economic or business cycles, with good and bad times, upswings and recessions. This means you have to plan your business to cope with both situations."

For example, a marginal business that just survives in boom times will surely fall in the doom times — so how do you ensure you have a recession-proof business?

Hendrickse says most battling businesses blame the recession for their struggling business.

"But what's really happening is that the economy is reflecting the quality of collective business performance. The question is: Are you part of the problem or part of the solution?

"The solution does not lie in miracles or areas outside one's control. It lies in basic business common sense."

Hendrikse has developed a seven-point action plan to help businesses deal with the recession:

### 1. Focus on your core business:

Concentrate on the areas you know best and develop unique features and benefits. Get your whole organisation fully committed to your core business:

### 2. Start a customer care service:

Look after existing clients and customers. Don't neglect captured business at the expense of new customers. Get "close to your customers", especially with after-sales contact. Improve your communication programme with existing clients.

### 3. Get a commitment from all your employees:

Encourage staff to put an extra bit of effort into everything they do. This will be seen in customer service, productivity and quality of performance. But it starts with inspired leadership — an example at the top that filters through the organisation. Give the team a firm goal, such as service for survival and success.

### 4. Control your information:

You need to know daily, as well as monthly, how your business is performing in all key result areas.

You need to have an overview or "bird's-eye" view of your business in three areas:

- Am I getting richer or poorer?
- Am I making profits or losses?
- Is my working capital improving or deteriorating?

Once you have achieved that, you need to have a "mole's-eye" view of the following:

- What products/services/divisions are contributing to profits?
- How is my actual performance against budget?
- Which assets are under-performing or are idle?
- Which employees are ineffective and not achieving output targets?

### 5. Control your costs:

Every cost centre and cost element needs to be evaluated in terms of its contribution to profits. It is easier to reduce overheads than to increase prices or sales in recessionary times. Be ruthless about unnecessary waste and wasted costs. Fight for better trade prices, trade discounts and cash discounts.

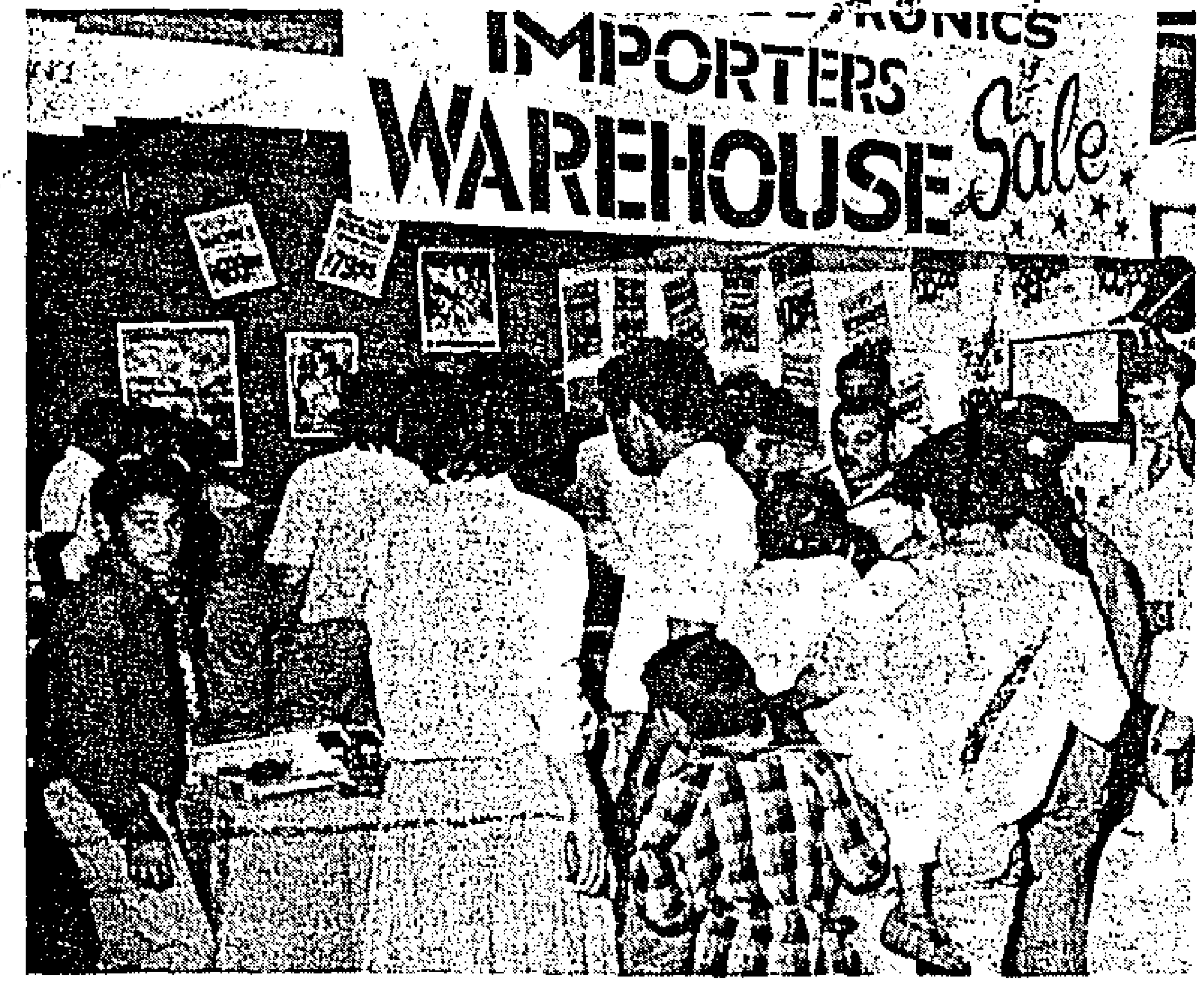
### 6. Control your cash:

Start running your business on a cash basis. This involves the following practical steps:

- Determine your monthly cash overheads and commitments.
- Determine your monthly cash break-even sale level.
- Prepare a monthly cash flow forecast at the beginning of the month.
- Prepare a monthly cash flow statement at the end of the month (actual versus forecast).
- Be tough on overdue accounts. Take personal control over credit granted and collections of debtors due and overdue.

### 7. Start managing yourself:

Survival and success begins with the boss. How effective are you? When last did you evaluate your business, the organisation and its resources? Now is the time to tackle the problems head-on, not just the fragmented symptoms.




CUSTOMERS: 'Don't neglect old customers for new ones'

# Call for tax breaks

South 3/10-7/10/92.

ENTREPRENEURS are the unsung "heroes" of our economy and need more state support and better tax breaks, according to Dr Ben Vosloo, managing director of the Small Business Development Corporation.

He said Small Business Week 1992 would focus attention on the key role of entrepreneurial activity in small and medium-sized enterprise (SME). This role was the cost-effective creation of jobs and spreading of wealth.

SMEs had played a prominent role in the "impressive economic performance" of certain countries in South East Asia and the West. This had caught the attention of business leaders, policy makers and academic analysts in many countries, he said.

"Many governments have tried to encourage the development of SMEs in their countries with both indirect and direct assistance measures — such as tax incentive schemes," said Vosloo.

(180)

He explained that SMEs in South Africa paid tax at a marginal rate of 48 percent. But similar enterprises in Britain paid 25 percent on profits of up to R1,25 million.

"So in South Africa, a developing country, we have the absurd situation in which our SMEs pay tax at more than double the level of our counterparts in a developed country.

"Given that it is now common knowledge that the impetus for wealth and job creation has shifted from big business to SMEs, it is essential that government abandons its bias in favour of large businesses," he said.

"A more prosperous South Africa cannot be built by focusing supportive initiatives almost exclusively on the big business sector."

Lynda Loxton

# Finrand slumps

S[unday] Times [Buss]
4/10/92.

**Business Times Reporter**

A FLURRY of possible foreign acquisitions appears to have been behind this week's panic selling of the financial rand. (180)

A deal — thought to be worth more than R2-billion — which would give Anglo American and Royal Food a controlling stake in Del Monte Europe is likely, say dealers, accounting for the 34-point drop in the finrand rate to R4,42 in a few hours of trading on Thursday.

The currency crisis in Europe was manna for investors trying to settle payments for foreign acquisitions in sterling.

The sterling-finrand cross-rate strengthened from about R8 to R6,85 after sterling's departure from the exchange rate mechanism of the European monetary system, but fell to R7,47 on Friday.

Royal, which listed in 1991, bought SA Preserving Company (Sapco) from Del Monte Foods International for R113-million and the Fedbisco business from Fedfoods.

More recently it acquired Donald Cook's, Utico's Fresh Up division and the distribution rights for Mars products.

# Third quarter a business disaster

(180) S/Times [Buss] 4/10/92

**Business Times Reporters**

PETER CAMPBELL: The froth went out of beer sales in August — down by double-digit figures

EARLY signals from business suggest that the third quarter was even worse than expected, consumer spending slowing further.

There are now fears that even a cut in interest rates will not be enough to revive consumer spending and stimulate economic growth.

The slowdown in sales reported by manufacturers and retailers for the three months to the end of September point to further falls in VAT and corporate tax collections, exacerbating the Government's revenue crisis.

Key indicators of how consumers spend their rand — from beer to household goods, cars and houses — point to a deepening of the recession. What little buying there was in the quarter was a result of cut-price marketing, sales of essential goods and people buying down.

## Tourism

Adding to consumer gloom was the R60-billion drop in share market capitalisation.

Tourism remained subdued, the secondary effects of the drought continued to bite and political uncertainties reduced investor confidence.

Even SA's export growth slowed in the wake of sluggish world economic conditions. Exporters' confidence took a knock in the quarter.

Strikes increased rapidly after a slow start to the year.

This, together with mass action and the loss of consumer confidence, contributed to expectations of a 6,5% year-on-year fall in real retail sales.

Beer sales, a solid barometer of consumer spending, have slumped. SA Breweries is unable to give a breakdown of sales for the past quarter because it is preparing its interim results. Suppliers to the beer division say the position is serious.

Peter Campbell, deputy chairman of Nampak, which supplies cans to SA Breweries, says beer sales fell by "double-digit" figures in August.

Hennie Roos, managing director of Consol's glass division, says beer sales could be down by 0,2% to 0,3% on last year.

Another major indicator of consumer spending is the car market. In the quarter to September, sales of new cars are expected to reach 46 500. Light-commercial vehicle (LCV) sales are likely to be about 23 000.

In the same quarter last year, 49 477 cars and 24 244 LCVs were sold.

The Bureau for Economic Research (BER) report on manufacturing says general business conditions deteriorated considerably in the third quarter and were "worse than expected".

All sub-sectors reported lower domestic sales. Optimistic expectations for export sales and orders failed to materialise.

A BER survey of the building sector found that all, except for quantity surveyors, experienced a third quarter worse than the second.

The effects of poor SA and world economic conditions were felt in the equity market.

De Beers' spectacular decline was one of the biggest influences on the JSE overall index's 12% loss in the September quarter.

The diamond index shed more than 40% after De Beers said its dividend might be cut.

The all-gold index lost 17% to 902 points — dipping through a six-year low — even though gold was little changed above $340/oz.

## Lag

The industrial index eased 7% and the financial one was little changed.

Insurance and transport both added 10%. Pharmaceutical and tobacco also gained. The Dow industrial index came off 2%.

Fund managers are bearish about the outlook for the JSE and expect company results to be disappointing in the coming months.

With little hope held for a Christmas bonanza, retailers and manufacturers do not expect an improvement in trading conditions in the fourth quarter.

Most economists do not foresee much of a bottoming out of the economy in the quarter.

They believe an interest-rate cut would ease the pain in certain areas of the economy. But Old Mutual chief

● To Page 3

## Disaster

● From Page 1

economist David Mohr warns that there is usually a time lag before an improvement is felt in the economy. (180)

Given the general uncertainty in SA, there could be a longer time lag before the effects are felt. S/Times

Economists say tangible improvements in the poltical arena will also take time to filter through. The establishment of an interim government, for example, might be clouded with its own uncertainties, they say. (Buss) 4/10/92

# Politics upsets economic recovery

Citizen 4/10/92 (180)

WITH SA deeply in the throes of a recession, experts have painted a gloomy picture on the short and long-term economic recovery.

It is now that the small business industry must become self-sufficient and create jobs.

Findings of a survey released this week by the University of Stellenbosch Bureau for Economic Research has found that the sales volume of food, normally immune to recession, continued to drop – a motion which began in the last half quarter of 1991.

Expectations for (food) orders, sales and production are negative for the fourth quarter and beyond. The net balance reported for business expectations over the next 12 months changed from 36 to minus 24 in the food sector.

Apart from the textile sector which reported a more or less neutral outlook, expectations in all the sectors are that the domestic sales and orders will deteriorate further.

Recent political developments contributed to the deteriorating assessment of conditions in the manufacturing industry. The influence of the general political climate was judged as the second most serious constraint on business activities in the third quarter.

Political uncertainty increasingly hampers the economy, while the result of a current survey confirms a dangerous downward spiral as economic conditions in turn have a negative impact on the political situation.

However, the Small Business Development Corporation has arranged a one-day workshop for small business enterprises on "How to survive and prosper in difficult times."

The workshop which will be held in Johannesburg, will be addressed by, among others, SBDC managing director Ben Vosloo, Business Challenge MD Phil Khumalo, Peter Feinbaerg of Top Achiever and Jeff van Rooyen of the Wits Business School.

# Business quitting CBD for suburbs

(180)

S Times (BUSS) 4/10/92

By TERRY BETTY

BUSINESSES are turning their backs on the Johannesburg city centre in favour of the northern suburbs.

Large tenants to leave the central business district include Rand Mines, Price Waterhouse Meyernel, Sechold, Radio 702, JH Isaacs and Deloitte & Touche.

ISM is building headquarters in Sandton and Times Media (TML) is said to be moving to Rosebank.

TML managing director David Kovarsky says the company hopes to move to a low-slung building either in the CBD or the suburbs.

A decision will be taken within six months of evaluating sites and taking transport into account.

The CBD exodus is exacerbated by companies following clients. Property brokers expect Rand Mines' move from the CBD to be followed by some of its suppliers.

## Surplus

Most moves are made because of the lack of security, the high crime rate and parking shortages. People also prefer working in tree-lined suburbs where they can walk around at lunch time and open windows for fresh air.

Property economist Neville Berkowitz sees the exodus continuing for at least another 10 years.

"But this will not kill the city, it will merely change its profile as it becomes the commercial hub of sub-Saharan Africa."

The CBD east of the Carlton Centre has a surplus of disused C and D grade office space that is put to residential use.

Mr Berkowitz says: "If you drive past the warehouses and office blocks in the eastern area at night, you can see light through the blankets and cardboard covering the windows."

He says urbanisation is bringing about 250 000 people to Johannesburg a year.

"This is benefiting the retail sector of Johannesburg, especially those near the major taxi ranks."

Mr Berkowitz says this trend will heighten office workers' sense of insecurity.

He sees black businesses as well as companies and trade missions from countries north of SA using the vacated office space.

He stresses that this is not negative for the CBD.

Central Johannesburg Partnership (CJP) has launched a project to stop the exodus and return Johannesburg to its former prominence. It also aims to alter negative views about the city.

CJP is financed by about 16 institutions with a vested interest in the CBD.

Executive director Neil Fraser says CJP has brought in 600 policemen and intends to recruit more. It will upgrade and convert disused space, especially that on the eastern side, into residential accommodation.

Mr Fraser says a financing scheme is being devised to help give people ownership of their apartments. Once people have a vested interest in their area, they will not allow standards to decline.

"Informal traders will become more formalised because they will be provided with space and ablution facilities."

Green spaces, mini-markets and areas for relaxation will improve the CBD.

Mr Fraser says there is much development in the wings. He is optimistic that Johannesburg will soon be safe, user-friendly and lively.

Anglo American Property Services (Ampros) managing director Gerald Leissner says CJP is not a long-term "talk shop". It has buckled down and started introducing changes.

Anglo American is probably the biggest landowner in the city. Ampros has restricted its investment to CBDs, Johannesburg commanding the lion's share of its portfolio.

Most companies with property in the CBD are optimistic about its future. However, developers do not seem as confident.

## Value

A perusal of Rode's New Office Developments in SA shows six projects under way in Johannesburg and 29 in Sandton.

Eleven developments have been proposed for Johannesburg, 24 for Randburg and 32 for Sandton.

But a property broker says this is not a true reflection of the position. He says the size and value of First National Bank's Bank City and the Standard Bank Centre are greater than any development in a decentralised area.

Real Estate Surveys property economist Erwin Rode believes the attempts to keep business in the CBD are a decade too late.

He compares it with the "finger in the dyke".

"It is a worldwide phenomenon that business will move to the areas where the executives and decision makers live."

GERALD LEISSNER: Buckling down to giving city a better image

# Trade not aid the key to economic upliftment

S/Times (BUSS) 4/10/92. (180)


By JÜRGEN W MÖLLEMANN
Federal Minister of Economics, Bonn


WHEN I visited South Africa last February — for the first time in 18 years — I was fascinated by the possibilities that have recently emerged for the country.

A land richly blessed by nature, with a first-class infrastructure of transport routes, ports, and energy systems, now has the opportunity to escape from the blind alley of apartheid and can shape its future in a positive manner by peaceful transition to a democratic system, embracing all parts of the population.

I naturally also saw the contrasts that still exist and that put the black majority on the minus side of the economic and social ledger.

Without the construction of more schools and training facilities, without social programmes, the country will not be able to move forward; those who have thus far been disadvantaged must be able to feel the progress, to see that a new start is being made.

## Upswing

With our experience in the Federal Republic's new states, we Germans can attest to the fact that it is of pre-eminent importance for economic growth and for meeting the needs of the population, that business and industry invest and create jobs.

This is missing in South Africa. In my opinion, it has been absent too long.

Not only foreign companies, but even SA's own business sector are showing reserve in the light of the uncertainties connected with political transformation.

Without investment, however, there can be no upswing. Nor does the State have the funds to finance infrastructure, housing construction and other social programmes.

The political forces in SA are therefore faced with the task of putting the uncertainties of the transitional period to an end as soon as possible for the sake of the population and of laying the roadbed for a predictable path into the future.

If the difficult undertaking of placing SA's market economy (a system that benefits all) on the track of growth succeeds, Southern Africa will also have the hope of climbing out of the continued slump.

At any rate, the neighbours would not only have the example of SA success but they would have the opportunity to intensify the regional trade in goods and services, in particular with a South Africa relatively strong in terms of capital and buying power and with industrial experience.

The region as a whole, including the states beyond SA's borders, would become an interesting economic partner for Europe.

On the basis of the standards it has already achieved, SA would doubtlessly be the development pole from which and with which Europe would have considerably better operational possibilities for fighting poverty throughout Southern Africa.

Against the background of decades of Western development assistance in Africa that has shown relatively meagre results, "trade, not aid" continues to be the principle showing the greatest promise.

I am certain and will work hard to ensure that as soon as a legitimised transitional government is in office, the European Community will extend its hand, offering a regional partnership similar to the partnerships already established with other economic regions in Asia and Central America.

The South African Development Community, supplemented by a new South Africa — and perhaps by additional responsibilities after unification with the Preferential Trade Area — could serve as the southern bridgehead.

Such a framework would have the priority task of promoting the private foreign investment that is so urgently needed in Southern Africa.

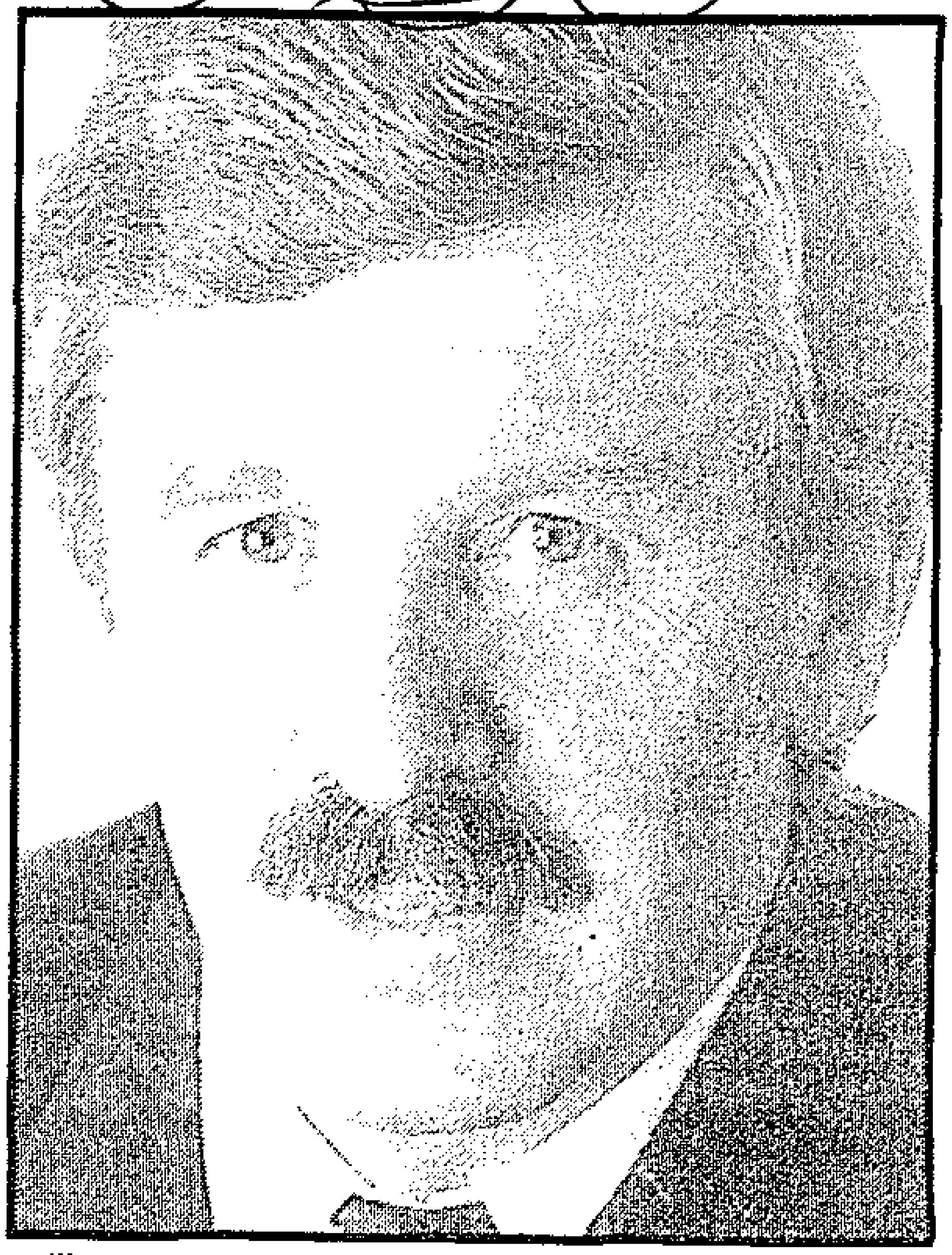
## Lively

SA boasts an important position as world trading partner. This role must be sustained and developed. Germany is a good customer: in 1991 it imported goods worth Dm3,2-billion, 10% more than in 1990.

With the goal of further increasing exports to Germany — for years a surplus item in bilateral trade with a level of Dm1,5-billion in 1991 — the Federal Ministry of Economics held export promotion seminars for small businessmen, particularly black entrepreneurs, this past September in Johannesburg, Durban, and Cape Town.

The lively participation at these seminars allows us to hope that they will generate business.

In general, it is to be expected that SA, as dictated by circumstances, will try to boost its export of finished goods and will rely less on the export of commodities that have previously accounted for a substantial portion of German purchases.



JÜRGEN W MÖLLEMANN: No upswing without investment

We know, for example, that some companies producing high-grade steel are taking steps to expand capacitiy considerably and to manufacture car parts for export, in particular catalytic converters.

As it moves into the finished goods sector, however, SA will see itself increasingly confronted with the demand to play according to the same rules as its international competitors.

It must therefore lower the high levies on imports and eliminate export assistance. This is ultimately in line with the country's own interests, for behind the high walls of protection, industries lose the ability to compete.

In addition, assistance is expensive.

The strong German-SA trade relationship is supported by a large number of German companies that have invested in SA.

More than 300 companies — besides nearly all of the well-known large firms, also a number of small and medium businesses — have become involved in the SA market. These and other companies are willing to expand their stakes in the country — or to invest for the first time if peace comes to SA and if the country practises an economic policy pointing to the future and containing the basic lines of the market economy.

# AVI makes it seven in a row

(180)

STAR 5/10/92

Finance Staff

Anglovaal Industries' (AVI) earnings for the 12 months to June improved for the seventh consecutive year to a record R270,6 million, compared with R234,1 million in the previous financial year and the company expects a further rise in the current year.

Chairman Basil Hersov says that the past year's earnings were achieved despite difficult trading conditions, especially in the second half.

He says: "Although the earnings improvement forecast in my chairman's statement a year ago has been achieved, it was not to the extent that was originally envisaged.

"At that time there were hopeful signs of an economic revival, but trading conditions have worsened, principally as a result of the serious drought and the ongoing civil unrest which continues to fuel political uncertainty and retard investment decisions.

"Consumer spending power has been eroded by continuing high interest rates, inflation and levels of corporate and personal taxes."

Basil Hersov ... trading conditions have worsened

Turnover rose 8 percent to almost R8 billion (1991: R7,4 billion), but reduced margins in many of the markets served by AVI companies caused a fall in the operating profit.

However, net financing costs improved to R20,9 million received (R43,2 million paid), mainly because of interest earned on short-term cash investments of the net R547,3 million proceeds of the rights issues undertaken by AVI and subsidiaries, Consol and Irvin & Johnson, as well as on the proceeds from the sale of National Brands' Cadbury Schweppes share interest.

Despite the improvement in net financing costs, pre-tax profit was virtually unchanged, mainly because of the poor performance of Grinaker Holdings and, to a lesser degree, some divisions in the Avtex textile group.

The effective tax rate was slightly lower, but associated companies' earnings rose sharply, largely as a result of the purchase of a 25 percent interest in Anglo-Alpha.

After deducting minority interests — 16 percent lower at R134,4 million (R159,2 million), principally attributable to a substantially reduced contribution by Grinaker — earnings rose to R270,6 million (R234,1 million).

# Offshore investment showing an increase

STAR 5/10/92

By Leigh Hassall [redacted] (180)

Calendar 1991 saw substantial reshuffling and refocusing by some major business groups, indicating a trend away from a philosophy of diversification.

This pattern emerges from an analysis of the 226 publicly announced merger transactions of 1991. From an analysis of the transactions, accountants Ernst & Young identify a number of interesting trends and statistics as reported in their booklet, "Merger and Acquisition Review."

SA's increasing political acceptability is reflected in an upsurge of overseas investments made by local companies.

Outward investment represented a significant 18 percent (R2,3 billion) of the total value of those transactions disclosing a purchase price. The largest deals were Liberty Life's R1,6 billion investment in Transatlantic Holdings and Sun Life, and Minorco's buy of Elkebies GmbH Muhl-Prettin from the German government for R292 million.

Investment in SA did not fare so well, despite a record number of inquiries from abroad.

Eleven transactions (4,4 percent) were identified where the investor was a foreign party. The total purchase consideration of the six transactions disclosing figures was a meagre R46 million.

The industrial holdings sector dominated acquisition activity, accounting for 19 percent of the total disclosed transaction value.

Ernst & Young says that only seven transactions were management buy-outs, none of them involving a foreign seller. This represents a reversal from previous years' buyouts, which were largely driven by foreign disinvestment.

On average, buyers paid a premium of 14 percent above the target company's share price as quoted on the JSE a week before the first cautionary announcement was made.

Buyers also paid substantially higher prices for their acquisitions. The average premium to the target company's net asset value was 68 percent. However, the purchase premium ranged from a whopping 530 percent in one transaction to a discount of 94 percent in another.

# AVI hopes for return of business confidence

6/10/92 (180)

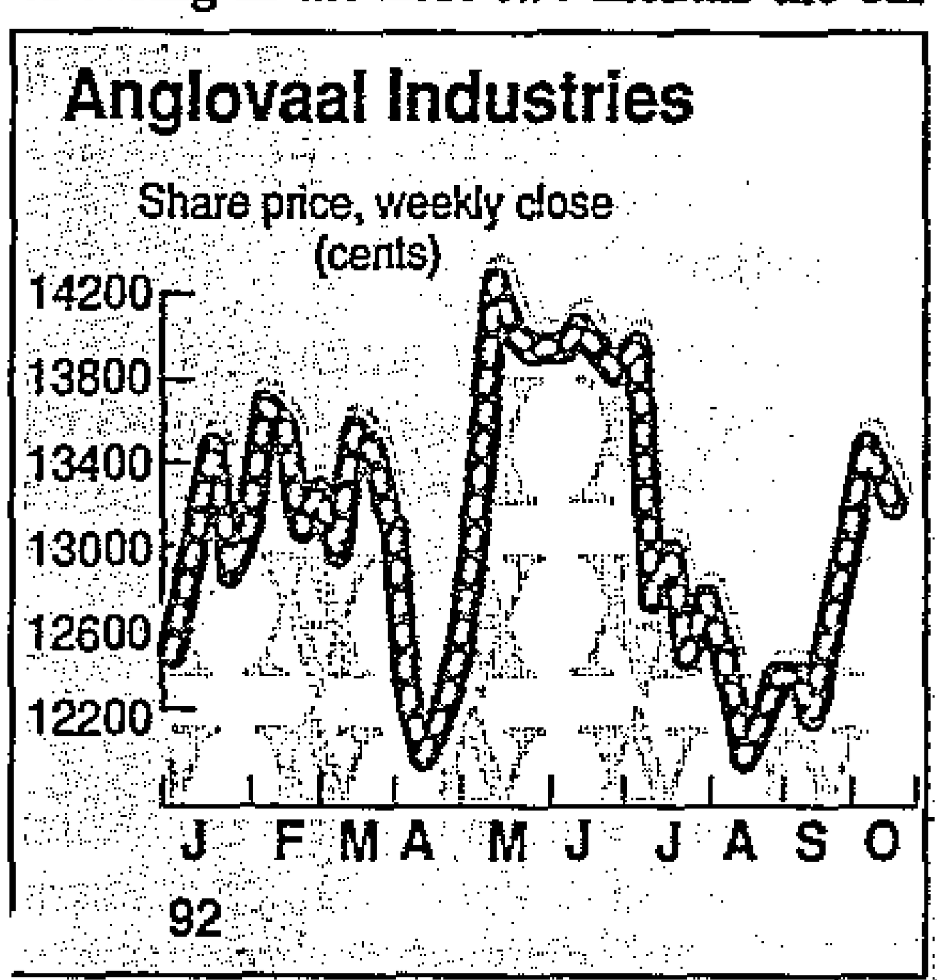
**EDWARD WEST**

ANGLOVAAL Industries (AVI) forecast earnings would increase for the eighth consecutive year, chairman Basil Hersov said in his latest annual review.

However, the extent of the earnings increase would be dependent on a mild improvement in trading conditions and a return of business confidence, the latter being largely dependent on the early recommencement of the constitutional negotiation process, Hersov said.

The past year's earnings forecasts were achieved, but not to the extent originally envisaged. "At that time there were signs of an economic revival, but trading conditions have worsened, principally as a result of the drought and continuing civil unrest," he said.

Consumer spending power — many of the group's markets were consumer driven — had been eroded by high interest rates, inflation and levels of corporate and personal taxes. The recession showed no sign of easing in the first two months the current financial year to end-June 1993.




Graphic: LEE EMERTON Source: I-NET

Although the easing of sanctions was pleasing, SA offered little incentive for foreign investors. The situation was worsened by high interest rates, inflation, company taxation, violence and labour unrest.

AVI's involvement in export and international trade was not significant, but opportunities would continue to be investigated, Hersov said.

AVI subsidiary Consol, which made the largest contribution to group earnings, reported a lower than expected earnings increase in the past year, but was well placed to respond positively to an improvement in the economy, he said.

Improved results by the engineering activities of AVI Diversified Holdings in the past year were offset by a reduced contribution from textiles.

Grinaker also performed unsatisfactorily and contributed a loss to the AVI Group. I & J performed well and planned a major capital expenditure programme to meet the demands of an upturn.

National Brands, which increased earnings 18% in the past year, should show strong earnings growth, particularly in an improved business enviroment.

Anglo Alpha, in which AVI acquired a 25% stake for R320m in January 1992, contributed R8,7m to earnings in the six months to end-June 1992. Hersov said although AVI's earnings were expected to increase marginally as a result of the acquisition, the quality of these earnings would improve.

AVI's attributable earnings increased to R270,6m in the year to end-June 1992, compared with R234,1m in the previous year.

# Chamber calls for interest rates cut

BDay 6/10/92 (180)

GERALD REILLY

PRETORIA — A further drop in interest rates is essential for business confidence and will breathe life into the economy, says the Northern Transvaal Chamber of Industries.

In its Economic Focus, the chamber said an interest rate drop was appropriate against the background of a continuing economic downswing now in its fourth year, weak demand for credit, and the prospect of declining inflation.

Chamber executive director John Toerien said a drop in interest rates could not be interpreted as a deviation from the Reserve Bank's policy of strict financial discipline.

Neither would a drop trigger a greater demand for credit, Toerien argued.

He said fixed investment would not recover overnight and private consumption expenditure in real terms was negative for the first time since 1985.

Toerien stressed lower interest rates would halt the decline in business confidence, which was at its lowest ebb for 16 years.

Cheaper money would also improve the cash flow of financially highly geared companies.

A relaxation in monetary policy could not guarantee growth, but it could give a lift to flagging business confidence, Toerien said.

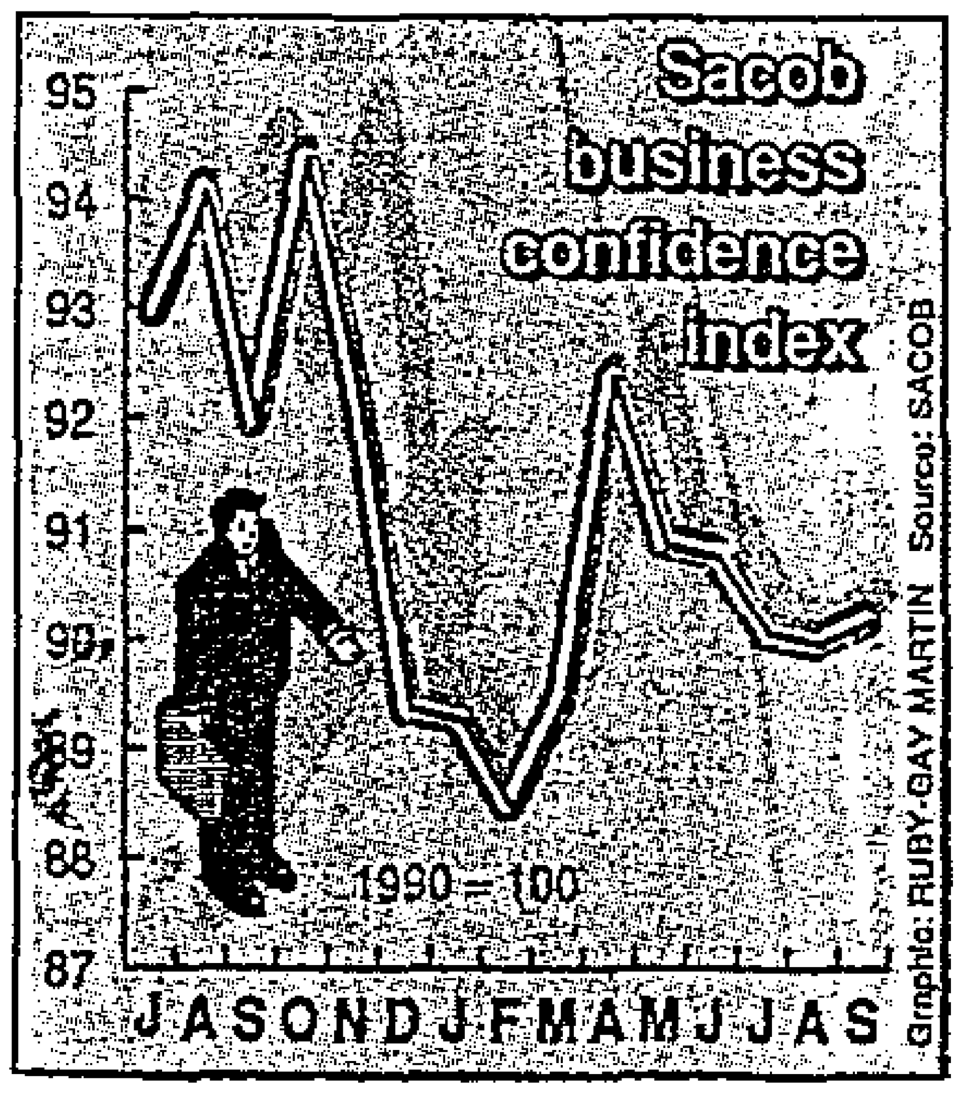
Under current circumstances there was no danger that lower interest rates would weaken the fight against inflation and the promotion of price stability, he said.

# Sacob calls for mini summit

HILARY GUSH

SACOB yesterday called for an urgent summit between major economic players to shore up SA's deteriorating economy in the short term. BDAY 7/10/92

Sacob director-general Raymond Parsons told a news conference in Johannesburg that the economy was "on very thin ice and dangers of an accelerating downturn are worse than they have ever been".




"We urgently need a mini economic summit to discuss ways to rebuild confidence," Parsons said. (180)

He suggested that Finance Minister Derek Keys and Reserve Bank Governor Chris Stals steer the summit, but stressed business and labour constituted two "major players" in deciding SA's immediate economic future. He said the summit should be broadly representative of government policy-makers, monetary authorities, business and labour.

Parsons said: "Current debate on the short-term economic outlook is too diffused. Discussion on the route the SA economy should take in the short-term ought to be the least controversial of all economic debate, as it leaves aside long-term decisions on restructuring."

☐ To Page 2

## Sacob

BDAY 7/10/92.

Asked whether he supported the proposal, Stals said last night that if the summit led to wider participation it was welcome, but cautioned that discussion on short-term economic policy would probably not provide an instant solution.

He said the summit might serve to allay private sector fears and uncertainties.

Keys was unavailable for comment.

Speaking at the same conference, Sacob economic policy director Ben van Rensburg said the business confidence index (BCI) — a barometer of business mood — rose to 90,2 in September from August's 90.

He warned the slight strengthening of business confidence did not mean a turnaround, but rather was a positive response to "certain political developments".

(180) ☐ From Page 1

"It is indicative of the extent to which political progress, or the lack of it, can influence business sentiment — and underscores the vulnerability of the business mood."

Movements in the financial and commercial rand exchange rates formed one of 13 sub-indices making up the BCI. The recent finrand slump to a six-year low had not yet been reflected in the index, but would, no doubt, affect October's BCI.

He said signs of a speedy global economic recovery were not forthcoming.

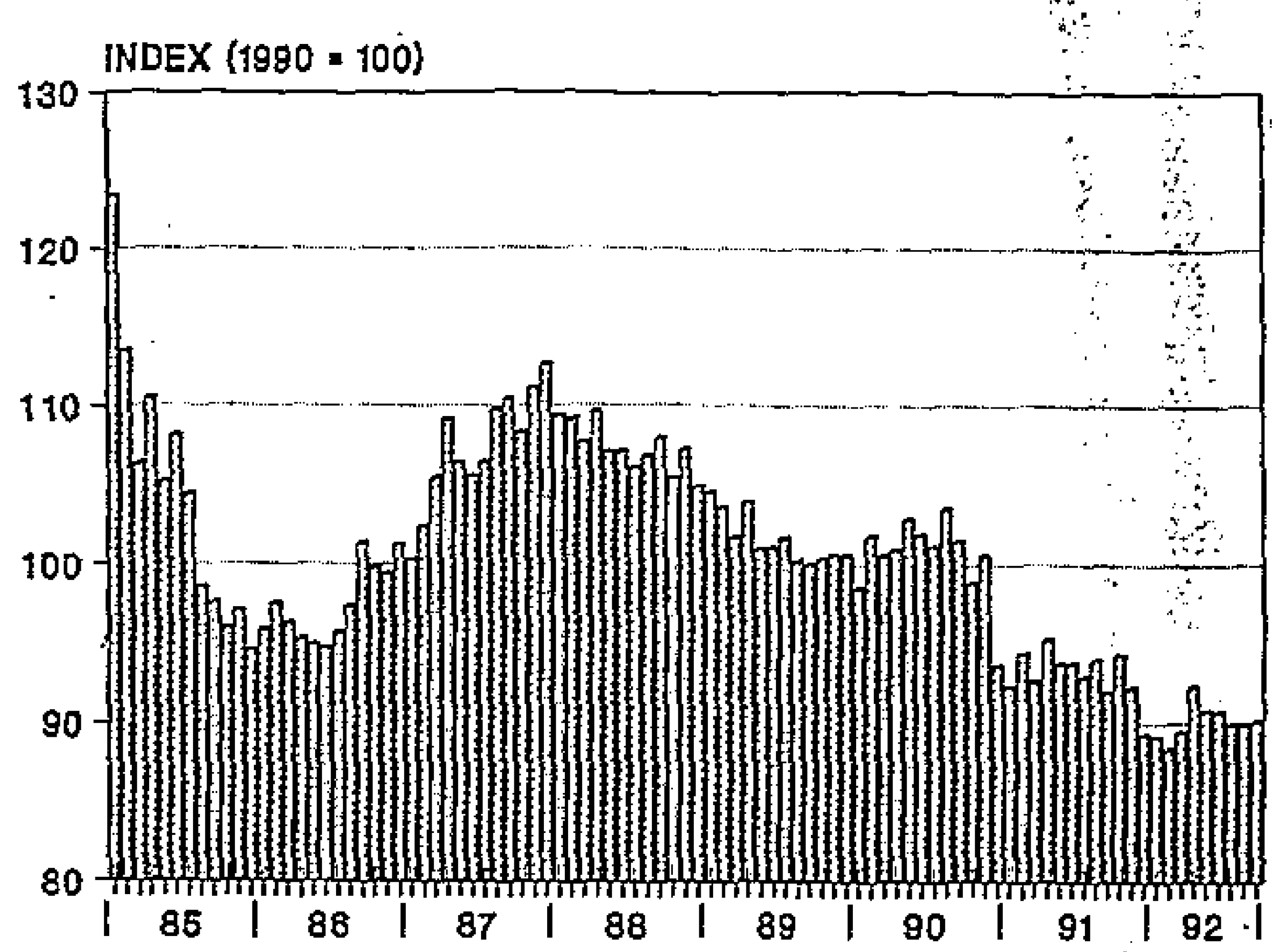
"Unless SA exporters are able to increase their trade significantly with other countries (besides major industrial countries), the prospects of an export-led upturn in the economy in the short-term appear to be fading," he said.

# Business mood continues to be extremely vulnerable

STAR 7/10/92

By Sven Lünsche (180)

BUSINESS CONFIDENCE INDEX




Business confidence index (1990 - 100).

The business community continues to suffer from a crisis of confidence, brought about by the combined effects of political uncertainty and a very long recession, says the SA Chamber of Commerce.

While its Business Confidence Index rose slightly in September from 90 to 90,2, Sacob warns that the business mood remained extremely vulnerable to the extent to which political progress is achieved.

This is confirmed by Sacob's survey of the manufacturing sector, which indicates that a majority of respondents are more pessimistic about the coming year than they were a month ago.

"The lack of confidence is well illustrated by the recently released figures for net investment, which dropped to only one percent of GDP in the second quarter," Sacob chief economist Dr Ben van Rensburg comments.

"While some increase in fixed investment can be expected once the economy starts to gather momentum, this is likely to be limited to the maintenance of existing capacity until such time as a political solution is reached," he adds.

"The longer such ambivalence continues, the more business and the wider community will require concrete actions from our political leaders to engender an improvement in confidence levels."

Sacob also cautions that a sharp dichotomy exits between developments in the real economy, and those in the monetary sector.

On the monetary front Van Rensburg expects interest rates to continue to edge downwards in the coming months as further progress is made in reducing inflationary pressures.

However, the real sector continued to sink deeper into recession as was illustrated by a continued weakness in domestic demand, both for investment and consumption purposes.

# Manufacturing volume drops

GERALD REILLY 180

PRETORIA — The volume of manufacturing production in the three months to end July dropped by 5,5% to an index level of 101,2 compared with the same three months last year (107,1), Central Statistical Service (CSS) figures show. BDay 7/10/92.

Compared with the previous three months, volume declined by 4% from an index figure of 103,1 to 99.

However, compared with June, the July figure increased by a solid 3,5% after seasonal adjustment.

Production increases were recorded by 17 of the 27 major manufacturing groups, whose reasons for increases included a larger supply of raw materials, an increase in exports and less strike action.

And in another release yesterday, the CSS said total wholesale trade sales for July, excluding diamonds, were up by 5,3% on wholesalers expected sales for the month.

In May-July, sales at then current prices increased by 11,8% to R33,956bn. At constant 1990 prices they dropped by 0,9% to R27,213bn.

# Firms facing smoking law

[illegible] 7/10/92. (180)

WILSON ZWANE

EMPLOYERS may have to introduce company smoking policies soon to avoid prosecution under pending legislation banning smoking in public places, says a study of the issue.

Writing in this month's edition of the Institute of Personnel Management's People Dynamic, Wits Business School student Camilla Southey said increased environmental awareness and the growing assertiveness of non-smokers made smoking at workplaces a delicate issue.

She said non-smokers were becoming increasingly aware of their right to work in smoke-free areas and were demanding a ban on smoking at work places.

"In order to ensure a healthy and efficient working environment, employers should ensure that the needs and wishes of both the non-smokers and smokers are treated fairly," Southey argued.

Employers might have to move fast to introduce smoking policies in the near future or risk falling foul of pending legislation.

Southey said the Tobacco Products Control Bill gave power to the Health Minister to ban smoking in "any indoor place area which is open to the public or part of the public". It was likely to be passed into law early next year.

Employers, however, should not unilaterally decide on smoking policies, she said.

"Before embarking upon a smoking policy, an employer should investigate the attitudes of all employees towards smoking at a workplace. A policy should never be imposed on employees but should be discussed thoroughly and agreed upon by everyone who will live and work with it," she said.

Consensus on a policy would help reduce hostility and tension between non-smokers and smokers.

Once the smoking policy had been agreed upon, sufficient time should be allowed for employees to become accustomed to the "new rules"

"A possible way of doing this is to implement a progressive policy. This involves increasing the limitation of smoking over a specified period of time.

"It is also a good idea to give employees time between the decision on the the policy and implementation so they can begin to prepare themselves.

"Once the policy has been implemented, time should be allowed for a trial period of not more than six months" before being reviewed.

# Local disinvestment puts single currency further out of reach

GRETA STEYN

BDAY 7/10/92

180

IN THE heady days that followed the announcement of plans to create the new SA, the discount between the financial and commercial rands narrowed to less than 10% and a single currency seemed in the offing. As the discount surged to almost 45% this week, a unified currency again seemed a distant dream of a wishful central banker.

A dealer, when asked this week why the currency had weakened, responded facetiously: "More sellers than buyers." But he hastened to add there was a message in the identity of the sellers, in the fact that South Africans were taking money offshore while foreign investors were not keen to commit money to the country.

Is the slump in the finrand a massive vote of no confidence in the SA economy by SA business, or do the falls in the finrand only reflect a temporary blot on the horizon of new opportunities opening up for SA internationally?

The factors conspiring to send the finrand reeling include not only the SA offshore purchases, but also large speculative positions and the Reserve Bank's statement that it might from time to time support the currency.

SA companies expanding overseas are taking more than R2bn out of the country. Royal's plans to purchase tinned food company Del Monte is estimated to be worth about R1,3bn. Anglo American's purchase of a stake in Del Monte is expected to be financed offshore, which would not involve the finrand market.

First National Bank is buying UK merchant bank Henry Ansbacher, which could add another R500m-R600m. The deal will be financed through capital raised in a rights issue.

Standard Bank will be spending an undisclosed amount on buying ANZ Grindlays' African branches. The price is anybody's guess and could depend on factors such as African government attitudes and timing. Standard has been negotiating with the Zimbabwean government on the takeover amid predictions of further devaluations in the Zimbabwean dollar. To what extent it will be able to benefit from the falling Zimbabwean currency remains to be seen.

The recent purchase by Investec of Allied Trust in London is no longer exerting pressure on the finrand market, but is another example of South Africans moving money offshore. Yet another is the recent announcement by Rand Merchant Bank that it is buying a dealing operation in Australia. Bankers say there are others waiting in the wings, hoping for Reserve Bank approval.

The Bank might be somewhat hesitant in giving the go-ahead and the companies themselves might think again at the present levels of the investment currency. In FNB's case, the price might turn out much higher than initially expected. Market talk is also that the Royal/Del Monte deal has not been signed; it could be abandoned and the finrand deals for it could be unwound.

The move offshore by local interests represents sizeable negative influences on the finrand. By contrast, foreign investors in SA equity have been conspicuously absent. In general, there has been net selling of JSE shares by foreigners while nonlisted equity investments in the past year run into only a few hundred million rands.

The main positive influence until now has been the speculative interest in the currency. Foreign holdings of SA gilts run into billions of rands with foreigners holding more than half of Eskom's total issued stock. The money market, because of its short-term nature, gained in popularity as political uncertainty became a factor. Throughout the period of Boipatong and Bisho, there was no sign of the speculators scrambling to get out of SA. The gilts bull run continued virtually without pause and money market rates continued to mark time.

The build-up of large speculative positions was supported by the Reserve Bank's statement that it would, from time to time, intervene to support the currency. The Bank has been at pains to point out that it did not commit itself to supporting the currency. But it seems the finer nuances of the statement were lost on the dealers. Speculators felt safe coming into SA in the "knowledge" that their capital would be protected by the Bank.

The huge SA move offshore put pressure on the currency and pushed it towards levels that could trigger speculators' stop-losses. The Reserve Bank's retreat to the sidelines while the stuffing was being knocked out of the finrand sparked fears of speculators fleeing, fuelling bearish sentiment.

There were signs that stop-losses were triggered when the currency moved below \$0,24. Money market investors in the Far East cut their losses and there was some selling of gilts. A nightmare of post-Rubicon proportions no longer seemed impossible.

But the Reserve Bank made a deliberately noticeable return to the market, soothing speculators with a forceful attitude and a handful of dollars. There was to be no nightmare on Diagonal Street.

At the present lower levels, and with the Bank back in the market, there are signs of marginal investors returning. The yields are a major attraction: a discount of 40% implies an effective return of about 18% for a one-month money market investment. But these investments are short term and unstable.

Dealers, relieved that there was to be no nightmare this time round, are worried about the way in which the SA acquisitions are being done. They believe the Bank could be more open with the market about the flows, and could also exert some influence to smooth them.

But the Bank should take care not to waste precious foreign exchange reserves to drive down the discount between the commercial and financial rands. The discount is not languishing at near post-Rubicon levels without a reason, and the Bank would be wise not to take on the market.

The message the finrand market is giving us is that SA companies want to move offshore while foreigners want to make easy profits but do not want to invest long term. Why should they want to invest in SA if South Africans are themselves not investing?

Investment in the productive capacity of the SA economy has dwindled to the basic minimum needed due to normal wear and tear. The Reserve Bank commented in its Quarterly Bulletin that this had "serious implications for future economic growth". Net investment — after allowing for depreciation — has fallen to only 1% of GDP from an average of 8% in the '80s and 14,5% in the '70s. For foreigners who want to cash in on the rapidly growing developing economies, SA will not be an option until SA starts investing in itself.

The late Reserve Bank Governor Gerhard de Kock had to see his work in scrapping the finrand undone when the debt crisis hit SA in 1985. His successor Chris Stals obviously shares the desire to do away with the dual currency system. That much was obvious from his statement on the finrand market earlier this year.

One currency would restore SA's dignity and take it out of the list of "exotic" investments on offer. But as long as South Africans continue disinvesting at this rate and foreigners come in only for a quick buck, this desire will not be realised.

# Zambian privatisation interests SA firms

BDM 7/10/92 (180)

SHARON WOOD

DOZENS of SA companies were interested in buying Zambian state-owned enterprises in the first step of the country's extensive privatisation programme, Investec Merchant Bank project finance manager Andrew Smith said yesterday.

He said the response to the bank's advertisement placed yesterday, listing 17 Zambian companies for sale, had been overwhelming.

Investec was introducing SA investors to the first tranche of the Zambian privatisation programme, focusing on smaller companies. The 17 companies had a combined turnover of R26,4m, but Smith said the turnover was bigger than it suggested because of the devalued Zambian kwacha.

The companies for sale ranged from tyre distributors and automotive repairs to a fruit cannery and ceramics company. Three were either in a development stage or were dormant.

Smith said individuals and listed corporates crossing the spectrum of SA business had contacted Investec and were making applications. Applications had not been limited to SA companies.

He said prequalified bidders could obtain tender packages from Investec which contained international aid agency-sponsored studies on each company.

Companies could either invest directly in the country or form joint ventures. Supply and trade-related deals were also possible, he added.

"The Zambian government would like to see new cash injected into the country and SA companies can see it as a new market to expand into," Smith said.

He added that the privatisation process would eventually expand throughout the Zambian economy and Investec's role would extend to finding ways to value and sell government property, assets and business. Currently 80% of Zambia's resources were owned by the government.

# Traders flock to fair

PETER DELMAR (180)

DUBAI — SA's international trade fair at the Dubai World Trade Centre drew a record crowd on its second day yesterday. BDay 8/10/92

Organisers said the number of visiting businessmen well exceeded the 500 who attended Tuesday's opening.

Some SA companies reported tying up business deals worth millions in various parts of the Middle East.

Pretoria-based Friga-Watt sealed a multimillion-dollar deal with the local agents of leading refrigeration equipment distributor Thermo King.

Unicorn Lines spokesman Margaret Rowe said the company received a steady flow of inquiries. Shipping volumes between SA and the Gulf had increased 50% in the past four months, most of it exports from SA, she said.

It is understood that construction company Group Five was holding talks on possible co-operation with a leading Saudi family.

Lebnor Foods earlier confirmed that it was definitely entering into a joint venture with Middle East groups to build a dehydrated food plant in Dubai.

A motor accessory company is believed to have been offered a multimillion-rand joint venture to build a manufacturing plant by a Bahraini company.

Safelec MD Bill Young said his company had signed a deal to manufacture metal detectors in Dubai.

COMPANIES

# Sacob calls for 'tax certainty'

B DAY 8/10/92 (180)

HILARY GUSH

GREATER certainty and consistency is needed in SA's tax system to facilitate business planning and decisions, says the SA Chamber of Business (Sacob).

In its annual report it says: "The last year provided various instances of uncertainty and vacillation, such as the last-minute changes in the exclusion of the VAT zero-rating of certain foods. A plea is made for greater certainty and consistency, especially in the stamp duty area."

Asked if, considering a Budget deficit of more than 6% of GDP, he expected the authorities to scrap stamp duties, Sacob tax committee chairman Bob Wood said: "In view of the small revenue yield from the R2 stamp duty on agreements or similar documents, we believe the duty should be repealed as it is a severe administrative burden on the private sector and on the Receiver of Revenue in policing it".

Stamp duties currently yield about 1,1% of gross inland revenue. The committee continues to oppose the imposition of a capital gains tax as it believes it would tax capital as such, not gains, and would discriminate against small business.

Research on, and speedy implementation of a system of group taxation is also recommended in the report.

STAR 8/10/92

# SA pavilion at Universal Expo draws 2 million

Pretoria Bureau

South Africa's first time participation in the Universal Exposition '92 in Seville, Spain, was a huge success — drawing 2 million visitors since opening on April 20. (180)

The South African pavilion at the Expo, a unique international communication platform for representatives of 113 countries, was a "visible, concrete symbol of South Africa's return as a full participant in the activities of the international community", according to the new director-general of the Department of Foreign Affairs Rusty Evans.

The Expo ends on Sunday.

Public interest in the South African pavilion increased dramatically from an initial 10 000 visitors on weekdays to an average of between 20 000 and 23 000 a day.

Weekend attendances of up to 50 000 visitors have been recorded.

By October 3, there had been 38 million visits to Expo by 15 million people.

# Saccola gets outside help

Bdrn 8/5/92 (180)

CAPE TOWN — Saccola's re-entry into international employer affairs progresses a step today when it meets a delegation from the International Employers Organisation (IOE).

The four IOE members have been in SA for the past one-and-a-half weeks to help local employer groups to set up a national representative body, Saccola spokesman Frieda Dowie said yesterday.

"International employer groupings, particularly the IOE, are very keen that Saccola re-enters international affairs after being kicked out of the IOE in 1983," she said.

The IOE representatives are Dan Mac Auley of the Federation of Irish Employers, Cornelie Hak of the Federation of Netherlands Industries, Radnar Ostrem of the Federation of Norwegian Industries and Tom Owuour, of the Federation of Kenyan Employers.

Owuour, as the secretrary-general of the Pan African Confederation of Employers, hoped to bring SA into this organisation, she said.

Colin McCarthy, executive director of the Cape Chamber of Industries, said a seminar addressed by IOE delegates yesterday proved that there was no grand plan on how to organise the business community.

The visitors said SA business had to work out its own salvation and that they were not here to prescribe.

They said it would be no good if certain organisations were excluded because of sectoral interests or if organisations were included on the basis of government approval.

Dowie said today's meeting in Johannesburg followed a Saccola trip to Nairobi two weeks ago to meet the Federation of Kenyan Employers.

In their first formal contact in many years, Saccola, the IOE and International Labour Organisation met in Harare early this year to discuss a SA employer body.

A Saccola delegation is going to Europe later this month to study employer bodies there. — Sapa.

COMPANY LAW FM 9/10/92 (180)

# Buying your own shares

## A new proposal would bring company law in line with overseas models

**Should SA** companies be permitted to buy their own shares? This controversial idea has been floated by the Department of Trade & Industry (DoT).

The repurchase of a company's shares by the company itself was prohibited in classical English company law — which is still valid in SA. This has the effect of a reduction in capital which is potentially prejudicial to creditors. A reduction of capital in SA law under the Companies Act still has to follow a rigorous procedure — including sanction by the Supreme Court.

Share repurchase has always been allowed on an unrestricted basis in US law, while English company law was changed in 1985 to permit share repurchase on a carefully defined and restricted basis.

The DoT proposals argue that repurchase could be advantageous for a company, providing as it would for:

- ☐ An additional and at times convenient mechanism for shifting control;
- ☐ The ability to achieve repatriation of ownership through buying out foreign shareholders with company funds;
- ☐ Influencing the price of the company's shares when market values have deviated in either direction from the value dictated by the fundamentals;
- ☐ Buying out a controlling shareholder in the case of a closely held company where the funds are available within the company;
- ☐ Compromise of a shareholder's indebtedness to the company through setting off the proceeds of repurchase against the debt; and
- ☐ The ability to buy back from employees shares linked to incentive schemes.

The North American approach permits repurchases provided the solvency of the company is not impaired. Abuse is curtailed by applying important general protective rules in US and Canadian company and securities law. These include provisions allowing shareholders to sue the company through a class action and more onerous financial reporting requirements.

Broadly, the DoT argues that SA should follow the North American precedent. Companies should be permitted to buy their own shares subject to protective rules to be introduced, provided either the memorandum or articles of association permit this. The power should be exercisable through a resolution of the board (not a special resolution of the shareholders); and the repurchased shares should be cancelled and so become authorised but unissued shares.

Repurchase would be allowed only if the company remains solvent and able to meet its obligations as they fall due and if the funds are drawn from distributable profits.

There should be strong disclosure requirements. Thus, private companies should notify the Registrar of Companies and public companies file insider reports including comment on the reasons for the purchase, source of funds, and the factors affecting the fair value of the shares.

There should be two major limitations. A public company should not be permitted to buy more than 1% of its issued shares per month — but with the right to apply to the proposed Securities Commission for an exemption from the disclosure requirements.

Continue →

# Employer groups given international help

9/10/92 180

DIRK HARTFORD

THE establishment of a single, nonracial national employer organisation in SA will be discussed today when a joint Nafcoc-Fabcos-Saccola working party meets an International Employers' Organisation (IOE) delegation.

A four-member IOE delegation has been trying to help these three major employer organisations achieve unity as a basis for readmission to the international organisation.

The IOE delegates, who return home at the weekend, are from employer organisations in Kenya, Ireland, Holland and Norway.

While Saccola represents a coalition of the vast majority of white business organisations, Nafcoc and Fabcos together embrace all major black business organisations.

A new representative employer organisation would be the first genuinely nonracial employer organisation in SA.

# Manufacturers battle on bleak expectations

CT 10/10/92 (180)

By AUDREY D'ANGELO
Business Editor

SALES and production volumes in the manufacturing sector rose slightly in September and there was better capacity utilisation, the SA Chamber of Business (Sacob) manufacturing survey shows.

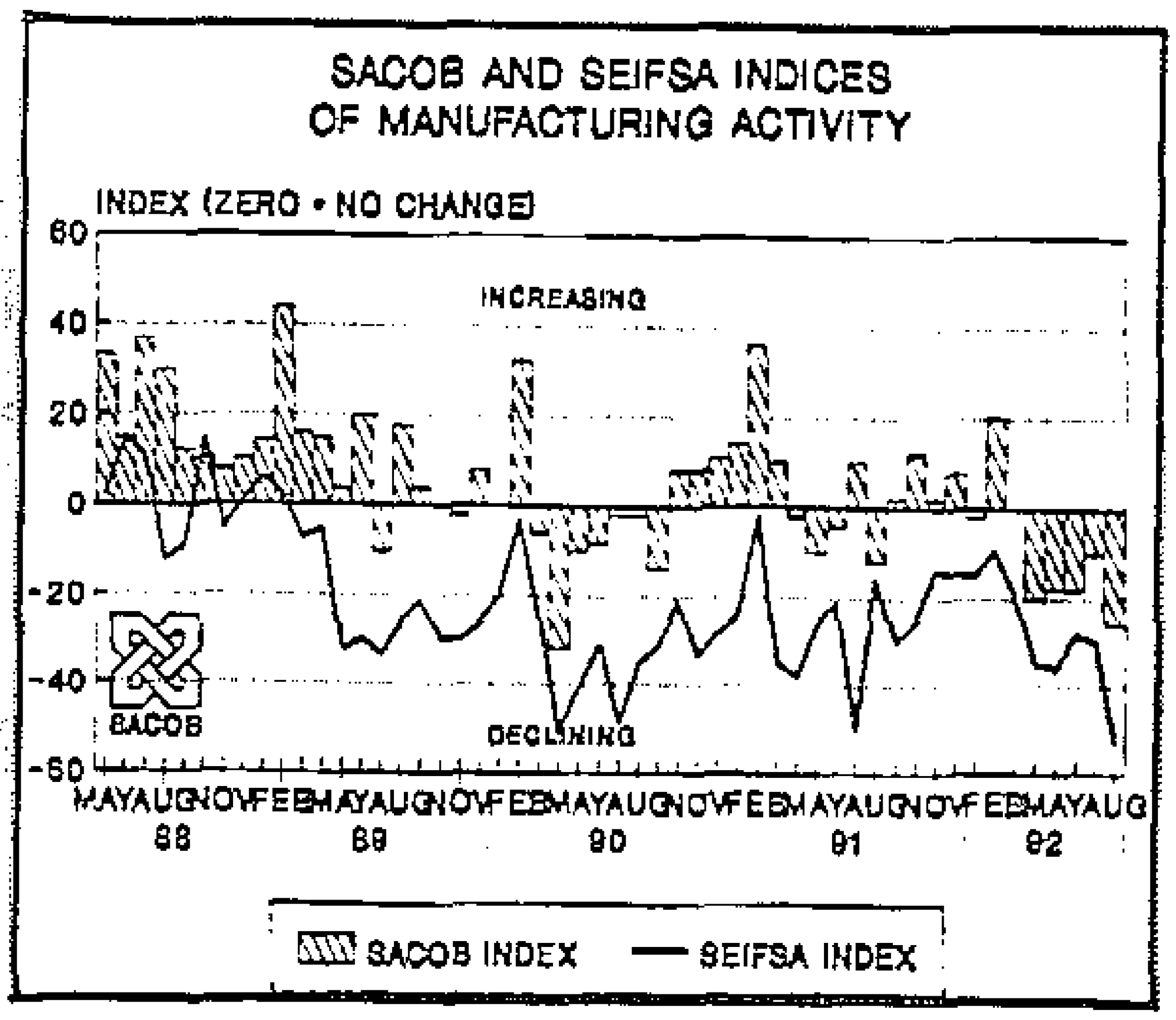
But 65% of manufacturers in the Western Cape — who were shown to be the most pessimistic in SA in the August survey — still expect sales volumes to fall in the coming year.

And jobs are still being lost. The survey showed that 63% of manufacturers throughout the country expected to employ fewer unskilled people, while 58% expected to employ fewer skilled people.

Colin Boyes, deputy director of the Cape Chamber of Industries, (CCI) said yesterday that he thought most of the retrenchments in the Western Cape caused by the long recession were already over.

"Perhaps we are coming to the end of the trough, although we have been disappointed so often," he commented.

"But there is a general lack of confidence. Political issues transcend all others — we are in the hands of the politicians."




Boyes pointed out that "an appalling" number of jobs had already been lost. In the metal working industry, alone, 19 000 jobs had been lost, countrywide, between January and July.

"Consider the number of dependents who have been affected by this. The failure of the manufacturing sector, and the economy in general, to create employment is a serious problem that will require urgent attention by all parties — business, labour and government — if a catastrophe is to be averted."

The Sacob survey showed that skilled employment, stock volumes and real capital expenditure in the manufacturing sector were still falling in September.

A majority of manufacturers, countrywide, expected sales, production and stock volumes, capacity utilisation and skilled employment to continue to fall in the coming year and real capital expenditure to remain static.

Sacob economist Keith Lockwood said in his report that there was some improvement in short-term activity in September, with most repondents expecting higher order volumes than the previous month.

But, he pointed out, this could not be interpreted as a turnaround — it was due mostly to the fact that manufacturing activity in August was disrupted by mass action.

# Capitalist Sacob and socialist PAC parley

STimes (BUSS) (180)

**By NORMAN WEST, Political Reporter**

THE South African Chamber of Business (Sacob) has held discussions with the Pan Africanist Congress about political and economic obstacles facing the country.

It was the first meeting between the two organisations which hold opposing views about restructuring the economy. 1/10/92

Although Sacob is capitalist in spirit and believes in a free market operated through private enterprise, the PAC holds strong socialist views and backs redistribution of wealth in favour of "indigenous" blacks.

It also believes in the creation of new economic activities to oppose capitalism and market forces.

Minutes of the meeting were confidential and meant only for members of the board of management, major chambers, national associations and direct members.

The Sacob delegation comprised its president, Hennie Viljoen, deputy-president Spencer Sterling, director-general Raymond Parsons, chief economist Ben van Rensburg and manager of labour affairs Gerrie Bezuidenhout.

The PAC delegation was led by its first deputy president Johnson Mlambo, secretary for foreign affairs Gora Ebrahim, secretary for legal affairs Willie Seriti, member of the national executive committee Carter Seleka, chief of protocol Count Pietersen and director of economic affairs Mos Malatsi.

## Army

Mr Mlambo is chairman and leader of the PAC's armed wing, the Azanian Peoples' Liberation Army.

The two-hour meeting, held at Sacob's request, was to exchange views on the economy and the political situation.

Mr Viljoen sketched the concerns of business about the economy, particularly the impact on it of the political logjam and violence.

Sacob was also concerned about mass action and the resultant turbulence which, Mr Viljoen said, was destroying the economy and harming business confidence.

A concerted effort was needed to rebuild and restructure the economy to support the political transformation process and to redress the inequalities caused by political actions of the past, Mr Viljoen said.

Mr Mlambo claimed that the PAC never took part in violence and was convinced that poverty and unemployment played an important role in causing conditions for continued violence.

It was these conditions, because they affected the PAC constituency most, that compelled it to talk to organised business, the Government and others.

Mr Seriti identified "a remarkable degree of convergence" between the PAC views and those of Sacob on the need for economic revival.

Mr Parsons said Sacob believed negotiations could not be left only to politicians.

Sacob was anxious to see negotiations back on track. Business could not support actions which could further damage the economy because of its implications for economic growth, unemployment and the capacity to reduce social imbalances.

Business pinned its hopes on the resumption of negotiations. It hoped they would be seen to lay the foundations for SA's political and economic future.

The PAC agreed that all political parties as well as organised labour and business should be involved in negotiations.

STimes (BUSS) 1/10/92

## Budget

Mr Gora Ebrahim said the PAC was opposed to an interim government which could perpetuate the present dispensation beyond 1994.

The PAC proposed that the present tricameral system be allowed to continue, but it should be linked to a transitional authority (TA) which would be more representative.

The TA would take over the responsibility for the budget, security, ensuring free and fair participation in the political process and international relations.

The PAC reiterated its contention that a "more representative" negotiating forum should be established.

# Investors in dark over suspensions

S Times (Buss) 11/10/92. (180)

By JULIE WALKER

MINORITIES in companies suspended from trade on the JSE must become frustrated by the lack of information about what is happening to their investments.

At present, 19 listings are suspended — they are depicted by red flags on the equity floor and by the word suspended on the stocks pages of newspapers.

Reasons for suspension include liquidations, takeovers, cash shells and on rare occasions price-sensitive negotiations.

Blue Circle and Genrec shareholders have been offered shares in Murray & Roberts in a section 440 takeout of minorities as the leading company tidies its portfolio in the greater Sanlam investment scene. Similarly, Musica is being taken over by Clicks.

## Bank

Three gold mines feature — Eersteling, Nigel and Osprey. Eersteling — suspended in May 1991 when in provisional liquidation — has compromised with its creditors. But the JSE requires it to prove its sustainable profitability before it will lift the suspension.

Talk is that Eersteling may voluntarily delist now that it has only a few minority members.

A final winding-up order has been issued against Nigel, suspended in April.

Osprey, which went into provisional liquidation in June, is still under Reserve Bank investigation.

Transport company Presto, suspended in May 1990, has been taken out of liquidation. But like Eersteling, it must continue to make money before the JSE will relist it.

Three clothing-linked firms, Debonair, Leegall and Trimtex, are all in provisional liquidation, as is clothing and bedding retailer Focus Holdings. There is talk of a rescue at Focus.

The JSE's latest handbook is at odds about two listings. It says Crest — see Dergra. But it gives no entry under Dergra and Claw is still marked suspended.

## Appeal

The handbook says it was delisted in liquidation in July.

Richard Connellan, head of the JSE's listings division, says Claw was suspended at the end of February at the request of the directors after a legal dispute involving ownership. The continued suspension is under scrutiny.

Crest, in final liquidation, is a problem child, says Mr Connellan. No offer has been made to the minority after a change of control and there has been a costly legal dispute about its continued listing.

The costs of a JSE-led appeal for the obligation to be fulfilled might be significant relative to the value of the offer.

Mr Connellan says: "Minorities look to us for protection and we are unhappy when obligations in terms of the JSE's listings requirements are not met."

One rotten egg can spoil the best intentions. It is a matter for the committee to decide on.

Ill-fated DPF Investments, a Development Capital Market listing that had takeover ideas above its station, failed in its bid for control of Grovewalk Properties and went into liquidation in January. The termination of its listing appears imminent.

Dukel, into which timeshare company Leisure Resources was due to be reversed last year, remains suspended. An offer has been made to the minority, but documents relating to Dukel's new assets have not been formally submitted for JSE approval.

Quorum, a financial services company that was reversed into the Computer Warehouse cash shell, went into provisional liquidation in September.

Shoprite and Buffcor are both cash shells.

## Forced

Mr Connellan says the JSE has adjusted its rules regarding cash shells. Now, a meeting is called in terms of the Stock Exchanges Control Act. A termination date is set for cash shells that fail to acquire suitable assets within eight months of the meeting. Previously, it was within six months of suspension.

Shareholders in companies under forced and final liquidation should realistically write off those investments. They won't see a cent.

# Economic forum called for by big business to try and stop SA's slide

CONFIDENCE in the business community has reached such a low ebb that the SA Chamber of Business (Sacob) has called for a summit of the most important economic players to find way to stop the decline in business and employment. (180)

Among the major players identified by Sacob's Dir-Gen Raymond Parsons are labour and business, while finance minister Derek Keys and Reserve Bank's Chris Stals will obviously have to be present. C/Press

One hopes that the summit, if it takes place, will cause a major rethink – especially among our political leaders – who seem to completely ignore the widespread suffering caused by the continuing violence and unrest.

Yet it is not unreasonable to pose the question whether SA businessmen are, in fact, overreacting. 1/10/92

Is is really necessary to throw in the towel and – instead of concentrating on building up your business – spend your energy in trying to get your savings out of the country?

The present negative climate cannot last forever!

What we are experiencing at the moment is an unusual situation:

- We are suffering from the worst drought in living memory.
- The international recession is causing a low demand and low prices for our commodity exports.
- Politically we are in transition. While it is inevitable that this will cause tension none of the major players want to see a collapse of our economy. Nor is their hard evidence that the assets of the middle classes will be plundered by a new government.
- The lack of foreign confidence, as evidenced by the collapse in the financial rand, is not really so exceptional.

We have been living with a lack of foreign confidence for a long time and indications are that we will simply have to accept that as we are part of a struggling and unstable Africa confidence is likely to remain low.

**MONEY TALK**

But SA has so much in its favour that those who are now so negative may well find that they are left behind once the economy turns. And this is likely to happen sooner rather than later.

For instance, a normal, rainy season can cause a major turnaround in agriculture. Not only is agriculture a huge employer of labour but rain will enable millions of rural people to produce food again.

A recovery in agriculture will thus generate large amounts of money that will be spent in retail stores, co-operatives and on trucks, machinery and so on. Do not underestimate the multiple affect of this.

Another valuable factor in our favour is the peace agreement that was signed by Mozambique's warring parties.

Recovery of the devastated economies of Mozambique and Angola can generate substantial business for SA companies, although most of them may be sceptical about the potential of the two nations to recover in present circumstances.

Bear in mind the world is keen to see this happening and will assist them. Nobody wants to see another Somalia or Ethiopia.

Finally, the world economy should recover during the next year or so, which will mean valuable earnings for our large commodity exporters.

Far-sighted businessmen should take note of the foregoing and try and shake off their present fears of the future.

It may well be very profitable for them over the longer term.

# Reserve Bank acts to control size of financial rand pool

(180) STAR 12/10/92

By Sven Lünsche

The listing of a South African company on the Johannesburg Stock Exchange (JSE) now needs the formal approval of the Reserve Bank's Exchange Control Department.

In an apparent attempt to control the size of the financial rand pool, the Reserve Bank has issued a number of directives to the JSE.

They were released by the stock exchange authorities as a practice note two weeks ago.

The directives tighten the exchange control requirements for transactions on the JSE, extending their scope to instances which do not necessarily involve off-shore investments on the local equity market.

They come at a time when the stock exchange authorities are appealing to the Reserve Bank to ease exchange controls, thereby allowing wider investments by local companies on foreign financial markets.

The Bank, however, has recently been criticised for granting "without thinking" foreign investment approval to local institutions, leading to volatile trading on the financial rand market.

The charges were reportedly rejected by Reserve Bank Governor Dr Chris Stals, who was, however, critical about the way in which some banks had recently dumped finrands on the market.

The new regulations, described by one company director as Draconian, appear to be an attempt to monitor more closely the involvement of foreign investors on the local market.

The Reserve Bank's assistant general manager, exchange controls, Alec Bruce-Brand, denies that the directives are an attempt to tighten administrative controls, arguing that they simply "formalise existing informal arrangements".

However, the JSE's corporate finance manager Tracy Stewart admits that the scope of the directives took her by surprise.

"The previous arrangement required approval by the Reserve Bank for transactions involving non-residents — this has now been widened to virtually any transaction on the market," Ms Stewart says.

"It appears to be an attempt to halt the recent decline in the financial rand pool," she adds.

In terms of the practice note, the following instances require approval by the Bank's Exchange Control Department:

- The listing of a SA-registered company on the JSE.
- Rights issues by listed companies.
- The delisting of a JSE-listed company.
- The declaration of a dividend in specie or special dividend for any purpose.

This is in addition to the following transactions, which previously required formal approval:

- The acquisitions by non-residents of a cash shell.
- Restructures, mergers and changes in control where non-residents are involved.
- The listing on a foreign exchange of a JSE-listed company.
- The listing on the JSE of a foreign company.

# Wanted urgently: business supremo

STAR 12/10/92

180

Debate is in full swing in economic circles on proposals to press the Government to appoint a special national supremo to unleash the full potential of a new generation of small business entrepreneurs. Support for the idea is growing, reports MICHAEL CHESTER.

IT COULD read: "Wanted: Minister of Small Business. Visionary able to identify and encourage radical new approaches to economic growth by unleashing the full potential of small and medium enterprises. A major task will be cutting bureaucratic red tape and cultivating the full co-operation of various government departments. Prospects of Cabinet status for ideal candidate."

No, unfortunately the announcement has not yet appeared in the Government Gazette. But there is a growing swell of opinion in economic circles that it is time it did.

The idea of a specific new ministerial portfolio to encourage the expansion of the small business sector was among the top items on the agenda at a recent conference at Sun City run by the Small Business Advisory Bureau.

The Small Business Development Corporation has long underscored the crucial need for radical new thinking about strategies to bring budding entrepreneurs deeper into the economic mainstream.

The potential role of a Small Business Supremo was first identified when the National African Federated Chamber of Commerce (Nafcoc) invited Eric Forth, as British Minister of State for Employment, to launch the National Industrial Chamber a year ago.

Nafcoc learnt that Britain had already taken the lead by establishing such a portfolio — and Forth had been running it.

The programme introduced special government incentives to create more mini-businesses to test a new path to economic expansion — with the added bonus of lower unemployment. And Forth reported a whole string of successes.

The debate also fired the enthusiasm of SA Chamber of Business deputy director-general Ron Haywood when he heared how Britain had tackled the issue.

He learnt that:

- In Britain, with a member of government of ministerial rank acting as special guardian of the interests of budding entrepreneurs, the small business sector had grown by 30 percent or more in the 1980s. No fewer than 373 000 new mini-ventures had been launched.
- New small businesses, with labour forces of less than 20 workers, had created more than a million jobs over the past 10 years — twice the total scored by larger companies.
- The UK had made dramatic cuts in regulatory red tape to sweep away hindrances to allow faster development of small businesses in the manufacturing and service sectors.
- Self-employment increased by 70 percent — and the number of women in the small business sector doubled.
- Since 1981, no fewer than 28 000 mini-firms had benefited from a loan guarantee scheme by almost R4,5 billion.
- The UK government had ploughed R40 billion into the nurturing of small businesses — and the private sector had topped it with R45 billion in training schemes.

Haywood found that in Japan no less than 60 percent of industrial companies were small businesses, many engaged as subcontractors or jobbers to big business. In Taiwan, the proportion climbed to 90 percent.

"One also sees how the small-business formula is being copied at an increasing pace in more and more Western industrial nations as they find themselves slipping behind their Far Eastern rivals in competitiveness," Haywood said.

"South Africa must follow suit. Even if the creation of a special new portfolio may take time, we desperately need a 'Champion of Small Business' in the corridors of power.

"Fortunately, there have been positive signals coming back from the Department of Trade and Industry. But there are still dreadful frustrations when small businessmen are shuttled from one government department to the next on every move," he said.

Sacob has already set in motion a number of initiatives intended to spur on big business to offer a helping hand to aspirant entrepreneurs — not least in handing many more subcontracts to mini-businesses to tackle the production of components or the provision of a wide variety of services.

Not only has a special Small Business Committee been formed at national level to encourage the process, but scores of individual chambers are being asked to follow suit.

"South Africa still needs as many big corporations as possible to match the international giants by using economies of scale in industry and commerce," said Haywood. "Equally important, though, as proved all around the world, we also need to mobilise all the potential resources of the small business sector. The ideal would be far more balance in the development of big business and small business — more harmony and more pooling of skills.

"We have tremendous resources at our disposal. We usually concentrate on our mineral resources when we weigh our relative advantages in global terms. We need to give a lot more attention to our human resources."

Haywood likes to insert the reminder that when South Africa sells its basic chrome ore in its natural form, it brings in no more than about R600 a ton. If the raw ore were processed all the way to the manufacture of finished products — stainless steel pots and so on — it would become worth tens of thousands of rands a ton.

"The missing link is the required number of factories along the pipeline to handle the gradual beneficiation of the raw material. That's where countries like Japan, with few such natural resources of their own, weave the magic that makes them economic world-leaders.

"South Africa needs to take a new count of its known and hidden resources. The role of small business could be enormous.

"The answer would be the installation of a Small Business Supremo with the clout to clear all obstacles and define brand new ways to tap the full potential of our budding entrepreneurs." □

# Market research 'can put a figure on brand value'

BIDAY 13/10/92. (180)

MARCIA KLEIN

BRAND equity — the monetary value of a brand — was a measurable entity, and research could assist companies not only in terms of brand awareness, usage and attitudes, but in measuring its worth, Research Surveys joint MD Henry Barenblatt told an SA Marketing Research Association convention at the weekend.

Brand valuation was necessary not only for mergers and acquisitions, brand licensing and raising finance, but also for brand management and the allocation of funds to build brands.

Barenblatt said the power of brands, and the difficulty and expense in establishing them, was indicated by what companies were willing to pay for them. Some recent international acquisitions of major brands cost billions of dollars.

But he said it was more difficult today to build brands than only a few decades ago. In addition, there were signs that the brand-building process was eroding as loyalty levels were falling, and price was becoming more important to consumers.

Brand-building was also suffering because of a preoccupation with company results in the next quarter rather than "brand strategies founded on achieving success two to three years down the line".

Barenblatt said companies and marketing managers were concerned only about what happened in the near term, and this was bad for brands which needed long-term growth strategies.

A major issue was to establish how valuable brands were, in order to decide what sort of funds should be invested in them.

"Brand equity" was becoming a "hot name", Barenblatt said, and major international companies had realised that future growth lay in buying and building on big brands.

Market research had concentrated largely on consumer-related aspects of brands, and had been thin in the area of brand equity.

The brand name was "the goodwill that existed in the market for a brand as a result of a period of presence and consumer experience".

In light of the importance of brand values, Barenblatt had formulated research which combined a calculation of earnings with a measure of the consumer relationship with the brand, to come up with a brand value in rands and cents.

He said an evaluation of consumer awareness together with current earnings needed to be integrated.

# 'Pioneer' traders woo Arabs

180

PETER DELMAR

MOST of the 250 South Africans taking part in last week's SA exhibition in Dubai considered themselves pioneers in a strange and at least formerly hostile land.

For decades the region had been officially and firmly closed to SA. A Dubai promotional brochure given to the media still warned that visitors with Israeli and SA passport stamps were unwelcome. But by the time the exhibition, SA and the Gulf: A New Link, closed on Friday, the mood among participants was euphoric.

Benefiting enormously from the South Africans' novelty appeal, the show attracted 4 500 businessmen from 27 countries. They came from as far afield as Russia, Senegal and Japan (although organisers said the Japanese were there to check out the new opposition, not to buy). So many Saudi Arabians wanted to attend that they could not all get flights. Iranians and Kuwaitis flooded the exhibition.

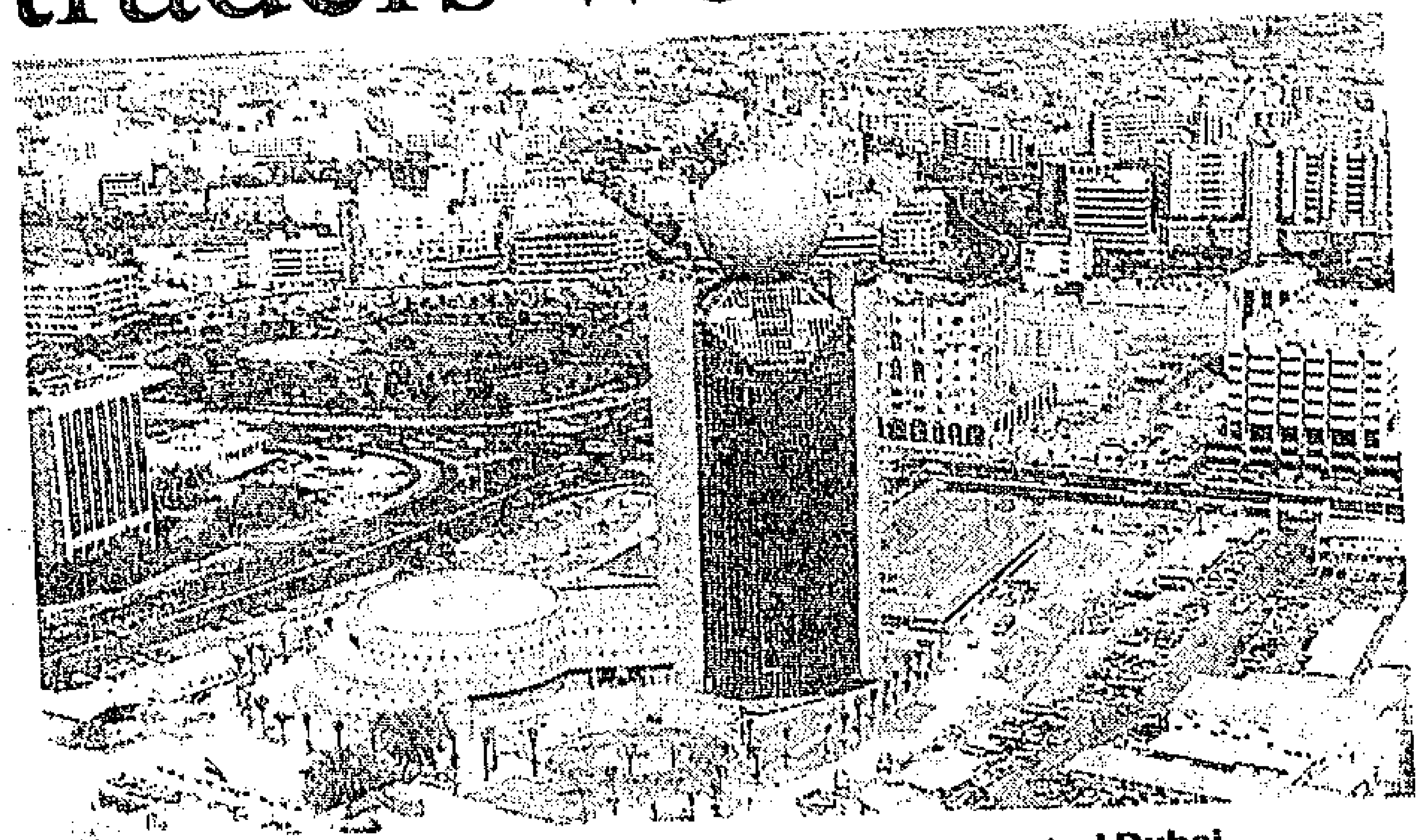
The venue for the show was well chosen. Dubai — a bustling, fascinating *arriviste* on the world trade scene — is the undeniable trade centre of the Gulf. It is home to only 600 000 people, but last year its imports were worth more than R30bn and its non-oil exports and re-exports R8bn. It claims to distribute to a market of 1-billion people. Each year more than 5-million passengers pass through the Dubai international airport.

Exhibitors were repeatedly cautioned beforehand by Safto officials not to expect to sign deals at the show, and that doing business in the Arab world was a long-term process which required a lot of spadework.

But many went ahead and did business anyway. At night, after the show closed, it was not uncommon to see, in hotel lobbies, South Africans and Arabs in their traditional "dish-dash" robes poring over price lists and even contracts.

By the time the show ended more than half had sold their exhibition material and all were surprised with the quality of serious inquiries. The fact that so many tied up firm distribution arrangements and orders underlined the potential of the Middle East for SA exporters.

The show scored a number of firsts. It was the first SA-only trade show outside of Africa. It was the first time South Africans had exhibited their wares openly in the Middle East, and the Flitestar flight bringing many of them to Bahrain was the first air link.



The Etisalat telecommunications tower in central Dubai.

BDAY 13/10/92

The show's success had as much to do with curiosity about SA as it did with the quality of products. Safto CE Len van Zyl said his "biggest thrill" was being told that the SA products were of a surprisingly good quality and Safto international GM David Graham said he believed prices were generally "in the right ball park".

Despite being a latecomer to this hugely lucrative market, SA exhibitors found they could compete. Many show visitors remarked on how technology home-grown in the isolation years had impressed them.

Another vital factor in the show's success was the co-operation between the private sector, Safto and the departments of Foreign Affairs and Trade and Industry.

International exhibitions of this nature do not come cheap. It is believed the exhibition cost about R2,5m. The money came from the participants themselves, four major sponsors as well as a healthy contribution from Foreign Affairs and Trade and Industry. Few, if any, of the participants would dispute that it was money well spent.

Describing the show as "a victory for the whole of SA", Foreign Affairs Middle East head John Sunde said it was the first time that his department, Trade and Industry and Safto had co-operated in such a venture. "We recognised the region as a priority market and Dubai as a priority centre and for this reason decided to put more money into the show," he said.

As SA emerges from isolation, similar ventures will have to be undertaken in all the major markets of the world. And there will have to be repeated follow-up exhibitions and visits, particularly in the Middle East where the market requires continual wooing.

The governments of many other countries sponsor such trade shows 100%, and if the SA authorities are serious about export-led growth they will have to find much more money for external trade promotion. So, too, will the private sector.

LETTERS

# Board calls for competition rules review

BDay 14/10/92

(180)

PETER DELMAR

COMPETITION Board chairman Pierre Brooks yesterday proposed a sweeping review of existing competition policy, including the possibility of forcing uncompetitive companies to give up market share to new entrants.

A discussion document compiled by Brooks said deficiencies within the current system of competition administration needed urgent remedy.

The document proposed replacing the board with a Competition Tribunal and an appeal court. The board's current investigations directorate would take over most of the existing board functions.

Brooks said yesterday the system would remove government's direct role in policy implementation. Currently the board only made recommendations to government. It was not envisaged there would be goverment representation on the tribunal, although members would be state-appointed.

The board's investigations directorate should be renamed the Office for Competition Matters and handle complaints, conduct investigations and prepare reports for presentation to the tribunal.

In addition to acting against price-fixing, market sharing, resale price maintenance and collusive tendering, the tribunal should be able to outlaw other anti-competitive behaviour on an ad hoc basis.

Brooks suggested facilitating the entry of viable companies into uncompetitive markets by "persuading or obliging the company or companies already operating in it to dispose of a portion of its or their share of the market to the potential entrant at a reasonable price".

Brooks said the board had accepted that some measure of corporate conglomeration was not only tolerable, but desirable. "However, the degree of economic concentration in SA is probably too high."

The holding of directorships of competing companies within or outside conglomerates should be prohibited.

"Where group policies require the allocation of business to companies within the group to the exclusion of outside competitors, this could constitute an unjustifiable barrier to entry, warranting investigation as a possible restrictive practice."

☐ To Page 2

## Competition

BDay 14/10/92 (180)

☐ From Page 1

Brooks said affirmative action was reconcilable with a progressive competition policy and cited the examples of efforts to give Flitestar a realistic share of the domestic air industry, as well as protection of the sorghum beer industry.

Brooks recommended that parties to acquisitions should be compelled to make prior notification of their intentions if these deals were of a "predetermined magnitude" or would lead to "predetermined levels of concentration in a given market". The document did not elaborate as to how this measure would be implemented.

# New Cape chamber chief

LINDA ENSOR

CAPE TOWN — Handi-Pak MD John Middleton was elected president of the Cape Chamber of Industries at the chamber's AGM last night. Middleton has been a member of the chamber's executive council for five years.

Barlow Rand (Cape) chairman Ted Parlabean was elected first vice-president and Duram Products MD Michael Stekhoven and Middleman Brokers owner Harold Storey were elected vice-presidents.

180

In his outgoing address president Ernest Wilson bemoaned SA industry's low level of productivity relative to its trading partners, and especially relative to its competitors in the Pacific Rim.

"The investment incentives we offer are pitifully unattractive and our export incentives are not geared to promote the greater beneficiation of our domestic raw materials," Wilson said.

"Throughout the world, cost reduction is the name of the game, yet our costs in SA, even in recession, are rising almost in step with inflation, which stubbornly continues to defy all efforts to achieve even single-digit status."

He said the chamber was concerned that current government consumption expenditure remained excessively high at 21% of GDP compared with the 10%-15% of most of SA's trading partners.

The next few years were unlikely to bring a significant reduction in state expenditure as socio-economic backlogs would have to be dealt with.

FM 16/10/92 (180)

ANGLOVAAL INDUSTRIES

FM 16/10/92

# Rerating reversal

(180)

**Activities:** *Holding company for Anglovaal's industrial interests.*
**Control:** *Anglovaal 59,6%.*
**Chairman:** *B E Hersov; MD: J C Robbertze.*
**Capital structure:** *31,7m ords. Market capitalisation: R4,2bn.*
**Share market:** *Price: R132. Yields: 13% on dividend; 6,9% on earnings; p:e ratio, 14,6; cover, 5,5. 12-month high, R145; low, R105. Trading volume last quarter, 207 000 shares.*

| Year to June | '89 | '90 | '91 | '92 |
|---|---|---|---|---|
| ST debt (Rm) | 258,8 | 211,6 | 200,1 | 250,7 |
| LT debt (Rm) | 226,4 | 300,2 | 278,7 | 105,7 |
| Debt:equity ratio | 0,12 | 0,22 | 0,17 | (0,17) |
| Shareholders' interest | 0,44 | 0,42 | 0,46 | 0,58 |
| Int & leasing cover | 10,7 | 13,3 | 16,9 | n/a |
| Return on cap (%) | 17,9 | 19,5 | 20,7 | 13,9 |
| Turnover (Rm) | 4 515 | 6 486 | 7 386 | 7 958 |
| Pre-int profit (Rm) | 488 | 635 | 732 | 660 |
| Pre-int margin (%) | 10,4 | 9,7 | 9,8 | 8,2 |
| Earnings (c) | 657 | 733 | 825 | 907 |
| Dividends (c) | 120 | 135 | 150 | 165 |
| Net worth (c) | 2 938 | 2 757 | 3 419 | 4 840 |

**Three years** ago, the *FM* had occasion to comment on Anglovaal Industries' unfavourable market rating relative to other conglomerates in the industrial holding section, such as Amic, Barlow and Malbak. Not only has the shortfall been made good, AVI has streaked ahead to the point where, on p:e ratios, it is rated at an average premium of 50% over the other three. With dividend yield as the yardstick, the gap widens to over 100%.

There is a simple explanation: AVI's earnings have continued to grow (if modestly), whereas the others have all declined. The reasons for its superior earnings performance are more complex and seem to stem largely from traditional conservatism and meticulous attention to financial management.

Three features of financial 1992 were the rights issues of low-interest convertible debenture in AVI itself and subsidiaries Consol and I&J, the acquisition of a 25% stake in cement producer Anglo-Alpha and the sale of the 16,2% stake in Cadswep, which boosted cash resources by a further R177m.

The favourable interest turn applicable to the debentures and income arising from the Cadswep disposal enabled the group to overcome lacklustre trading conditions and keep earnings tilted in the right direction.

Both factors should continue to underpin 1993 results, as benefits will be felt for the full 12 months instead of only eight for the debentures and nine for the Cadswep funds, though the decline in interest rates underscores that these funds need to be productively deployed instead of just banked as, for the most part, has been the case up to now.

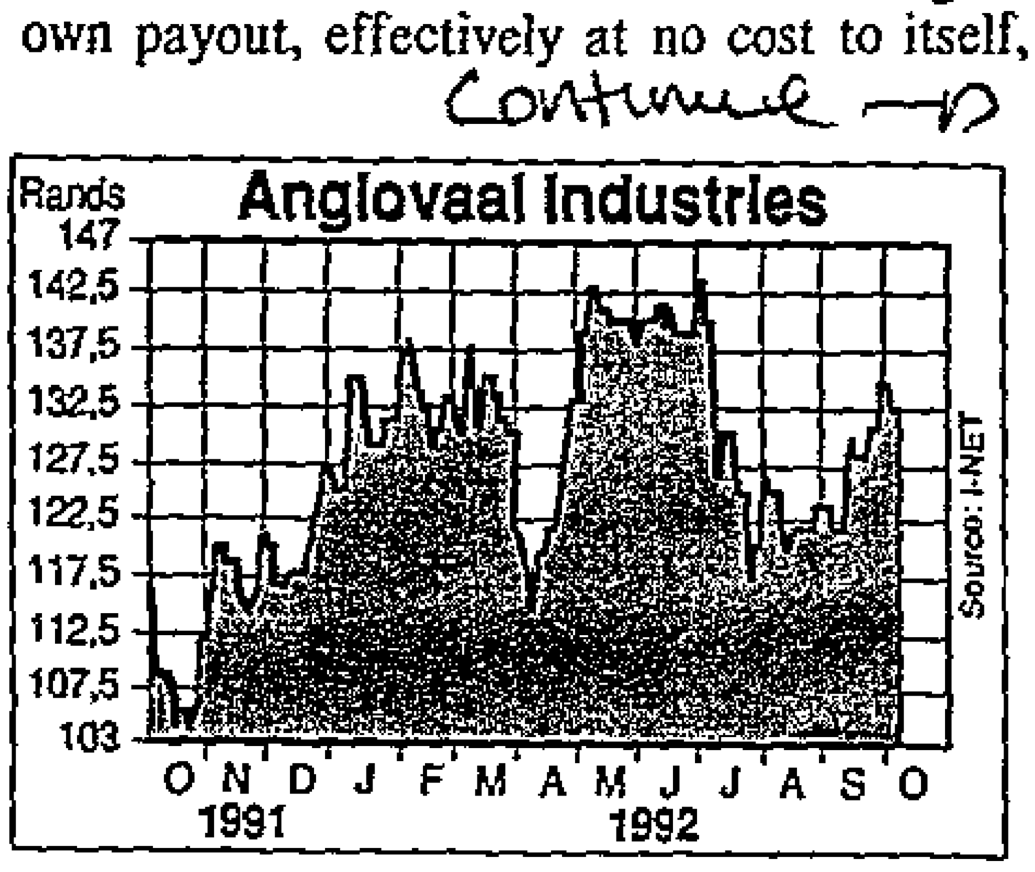
The effect of the Anglo-Alpha buy was negative in terms of both earnings and cash flow. But this was only because of timing and the impact promises to be strongly positive, particularly in terms of cash flow, once a full contribution is received.

The initial holding — 19,5% — was acquired at the start of calendar 1992 and topped up to the full 25% only in May. AVI's effective average holding over the six months to June was, thus, just a fraction above 20% and, based on Anglo-Alpha's interim results (also to June), it brought to account attributable earnings of R8,7m — equivalent to EPS of 855c on a weighted average of the additional AVI shares, compared with the 909c which would otherwise have been earned.

AVI paid out about R600 000 more in dividends on the additional shares than it received from Anglo-Alpha, based on its single annual dividend against only the interim received from its new investment. But in a full year, on existing dividends, AVI stands to benefit by about R7,3m. It should receive R11,4m from Anglo-Alpha and pay out only R4,1m on the 2,5m of its own shares which support this investment.

This favourable "dividend turn" — which is equivalent to 23c per share — should ensure that AVI can continue increasing its own payout, effectively at no cost to itself,

Continue →




COMPANIES FM. 16/10/92 (180)

**AVI's Robbertze** ... *still merits a premium policy*

even if operational earnings still stagnate.

Operationally, with little help likely from the economy, results will probably depend on the success in dealing with last year's trouble spots — in particular, Grinaker and the textile division, both of which made negative contributions to the bottom line.

## DIVISIONAL BREAK DOWN

| | Earnings % 1991 | Earnings % 1992 | ROE % 1991 | ROE % 1992 |
|---|---|---|---|---|
| Consol | 29 | 30 | 33,1 | 28,7 |
| National Brands | 22 | 22 | 22,5 | 15,8 |
| Diversified holdings | 23 | 21 | 14,0 | 12,6 |
| I&J | 20 | 19 | 21,8 | 21,1 |
| Grinaker | 7 | — | 12,9 | (0,4) |
| Anglo-Alpha | — | 3 | — | — |
| Holding company | (1) | 5 | — | — |

Chairman Basil Hersov is reasonably optimistic that AVI will extend its seven-year run of improved earnings, though the extent will depend largely on at least a mild improvement in business conditions and a return of business confidence. However, in view of the strong financial position and improved cash flow prospects, it will be surprising if shareholders receive anything less than the 15c extra dividend which has been paid out each year since 1989.

Prospective distribution of 180c does not exactly make AVI — at R132 — a bargain. But the mere prospects of an improved payout in the present climate could preserve the premium rating. *Brian Thompson*

COMPETITION BOARD (180)

# Would more power help?

FM 16/10/92

**In SA's** highly uncompetitive and heavily State-owned economy, companies may wield too much power. So the Competition Board believes it needs more power too in order to level the playing fields.

In an 18-page report released this week, Board chairman Pierre Brooks suggests a new competition policy that dramatically expands government's role in creating competition. If implemented, the proposals could avert harsh anti-trust legislation by an ANC government that would simply break up big companies. But the proposals also would give government wide powers over business.

The report, called *Future Developments in SA Competition Law and Policy*, suggests:

☐ Creating an Office for Competition Matters to handle complaints, conduct investigations and prepare reports, a Competition Tribunal to adjudicate these issues and a Special Court to deal with appeals against tribunal decisions;

☐ Granting the tribunal the power to declare anti-competitive behaviour — as well as price-fixing, market sharing, resale price maintenance and collusive tendering, which are already outlawed — "on an ad hoc basis as they arise;"

☐ Granting the tribunal the power to order reports from businesses on price increases when two or more major companies in an oligopolistic industry — defined as when the market share of the top three companies is more than 70% — raise prices by a similar percentage or amount in a three-month period;

☐ Compulsory notification of all proposed acquisitions of a certain size, or that would lead to a certain level of concentration;

☐ Prohibiting interlocking directorates between competing companies within or outside conglomerate groups and investigating possible barriers to entry and restrictive practices;

continue →





FM 16/10/92

☐ Giving powers to the tribunal to investigate "unfair" competition by government or State-owned companies and drawing up clear rules or guidelines for the competitive behaviour of these bodies, such as requiring full disclosure of all subsidies and having independent regulatory bodies to approve all price increases by public utilities; and

☐ Raising criminal fines dramatically (he believes the current maximum, R100 000, is too low) and granting powers for more proactive — rather than the board's current reactive — investigations. (180)

Brooks's suggestions are criticised by several experts on business competition, who warn against giving more power to a statutory board that could be politically abused.

"To make the economy more competitive, one needs to reduce import tariffs and get rid of control boards and statutory monopolies," says University of Cape Town economist Brian Kantor. "Imports would force local companies to compete on a global scale and this is the best remedy for perceived inequities in the local market."

And, adds Wits economist Daniel Leach, Brooks seems to take aim at the private sector when his real target should be statutory monopolies. "In my studies I found that private monopolies are the result of business efficiency and should not be punished."

Brooks says his report concedes that tariffs are a barrier to competition which needs to be removed, but this lies outside his power. And, he adds, the report agrees that "big is not necessarily bad."

"What we need to investigate in SA," he says, "are so-called restrictive practices and acquisitions that limit competitive choice in the market.

"I also ask for added powers to investigate non-competitive behaviour by government and the parastatals. And all my recommendations are in line with modern competition law developments elsewhere."

This statement raises an amber light for Leach. He says US anti-trust laws, as well as actions by the UK competition authorities, have operated to reduce competition and should not be duplicated here. "In the UK, authorities have acted to protect *competitors*, when their aim should be to promote *competition*."

Brooks says he has no desire to introduce US- or UK-style laws in SA. But he adds: "It is clear that there are deficiencies in the existing system that need to be remedied. In fact, a comprehensive reappraisal of the situation is necessary." ■

# Tariff-free Dubai an eye-opener for SA visitors

BDAY 16/10/92. 180

PETER DELMAR

IN 30 years' time, Dubai will run out of oil.

The 3 500km² emirate currently pumps about 350 000 barrels a day — small change compared to the 5-million or so a day which Saudi Arabia produces. But it has been enough to transform this formerly desolate little fiefdom of goatherds and small-time dhow traders into what is today often referred to as the Hong Kong of the Middle East.

Oil accounts for only 43% of GDP in the United Arab Emirates' (UAE) of which Dubai is the second largest centre, and this is set to drop further, not because of any significant decline in oil output, but because of the exponential trading growth which Dubai in particular is experiencing as the entrepot of the Middle East. Oil's share of Dubai's GDP is even less than the national average.

Recession-weary SA businessmen who visited the emirate last week for a trade exhibition were staggered by the statistics which the locals proudly trotted out.

Despite the effects of the nearby Gulf war, imports last year grew by 22% and exports by 21%. Imports amounted to R30bn and non-oil exports to R8bn. Because of the war and worldwide recession, GDP growth fell from 8% in 1990 to 5,6% last year. Container traffic was up by 37% last year and overall trade by 18%.

GDP per capita is one of the world's highest at $20 000.

Dubai's entire oil revenue accrues to one man — the emir, Sheik Maktoum bin Rashid Al Maktoum. He rules over an almost absolute monarchy and there are no trade unions or opposition parties, but locals and even expatriates speak of the emir and his late father, Sheik Rashid (known as the founder of modern Dubai), in almost reverential tones.

From Dubai's outstanding infrastructure, lush green parks and ostentatiously grand golf courses, it is clear that the emir has invested heavily in making the city an attractive investment and business centre.

Dubai's oil wealth has made it possible to exempt companies and individuals from income tax, have no foreign exchange controls and peg import duties at only 1%.

When the oil runs out, taxes will no doubt be implemented and duties raised. But by then Dubai will be well established as a trading and business power.

Road and air links have been heavily invested in and — particularly impressive — local telephone calls are free of charge.

Like all other Arab states, Dubai and the UAE are major importers of labour. Only a quarter of the population of 600 000 is indigenous. The rest is expatriate, mostly from the Indian subcontinent, Asia and Europe, the overwhelming majority of them employed in non-oil industries.

The emirate is home to the world's largest man-made harbour, situated inside the Jebel Ali Free Trade Zone.

About 420 companies, including many leading multinationals, have facilities within the 100km² zone. Last year there were 360. Some SA companies who participated in this month's trade fair, although virtual newcomers to the Gulf, were already seriously thinking of establishing a presence there.

The free trade zone allows unrestricted repatriation of profits and 100% foreign ownership, unlike the rest of Dubai where at least 51% of equity must be in the hands of locals, although there are not similar stipulations regarding profit distribution.

For countries such as SA which are desperately trying to attract foreign investment, the competitive advantages of locations such as Dubai are all too obvious.

Comparisons with SA must, because of the emirate's fabulous oil wealth, be of limited value.

In terms of cutting red tape, however, the Dubai experience offers important lessons for SA. Importing, exporting and re-exporting is easier in Dubai than elsewhere in the Middle East and in most major business centres in the world.

To exploit a growing trend towards combining sea and air transport, Dubai is equipped to despatch by air a consignment just four hours after berthing at Jebel Ali.

Despite the benefits of fabulous oil wealth and the fact that they do not have established industries to cosset, the Dubai experience serves as a powerful example of how the dismantling of trade walls can benefit a society. Perhaps SA's present and future economic policymakers should all be despatched there at taxpayers' expense.

LETTERS

# Keeping pace

FM 16/10/92

**Inflation-linked** bonds could become an alternative for institutions looking for new investment opportunities. Investors are faced with a shortage of local bluechip scrip on one hand and exchange controls, prohibiting foreign investment, on the other. And yields on fixed-interest bonds are often outpaced by inflation.

Richard Jesse, of brokerage Martin & Co, proposes a listed inflation-linked bond: a bond issued with a payout which escalates annually in line with inflation. The instrument would generally be irredeemable.

From an investor's (holder's) viewpoint, the p:e ratios of sought-after shares are becoming relatively high, with ratios of over 20 becoming increasingly common. As a result, Rembrandt, SA Breweries and Liberty are offering dividend yields of 1,3%, 2,4% and 2,3%.

Take the case of a company issuing paper yielding, say, 4% annually initially — similar to the yield on bluechip equities. Assuming a

Continue



R100 issue price, the return in the first year will be R4 and, taking a 10% inflation rate, a payment of R4,40 will be made in the following year. The investor thus receives an annual cash flow which is constant — and this is important — in real terms.

As interest received is not taxable in the hands of an institution, the paper would be attractive to institutions.

Investors should also benefit by capital gains, as the price of the paper will increase in line with the higher interest payouts. This is based on the same principle as equities, where share prices rise in line with increased dividend payouts.

From an issuer's viewpoint, this instrument reduces the cost of capital. For instance, companies could replace bank debt, currently costing around 18%, with this paper, reducing their cost of capital by 14%. In fact, the after-tax cost to a local company issuing a 4% bond is 2,1%.

This paper also has the advantage that no voting rights need be attached to it.

However, the proposed instrument ties a company down to ongoing nominal payout increases (assuming inflation) — awkward if revenues and profitability do not increase at the same rate.

Also, in certain circumstances, this type of financing may prove more expensive than bank borrowings, where slack monetary policy results in a move from positive to negative real interest rates.

Inflation-linked bonds were introduced in the UK some years ago without success. However, this was because the country, under then prime minister Margaret Thatcher, entered a long disinflationary cycle, something unlikely to occur in the new SA. ■

SOWETAN 16/10/92

**Businessmen to Rome**

INDUSTRIALISTS from SA and Italy are to attend a workshop in Rome today hosted by the Italian state bank Mediocredito. (180)

The 27 SA businessmen ~~from~~, among others, Rupert International, Stocks and Stocks, LTA, Malbak, Sasol, the Gazankulu Development Corporation, Standard Bank and Wesgro will meet Italian industrialists, including representatives from FIAT, Iritecna, Falck and FATA.

# Safto seeking ties with development body

(180)

SHARON WOOD

SAFTO intends to start a major campaign to interact with the Africa Project Development Facility, beginning with a visit to its head office in the Ivory Coast in late November.

Safto Africa division head Paul Runge said yesterday he was very impressed with the progress made by the organisation, which was jointly sponsored by the African Development Bank, the International Finance Corporation and the UN Development Fund. BDay 16/10/92

The organisation was set up in 1986 and its aim was to move away from being involved in larger, cumbersome commercial projects towards identifying and addressing the needs of smaller commercial ventures of between R5m and R10m, Runge said. It provided advisory services to private African entrepreneurs in preparing for viable projects.

While the organisation does not provide project financing, it works with entrepreneurs to secure financing from banks and appropriate sources of capital. It also helps them to obtain technical and managerial assistance to start up projects.

SA companies had already been involved with projects identified by the organisation and some of the banks were involved in talks aimed at setting up co-financing arrangements, he said.

Runge said Safto would also promote trade between the two countries during the visit. "There is a lot of business there and it is a major link to the region," he said.

A spokesman for a company involved with the Development Facility said the organisation was approaching SA companies to conduct feasibility studies on projects in the neighbouring countries.

The organisation's southern Africa regional manager Omari Issa said Cape-based Engineering Management Services had been commissioned to conduct a market study for a manufacturing facility in one of the Southern African Development Community countries. He could not reveal further details.

# SA entrepreneurs gain support

BLACK South African entrepreneurs and small businesses are gaining more local and international support because of the annual Matchmaker business fair. CiPNew 18/10/92

More than 150 black companies are to exhibit their services and goods to multinational and co-operate companies at the annual trade exhibition organised by the Matchmaker services (MMS).

The fair will be held at Nasrec, Johannesburg, from Wednesday to Saturday. (180)

# OFFICIAL: SA under-performs

S|Times (BUSS) 18|10|92 (180)

By KEVIN DAVIE

SOUTH AFRICA has emerged as one of the main under-performers of the latest World Competitiveness Report.

The report ranks 37 industrialised and newly-industrialised nations.

South Africa, which is included in the annual study for the first time, is ranked eight of 14 developing economies, narrowly ahead of Venezuela.

Singapore, Taiwan, Hong Kong, Malaysia, Korea, Thailand and Mexico were found to have more conducive environments to promote global and domestic competitiveness.

The report is a joint annual project by the World Economic Forum and IMD, a Lausanne-based management development school.

The ranking looks at eight key variables:

- Domestic economic strength;
- Internalisation;
- Government;
- Finance;
- Infrastructure;
- Management;
- Science and technology;
- and People.

SA achieves relatively high rankings on only two of these criteria. It is ranked fourth in finance, the performance of capital markets and the quality of financial services.

## Dismal

SA gets the second-highest developing country ranking in science and technology.

But SA's performance on several of the other criteria is dismal. SA is ranked 12th in terms of the strength of its domestic economy, just ahead of 14th-ranked Hungary, now reforming after years of socialist rule.

SA is 10th on participation in international trade and investment flows and 10th on the extent to which government policies are conducive to competitiveness. It is last (14th), after Pakistan, on the people measure, which describes the availability and qualifications of human resources.

"The challenge is to spread its competence, skills and educational basis among the population," the report says.

Some points of SA's excellence are identified by the report. South African managers consider themselves the most willing to delegate, cooperation between universities and companies is only behind that of Singapore, and SA, Singapore and Malaysia come out tops in the protection of intellectual property.

Japan is the industrialised world's most competitive nation, with Germany holding second position. The US slips from second to fifth. Switzerland holds third spot, with last year's top performer, Denmark, moving from eighth to fourth.

The report says Denmark's improved rating comes from the confidence Danish executives have in their economy. This is supported by the underlying economic data, which shows that the domestic economy climbed from 11th to 8th place among industrialised countries.

## Urgent

Competition Board chairman Dr Pierre Brooks says the report shows that there is an urgent need for the reappraisal of the competitive environment in SA.

"It is clear there are deficiencies in the system which need to be remedied as a matter of urgency. A comprehensive reappraisal of the situation is necessary."

# Disclosure of mergers proposed in document

BDAY 19/10/92

PETER DELMAR

COMPETITION Board chairman Pierre Brooks yesterday allayed fears that companies could be compelled to make public disclosure of intended acquisitions and mergers.

Brooks has released a discussion document in which he proposes that involved parties should be required to notify the authorities of pending acquisitions if they were of a pre-determined magnitude or would lead to a particular level of concentration in a given market. (180)

The proposal was one of several contained in a suggested wide-ranging review of existing competition policy which would include the creation of a tribunal to adjudicate competition matters.

Brooks said it was established procedure in other countries for parties to pending acquisitions to notify the authorities if the deal was of a certain size or would lead to a concentrated market share of, for instance 40% or more.

He said many companies in SA currently approached the board for "clearance" before proceeding.

If, as envisaged, companies were compelled under certain circumstances to inform the authorities of their deals, this information would be confidential until both parties agreed that the time was right to go public.

# African markets 'ripe'

BDM 21/10/92

PETER GALLI

LOCAL entrepreneurs were losing millions of rands in sales and many opportunities to participate in projects in Africa, Safto Africa head Paul Runge said yesterday.

He told the annual Bifsa conference at Somerset West that Safto helped about 250 local businessmen move into African territories each year and had established a strong core who traded there regularly. (186)

However, local businessmen were hampered by factors such as a lack of deployable personnel and a lack of income to send people looking for work.

A lack of African contacts and ignorance of the local scene were other hindrances. "Africa is a continent in which little business is done until the right contacts are established, which is partly due to the fact that so many African countries have been ripped off in the past by their European partners," he said.

The legacy of apartheid was also a contributing factor, still making it difficult for locals to gain access to certain sources of funds and expertise, as well as to deal with certain governments.

"Time and again local businessmen have shown that they have better quality and less expensive services and products to offer other Africans. However, they lack the financial packages to make it possible for prospective customers to buy," Runge said.

# Dubai fair brings $250m in orders

B\DAY 22\10\92. (180)

PETER DELMAR

THIS month's SA exhibition in Dubai, United Arab Emirates, generated export orders worth substantially more than $250m, it was disclosed yesterday.

The SA Foreign Trade Organisation (Safto) said the figure of $250m was drawn from a survey of just 20% of the more than 100 companies which took part.

The show, SA and the Gulf: A New Link, had proven so successful that a follow-up exhibition, also in Dubai, was being planned for next year.

"Although most exhibitors are reluctant to release figures and Safto is not at liberty to disclose clients' trading details, the $250m is drawn from orders placed during the show with only 20% of the more than 100 companies which took part," a Safto statement said.

"More than 4 500 businessmen from across the Gulf turned out to view SA products and their response to our quality, technology and price was extremely positive," said Safto CE Len van Zyl.

"The export orders, both signed and in negotiation, are only a fraction of the potential trade into the region and both exhibitors and organisers are euphoric at the many successes of the show which ran from 6 to 9 October in the Dubai World Trade Centre," the statement said.

"Whether participating to sell, finding an agent or distributor, testing the market, establishing a joint venture or a local office, exhibitors were overwhelmed by the range and quality of inquiries.

"Visitors to the show were drawn from 27 countries with many Gulf businessmen travelling specifically to Dubai for the event."

Safto GM international operations David Graham said: "We are looking very seriously at running another exhibition in October next year and hope to be able to make an announcement very soon."

To meet local demand for trade opportunities with Gulf countries, Safto will also offer exhibition space at a variety of specialist Middle East shows during 1993.

This month's exhibition was the first solo SA trade show outside of Africa.

It was organised by Safto and the Trade and Industry Department in association with the Foreign Affairs Department.

Although a number of participants had traded successfully with the region and despite the continuing existence of Arab League sanctions, most of the exhibitors were doing business with the Gulf for the first time.

Products on display included petrochemicals, construction services, foodstuffs, steel and technology.

DISCLOSURE FM 23/10/92

## Seventh veil

(180)

**An amendment** to the Fourth Schedule of the Companies Act will oblige companies to comply with existing disclosure provisions of statements of Generally Accepted Accounting Practice (GAAP). Trade and Industry Deputy Minister David Graaff approved the revision on Tuesday.

The move has special implications for banks and insurance companies, which are exempted from many of the present requirements and they have been granted a moratorium until January 1994, after which the exemptions fall away. (180)

Ronnie Bowker, director: national accounting and auditing services at Ernst & Young, says a significant change is that companies will be obliged to disclose their turnover figures. Previously, they were allowed to disclose only the percentage change in that figure compared to the previous year.

"As far as banks are concerned, internationally and in SA, the trend has been towards greater disclosure. Many banks have taken the initiative in supplying information that they were not legally obliged to do." ■

# Amic appraises unbundling issue

BDM 23/10/92 (180)

MATTHEW CURTIN

ANGLO American Industrial Corporation has undertaken the most serious appraisal yet within the Anglo stable on the issue of unbundling, market sources said yesterday.

They noted that in the past three months Amic shares had suffered their biggest collapse since the 1987 share crash, but the stock remained overvalued. The group's dividend yield was at its highest level relative to the industrial index since it was listed in 1968.

They said added impetus for change within Amic came from frustration that the corporation was unable to raise funds at its centre because of its structure.

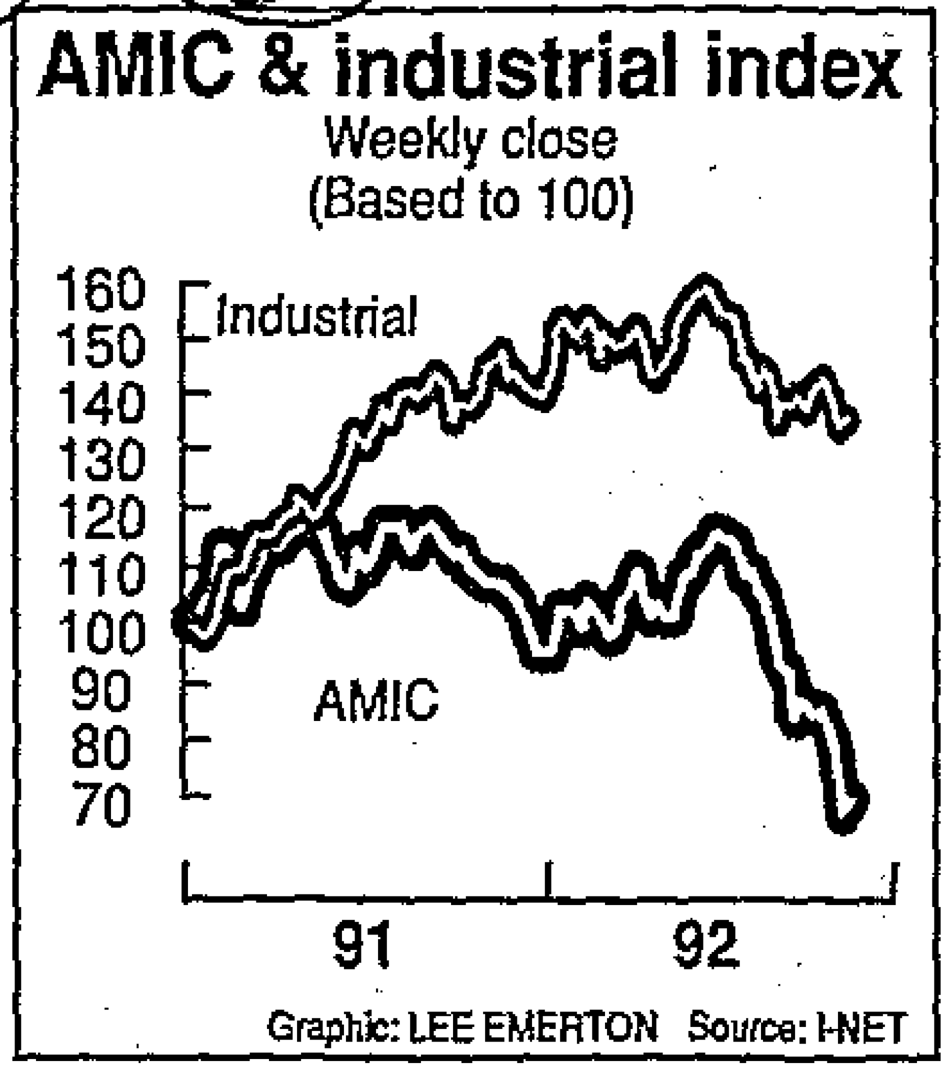
However, they said Amic management had put off plans to "unlock shareholder value", reflecting the current influence of conservative elements within the group — to whom the idea was "anathema" — and general concern about the weakness of the stock market.

Amic shares closed yesterday at R54, equivalent to a significant discount to net asset value of R77 a share stated at December 31 1991.

An Amic official declined to comment on the issue yesterday. In the past, Anglo chairman Julian Ogilvie Thompson has said the group had looked at the issue of unbundling, first given high profile by former Gencor chairman Derek Keys, but had decided it was not in Anglo's best interests.

One market source said Amic's biggest problem was that it had no significant cash-flow or tax-base of its own, made up as it was of self-contained public companies or associates.

"This has proved to be an extremely tax inefficient way of raising money to finance




□ To Page 2

## Amic BDM 23/10/92 (180)

□ From Page 1

new projects and stimulate growth within the Amic stable," he said, noting Amic's absence from the financing arrangements of associate Mondi's acquisitions in Europe, and the Del Monte/Royal deal.

"The latter would seem to fit in with Amic's stated aim of entering consumer markets, witnessed by the McCarthy/Prefcor Holdings deal, but the corporation did not have the means to take part."

Instead, such deals were being financed by parent Anglo, De Beers and cash-flush offshore arm Minorco.

Ed Hern Rudolph analyst Sid Vianello said Amic's market rating had never been lower, a sign of its position as "gross domestic fixed investment stock" tracking the fortunes of SA industry in general.

He said Amic had reviewed unbundling as a way to improve its image, simplify its "cumbersome and complex corporate structure" — releasing value obscured in unlisted companies like Scaw Metals and Boart — and enable a company like Mondi to raise money independently of its parent.

Despite Anglo's lack of enthusiasm for the unbundling concept, Amic might be a useful test case, because it was a holding company of large trading operations.

Amic shares have recovered from a year low of R51,50 earlier this week but are still a third lower than a peak near R90 a few months ago.

# Spreading their wings - or fleeing SA?

W/Mail 23/10 - 29/10/97

*Investment should begin at home, says the ANC. But South African business is pouring its money into offshore deals.*

**REG RUMNEY** *reports*

THE African National Congress and many South African companies are both telling foreign firms to hold off on investing in South Africa. The warning signal sent out by businesses is unintentional. They are — for good financial reasons — falling over themselves to invest overseas while domestic investment languishes.

Finance Minister Derek Keys has hauled around the world a chart illustrating the plight of the South African economy through the headlong fall in gross domestic fixed investment.

At the same time, South African firms have taken advantage of the dwindling pariah status of the country to become involved overseas.

Latest example is the Royal Group purchase, with Anglo American aid, of European food giant Del Monte Foods International in a R2,4-billion deal. And in June this year Sappi acquired Germany's Hannover Papier. Numerous other companies have made investments overseas since the landmark February 2 1990 speech.

Using the financial rand is one of only two routes available for South African companies investing overseas. The other is to raise loans or sell shares. All are in pure economic terms neutral. No capital flows out of the country through these deals.

Using the finrand, rather than "commercial" rands to invest outwards, is an expensive route, costing now around 33 percent more than if there were no exchange control. This shows the determination of South African firms to get hold of foreign assets.

The ANC Department of Economic Policy's Tito Mboweni says that firstly, the ANC has not called for the lifting of sanctions and so the countries where South African companies are investing should take heed.

"Secondly, our preference is now for South African companies to invest domestically, particularly in fixed assets, which would lead to a better labour absorptive capacity. It would improve the general performance of the economy."

He adds that a future democratic government cannot prevent companies expanding abroad, as long as this isn't capital flight. South African businessmen see nothing wrong with the current craze of investing overseas.

Anglo American spokesman Michael Spicer says South Africa, from the financial point of view of high inflation, high interest rates, a high cost of capital and high taxes, is not particularly attractive to invest. "The risk is high and is compounded by political uncertainty, violence and labour unrest."

Companies are investing abroad rather than here because they can't get a comparable return on their investment, he says. Besides this, South Africa is in deep recession and in many industries there is spare capacity, so why invest more money?

"In South Africa investment is talked about in moral terms rather than economic terms. The rules applicable in other countries are suspended."

Though no capital flight is involved in setting up a company overseas, an overseas presence could make it easier to export capital illegally, through hard-to-detect over-invoicing and under-invoicing.

In pure economic terms, Spicer and other businessmen are correct that business must seek the best return wherever they can.

But companies must know they operate in a world where economic considerations constantly vie with economic and ethical ones. Anglo is at least investing a sizeable sum domestically in job-creating ventures, albeit mainly in the commodity-exporting industries South Africa should be trying to wean itself away from. For instance, Anglo launched the R1,7-billion gold mining venture at Moab this week. It will create 5 000 jobs.

The Royal acquisition of Del Monte, too, says Spicer, will secure access of South African agricultural products to the essential core triad market. The resulting labour-intensive agricultural production in will create tens of thousands of jobs over the next five years, he adds.

That is commendable, but an estimated unemployment rate of 40 percent of the economically active population means more needs to be done.

Unless there is new investment, violence, unrest and hence uncertainty will continue — the familiar chicken-and-egg problem. Business owes it to the country to seek out new domestic investments.

# Sixth from bottom. Could do better

S Times (Buss) 25/10/92 (180)

SA was ranked 31st of 37 countries in the latest World Competitiveness Report. What accounts for its lowly ranking? **KEVIN DAVIE** reports

SOUTH AFRICA's inclusion in the World Competitiveness Report (WCR) for the first time shows that we're not in the same league as 23 industrialised countries including Ireland, New Zealand, Spain, Portugal, Turkey and Greece.

We are also not as competitive as newly-industrialised Singapore, Malaysia, Thailand and Mexico.

Competition Board chairman Pierre Brooks says SA is not competitive because our prices are not competitive. He says the prices of many basic products are regulated, controlled or protected so that they are set artificially high.

This is particularly the case with primary products, including steel, agricultural products, commodities and chemicals.

The case of agriculture is well-known, where rather than award prizes to businessmen who are able to cut prices, the Banana and Meat Boards threaten entrepreneurs with dire consequences.

"Complaints from businessmen are increasing," says Dr Brooks. "Unjustifiable barriers increase the prices of basic products, making us less competitive in the manufacturing sphere.

"Leading SA companies complain that their competitiveness, and the country as a whole, is undermined by the pricing policy of undertakings which charge London Metal Exchange, or other internationally determined prices, for commodities produced in SA, plus the calculated transport costs from the particular international venue to SA.

"The question that needs to be asked *is whether this is in the best interests of the country*?"

Economist Edward Osborn concurs. He told a conference as long as a year ago that the flower and vegetable markets were the only two he could think of where prices were determined by free competition, but added that he even had his doubts about these.

The steel industry, currently subject to a price-fixing investigation by the Competition Board, is a case in point. Critics say that the reference pricing used to set steel prices in SA raises the domestic steel price by up to 50% of the export price.

Ask leading manufacturers if they can successfully export manufactured goods without the multi-billion export subsidy which the taxpayer contributes. They say high domestic steel prices limits their competitiveness beyond our borders.

Osborn says there are a number of instances where the basic feedstock is protected in some form, making the local price higher than the international or imported price.

This limits SA's export and job creation potential: "The downstream can be disadvantaged, having to take materials supplied by protected domestic producers."

Dr Brooks adds that it is no good shouting about the need to add value, to beneficiate and to export when the domestic pricing environment mitigates against this.

Fuel — perhaps SA's most important basic commodity — is subject to the same regulation which would turn entrepreneurs into criminals. Fuel prices have little to do with the reality of the market.

The government and the oil industry pretend that we ship most of our fuel as a refined product from Singapore, while in reality it comes to Durban and other SA ports directly from the Middle East much cheaper as crude in giant supertankers.

This fiction adds hundreds of millions of rands annually to SA's fuel bills. It puts pressure on every price in the economy, including wages of black workers whom apartheid has accommodated some distance from their place of work. Higher fuel bills also increase the need to subsidise urban transport, which, it is estimated, will cost the taxpayer R1,4-billion this year.

Singapore is the WCR's most competitive newly-industrialised country. There are many reasons for this. One is that Singaporeans do not pretend that their fuel comes from Durban.

# Dire time for SA, developed or not

ST Times (BUS). 25/10/92. (180)

**MOVES to have South Africa reclassified as a developing nation have sparked controversy.**

By TERRY BETTY

Apart from concerns from business that the costs may outweigh the benefits, strong opposition is expected from developed countries, such as Australia.

Department of Trade and Industry director general Stef Naude says that, as a developing nation, SA would gain entry into trading blocs, such as the European Community (EC), on a preferential trade basis.

It would also have access to development aid.

But a South African Chamber of Business (SACOB) discussion paper on SA's future relations with southern Africa and the EC warns that the retrogressive step might cost the country more in terms of international creditworthiness and foreign investment than it would gain from EC development assistance.

A government source believes foreigners and local businessmen might be wary to invest in a country perceived as being a basket-case banana republic.

He says SA has to make a choice between increasing its exports or attracting foreign investment to SA. He says that even if SA had to reclassify, business would still be inhibited by the lack of foreign capital.

## Negotiate

Being a developing nation does not guarantee any advantages. Dr Naude says that, even if it is reclassified, SA will have to negotiate the preferential trade agreements with each trading partner.

And this can be formally challenged by any member of GATT (General Agreement on Tariffs and Trade) whose trading interests will be damaged.

An EC paper under the title "Trade Preferences and Post-Apartheid SA", says that, of SA's top 10 exports, only one-fifth are set to benefit substantially from preferences.

But the benefits will be felt by those outside the top 10. Fresh and processed fruit and vegetables, fish products and clothing and leather goods could benefit.

The government spokesman sees opposition to this in every quarter.

The SACOB report says the African, Caribbean and Pacific (ACP) countries, who are part of the Lome Convention and receive preferential trade status from the EC, will probably oppose SA's membership because it might reduce their share of EC aid and investment.

It says non-ACP countries, such as Australia, New Zealand and Canada, would lobby forcefully against SA's membership as they compete with SA in many areas.

And even some EC countries may object to competition from our fruit, wine, steel and textiles.

SACOB has set up a committee to evaluate the rand value of the benefits and costs. SACOB deputy director general Ron Haywood says that it is essential for SA to negotiate with its partners in the interim so that it can be reclassifed immediately after a decision is taken.

He says the Lome Convention is to decide next year how to split up the development aid pie amongst its members, and SA will lose out if it does not take part.

Businessmen also say SA should take advantage of the fact that most countries are at present sympathetic to its cause but that this will not continue for ever.

## Benefit

But few businessmen see aid as being the issue. They believe SA will only receive marginal amounts.

SACOB economist Ben van Rensburg says UN development agencies have put aside $75-million for the whole of sub-Saharan Africa. He says Namibia receives only R100-million from all the development agencies, while SA alone pumps in R800-million a year.

Nedcor chief economist Edward Osborn says SA must not become dependant on aid anyway. He says the benefit lies in the treatment accorded to SA by the industrialised countries, which are the primary markets of the world.

He says this will benefit SA industry that is up against stiff competition and is not internationally competitive.

Osborn says reclassification must be a long-term issue to be reviewed every 10 years.

However, a BMW spokesman says that as SA is going to have an interim government, it also needs an interim trade arrangement.

He says SA should downgrade just until it gets back on to its feet again. He says there is a tremendous danger SA will start to rely on preferential trade and cannot stand on its own feet.

# Appeal Court ruling could cripple many SA companies

STimes 25/10/92

(BUSS)

(180)

HUNDREDS of South African companies, especially small ones, could be rendered insolvent if a ruling on subordinated debt is upheld in the Appeal Court next month. So say Ernst & Young director Philip Reynolds and SA Institute of Chartered Accountants (SAICA) director Adrian Dadd.

Company directors may also find themselves exposed to charges of reckless trading, which would make them personally liable for the debts of the business, they add.

By ZILLA EFRAT

Subordinated debt has been considered to be a form of capital advanced by shareholders or creditors to a company by way of loan.

Seeking to protect other creditors, they agree not to claim repayment until all other creditors have been paid in full or until the assets of the company exceed its liabilities.

This type of debt is often used by developmental companies which incur large costs before they start earning income. It allows the business to continue trading, even though their total liabilities exceed their assets.

Subordinated debt has been accepted by SAICA and considered as a normal business practice for years.

## Conflict

The position, however, changed after a judgment made by Mr Justice Stegmann in the Witwatersrand Supreme Court in October last year in the case of Carbon Developments, an activated carbon manufacturer which was placed in liquidation.

Judge Stegmann held that subordination agreements were not enforceable and did nothing to improve the financial position of the company.

According to SAICA, the judgment is in direct conflict with opinion obtained from senior counsel and with judgments delivered in other cases.

Dadd says the shortcomings of subordination agreements have always been recognised. Nethertheless, many accountants believe that, when properly used by honest men and monitored, these agreements do serve a purpose.

Reynolds says the judgment does nothing to improve the integrity of dishonest businessmen, but merely hinders normal reasonable practice.

Many fear major disruptions if the ruling is upheld in Bloemfontein's Appeal Court on November 2.

Reynolds says hundreds of companies could be reported to the Public Accountants and Auditors' Board for material irregularities. This is because the judgment implies that directors are reckless if they allow it to trade while liabilities exceed assets.

To avoid falling foul of reckless trading, company directors will have to recapitalise their companies by changing their loan account into share capital.

Dadd says loan accounts can be paid back at any time, but a change in share capital requires special permission from the courts and can be costly. Those companies which cannot recapitalise will go insolvent.

He says the changes may cause directors to lose control of their companies and could create a dilemma for creditors which do not want to become shareholders in companies to which they have issued subordinated debt.

Reynolds says large groups will also have the inconvenience of having to issue share capital every time one of their subsidiary companies is technically insolvent.

The change from loan account to share capital will also have tax implications, because tax deductible interest is levied on loans while non-deductible dividends are paid to shareholders.

The Association of Insolvency Practioners in SA has raised funds from its members to get the matter heard on appeal. In the meanwhile, the judgment is only binding in the Transvaal.

# Sacob convention backs federal political solution

BIDAY 28/10/92 (180)

SHARON WOOD

DURBAN — Organised business put its weight behind a federal political solution here yesterday.

Chambers of commerce from across the country unanimously endorsed the Durban Chamber of Commerce's proposal for federalism at the Sacob convention here yesterday.

A spokesman for the Durban Chamber said a federal system was the only viable option for a stable and prosperous SA.

"A unitary system has not served the country well in the past ... centralised power is unhealthy and will be easily abused."

The chamber proposed a form of federalism where regional powers were constitutionally entrenched and could only be amended by a specific constitutional mechanism, such as a two-thirds majority.

Decisions made at a local level would be more efficient and effective and would be closer to the people being governed. There would also be better utilisation of resources at a regional level.

Constitutional Development Deputy Minister Tertius Delport endorsed the motion. He said both vertical and horizontal distribution would inspire confidence.

He added government wanted to see multiparty negotiations back on track because they were the only route to developing a new constitution.

The government was ready to start drafting a new constitution which would be structured on national, regional and local levels.

Finance Department director-general Gerhard Croeser also endorsed the Durban Chamber of Commerce motion. He said the crux of the problem had been the centralised system of financing.

Croeser added someone would have to oversee and facilitate the distribution of resources and there would have to be some form of redistribution to poorer regions.

The Durban Chamber proposed a two-tier system of financing. A central government structure would disburse funds nationally to the lesser privileged sectors of the community. But regions would have to have a reasonable degree of financial independence.

The Pretoria Chamber of Commerce called for the implementation of a foreign trade policy and implementation of the major elements of the IDC report on modifying protection policy. This motion was also unanimously accepted by delegates.

A spokesman for the Pretoria Chamber said there was insufficient co-ordination within trade policy and the current reliability of export incentives could be doubted.

Long-term export success was going to depend on the availability of internationally competitive products and the stimulation of a broad-based export culture.

Trade and Industry director-general Stef Naude said industrial and trade policy would have to be managed very carefully and cautiously because there was a limit to the pain a country could take.

## 'Progress' on train violence

WILSON ZWANE

SUBSTANTIAL progress was made in Johannesburg yesterday at a meeting of two working groups set up last week to find solutions to train violence, sources said.

The sources said the working groups — on preventative and active measures of ending train violence — would meet again within days to continue deliberations.

Further meetings would have to be held, they said, before resolutions on how to combat train violence could be taken. B/DAY

They said it had been agreed a joint statement be issued only after the resolutions had been adopted.

The groups were set up in terms of the Train Agreement, which was signed in May by representatives of community and political organisations, police and the SA Rail Commuter Corporation. 28/10/92

Sapa reports that police said one man was killed and another seriously injured when they were attacked by a group of armed men on a train in Soweto early yesterday morning.

Fangelakha Cebakalu, 45, and Emmanuel Vilakazi, 31, were attacked on a train between Longdale and New Canada stations.

"They were stabbed with knives and thrown out of the train. Cebakalu died from wounds sustained and Vilakazi was taken to Baragwanath Hospital in a serious condition," the police report said.

# Singapore moves to form SA links

(180)

LLOYD COUTTS

THE 10-year decline in SA's economy could not be reversed within one or two years, Singapore senior minister Lee Kuan Yew said in Johannesburg yesterday.

And in another development, the Singapore Trade Development Board announced yesterday that a trade delegation from Singapore was to visit SA next month to develop trade and investment links and to explore the possibility of using SA as a springboard for markets in Africa.

The board said the delegation of its senior executives and representatives of 11 Singapore companies would visit Durban and Cape Town.

Speaking after a meeting with ANC president Nelson Mandela, Lee said SA's industries had become "protectionist, heavy and slothful" because competition had been discouraged.

Lee said Mandela had told him the constitutional negotiations would probably lead to the institution of a transitional government acceptable to the majority of South Africans within a year. He had asked Mandela how long-term problems like unemployment would be resolved without capital development and manpower once "teething problems" like a transitional government had been resolved.

"SA will have to compete with many countries with large populations crying out for capital and expertise — like China and Vietnam — and it will have to compete against the rest of the world for capital," he added.

Mandela said he had been impressed with Lee's knowledge of political and economic developments in SA and that he was keen to engage Lee as an economic and financial adviser.

Lee, a former Singapore prime minister and the man credited with engineering Singapore's "economic miracle", said his country would be able to offer training and technical assistance, and infrastructure management skills.

He is on a 13-day official visit to SA and has already met Foreign Minister Pik Botha.

The board statement said the Singapore delegation arriving on November 1 would represent business interests such as packaging and printing, civil engineering, construction, ship building and repair, computers and computer peripherals, consumer electronics, engineering equipment and trading.

Meanwhile, a small delegation of businessmen accompanying Lee met black businessmen in Johannesburg yesterday. How Par International chairman Hong Hai and Scott Holdings chairman A Jumabhoy met the businessmen to discuss potential assistance to the black business fraternity.

B/DAY 28/10/92

**BUSINESS** Building a stable future which will include b

# Enemies of Caesar will be vilified

180

Sowetan 30/10/92

## CONDUCT CODE Companies will have to give blacks a real stake:

By Joshua Raboroko

A DRAFT code of vigorous affirmative action to speed up economic empowerment of blacks has been proposed by small businesses.

In terms of the code, companies will have to subscribe to the advancement of blacks on their boards and in the ownership of a meaningful stake in commerce and industry.

The code was proposed by the managing director of Corporate Image, Mr Moss Leoka, when he addressed exhibitors at the Matchmaker Services Trade Fair in Johannesburg.

Many of the exhibitors at the fair agreed that a code be drafted and supplied to big companies with the aim of making them vigorously engage in empowering blacks.

The feeling was that small businesses created jobs at a time when the country was plagued by large scale unemployment. Some agreed that the informal sector should also be boosted by the Government instead of it (Government) spending millions of rands on defence.

"The war on our border is finished, we need the money to create jobs and wealth so that we can live peacefully in the new South Africa," one exhibitor said.

Leoka said: "This code should be voluntary only to the extent that companies will be able to set quotas and time tables themselves, to suit their own particular circumstances."

He warned that non-conforming companies would be publicised; their names be distributed to the nation that "they are not friends of Caesar".

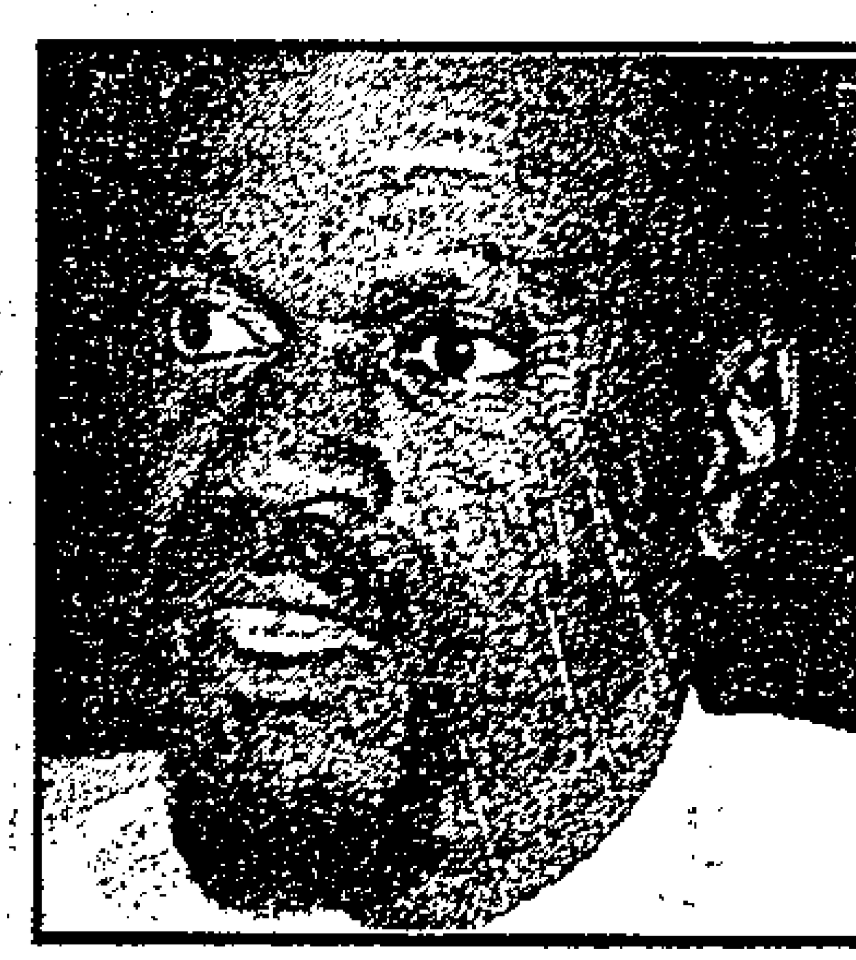
The Government should not be let off the hook, and business should demand that part of the Government's huge buying budget be spent on black suppliers.

"It is only in this way that we can say we are building a stable future together."

He said that South African business, especially big business, stood accused of knowingly supporting apartheid. It was their responsibility to get rid of "this wicked system".

"My appeal to business is they should voluntarily search their souls and decide on programmes that will speed up the economic empowerment of blacks," he said.

He said most black business was under-capitalised because they did not have easy access to finance.



Moss Leoka

Black manufacturers, like all small businesses, could not afford to employ hundreds of workers, nor could they afford the high capacity production machines because they lacked money.

Black businesses could not distribute their produce nationally as a result of lack of distribution networks.

They have been hamstrung by political unrest, stayaways, strikes, to sudden and unannounced cuts in electricity and water.

# Decision soon on duty-free manufacturing zones in SA

Business Staff (180) ARG 30/10/92

DURBAN. — The government expects to make an announcement on export processing zones (EPZs) "hopefully" within five weeks, says Stef Naude, director-general of the Department of Trade and Industry.

Dr Naude, who is heading an investigation into the possibility of such duty-free manufacturing zones for South Africa, told delegates to the annual convention of the SA Chamber of Business here that commerce and industry had to decide what form of industrial policy it wanted.

"We must understand that no uncompetitive industry can be kept alive artificially.

"Economic transformation will be a painful process and not everyone will survive."

Advocating a wholistic approach to export policy, he warned that there was "a limit to the amount of pain that anyone can take at one time".

However, industrial trade policy could not be static or purist. It was better to have a bad policy than no policy at all, he said.

Companies could no longer rely on excessive protection and subsidies as these had become unaffordable.

Sacob delegates supported a motion proposed by Pretoria Chamber of Commerce calling for an outwardly-oriented, export-driven economy in place of the inward-looking, self-sufficient approach of the past.

The delegates called for implementation of the Industrial Development Corporation's recommendations for modified tariff protection policy, appropriate steps to improve South Africa's competitiveness in international markets and the formulation of a foreign trade policy.

They agreed that although manufacturing was the "engine of economic growth" its ability to compete in international markets was questionable.

Sacob approved a motion calling on government to remove "undesirable impediments" to "free marketing" of goods and services and for the Competition Board to be beefed up to combat monopolistic trade practices which were "against the public interest".

One delegate said rather than rely on increased legislation, business should put its support behind the efforts of the Business Practices Committee to negotiate codes of conduct with different sectors.

With the muscle of the Competition Board, the codes — so far introduced in advertising, the motor trade and the furniture sector — were enforceable by the relevant sector organisations.

SACOB CONVENTION

# SA 'has what it takes for success'

BDAY 30/10/92 (180)

SHARON WOOD

ORGANISERS and delegates at the Sacob annual convention in Durban this week walked away satisfied they had dealt with most central issues facing business in the year ahead.

These include a constitution, a social accord, global trade policy, market competition, monetary policy and taxation.

The most popular suggestion put forward at the conference was that politicians should be locked in a room until they resolved their differences and came up with a concrete plan for the future.

However, there was renewed optimism that SA had what it took for economic success, with JSE president Roy Andersen presenting a long list of SA's resources and competitive advantages.

One delegate pointed out that if properly utilised, these would turn SA from a losing to a winning nation. This would also involve turning around Andersen's frightening wage and productivity statistics.

SA's 18% rise in productivity during the last 15 years has been left in the shadows by the 595% increase in wages during the same period. Comparable statistics for Taiwan show productivity increased by 112%, higher than the 110% rise in wages.

The convention failed to pass a motion calling for a reassessment of monetary policy. This will be redrafted by the Sacob economic affairs commission.

However, there was a hint of uncertainty in the audience about whether relaxing monetary policy would be the right thing.

The revised motion presented on the day was toned down from the original version, and based its argument on the fact that structural rigidities in the economy, such as wage and salary increases, lack of competition and the government deficit, stood in the way of achieving lower inflation. Reserve Bank response to the motion was mild, with deputy governor Jaap Meijer saying the Bank had no argument with most points brought up in the motion.

Tensions ran high during discussion on the taxation motion — a regular one at Sacob's annual conventions. Not surprisingly, delegates heartily endorsed pushing for lower corporate and personal tax and for greater clarity and certainty in tax policy. But most debate was focused on the recent Jacobs committee report and the controversial proposal to tax pensions. A spokesman for the Jacobs committee, Piet Robbertse, stressed there was no need to get "hysterical" about the report and that it was merely a discussion document.

Political tensions appeared on the second day of the conference, when Inkatha national chairman Frank Mdlalose and ANC economics spokesman Trevor Manuel made individual contributions to the economic debate. Mdlalose made an impassioned speech about his roots as a South African and a Zulu, and vigorously defended Inkatha's history.

Manuel stood up a short while later and pointedly said it was regrettable that a speech of that nature had been made during an economic debate.

FM 30/10/92 **FOX**

MALBAK (180)

## Change of emphasis

**Malbak's coming** financial year will put to the test a strategic decision, taken just over a year ago, to move more fully towards consumer based markets and JSE sectors which have higher p:e ratios. FM 30/10/92

Chairman Grant Thomas indicated this in the 1991 annual report, saying the group was convinced of the importance of what was then two of its smaller components, food and healthcare. Both divisions have shown considerable growth over the past financial year, food increasing its contribution from 11% to 19% of attributable earnings, healthcare from 7% to 13%.

This was, of course, boosted by last year's merger of acquisition Fedfood with Kanhym to form Foodcorp and the purchase of SA Druggists, to which was added Malbak's existing healthcare businesses.

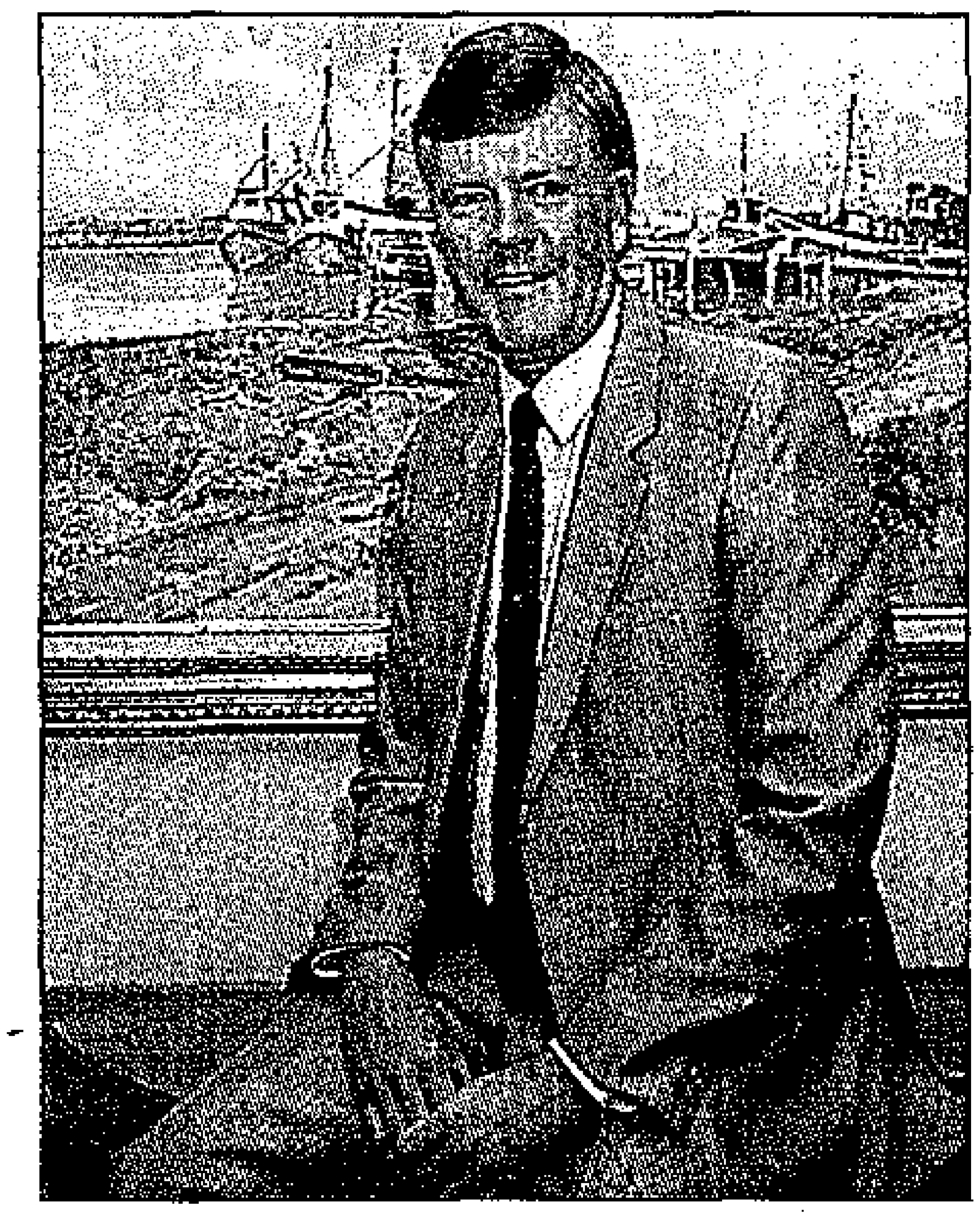
With the sale of other interests and proposed delisting of loss-making Tedelex, Malbak has undergone its biggest restructuring since it absorbed Gencor's industrial interests in 1987.

That was followed by two years of solid growth, as the operating margin widened from 8,2% in 1987 to 9,3% in 1989, with EPS over the period increasing from 65c to 136c. This time the holding company faces a tougher task, focusing on consumer markets which are suffering the full force of recession. That's reflected in an operating margin of 7,7%, lowest in at least eight years.

But the group is taking a long view of its shift in focus. It does not expect to do more than maintain earnings in the coming year, after EPS dropped during 1992 due to nearly 100m additional shares in issue from acquisitions and Malbak's R400m rights issue.

**HEALTHIER DIET**

| Year to August 31 | 1991 | 1992 |
|---|---|---|
| Turnover (Rbn) | 8,44 | 10,99 |
| Operating income (Rm) | 720 | 851 |
| Attributable (Rm) | 256 | 329 |
| Earnings (c) | 124,1 | 113,5 |
| Dividends (c) | 32,5 | 33,5 |



**Malbak's Thomas** ... *more exposed to consumer markets*

(180)

The problem is trying to get a clear view of prospects for the food and healthcare divisions. Both have been subjected to Malbak's usual balance sheet clean-up, resulting in significant one-off extraordinary write-offs. Financial director Dave Kennealy says off-balance sheet debt for SA Druggists totalled about R70m, for Fedfood about R90m.

In addition, bringing the merged groups in line with Malbak's August year-end means it will only be at the end of the 1993 financial year that a meaningful comparison of figures will be possible.

But under what seems to be a changing conglomerate philosophy, Malbak — seeming to be too widely diversified — is simplifying its business into fewer, bigger divisions. Some questions might be asked about the move towards consumer markets, attempted earlier by Fedvolks with little success.

Kennealy says after appropriate structural and management changes — and cost cutting — Malbak considers its acquisitions to be "inherently very good businesses."

Malbak's packaging & paper division is roughly maintaining its performance on a diluted interest in Holdains, while branded consumer products have taken a hard knock, mainly through Tedelex.

Most pleasant surprise comes from the international division, where after years of losses offshore, investment MY Holdings is now profitable. Proceeds from the Malbak rights issue contributed 19% to attributable earnings, while investments in Haggie, Standard Engineering and ICL contributed 15%.

While the new structure and focus will make performance in the year ahead difficult to predict, shareholders can draw comfort from Malbak's strengthened balance sheet. Gearing has dropped to 29% from last year's 35% and after offsetting the R709m cash it falls below 6%.

On a yield of 2,9% — lower than Barlows and Amic — Malbak's share price of R11,50 trades at a 48% premium to net worth. But it does not look expensive relative to the industrial market.

*Shaun Harris*

# Manufacturing 'has vital role'

BIDAY 30/10/92

(180) (481)

EDWARD WEST.

EXPANSION of the manufacturing sector would need to be the mainstay in the build-up to real GDP growth of about 4% annually by 1994, deputy Trade and Industry Minister David Graaff said yesterday.

Speaking at the opening of SA's first thin-walled aluminium tube-making plant at Haggie subsidiary Maksal Tubes, Graaff said that this would require the investment ratio of the manufacturing industry to increase to about 8% of GDP in coming years instead of just more than 4% at present.

A new round of investment in the manufacturing sector would also have to set the pattern for structural adjustments to obtain more rapid growth. Future wealth would have to be derived increasingly from export markets, he said.

New policy directions included a restructuring of tariff protection, adapting monetary and fiscal policy to be more supportive of industrial development, and maintenance of appropriate international exchange rates of the rand to promote industrial development.

Other policy directions included further deregulation where appropriate, production specialisation, especially basic resources beneficiation, activation of existing spare industrial capacity and optimal use of capacity on a long-term basis.

Increased technology development support was necessary, as was closer co-operation between government, employers and organised labour. New markets and an emphasis on closer synergistic relationships with African countries needed to be developed, as would the introduction of selective industrial development programmes to stimulate sectors with high growth potential.

# Merger with AHI could be on cards

SHARON WOOD 180

A MERGER between Sacob and the Afrikaanse Handelsinstituut (AHI) could be on the cards.

Retiring Sacob president Hennie Viljoen announced in Durban that the option had been put on the table, and working groups would be set up to discuss the proposal. B/D/Ay

He was aware of the cultural sensitivities, but business would not be able to take on challenges in the future on a fragmented basis. 30/10/92

Sacob and the AHI had developed a cordial and co-operative relationship in the recent past.

Eliminating duplication and increasing cost efficiencies would be among the major benefits of a merger.

The AHI said yesterday the possibility of merging with one or more existing employer organisations was not on its agenda at this stage. The issue would be discussed at the AHI's full executive committee on November 24.

# 'Severe limitations' in new DTI proposals

W/Mail 30/10 - 5/11/92

(180)

*New state proposals on developing business don't go far enough, says an economic strategist.* **By GAYE DAVIS**

GOVERNMENT proposals to encourage business investment in developing new products are welcome but limited, says a University of Cape Town economist.

The Department of Trade and Industry (DTI) proposals aimed at encouraging companies to spend money on developing their capacity for innovative production are "a significant step forward", says associate professor David Kaplan, in recognising the important role of government.

But, he adds, they have severe limitations.

Kaplan, a director of the Industrial Strategy Project (ISP), was speaking at a seminar this week on research into developing an industrial policy to make South Africa competitive in world markets.

Launched in January, the ISP sees itself as a catalyst in bringing together business, labour and the government to assess what's happening internationally and devise an effective policy for South Africa.

Kaplan said the proposals put forward by the DTI tried to encourage firms' investment in new product development by:

- Offering government support, such as cash incentives.
- The promise of government using its buying power to encourage local firms' product development.
- Government identifying and supporting key future technologies, such as bio-technology.

Kaplan said the proposals were flawed in that they were not selective, offering government support for new product development across the board.

Firms of different sizes would not respond equally to the measures, said Kaplan. Nor did they address what to do with declining industries or small, individual concerns.

The proposals were "stand-alone" measures and did not form part of a broad industrial policy. This would make them less effective: the market was so structured that some firms would benefit and others would not. What was needed was a centrally specific industrial policy, differentiated by sector, Kaplan said.

A further limitation was that the proposals focused solely on new products emerging from research and development programmes, denying the importance of the role of the entire workforce in ensuring high-quality production at source.

Kaplan said it was universally accepted South Africa needed marketing growth linked to sustained export growth. The dispute was over the mechanism to achieve this.

The World Bank view was that there should be wholesale trade liberalisation, with the same incentives offered for both domestic and foreign markets. This implied a passive government role: industrial policy would simply amount to "getting the trade regime right".

He argued for an alternative approach, hinging on selective trade and industrialisation policies. For example, certain industrial sectors protected for too long would have to be exposed to greater competition to encourage them to spend more on developing export markets.

There should be different tariffs and measures for each sector rather than the same for all. This meant government would have to play a more active role in determining industrial policy, Kaplan said.

Firms, left to face the winds of competition, would not necessarily improve their productivity. There was ample evidence that firms facing stiff competition would under-invest in innovation activities (their ability to increase their capacity to produce competitively).

"Countries succeeding in long-term growth of exports have relied heavily on selective trade and industrialisation policies," said Kaplan.

David Lewis, also a director of the ISP, said a coherent industrial policy would recognise failures in key factor and production markets, such as the manufacturing sector's "notorious incapability" of delivering in the important areas of job creation and increased exports.

Investment in infrastructure to sustain growth, create jobs and cater for developing skills and training was insufficient. Simply leaving everything to the market would not remedy these problems, he said.

South Africa's relations to the world economy and its domestic markets meant restructuring would happen "whether we want it or not". Failure to restructure would exacerbate the severe balance of payments problems which now hamstring South Africa's attempts to enter world markets.

"Our options are to leave everything to the market and see what comes out in the wash of a highly deregulated system; get into severe balance of payments problems and wait to be bailed out by the International Monetary Fund — or what we are advocating, which is a pre-emptive restructuring programme based on an industrial strategy guided by coherent policies," Lewis said.

# UCT experts back selective protection

(180) ARG 31/10/92

**ALIDE DASNOIS**
Business staff

THREE UCT economists pleaded this week for selective protection for South African manufacturing industry.

David Lewis, Dave Kaplan and Alan Hirsch were presenting the preliminary findings of the Industrial Strategy Project based in UCT's Development Policy Research Unit.

Though export incentives since the late 1980s had led to a dramatic rise in manufactured exports, the government's programmes were not selective enough, they said.

Research suggested that current measures could only work for a short time. "Once markets are not so slack, bottlenecks such as shortages of capital or of skills will emerge," said Mr Hirsch.

The UCT researchers attacked current views, prevalent among World Bank economists, that trade should be liberalised.

"The World Bank view is that there should be no protection for local producers or special incentives for exporters," explained Associate Professor Kaplan. "The idea is that the chill winds of competition on world markets will somehow make local manufacturing more competitive. But there is no evidence for this."

On the contrary, the removal of protection against cheaper imports was likely to force even efficient suppliers of manufacturing inputs out of business.

"Barriers to imports should only be dropped selectively and gradually and only when export growth is well under way."

This should be part of an elaborate industrial strategy, said the UCT economists, designed to make South African manufacturing more competitive. Essential ingredients, they said, were skills training and product innovation.

"Technological innovation and skills training cannot be left to the market," said Associate Professor Kaplan, arguing for government intervention in these areas. "Research shows that left to themselves, entrepreneurs will not invest either in human resources or in technology unless they are sure they will reap all the benefits."

□□□□

RESTRUCTURING the South African economy was inevitable, said Dr Lewis.

The economy had historically been unsuccessful in generating jobs and in producing competitive export goods, he said.

"In the past our economy has been structured by import substitution, made possible by exports of minerals. We have never had to earn foreign exchange by producing manufactured exports which are competitive on world markets: our manufacturing policy has been designed simply for the local market.

"This has led to increased reliance on exports of raw materials or lightly beneficiated products, at a time when the share of raw materials in world trade is dropping."

This "peculiarly inverted" link to the world economy meant that South Africa was trying to sell more raw materials to a world which was trading in them less and less, he said.

□□□□

THE Industrial Strategy Project, financed by European and Canadian research funding agencies, employs 17 full-time researchers and seven trainees. Most of the researchers are employed on micro-studies of 13 industrial sectors, from building materials to clothing to white goods.

Each researcher is to present a report in March next year, based on wide-ranging discussions with businessmen, unions and analysts in South Africa and overseas.

In addition, the project covers four cross-sectoral analyses: trade policy, technological policy, competition and industrial relations.

# Prizes for big spenders

Sowetan 31/10 - 4/11/92

(180)

When companies start trying to lure consumers to buy video recorders, cars or TVs by offering free air tickets, huge cash prizes or free portable TVs for each item bought, then you know the recession's bad.

And this is exactly what several companies have been doing recently. While few consumers will have the ready cash to shell out R4 299 to buy a video recorder, for example, so that they can get a free return air ticket from Cape Town to London, this is a clear indication that even the relatively well off are having to be persuaded much more these days to part with their cash.

This is borne out by Sanlam's latest economic survey, which found that real private consumption spending, which makes up almost 60 percent of total spending on goods and services, is falling for the first time since 1985.

Spending on durables, for example, has fallen 11 percent, which explains all the freebies being offered to those buying cars or TVs.

Sanlam said this fall in consumer spending was largely due to the sharp reduction in the real disposable income of households.

The continued deterioration in consumer confidence, particularly as a result of unstable political and social conditions, was "undoubtedly also playing a significant role in the unwillingness of consumers to spend"

"Other factors, such as the size of consumer debt, high interest rates, the continued high inflation rate and the increasing tax burden, have contributed to the further erosion of consumers' real prosperity and the restriction of their spending power."

Even more disturbing, however, was the fall in real fixed investment, which Sanlam said held "serious implications for future economic growth."

The private and public sectors are spending less on new buildings (including houses), roads, dams, transport equipment and machinery. This was due to several factors, including the drought, unused production capacity because of the recession and general uncertainty and lack of business and investor confidence.

"It is clear that there will be no meaningful recovery in economic activity without a visible de-escalation in violence, a return to political stability and — in the longer term — the elimination of structural shortcomings in the economy," said Sanlam.

"In addition, foreign investors will be attracted to South Africa only if they can earn a satisfactory return on their capital. To effect this, the whole-hearted co-operation of labour, employers and the government is essential. In fact, what the whole country needs is individual as well as community commitment to sustained high economic growth. Only then can South Africa prosper."

Despite its generally gloomy outlook on the economy, with growth expected to fall for the third year running, Sanlam does have a little bit of good news. Inflation is expected to ease from about 14 percent to 12 percent by the end of the year and interest rates could move to as low as 15 percent over the next six months.

But the bottom line is that belt-tightening will be the order of the day for some time yet — and so will all those "freebie ads".

**Lynda Loxton**

# Growth at all costs a danger

ST Times (Buss) 1/11/92 (180)

Andy Andrews

ON BUSINESS

MOST of the strategic plans I am exposed to as a consultant reflect "growth in market share" as the prime objective.

Growth is an important part of most business cultures. Japanese firms are often mentioned as prime examples of growth being more important than profitability.

Sony, the electronics giant, pursued growth through innovation.

Japanese car manufacturers are also following a market-share growth strategy in the US and destroying the bottom line of the major American auto-makers — GM, Ford and Chrysler lost a combined $7,5-billion last year.

## Similar

The three major Japanese manufacturers — Toyota, Nissan and Honda — made a combined profit of $4,02-billion. They are increasing market share and accepting reduced profits.

The Germans — Daimler-Benz, VW and BMW, which made $2,25-billion last year — appear to be following similar strategies.

Of course, growth is important. I have had many discussions with managers about growth and financial strategy. There is a real danger that marketing strategy does not "fit" with financial strategy and capability.

Too often, marketing executives focus on growth and market share. They ignore the impact of marketing decisions on working capital, inventory levels, financing costs, dividend policy, debt and, ultimately, shareholder value.

If you don't integrate these decisions you can get into real trouble.

We have found that most companies do not have a good "fix" on what their sustainable growth rate is, or could be, if they changed the key variables. We have modelled their capacity to finance expansion and growth to test the appropriateness of their strategic aspirations.

Many have been surprised at the findings. Generally, these companies have fallen into three broad groups:

- **The early front runners:** These companies rush out, take the lead, but soon slow down and do not finish the race. If these firms achieved their plans they would find that they would be forced to raise external funding from debt and/or equity or slow down and harvest gains because they run out of funding. Often these firms cannot obtain funds and collapse.

They should be more conservative in their marketing and explore more balanced or less risky expansion strategies. For example, different debt policies or a reduced dividend policy would alter the sustainable growth rate and make the firm viable.

- **The underperformers:** They could be at the front of the pack. They could grow faster, be more aggressive by reducing prices and increasing marketing effort and improve both market share and value. But they have also not tested the different strategies available and do not reach full potential. They can also collapse because they fail to obtain a sufficient market position, caused by their lack of strategic drive.
- **The gold medallists:** They use sophisticated modelling software and optimise their marketing, investment and financing strategies to ensure long-term leadership. By balancing their marketing and financial strategies, growth and expansion are synchronised.
- **The growth firm:** High inflation means that your working capital needs to increase each year. So whether you like it or not, your firm is already growing at a reasonable rate. If you intend improving your market penetration, growth will be even higher. The question to ask is: Can I manage real and inflation-induced growth rates?

## Inflation

If you are seeking real growth of 10% and inflation is 15%, the growth rate of the firm is 26,5%. This is a very rapid rate of growth from a financial point of view and will have major cash-flow implications.

How does growth drain cash?

We know that growth is attractive, but while we are easily seduced to concentrate on sales, we ignore the financial implications at our peril.

In tough times we concentrate on sales, but if the impact on the balance sheet is misjudged the result could be disaster. When the business concentrates on growth, problems stem from:

A: Reduced margins to get the business.
B: Credit terms are extended so debtor days go out.
C: Credit is given to higher risk customers.
D: Stock builds up as sales slow and the supply pipeline is difficult to turn off.
E: Expenses rise because of desperate marketing and sales drives, further reducing margins.

Even in buoyant conditions, high growth has a serious impact on the cash position. The faster you grow, the greater the cash drain as shown in graph 1.

The exhibit shows that high growth drains cash. The data are drawn from an analysis of more than 3 000 businesses and is averaged over five years. This confirms that high-growth firms are most vulnerable. It is due to their aggressive expansion in both marketing effort and investment in assets required to support that growth.

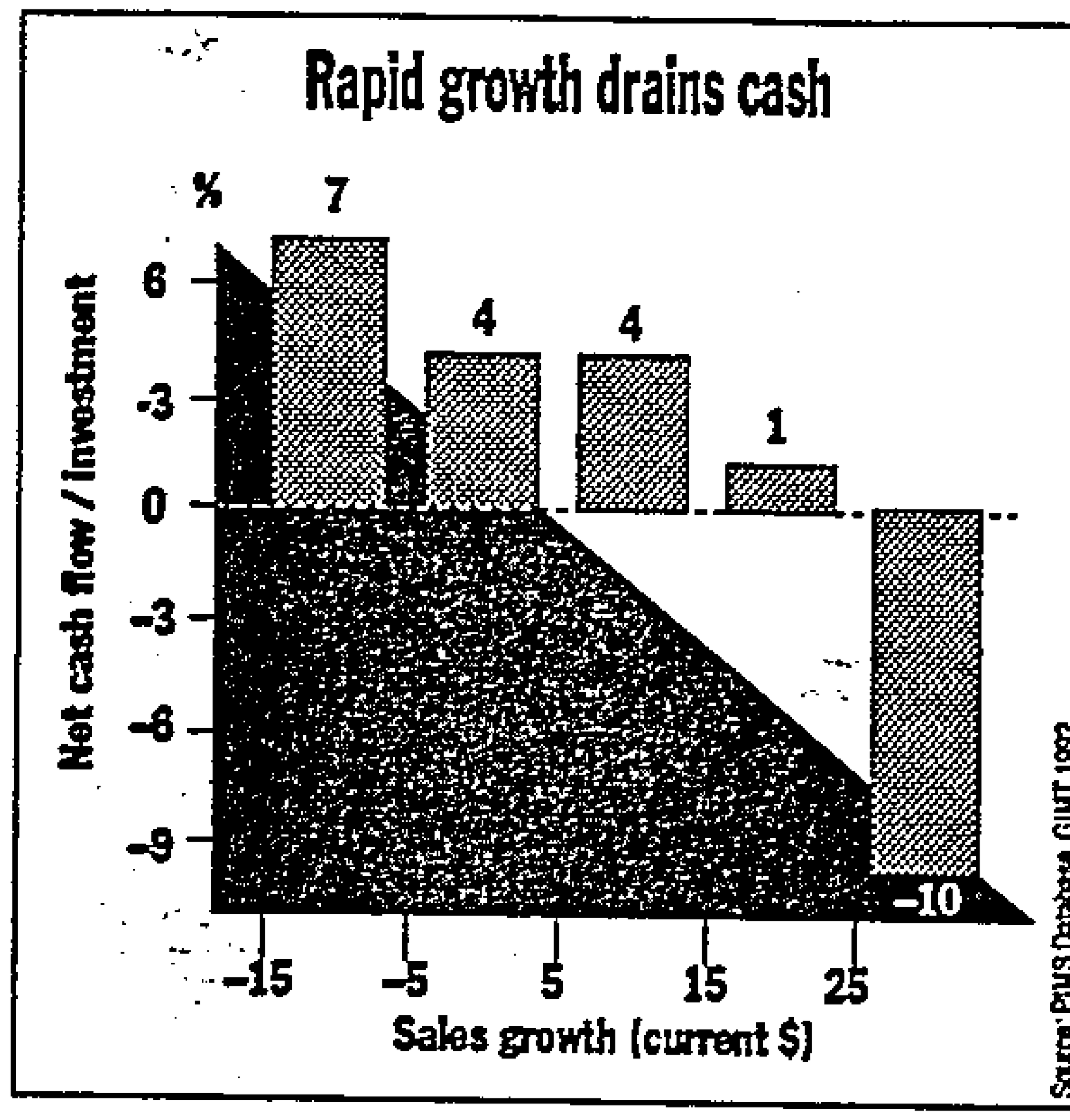
As you grow, whether the growth is driven by inflation or real growth, or both, you must ensure that your returns are high enough to sustain your working and fixed capital growth. Clearly, the higher the growth rate, the higher the required ROI.

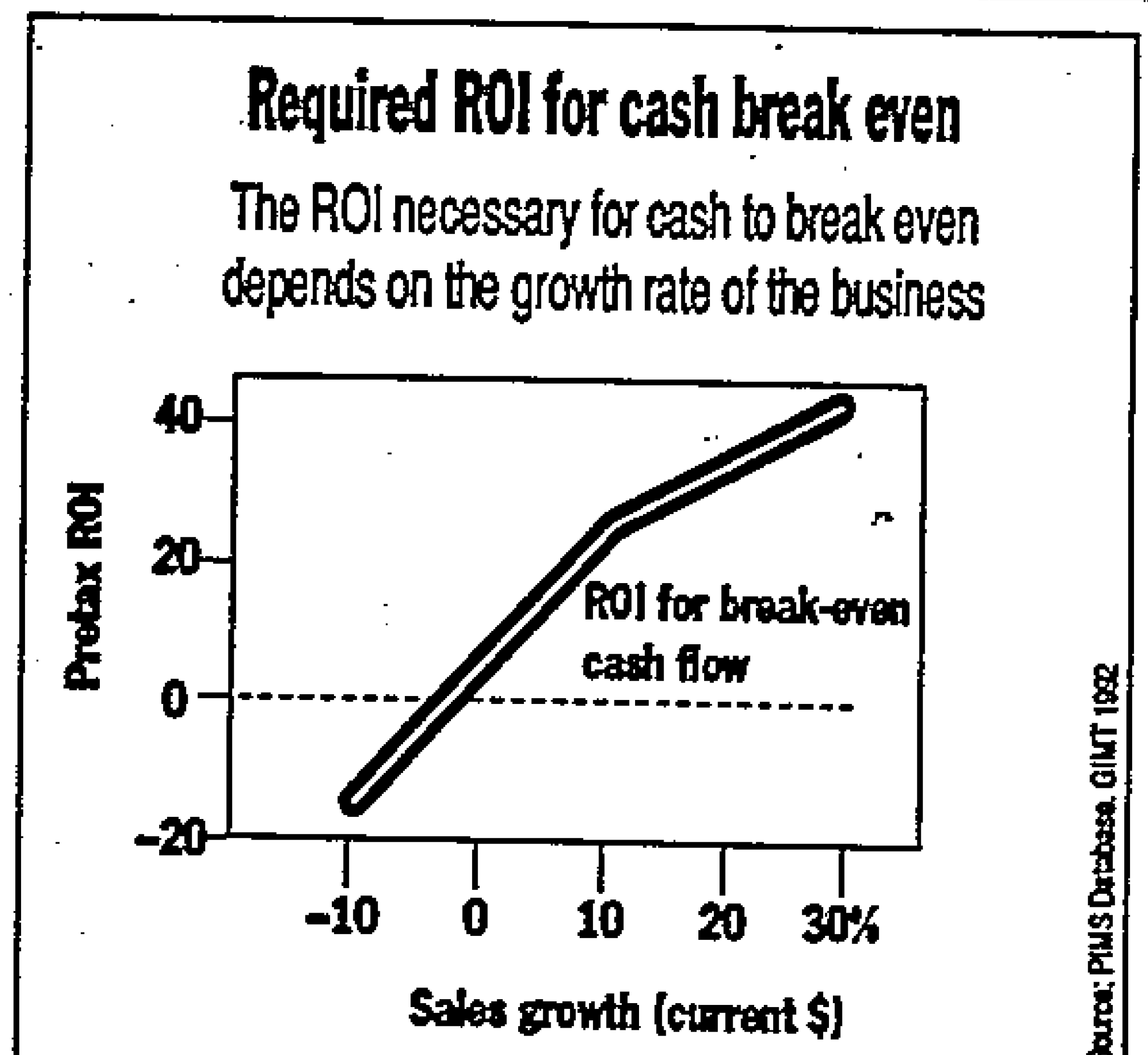
Graph 2, which assumes a constant ratio of net investment to sales, shows this relationship.

Management must understand the effects of both inflationary-induced growth and real growth caused by market growth and changes in market share.

Each business, discussion, product line and product should be analysed to ensure that returns and cash flows are sufficient to fund the investment necessary to sustain the business. Dividend policy, for example, can exacerbate a precarious position.

*Professor Andy Andrews is director of the Graduate Institute of Management & Technology.*



# Barlow arms in good nick

(180)

S Times (Buss) 1/11/92.

By JULIE WALKER

EARLY results from Barlows companies for the year to September were mostly positive.

Adcock Ingram, Oceana Fishing, Romatex and Persetech all produced growth well ahead of inflation, Nampak's increase was diluted at the per-share level to an 8% climb and Rand Mines Props' earnings shed a third.

## Worse

Only one of the 19 companies reporting preliminaries this week incurred a loss — small-fry Norvic.

Of the balance, only Gencor fared worse than previously. Every other company showed nominal if not real earnings growth.

Three banking groups had varied fortunes. Fidelity Bank returned an impressive 1,94% on assets in the year to September. Its earnings a share jumped 22% to 93,7c. At 525c it is on fewer than six times earnings in spite of a spotless record.

In the same time, First National continued its strong growth and Board of Executors lifted earnings 4% from a 14% improvement in attributable profit because of dilution due to converted loan stock.

Gases, welding and healthcare group Afrox — one of the few companies to take the effects of inflation into its financial statements — achieved real earnings-a-share growth of 12% to 311c on a 7% climb in turnover to R1,1-billion in the year to September.

The group expects to maintain its real growth trend in the current year.

Three linked companies — Abbey, Fenix and Propcor — and Cargo and Boltons incurred interim losses out of the 22 firms reporting.

Under new management at Pepkor, Tradehold returned R35-million to the black in the six months to August and Pepkor itself lifted earnings a share by 16% to 27,7c.

Edgars sales grew 9% to R1,4-billion in the six months to September and earnings 5%. Even the credit chains are feeling the recessionary pinch.

Boymans and Arthur Kaplan also suffered sharp declines in profitability.

Other companies to improve at the interim include Martin Jonker, Datakor and Uniserv.

# Gilts in a flurry

## THE JSE WEEK

By JULIE WALKER

GILT rates shot up more than half a percentage point to 14,46% before easing on unsubstantiated rumours that SA troops had gone back into Angola.

Delays in the announcement of a cut in the Bank rate was another reason behind the hardening.

The rand lost ground steadily against the dollar, down to 296c. The finrand was stable about 432c.

Gold dropped below $340 in a wait-and-see week ahead of American presidential election result.

The JSE continued nervous in the wake of Greg Blank's looming spell "between the chains". Talk of further arrests prevailed.

The Royal group of companies relisted initially at the prices to be paid by Anglo American for control of the group after its £360-million acquisition of Del Monte. But the shares eased, reflecting reluctance by the market to accept that the deal is a bargain.

Platinum came under pressure and there was heavy selling of Rustenburg, reportedly because of a portfolio liquidation.

The investments of Dab are being sold. Net asset value was estimated at R13,86 at last week's shareholders' meeting. But it is probably not the culprit because of JCI links and no big deals in its main holding CMI.

Afrox continued to deserve its premium rating. A buyer was prepared to pay R4 above the market price for a rare line of the stock on Thursday. The price retreated R2 to R95 on Friday — 31 times inflation-adjusted earnings. But NEI Africa gave up half its value to 350c.

Score Supermarkets warned of negotiations. A management buy-out is likely. It added 8c to 33c, having been 18c in May.

Barlows has shed 10% in a fortnight to R44,15.

# Forum to pave the way

S Times (Buss) 1/11/92

SUSTAINABLE economic growth coupled with social and development upliftment is essential if the wider process of political transformation is to succeed. (49)

With this broad theme, the long-awaited National Economic Forum was signed into existence on Thursday.

Its members come from organised labour, business and the Government. It will operate as a consensus body.

Requiring particular attention will be the distortions caused by large-scale unemployment, inequality in incomes, skills and economic power.

The aims of the NEF will be the generation of high and sustainable economic growth, an improvement in the use of human and capital resources and the participation of everyone in economic decision making.

# After inflation —

Earnings per share

# Doors to Canadian trade open for SA

SI Times (BUSS) 1/11/92 (180)

By MICHAEL WANG

AFTER regarding Canada as a no-go area for trade, South Africa is beginning to focus on several markets there.

Although still in its formative stages, Canada's huge mining industry and its appliance manufacturing business are areas for exports, says the South African Consul in Toronto, Paul Pieterse.

"People think there are across-the-board sanctions," says Mr Pieterse. "In fact, sanctions apply only to food products (edible and potable), uranium and coal."

An example of the increased interest in trade was the turn-out of SA exhibitors at a mining trade fair in Sudbury, Ontario, Canada's nickel capital.

## Knock

"Eight companies came in, including Barlows and Anglo, and seven-and-a-half went home happy," says Richard Hales, a veteran trade officer at the consulate.

Mr Hales says Canada is a market for hinges and other components for appliances.

"South Africa can competitively price these items, even on small production runs."

However, the image of SA as open for business has taken a knock.

A SA trade forum in Toronto was billed as the first of its kind in North America in almost 10 years, but it ended in disaster, says Mr Hales.

An impressive cast of speakers including David Graaff, Deputy Minister of Trade and Industry, Tito Mboweni, the ANC's trade and industry co-ordinator and Barlow Rand chief economist Peter Haasbroek attracted more than 200 Canadian businessmen.

However, the event was overtaken by events in SA, specifically the Boipatong shooting. Instead of imbuing Canadian businessmen with a favourable impression of trading potential, the speakers engaged in mudslinging.

Moreover, the conference laid bare the hitherto papered-over differences between the ANC and the Government regarding the timing of foreign investment.

In a thinly veiled shot at the ANC, Mr Graaff said business was "not like a water tap that can be turned on and off". He told potential investors that an investment today would not translate into a return for at least two years when "there will be a democratic government in place".

Mr Mboweni countered by suggesting that "business and politics are too intertwined (in South Africa) to support investment now".

The upshot of the mixed messages left open-minded businessmen shaking their heads. One said: "I came to be seduced. I was not seduced."

Although the incident has set back SA's business awareness campaign, the consulate shrugs it off.

Mr Pieterse says there are obvious advantages for SA exporters in targeting Canada as a door to the North American market.

"Where you might lose your shirt in Los Angeles or New York, the Canadian market is more manageable and more concentrated," says Mr Pieterse. "Eighty percent of the market is between Montreal and Toronto."

Mr Pieterse says that culturally Canada is closer to SA than the US.

Still, North America rates behind Asia and Europe as a destination for SA goods.

SA runs a slight trade surplus with Canada. In 1991, SA exports amounted to R300-million, mostly metals and mining equipment. By comparison, Canada exported goods, mainly wheat and sulphur, worth R276-million to SA.

This is well down from combined trade of R1,2-billion in 1986, the year before trade sanctions were imposed.

## Paradise

Canada holds the dubious distinction of being the world's largest trading nation still maintaining trade sanctions against SA — a policy Ottawa is finding increasingly difficult to justify as other nations open their doors.

In concert with other Commonwealth states, that policy is unlikely to change until an interim government has been agreed on.

However, Canadian sanctions are being undermined. Last September, a delegation from the Canadian Exporters Association spent a week in SA kindling contacts.

"South Africa is not a paradise, but there are lots of opportunities for Canadians," said CEA president James Taylor, who has since died.

Most of the industries that were represented on the trip — transport, communications and technology — have received an effective carte blanche from the Canadian Government to trade with SA.

# Fewer going broke

By TERRY BETTY

FEWER companies are going to the wall as the benefits of lower interest rates filter through. 180 ~~232~~

Kreditinform managing director Ivor Jones says Central Statistical Service (CSS) figures show company liquidations dropped to 160 in July, 41% off the March peak of 275. S Times (B455)

Insolvencies for individuals and companies have dropped by 18% to 360 in July from 440 in March. 1/11/92

Mr Jones says: "Companies are generally highly geared and the lower interest rate improves their cash flow and bottom line."

However, benefits have not reached individuals.

Mr Jones says: "Retrenchments have outweighed the benefits of an interest-rate cut because a family with no income cannot repay its bond and hire-purchase debt no matter what the rate is."

The benefit to individuals is indirect because fewer companies going under means fewer retrenchments.

Econometrix economist Azar Jammine says: "The number of insolvencies should continue to decline. More interest-rate cuts are expected."

September's 13,5% infla-

● To Page 3

● From Page 1

# Insolvencies on the way down

~~232~~ 180

tion rate, together with the drop in money supply to 8,88% from 8,99% in August, has fuelled expectations of a 1% cut in bank rate.

Dr Jammine says insolvencies are proportional to interest-rate swings.

"But the drop in insolvencies has not been dramatic. It was only a 3% fall in interest rates and other factors, such as the political turmoil, have intervened."

Dr Jammine says: "Even though the insolvency rate is falling and could continue to do so, we are not out of the woods." S Times (B455)

In spite of the drop, July's year-on-year liquidations were still 20% higher than last year's. 1/11/92.

Dr Jammine says it is a good sign that few big businesses are being liquidated.

"However, it is uncertain for how long they can endure the economic battering. It is possible we could have a second wave of liquidations."

He says little else in the economy has reflected the lower interest rates.

"Money is not being spent on capital projects or being invested in property. People are stashing it under their mattresses and sitting tight.

"Individuals and companies are using the opportunity to reduce debt."

But Absa's quarterly economic monitor says the economy is showing signs that usually herald an upswing in the business cycle.

For example, SA's gold and foreign-currency reserves have increased, money supply is rising at a slower rate, inventories are low and the external value of the rand is fairly stable.

Afrikaanse Handelsinstituut economist Nic Barnardt is not as optimistic. He says declining insolvencies are little reason for joy because the worst is still to come.

He says insolvencies lag the economy by about six months. The economy is expected to decline until the middle of next year, so insolvencies should increase at least until the end of 1993.

# Return of the global players

BDM 2/11/92

(180)

**MIKE PERRY**

SINCE 1986 we have witnessed the departure of many global players from the SA business arena. Now multi-national corporations are re-evaluating their approach to the local market.

Perry and Associates last month completed a research study to measure the plans of both regional and global players for this forthcoming era of increased competition in SA.

Global players considering re-entering SA have to bear in mind two different aspects of the economy's size.

First, the economy is Africa's largest (1,6 times the size of Algeria's, 2,7 times the size of Egypt's and more than three times the size of Nigeria's), so if Africa is a consideration for a multinational, SA cannot be overlooked.

The second is the existence of the SA "Keiretsu". Just as the Japanese economy has been dominated by financial conglomerates, so has SA's. Some of the SA Keiretsu, such as Anglo American and De Beers, have grown out of our wealth of natural resources. Sanctions and exchange control have trapped this wealth within the country. Savings have been channelled to the institutions. Old Mutual is 30th on the Fortune list of 50 global top insurance companies, and would rank 13th among US service companies — and Sanlam is of similar size.

Sanctions created a quest for self-sufficiency and, for example, created Sasol, a world-class chemicals producer. The First World/Third World dichotomy is also evident. The Rembrandt interests range from sugarcane to luxury cigarette brands such as Dunhill, Cartier and Mont Blanc.

The literature of business "science" says global competition is driven by the fact that no player can count on maintaining an unassailable technological edge and that there is a tendency to bloc economies (the EC, North America and the Pacific Rim).

The multinationals' approach to markets such as SA must, therefore, be aimed at achieving both instant distribution for their fast changing products and "insider" status. There is also the question of political risk and therefore the investment vehicle choice that global players will use to penetrate the economy.

Our research was among two groups: multinationals in the Far East, Europe and North America; and significant regional companies in a number of industries. The SA sample had assets of $54bn and sales turnover in excess of $26bn.

The results showed a great deal of overlap in the views of both regional and global players — and some surprising differences.

Both groups agreed that global players could not overlook SA because of its market size (relative to the rest of Africa) and the opportunities that would be generated by a new social and economic order. SA had the working infrastructure. It was agreed that SA was the gateway to the region regardless of neighbouring economies' concerns.

From an investment point of view, the hurdle was political and economic uncertainty. Not until an investment code was in place would multinationals invest. They had to be sure that they could move their funds in and out of the country. It was emphasised that countries were competing for the attention and investment of the multinationals.

There was also agreement on the relative strengths and weaknesses of global versus regional players. Global players could employ an up-to-date product arsenal and world experience. The regional players' local knowledge, proximity to the market and management skills were a countervailing force.

Given the political and economic uncertainty, SA players saw the opportunities for joint ventures with multinationals. In the event of this being the "investment route" for multinationals, the criteria for selecting a regional partner would be compatible chemistry and culture; strong access to distribution channels and the local company's standing and reputation in the region.

The global and regional players are somewhat like ships passing in the night. Regional players are betting on achieving a stranglehold on distribution channels in the region. The global players would be more comfortable not with the dominant player but a significantly positioned second or third competitor — apparently they will bet on the "we try harder" principle. It was clear that the regional players had done their homework while the global players' criteria appeared more sketchy.

Only time will tell whether regional players, usually linked to the "SA Keiretsu", who can dominate local distribution and perhaps count on more sustained financial backing, will be able to beat off global challengers with superior product arsenals and global marketing skills.

☐ **The author is MD of Perry and Associates. This is an edited version of an address to a Strategic Management Society conference in London last month.**

policemen were deplorable. day, said he bore his assailant no grudges." tical misfortunes," he said. between a third or a quarter of the normal ... ested parties. ... Sapa

# 10 companies go bust every working day

180

GERALD REILLY

B/DAY 4/11/92

PRETORIA — Ten registered companies or close corporations were liquidated every working day for the first eight months of the year, reports the Information Trust Corporation (ITC).

ITC CEO Tony Leng said most were small organisations, but there were also large companies among the casualties.

This was obviously one of the root reasons for the country's continued and worsening unemployment situation.

Leng said so far this year 1 592 liquidations had occurred, an increase of 28% compared with last year.

There was little hope, he said, of an improvement in the distressing situation while interest rates and inflation remained at current levels.

In the first seven months of the year 2 627 individuals were sequestrated — the highest figure ever recorded and an increase of 21% over the same period last year.

Leng said most retailers were having a torrid time, with consumer confidence at an all time low.

# Business bid to ease Natal crisis

WILSON ZWANE

B/DAY 4/11/92

BUSINESS had become involved in negotiations with the ANC and Inkatha in a desperate bid to find solutions to the deepening crisis in Natal, an ANC official said yesterday.

ANC southern Natal official Bheki Cele said ANC regional leaders, Inkatha and business representatives were engaged in low-profile negotiations aimed at removing obstacles to a meeting between ANC president Nelson Mandela and Inkatha leader Mangosuthu Buthelezi.

Cele said the ANC's three Natal regions were opposed to a Mandela-Buthelezi meeting until the resolution of certain problems, including the bar on ANC members using school buildings in KwaZulu-controlled areas for political meetings, and the withdrawal of Inkatha from several local dispute resolution committees.

Natal-KwaZulu regional dispute resolution committee chairman M C Pretorius refused to comment on the business/ANC/Inkatha negotiations. He said the talks were delicate and to comment could jeopardise the process.

Meanwhile, last night's meeting of the national peace committee's executive was postponed until tomorrowbecause ANC officials could not attend as they were travelling to Natal to work on defusing tensions.

Our political staff reports that hundreds of Natal servicemen are being called up to help stem the violence ravaging the province.

The army said yesterday Natal citizen force and commando units would have to be called up to supplement troops being transferred to the province from other areas.

President F W de Klerk promised last week that the number of troops deployed in the province in support of the SAP would be doubled by tomorrow.

Commenting on the decision to deploy more troops, ANC spokesman Carl Niehaus, said the ANC had "grave concerns ... in light of President de Klerk's statement that one of the specific duties would be to hunt down MK people."

Inkatha spokesman Kim Hodgson welcomed the move and said the organisation had called for this step several months ago.

Meanwhile, Sapa reports that Inkatha is to ask the Goldstone commission to investigate the role of the ANC armed wing in attacks on the mainly Zulu party.

Hodgson said Inkatha would also ask the commission to investigate MK arms caches. "We are convinced that such arms, ammunition and explosive devices are being used by the ANC in its military operations."

# Strydom's actions do not 'defy parole conditions'

B/DAY 4/11/92

STEPHANE BOTHMA

"WIT Wolf" Barend Strydom's issuing of a list of political demands in Pretoria's Strijdom Square — where he gunned down seven people in 1989 — did not contravene his parole conditions, the Correctional Services Department said yesterday.

Strydom said on Monday night that the "illegal" government should resign and meet him within 30 days or face "action".

A Correctional Services spokesman said the mass murderer's parole conditions did not prevent him making news statements.

The threat of "action" did not necessarily imply force or the commission of any crime, the spokesman said.

However, the ANC yesterday called on government to take the necessary legal steps to prevent Strydom from killing again.

Strydom issued a six-page document to journalists in Strijdom Square on Monday night, stating that the Wit Wolwe organisation expected a written reply to its demand to meet the "illegal government" to negotiate "the achievement of our demands".

The ANC said in a statement that it had been government's decision to accept that Strydom's "heinous crimes" were committed in defence of apartheid and fell within their definition of a legitimate political act.

"Having done so, the government will also have to accept full responsibility for any future atrocities Strydom might commit," the ANC said.

The DP said: "This fiasco underscores the DP's opposition to random, and now secret, indemnification of persons guilty of heinous crimes, misrepresented as political acts."

HOW MUCH

COMP

# Use of capacity drops sharply

(180) BDay 5/11/92

HILARY GUSH

CAPACITY utilisation in the manufacturing industry fell significantly during the recession, but was still much higher than economists had expected.

Latest Central Statistical Service (CSS) figures show only 78,7% of installed productive capacity in the manufacturing sector had been used in May this year — 2,6% lower than May 1991's figure.

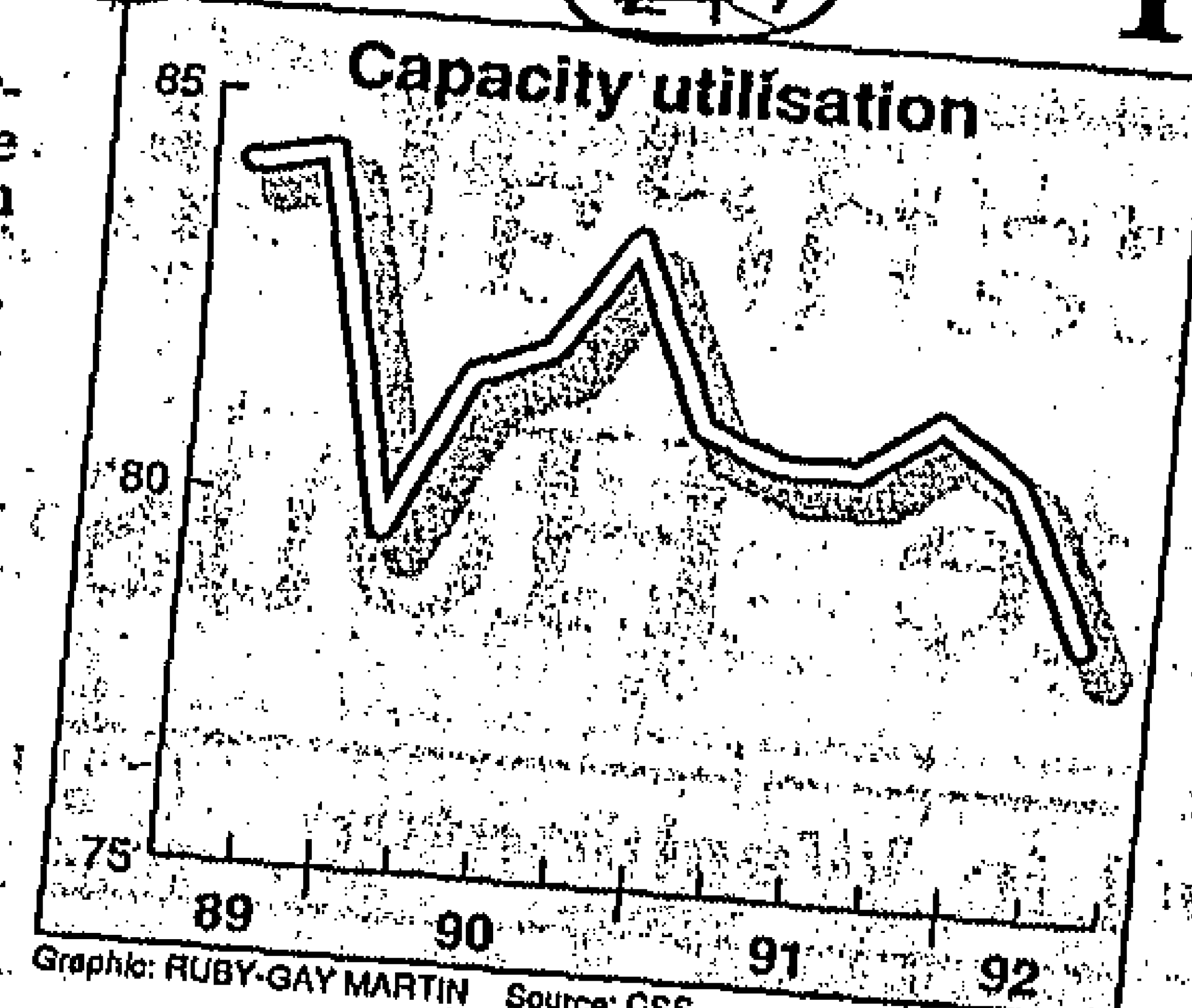
Insufficient demand for manufactured products accounted for 15,3% of the 21,3% underutilisation of capacity in May. "Other" reasons — mainly labour disputes and strike action — attributed 3,1% to the high level of under-use.

The motor industry experienced the lowest utilisation rate — 67,4% — in May. A Toyota spokesman said this reflected the poor levels of production at the Toyota plant, which accounted for 30% of the industry's total output, during May, when 18 working days had been lost because of a prolonged strike.

Nedcor chief economist Edward Osborn said the level of capacity utilisation had fallen significantly since the top of the business cycle. In the third quarter of 1989, capacity utilisation according to CSS data had been 84,3%.

Osborn said higher levels of spare capacity reflected the downturn in the manufacturing industry. However, he was surprised the reduction in capacity use had not been greater.

The fall in manufacturing output had been proportionately greater than the decline in capacity utilisation.




Graphic: RUBY-GAY MARTIN Source: CSS

Osborn put forward two reasons for the surprising figures: The CSS data was "extremely rough and ready" and was plagued by compositional problems; and, as many companies had been "snuffed out by recession, their capital stock had fallen out of the overall picture".

Those firms which remained in business were responsible for the maintainance of the fairly high level of capacity utilisation, he said.

Sacob economist Keith Lockwood said although the present level of capacity use was low, the theoretical level of working at 'full capacity' was often not obtainable.

Lockwood said current levels pointed to the depth of the recession. Capacity use was a function of production output, which, in turn was a function of demand. Retrenchments had led to declining disposable incomes which had led to a drop in consumer demand, while sluggish world economic recovery had hampered keen demand for SA exports.

Absa economist Adam Jacobs said in light of the low level of manufacturing output in the first eight months of the year, the May figure was higher than expected.

As gross investment in new equipment was less than the depreciation provision, the level of capital stock had declined.

"Our main concern is with the age of capital stock. SA has not imported and employed new technology, and thus we are behind the rest of the world in terms of technological competition," he said.

Osborn said as current capital stock was outdated, global competitiveness was hampered. "In the past 10 years there has been, at best, a replacement of capital stock and no new investment, apart from in Mossgas."

This pointed to an outdated overall manufacturing entity, which had "profound" implications for competitiveness.

Jacobs said capacity use since May had probably declined even further, with August's figure showing a sharp fall.

Two days of mass action would have contributed to depressed levels of capacity use, Jacobs said.

SACOB CONVENTION (180)

# Better than swords

FM 6/11/92

**The powerful** role the business community can play in focusing the national economic and political debates was demonstrated at last week's annual convention of the SA Chamber of Business (Sacob) in Durban. The two-day public meeting started with a vigorously supported resolution calling for a federal constitution in the new SA.

The strong support for regional government from the Natal chamber, which proposed the resolution, raised sensitive issues — and the final debate was between supporters of the African National Congress (ANC) and the Inkatha Freedom Party (IFP).

Said Sacob deputy director-general Ron Haywood: "The 400-500 delegates to the convention represented a wide cross-section of business, political, official and diplomatic interests. The 14 ambassadorial and 16 consular representatives from 30 of SA's main trading partners (four from Africa) reflect the wide international interest in SA's vital economic debate."

The presence of delegates informally representing the Southern African Development Community (SADC) and the Preferential Trade Area (PTA) underlined the broader regional and global importance of Sacob. Sacob also released a 23-page discussion document on SA's options for future relations with southern Africa and the European Community, written by Africa Institute's Erich Leistner.

### Growing global ties

"The six motions on regionalism, a social accord, global trade policy, competition policy, taxation and the effect of monetary policy on the economy, accompanied by vigorous and in-depth debates involving Sacob delegates, top officials like Finance Director-General Gerhard Croeser and Trade & Industry Director-General Stef Naudé, and Reserve Bank Governor Chris Stals, highlighted the vital issues affecting all businessmen today," says Haywood.

East Bloc representatives from Russia, Czechoslovakia, Romania, Poland and Hungary also testified to the growing global ties of SA's premier business organisation.

But perhaps most significant was the "first-ever" presence at a Sacob convention of a top ANC official, chief economic spokesman Trevor Manuel. He took part in the economic policy debate and expressed pleasant surprise at the vigorous discussions between Sacob delegates and officials on the one hand, and top government representatives, on the other. "I was not aware of the strong differences that exist on policy issues and was impressed by the level of the debates that ensued," he told the *FM*.

Businessmen debated issues relating to the savage recession:

- Government was taken to task for using monetary policy to combat inflation, a "symptom" of SA's economic disease, while failing to tackle the underlying causes. The Border chamber said stagflation was the most visible result of the Bank's restrictive monetary policy. Stals explained SA has one of the lowest real interest rates in the world. And, he added, its record of building up a R40bn-odd surplus on the trade account over the past decade was barely enough to feed a capital outflow of R37,5bn. "So the time is not ripe to relax monetary policy"; and
- Croeser explained fiscal policy measures like the deficit before borrowing and proposed changes in tax policy. He had to throw oil on troubled waters during the sharp debate criticising the Jacobs committee report on taxing pension contributions.

The original, sharply critical motion on monetary policy was watered down and called on government to: "Re-examine the appropriateness of the current policy of high interest rates"; address the large increase in the deficit before borrowing; eliminate conflict between monetary and fiscal policies; resolve the problem of inadequate competition in "certain sectors" of the economy; and "deal" with wage and salary increases outpacing productivity growth.

On trade policy, the conference took a surprisingly liberal stance and called for vigorous implementation of the Industrial Development Corp's tariff report — as part of a comprehensive economic reform package. Naudé responded that tariff reform had to be "managed," in view of SA's special circumstances. "But there is no escape — we will have to become globally competitive," he added.

The most upbeat view on the outlook for the economy was given by JSE executive president Roy Andersen who predicted 1%-2% growth in 1993.

But politics was never far from the surface. Sowetan editor Aggrey Klaaste departed from his excellent prepared text on *Business and the Changing SA* and the concept of "Nation Building" to criticise the "myth" of the Zulu people, propagated by "the existing leadership of the Zulus in Natal" and abetted by the "tribalism" engendered by old-style apartheid. Klaaste said there was "an almost desperate desire to rebuild the dominance of old," referring to "Shaka and all that jazz" and the IFP in particular. "It is a pity that the IFP changed itself from a cultural to an exclusivist political party."

This brought a spirited response from IFP secretary Frank Mdlalose: "I am proud to be a Zulu" and "We have never been exclusivist and have been a political movement for a long time."

The debate fizzled out despite a spirited attempt by Sacob economic affairs committee chairman and JCI economist Ronnie Bethlehem to elevate it to higher levels by throwing into discussion the role of the State in the new SA.

"We will have to choose between the failed interventionist approach of the East Bloc countries, the classical *laissez faire* approach, or something in between, like the successful recipes used by the Pacific Rim countries," said Bethlehem.

Wits Business School honorary professor Aubrey Dickman ended the debate on a positive note: "Notwithstanding our currently dismal economic condition, the basic resilience and strength of SA's free enterprise economy is awaiting correct signals to enter the next cycle of vigorous growth."

Final word went to outgoing Sacob president Hennie Viljoen, who suggested a merger between Sacob and the Afrikaanse Handelsinstituut.

Though subsequently rejected, this suggestion (as well as the presence at the conference of top AHI official Joe Poolman) underlined the common interests of the two organisations. ■

## COLUMN

**Managing Editor** Tony Koenderman is away. His *Advertising & Marketing* column resumes next week.

# Companies urged to help workers

Learning Nation — New Nation 6/11 - 12/11/92

180

Private companies and the government were this week urged to intensify their efforts to educate adults if they were committed to lifting the country out of the economic recession.

Of the 15 million strong workforce, about nine million are illiterate. One out of every three women was also illitrate," according to Paulette Bethlehem of the Continuing Education Project (CEP).

CEP is presently helping companies to set up education programmes for their workers at all levels up to matric.

Bethlehem warned prospective candidates that there were many schemes on the market which promised good results but were inadequate. "We are very concerned about this since adult learners were subjected to courses which were not educationally sound," Bethlehem said.

She said: "When adults are taught, they need courses which are adult orientated because they are experienced and responsible people.

Now is the time to be involved in education because we have a downturn in the economy. This is our opportunity to improve the education level so that when we have an economic upswing, we would be ready to meet the challenges."

Bethlehem also advised companies not to make use of the "car wash" theory of literacy. According to this theory, companies take a batch of illiterates, "put them through" a programme and they come out at the other end with their ignorance washed away.

TRADE NET 180

# In touch

FM 6/11/92

**A sophisticated** electronic trading service that relays tender information between suppliers and SA's main mining groups, industrial conglomerates and semi-State companies will provide a vital bridge between big business and the informal sector.

Trade Net, which now links about 5 000 buyers at organisations such as Anglo American, JCI, Gold Fields, Transnet, Iscor and Eskom with more than 3 000 of their suppliers, is positioning itself to become a conduit for small firms to do business with the large conglomerates that dominate the SA economy.

"It is estimated that the tender business in SA is worth at least R60m a day. A significant slice of this could be opened to small businesses," says Trade Net MD Joe Brady.

He points out that many big organisations have committed themselves to helping the development of the informal sector by placing an increasing portion of their purchases with small businesses. However, it is extremely difficult for these large groups to contact the appropriate informal suppliers, says Brady. He adds that it is almost impossible for informal businesses to canvass any of the large industrial groups, mining houses or State corporations directly.

* continue → p82.

 180 FM 6/11/92.

Computer technology, once regarded as the domain of big business, could provide the answer. Trade Net, which is owned jointly by the *Financial Mail*'s publisher, Times Media, broadcaster M-Net and ISG, the sole distributor of IBM in SA, operates what is, in effect, an electronic marketplace.

Buyers are able to use the Trade Net computer network to issue electronic information about the type and quantities of goods they want to buy. Other information, such as the closing date of the tender and where the goods need to be delivered, is also supplied by the buyer.

These electronic requests are relayed by Trade Net's central computer to SA subscribers able to supply the goods specified by the buyer. Prospective suppliers are able to use the electronic service to tender for the goods requested. They are later informed, through the network, whether their tender has been accepted.

Brady says Trade Net's potential to cut buying costs, improve the efficiency of buying departments, reduce stock holdings and streamline administration is attracting large numbers of big buying organisations and their traditional suppliers to the service. Many are already achieving significant savings and efficiency improvements, he says.

But Trade Net also offers tremendous opportunities to small businesses, says Brady. "While most buyers and suppliers use PCs to dial into the Trade Net network, there is also a fax link available for small businesses. Requests for information issued on the network by large buying organisations are automatically faxed to the appropriate subscribers. They are able to fax their responses back to the buyers or to the Trade Net head office in Randburg, where they are keyed into the computer network."

Purchasing organisations, he says, cannot distinguish between those responses that send directly to the network by computer and those first faxed to Trade Net. All the responses are delivered electronically to the buyer on the closing date specified on the call for tenders.

"Trade Net offers the informal sector an ideal entry point into the world of big business," says Brady.

The organisation has begun discussions with the SBDC and with the National Economic Initiative about the possibility of enabling the "hives" or entrepreneurial business units run by these two groups to gain access to Trade Net's network through PCs.

The Trade Net service is already handling 50 000 transactions a day, up from 15 000 in January, and Brady says demand for the service, from large and small businesses, is expected to increase substantially in the next few years.

Trade Net technical director Bruce Heath points out that one of the strengths of the service is its ability to link a broad range of businesses operating in diverse industries. "While the fax link to the Trade Net service is opening up opportunities for small businesses, we also plan to offer new facilities tailored for large organisations."

**Brady** ... *R60m a day*

The most important of these is linking Trade Net to a Value-Added Network service. This will enable users of the Trade Net service to transmit and receive EDI messages (electronic documents that conform to a specific set of standards) between organisations in SA and elsewhere in the world.

"Many organisations are not ready to make the large investment necessary to implement EDI but, by early next year, Trade Net will be able to accommodate those firms that want to go this route," says Heath. Other new facilities under consideration include an electronic message service for Trade Net users, updating of contract price files, the creation of an on-line data base of suppliers and products and access to various commercial databases operated by organisations such as the CSIR and SA Bureau of Standards. ■

# Number of liquidations continues to rise

PRETORIA — Liquidations of companies and close corporations in the third quarter this year increased 7,5% to 574 compared with the July-September period last year, Central Statistical Service figures released yesterday showed. BDay 6/11/92

The number of casualties of the recession was 3,1% higher than in the previous three months.

During September, 195 liquidations were recorded. Of these, 92 were in

GERALD REILLY

the wholesale and retail trade and catering and accommodation services, 28 in financing insurance, real estate and business services, and 32 in manufacturing. 180

Insolvencies among individuals and partnerships during the three months to end-August rose 7,5% to 1 190 compared with the year-earlier period, and 1,1% against the previous three months.

# Research spending does not always pay

BDAM 6/11/92

180 122

**DAVID SAWER**

IT HAS become part of the conventional wisdom that the level of industrial spending on research and development (R & D) helps to explain international differences in industrial performance, and that one reason for the disappointing performance of UK industry is that it spends less than its competitors on R & D.

But these beliefs are not supported by the evidence. The most appropriate measure of industrial effort devoted to R & D is industrially financed R & D as a percentage of industrial production.

Germany and Japan are the only large industrial countries in which industry devotes a significantly higher proportion of its income to R & D than the UK. French and Italian industry have performed well while devoting less to R & D than does UK industry. At the level of the nation, there is clearly no simple correlation between industrial expenditure on R & D and growth.

It is naive to imagine national growth can be closely correlated with research expenditure. Growth depends more on increasing the efficiency with which resources are used than it does on increasing the input of such resources, including R & D. Research is only one way in which industry can improve its efficiency; and it is the results of this activity, not the level of expenditure on it, that determines its contribution to the growth of industrial efficiency.

One explanation of the pattern of UK industry's expenditure on R & D over the years could be that the results of its high expenditure in the '60s proved commercially disappointing, and that the UK increased its expenditure in the '80s when competition intensified.

Economists are tempted to use any available figures when comparing the economic performances of nations, even if the figures are not truly relevant. R & D statistics are among the less relevant data. The most interesting questions are why companies and industries differ in the success with which they introduce new products and processes to increase sales and reduce costs, and whether changes to the hardware or to marketing and production do more to improve efficiency.

Expenditure on one means of improving the hardware is not a very useful figure in this context. It is all the less useful because decisions concerning which efforts to improve hardware should be called R & D are partially subjective, so that international differences in R & D expenditure may reflect differences in the interpretation of what it comprises.

Studies of the reasons for international differences in industrial performance therefore need to be analytical and qualitative rather than quantitative. Statistics can only provide a starting point for analysis, not the answers themselves.

It is depressing, given the limited significance of R & D expenditure, that the US Democratic Party — along with the UK's Labour — places so much emphasis on tax incentives to encourage more spending on R&D.

A company's expenditure on innovative activity, including R & D, is largely determined by the technical opportunities for such activity in its industry and by the intensity of the competition it faces. Tax relief will reduce the cost of R & D, but this reduction is unlikely to increase significantly the expected return.

The UK government is trying to encourage firms to spend more on R & D by promoting the publication of research expenditure by individual companies. But the government's efforts to make companies more conscious of their R & D expenditure are likely to cause companies to place more of their activities in this category, which is what the US tax credit appears to have done. This government intervention may therefore make everyone happy without changing anything but the work of the accountants.

If any government wants to improve the performance of its national industries, it should recognise that improvement will depend on getting more output from the available inputs, not on increasing the quantity of the inputs, whether R & D, investment or employment.

Performance is a matter of how firms are managed, which governments cannot directly influence. The most relevant role for government is to improve the quality of the labour input through its influence on the educational system, and to maintain a stable macro-economic climate.

Attempts to increase the quantity of R & D demonstrate politicians' failure to analyse the problem and their desire to be seen to be doing something. — Financial Times.

☐ **Sawer is an economic consultant.**

# IDC doubles its credit to industry

BIDAY 6/11/92 (180)

PETER DELMAR

THE Industrial Development Corporation (IDC) more than doubled its advances to industry — from R624m to R1,66bn — in the past financial year, generating billions in total new investment.

The latest IDC annual report showed industrial financing authorisations increased by 42% — from R371m in 1991 to R527m for the financial year which ended in June.

IDC participation in these projects was about 30% of total funding requirements and it was estimated that investment arising would generate more than R1bn in new export earnings. This new investment was achieved despite a worsening economic climate, exacerbated by the drought.

More than 60% — or R320m — of these authorisations was for 183 companies with assets of not more than R100m.

In the year the IDC authorised R719m for a number of export and import replacement projects for beneficiating raw materials. This was up from R228m in 1991. The largest single authorisation was for the R385m acrylic fibre venture, which the IDC owns jointly with Sasol. The new investment in export projects was made possible by the IDC's decision last year not to take up its rights to a 20% shareholding in Mossgas.

Export finance facilities approved last year were worth R257m, up from R72m in 1991, and were mainly for exports to countries lacking ready access to alternative competitive financing sources.

After-tax operating profit for the year increased slightly from R414m to R418m.

At the year-end total industrial financing outstanding had grown by 19% from R4,2bn to more than R5bn and total assets from R5,4bn to R6,6bn.

The IDC progressively lowered interest rates on new loan facilities during the year and took steps to alleviate the burden of high interest rates on smaller companies.

"Together with its other actions, this enabled the corporation to achieve a satisfactory level of new financing commitments for small- to medium-sized industrial companies, as well as to make available a number of project-type financing facilities to processors of raw materials for export," the report said.

# Time to stop dithering about the environment

S Times [Cape metro] 8/11/92.

(180)

HARD-NOSED business people will have to accept that dithering about environmental awareness issues will lose them money in a world where energy-efficient products are rapidly gaining favour with the public.

This warning comes from Pick 'n Pay chairman Raymond Ackerman, whose company carries out regular environmental audits on items such as correct packaging, recycling, and waste and energy management.

"The public will support companies who show care for the environment as part of their social responsibility programme," says Mr Ackerman, who cites Swedish-based Electrolux, which won first prize in a competition for energy-efficient appliances and found it received orders for more than 10 000 of the units instead of the 500 guaranteed by the competition organiers.

Also, the Electrolux super-efficient refrigerators could be responsible for up to 50 percent of the company's sales in Germany in 1992, and total market share there is expected to increase.

" It is simplistic for sceptics to label the Green issue as a seven-day wonder and to see the involvement of various organisations in it as a market ploy," says Mr Ackerman.

"Alert business people are using the environmental issue to give them a competitive edge and at the same time enabling them to give the consumer a better product.

"The environment is going to be a key issue in making companies more efficient and competitive in the 1990s.

"The Japanese have gone much further than this and have published a 100-year environment plan.

"Maurice Strong, secretary-general of the Earth Summit conference held this year in Rio de Janeiro, says the Japanese Ministry of International Trade and Industry, which prepared the 100-year plan, believes the environment is going to be the driving force of the economy and the source of most new comparative advantages in industrial opportunity.

"He points out that the Japanese have lowered the energy and materials content of their unit of production to such an extent that they use only half the energy per unit of production that the USA does, to give them a comparative advantage of at least five percent on energy alone."

Mr Ackerman attended the Earth Summit conference in his capacity as a member of the Geneva-based Business Council for Sustainable Development, an international committee on which sit 50 chief executive officers of major companies. Representing the southern Africa region, he is one of four African members.

Information disseminated at Earth Summit showed the success of companies in developing environmentally sound products through a two-part programme which first involved cleaner production processes and then cleaner product development.

# Outlook gloomy

8/11/92

ANGLOVAAL Industries' first-quarter performance reflected a further deterioration in trading conditions in several of its markets, Anglovaal Chairman Basil Hersov said at the AGM last week. C/80

Turnover and margin continued to come under pressure. Most of the companies were still budgeting for increased profits in the current year. But the budgets appeared to be increasingly optimistic. S/Times (Buss)

Mr Hersov said failing an early improvement in business conditions, it was expected that downward pressure on earnings would continue.

# 32 industrial firms face failure threat

S Times (Buss) 8/11/92. (180)

By CHERILYN IRETON

SLIGHTLY more than 10% of industrial companies listed on the JSE are candidates for financial failure.

The 32 companies in dire straits include the Frame group, Safety Technologies, Shoredits and Ovcon, according to a new corporate credit rating.

Another 16% of the industrial board — 52 companies — are a high credit risk and are headed for, or already experiencing, liquidity problems. Unless corrective action is taken, they are also likely to fail.

The Status Corporate Ratings are calculated and published by McGregors Online Information and Kredit-Inform using audited financial figures and a model designed to predict financial failure.

The ratings are updated annually after the publication of audited figures.

The model has proved to be a reliable indicator of financial deterioration, says KreditInform managing director Ivor Jones. Companies that showed up as a poor risk were Trimtex and Focus, which have since been placed in provisional liquidation, and Presto, which has been suspended.

The effect of the recession is evident in the ratings, most of the predicted failures operating in cyclical industries like engineering, building and construction. Retailers' ratings are also severely affected.

Of the firms analysed two building, two electronics and four engineering companies are in trouble. Seven retailers, two furniture firms and a restaurant chain are on the critical list along with a motor dealer, a transport company and a steelmaker.

## Capital

Companies to receive an exemplary bill of health include one listed on the development capital market, Environmental Resources. It is rated tops out of 15 similar companies in spite of the fact that its profitablility deteriorated in the last review period. It should however be noted that the published results used are for October 1990.

Main board companies to get an "excellent" credit rating include Masonite, Engen, Amshoe, Altech and Berzack.

penditure and having at the same time a "self-destructive," Jacobs said.

# Business is speaking 'with too many voices'

BDAY 9/11/92

GERALD REILLY

PRETORIA — The need to rationalise and consolidate the large number of organisations representing business in SA had become imperative, Johannesburg Chamber of Commerce and Industry (JCCI) president Stuart Morris said last week.

Speaking at a JCCI business breakfast, Morris said business was currently represented nationally by at least 10 major bodies and a host of minor ones.

This was confusing for business, government and the public as well as for visiting trade missions, he said.

Morris said business was speaking with too many voices instead of with one strong voice.

Given the changes taking place in SA, together with growing financial pressures and the scarcity of human and other resources, it was obvious that continued support for all these organisations was neither justified nor feasible.

Morris said employers had to focus their attention and funds on fewer organisations. Duplication of effort in local chambers had to be eliminated and scarce resources consolidated.

A common game plan was needed to work towards an agreed national strategy that promoted business and the economy.

Morris said given the diversity of SA society there was still a need for more than one body representing business, but the time had surely arrived for rationalisation of existing nationally representative bodies.

Current structures serving business at national, regional and local levels needed to be critically examined to rationalise scarce resources by mergers where sufficient common interest could be identified.

# Marketing by phone

GAVIN DU VENAGE

THE much-maligned telesales remained a good marketing technique despite the abuse heaped upon it, said New Products Library researcher Derek Jermyn.

He said that when telemarketing was professionally planned and used skilled and motivated operators, the concept of a business retaining close contact with its customers around the country was essentially a good one.

BDAY

"A higly trained telemarketer is as important to a company as a well paid representative, and also doubles up as an image builder," Jermyn said.

Some companies which made telemarketing a dedicated unit had had incredible success.

9/11/92

A good example was Frank & Hirsch, said Jermyn, who was himself involved in setting up the company's own telemarketing division.

Frank & Hirsch was the first to hire students from Access College, an institution that trains disabled people to operate in the workplace. Today six graduates account for 25% of the company's turnover.

# Business mood 'still vulnerable'

BDAY 10/11/92 (180)

HILARY GUSH

A DEPRESSED world economy, declining consumer spending and political uncertainty continued to erode business confidence, the SA Chamber of Business (Sacob) said yesterday.

The business confidence index (BCI) — a short-term barometer of business mood — dropped slightly, by 0,1 of a percentage point in October to 90,1 on the back of a deterioration in seven of its 13 sub-indices.

Sacob director-general Raymond Parsons said: "In addition to the adverse impact which uncertainties generated by the political process have continued to give rise to, the business community has yet agian been battered by the combined effects of a depressed world economy and declining consumer spending.

"As a result business sentiment is still vulnerable," he said.

He said following a downward revision of growth prospects in the industrialised economies, the prospects of a local export-led recovery had faded.

Rising unemployment, relatively expensive credit, negative real wage and salary increases and the effects of the drought had dampened domestic demand.

Despite an "encouraging drop" in inflation in September, Parsons said the depreciation of the rand and the burgeoning government deficit had contributed to the delay in the long-anticipated Bank rate cut.

"As a result, the real cost of credit has increased, and the pressure on disposable incomes remains high."

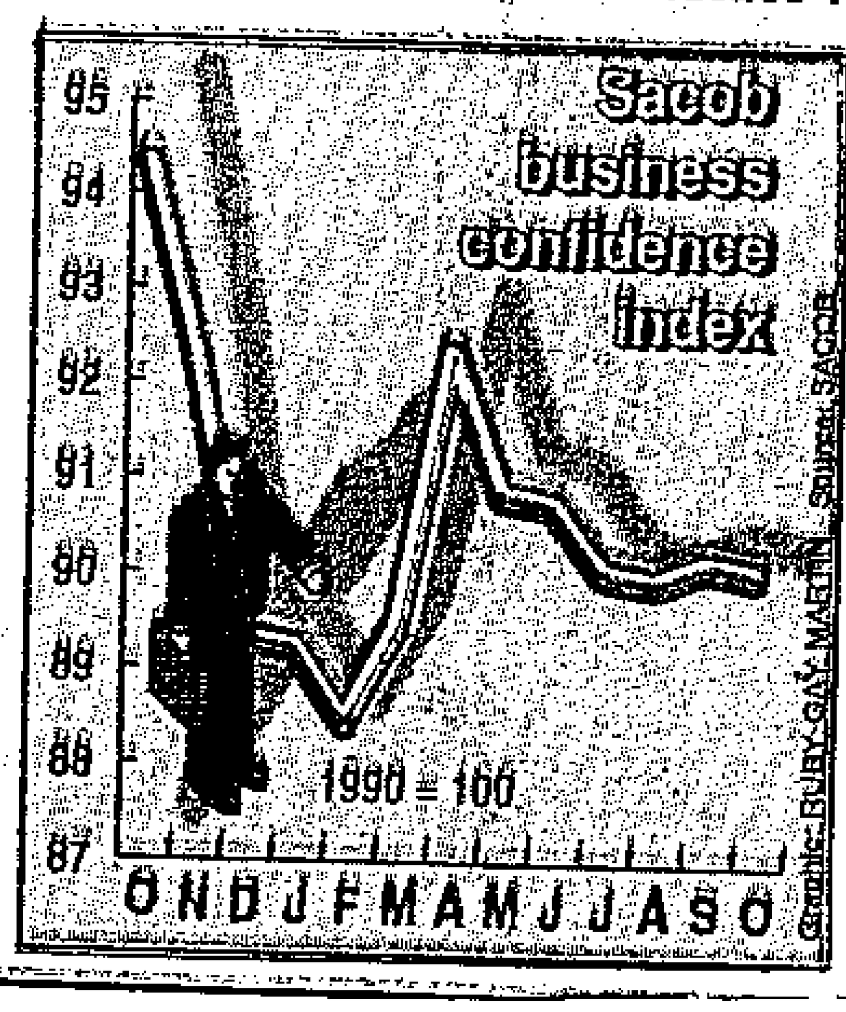
Given expectations of wage and salary increases of between 5% and 10% in 1993, Parsons said inflation would have to fall to around 7% before pressure on disposable incomes started to subside, and consumer demand picked up.

"Despite the many negative factors there is some glimmer of hope," Parsons said.

Lower inflation and softer interest rates in the months ahead, as well as higher-than-expected turnovers over Christmas could help bolster business sentiment.

Early summer rainfalls had heightened chances of a speedy end to the drought, while recently announced measures aimed at reducing the level of violence boded well for an improved business mood.

However, Parsons cautioned that "progress on the political front remains the dominant factor in shaping business and consumer confidence".



**NATION BUILDING** *How to start small but end up with a big future - with the Sowetan's idea!*

Sowetan 11/11/92

180

**Guests at the *Sowetan* Entrepreneurial Development Conference.**

# Small and walking tall

**BIG PLANS** *Conference was milestone in the history of the small business world:*

**By Joshua Raboroko**

THE *Sowetan* Small Business and Entrepreneurial Development Conference last month was an important milestone for blacks in South Africa.

It rekindled the spirit of entrepreneurship among African participants, who were also addressed by international speakers.

Among the participants at the three-day summit were African entrepreneurs, Commercial and Development Finance Bankers, International Finance and Development Agencies, representatives of the Africa Project Development Facility (APDF) and the World Bank.

The conference, sponsored by *Sowetan* and the Development Bank of Southern Africa, focused on how indigenous African entrepreneurs could work together and promote and motivate the spirit of competitive business on the continent.

It suggested that "entrepreneurs will play a central role in the transforming African economies".

### Africa's future

A consensus, increasingly reflected in policy reforms and other initiatives, was forming around that vision of Africa's future.

It was contended that while more and more policy makers and aid donors believed that future development in Africa rested with entrepreneurs and markets, there were different views on how they could effectively lead that development.

### Create jobs

One of the speakers at the conference, APDF general manager Mr Alexander Keyserlingk, said as soon as a political settlement was reached in South Africa, "we will enter with the aim to help small business people".

"Africa needs more entrepreneurs in order to be able to create job opportunities and wealth.

"The continent will have to address the question of poverty in a more vigorous manner," he added.

### Worked on

The APDF has worked on 23 projects in African countries. The projects in which about R144 million has been invested, are expected to result in the creation of 2 000 jobs.

In its five years of existence, it has worked on 110 projects in various countries resulting in the creation of business opportunities for more than 11 000 people.

### Victim syndrome

"We are on the right track to economically empower the people to become job creators thus rejecting the victim syndrome and really trying to make them believe in themselves and to help growth in the country."

Speakers at this milestone conference included PAC economist Mr Sipho Shabalala, Nafcoc president Mr Archie Nkonyeni, Fabcos' Mr Gaby Magomola, SBDC's general manager, Mr Joe Schwenke, and the APDF's Harare-based Mr Omari Issa.

**NATION BUILDING** *Helping up the underdog with the assistance of a caring company*


Happy children at a creche in Guguletu near Cape Town admire the beautiful hand-made toys that have been donated to the school. All the toys were made by senior citizens who entered them for Sanlam's Pretty Things for Little Things Competition.

# Banking on a growing society

Sowetan 11/11/92 (180)

**REACHING OUT** *Sanlam makes a commitment to helping the disadvantaged:*

By Joshua Raboroko

THE DEVELOPMENT OF the small business sector for a sound and flourishing economy is just as important as education.

Expanding the small business sector ensures participation in the free-market system, which is the sound basis for economic prosperity.

As one of the largest shareholders of the Small Business Development Corporation, Sanlam is at the forefront of small business development in South Africa.

Sanlam senior public affairs manager Mr Leon Koen says: "We are fully aware of the critical importance of the small business sector in paving the way to economic recovery."

The thrust of the company's corporate responsibility programme in relation to small business development is concentrated in two areas - the promotion of the concept of entrepreneurship and advancement thereof through training.

To achieve the first end the company sponsors several competitions in conjunction with the SBDC and *Sowetan* to promote and encourage entrepreneurs and new business ideas.

According to Koen, Sanlam's contribution in the area of training is diverse and includes support for organisations such as the South African Free Market Foundation, the South African Foundation for Entrepreneurship Development, Get Ahead Foundation, Africa Cooperative Action Trust, Triple Trust, Valley Trust, the Independent Business Enrichment Centre, Informal Business Training Trust and the African Businesswomen's Development forum.

Moreover, in conjunction with the northern Transvaal Technikon the company established the Sanlam Centre for Small Business management, which provides vital training for business people in the informal sector.

"Sanlam has not only become an important player in South Africa's economy as a life assurer and investor of policy-owners' funds, but its involvement in social and business upliftment, as well as education and training, clearly illustrates the company's acceptance of a much wider role.

"It shows our deep commitment to the future of all South Africans," Koen says.

Referring to welfare and health-care, Koen says far-reaching political and economic change in South Africa, as well as unemployment and health and housing problems, have placed unparalleled demands on welfare and health services.

"Comprehensive political and economic changes provide massive challenges.

"A shortage of job opportunities, health problems such as tuberculosis, AIDS and malnutrition, as well as a shortage of housing, are making demands on the already-shrinking resources of the government and also on every individual.

"This situation places a double burden on welfare and health organisations.

"We regard it as our duty to help, so that all of us can look forward to a brighter future. That is why Sanlam supports more than 50 welfare and health organisations. We must help to pull the cart of economic upliftment, and this we do gladly," he adds.

Regarding education, he says there are today many conflicting views on the future of South Africa.

Politicians oppose one another and philosophers debate their divergent scenarios. Even businessmen and the collective man-in-the-street are divided in their hopes and dreams for the new South Africa.

The only fact about which there can be no argument is that education and training will play a critical role in our shared future. Every right-thinking South African will agree with this.

"The factors which will determine our quality of life and standard of living are not simply technology, factories or equipment.

"Our major assets on which we must depend are our human capital - our individual and collective insights, abilities and skills. These are the seeds which, if sown wisely, will blossom into a bright future for all of us," says Keon.

"But to prosper and grow these seeds need nurturing - nurturing which can only be provided through education and training.

"We at Sanlam realise this full well, which is why the major part of our corporate social involvement is allocated to education and training."

Sanlam supports education from pre-school to tertiary level. One of its most recent projects is the Sanlam Saturday School for black matriculants. This rewarding project is run in conjunction with the University of Potchefstroom.

To assist the company in its task of allocating funds for corporate social involvement, it conducts regular research to determine the areas in greatest need of its support.

In addition, the company conducts surveys among its policy-owners to ascertain their preferences with regard to the allotment of funds.

Acting on the results of this research, the company extends financial aid mainly to education and training, the development of small business sector, job creation, welfare and health-care.

But it does not stop there. It also supports nature conservation, sport, culture and several other community projects. When Sanlam's name is mentioned, one can be forgiven for seeing a mental picture of a huge institution involved in many sectors of the economy. But the truth is that it has - first and foremost, always been, and still is, a leading life assurer.

It therefore seems reasonable to claim that it actually performs a social function, through helping people to help themselves and through providing financial peace of mind and financial growth.

The company is owned and ultimately controlled by about two million policy-owners of all population groups.

**NATION BUILDING** *How to start small but end up with a big future - with the Sowetan's idea!*

Sowetan 11/11/92 180

# Small and walking tall

Guests at the *Sowetan* Entrepreneurial Development Conference.

By Joshua Raboroko

**BIG PLANS** *Conference was milestone in the history of the small business world:*

THE *Sowetan* Small Business and Entrepreneurial Development Conference last month was an important milestone for blacks in South Africa.

It rekindled the spirit of entrepreneurship among African participants, who were also addressed by international speakers.

Among the participants at the three-day summit were African entrepreneurs, Commercial and Development Finance Bankers, International Finance and Development Agencies, representatives of the Africa Project Development Facility (APDF) and the World Bank.

The conference, sponsored by *Sowetan* and the Development Bank of Southern Africa, focused on how indigenous African entrepreneurs could work together and promote and motivate the spirit of competitive business on the continent.

It suggested that "entrepreneurs will play a central role in the transforming African economies".

### Africa's future

A consensus, increasingly reflected in policy reforms and other initiatives, was forming around that vision of Africa's future.

It was contended that while more and more policy makers and aid donors believed that future development in Africa rested with entrepreneurs and markets, there were different views on how they could effectively lead that development.

### Create jobs

One of the speakers at the conference, APDF general manager Mr Alexander Keyserlingk, said as soon as a political settlement was reached in South Africa, "we will enter with the aim to help small business people".

"Africa needs more entrepreneurs in order to be able to create job opportunities and wealth.

"The continent will have to address the question of poverty in a more vigorous manner," he added.

### Worked on

The APDF has worked on 23 projects in African countries. The projects in which about R144 million has been invested, are expected to result in the creation of 2 000 jobs.

In its five years of existence, it has worked on 110 projects in various countries resulting in the creation of business opportunities for more than 11 000 people.

### Victim syndrome

"We are on the right track to economically empower the people to become job creators thus rejecting the victim syndrome and really trying to make them believe in themselves and to help growth in the country."

Speakers at this milestone conference included PAC economist Mr Sipho Shabalala, Nafcoc president Mr Archie Nkonyeni, Fabcos' Mr Gaby Magomola, SBDC's general manager, Mr Joe Schwenke, and the APDF's Harare-based Mr Omari Issa.

# Shock at 5,7% fall in GDP

(180)

CT 12/11/92

By ARI JACOBSON

SA's RECESSION deepened in the third quarter of 1992, as measured by the gross domestic product (GDP), which fell in real terms by a wopping 5,7% (seasonally adjusted and annualised).

Economists warned that the recession was not yet over and Sanlam's chief economist Johan Louw added "we are still in for a rough time".

The real decline in GDP was measured at 2,9% in the second quarter and 2,1% in the first quarter of 1992.

Louw said "little improvement can now be anticipated in the final quarter — with a decline of 2% in GDP forecast for the whole of 1992."

He added that the economy was unlikley to pick up before the second half of next year, as the poor GDP performance stretched across the broad spectrum of industry.

The sharp decrease in total GDP was again ascribed to poor agricultural production, according to the Central Statistical Service (CSS).

Agricultural activity, as a seasonally adjusted real GDP figure, fell by 63,7% in the third quarter, against a drop of 19,7% in the first quarter and 31,8% in the second quarter.

This the CSS said was a direct result of the drought.

"But good rains this week have largely broken the drought in many parts of the country and agricultural activity is expected to pick up substantially in the last quarter of the year," economists said.

An improved agricultural season is expected to arrest the decline in SA's GDP next year and economists forecast a growth rate of between 0,5% and 1% in 1993.

The seasonally adjusted non-agriculture real GDP also continued with its downward trend and declined by 1,2% in the third quarter compared to 0,7% in the second quarter and 0,6% in the first quarter.

However, the manufacturing sector managed to limit its fall in quarterly GDP to 1,6% in the third quarter, against 1,8% and 2,5% declines in the previous two quarters.

# Manufacturing lags technologically

(180)

BIDAY 12/11/92

EDWARD WEST

SA's manufacturing industry runs the risk of falling behind the rest of the world technologically because of the declining level of private sector investment in capital equipment, economists said yesterday.

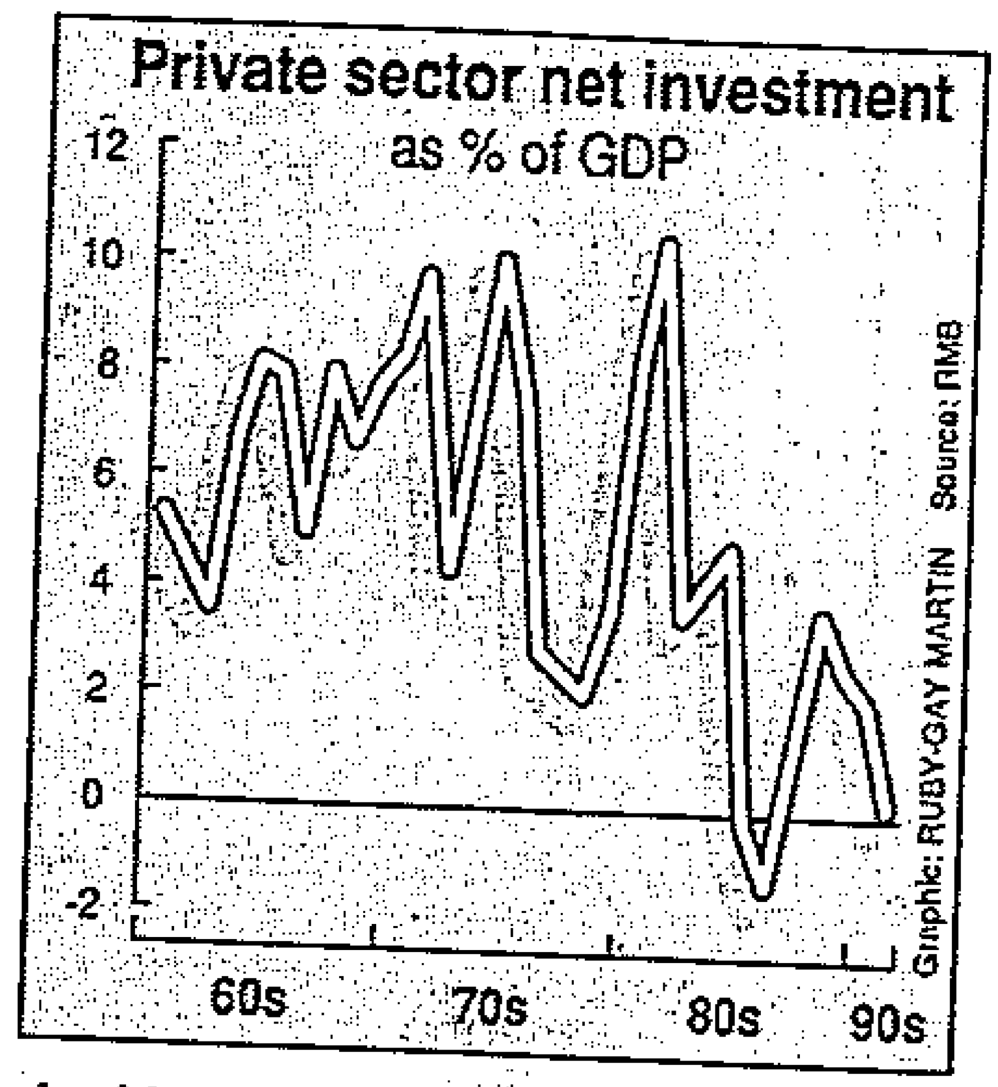
Steel Engineering Industries Federation of SA (Seifsa) economist Michael MacDonald said there was no doubt SA's capital stock — except in some cases like Iscor — was outdated.

Rand Merchant Bank economist Rudolf Gouws attributed the declining investment to slow economic growth, which had lowered capacity utilisation, the declining return on capital invested, uncertainty and instability, high tax levels and the historical impact of sanctions.

He believed investment in manufacturing could be stimulated by lowering the tax rate for all, thus aiding the creation of smaller manufacturers as opposed to providing incentives for only the very big capital projects.

According to AECI MD Mike Sander, the tax structure and the combination of the effects of inflation on the amortisation rate on capital goods was hurting manufacturers, when compared with incentives granted in other countries.

MacDonald said the previous incentive granted for purchasing capital equipment, which allowed for an accelerated write-off of 50%, 30% and 20% over three years, should be reintroduced.




He applauded the extension of the 37E accelerated tax incentive to non-export related investment.

MacDonald said the only advantage of declining investment in capital assets was that there was much excess capacity which would have to be taken up should the economy improve. This would provide manufacturers with about two to three years grace before having to invest in more efficient equipment.

☐ The latest SA Chamber of Business monthly survey of the manufacturing sector says capital expenditure prospects again deteriorated in the face of increased economic and political uncertainty, after improving over the past two months.

# Focus on image of advertising industry

Bday 17/11/92

180

MARCIA KLEIN

THE advertising industry's image was the main topic of discussion at the recent IAA World Advertising Congress in Barcelona.

Markinor's Nick Green, who presented a paper with Hunt Lascaris TBWA MD Reg Lascaris, said one of the highlights was a paper on the interface between editorial and advertising by the editor of Die Welt, who said the industry should go all out to correct the image problem of advertising.

At the congress, an international campaign was launched to raise awareness of advertising as a dynamic force. The campaign, which has been devised to include developed and less developed markets, was launched in Newsweek in September.

Green said that until now no one had championed advertising's cause sufficiently. He hoped the campaign would be seen in SA shortly, with the basic strategy adapted for the local market.

Unilever chairman Michael Perry said marketing was a "zillion metre hurdle", but no company's future was assured without excellence in marketing, branding and advertising. He said there was a need for international strategies with local executions.

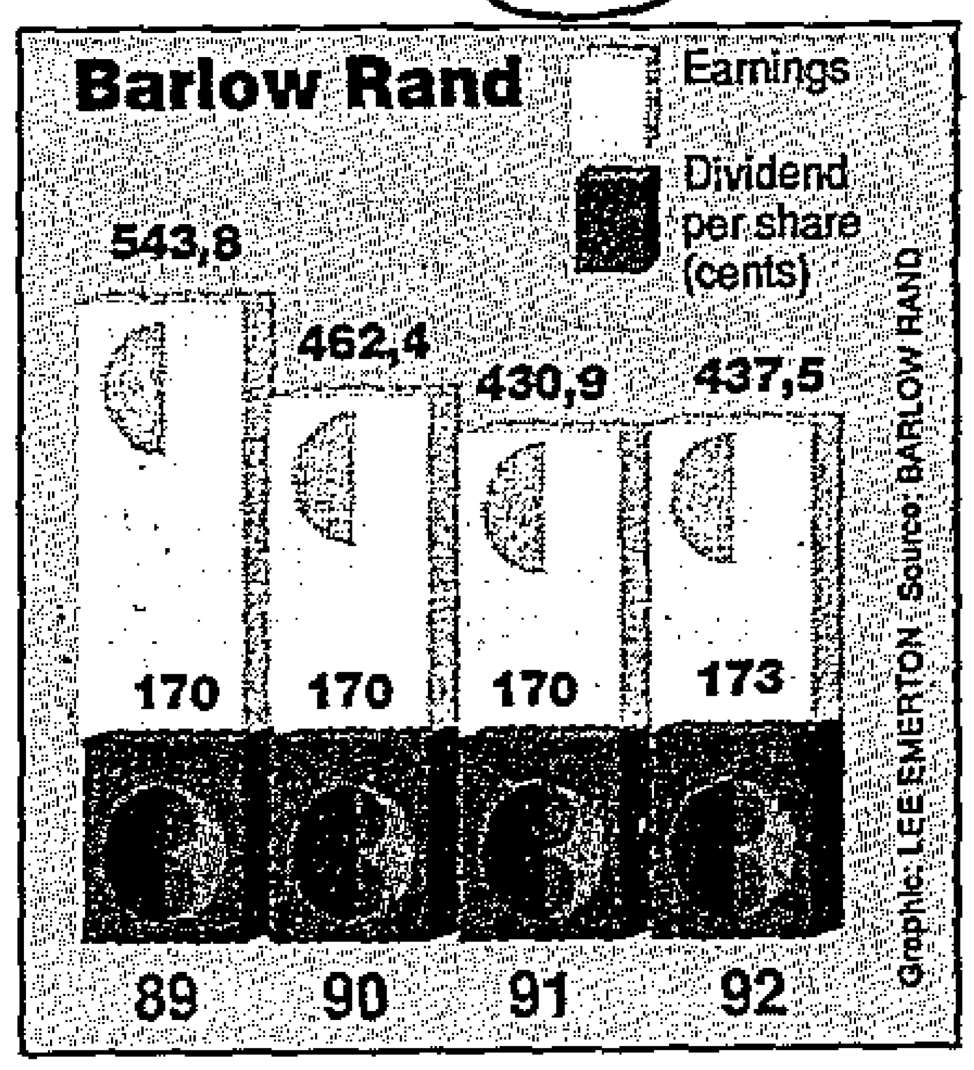
There was also concern at the conference about the lack of emphasis on the importance of marketing. Most companies' main assets were in their brands, and until these were included in the balance sheets, this could remain a real problem.

Green said he and Lascaris spoke about Africa, where 12% of the world's population produced only 2% of world GDP and was exposed to about 2% of its advertising.

# Barlows up 5% in tougher second half

BDay 17/11/92 (180)

MARCIA KLEIN




BARLOW Rand has announced a 5% increase in attributable earnings to R849m (R806m) in the year to end-September after experiencing a significantly tougher second half.

This rise was diluted by a 4% increase in the group's issued shares, and earnings were up by only 2% to R437,5c (R430,9c) a share. This compared with an 11% earnings rise at the interim stage.

The final dividend was maintained at 119c a share to bring the full-year dividend up by 2% to 173c (170c) a share.

At end-March, directors had warned that the first-half performance would not be met in the second half, and said at the time that the full effects of the drought had not yet been felt.

MD Derek Cooper said yesterday that with few exceptions, the group did not see any increase in demand for its products and services.

During the year, the group acquired offshore Caterpillar distributor Finanzauto as well as Colman Foods as part of its strategy to move into branded products. It restructured its interests in Rand Mines and rationalised its TSI and ISG-Persetech interests.

Cooper said the group's performance continued to be enhanced by the strategic sale of Middleburg Steel & Alloys (MS & A). Turnover increased by 10% to R35,2bn from R32bn, but he said that excluding the MS & A disposal and the acquisitions, turnover growth would have been marginally higher at 10,5%.

Operating profit was only 5% up at R2,7bn (R2,6bn) as the average group operating margin dropped to 7,7% from 8%.

The interest bill fell 18% to R550m, and income from investments was raised by 24% to R369m. Cooper said an interest saving of R196m was achieved, largely through the disposal of MS & A, rights issues and the issue of scrip dividends.

Pre-tax profit was increased by 15% to R2,5bn (R2,2bn), and higher taxation of R802m reflected an increase in the average tax rate to 34,4% (31,9%). This was mainly due to pockets of assessed losses in the group's interests diminishing.

Profit after tax was up by 11% to R1,7bn (R1,5bn), but a 45% decline in the group's

☐ To Page 2

## Barlows

BDay 17/11/92 (180)

☐ From Page 1

share of the retained profits of associates — partly due to the consolidation of previously equity accounted associates — resulted in a 9% increase in net taxed profit.

Earnings attributable to outside shareholders in subsidiaries and preference shareholders rose by 13% to R906m. This was largely due to the reduction in Barlows' stake in J Bibby, the listings of C G Smith Sugar and Langeberg and the reorganisation of its coal interests.

Cooper said the group's strong balance sheet resulted from the inflow of cash from the sale of MS & A and the high level of acceptance of the scrip dividend. The group's cash position had increased by 76% to R1,5bn.

International arm J Bibby showed satisfactory results, and expanded its presence in Europe through Finanzauto.

Cooper said the effects of the depressed local economy and international markets, as well as the drought, would be felt into the first half of 1993. But the group was financially strong, had stabilised the previous cyclicality of earnings, placed emphasis on capital expenditure and product development, and continued to "sweat" its assets. He said the group's target was to at least maintain earnings, but this would be difficult. However, the group's strong cash position should enable the dividend to be maintained "at the very least".

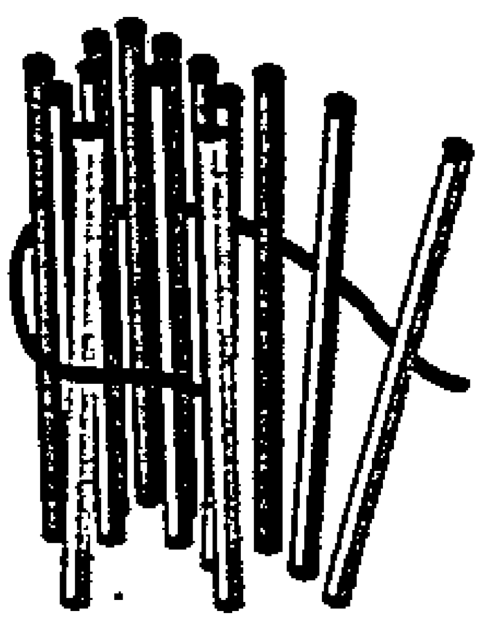
Future capex of R2,25bn would include R685m for the acquisitions and R1,1bn for expansion capex.

UNBUNDLING FM 20/11/92

180

# Picking up the gauntlet

## Big business isn't always bad business



**Summarising his** impressions of the annual *FM* Investment Conference, the ANC's Albie Sachs told a luncheon audience he thought some important issues had either been ignored or dealt with inadequately.

In a speech notable for its solicitude, Sachs, probably the ANC's best propagandist, told mesmerised businessmen he thought a number of issues needed to be debated fully and publicly. He was, he added, throwing down the gauntlet to the business community. And first on his list for airing was the matter of "unbundling."

The word itself has taken on pejorative intimations since Finance Minister Derek Keys placed it in the spotlight when, as chairman of Gencor, he hinted that it could unlock added value. Since then the perception seems to be that that which is "bundled" is bad and needs, therefore, to be undone.

Unbundling has subsequently taken on a political dimension. It is a word which is being used with such abandon in that respect that it threatens to become dispossessed.

When Keys first made use of it, he meant that value in certain assets was not being credited to shareholders, because the market was either ill-informed or did not know how to impute that value.

A single case illustrates the point. Dabi is an investment company in the JCI group which held a wide spread of interest in many quoted companies, largely in the mining sector.

The market consistently refused to value the company on the basis of its underlying investments, even though these were well known and publicised in its annual reports, preferring instead to apply a discount.

So substantial did this discount become, on occasion as much as 35%, that JCI decided to sell the underlying shares and distribute the capital profits to Dabi shareholders. The market reacted, perversely and typically, by revaluing Dabi's shares at a level which now closely approximated the market value of its underlying assets.

Some other SA groups certainly are giving serious consideration to how they realise underlying wealth in this way. They will need also to consider the tax implications that could flow from a new regime.

However, the Keys definition of unbundling is clearly not what is meant by those who call for it to become a national policy in the new political dispensation. The puzzle is to tease out precisely what it is they wish to unbundle.

The issues in SA most often linked by the term unbundling are: first, pyramids, whether they are good or bad and whether they should be collapsed. Second is conglomerates and whether they should be broken up. Finally, and to confuse the first two, comes the enforcement of a competitions or anti-trust policy.

The purpose of a pyramid is to enable an entrepreneur to retain control of his company and to raise capital for development by issuing what are, in effect, non-voting shares, even though he holds only a minority shareholding.

And non-voting shares are anathema to the British-North American system of corporate governance because of the element of protection they provide to voting shareholders and, through them, the managers. In an article published in the *Financial Times* in August, Sir Alan Walters and George Guise argue that SA's pyramid structure puts feather beds in SA board rooms and protects the managements of SA's conglomerates "from any true accountability to their shareholders."

The answer to this country's problem of simultaneously awakening sleeping assets which form SA's wealth and promoting growth, suggest Walters and Guise, lies in sending for Hanson and Goldsmith. And to give them greater effect, SA's tradition of permitting pyramid structures of control must be swept away.

Well, it sounds simple enough and it must be of great attraction to those in the ANC seeking economic dominance. But it hides a fallacy. Britain has espoused shareholder democracy since the last century. It has no pyramids and few non-voting shares to protect entrepreneurs. It does have Hanson and Goldsmith. But it has not necessarily stimulated economic growth.

**Mboweni** ... *some fairly clear ideas*

The Walters/Guise thesis ignores the transparent success of the Alpine system of corporate governance which prevails in much of Europe. Dual-class shares and pyramids are pervasive in Scandinavia and Switzerland.

In Germany, the banks have long played powerful roles in controlling the major corporations (frowned on across the water). Much the same applies in Japan. Only the most perverse will deny the successes of those countries.

Economics consultant Jos Gerson argues that mass unbundling by disallowing pyramids may help shareholders at the level of the holding company, but it is likely to destroy value at the operating company level as their ability to raise capital cheaply is weakened. Gerson predicts that, on balance, shareholders will lose.

SA's system is one which evolved over decades with the consent and blessing of government and the investment community. No-one has ever been forced to invest in companies in which the controlling shareholder, often the founding family, retains control. Investors did so because they believed their own interests would be served best. And that lesson shouldn't be ignored.

ANC trade and industrial policy co-ordinator Tito Mboweni has some fairly clear ideas of his own on the subject. "Pyramid holding companies are particularly powerful," he says, "because they are able either to facilitate or constrain the rate of investment being contemplated by a subsidiary. A study we conducted recently revealed a specific example in which the desire for growth in a particular direction by a subsidiary ran counter to the policies of the holding company. Our view is that the whole system of pyramids in SA needs to be re-examined; we have to produce a policy (on pyramids) which will be part of the much wider issue dealing with monopolies and cartels."

The second issue is that of the conglomerates. These are, broadly speaking, enterprises engaged in several diverse or unrelated fields of activity, very often having been formed through buccaneering acquisition rather than organic growth. In SA, conglomerates generally have interlinking holding companies with many diverse sets of shareholders. For example, the shareholders of SA Breweries are not identical with those of OK Bazaars or JCI, yet the linkage between the three companies is considerable.

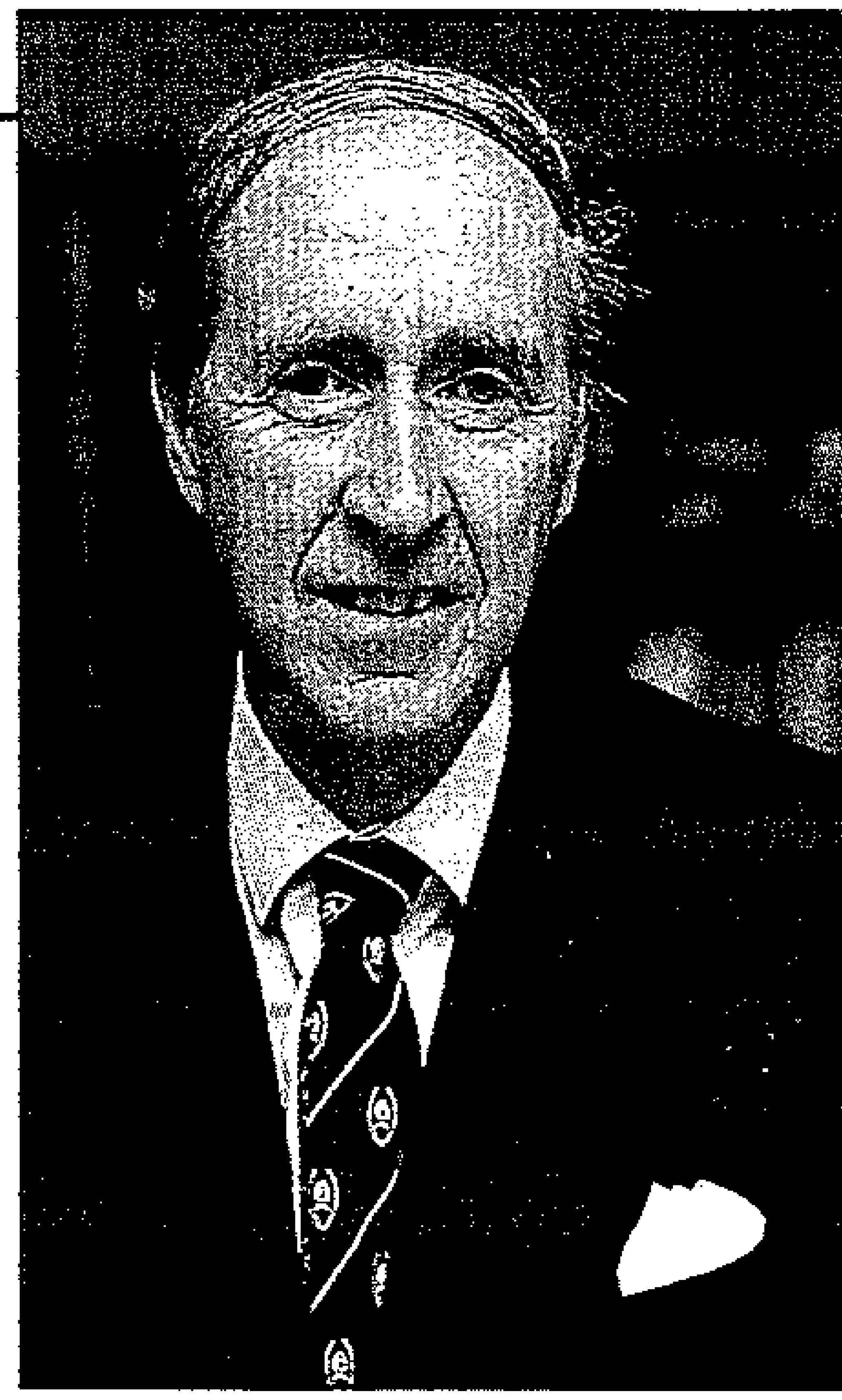
By and large, however, they do not possess a common body of shareholders. In the strict sense, therefore, SA's giants are not true conglomerates; they are, in fact, diversified groups which have only some of the characteristics of a classical conglomerate.

They came about very largely as a result of isolation, significantly from the effects of exchange controls which forced them to confine their investment programmes within the country and partly from the years of sanctions and the accompanying disinvestment.

But there is no good economic reason for assuming that a conglomerate is intrinsically inefficient or representative of a poor allocation of resources. Opposition to them appears to stem from a pervasive mistrust of size.

And, inevitably in SA, it is the Anglo American Corporation which comes in for most of the stick when it comes to issues such as these. Anglo director Michael O'Dowd trenchantly points out that a policy which is anti-size is, by definition, also anti-growth and, by extension, anti-success. "SA isn't an island," he says. "It isn't well supplied with large companies and we do need some big concerns if we're to compete successfully with the outside world."

Anglo, he argues, is not a US-style conglomerate. It is a mining finance house which has grown organically over a long period, for much of which it has been constrained in its decision-making by governmental interventions, most particularly in the area of exchange control.



**O'Dowd** ... *we need big concerns*

Nor is Anglo's relative size unique in its position within an economy. The Dutch portion of Royal Dutch Shell accounts for about 30% of the market capitalisation of the Amsterdam stock exchange. Philips is another famous Dutch conglomerate. In Switzerland, world companies such as Nestlé, Ciba Geigy and La Roche effectively dominate the economy.

Anti-monopoly policy isn't related, strictly speaking, to the matters of pyramids and conglomerates. Nevertheless, Mboweni, for one, sees a direct linkage: "The ANC's position," he says, "is that we believe that pyramids, conglomerates and monopolies are simply not conducive to the conduct of the freer operation of commerce. While it's true that we must identify the policy instruments we apply with care, nevertheless de-concentration within the private sector must be included in the anti-monopoly policy we adopt. And one thing's for certain: SA's future policy in this area will be significantly broader than anything in the US, the UK or in Europe."

The simple premise behind anti-monopoly (anti-trust) legislation is that it is inimical to the public good for any one company or organisation to be in an effective position of control over the supply of any commodity: by reducing competition it prevents the market clearing efficiently.

Some economists used to believe that any single firm acquiring too large a market share would inevitably use its power to restrict output and raise prices. But this view has been strongly challenged. The emphasis now in American research is not on market share but on the barriers to entry of potential competitors.

Mboweni clearly subscribes to the prevail-

Continue

 FM 20/11/92 180

# Smoothing out the cycles

## For now, profits depend on acknowledged strengths

**Little more** than a year ago, Barlow Rand embarked upon uncharacteristic and radical surgery. It sold Middelburg Steel & Alloys (MS&A) and related chrome interests for R1,1bn, and more recently it unbundled the troubled Rand Mines, further distancing itself from cyclical commodity markets.

In substance and in the signals sent to financial markets, these events mark a turning point for the normally expansive Barlows. Essentially, management is seeking to bring about a change of direction that will give the conglomerate greater control over its own destiny.


**Cooper**

In an era when even conglomerates are tending to focus their portfolios more sharply, this approach — from a new management team led by chairman Warren Clewlow and MD Derek Cooper — could bring rewards. Still to be seen is whether the stock market will respond with a more favourable rating for the share.

Barlows now has large funding capacity and probably more resilient profits. The investment emphasis has been swung steadily towards the higher-growth and higher-margin activities. That will largely involve building on acknowledged strengths, in areas such as food, pharmaceuticals, packaging and electronics.

On the face of it, much is being done to eliminate weaknesses that have impaired the rating of the share — which has often performed disappointingly. Though seen as a blue-chip counter, it has invariably stood at a discount to the JSE Industrial index. That remained true after release this week of the 1992 results, showing attributable earnings 5% higher but EPS and dividends up by a marginal 2%.

The 9,8 p:e and 3,9 dividend yield on the R44 share price respectively indicate discounts of 26,7% and 40,3% to the index averages. The Industrial index is, of course, heavily influenced by some focused, high-growth companies such as Richemont, Rembrandt, SA Breweries and Safren. But that is largely why the much more diversified Barlows is still accorded a rating based on stock market expectations of earnings that will be good quality — but solid rather than high growth.

Three adverse perceptions have influenced the market. One is that earnings have historically been highly volatile, with periods of strong growth followed by phases of weak earnings and dividend plateaus. A five-year dividend plateau in the mid-Eighties (when Barlows was known slightingly as a fixed-interest stock) was followed by years when EPS grew at rates of 28%-43%/year. The gyrations of MS&A's profits were partly to blame for the swings. It's hoped that the disposal of this company has smoothed the earnings volatility.

Another problem — common to conglomerates — was that difficulties in a particular division tended to generate negative perceptions out of proportion to the direct effects. Aside from the stated strategy of retreating

*Continued on page 27*

FM 20/11/92 180 

*Continued from page 24*

from cyclical businesses, this was presumably part of the motivation for unbundling Rand Mines.

If so, it is only a partial solution. Troubled gold mines such as Harmony are still identified with Barlows, though the effective shareholding is now negligible. Last week there was news of what could be serious geological problems in two Eskom-tied collieries operated by RandCoal, now the backbone of remaining mining interests.

What probably weighs more heavily on market perceptions is the view that Barlows' size and diversity make its profits overly and inextricably dependent on growth in the local economy. Hence some analysts believe that, over time, the returns are unlikely to be better than average.

For his part, Cooper believes this is a misconception that overlooks the changing sources of profits, the enhanced flexibility and the directions in which Barlows is being nudged. The past year has seen a marked swing in the profit mix towards consumer products: Cooper estimates these provided 40% of 1992's earnings, against 31% in 1991. Commodities' contribution fell from 27% to 19%, while that from capital goods linked broadly to fixed investment was roughly maintained at 28% (29%) as were the profits generated overseas, at 13% (13%). Most of the divisions are involved in exports, so the rand-hedge element remains significant though somewhat reduced by the sale of MS&A.

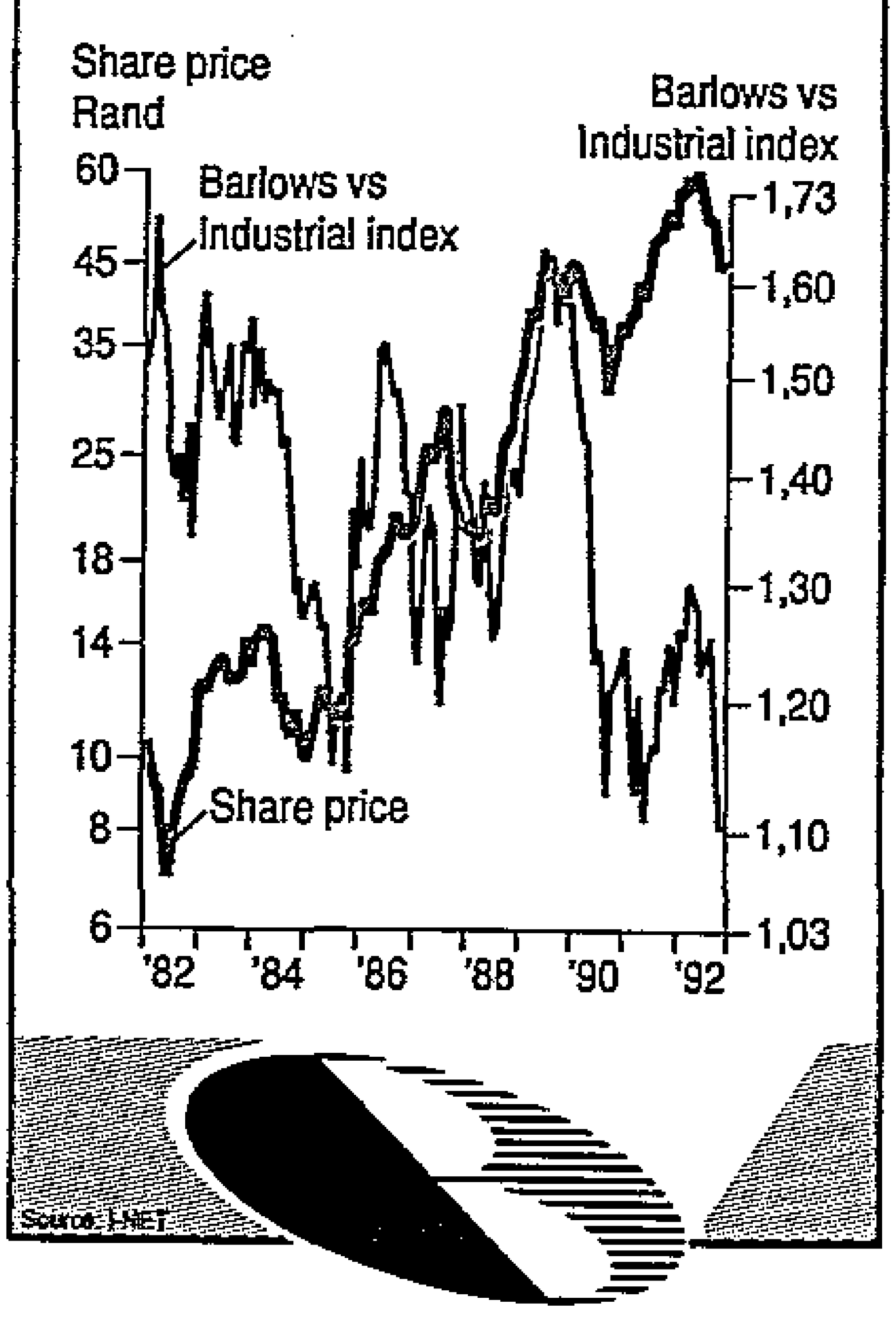
While it's obviously difficult to be dogmatic about the earnings breakdown (other managers offered slightly different figures), it indicates the growing impact of Barlows' more successful companies such as Tiger, Adcock Ingram, ICS, Nampak and Reunert — all market leaders. Of course it's also partly a reflection of the economy, which in recent years has been driven primarily by consumer spending, while fixed investment and the mining industry have lagged.

But Cooper emphasises that capital spending is changing in the same direction as the profit mix. Whereas a few years ago about 60% of the capex was going into mining (and MS&A), the bulk is now going elsewhere. Of the R1,8bn capex allocated for this year, about R900m will go into food and packaging.

He says there is no intention of moving out of capital equipment, which includes Caterpillar, the original business. Investment in this field could be stepped up quickly when necessary, but for now the demand for consumer goods with strong brand names — which would be steadily boosted by urbanisation — is seen as the best source of growth.

Presence in the portfolio of "selected commodities" — mainly coal and cement — is

**Volatile performer**
**Barlow Rand**




about the geological problems at Khutala and Majuba could place those prospects in a different light.

Aside from its liquidity, Barlows' cash generating capacity has been fundamentally improved by the sale of MS&A, which, Cooper says, was a cash drain for the past 10 years and would have needed substantially larger investment during the Nineties if it was to hold its market share. Platinum was another cash drain.

Barlows has not been shy about laying out funds: net capital spending (capex less disposals plus new investments) averaged R1,89bn between 1988-1991. In 1992 the gross figure was R2,25bn, including R685m on acquisitions and R1,13bn on expansion capex. But better generation and deployment of cash is essential if the rating of the share is to move closer to the likes of SAB, Rembrandt or Safren — all of which are lauded for their cash generation.

From this standpoint, the 1992 accounts are promising. Cash generated by operations increased by almost 21% to R1,54bn, a markedly faster pace than profit growth. With the scrip dividend option offered last year, only R461m (1991: R623m) was paid to shareholders, and the cash retained from operations was up 65%, at R1,1bn. Funding requirements actually fell by R695m, having risen by R222m in 1991.

After the MS&A deal, a stronger balance sheet was to be expected. Net gearing fell to 31%, with cash and near cash standing at R1,49bn. Future investments will continue to be made, largely by the subsidiaries. Some

office. Cooper says there are several options for this. One would be to buy more shares in some of the existing subsidiaries, such as 60%-held C G Smith — or directly in Tiger Oats, a subsidiary of C G Smith via CGS Foods.

It would be extremely expensive to eliminate this pyramid structure (C G Smith is capitalised at about R5,7bn and CGS Foods at R4,3bn). Even so, larger holdings could help to soften another market criticism: that Barlows has small effective holdings in its best business (Tiger/Adcock) and large stakes in slower-growth activities.

Other options for the cash would be to follow investments by the subsidiaries (rights issues by Tiger and Bibby were followed this year), or even to buy a new division. These would be within the four main areas of the present sources of profits. Cooper says any new investments made overseas would have to be in activities where the SA group has skills — an example being Bibby's recent acquisition of Finanzauto, the Caterpillar distributor in Spain.

It's costing Barlows some £28m to follow part of its rights in the Bibby issue, but it has not yet decided how this will be funded. For now, it has borrowed abroad, and the deal is being treated in the accounts as if it were being financed through the financial rand.

Cooper contends there are no remaining weak areas in the group, though some plainly need further attention. Romatex has begun to improve off a low base after selling its textiles operation earlier this year. In the unlisted interests, building supplies company Federated Blaikie is being rationalised after making a loss in 1992. Profits from consumer durables and paint are "down on last year," while motors and steel merchanting are facing "difficult markets." The capital equipment business merely maintained profits, with help from exports to Angola.

Rationalisation and repositioning have not been without cost to shareholders. In 1991 R433m was written off as an extraordinary item, most relating to disposals of assets. In 1992 there was an extraordinary charge of R374m, the biggest item being goodwill. Had these not been made below the line, earnings would have looked very different.

Stodgy markets will continue to dampen prospects next year. Cooper says the target is at least to maintain earnings and dividends, but he considers growth to be highly unlikely in 1993.

For that, a political breakthrough is essential — and even then the profits won't benefit immediately.

Barlows remains less focused than, say, SAB, AVI, Malbak or Murray & Roberts. It is, however, looking more structurally and financially sound, and holds market leadership in some key sectors. If it can convince

BUSINESS

# Entrepreneurs find allies for the formal sector

(180) (3B) MEREDITH JENSEN (VKL)

AN INCREASING number of black entrepreneurs are entering the formal business sector, and various organisations are helping facilitate the transition. BIDAY 20/11/92

One such group, the International Executive Service Corps, has had success in helping these businessmen without incurring tremendous capital expenses.

A non-profit company, funded by US Aid and a number of SA companies, it has recruited retired businessmen to assist non-white businesses.

For a one-time fee of R15, those who qualify receive free advice from experts in fields ranging from accounting to marketing and promotion.

Executive director Ken van de Laar says costing appears to be one of the major problems faced by black businesses. "This is where we can help by providing information on how to prepare a business plan and structure a cash flow analysis."

Van de Laar says his company helps people evaluate their needs realistically.

In 1988 Sam Tungande set up Baltic Travel, the country's first black travel agency. From the beginning, Van de Laar's company helped Tungande keep accurate accounts of his business, and plan for the future.

The training and services have often saved businesses. Tungande says he could never have afforded the services the company provided for free.

"The problem is collateral. It is nearly impossible for a black to secure a business loan without it, and very few blacks have it."

In addition to the Services Corps, British Airways has offered to train members of Afritour, an association of black travel agents and tour operators Tungande helped establish.

The first sessions, completed this month, were designed to teach people about the travel industry. The airline plans to continue the course next year in order to help its participants become members of the International Association of Travel Agents.

# ABI sitting pretty with big, big Coke

S/Times (BUSS) 22/11/92.

EVERY man, woman and child drinks the equivalent of two carbonated soft drinks (CSD) a day in America.

This is more than a third of world consumption of soft drinks. That America is No 1 is no surprise, but relatively small South Africa is among the top 10 largest Coke markets in the world, according to figures given at a presentation to the Investment Analysts Society by Amalgamated Beverage Industries (ABI) in Johannesburg this week.

ABI is by far the largest of seven SA bottlers and distributors of Coca-Cola and other soft drinks, such as Fanta, Sprite and Schweppes.

Chairman Pete Lloyd says that SA consumption of soft drinks is 45 litres a person a year. In Zimbabwe it is 21l and Namibia 19l.

But in places such as the former Soviet Union, Arab nations and India, Coca-Cola sales are negligible.

ABI managing director Alex Reid hammers home the point: if he were main competitor Pepsi, would he be interested in trying to re-enter the Southern African market where Coke is so firmly entrenched or would he look at potentially much larger, greenfields markets where no competitor has a foothold?

Coke has experienced management, excellent distribution, a variety of sizes and packaging, good advertising and a high profile among consumers.

It's a daunting target for any challenger.

Although they are tied to the Coke franchisor, distributors have sole rights within an area.

ABI has the most wealthy Pretoria, Witwatersrand and Durban regions.

Coca-Cola and its bottlers are partners in development costs and market protection.

SA's non-alcoholic beverage market of 75-million hectolitres a year is dominated by tea and coffee. They have 72%, CSD 23%, and fruit juices and cordials share the rest.

But by value, CSDs account for two-thirds of the R4,7-billion-a-year business and tea and coffee only 17%.

SA's CSD market has grown by a whopping 9% a year for 30 years and only twice has there been a contraction: in 1967 when excise duty was imposed and in 1986 when violence prevented adequate distribution.

Several factors influence Coke sales: urbanisation, disposable income among rural populations and availability. Even the weather is important: sales can vary by 30% between a cold, wet weekend and a hot, dry one.

Only 40% of annual sales are made in the six months April to September.

ABI marketing director Mike Bind refers to the growth of the informal sector and the challenges of making available soft drinks.

"A year ago, we found that the stores in the townships were often out of stock and there was a poor market infrastructure — few fridges and inexperienced traders," says Mr Bind.

"Since then, we have won 2 000 more customers by installing 283 strategic supply distributors — manned containers at central spots to help out vendors who have run out of stock — and putting in 1 250 coolers at shops.

"The containers have been turned into tuckshops and more than 80 have been launched. Ice plants have been installed at 26 wholesalers.

"In addition, 7 000 bits of signage have been placed to promote Coke's multibillion-dollar trademark."

Mr Reid describes some of ABI's production plans, which include development of four mega-plants and separate distribution facilities. Excess capacity, currently 30%, will be used up by the end of 1996.

ABI's staff are well looked after. Minimum wage is R1 600 a month and 60% live in their own homes.

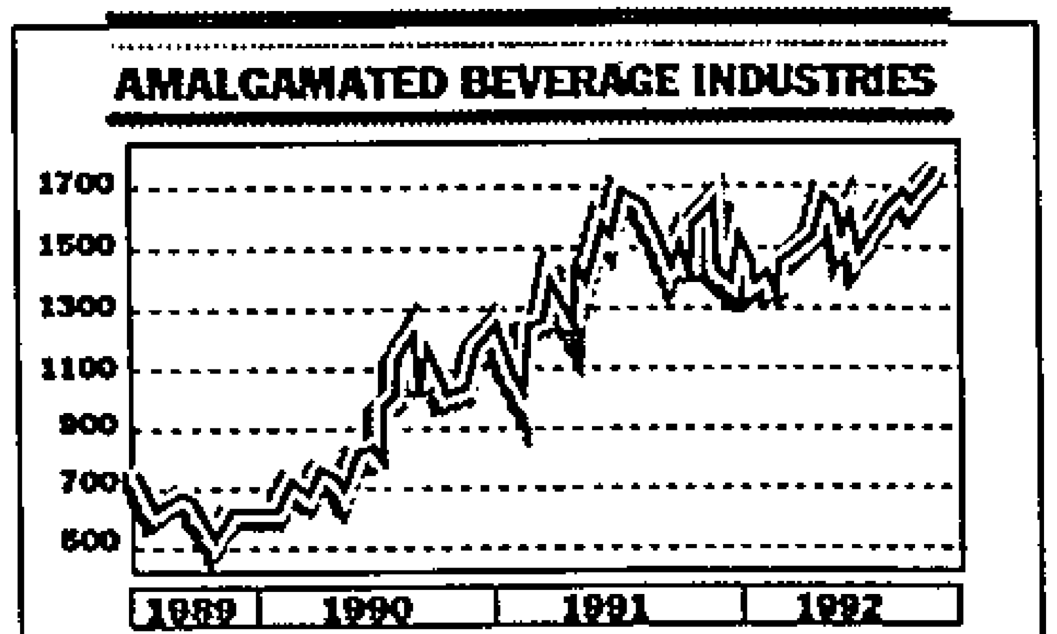
In the past five years, ABI has gone from strength to strength on sound cash-flow management. Compound annual growth in profits is 30% a year (it chips in 6% to SA Breweries' profits) and return on equity tops 22%.

When it was listed in June 1989, ABI's price-earnings ratio was eight, now it is more than 20.

Mr Lloyd is not alarmed by this. ABI makes additional provision for depreciation and on a cash-equivalent basis the PE is more like 14 — "not overvalued, perhaps even slightly undervalued", says Mr Lloyd.

In the short term, ABI's prospects look fair in spite of the recession. In the longer run, Mr Lloyd says ABI should continue to provide steady, consistent and real growth in earnings and dividends.

That is the real thing. The analysts left the presentation ruing the fact that lines of ABI shares are hard to come by. Those that have them, including thousands of storekeepers who sell Coke, are firm holders even though paper profits are huge at a share price of R17,75.




PETE LLOYD: ABI pays a minimum wage of R1 600 a month

## DIAGONAL STREET by Julie Walker

# VAT, underused plants lift prices

(BUSS) S/Times 22/11/92.

BARLOWS managing director Derek Cooper volunteers two possible solutions to one of the great mysteries of our time — every company reports squeezed profit margins, but prices continue to rise.

At a presentation of group results for the year to September, Mr Cooper suggested that VAT had been applied to food in particular over the past year, which had had a knock-on effect on prices.

Perhaps more pertinent was the underuse of capacity. He estimated that many of Barlows' plants were running at only 60% of capacity.

Clearly, unit costs are higher and so margins are squeezed from both ends.

In the year, SA's largest group showed a 10% rise in turnover to R35,1-billion. Operating profit before interest edged up 5% to R2,7-billion. However, proceeds from the sale of Middelburg Steel & Alloys allowed for a lower interest bill.

"The money we received was not used simply to repay debt or kept at the centre of the group. It was deployed throughout the group in the places where it could do the best work," says Mr Cooper.

Investment income was up a quarter at R360-million. But fewer assessed losses were available against which to save tax. The Receiver's cut grew by a quarter to R800-million.

Barlows' earnings a share were 2% higher at 437,5c on a higher number of shares in issue. At the current R42,75, Barlows shares are close to double net asset value and on a historic price-earnings ratio of 9,8. The dividend was also 2% up at 173c, yielding 4%.

The second half of the year was particularly tough because both the domestic and the international economies failed to rally.

Working capital days moved out from 42 to 46 on several counts: drought necessitated big stocks at CG Smith Sugar at the end of September, Tiger Foods bought Colmans, Langeberg increased production and British subsidiary Bibby deliberately bought an overstocked, debtor-rich Finanzauto.

Other deals that took place in the year included the Elmosa and Siemens Cables restructuring, the division of TSI into ISG and Persetech and a major restructure at Rand Mines.

Mr Cooper scotches talk of a cloud over Rand Coal's prospects.

(It has had to cancel a large project with Eskom's Majuba power station because the coal body was faulted. Worse, some analysts believe coal will be sold at only $24/ton instead of $32.)

Mr Cooper says supplying Eskom provides a comfortable buffer against adverse movements in the coal price and the rand's decline will compensate for dollar receipts, which he does not expect to fall that far.

Food and pharmaceuticals fared best among the group's interests, Reunert performed strongly and the electronics pair did all right. Romatex recovered and Nampak grew well. Minerals Resources eased again, contributing perhaps to the demise of Rand Mines as a mining house.

Minerals nevertheless chipped in a quarter of attributable profit of R849-million.

Mr Cooper says Barlows is ready to go, but he cannot foresee an improvement in the economy in 1993. He hopes that earnings will be maintained, but acknowledges the difficulty. At the very least, the dividend will be held.

I hope only that he is wrong about the economy.

DEREK COOPER: Eskom buffer

# Sentrachem plays it safe

S/Times (BUSS) 22/11/92

SENTRACHEM chief executive John Job is taking care not to follow the poor example set by many SA companies that have expanded abroad.

Heads of agreement have been signed for Sentrachem's purchase of Australia's styrene and other chemicals producer Chemplex.

Controlled by Kerry Packer of cricket-promotion and media fame, the two Chemplex plants near Melbourne had sales of A$200-million (about R425-million) last year.

Dr Job says that unless Sentrachem is satisfied by the findings of a due-diligence team of international accountants and its own technical experts, the deal will not go ahead.

If it does, Dr Job says that less than half of the purchase price — not yet disclosed — will be paid through financial rands. The rest will be funded from borrowings.

"There are two hurdles to an SA company investing abroad: the financial rand and the higher price-earnings ratios. For us, the offset will be synergy between Sentrachem and the Australian company," he says.

In support of the decision to look abroad, Dr Job says Sentrachem needs to diversify.

Buying opportunities are limited because most chemical plants are owned by multinationals.

The third reason is affordability — Chemplex is also debt-free, profitable and near the booming Pacific Rim. Its product range and technology are akin to Sentrachem's.

# Dover to be SA base

S Times (BUSS) 22/11/92

A SOUTH African international trade and export centre, called Protea House, is due to open in Dover, United Kingdom, in April.

INTEC project director Bob Theis says the centre is aimed at medium to large South African companies which want to tackle the European market as trade barriers fall away next year.

The centre will provide a "low-risk, low-cost" marketing base.

Mr Theis says Dover is a gateway to continental Europe and has sound infrastructure with good communications.

The channel tunnel, to be completed later next year, will ensure considerable two-way commercial traffic between the UK and the *Continent*.

(180)

Kent international airport is 30 minutes from the centre and Dover is connected to major road and rail networks. It is an hour by ferry from France.

# Demand for industrial parks 'should surge'

BIDPM 24/11/92

THE urgent need for employment opportunities will result in a medium-term surge of demand for industrial parks, says E P Building Society CE Trevor Jennings.

"Commercial and industrial property markets are expected to remain under pressure until the middle of next year, but should improve steadily from then on," he says.

However, this optimistic scenario is largely dependent on an end to violence and a political settlement; a return to a growth phase of the major industrial economies of the US, Japan and Germany; and a gradual return of foreign companies and investors to SA.

SA cannot afford to be hesitant and must prepare for the main thrust of development through industry. Political acceptability, combined with increased world demand, will result in export-led growth, he says.

"A focal point of this development will be the Small Business Development Corporation, and government's primary aim will be to provide employment through small, labour-intensive industries," he says.

The development of industrial park sites will be needed to accommodate these businesses as entrepreneurs will need adequate space with full services to produce high-quality products needed in future markets. (180)

## Scratching

Providing the correct property at the correct price will be a major part of achieving this objective. "At present developers are only scratching the surface of an area of development that will almost certainly grow."

Fedlife assistant GM property investments and development Jan Oelofse says good research is the key to success in the property market.

"We base decisions on a five-year planning period and investigate what local councils are doing and planning to do; we keep a running analysis of where the future growth nodes are going to develop for major industries; and we keep an eye on future residential areas," he says.

# Battered market — no end yet to the agony

BIDAY 24/11/92 (180)

THE battering experienced by the commercial and industrial property market over the past 12 months is likely to continue for at least another year, leading economists, analysts and market sources say.

The failure of the local economy to show any signs of a recovery, combined with the prospect of little growth next year and the likelihood of a continued world recession, holds little short-term hope for the industry. Property economists have revised their original forecasts of a market improvement in late 1993 to early 1994 at the soonest, but say this is dependent on political and economic developments.

As a result, demand for space is expected to remain depressed, rental levels will be placed under further pressure and the construction and building industries will see the noose tighten even further in the coming year.

In some cases, firms are tendering at a level that merely covers fixed overheads and allows them to retain staff. Others are tendering at below cost merely to gain work so some staff can be retained ahead of the upturn.

Economists have expressed concern as to how long the industry can continue to do this. The smaller building and construction firms have been the hardest hit and indications are that up to 300 of them will go to the wall by year-end.

## Decreases

But the effects of protracted recession are also felt by larger companies. As the level of available work decreases and an increased number of firms vie for the same contracts, future order-books have started to look less healthy.

But, on a more positive note, the fact that construction can be achieved at advantageous prices is stimulating some demand, while tenants are capitalising on the cut-throat nature of the rental market.

The latest buzzword in the property market at the moment is "niche markets" or areas of growth. While many companies are loathe to reveal their secrets, demand does still exist in certain quarters.

Well-located neighbourhood shopping centres are considered a growth area, while smaller, low-rise office park developments that retain each tenant's identity remain popular.

An increased number of new developments that were started in more buoyant times are coming on stream and have exacerbated an already oversupplied market.

Increased vacancies and a static number of tenants shopping around for the best possible deal have placed landlords and brokers under pressure. Incentives are being offered by nearly all major players to lure prospective tenants into their buildings. These include generous relocation and fitting allowances and substantial rent-free periods.

Tenants, who are aware that 1994 is probably the last chance for them to secure a long lease at a favourable rate, are playing one landlord off against another. In some cases, landlords are taking over the tenant's existing lease and signing him up in a building of their own under a long lease.

As a result, rentals have generally shown no growth at all and are at levels achieved two or more years ago. However, the predicted upturn in 1994 will see this tenants' market become a landlords' market.

## Viable

Once the supply/demand curve begins to equalise and the glut of surplus space is reduced, new buildings will become a viable option for developers and large-scale construction will resume. This increased demand will result in a massive increase in building costs and a huge jump in rentals.

The inflow of foreign investment so desperately needed to stimulate the economy has not materialised, and political uncertainty and violence will continue to prevent foreign investment. In addition, much prospective investment is dependent on an interim government.

# 'Pay attention to good property management'

PROPERTY owners should pay attention to good housekeeping and property management, even if this means rescheduling rental structures downwards, SA Institute of Valuers member Graham Ewing says.

"Owners who find their commercial and industrial properties heading for a negative equity situation in today's declining market may do well to look to the professional property valuer for a strategy to deal with this difficult problem." (180)

The economy is forcing some values into negative equity and holding owners hostage to their investments. Most are having to accept market driven rentals. Offices in the Johannesburg CBD are finding themselves the hardest hit by the recession, exacerbated by continued decentralisation.

A new valuation technique — the top slice method — is coming into its own as a method of valuing properties in a falling market. It provides an estimate of the current market rent and market yield applicable to the property, which is then subtracted from the current rent to identify the "slice" of rental income considered to be over-rented or above market.

"A valuation using this method may help the owner in renegotiating mortgage and bank loans," Ewing says. S\OPM 24\11\92

# PWV has plans to send trade missions abroad

BDM 24.11.92 (180)

GERALD REILLY

PRETORIA — A concentrated foreign trade promotion programme to meet the needs of small and medium-sized businesses in the PWV area was announced last night by Johannesburg Chamber of Commerce and Industry (JCCI) president Stuart Morris.

Speaking at the chamber's half-yearly general meeting, Morris said the programme involved visits by chamber missions to the UK, France, Pacific Rim and sub-Saharan Africa countries in the first half of next year, with more foreign missions likely later in the year.

Eight missions had so far been planned for 1993. They were aimed at strengthening existing ties with traditional partners, establishing ties with new partners and creating new trade links in the sub-Saharan trading bloc.

The first mission, in February and March, would visit Singapore, Bangkok and Hong Kong, with optional extensions to China and Macau.

April-May visits had been organised to France and Britain.

The mission to France would attend a major investment and trade seminar in Paris. The mission to Britain would concentrate on regional economic areas like the Midlands and Scotland.

Morris said a third vital programme objective would be to focus on African trade. Six missions would visit African countries selected for their trade potential.

# 'Confidence in SA required'

BDAY 24/11/92 (180)

JOHN CAVILL

LONDON — Foreign investors wanted to see SA's businesses and institutions showing confidence in their own country rather than expanding internationally, a senior investment banker said in London yesterday.

Martin Kingston, director of Morgan Grenfell, one of Europe's leading investment banks, was speaking at the Westminster conference on southern African development organised by the Association of Western European Parliamentarians Against Apartheid at the House of Lords.

Kingston said the breakdown of Codesa 2, violence and a worsening domestic economy had "removed what interest there was in the early provision of capital to SA".

Those lenders who had defied "considerable opposition" to provide the first medium-term bonds to SA for six years after financial sanctions were lifted "have now withdrawn" their support".

Some SA parastatals and private companies did try to tap the debts markets earlier this year, but "the cost of such access is now prohibitively expensive," he said.

Kingston said there were "critical, minimum ingredients" for an environment which might attract European investment:

□ Transitional political arrangements with a government representative of all SA society;

□ Proof that "reliable, non-partisan" forces of law and order were under legitimate control; and

□ Development of economic policy which was "socially responsible and market orientated".

But the increase in the number of SA firms seeking to invest outside the country was also a factor.

"Currently we are seeing the SA corporate community spreading its wings by internationalising its activities, regionally, in Europe and further afield," he said.

"The establishment of a balanced geographic portfolio of assets, over time, should correct the disproportionate emphasis of activities in SA," he said, although whether the Reserve Bank could continue to support and encourage such capital outflows was questionable.

He said: "Furthermore, in order to attract foreign capital into SA, the domestic financial community ... shall need to demonstrate confidence in their local environment rather than exporting resources, skills and capital."

It was an SA anomaly, he said, that the country had large investment funds but also required long-term foreign debt, and combined an internationally aspiring "vibrant local private sector" with the need for foreign capital, skills and technology.

# Companies offer reduced rates to stay in business

(180) 11H

BDAY 24/11/92

COMMERCIAL and industrial property markets face an increasingly bleak future as prospects of an export-led economic recovery fade, says Pangbourne Properties chairman John Whiting.

"So far we have had little evidence that the recession is about to bottom out. On the contrary, most indicators — including a lack of foreign investment and a growing number of bankruptcies — point to another year of negative economic growth," he says.

## Static

In the face of rising vacancies factors, rentals in the non-residential sector are, at best, static. As part of its rationalisation programme, Panprop is moving out of CBDs and consolidating its portfolio in the PWV area.

Metboard's Mike Kightley says that, for the first time in recent years, property developers have had to stop projects and only about 40% of possible projects considered by companies reach fruition.

The past year was particularly tough both for property developers and those who traditionally use institutions to finance their property projects.

Market competition has been extremely fierce in three main areas. There are far more developers looking for a limited number of sites with good potential, and construction companies are tendering at cutthroat rates. Many are merely attempting to cover fixed overheads and retain staff, while financial institutions are becoming more competitive about lending funds, Kightley says.

Wise developers with good, well-located sites are signing up tenants before they start the development. Present market conditions are forcing professional teams to make work for themselves and become creative.

## Headlease

"A number of developers will take in equity partners — including tenants — and the headlease scenario has also become more popular," he says.

Investec Property Group (IPG) MD Sam Hackner says political volatility and the weak economic scenario has prompted institutions to take early Christmas holidays.

"The last few months have seen a softening in commercial and industrial property markets as players wait for political developments to guide their movements into the new year," he says.

Not only is demand for office space falling off, but a number of new developments are reaching the end of their development phase and are being offered to the market.

Many large new office blocks are standing empty.

As a result, rentals in certain areas are being forced down. In addition, many of the larger organisations are offering rent-free periods and a variety of other incentives, while others refuse to drop rentals and prefer to hold empty space.

"There could be an upswing in the market next year off the prevailing soft market. In essence it is crystal ball gazing but, assuming some sort of political settlement next year, we are looking at a much rosier picture," he says.

## Continue

Russell Marriott & Boyd Trust (RMBT) director Stan Arenson disagrees, saying the downward pressure on the market is likely to continue next year, particularly in oversupplied areas like Woodmead and Braamfontein.

"Tenants can find space in any area and are demanding all sorts of incentives, which is placing deals under tremendous pressure as landlords either accept this or carry vacant space," Arenson says.

# Interest in industrial space suffers with economy

BDAM 24/11/92

THE industrial property market has not been spared the rigours of the depressed economy, although prospects look better than for the office market, says Investec Property Group MD Sam Hackner.

"Normally there is good interest in industrial space in the last few months of the year, but this has not been the case this year," he says.

However, there is still room for the smaller investor to move into the industrial market, but investors will have to assess the risk/reward relationship very carefully.

There is also unlikely to be any immediate take-up of larger industrial space unless there is major foreign investment in the country, which is dependent on political factors.

"I am still bullish as business confidence is on the up and interest rate cuts are imminent, which leads me to believe there will be an improvement in the market by year-end, strengthening in 1993."

JH Isaacs leasing and sales director Wayne Wright says deals are still taking place despite this being the toughest recession in history.

"Demand and available space are better balanced in the industrial market than the office market as most developments are tenant driven. I forsee a phase of continued activity.

"Many leases are still expiring and are either renewed or alternative premises sought. December could prove to be our busiest month this year," he says.

Edwards Mortimer and Associates MD Phil Grafton agrees, saying the industrial market is seeing more activity now than during the past year, particularly in the M2 East/West strip and in the Wynberg area.

180

## Playing

"We are seeing a lot of tenants playing musical chairs as they move out of institutionally held buildings to others where better deals are offered," he adds.

The mini-factory market remains oversupplied and has high vacancies as "everyone jumped on the bandwagon". There has also been a change in attitude by tenants who were taking shorter leases at reduced rentals.

Well-located distribution/warehouse space is an area of growth as transport costs are rising and security is becoming an increasing problem.

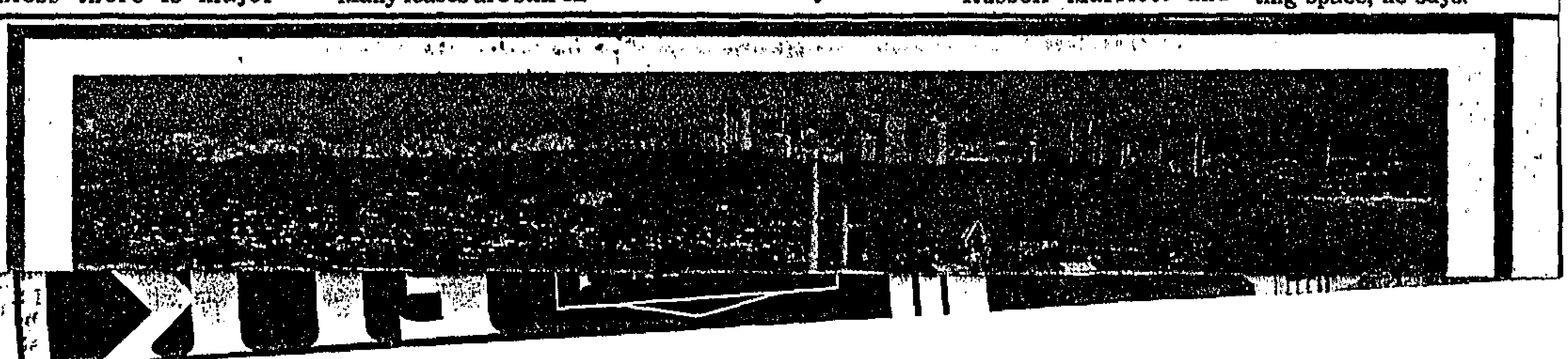
"There has been no rental growth over the past year, but as soon as the economy turns these will soar. While a lot of companies are looking to do leasebacks, the institutions are becoming more wary about their leaseback investments," Grafton says.

Russell Marriott and Boyd Trust director Sta[n] Arenson says there ha[s] been little rental move[-]ment except in fringe o[r] difficult to let areas.

Certain industrial areas have seen irresponsible overdevelopment, resulting in certain pockets having large vacancies.

"Most industrial development is presently tenant driven and built according to his requirements. This year was a market of rationalisation and saw many companies consolidate," he says.

Security continues to play a major role in any tenant decision and those industrial townships near hostels or unrest areas are experiencing difficulty letting space, he says.



# Tenants benefit as rental levels take a tumble

B/DAY 24/11/92. (180)

OFFICE and industrial tenants are the only people benefiting from the present economic downturn, as rental levels have fallen in both real and nominal terms in many areas.

The commercial property market has seen absolutely no rental growth in all areas during the past year," says Mortimer Property Group MD Paul Maddison.

## Bleak

"Except for the possible exception of Rosebank, where good deals are still being done at rentals of up to R33/m2, we are seeing rentals remain at the same levels they were two years ago," he says.

The outlook remains bleak for the next year as there are no fundamentals or emerging demand to stimulate rental growth.

Some landlords are also keeping space empty rather than outlay relocation and alteration allowances demanded by tenants.

However, when the upturn does come rentals will "go through the roof" as the supply/demand curve evens out and landlords and developers move to recoup their losses, he says.

Anglo American Property Services chairman Gerald Leissner agrees, saying rentals in the commercial market have fallen in both nominal and real terms.

"Good tenants whose five-year leases are maturing are renegotiating their rental levels and these are invariably lower than what they were paying before the lease expired," he says.

Once demand increases and the glut of space is taken up, rental levels will move upwards.

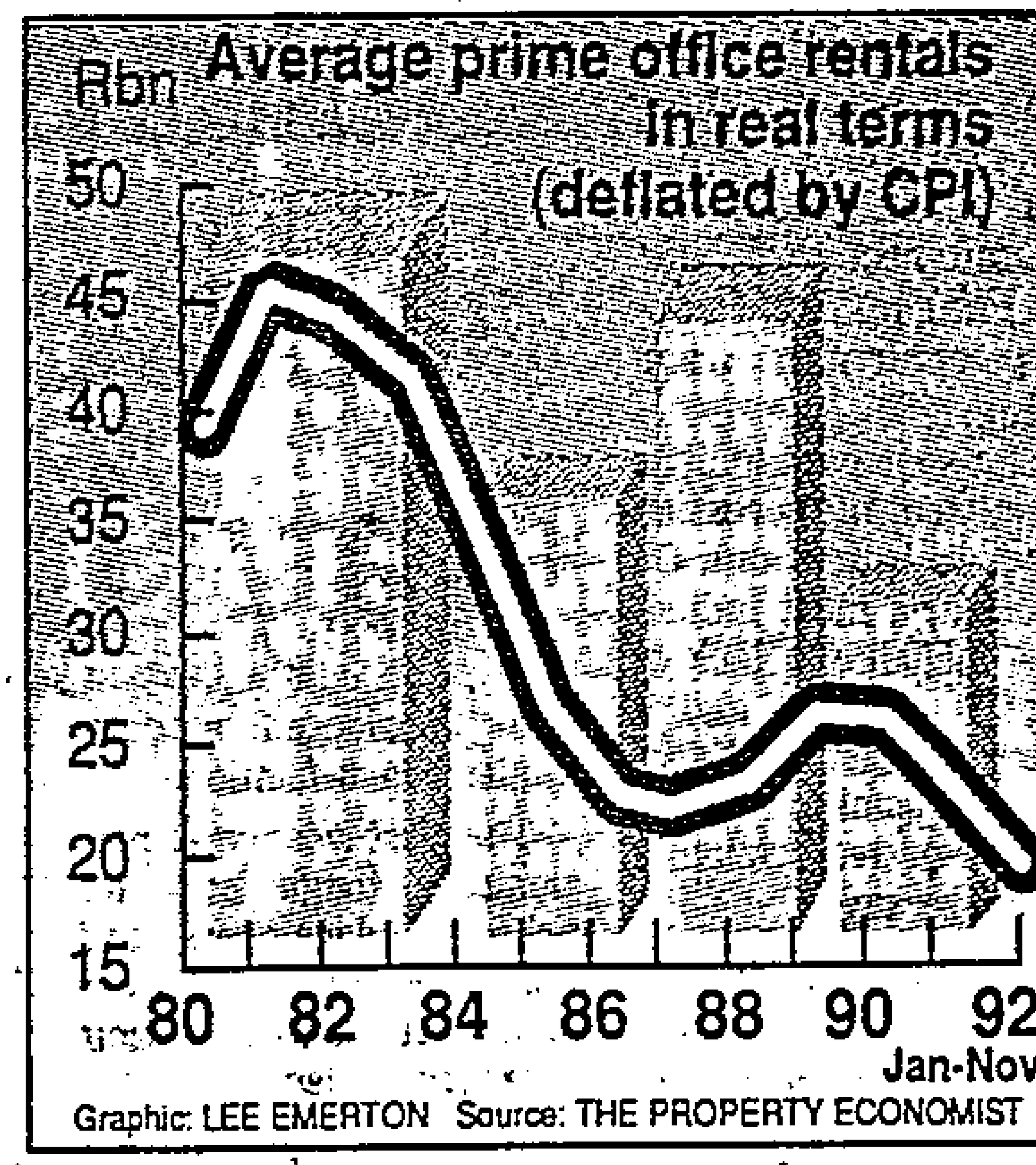
Ampros recently announced it was offering new tenants 30% off their net rent, in certain buildings, for the first 30 months of a five-year lease signed before December 30.

However, the discount excludes operating costs and rates, which can account for as much as 40% of the rental, while lease escalations are believed to be higher than the industry average.

## Pressure

Another market player says: "You get nothing for nothing and the tenant will ultimately pay for the discounted rental. This campaign has put the market under tremendous pressure to match this offer unilaterally, which is not possible for space in all buildings."

Ampros has vacancies of 12% in its commercial portfolio and 3% on the retail side, but continues to invest money in the upgrading and refurbishment of its portfolio.




Graphic: LEE EMERTON Source: THE PROPERTY ECONOMIST

The perception of many prospective tenants is that Braamfontein is not a decentralised area and has poor parking ratios and escalating crime, like the CBD, Maddison says.

Ampros' Braamfontein Centre and Liberty Life's Jorissen Place will increase A-grade space in the area by 44 000m². Vacancies at present stand at 17%, which must be of concern for landlords, he adds.

However, Leissner says there is considerable interest in space, and negotiations are underway for some of this.

The vacancy for A-grade space in Parktown has remained fairly constant at about 9,9% or 22 479m², but about 21 300m2 will be coming on stream and push the vacancy factor up to 17,7% unless a few major deals are concluded, Maddison says.

"There is a definite trend towards shorter leases and some tenants are renewing their leases for between four months and a year although the industry average is about three years," he says.

# Guide shows little rental movement

BDAY 25/11/92 (180)

THE latest Russell Marriott & Boyd Trust (RMBT) national industrial property guide shows that there has been little rental movement over the past year, except in a few areas.

"Areas like Strydom Park, Eastgate and Midrand in the north, City West and Amalgam in the south and Jet Park in the east have seen rental increases of between 5% and 10%," said broker David Alcock.

RMBT widened the basis for quoting rentals in the November quarter to focus more on prime buildings than on the previous broad averaging approach.

"The days of multi-storey industrial buildings are fast diminishing as industrialists now require single-storey premises with a good 'clearance height,'" Alcock said.

Rentals in the industrial market were generally quoted on an overall rate per square metre basis, the through rate, for both the warehouse/factory and the office components.

"However, over the past few years the industrial market has seen buildings with higher office elements emerge, amounting to 75% of the total area in some cases," Alcock said.

Rentals for these buildings had to be quoted separately as the through rate became distorted when rentals were compared. The latest survey had based rentals on an office component of 10% to 20%.

A surprising feature of the guide was that, despite the relatively high level of vacancies, few of the areas surveyed had more than 50 000m² of available space.

## Finrand battered in volatile trade

# Keys probes rash of SA offshore deals

BIDAY 25/11/92. (180)

GRETA STEYN

THE wave of foreign investments by SA companies had prompted an investigation by Finance Minister Derek Keys, it was confirmed yesterday.

The confirmation came as the currency came close to touching a record low in another day of volatile trade as the market awaited a signal from economic policymakers on possible policy changes.

Keys's investigation is expected to be followed by a statement on exchange control regulations on foreign investment within the next month. Asked whether changes to exchange control were being considered in the light of the pressure on the financial rand caused by SA companies investing overseas, a spokesman for Keys said: "We cannot do more than confirm that he is looking at the issue and is awaiting certain further inputs in December. A statement will be made after these have been received."

It is understood Keys has asked the private sector for suggestions on how the issue should be handled. This follows discussions between Reserve Bank Governor Chris Stals and Keys on exchange control. A spokesman for Stals said yesterday the matter was now in Keys's hands as exchange control was his domain.

It is understood that private sector suggestions include keeping SA foreign investments out of the finrand market by channelling major deals through the Reserve Bank at a Bank-determined discount.

Other suggestions range from placing a ban on further investment, to imposing limits and ensuring gradual trade takes place.

Inputs by banks and brokers trading the finrand would generally be highly critical of the way in which the deals hit the market, but companies wanting to move offshore would also make their opinions felt, a source said.

This week news of an impending deal between local chemical firm Sentrachem and Australian petrochemical company Chemplex aggravated pressure on the currency.

The news came at a time when the market was still jittery because of the huge Royal purchase of Del Monte, a deal said to involve about R1,5bn in finrands.

Tentative signs of a strengthening in the currency yesterday were wiped out towards the end of trade. It was quoted as high as \$0,2035 to the rand (R4,9140 to the dollar), a dealer said, on buying from London. However, the rally was short-lived and the unit was soon pushed below the key

To Page 2

## Offshore deals

BIDAY 25/11/92 (180)

From Page 1

\$0,20 level. Reuter reports it traded at a low of R5,10 to the dollar, just short of its intra-day low of R5,12 reached on October 5 when the Royal/Del Monte scare started. It closed at R5,08, slightly weaker than the previous day's close of R5,07.

A dealer said the Reserve Bank was making its presence felt much more clearly this week than in the months following its statement that it would intervene in the market. She expected the Bank to try to keep the currency above its record low.

Earlier this year, the Reserve Bank started work on establishing the size of the finrand pool, and its split between money, capital and equities markets.

The idea was to determine the scope for closing the discount between the finrand and the commercial rand, a source said. The discount reached a low of 7% in 1991 but is now again about 40%, a level last seen between 1985 and 1987 when SA was in the financial cold internationally.

**BUSINESS** SA on the threshold of major opportunities

# Call for blacks to plan for chances

Sowetan 26/11/92 (180)

By Mzimkulu Malunga

**TRADE FLOW** Africa to provide lifeline after relaxation of trade controls:

BLACK BUSINESS PEOPLE must link international companies with corporate South Africa, says the chairman of Inter Africa Group Mr Gaby Magomola.

"We are on the threshold of major business opportunities for black business people which go beyond the informal sector," he said.

Welcoming his United States and Far East business partners this week, Magomola said the new lifeline for South Africa would be through increased trade with the rest of the continent - sub-Saharan Africa in particular.

With the relaxation of controls on international credits to this country, black business should position itself for unfolding opportunities.

Among those present at the function were Donald Simmons, president of the US-based Simpet International Corporation; Chiang Wee Tiong, director of the Hong Kongbased Murchison Holdings Ltd; the deputy director of the United States Agency for International Development (Usaid) in South Africa, William Ford; and the local head of the Black Integrated Commercial Support Network (BICSN), Leyland Hazelwood.

Magomola and Hazelwood have been invited to the Ivory Coast capital Abidjan by the African Development Bank to attend a workshop on venture capital next week.

The workshop is jointly sponsored by the ADB and USAID. Leading business people from all over Africa are expected to attend.

Simmons' company is mainly involved in the oil and construction industry. He has been involved in oil exploration and rigging in West Africa for the past 25 years.

"God did not discriminate in the provision of brains; as long as people are given the opportunity nothing is impossible," said the African-American.

Tiong, a Far East multi-millionaire, owns investment and securities companies in four Southeast Asian countries. He also owns a listed company in Australia.

Gaby Magomola

"The journey of a thousand miles begins with a single step. People in South Africa must pull resources together to build a nation," he said. His company was commissioned by the United Nations Industrial Development Corporation to tailor an industrial policy for Malaysia - one of the Asian success stories.

**BUSINESS** BISCN will expand its involvement in black business through franchising

# The lowdown on franchising

(180)

Sowetan 26/11/92

By Mzimkulu Malunga

## ■ FRANCHISING A quick way for blacks to join mainstream economy:

A CONFERENCE ON FRANCHISING will be held at the Carlton Hotel on December 8 and December 9.

The objective of the gathering is to encourage black entrepreneurs to get involved in franchising and joint ventures.

"Franchise business has a proven format and it is easier to manage compared to a new and untested enterprise," said Leyland Hazelwood, chief executive of the Black Integrated Commercial Support Network in South Africa.

BICSN is jointly organising the conference with the Washington based International Franchise Association.

According to Hazelwood, his company was commissioned by the United States Agency for International Development (Usaid) to develop strategies for the advancement of black entrepreneurship in the country.

Over ten US franchise companies and around 200 local and international entrepreneurs are expected to attend the conference. Registration fee is R990.

In addition to international and local speakers delivering papers on a variety of topics on the dynamics of franchising, there will also be workshops on wide range systems for franchise ventures.

**"Franchise business has a proven format and it is easier to manage compared to a new and untested enterprise"**

The workshops will entail advising participants on methods of developing a franchise operation, the legalities involved, partnerships as well as managing such a business.

Due to its proven record of success, financial institutions were less conservative in financing franchise ventures.

"Franchising has been called the single most successful marketing concept ever and in the US alone a new franchise business opens every 17 minutes.

"We believe it is poised to take off in South Africa in the 1990s," said Hazelwood.

Franchise business was prioritised mainly because it was seen as the fastest and easiest way for a black business break into the mainstream of the South African economy.

A BICSN study on how the corporate world arrived at purchasing and contracting decisions as well as on problems encountered by black business in selling to the formal sector was under completion.

"This will allow us to develop a targeted strategy for expanding markets for black business both locally and abroad," he said.

The second phase of the BICSN involvement in South Africa would be the establishment of an equity capital fund.

# Warning on ANC's policy

Sowetan 26/11/92

### ■ A clear commitment to the free-market system needed:

SYFRETS portfolio manager Mr Tony Gibson this week said South Africa's financial markets would remain in a gloomy state until the ANC had spelt out its economic policy on key issues.

He said although the ANC had made "positive changes" in its economic thinking, a great deal of clarity was still needed.

"As the gloomy state of our financial markets clearly shows, foreign and local investment capital will not be forthcoming while this uncertainty persists."

# Industrial sector output, employment at 5-year low

(180)

APG 26/11/92

**Business Staff**

PRODUCTION and employment levels in the manufacturing sector slumped to their lowest level in more than five years in the second quarter of the year.

The Industrial Development Corporation (IDC) warns in its latest report on the manufacturing industry that business conditions will remain unfavourable over the next 12 months.

"Indications of an improvement in the international economy remain elusive.

"In the absence of a local stimulus for higher economic growth, a revival of the economy is likely to be postponed until the favourable impulses of an international economic recovery filter through."

The IDC says that manufacturing production levels were hit by a number of factors in the second quarter, the most serious being the 10 percent drop in the demand for capital goods.

Investment was also being held back by weak domestic and international demand, by the resultant unused production capacity, and by low confidence levels in response to the ongoing economic and political uncertanties.

"In addition, the destocking of the past two years again continued in the second quarter," the IDC says.

Providing details of the impact of the recession on the industry, the IDC says the volume of manufacturing production decreased by more than four percent in the June quarter, compared with the preceding three months.

Hardest hit among the industry's subsectors were textiles (-10percent); motor vehicles and parts (-10percent); and clothing and leather (-5percent).

Employment in the total manufacturing sector at 1,4 million was at its lowest level since 1986.

In addition, capacity levels at 79 percent in May were well below the peak level of 85 percent achieved two years ago.

Production prices for the three months to end-August were on average eight percent higher than those of a year ago.

Labour cost per worker rose by a surprisingly high year-on-year 14 percent in the second quarter.

As in the overall economy, exports provided some relief for manufacturers.

They rose by nine percent in the September quarter, compared with the preceding three months.

The IDC's pessimistic short-term outlook has been confirmed by recent retail statistics, which have a major impact on manufacturing production levels.

According to figures published by the Central Statistical Service, preliminary indications are that retail sales fell by an annualised 4,2 percent in November.

This compares with a three percent decline in October and September.

In August, sales slumped by 10,5 percent.

The latest figures suggest that the rate of growth is at least no longer turning negative.

Yet there is little to indicate that a substantial recovery is in the offing.

# Ultimately, revival of SA investment needs an act of faith

BDay 26/11/92. GRETA STEYN 180

FINANCE Minister Derek Keys has described effective fixed investment as "the cornerstone" of economic growth. When is investment effective, and will SA have effective investment in future?

Partly as a result of Keys's focus on investment, economists have turned their attention to trends in SA's fixed investment performance. The downward trend was highlighted by the Reserve Bank when it reported that net investment had slumped to only 1% of GDP from an average 14,5% in the '70s and 8% in the '80s. While economists caution against making too much of net investment figures — because the way in which depreciation is accounted for creates distortions — the gross figures tell the same story. Gross fixed investment fell from 28% of GDP in 1977 to 16,5% this year.

While private fixed investment has been falling, public investment has been falling at a much faster rate. Public corporations' capital spending will fall 35% in real terms this year. Much more than just statistical noise, the reasons for the decline tell a story about the SA economy and may hold pointers for the future.

One of the main reasons for the collapse is the completion of the Mossgas project. The slump illustrates the extent to which investment in projects based on SA's isolation underpinned fixed investment spending.

The end of these isolation-inspired, "old SA" investments has been an important reason for the declining trend in fixed investment. In the years when the statistics looked better, the figures masked the fact that much of the investment was not effective. A major push came from investment that is proving to be inefficient in the new international environment.

Another reason for the slump in public corporations' investment is Eskom's surplus capacity — the result of over-investment when economic growth rates, and hence demand for electricity, were over-estimated. A decade of economic stagnation has meant the power utility has not needed to build new capacity. Hence the decline in the investment trend reflects economic stagnation and a miscalculation of demand.

The fall in public corporations' investment has already freed up capital which, ideally, should be used for private sector investment. This could be a way of achieving "effective" investment, as the investment excesses of the past were in the public sector, or had huge state support.

Instead, the capital has been used to finance government consumption spending. Keys has already taken measures to ensure that this changes. But even if he succeeds in freeing more capital for private fixed investment, there is no guarantee that the private sector will spend. A climate conducive to investment would have to be created.

The relationship between investment and growth is a two-way street. From the Eskom experience, it is clear that growth is a prerequisite for new investment. A growing economy means there is demand that will provide a return on investment. This applies even more to the private sector; a decade of local economic stagnation while world demand has been sluggish does not provide a rationale for private investment spending.

But while growth is needed for investment, investment in itself can be the trigger for growth. Major investment projects boost incomes and raise overall demand in the economy, generating growth and eventually leading to more new investment. It seems Keys sees investment as the trigger for the next upswing.

He also obviously sees a role for government in targeting specific investments, as Alusaf has illustrated. On purist free-market grounds, the Reserve Bank has apparently argued against specific tax breaks such as Section 37E of the Income Tax Act, saying an overall reduction in the company tax rate would be preferable. But 37E allows government to target huge projects that might not get off the ground, even if the overall tax rate was lower. The involvement of the IDC and Eskom in the deal are further evidence of the state's role.

Given the uncertainty that demand will live up to expectations, and a past history of state support for investment that did not turn out to be effective, is the support the right move?

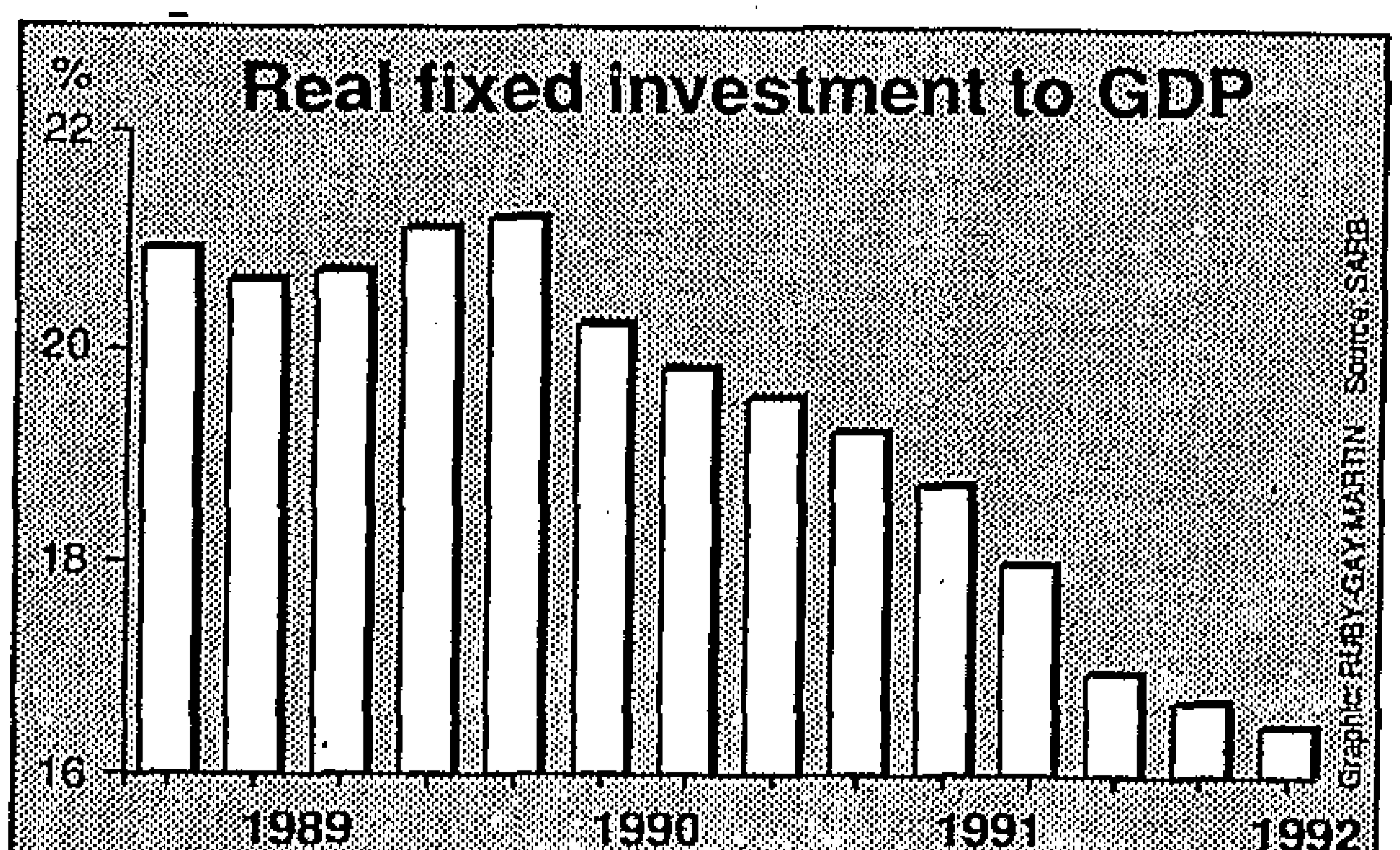
John Maynard Keynes answered the question in 1936: "We have to admit that our basis of knowledge for estimating the yield 10 years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London amounts to little or sometimes nothing; or even five years hence. In fact, those who seriously attempt to make any such estimate are often so much in the minority that their behaviour does not govern the market."

Keynes's message was that the decision to invest depended on "animal spirits" — it was an act of faith. There is no way of knowing now whether these projects will provide only a fleeting boost or whether they will be part of strategy towards a sustainable growth path.

When Japan's international trade and industry ministry decided in the '50s to go into the motor vehicle industry, it was advised against this by the Japanese central bank and by international experts such as the World Bank. Korea was similarly criticised for its move into heavy industry in the '70s. In both cases, governments assisted major private sector ventures.

But the East Asian countries knew when the handouts had to stop. Unlike SA, where "infant industries" have never grown up, these governments knew when to call it a day. In some cases, such as Mossgas, time has shown the investment was clearly not effective. But it might be difficult to quantify afterwards, and even more difficult to forecast beforehand. To a certain extent it will always remain an act of faith.

But the effects of different types of investment on job creation and the balance of payments can be gauged and should be taken into account before taking a leap of faith. While not arguing that state support for Alusaf was the wrong move, there would be merit in government also taking action on other, more labour-intensive investment. The suggestion in the Nedcor/Old Mutual scenario of homebuilding springs to mind, or a labour-intensive road-building plan. When Keys's plan is released in the next few weeks, SA will see how big a leap of faith its economic policymakers are willing to take.



# Gencor seeking to internationalise

BDM 26/11/92.

GENCOR was looking for international partners, chairman Brian Gilbertson told French institutional investors in Paris yesterday.

The group's efforts to internationalise were hampered by exchange controls and the behaviour of the rand, he said.

If Gencor wanted to take a major step internationally, the group would need to build relationships with the big international institutions.

Gilbertson said that with nearly $800m in cash and liquid assets, Gencor could be compared with the major diversified resource companies of the world.

It had, he said, perhaps the greatest diversity of assets, one of the strongest balance sheets and no debt.

"That is a very happy state to be in at this point in the commodity cycle."

Gencor had an advantage among SA mining groups as the group's "large and powerful shareholders", with strong cash flows, were prepared to back the group in major new ventures. "For this they have been well rewarded in the past."

JONO WATERS

Although Gencor's performance over five years in terms of capital gains and dividend growth had been superior to other resource groups, the fall in value of the financial rand had adversely affected returns over the past 12 months.

Gilbertson said the volatility of the financial rand, unlike the well managed and stable commercial rand, was one of the key factors that inhibited international portfolio managers from making a substantial investment in SA shares.

"We look forward to the day when SA will revert to a single currency, without exchange controls."

In partnership with Anglo American, Gencor's associate company Samancor was close to a "go decision" on the Columbus stainless steel project. Columbus would expand the output of SA's stainless steel production to 500 000 tons a year from 110 000 tons a year at a capital cost of about $1bn.

# Manufacturing at low ebb

STAR 26/11/92

(180)

By Sven Lünsche

Production and employment levels in the manufacturing sector slumped to their lowest level in over five years in the second quarter of the year.

The Industrial Development Corporation (IDC) warns in its latest report on the manufacturing industry that business conditions will remain unfavourable over the next 12 months.

"Indications of an improvement in the international economy remain elusive.

"In the absence of a local stimulus for higher economic growth, a revival of the SA economy is likely to be postponed until the favourable impulses of an international economic recovery filter through."

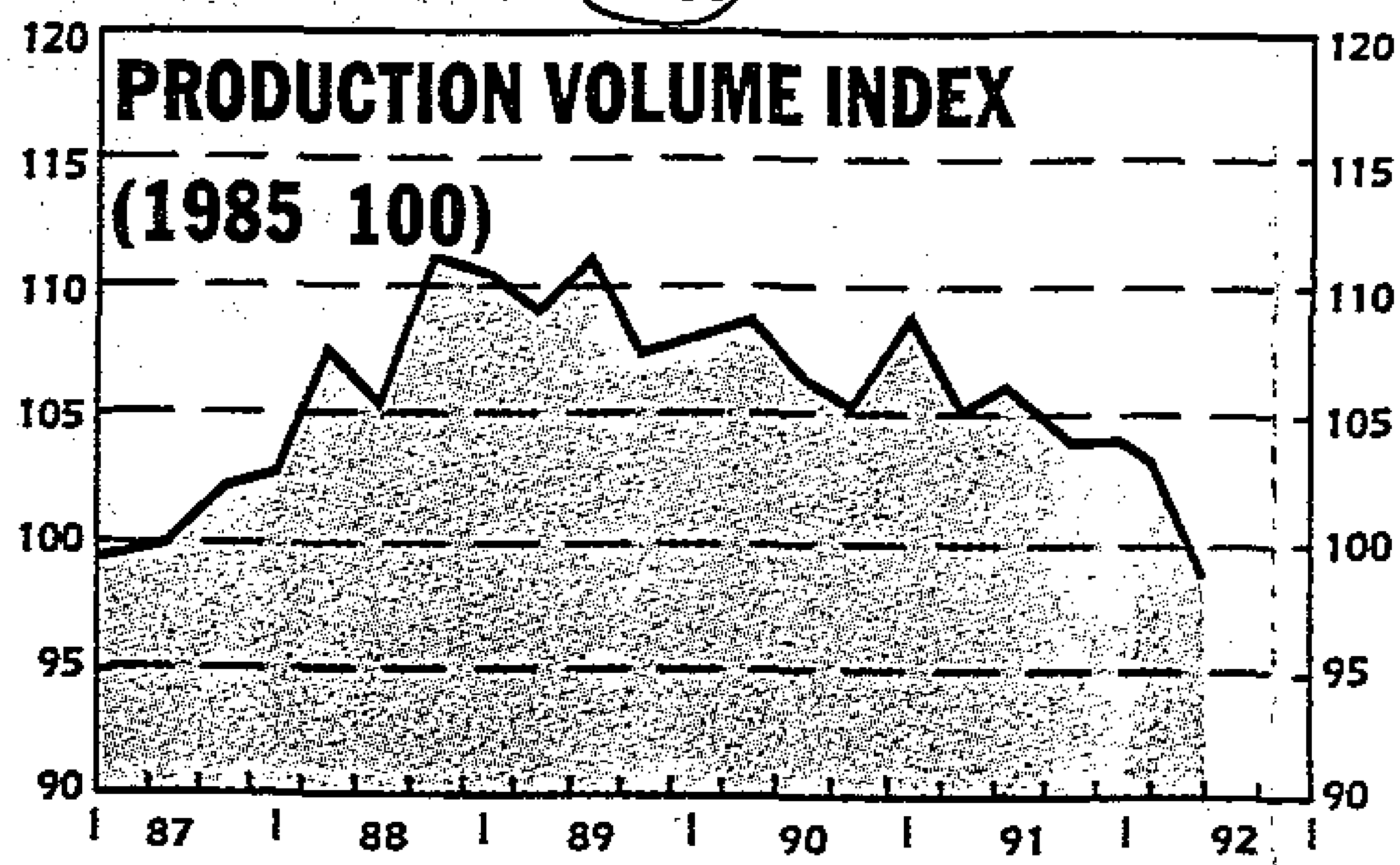
## Capital goods

The IDC says manufacturing production levels were hit by a number of factors in the second quarter, the most serious being the 10 percent drop in the demand for capital goods.

Investment was also being held back by weak domestic and international demand, by the resultant unused production capacity, and by low confidence levels in response to the ongoing economic and political uncertanties.

"In addition, the destocking of the past two years again continued in the second quarter," the IDC says.

Providing details of the impact of the recession on the industry, the IDC says the volume of manufacturing production decreased by more than four percent in the June quarter, compared with the preceding three months (see chart).




Hardest hit among the industry's subsectors were textiles (−10 percent), motor vehicles and parts (−10 percent) and clothing and leather (−5 percent).

Employment in the total manufacturing sector at 1,4 million was at its lowest level since 1986.

In addition, capacity levels at 79 percent in May were well below the peak level of 85 percent achieved two years ago.

Production prices for the three months to end-August were on average eight percent higher than those of a year ago.

Labour cost per worker rose by a surprisingly high year-on-year 14 percent in the second quarter.

As in the overall economy, exports provided some relief for manufacturers.

They rose by nine percent in the September quarter, compared with the preceding three months.

The IDC's pessimistic short-term outlook has been confirmed by recent retail statistics, which have a major impact on manufacturing production levels.

According to figures published by the Central Statistical Service, preliminary indications are that retail sales fell by an annualised 4,2 percent in November.

This compares with a three percent decline in October and September.

In August, sales slumped by 10,5 percent.

The latest figures suggest that the rate of growth is at least no longer turning negative.

Yet there is little to indicate that a substantial recovery is in the offing.

# SA up for sale at 40% discount — no takers

STAR 26/11/92.

(180)

By Derek Tommey

Foreign investments by South African companies are being blamed for the slump in the financial rand to more than five to dollar from less than four to the dollar only eight weeks ago.

But this is only part of the cause of the finrand's decline, say analysts.

The sluggish growth of the economy and unrest must also be held responsible.

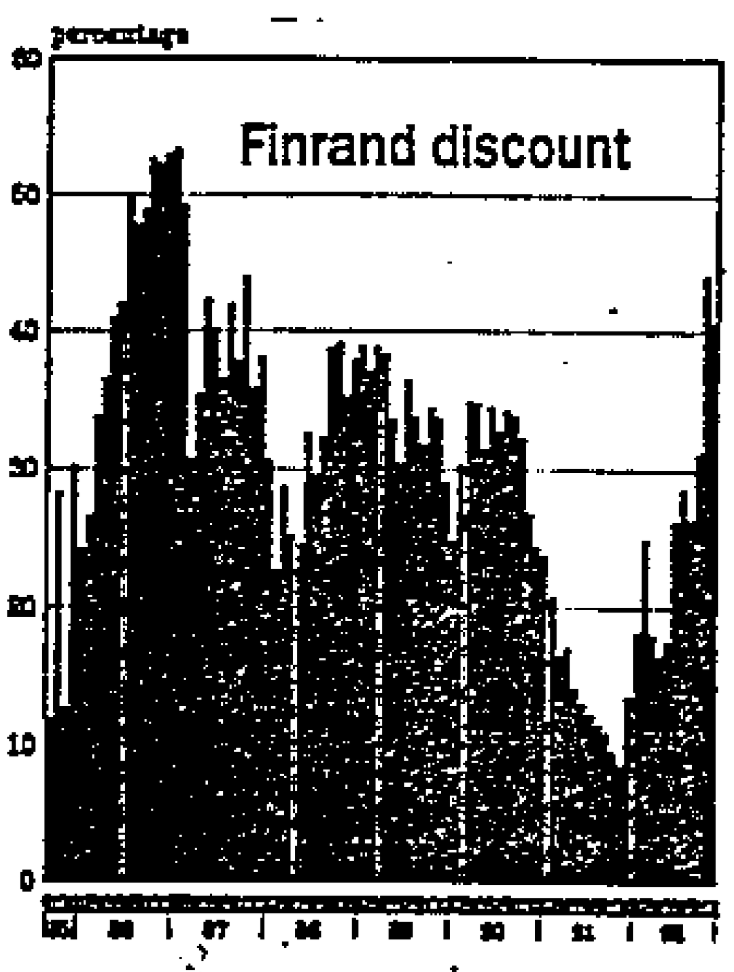
The slump in the finrand has resulted in its discount to the commercial rand growing to more than 40 percent — the biggest discount since 1986 when the country was also plagued by violence.

## Portion

Analysts say this means a substantial portion of South Africa is up for sale at a 40 percent discount.

Perhaps not surprisingly, it seems there are few takers.

The fall in the finrand has led Minister of Finance Derek Keys to order an investigation into the currency and its uses, and to ask the private sector for suggestions on how the situation can be remedied.




The finrand can be used by foreign investors to buy shares in listed companies and, provided Reserve Bank consent is obtained, it can be used to make investments in non-listed companies.

Not only does the finrand allow foreigners to buy South African assets cheaply, but it also assures them of a large return.

A foreigner using finrands to buy a share yielding 5 percent gets a return of eight percent.

And if he invests in Eskom 168 stock at the current yield of 14,46 percent, the use of finrand will boost his return to 24 percent.

However, the continued high finrand discount suggests that there are few people wanting to buy it, which is an indication that not many people want to invest in SA right now.

Analysts say that if this situation were reversed and foreigners were willing to invest in SA, the finrand would be far stronger than it is.

Analysts admit that part of the weakness in the financial rand might be the result of SA companies investing overseas.

But there is also a feeling that some of the finrand's problems can be placed at the doors of speculators.

According to Reserve Bank figures, there is something like R6 billion worth of finrands in circulation.

With no market maker to give the currency some stability, it is fairly easy to manipulate.

## Suspicion

Bearing this in mind, there is more than a faint suspicion that part of the finrand's recent weakness is the result of speculators taking advantage of the uncertain outlook for SA and selling the finrand short whenever there is a report of a local company investing overseas.

At the moment they woul[d] seem to be getting away wit[h] short-selling — and making lot[s] of money.

There is no doubt that th[e] finrand is used for speculation.

Much of the loudest complaints about its fall are comin[g] from Britain where many people bought the currency in th[e] expectation that it would fir[m] and give them useful capita[l] gains.

● The Governor of the Reserv[e] Bank Dr Chris Stals yesterda[y] called on South Africa to allocate as high a priority to understanding the country's economic problems as it was giving to the polical reform process.

He told journalists attending a Sanlam award ceremony that perhaps 1993 would not be the year which saw South Africa's economic problems being solved.

But it would be an extremely important year as it would see the foundations laid for economic development for the rest of the decade.

He said the authorities should not keep saying the solution to economic problems lay in the political sector.

The authorities must find the necessary economic solutions and zealously apply them, he said.

# Gencor investing for future — Gilbertson

(180) (280) (232) (320)

JONO WATERS

BIDAY 27/11/92

AGAINST the trend, Gencor continued to invest significantly in new growth projects and saw itself as laying the groundwork for the upturn in economic activity, chairman Brian Gilbertson said in the group's report for the year ended August 31.

Gencor's businesses were all well managed, robust, financially sound and well placed to take advantage of any upturn in the international and domestic economies.

"Thanks to recent and ongoing investments in new growth projects, the group's longer-term prospects are sound," Gilbertson said. However, in the short term, Gencor's businesses were confronted by the third consecutive year of deteriorating trading conditions and foresaw no meaningful improvement in trading conditions in the year ahead.

The world's major economies remained depressed throughout the past financial year, resulting in a further weakening in demand for the group's export products. Locally, trading conditions were difficult as the domestic recession continued.

While the past year would not go down as a record year for Gencor, shareholders did not fare too badly.

Gilbertson said in this difficult commercial environment, the first priority of Gencor's operating managers was to safeguard their existing businesses. These were being prudently managed through the present trough in the commodity cycle and, as a result, Gencor accelerated investment for future growth by supporting large equity issues in two group companies (Sappi and Malbak) and increasing commitment to new ventures.

"We continue to regard unbundling as a distinct possibility and are again reviewing its merits and practical implications," Gilbertson said.

The business community was looking to political leaders for the break in the current impasse in negotiations needed to restore confidence and ignite economic growth. "We share the general concern at the further erosion of investor confidence generated by the apparent lack of progress towards representative government, by the concomitant problem of violence, and by the depth of the international and local recessions."

The past year's intense political activity had failed to produce even the outlines of the settlement that was so avidly awaited by society and by the business community in particular, he said.

# Fabcos president denies organisation is sinking

THEO RAWANA

FABCOS president James Ngcoya said yesterday all was well in his organisation and reports that the business federation and its affiliate Sabta were disintegrating were false.

There have been reports of discontent and breakaways since two executive members, Sabta national adviser James Chapman and Fabcos marketing executive chairman Gaby Magomola, resigned. Ngcoya said Fabcos felt the two men's new ventures posed no threat.

Speaking after the Fabcos AGM in Pretoria, Ngcoya said: "Fabcos is stronger now than ever before, because the rationalisation that detractors branded as collapse is beginning to pay dividends. Financial statements have just been adopted by the management council.

"Against slanderous allegations that we are collapsing, we are now in a position to reopen offices we had closed, and are re-employing workers whom we had retrenched."

Fabcos CE Jabu Mabuza has been quoted as saying Chapman's teaming up with Sabta's Pretoria region Puta, to launch certain schemes for members was "driving a wedge into the taxi industry" which could result in violence.

Ngcoya invited Chapman and Magomola to rejoin Fabcos.

(180)

27/11/92

# Gencor expects further decline

By Derek Tommey (180) STAR 27/11/92

Gencor chairman Brian Gilbertson has warned of a further decline in the group's earnings in the current financial year to end-August 1993.

Reviewing Gencor's operations in the 1992 annual report, Gilbertson says the group was confronted with the third consecutive year of deteriorating trading conditions.

While new investments ensured sound long-term growth prospects, no meaningful improvement in conditions was expected for the current year.

However, the annual report also shows that Gencor shareholders earned a total return of 22,4 percent a year between January 1988 and June 1992, which was well ahead of inflation and the 13,3 percent a year return on the mining house index.

Despite making new investments amounting to R1,66 billion, Gencor is still financially strong, with plenty of cash in hand to finance further investment.

Cash and money market assets increased by R698 million during the year to R2 billion.

In addition, it has R392 million available in a portfolio of listed share investments.

Major investments in 1991-92 were R520 million in Sappi and a further R200 million in Sappi's private placing; R176 million in Malbak and R245 million in Samancor.

An amount of R220 million was lent to Oryx, while R89 million was spent on exploration.

The Alusaf rights issue took R76 million and the TransAtlantic rights issue R66 million.

Gilbertson says the business community is looking to political leaders to break the current impasse in negotiations in order to restore confidence and foster growth.

He shares the general concern over the erosion of investor confidence generated by the apparent lack of progress towards a representative government.

Gencor has joined other leaders of the business community in supporting the advance towards a common vision of SA's future through the National Economic Forum, he says.

# Heed the red lights in company results

C/Press 29/11/92 (180)

**■ MONEY TALK**

THE financial results of many of SA's foremost companies for the half year or full year to September contain disquieting news which should sound warning bells for the country's trade unions and political leaders.

Three key issues that come foward repeatedly are so-called downsizing, cash-flow management and the massive losses suffered as a result of strikes and mass action during the past few months. Put simply, large companies are reducing the size of their businesses in many areas, leading to thousands of people losing their jobs.

At the same time cash is accumulated to protect the company during difficult periods. This means the company has become reluctant, or even too fearful, to invest in new projects and is sitting on capital.

The cost of strikes are also being spelt out. Firstly, shareholders are told that strike-prone divisions are being "rationalised". That is, divisions are closed completely or downsized to more manageable proportions.

Often, if possible and if the profit outlook warrants it, the divisions are mechanised to get rid of troublesome labour unions. A few people then get paid well, but a large number suffer because they lose their jobs to machine systems that are normally imported.

An example of what rationalisation means in practice is the case of Tongaat-Hulett, a large Natal-based group of companies. It had almost 47 000 workers in 1988. By March this year the number was reduced to slightly less than 32 000.

Dorbyl Engineering claims to have lost more than R15-million in operating profits during the financial year to September as a result of the long strike at the Toyota car plant near Durban and the strike by metalworkers. Its management has now decided that the present difficult situation in the country should be regarded as normal and the group is thus downsizing.

# New rules for offshore funding

(180) S/Times (B455) 29/11/92.

By CHERILYN IRETON

FINANCE Minister Derek Keys has moved to plug the disinvestment of funds by South African firms.

His new ground rules for offshore investment could jeopardise several planned multi-million rand acquisitions which are still in the pipeline unless the buyers can settle the deals by loans raised abroad.

Keys says firms will be encouraged to borrow offshore and the repayments of these loans will have to be met by income generated by the new investment.

Only companies which can prove that their offshore acquisitions are of immediate short-term benefit to SA will receive approval to take funds out of the country.

Deals whose benefits will only flow through in the longer-term will be stalled.

Companies that have already received approval for offshore investments have been asked to make use of foreign funding to pay for their acquisitions.

In an apparent reference to Royal's planned £360-million purchase of Del Monte, Keys says the repayments of the foreign funding will be staggered over a period of time.

Future requests for foreign investments will be handled with the utmost care and circumspection, he warns.

A rash of offshore acquisitions have been announced over the past few months.

They include Royal's bid to purchase Del Monte, First National Bank's purchase of London bank Ansbacher for $60-million, Rand Merchant Bank's R17-million purchase of Australian Gilt Holdings and Standard Bank's acquisition of the African operations of ANZ Grindlays for R165,7-million.

Earlier this week, Sentrachem jumped on the bandwagon by announcing that it is looking to buy Kerry Packer's Australian petrochemical company Chemplex.

Sentrachem gave no hint of the purchase price being asked for Chemplex, but CE John Job indicated that less than half the purchase price would be settled in finrands. The rest would be financed by loans.

This sparked further uncertainty in the financial rand market and prompted Keys to investigate the foreign investments.

Earlier, brokers warned that the instability in the financial rand market was driving away potential investors.

Depsite the effective 40% discount which the finrand offered investors, they were unwilling to commit themselves to volatile markets.

As a result of the disenchantment and the huge speculative activity in the markets, the financial rand slumped to a low of R5,09 this week, from R3,90 at the begining of August and R5,12 in early October, when news of the Del Monte deal broke.

# Hope and hopelessness

S Times (Buss) 29/11/97 (180)

## Foreign investors are becoming disillusioned by the reluctance of South Africans to invest in their own country.

JOHN CAVILL IN LONDON

EVEN the most economically illiterate is able by now to recite by heart the prerequisites for a revival of investment in the "new SA."

Acceptable political settlement equals confidence, equals investment, equals growth which in turn breeds jobs and enhances political peace. The virtuous circle is self-fulfilling.

The present situation is the opposite. John Taylor, analyst with James Capel, one of the few London broking houses to spend money on maintaining a fully fledged SA department through thick and thin, has returned from SA with a mixture of reasons for "hope and hopelessness".

Mr Taylor believes "a vicious circle is now in place. The longer a political settlement is delayed, the worse the economy will get and hence the more difficult it will be to reach a settlement."

He writes in Capel's Southern African monthly of the "mood of despondency among foreign investors" which has become manifest in the past few weeks; of potential interest drying up and of selling, "often at a considerable loss", by those who held SA securities.

Much the same point was made elsewhere: a room in the House of Lords where investment banker Martin Kingston of Morgan Grenfell spoke at a conference organised by West European parliamentarians.

Mr Kingston spoke plainly of the withdrawal of support by European banks and financial institutions which had put up funds for those first SA Government bond issues in the wake of the political changes.

The political confusion and deteriorating economy had "removed what interest there was in the early provision of capital to SA".

Both men, in slightly different ways, also said that it might be helpful if investment, like charity, was seen to begin at home.

MR Kingston said that the big foreign push by SA business unleashed by the country's international comeback — such as the Royal Food-Del Monte deal and First National Bank's acquisition of Ansbacher — was logical.

How far and how much longer the Reserve Bank would allow it to continue was uncertain.

In addition, said Mr Kingston, "to attract foreign capital into SA, the domestic financial community of both lenders and investors shall need to demonstrate confidence in their local environment rather than exporting resources, skills and capital".

Mr Taylor, too, has doubts about the Reserve Bank's attitude to external investment through the financial rand.

But, more specifically, the Capel review takes the SA investing institutions, holding 23% of their assets in cash, to task for their attitude to the two big capital-raising projects:

- The R6,5-billion Alusaf smelter which could add 1,5% to annual gross domestic product, \$750-million to export earnings and generate a total of more than 30 000 jobs.
- The R2,6-billion Royal-Del Monte deal which will provide 50 000 to 60 000 jobs in five years.

Mr Taylor acknowledges there are reasoned arguments behind the caution of institutions which have been less than enthusiastic — putting up only half the expected R1-billion for Alusaf and 80% of that coming from Old Mutual and Sanlam alone.

"There are really two things that SA institutions had to consider when they were asked to subscribe to the Alusaf project," says Mr Taylor who headlines it "A symbol of hope".

"Firstly the quality of the project itself and second whether they wished to invest in the long-term future of SA. On both counts there are mixed feelings."

"Unfortunately these are not normal times in SA and we feel that they should have been a little more supportive," writes Mr Taylor.

HE warms to the theme more strongly in speculating about the amount the institutions will put up for Royal's big expansion.

"Will they think it their patriotic duty to subscribe as it will create jobs? Given their lack of ringing endorsement for Alusaf it seems that love of the motherland will not play all that large a part.

"As an aside, despite the terrible recession it is remarkable how much money the institutions are pumping into commercial property such as fancy shopping malls."

It is little short of an indictment of narrow actuarial focus on quick bottom-line returns at a time when long-term vision is the imperative and begs the question of why foreign investors should take a different view of SA's future.

# Multi-skilling lifts productivity 45%

(180)

S Times (Buss) 29/11/92.

By ADRIAN HERSCH

PRODUCTIVITY has increased by as much as 45% in some companies where multi-skilling has been introduced.

This is one of the findings of a survey of 40 large companies in South Africa.

But companies also report several drawbacks.

The research was conducted by Theo Veldsman, a consultant at Anglo American's Central Training Unit (CTU).

The survey shows that most companies implement multi-skilling at shopfloor level (38%), followed by supervisory (32%), and middle-management level (15%).

Dr Veldsman says the response is "fairly representative of the larger companies that that have implemented multi-skilling".

## Warning

Reasons for the benefits obtained are "more efficient and effective operation" (31%), a reduction in costs (17%) and improved productivity (14%).

But Dr Veldsman warns that although multi-skilling can offer much in the short term, it should be coupled with adult education programmes if medium — and long-term benefits are to be gained.

"A worker has to have a certain level of education to enter a job grade demanding certain complexities of skill.

"Once a worker has been multi-skilled to a maximum level in a grade, it often happens that he is unable to advance because he does not have the education to enter the next grade."

Fortunately, adult education programmes are increasingly being used by businesses.

National Training Board acting chairman Ray Eberlein says it is possible that these adult education programmes could be "recognised by issuing nationally acceptable certificates".

Dr Veldsman's survey shows that the most common form of multi-skilling adopted is operators doing different tasks in their own discipline (29,7%).

This is followed by artisans across disciplines — doing maintenance and working in production as well (21,6%) — supervisors across disciplines (18,9%), operators across disciplines (10,8%), management across disciplines (10,8%) and artisans across traders (8,1%).

There have been instances where trade unions have rejected multi-skilling. But several Cosatu unions have agreed to its implementation.

Dr Veldsman says: "Although in some cases there is a problem of job security, the alternative can be that the company will go under.

## Overload

"When implemented correctly, multi-skilling provides for growth and progression among the members which the unions are keen to see."

Some drawbacks mentioned by the companies that implemented multi-skilling are: it is difficult to assess a suitable level of pay; concern about employee "work overload"; a high level of supervision is needed to maintain standards; the problem of getting the right balance between specialists and generalists.

Employers are also concerned that multi-skilling does not appear to foster job creation — a problem which SA desperately needs to resolve.

# Engen contributes largest single part of Gencor's assets

B DAY 30/11/92

JONO WATERS

ENGEN remained the largest single contributor to Gencor's assets and Sappi replaced Samancor as the group's second largest investment, the latest annual report showed.

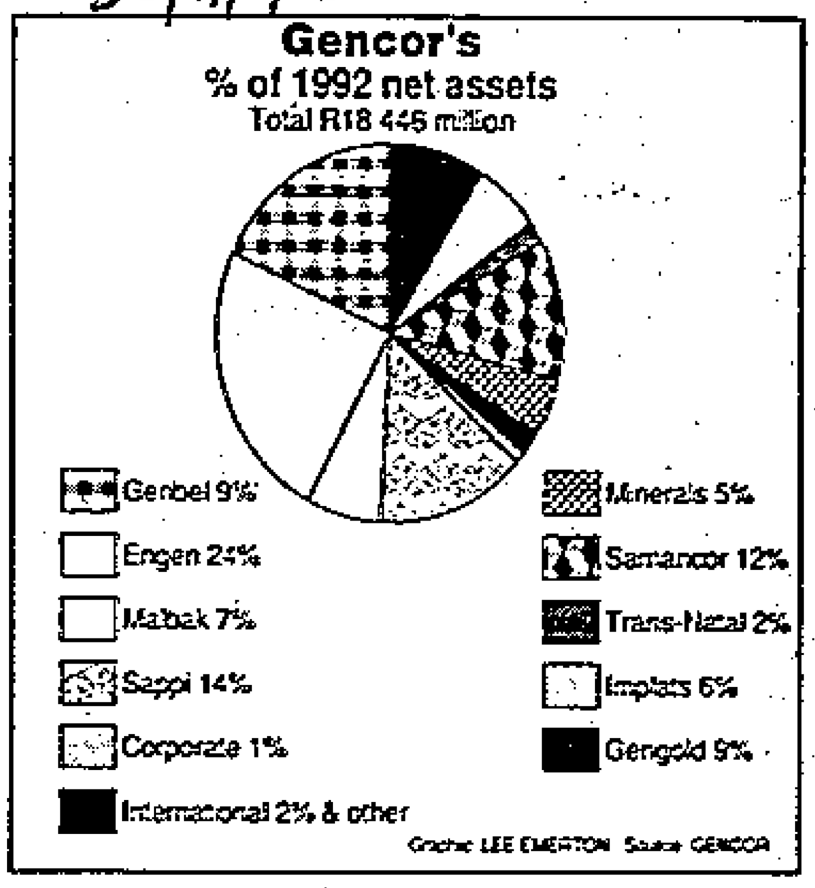
Gencor's stake in Engen had a market value of R4,05bn, followed by Sappi at R2,64bn and Samancor on R2,15bn.

Malbak moved into Gencor's top five investments due to increased investment in the company and the improvement in its share price over the year. (180)

Gencor's stakes in Genbel and Impala Platinum amounted to R1,13bn or 6,1% of the group's investments.

Oryx remained Gencor's most important gold investment, in spite of the decline in the share price over the year, as a result of an increase in the shareholder loan to the company.

Gencor's financial and investment review for the year ended August 31 1992 showed the group to have total assets worth R18,4bn, making it one of the largest resource-based groups in the world.




Its 10 largest individual investments, which had not changed since 1991, constituted 77% of total assets and contributed 81% of total earnings in the 1992 financial year.

As a result of its R2bn rights issue, Gencor's total surplus funds at the year end were valued at R2,39bn compared to R1,90bn in the comparable period last year.

# Prepare for the coming revolution in profit sharing

BDAY 30/11/92

DEON THOMSON

(180)

RECENT research indicates that there is a groundswell movement within large corporations to share profits with workers. It has reached the stage where it is not so much a question of whether profits will be shared or not but how they will be divided up.

Research leads us to predict that the form of profit sharing known as gainsharing will be widely accepted and adopted as the standard practice in SA within five years.

Gainsharing is a system whereby the proceeds of any gains in productivity are shared between the stakeholders in agreed proportions. The norm in the US, where the concept is gaining in popularity, is a 50:50 division between the shareholders and the workforce. It is a meaningful and effective way of approaching the problems of wealth distribution and standards of living.

The most frequent reason advanced for not implementing gainsharing was the argument that the workers cannot in fact influence profits — therefore, gainsharing would really be like a free handout. With hindsight this argument has to be discarded — the failure to share has led to worker alienation which has adversely affected profits during the past decade — on a grand scale.

The real problem has been the difficulty management of large corporations has experienced in clearly conceptualising the nature of the partnership between the enterprise's important stakeholders.

A central convention in the reward system is that an employee is entitled to average pay for average performance. This is the foundation for remuneration grading systems. The requirement of "average performance" is defined in terms of acceptable physical standards, and also in standard terms and conditions of employment.

The extremely important corollary is that the employer should not ask for more than average performance without offering additional pay. The employer should not expect above average performance — he is not entitled to it.

One argument against this view is that "we pay more than the industry average and therefore we expect more." This is wrong as well. The reason why these employers are paying more than the industry average is to attract employees, and to show job turnover, and to experience fewer pay strikes.

This principle was vividly highlighted in an interview we conducted recently with a shop steward employed by a major manufacturer. When asked why the trade union was opposed to a campaign introduced by the company to enhance productivity, he replied: "This is not always true. The work for most people in the factory is by its nature hard work — both physically and mentally. What we resent is that you are employed to do a certain job at a certain speed. It seems unfair to have to work harder or faster without getting additional remuneration. Alternatively, the work must be regulated so that it provides regular work for the same number of employees."

This simple answer is so complete, and so obviously correct, that it seems to place the blame for the labour unrest of the past few decades fairly and squarely on the management of the larger corporations. Implicit in the statement is the call for fairness and equity, which cannot be refuted.

There are basically two ways of conceptualising the economic partnership. First there is the Western approach, typified by US corporate structures which ours closely resemble. The shareholders are regarded as one of the stakeholders. The role of management is conceptualised in "agency theory", which argues that management is "empowered" by the board of directors, who are the agents of the shareholders. The powers derived by management include the powers to staff the organisation and to negotiate levels of remuneration.

In the same way, management, which probably enjoys its own, separate incentive scheme, negotiates contracts of gainsharing with the worker group. It does not have to gain the approval of the board of directors because, by definition, it is only the "gains" (in other words, the extra profits) that are being shared.

If management is challenged on this, it would point out that it is a "win-win" arrangement — either both partners will gain, or neither will — in either event, neither partner loses.

The second approach is the Eastern one — for example Japan's. Here, essentially, there are only two stakeholders — the shareholder group, and the workforce comprising management and workers at all levels. That this is the case can be clearly seen in the way in which profits are shared.

As in the West, remuneration is negotiated with trade union representation. By and large wages are fixed at a minimum level. However, once or twice during the year, or even three or four times, double, treble or quadruple salary cheques are paid out, dependent on profits earned by the employer during the period since the last distribution of profits occurred. In other words, it is a distribution similar to the distribution of a dividend to shareholders. It is a direct sharing of profits.

Can this be criticised as being a mere handout? Doubtful. For one thing it would make employees very amenable to discusssing how profits could be maintained at the same high level — if not improved — so a further dividend could be earned.

This approach to incentive pay is very rare in SA.

Which approach will be adopted in SA? The intrinsic appeal of the Eastern approach is its simplicity and the way in which it encourages teamwork. It seems to satisfy all of the potential problems — including the problems of how to measure production bonuses, and who should participate in the profit-sharing and who should not.

Yet, there are advantages in the Western approach too — since management incentive schemes focus more directly on performance factors that can be influenced by the managers concerned. Separate incentive schemes are devised for separate groups of employees, each with a different focus.

There is a pragmatic answer to the dichotomy — it does not matter as long as there is a partnership. Nevertheless, given logistical problems in SA, the Eastern approach appears to be a far more satisfactory solution, and far easier to implement in the short term.

Is there another way in which profits can be shared?

Share participation is often looked upon as an alternative to profit-sharing. But this approach is fundamentally wrong. It confuses the separate roles of the different stakeholder groups. Share participation involves a buying and selling of shares — it has nothing to do with rendering services. It is only where share participation is on a substantial scale, as in a closely held private company, that it is likely to influence employee behaviour.

Unless the economic partnership is correctly conceptualised, and brought in as part of the mission statement, meaningful sharing cannot be justified. Management is simply not entitled to divert profits away from the shareholder group without justifiable reason.

Invariably, where the economic partnership has not been articulated, profit-sharing tends to be on a small, even insignificant, level — say, 5% of annual remuneration, which hardly affects the employee's performance. What is needed is true profit-sharing, which may pay out 30% or 40% of annual remuneration, funded entirely by an increase in profits.

☐ **Thomson is an associate of P-E Corporate Services.**

LETTERS

# Keys makes move to safeguard the finrand

(180) STAR 30/11/92

By Derek Tommey

The financial rand should rise sharply against the dollar in the wake of moves at the weekend by Finance Minister Derek Keys to limit its use for foreign investments.

The confidence-inspiring move is expected substantially to reduce the flow of financial rands to overseas markets in the weeks ahead.

No detailed figures are available on how many financial rands would have gone abroad to conclude transactions already in the pipeline were it not for Keys' intervention.

But estimates are that the total could easily have exceeded R1 billion.

Curbing this outflow should result in a strong rally in the currency because a restoration of confidence in the financial rand's future worth, together with any short-covering that might be necessary, is likely to trigger an upsurge in foreign buying.

Keys at the weekend requested South African companies which already have permission to make investments overseas to use foreign sources of finance instead.

They would also have to make arrangements to stagger the repayments of their foreign financing.

He said the exchange control department of the Reserve Bank had been instructed to handle requests by local companies for permission to make new foreign investments with circumspection.

Approval could still be granted for those investments which might be seen to be of immediate benefit to SA in the short term.

But investments with a longer-term benefit only will have to be held in abeyance.

Keys said the financing of most new approved investments overseas would have to be done through foreign loans, with repayments being met out of the income generated by the new investments.

The curbs on the use of financial rands are, in a way, good news for companies now making investments overseas.

The slump in the financial rand has meant that they are having to pay almost 70 percent more for their investments than would have been the case had they bought them with commercial rands.

By giving them permission to raise finance overseas — something the Reserve Bank has not been keen on — to make foreign investments, they will at least save the extra expense, providing, of course, they can find foreigners to lend them the money they need.

For the past month or so the value of the financial rand has been steadily falling.

Last week the currency's discount to the commercial rand widened to more that 40 percent — the largest figure since 1986.

This has been interpreted by people overseas to mean South Africa is in serious difficulties.

Consequently, the need to strengthen the financial rand is a matter of both political and economic importance.

# AHI rejects Sacob amalgamation plan

(180) HILARY GUSH

SUGGESTIONS that an amalgamation of the SA Chamber of Business (Sacob) and the Afrikaanse Handelsinstituut (AHI) be investigated have been rejected by the AHI executive committee. B1DAY

AHI president George Huysamer said yesterday it was an inappropriate time for such an initiative. 1|12|92

"The country is confronted by serious economic issues which demand our full attention jointly and severally, and we would not be serving the best interests of our country or our members if we allow our attention to be diverted by a matter like this at this stage."

Last month Sacob suggested a merger to enable business to "speak with one voice".

Huysamer said such a merger, which excluded other organisations such as Seifsa, Nafcoc and Fabcos, would risk creating an impression of "ganging up" — which should be avoided at all costs.

While the AHI did not want to surrender its identity and role, Huysamer said: "The AHI wishes to reconfirm its willingness to co-operate with other employer organisations in promoting our common national and regional goals.

"Our co-operation in the national economic forum and the business forum are telling examples hereof. We are also in touch with the moves which are afoot to establish an overarching employer organisation representing the entire SA business sector, and we will make our inputs in this regard in due course."

Sacob deputy director-general Ron Haywood said: "We have nothing to add to the AHI statement."

# AHI 'not interested' in merger

STAR 1/12/92

180

Afrikaanse Handelsinstituut president George Huysamer has poured cold water on the idea of a merger with the South African Chamber of Business.

He said Sacob's suggestion last month that an investigation with a view to a possible amalgamation of the two business organisations was being conducted, had not occurred.

"The executive committee (of the AHI) holds the view that this is an inappropriate time for initiatives of this nature," he said.

Mr Huysamer said the different business organisations in South Africa had different roles to fulfill at this stage of the country's transition.

Sacob had suggested a merger with AHI and possibly other black business organisation like Fabcos and Nafcoc to enable organised business in the country to "speak with one voice".

Mr Huysamer said however that the AHI was willing to continue to work with other employer bodies and participate in the National Economic Forum and the Business Forum. — Sapa.

# Marketers 'must stay in touch with audience'

BLDAY 1/12/92.

GAVIN DU VENAGE

MARKETERS like to think their audience is far more sophisticated than it is, says Markinor chairman Nick Green.

Spelling out guidelines for Third World marketing, Green said that within a few years the average South African would be black, 15 years old, fairly unsophisticated and talking "a kind of English".

"On the other hand," said Green, "we marketers and advertisers will be 40-plus, more sophisticated and perhaps a little out of touch with what is happening, unless we remember a few key points."

The first of 12 elements Green laid down concerned brand value. The less sophisticated an audience, he said, the greater the value of a name.

Brands had become a language — for instance, in some markets there was no such thing as vodka — it was Smirnoff.

Then came the exploitation of aspirations. Ads showing blacks and whites mixing in up-market situations touched on something many hankered for.

As an example, Peter Stuyvesant, the best selling cigarette in the middle socio-economic groups, used exotic travel destinations in its advertising.

Green also advised:

- Use simple language, and avoid word-play. English is a common language of communication, but not everybody's mother tongue;
- Visuals and pictures can overcome nuances and language difficulties;
- Use role model endorsement. "You do not need long copy or explanations. The associations and visual elements do it all for you if you use a Brenda Fassie as a spokesman";
- Use sports sponsorships. Research has shown that sport is high on the list of SA priorities;
- Use music, which is a powerful common interest in the youthful metropolitan market. Coke's use of Mango Groove had grabbed an instant youth vote for their product;
- Appeal to the emotions. Unsophisticated markets are less analytical and more emotional, and are less likely to react to dull and boring advertising;
- "Grab the educational sponge." Advertising works well when it teaches people how to use a product, or how to behave socially;
- Beware of change. The Castle Lager label switch created a tremendous negative effect for SA Breweries, said Green;
- Consider the use of media. Television, radio and print are obvious vehicles, but new avenues, such as home videos and taxi-tapes, should be considered;
- Finally, never ignore word-of-mouth recommendation or criticism, which could affect the progress of a product or service. This was especially true in the townships where the extended family and good neighbourliness really did exist, said Green.

# Companies 'secretive'

180

GAVIN DU VENAGE

SA's only corporate investment publication, CSI Letter, was gaining ground in the business community, editor Myra Alperson said last week. BDAY

SA companies were too secretive about their social investment programmes, and the CSI Letter had been started, in part, to create a forum of information sharing, said Alperson.

The fourth issue of this bi-monthly Innes Labour Brief publication appeared earlier this month, looking at issues such as the basics of social investment policies and some of the latest activities of various companies. 1/12/92.

Alperson worked for a research foundation in New York and co-authored a book on corporate social investment before moving to SA and the Innes Labour Brief last year.

SA companies could both learn from and contribute to the international CSI experience, Alperson said. As the country was once again on the investment map, it was important for local business to make their contributions known.

Advertiser agency

## Mission from Russia due

A GROUP of Russian and Ukrainian industrialists are due in SA today to explore ties with mining, chemical, steel and textile companies.

The 11-member delegation is being hosted on its 12-day visit by the National Productivity Institute, after a visit by NPI director of productivity promotion Johan Smuts to Russia and Ukraine last year. (180)

Delegation members are expected to visit the Reserve Bank, Mintek, a gold mine, the JSE and oil-from-coal producer Sasol.

In the team from the former Soviet Union are top managers in mining, chemicals, textiles and aluminium and steel.

Trade contacts between SA and Commonwealth of Independent States member countries have been increasing this year, and there is scope for increasing co-operation between CIS states and SA's heavy industries, particularly mining. Anglo already has a firm presence in the former Soviet Union through De Beers. BDM 2/12/92

# Rand could come under pressure

STAR 2/12/92.

By Neil Behrmann

LONDON — The financial rand is expected to outperform the commercial rand in coming months as international investment confidence improves.

Since Finance Minister Derek Keys announced that SA corporate acquisitions abroad would be tightly monitored, the financial rand has rallied by 5 percent from its depressed level of 19,65 US cents to the rand. In the same timespan, the commercial rand depreciated by a little over one percent against the dollar.

The US dollar is expected to consolidate in the next six weeks, at least until the start of the Clinton Administration at the end of January.

Eight leading international foreign exchange analysts, traders and technical analysts believe that the dollar will fluctuate within a three percent band against the Deutschemark and sterling in the coming three months. The yen/dollar rate will hardly move.

If these forecasts are correct, the commercial rand's weakness against the dollar will be limited.

London bankers who trade in the South African currencies, however expect the commercial rand to weaken further for another reason. They believe that the Reserve Bank will eventually allow some companies to fund foreign acquisitions with commercial rands.

Any outflow will place pressure on the commercial rand, say dealers. The commercial rand has already fallen, partly because of these expectations, say bankers.

## Investigation

Usually the Reserve Bank handles currency matters, but the fact that Keys is also conducting an investigation into the problem, say London bankers, indicates that any new South African corporate investment abroad might be taxed.

If the corporations are willing to pay the tax which might be allocated directly to deprived areas, the Reserve Bank will selectively allow funds to be transferred via the commercial rand market.

The commercial rand is presently trading at a 60 percent premium over the financial rand. So SA corporations buying companies abroad are already effectively paying a huge tax.

For each $10 million of foreign investment, an SA company must pay R48 million instead of R30 million via the commercial commercial rand market.

Intervention by the SA authorities has become urgent say bankers here, because the financial rand rate was going into free fall.

Now that the authorities are investigating ways to reduce the acute currency risks which overseas investors have encountered during the past year, foreigners are once again buyers of SA securities.

Bankers report that Swiss, German and Far Eastern investors have been buyers of SA bonds since the financial rand rate has stabilised.

With SA bonds trading on yields of 22 to 23 percent the financial rand should appreciate, say London bankers. Particularly if SA capital outflows via the currency are controlled.

The financial rand discount is thus expected to narrow.

Bankers here believe that until recently the Reserve Bank and many South African banks, economists and corporations have taken a remarkably insular view of the finrand collapse.

According to this local view, SA company investment abroad through the slumping financial rand was acceptable because it did not have any impact on South Africa's foreign exchange reserves.

Some also said that by buying high yielding SA securities, foreign investors knew that the risks were high. They did well between 1990 and 1991, so there was little cause for complaint.

This argument, however, is specious.

## On the edge

It is South Africa that needs the international investor, not the reverse. International investors can place their funds anywhere in the world. The tragedy for South Africa is that is has become very much on the periphery.

The financial rand collapse has had a damaging impact on foreign investment goodwill which is already shaky because of South Africa's volatile politics.

**BUSINESS** New GSCCI president Sam Noge will forge links wi

# Bid to unify business

## MISUSED FUNDS GSCCI still awaits a financial report from Sitco on R2,5 million:

Sowetan 2/12/92

(180)

By Mzimkulu Malunga

THE Greater Soweto Chamber of Commerce and Industry will strive for unity among business organisations operating in the area, says the new president, Sam Noge.

"We have an organisation like the Soweto Independent Shopkeepers Association with which we worked together on a number of things.

"I do not see the reason why we cannot be one body," he said.

The new GSCCI's leadership hoped to close the old chapter of divisions and concentrate on the advancement of Soweto business people.

"We work tirelessly to improve efficiency through training programmes run jointly with the formal sector," he argued.

Already, the chamber had forged a relationship with the Chamdor Training Centre to train members in strategic planning and meeting procedures.

Noge said relations with the Johannesburg Chamber of Commerce and Industry (JCCI) as well as the Johannesburg Afrikaanse Sakekamer (JAS) would be improved.

The two organisations came to the rescue of the GSCCI when the latter was experiencing financial problems.

In an effort to combat increased crime directed against business people in the township, the chamber initiated the Soweto Anti-Crime Initiative with a coalition of community organisation, he said.

SACI was already functioning and two workshops on crime and effective policing had been held.

However, the road ahead would not be rosy, he said. The GSCCI still had to resolve problems with its commercial arm, the Soweto Investment Trust Company (Sitco).

Despite the fact that Sitco was one of the projects of the chamber, the GSCCI had not received any report from the company since its formation in 1987, said Noge.

He cited the Sitco issue as one reason which triggered the formation of a breakaway group, the Greater Johannesburg Chamber of Commerce and Industry, three years ago.

There had been allegations and counterclaims between the chamber and the Sitco management recently on the whereabouts of the R2,5 million received from First National Bank for the development of entrepreneurs in the township.

Noge said a substantial amount of the money bought shares in a trans-national company, Pepsi Cola, when it launched an investment comeback in South Africa.

According to him, the remaining sum bought a stake in the Shareworld complex near Nasrec in Johannesburg.

Sam Noge

There was widespread belief in chamber circles that when both ventures crashed, the funds went down the drain.

Noge has also alleged that some of the Sitco funds were squandered on overseas trips which the chamber knew nothing of.

However, Sitco's managing director, Macdonald Temane, denied that the company's funds were misused. He referred the *Sowetan* to a report delivered by the outgoing president, Philemon Makhetha, at the GSCCI's AGM last week.

In his report Makhetha, who is also chairman of the company's trustees board, said Sitco had funded various projects in Soweto, among them the *Soweto Chamber News* - GSCCI's mouthpiece.

# Barprop chairman discusses portfolio

180

PETER GALLI

GROWTH for Barlow Rand Properties (Barprop) in 1993 will come from rent escalations from existing leases, and additional rents from acquisitions and new developments, says chairman Colin Steyn.

In the annual report for the year to end-September, he forecast the outcome for the present financial year. "Based on a dividend covered about 1,2 times by earnings, it is estimated that the dividend an ordinary share will rise by about 2% to 12,5c and interest on loan stock will go up by 2% to 128c," Steyn said.

"Adverse conditions continued to prevail in the property market over the year and it was not possible to complete our strategy of upgrading the portfolio. Certain developed properties and vacant land which do not fit our investment criteria remain unsold."

However, Steyn said, progress had been made on improving the portfolio. The majority of investments were now located in centralised areas and well tenanted, with vacancies at 2% by the year-end.

During 1992, additions to the portfolio totalled R30,7m, while R15,8m was realised from the sale of decentralised and other low-growth properties.

"The company still has substantial cash resources to re-invest in suitable existing and new developments," he said.

In the year under review, turnover increased to R53,59m from R48,88m and net income of R14,62m (R13,30m) was reported. The share was untraded yesterday at its November 30 high of 160c, reflecting a buyer at 150c but no seller.

# Court ruling sides with company directors

STM 2/12/92.

By Leigh Hassall ~~82~~ 180

Directors of companies trading while technically insolvent will in many instances no longer be held personally responsible for the company's debts.

An Appeal Court decision made last week overruled an earlier controversial ruling by Mr Justice Stegman in the Carbon Developments case.

Mr Justice Stegman held that a subordination agreement was not a valid contract and that, by allowing trade to continue, the directors were trading recklessly and could be held personally responsible for the company's debts.

A subordination agreement is a contract between the company and a substantial creditor (usually the shareholder) in which the creditor agrees not to accept payment for the amount owing to him until the other creditors have been paid.

It is common practice in small and medium-sized companies to structure the shareholder's investment in terms of a small equity base and a much more substantial loan account.

If the company's assets exceed its liabilities — meaning that it is 'prima facie' insolvent — the shareholder can enable the company to continue trading if he subordinates his loan account.

Technical partner at Ernst & Young, Garth Coppin, says: "In overruling the earlier judgment, the court has recognised what has been happening in the business world for many years."

## Seeff is looking for R1bn turnover soon

LINDA ENSOR

CAPE TOWN — Seeff Organisation Holdings had increased its total turnover by between 50%-60% to about R500m in the six months to end-August and, provided the political situation stabilised in the period until its year-end, would generate turnover of more than R1bn, chairman Lawrence Seeff said yesterday. BDM 2/12/92

Residential sales were just under R400m.

Seeff said the group had performed well, despite the difficult market, benefiting from its diversification and aggressive marketing programmes. The diversification programme was aimed at establishing a presence in all spheres of property and related financial services.

The financial services division, Seeff Trust, contributed 37,5% to group profits, Seeff Slot Projects 37,5% and Seeff Residential 20,1%, despite an increase of more than 50% in the value of sales.

Seeff Slot Projects, established two years ago, is the development arm of the group involved with the design, building and marketing of its own developments. Seeff said its performance had been surprising. Seeff Residential, which acts as the division's marketing arm, expected sales of more than R50m during the coming months.

Residential sales in the Transvaal had overtaken those in the Cape, but Seeff said this was to be expected because of the larger market and agent complement in the Transvaal. The Cape employed 150 agents and the Transvaal 180.

Seeff Commercial Properties had had to operate in the most difficult sector of the property market and its contribution to profits was still relatively minor. However, Seeff said, recent sales and major letter contracts would improve its performance.

The group's move into Natal would take place early in the new year.

Seeff Mergers & Acquisitions would benefit next year from its recently acquired stake in Hotel Broking Services.

# Redesigning yields direct returns in productivity

181

PETER GALLI

BDM 2/12/92

CORPORATE clients are becoming increasingly aware of the financial advantages of improving their immediate work environments, says SA Design Society president Des Laubscher.

"It has been proved that an enhanced work environment increases the productivity of staff. Thus the money spent on revamping space has a direct return in improved staff performance. While the recession has affected the amount of money businessmen are prepared to spend on this, many are now re-evaluating their buildings and how they can make these more cost effective, rather than building new premises," he says.

Laubscher says South Africans are inclined to accept whatever they are told at face value.

"It is essential that we become more discerning, as many things can be changed to suit the client's requirements without much expense," he says.

A much wider product base is now available, and local designers have access to global suppliers. This in turn has made them more aware of international trends and has encouraged them to become less staid, Laubscher says.

"An example of this is Nedbank's banking malls.

"The company has taken its corporate image and colours and used these as the focal point of its malls, where everything is designed with this in mind — even down to the pen holders," he says.

Formal open-plan offices have become less popular and have been replaced by cellular open-plan designs, as the trend is for buildings to be as energy efficient as possible.

In the past, few designers were involved in projects from the outset, which meant they designed from the outside in.

"What is happening now is that the end users are being considered and the interior designer is called in at the start of the project.

"This allows him to use the environment as best as possible — for instance, by harnessing natural light to save energy and minimising heating and cooling costs," Laubscher says.

The society has nearly 300 members, encompassing graphic, interior and product designers. However, this represents only a small percentage of the industry.

"We have adopted the international code of conduct and will start looking at the establishment of fee structures next year, as well as benefits such as medical aid," he says.

# Capital boost fails to stem Zevenwacht losses

ROBERT WICKS

BDM 2/12/92

CAPE TOWN — Despite significant injections of capital and attention to long term debt, the Zevenwacht Wine Estate — one of the largest in the country — incurred losses in excess of R2,08m in the 12 months to 30 June 1992.

The company and its two wholly owned subsidiaries produces red and white wines in the Stellenbosch district. To restore its position, directors have resolved to offer new shares to existing shareholders to enlarge the capital base and reduce interest-bearing debt.

Zevenwacht chairman Harold Johnson said sales of the estate's wines had been adversely affected by the poor economic climate.

No dividends on the ordinary shares were declared and no dividend was proposed.

Johnson said he did not anticipate a "quick turnaround in Zevenwacht's fortunes", but added that everything feasible was being done to ensure the long-term future of the farm.

Three new dams had been built, new vineyards were being established and wine-tasting facilities were being improved. The estate was also receiving favourable reaction from the export market.

# Malbak gaining greater market acceptability

180

By Stephen Cranston

There has been a growing market acceptance of the versatility of Malbak's operating divisions since it divested itself of much of its construction and engineering interests — Darling & Hodgson and half of Standard Engineering — and replaced them with consumer-oriented businesses such as Fedfood and SA Druggists.

The annual report for the year to August shows that Foodcorp, created out of the merger of Kanhym and Fedfood, increased market capitalisation by 25 percent by year-end and by 62 percent to date.

Foodcorp now has dominant shares in certain market categories — 56 percent of frozen vegetables, 60 percent of potato chips and 37 percent of chilled processed meat.

Packaging and paper subsidiary Holdains moved into the beverage sector by acquiring 50 percent of beverage can manufacturer Crown Cork SA, giving it a foothold in a fast-growing sector.

Malbak chairman Grant Thomas says Holdains now has a partner with world class can-making technology and which has just acquired the world's biggest producer of PET plastic bottles and has subsidiaries dominant in plastic closures.

Thomas says that Crown Cork SA's performance over the past few years has been less than satisfactory and that its immediate contribution to earnings will be modest.

But the entry into the fastest-growing sector of the packaging industry (beverages) has substantial long-term benefits.

After the acquisition of SA Druggists, Malbak's healthcare division became the largest pharmaceutical company in the Southern Hemisphere.

Close attention to cost control, productivity improvements and the implementation of streamlined distribution systems will enable SA Druggists to fulfil its potential as a significant contributor to group earnings.

Malbak's gearing improved from 35,3 percent to 29 percent, but its return on average ordinary shareholders' funds was down from 18,2 percent to 14,5 percent and the operating margin from 8,5 percent to 7,7 percent.

3/12/91

# Aid scheme recipients are named

(180) BDay 4/12/92

DUMA GQUBULE

SOME of the wealthiest companies in the country, many of them listed on the JSE, had received confidential "giveaway", non-repayable grants worth millions of rands. This was shown by an analysis of recipients of the Department of Trade and Industry's (DTI) Innovation Support for Electronics programme.

The DTI's recently released progress report on the ISE programme for the three years ended September included, for the first time, the names of those companies receiving support under the scheme.

According to the latest issue of Engineering News, Altron, as a group, appeared to be the biggest beneficiary with R10m worth of support.

Loss-making Anglovaal subsidiary Grinaker Electronics received R5m. Anglo American-controlled Control Logic, Sanlam-linked Plessey Tellumat and Tecnetics, also in the Anglovaal group, received more than R3m each.

Releasing the report, DTI director-general Stef Naudé said his department's ISE programme had approved grants worth R64,7m to support electronic companies over the past three years.

The DTI had decided to release the names and recipients of new grants on a six monthly basis to enhance awareness of the programme.

Engineering News said the DTI's decision to drop the secrecy from the "controversial" programme had set an important precedent for in the country's new quest for open government.

**SMALL BUSINESSES:** *Keep tabs on cash flow*

# Budgeting gives a firm direction

Star 5/12/92 (180)

**LEIGH HASSAL continues her series aimed at guiding new entrepreneurs through the hazards of going it alone in the world of commerce.**

IMPROVING sales and profit growth are the usual financial goals of the small-business entrepreneur, yet the lifeblood of the business, cash, often gets less attention than it deserves.

One of the common causes of small-business failures is the entrepreneur's lack of financial expertise.

A fundamental financial tool seldom used by the small business is budgeting and, in particular, cash-flow budgeting.

A budget is a financial plan for the business, detailing expected levels of income and expenditure. Budgets are usually prepared at monthly intervals and should, ideally, cover a period of three to five years.

## Yardstick

A major advantage of the budgeting process is that it forces the entrepreneur to spend some time on assessing what his financial goals are and, importantly, to plan how to get there.

Another common cause of business failure is lack of detailed planning. An advantage of the monthly budget is that it provides a yardstick whereby the entrepreneur can measure his performance. This comparison of actual to budgeted performance is an extremely useful control measure as it allows differences to be investigated and corrective action taken.

The budget could also act as a motivating tool for the entrepreneur. "Going it alone" in a small business can be a lonely venture and a monthly budgeted turnover could act as an incentive.

The extent of budgeting is determined by the size and complexity of the business. Larger companies might have a detailed budget for each major division as well as for different accounting areas such as raw materials and sales. However, the small business will suffice with a monthly income statement, cash flow budget and year-end balance sheet.

The current recession is causing many small business to experience cash flow shortages. A monthly cash budget should therefore be regarded as a necessity by the entrepreneur. This budget is different from an income statement in that it is based on the expected cash inflows and outflows on a monthly basis. It ignores non-cash expenses such as depreciation and caters for the fact that all debtors do not pay in 30 days.

The easiest way to prepare a cash-flow budget is to convert the monthly income statement budget into cash amounts which slot into the period in which they are to be paid or received.

The prime advantage of a cash-flow budget is that it provides advance warning of a cash-negative month and allows timeous action to be taken. The entrepreneur's banker is far more likely to grant temporary loan facilities on the basis of a timeous request, supported by a well-planned cash budget than on a last minute cry for help.

A cash-flow budget will also reduce the likelihood of the business exceeding its overdraft limit and possibly incurring a much higher interest rate than that charged for the overdraft limit.

The budget allows for efficient cash management. A month-end cash surplus can be put to work in a higher interest-earning account instead of sitting in a low-interest current account.

Harry Rubin, partner of Ernst & Young's Business Services Group, provides a number of pointers on the cash budget. "It is common-place for bankers to require a cash-flow statement and it is also common-place for the entrepreneur to submit an overly optimistic statement.

"A far better relationship with your banker will develop if your cash budget is realistic."

## Expenses

Rubin points out that many small-business entrepreneurs forget to budget for their individual provisional tax payments. This results in the business being hit with an abnormally large cash requirement two or even three times a year. Rubin suggests that a monthly amount be put aside for the tax charges.

"December and January should be regarded as 'expense months' for most businesses. Not only will year-end bonuses have to be paid out, but these months are traditionally quiet months," he adds.

Budgeting is a useful tool for the entrepreneur. However, it must be used on a regular basis and not filed away "for future reference".

# TOP 100 RANKED BY MARKET CAPITALISATION

As at November 23 1992
Banks excluded

180

S/Times (BUSS) 6/12/92

| No. | Share Name | (Rms) |
|---|---|---|
| 1 | DE BEERS | 20531 |
| 2 | ANGLOS | 19287 |
| 3 | RICHEMONT | 18844 |
| 4 | SA BREWS | 14671 |
| 5 | REMGRO | 13703 |
| 6 | GENCOR | 12729 |
| 7 | SASOL | 8265 |
| 8 | BARLOWS | 8210 |
| 9 | RUSPLAT | 7926 |
| 10 | JCI | 6983 |
| 11 | ENGEN | 6658 |
| 12 | REMB BEH | 6642 |
| 13 | TIGER OATS | 6507 |
| 14 | C G SMITH | 6023 |
| 15 | ANAMINT | 5700 |
| 16 | SAPPI | 5393 |
| 17 | SAFREN | 4818 |
| 18 | BEVCON | 4791 |
| 19 | GFSA | 4647 |
| 20 | ANGLOVAAL IND | 4538 |
| 21 | C G S FOOD | 4299 |
| 22 | SAMANCO | 4252 |
| 23 | NAMPAK | 3941 |
| 24 | MALBAK | 3895 |
| 25 | PREMIER GRP | 3468 |
| 26 | PIKNPAY | 3444 |
| 27 | AMGOLD | 3405 |
| 28 | AMIC | 3281 |
| 29 | SUN BOP | 3221 |
| 30 | M&R HOLD | 2967 |
| 31 | AFROX | 2816 |
| 32 | EDGARS | 2720 |
| 33 | KERSAF | 2545 |
| 34 | TRENCOR | 2412 |
| 35 | CONSOL | 2301 |
| 36 | IMPLATS | 2232 |
| 37 | PEPKOR | 2129 |
| 38 | AMCOAL | 2028 |
| 39 | MID WITS | 2010 |
| 40 | ABI | 1908 |
| 41 | GENBEL | 1902 |
| 42 | ADCOCK | 1862 |
| 43 | PALAMIN | 1784 |
| 44 | FOSCHINI | 1760 |
| 45 | CADSWEP | 1487 |
| 46 | PPC | 1483 |
| 47 | HLH | 1419 |
| 48 | FOODCRP | 1310 |
| 49 | ANGVAAL | 1296 |
| 50 | ALTRON | 1293 |
| 51 | ISCOR | 1290 |
| 52 | I & J | 1215 |
| 53 | ALTECH | 1208 |
| 54 | LANGBRG | 1168 |
| 55 | SUNCRUSH | 1160 |
| 56 | ASS MANG | 1153 |
| 57 | ARGUS | 1134 |
| 58 | TONGAAT | 1104 |
| 59 | RAINBOW | 1069 |
| 60 | MNET | 984 |
| 61 | DISTIL | 980 |
| 62 | NORTHAM | 950 |
| 63 | AECI | 928 |
| 64 | REUNERT | 920 |
| 65 | HOLDAINS | 917 |
| 66 | LEFIC | 901 |
| 67 | PREMPHA | 883 |
| 68 | SA DRUG | 864 |
| 69 | PP RUST | 842 |
| 70 | ROYFOOD | 809 |
| 71 | HIVELD | 773 |
| 72 | TOYOTA | 773 |
| 73 | AVHOLD | 755 |
| 74 | A ALPHA | 752 |
| 75 | CNA GALLO | 711 |
| 76 | WOOLTRU | 694 |
| 77 | PLATE GLASS | 659 |
| 78 | METCASH | 658 |
| 79 | LYD PLAT | 644 |
| 80 | SENTRACHEM | 618 |
| 81 | INTERLES | 598 |
| 82 | TRNS NTL | 598 |
| 83 | ROYAL | 583 |
| 84 | TRADEGRO | 577 |
| 85 | RANDCOL | 563 |
| 86 | CLICKS | 560 |
| 87 | POWTECH | 528 |
| 88 | CG SUGAR | 505 |
| 89 | ICS | 502 |
| 90 | RAND MINES | 477 |
| 91 | CARLCOR | 465 |
| 92 | TIMES MEDIA | 461 |
| 93 | DORBYL | 460 |
| 94 | HAGGIE | 457 |
| 95 | IMPHOLD | 441 |
| 96 | UTICO | 422 |
| 97 | WESCO | 403 |
| 98 | DELTA | 393 |
| 99 | PEP | 391 |
| 100 | ELLERINE | 380 |

The market capitalisation takes into account ordinary shares, preferred ordinary shares and 'S' shares.

# Plunge from the peak

S/Times (BUSS) 6/12/92

By CHERILYN IRETON

THE market values of South Africa's premier stocks, De Beers and Anglo American Corporation, have taken an agonising knock since last year's Top 100 survey.

De Beers has shed 40% of its value — or R14-billion — and Anglo's market worth has shrunk by almost a third.

This coincides with a 12% decline in the JSE's overall index and a 3% drop in the industrial index.

In spite of disenchantment with the two shares after turmoil in the diamond market, they still easily retain the honour of being the JSE's highest-valued companies.

But Anamint — which holds De Beers stock — lost eight places to 15th as its market capitalisation halved from R11,5-billion.

Richemont, which has a market capitaliation of almost R19-billion, retaines its No 3 ranking.

The combined worth of the Top Five is R81-billion. Last year the first handful boasted a joint market value of R109-billion.

The decline of the market in the past 12 months is further shown by the fact that only 59 companies have a market capitalisation of more than R1-billion. Last year 99 companies were in that bracket.

Companies moving up the ranks, merely through marginal increases in their share prices, include Engen and Barlow subsidiaries Tiger Oats, CG Smith, CG Smith Food and Nampak. Anglovaal Industries, Sappi and the Premier Group have also made healthy advances.

# TOP 100 RANKED BY MARKET CAPITALISATION

As at November 23 1992
Banks excluded

180

S/Times (Buss) 6/12/92

| No. | Share Name | (Rms) |
|---|---|---|
| 1 | DE BEERS | 20531 |
| 2 | ANGLOS | 19287 |
| 3 | RICHEMONT | 18844 |
| 4 | SA BREWS | 14671 |
| 5 | REMGRO | 13703 |
| 6 | GENCOR | 12729 |
| 7 | SASOL | 8265 |
| 8 | BARLOWS | 8210 |
| 9 | RUSPLAT | 7926 |
| 10 | JCI | 6983 |
| 11 | ENGEN | 6658 |
| 12 | REMB BEH | 6642 |
| 13 | TIGER OATS | 6507 |
| 14 | C G SMITH | 6023 |
| 15 | ANAMINT | 5700 |
| 16 | SAPPI | 5393 |
| 17 | SAFREN | 4818 |
| 18 | BEVCON | 4791 |
| 19 | GFSA | 4647 |
| 20 | ANGLOVAAL IND | 4538 |
| 21 | C G S FOOD | 4299 |
| 22 | SAMANCO | 4252 |
| 23 | NAMPAK | 3941 |
| 24 | MALBAK | 3895 |
| 25 | PREMIER GRP | 3468 |
| 26 | PIKNPAY | 3444 |
| 27 | AMGOLD | 3405 |
| 28 | AMIC | 3281 |
| 29 | SUN BOP | 3221 |
| 30 | M&R HOLD | 2967 |
| 31 | AFROX | 2816 |
| 32 | EDGARS | 2720 |
| 33 | KERSAF | 2545 |
| 34 | TRENCOR | 2412 |
| 35 | CONSOL | 2301 |
| 36 | IMPLATS | 2232 |
| 37 | PEPKOR | 2129 |
| 38 | AMCOAL | 2028 |
| 39 | MID WITS | 2010 |
| 40 | ABI | 1908 |
| 41 | GENBEL | 1902 |
| 42 | ADCOCK | 1862 |
| 43 | PALAMIN | 1784 |
| 44 | FOSCHINI | 1760 |
| 45 | CADSWEP | 1487 |
| 46 | PPC | 1483 |
| 47 | HLH | 1419 |
| 48 | FOODCRP | 1310 |
| 49 | ANGVAAL | 1296 |
| 50 | ALTRON | 1293 |
| 51 | ISCOR | 1290 |
| 52 | I & J | 1215 |
| 53 | ALTECH | 1208 |
| 54 | LANGBRG | 1168 |
| 55 | SUNCRUSH | 1160 |
| 56 | ASS MANG | 1153 |
| 57 | ARGUS | 1134 |
| 58 | TONGAAT | 1104 |
| 59 | RAINBOW | 1069 |
| 60 | MNET | 984 |
| 61 | DISTIL | 980 |
| 62 | NORTHAM | 950 |
| 63 | AECI | 928 |
| 64 | REUNERT | 920 |
| 65 | HOLDAINS | 917 |
| 66 | LEFIC | 901 |
| 67 | PREMPHA | 883 |
| 68 | SA DRUG | 864 |
| 69 | PP RUST | 842 |
| 70 | ROYFOOD | 809 |
| 71 | HIVELD | 773 |
| 72 | TOYOTA | 773 |
| 73 | AVHOLD | 755 |
| 74 | A ALPHA | 752 |
| 75 | CNA GALLO | 711 |
| 76 | WOOLTRU | 694 |
| 77 | PLATE GLASS | 659 |
| 78 | METCASH | 658 |
| 79 | LYD PLAT | 644 |
| 80 | SENTRACHEM | 618 |
| 81 | INTERLES | 598 |
| 82 | TRNS NTL | 598 |
| 83 | ROYAL | 583 |
| 84 | TRADEGRO | 577 |
| 85 | RANDCOL | 563 |
| 86 | CLICKS | 560 |
| 87 | POWTECH | 528 |
| 88 | CG SUGAR | 505 |
| 89 | ICS | 502 |
| 90 | RAND MINES | 477 |
| 91 | CARLCOR | 465 |
| 92 | TIMES MEDIA | 461 |
| 93 | DORBYL | 460 |
| 94 | HAGGIE | 457 |
| 95 | IMPHOLD | 441 |
| 96 | UTICO | 422 |
| 97 | WESCO | 403 |
| 98 | DELTA | 393 |
| 99 | PEP | 391 |
| 100 | ELLERINE | 380 |

The market capitalisation takes into account ordinary shares, preferred ordinary shares and 'S' shares.

# Plunge from the peak

S/Times (Buss) 6/12/92

By CHERILYN IRETON

THE market values of South Africa's premier stocks, De Beers and Anglo American Corporation, have taken an agonising knock since last year's Top 100 survey.

De Beers has shed 40% of its value — or R14-billion — and Anglo's market worth has shrunk by almost a third.

This coincides with a 12% decline in the JSE's overall index and a 3% drop in the industrial index.

In spite of disenchantment with the two shares after turmoil in the diamond market, they still easily retain the honour of being the JSE's highest-valued companies.

But Anamint — which holds De Beers stock — lost eight places to 15th as its market capitalisation halved from R11,5-billion.

Richemont, which has a market capitaliation of almost R19-billion, retaines its No 3 ranking.

The combined worth of the Top Five is R81-billion. Last year the first handful boasted a joint market value of R109-billion.

The decline of the market in the past 12 months is further shown by the fact that only 59 companies have a market capitalisation of more than R1-billion. Last year 99 companies were in that bracket.

Companies moving up the ranks, merely through marginal increases in their share prices, include Engen and Barlow subsidiaries Tiger Oats, CG Smith, CG Smith Food and Nampak. Anglovaal Industries, Sappi and the Premier Group have also made healthy advances.

# Margins squeezed until they squeak

ST Times (BUSS) 6/12/92 (180)

By CHERILYN IRETON

OPERATING margins of industrial and mining companies have been under pressure in the past 12 months, as suggested by the rankings below. Although nothing to sneeze at, Rhovan's margin of 53% on sales compares with last year's top return of 71% achieved by Technology Systems International. TSI does not even feature on this year's honours list.

De Beers, which is ranked second on return on sales by Fortune magazine with a return of 24,6%, is 35th in the Business Times list. The difference is caused by I-Net's calculating De Beers' returns by using pro-forma combined results attributable to De Beers-Centenary AG linked units. Sasol, which Fortune says has the 21st-highest margins among its ~~top 500~~, is 16th in SA.

Casinos feature strongly ~~in this~~ category: Transun, Sun Ciskei, Sun Bop and Kersaf are all in the top 20.

The table suggests that margins on metal sales are much healthier than is widely believed. Rhovan, Palamin, Ass Mang, Rusplat and Implats all boast returns higher than 20%. The average return posted by Fortune's global 500 is only 2,5%.

## TOP 100 RANKED BY RETURN ON SALES

Operating profit divided by turnover excluding turnover of associated companies

Yearend cut-off date: November 92.

| No. | Share Name | Financial yearend | |
|---|---|---|---|
| 1 | RHOVAN | Sep 91 | 53,0% |
| 2 | PALAMIN | Dec 91 | 41,2% |
| 3 | W B HOLD | Dec 91 | 38,6% |
| 4 | ASS MANG | Dec 91 | 35,2% |
| 5 | SPUR | Feb 92 | 33,2% |
| 6 | SPURHLD | Feb 92 | 32,2% |
| 7 | TRANSUN | Jun 92 | 31,7% |
| 8 | AUTOPAGE | Feb 92 | 27,8% |
| 9 | SUNCISK | Jun 92 | 27,3% |
| 10 | MARSHAL | Dec 91 | 26,7% |
| 11 | SUN BOP | Jun 92 | 26,6% |
| 12 | PREMPHA | Apr 92 | 24,2% |
| 13 | SCHARRIG | Dec 91 | 23,5% |
| 14 | RUSPLAT | Jun 92 | 22,9% |
| 15 | SASOL | Jun 92 | 22,6% |
| 16 | BOWCALF | Dec 91 | 22,2% |
| 17 | AMCOAL | Mar 92 | 22,0% |
| 18 | KERSAF | Jun 92 | 22,0% |
| 19 | PPC | Sep 92P | 21,8% |
| 20 | TRENCOR | Jun 92 | 21,2% |
| 21 | BUFFCOR | Jun 92P | 20,7% |
| 22 | IMPLATS | Jun 92P | 20,6% |
| 23 | SONDOR | Mar 92 | 20,3% |
| 24 | PROFURN | Dec 91 | 20,3% |
| 25 | TELJOY | Mar 92 | 20,0% |
| 26 | RUHOLD | Feb 92 | 19,9% |
| 27 | AFROX | Sep 92P | 19,5% |
| 28 | RAND MINES | Sep 91 | 19,2% |
| 29 | ENROL | Oct 91 | 19,1% |
| 30 | A ALPHA | Dec 91 | 18,6% |
| 31 | TECHIRE | Dec 91 | 18,3% |
| 32 | FOSCHINI | Mar 92 | 18,2% |
| 33 | HLH | Mar 92 | 17,6% |
| 34 | ROYFOOD | Aug 92P | 17,3% |
| 35 | *DE BEERS | Dec 91P | 17,3% |
| 36 | SMART | Feb 92 | 17,2% |
| 37 | NATRAWL | Dec 91 | 16,8% |
| 38 | TIMES MEDIA | Mar 92 | 16,7% |
| 39 | ELLERINE | Aug 92 | 16,6% |
| 40 | DISPTCH | Jun 92 | 16,6% |
| 41 | INTERLES | Jun 92 | 16,4% |
| 42 | SAMANCO | Jun 92 | 16,2% |
| 43 | UNITRAN | Jun 92P | 16,2% |
| 44 | SAFREN | Jun 92 | 16,1% |
| 45 | SUNCRUSH | Jun 92 | 15,9% |
| 46 | CROOKES | Mar 92 | 15,7% |
| 47 | MASNITE | Dec 91 | 15,5% |
| 48 | ADCOCK | Sep 92P | 15,4% |
| 49 | SHOCRAF | Feb 92 | 15,4% |
| 49 | ABERDARE | Dec 91 | 15,4% |
| 50 | NAMIBIAN FISH | Dec 91 | 15,1% |
| 51 | BTR DUNLOP | Dec 91 | 15,1% |
| 52 | OZZ | Mar 92 | 14,9% |
| 53 | ACREM | Mar 92 | 14,6% |
| 54 | ROYAL | Aug 92P | 14,6% |
| 55 | DA GAMA | Mar 92 | 14,4% |
| 56 | PRESMED | Feb 92 | 14,3% |
| 57 | SUPREME IND HOLD | Dec 91 | 14,2% |
| 58 | SAPPI | Feb 92 | 14,1% |
| 59 | CUTRITE | Feb 92 | 14,1% |
| 60 | UNISPIN | Sep 91 | 14,0% |
| 61 | MULTISOURCE | Feb 92 | 14,0% |
| 62 | LANGBRG | Sep 92P | 13,9% |
| 63 | CONSOL | Jun 92 | 13,9% |
| 64 | HUDACO | Nov 91 | 13,8% |
| 65 | OMNIA | Dec 91 | 13,8% |
| 66 | RANDCOL | Sep 92P | 13,7% |
| 67 | EDGARS | Mar 92 | 13,6% |
| 68 | KUDU | Jun 92P | 13,5% |
| 69 | TOCO | Mar 92 | 13,4% |
| 70 | WALTONS | Feb 92 | 13,3% |
| 71 | AFCOM | Jun 92 | 13,0% |
| 72 | Q DATA | Jun 92 | 13,0% |
| 73 | LENCO | Feb 92 | 12,8% |
| 74 | ABS | Sep 92P | 12,9% |
| 75 | HORTORS | Mar 92 | 12,7% |
| 76 | EDDIES | Feb 92 | 12,6% |
| 77 | CHEMSERVE | Dec 91 | 12,5% |
| 78 | C G SUGAR | Sep 92P | 12,5% |
| 79 | CARLCOR | Aug 92P | 12,3% |
| 80 | FENNER | Aug 92P | 12,3% |
| 81 | GF COAL | Dec 91 | 12,1% |
| 82 | AMSHOE | Feb 92 | 12,0% |
| 83 | LION MATCH | Mar 92 | 11,9% |
| 84 | CTP | Mar 92 | 11,9% |
| 85 | SPL | Feb 92 | 11,8% |
| 86 | ABI | Mar 92 | 11,7% |
| 87 | PLATE GLASS | Mar 92 | 11,7% |
| 88 | BEARMAN | Jun 92 | 11,7% |
| 89 | AF CABLE | Sep 92P | 11,5% |
| 90 | WOODROW | Feb 92P | 11,5% |
| 91 | LEBAKA | Mar 92P | 11,5% |
| 92 | MEDHOLD | June 92 | 11,4% |
| 93 | ALTECH | Feb 92 | 11,4% |
| 94 | NAMPAK | Sep 92P | 11,4% |
| 95 | COATES | Dec 91 | 11,2% |
| 96 | OTIS | Nov 91 | 11,2% |
| 97 | DATAKOR | Mar 92 | 11,2% |
| 98 | SPECLTY | Feb 92 | 11,2% |
| 99 | OHIO | Feb 92 | 11,1% |
| 100 | M-NET | Mar 92 | 10,9% |

*Based on pro-forma combined results attributable to De Beers/Centenary AG linked units.

The table does not include non-operating pyramid companies, gold mining companies, insurance companies, property companies and banks.

Where the company year-end is indicated with a "P", the results are based on the latest preliminary results.

Source: I-NET.

# TOP 100 RANKED BY RETURN ON CAPITAL

Pre-interest profit expressed as a percentage of average capital employed, including revaluations and excluding intangibles

S Times (BUSS) 6/12/92.

Yearend cut-off date: November 92.

| No. | Share Name | Financial yearend | |
|---|---|---|---|
| 1 | SPUR | Feb 92 | 264,6% |
| 2 | RAPTOR | Oct 91 | 93,7% |
| 3 | EDDIES | Feb 92 | 90,4% |
| 4 | REUNERT | Sep 92P | 79,6% |
| 5 | ADCOCK | Sep 92P | 72,4% |
| 6 | PALAMIN | Dec 91 | 70,5% |
| 7 | PRESMED | Feb 92 | 68,9% |
| 8 | AUTOPAGE | Feb 92 | 56,9% |
| 9 | Q DATA | Jun 92 | 55,4% |
| 10 | IMPLATS | Jun 92 | 51,7% |
| 11 | SUNCISK | Jun 92 | 51,5% |
| 12 | SHOPRIT | Feb 92P | 49,6% |
| 13 | WOODROW | Feb 92P | 47,5% |
| 14 | MCPHAIL | Dec 91 | 47,2% |
| 15 | OVCON | Mar 92 | 44,5% |
| 16 | CONSOL | Jun 92 | 43,4% |
| 17 | ASS MANG | Dec 91 | 41,7% |
| 18 | C G SMITH | Sep 92P | 41,5% |
| 19 | EQUIKOR | Dec 91 | 41,4% |
| 20 | C G S FOOD | Sep 92 | 41,4% |
| 21 | MAST | Feb 92P | 39,8% |
| 22 | OTIS | Nov 91 | 39,6% |
| 23 | TIMES MEDIA | Mar 92 | 39,6% |
| 24 | DIMENSION DATA | Dec 91 | 39,4% |
| 25 | ABS | Sep 92P | 38,8% |
| 26 | DELTA | Dec 91 | 38,5% |
| 27 | PUBHOLD | Feb 92 | 38,4% |
| 28 | BOWCALF | Dec 91 | 38,0% |
| 29 | TOCO | Mar 92 | 37,3% |
| 30 | BIDCORP | Jun 92P | 36,9% |
| 31 | CLINICS | Sep 91 | 36,7% |
| 32 | SAFCOR | Jun 92 | 35,8% |
| 33 | SONDOR | Mar 92 | 35,2% |
| 34 | TRENCOR | Jun 92 | 34,5% |
| 35 | INTERLES | Jun 92 | 34,4% |
| 36 | TRANSUN | Jun 92 | 34,1% |
| 37 | FINTECH | Feb 92 | 33,7% |
| 38 | PROFURN | Dec 91 | 32,6% |
| 39 | AFCOM | Jun 92 | 31,8% |
| 40 | BLOCHS | Jun 92 | 31,4% |
| 41 | BERTRAD | Dec 91 | 31,3% |
| 42 | PEP | Feb 92 | 30,9% |
| 43 | LENCO | Feb 92 | 30,7% |
| 44 | RAND MINES | Sep 91 | 30,4% |
| 45 | EDGARS | Mar 92 | 30,2% |
| 46 | GRINCOR | Dec 91 | 30,2% |
| 47 | SPL | Feb 92 | 30,0% |
| 48 | MACMED | Dec 91 | 29,9% |
| 49 | CNA GALLO | Mar 92 | 29,4% |
| 50 | HUDACO | Nov 91 | 29,4% |
| 51 | CHEMSERVE | Dec 91 | 29,2% |
| 52 | PEPKOR | Feb 92 | 29,1% |
| 53 | OMNIA | Dec 91 | 28,8% |
| 54 | DATAKOR | Mar 92 | 28,6% |
| 55 | IMPERIAL | Jun 91 | 28,2% |
| 56 | TELJOY | Mar 92 | 28,1% |
| 57 | AMSHOE | Feb 92 | 28,1% |
| 58 | LOGTEK | Apr 92 | 27,6% |
| 59 | CADSWEP | Dec 91 | 27,6% |
| 60 | SUNCRUSH | Jun 92 | 27,4% |
| 61 | SHOCRAF | Feb 92 | 27,2% |
| 62 | ARGUS | Mar 92 | 26,9% |
| 63 | TRNS HEX | Mar 92 | 26,8% |
| 64 | SAFREN | Jun 92 | 26,5% |
| 65 | PIKNPAY | Feb 92 | 26,3% |
| 66 | SA BIAS IND | Dec 91 | 26,0% |
| 67 | SUN BOP | Jun 92 | 25,9% |
| 68 | MEDHOLD | Jun 92 | 25,8% |
| 69 | UTICO | Dec 91 | 25,7% |
| 70 | SILTEK | Jun 92P | 25,6% |
| 71 | ALTRON | Feb 92 | 25,2% |
| 72 | FOSCHINI | Mar 92 | 25,1% |
| 73 | LEBAKA | Mar 92P | 25,0% |
| 74 | PREMPHA | Apr 92 | 24,8% |
| 75 | AIDA | Feb 92 | 24,7% |
| 76 | ED L BATE | Jun 92 | 24,6% |
| 77 | AMCOAL | Mar 92 | 24,4% |
| 78 | CUTRITE | Feb 92 | 24,3% |
| 79 | M&R HOLD | Jun 92 | 24,0% |
| 80 | TRNS NTL | Jun 92 | 23,9% |
| 81 | ABI | Mar 92 | 23,7% |
| 82 | W & A | Dec 91 | 23,7% |
| 83 | ALTECH | Feb 92 | 23,5% |
| 84 | WALTONS | Feb 92 | 23,5% |
| 85 | UNITRAN | Jun 92 | 23,5% |
| 86 | GENTYRE A | Dec 91 | 23,3% |
| 87 | KEELEY | Feb 92 | 23,2% |
| 88 | I & J | Jun 92 | 23,1% |
| 89 | MINVEST | Jun 92 | 23,1% |
| 90 | SUPALEK | Apr 92 | 23,0% |
| 91 | KERSAF | Jun 92 | 23,0% |
| 92 | METCASH | Apr 92 | 22,9% |
| 93 | CTP | Mar 92 | 22,8% |
| 94 | AUTODEK | Mar 91 | 22,7% |
| 95 | LTA | Mar 92 | 22,7% |
| 96 | LITHO | Feb 92 | 22,6% |
| 97 | SA BREWS | Mar 92 | 22,6% |
| 98 | KLIPTON | Jun 92 | 22,6% |
| 99 | BTR DUNLOP | Dec 91 | 22,5% |
| 100 | RUSPLAT | Jun 92 | 22,6% |

The table does not include non-operating pyramid companies, gold mining companies, insurance companies and banks.

Where the company yearend is indicated with a "P", the results are based on the latest preliminary results.

Source: I-NET.

180

# Money that works

St Times (Buss) 6/12/92 (180)

**By CHERILYN IRETON**

FRANCHISING groups still dominate the list that shows how well companies are using the funds employed in their businesses.

Spur is first for the second successive year. Spares group Eddies has moved from ninth to third.

The Development Capital Market's Raptor is runner-up to Spur following the change in control last year. The business is now a motor garage and has a Toyota franchise.

Trencor, the Business Times Top Company, boasts a return on capital employed of 34,5%.

## TOP 100 RANKED BY INCREASE IN TAXED PROFIT

Year-on-year percentage change in published equity accounted earnings per share

Yearend cut-off date: November 92.

| No | Share Name | Financial yearend | |
|---|---|---|---|
| 1 | CONTROL INSTR | Jun 92P | 5660,0% |
| 2 | CONS MRCH | Jun 92P | 1932,2% |
| 3 | INVICTA | Dec 91 | 566,1% |
| 4 | PUTCO | Jun 92 | 505,6% |
| 5 | KUDU | Jun 92P | 470,2% |
| 6 | AIDA | Feb 92 | 467,0% |
| 7 | BOUMAT | Mar 92 | 412,0% |
| 8 | LITHO | Feb 92 | 330,9% |
| 9 | ICH | Jun 92 | 285,6% |
| 10 | SPESCOM | Apr 92P | 250,4% |
| 11 | OHIO | Feb 92 | 238,6% |
| 12 | SHOCRAF | Feb 92 | 211,2% |
| 13 | NATRAWL | Dec 91 | 210,0% |
| 14 | AIMARK | Dec 91 | 203,2% |
| 15 | MACADAM | Feb 92 | 177,1% |
| 16 | RABIE | Jun 92P | 173,3% |
| 17 | METCASH | Apr 92 | 170,8% |
| 18 | METJE & Z | Jun 92 | 169,8% |
| 19 | MOLYSLIP | Feb 92 | 166,9% |
| 20 | ALEXWYT | Jun 92 | 155,0% |
| 21 | GUBB & INGGS | Jun 92P | 150,9% |
| 22 | PUTPROP | Jun 92 | 150,7% |
| 23 | CLEGG | Jun 92 | 148,0% |
| 24 | EVERITE | Jun 92P | 140,3% |
| 25 | ROYFOOD | Aug 92P | 137,7% |
| 26 | BRENMIL | Feb 92 | 126,7% |
| 27 | CMI | Jun 92 | 116,9% |
| 28 | TGH | Dec 91 | 113,3% |
| 29 | MACMED | Dec 91 | 112,3% |
| 30 | USKO | Sep 92P | 111,4% |
| 31 | SAFETEC | Jun 92P | 110,9% |
| 32 | MAXMECH | Feb 92P | 107,0% |
| 33 | NEW CENT | Mar 92 | 102,0% |
| 34 | UNIDEV | Dec 91 | 101,1% |
| 35 | RENTM BELEG | Jun 92P | 98,9% |
| 36 | CHOICE | Feb 92 | 98,2% |
| 37 | ROYAL | Aug 92P | 97,4% |
| 38 | TIWHEEL | Jun 92P | 92,4% |
| 39 | MIDAS | Feb 92 | 88,0% |
| 40 | FREDDEV | Jun 92P | 84,5% |
| 41 | HORTORS | Mar 92 | 83,5% |
| 42 | FIDBANK | Sep 92 | 82,1% |
| 43 | FORIM | Feb 92 | 81,6% |
| 44 | T & N | Dec 91 | 80,9% |
| 45 | RUHOLD | Feb 92 | 78,9% |
| 46 | SILOAK | Jun 92P | 78,4% |
| 47 | SPL | Feb 92 | 73,9% |
| 48 | SHORDIT | Dec 91 | 71,2% |
| 49 | METAIR | Dec 91 | 65,3% |
| 50 | FINTECH | Feb 92 | 63,1% |
| 51 | CTP | Mar 92 | 61,5% |
| 52 | OVCON | Mar 92 | 59,7% |
| 53 | ABSA | Mar 92 | 58,1% |
| 54 | SHOPRIT | Feb 92P | 56,7% |
| 55 | TIMES MEDIA | Mar 92 | 55,4% |
| 56 | CONS FRAME | Jun 92P | 54,8% |
| 57 | MASNITE | Dec 91 | 54,4% |
| 58 | M&R HOLD | Jun 92 | 52,6% |
| 59 | LONGRAIL | Feb 92 | 52,1% |
| 60 | PRESMED | Feb 92 | 51,5% |
| 61 | SANLIC | Jun 92P | 51,0% |
| 62 | REUNERT | Sep 92P | 51,0% |
| 63 | PREMPHA | Apr 92 | 50,4% |
| 64 | INVESTEC BANK | Mar 92 | 50,2% |
| 65 | BIDCORP | Jun 92P | 49,6% |
| 66 | ROOIBRG | Dec 91 | 48,7% |
| 67 | ROYCHEM | Aug 92P | 46,3% |
| 68 | ROMATEX | Sep 92P | 45,3% |
| 69 | AF CABLE | Sep 92P | 44,3% |
| 70 | ARIES | Dec 91 | 43,2% |
| 71 | AMGOLD | Mar 92 | 43,2% |
| 72 | BERZAK | Jun 92 | 49,9% |
| 73 | SPUR | Feb 92 | 40,9% |
| 74 | SBIC | Dec 91 | 40,8% |
| 75 | LANGEBERG | Sep 92P | 40,5% |
| 76 | TOMKOR | Feb 92 | 40,0% |
| 77 | MALBAK | Aug 92P | 39,9% |
| 78 | OCFISH | Sep 92P | 37,3% |
| 79 | CONGELLA FED | Dec 91 | 37,0% |
| 80 | TOCO | Mar 92 | 36,1% |
| 81 | HOLDAINS | Aug 92P | 34,6% |
| 82 | TWEEFNT | Sep 92P | 33,3% |
| 83 | LTA | Mar 92 | 33,3% |
| 84 | PANPROP | Jun 92P | 33,0% |
| 85 | MICOR | Jun 92 | 32,1% |
| 86 | BRIST IN | Feb 92 | 32,1% |
| 87 | CADSWEP | Dec 91 | 32,0% |
| 88 | SHIELD | Feb 92P | 30,0% |
| 89 | DATAKOR | Mar 92 | 29,8% |
| 90 | Q DATA | Jun 92 | 29,2% |
| 91 | MULTISOURCE | Feb 92 | 28,6% |
| 92 | SILTEK | Jun 92P | 28,5% |
| 93 | MARSHAL | Dec 91 | 28,3% |
| 94 | GF PROP | Dec 91 | 28,3% |
| 95 | AFCOM | Jun 92 | 28,1% |
| 96 | W B HOLD | Dec 91 | 28,0% |
| 97 | SECHOLD | Jun 92 | 27,5% |
| 98 | PEPKOR | Feb 92 | 27,4% |
| 99 | UTICO | Dec 91 | 26,7% |
| 100 | DIMENSION DATA | Dec 91 | 25,7% |

*The table does not include non-operating pyramids, gold-mining and insurance companies.*

*Where the company yearend is indicated with a "P", the results are based on the latest preliminary results.*

Source: I-NET.

# HARD TO BELIEVE

**By CHERILYN IRETON**

THE phenomenal increase in earnings shown by some of the companies in this table can be attributed in part to special and recovery situations.

managed to more than double their

tween 27% and 40%.

Although Control Instrument's 5660% increase in profits seems unbelievable, it does not come close to the Fortune 500's

# White collars with a black record

S/Times (BUSS) 6/12/92 180 S/Times (BUSS)


By CHERILYN IRETON

WHITE-COLLAR crime has become corporate South Africa's nightmare.

Fraud, embezzlement and bribery by trusted staff members have bruised almost every company — although many executives choose not to report the incidents to the police.

The potential loss from cases under police investigation on the Witwatersrand exceeds R3,4-billion, says Commercial Crime Unit commander Colonel Louis Esterhuizen.

That figure excludes petty and syndicate fraud.

The police say they hear about only a fraction of crimes committed by white-collar workers.

Not only have the cases they hear about increased, but they are becoming more complicated as a result of misuse of computers, facsimile machines and the availability of regular air flights, says Colonel Esterhuizen.

## ETHIC

There are .nany reasons why companies do not report fraud. Loyalty to long-standing staff members, fear of public exposure and plain indifference by business leaders squash most cases.

David Lapin, founder of the Institute of Business Ethics, says the crisis companies are facing is merely a microcosm of what the country is going through.

"The root of the problem is the lack of a national ethic.

"We used to have an autocratic ethic — and while I am not suggesting it was the right one — there was a clear understanding of what was right and what was wrong in terms of that ethic. Since the start of social and political changes, people are struggling to find out what the country believes in."

The moral vacuum that has resulted from the move from autocracy to democracy needs to be viewed from all levels.

"But it won't help for companies — or the country for that matter — to sit down and write a mission statement. This will have no impact because there is no sense of commitment. Any acceptable ethic needs commitment from the workforce and citizens."

In the work environment the values problem will not be sorted out only by imposing additional security and systems. Instead, business leaders should direct their efforts to bridging the sense of alienation experienced by employees to their companies.

"In most cases, the perpetrator does not associate the company with the victim because the company has become a dehumanised concept. This removes the feeling of ugliness from his crime."

Business has bred the ethical dilemma by rewarding bottom-line performance without showing adequate recognition for the value of integrity.

"It is difficult to reward someone for not stealing. But I believe that promotion must be character based as well as performance based."

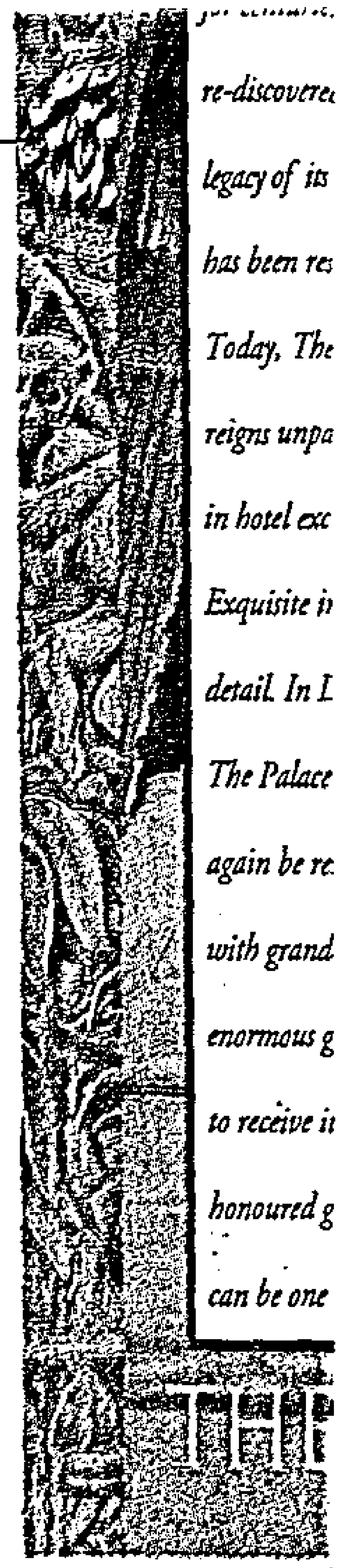
Colonel Esterhuizen says fraud is probably the easiest crime in which to avoid prosecution.

Trencor subsidiary Henred-Fruehauf designs and builds a range of truck trailers and road tankers, like this 40 000-litre stainless steel fuel tank.

# PREVIOUS WINNERS

1991 ........ (180) ........ Trencor
1990 ........ W & A Investment Corp
1989 ........ W & A Investment Corp
1988 ........ National Bolt
1987 ........ Waltons
1986 ........ Waltons
1985 ........ Metair Investments
1984 ........ Metair Investments
1983 ........ Toyota SA
1982 ........ Toyota SA
1981 ........ Toyota SA
1980 ........ Goldfields of SA
1979 ........ Metro Cash & Carry Holdings
1978 ........ Otis Elevator Company
1977 ........ Metro Cash & Carry Holdings
1976 ........ Metro Cash & Carry Holdings

S/Times (BUSS) 6/12/92



*re-discovere*
*legacy of its*
*has been re*
*Today, The*
*reigns unpa*
*in hotel exc*
*Exquisite i*
*detail. In I*
*The Palace*
*again be re*
*with grand*
*enormous g*
*to receive i*
*honoured g*
*can be one*

STimes (BUSS) 6/12/92. (180)

Capital gain plus dividends reinvested into shares over five years as a simple return on original investment.

| Company | Average annual return (%) |
|---|---|
| 1 Trencor | 246,26 |
| 2 Investec Holdings | 172,32 |
| 3 Pepgro | 129,15 |
| 4 Consol | 125,83 |
| 5 Cadbury Schweppes (SA) | 123,51 |
| 6 Suncrush | 120,68 |
| 7 Rembrandt Group | 102,93 |
| 8 Mutual and Federal Insurance Company | 100,08 |
| 9 Imperial Group | 98,82 |
| 10 Sun International (Bophuthatswana) | 92,63 |
| 11 Liberty Holdings | 92,01 |
| 12 Safrican Life Investment Holdings | 90,88 |
| 13 Argus Holdings | 89,11 |
| 14 South African Eagle Insurance Company | 85,41 |
| 15 Adcock-Ingram | 84,67 |
| 16 Santam | 81,59 |
| 17 Utico Holdings | 76,89 |
| 18 African Oxygen | 74,52 |
| 19 Perskor Groep | 73,85 |
| 20 Royal Corporation | 72,92 |
| 21 Engen | 72,38 |
| 22 Metropolitan Life | 70,66 |
| 23 NBS Holdings | 67,81 |
| 24 Spur Steak Ranches | 67,47 |
| 25 Times Media | 66,87 |
| 26 Foschini | 66,86 |
| 27 CNA Gallo | 66,32 |
| 28 South African Freight Corporation | 65,28 |
| 29 W B Holdings | 64,81 |
| 30 Autopage Holdings | 62,88 |
| 31 Murray & Roberts Holdings | 61,92 |
| 32 Tiger Oats | 59,25 |
| 33 Delta Electrical Industries | 56,75 |
| 34 Omnia Holdings | 55,82 |
| 35 Samancor | 54,37 |
| 36 Anglovaal Industries | 53,40 |
| 37 Safmarine & Rennies Holdings | 52,73 |
| 38 Palabora Mining Company | 51,76 |
| 39 Nampak | 51,51 |
| 40 Standard Bank Investment Corporation | 51,32 |
| 41 Premier Group | 50,76 |
| 42 Southern Life Association | 48,91 |
| 43 C G Smith Foods | 45,26 |
| 44 Ellerine Holdings | 45,05 |
| 45 First National Bank Holdings | 44,73 |
| 46 Unitrans | 43,21 |
| 47 Randcoal | 43,00 |
| 48 Wooltru | 40,33 |
| 49 C G Smith | 40,10 |
| 50 Pretoria Portland Cement Company | 38,81 |
| 41 Clicks Stores | 37,86 |
| 52 Irvin & Johnson | 36,74 |
| 53 Anglo American Coal Corporation | 36,73 |
| 54 Trans Hex Group | 36,09 |
| 55 Blue Circle | 35,59 |
| 56 Edgars Stores | 35,44 |
| 57 Holdains | 33,16 |
| 58 Nedcor | 31,59 |
| 59 Amalgamated Banks of South Africa | 31,05 |
| 60 Foodcorp | 29,87 |
| 61 Edward L Bateman | 29,16 |
| 62 SA Breweries | 28,47 |
| 63 Aberdare Cables Africa | 26,34 |
| 64 Pick 'n Pay Stores | 26,15 |
| 65 Hunt Leuchars & Hepburn Holdings | 25,96 |
| 66 Anglo Alpha | 25,91 |
| 67 McCarthy Group | 25,29 |
| 68 Hudaco Industries | 24,65 |
| 69 Associated Ore & Metal Corporation | 23,78 |
| 70 Barlow Rand | 23,40 |
| 71 Gold Fields Coal | 23,03 |
| 72 Lonco Holdings | 22,97 |
| 73 Hosken Consolidated Investments | 22,79 |
| 74 Gentyre Industries | 21,84 |
| 75 Boland Bank | 20,23 |
| 76 Anglovaal Holdings | 20,05 |
| 77 Grindrod Unicorn Group | 19,77 |
| 78 Gencor | 18,48 |
| 79 Storeco | 18,04 |
| 80 Dimension Data Holdings | 17,49 |
| 81 Currie Finance Corporation | 17,31 |
| 82 BTR Dunlop | 16,12 |
| 83 Rustenburg Platinum Holdings | 16,09 |
| 84 Trans Natal Coal Corporation | 16,07 |
| 85 Highveld Steel & Vanadium Corporation | 15,90 |
| 86 Kersaf Investments | 15,80 |
| 87 Toyota South Africa | 15,27 |
| 88 Sechold | 14,58 |
| 89 Sappi | 13,51 |
| 90 Oceana Fishing Group | 13,44 |
| 91 Consolidated Metallurgical Industries | 12,39 |
| 92 Group Five | 11,61 |
| 93 Wesco Investments | 11,57 |
| 94 Sasol | 10,95 |
| 95 LTA | 10,78 |
| 96 IGI Insurance Company | 9,91 |
| 97 Metkor Group | 9,63 |
| 98 Middle Witwatersrand (Western Areas) | 9,16 |
| 99 Malbak | 8,80 |
| 100 Dorbyl | 8,59 |

# STAYING POWER TAKES TRENCOR TO THE TOP AGAIN!

(180) STimes 6/12/92

**By KEVIN DAVIE**

IT'S two in a row for Trencor. The Cape-based trucking and manufacturing group has scooped South Africa's premier business award, the Business Times Top 100, for the second year running.

Trencor has created the most wealth for its shareholders — a simple average annual return of 246,26% — in the past five years. An investment of R10 000 in 1987 has ballooned to R133 132.

Trencor is a company with staying power. It has been one of SA's top five companies for the past five years.

Executive chairman Neil Jowell says he is "absolutely delighted" by his company's star-studded performance in the Top 100.

Mr Jowell says Trencor's secret is that its decentralised structure puts decision-making in the hands of the people best able to make good decisions: "That's how Trencor does it."

He says award-winning does not feature in Trencor's game plan: "Our objective is to run our business very well. The award is tangible recognition of the efforts of our people."

Although listed in the transport sector on the JSE, transport makes a relatively modest contribution to Trencor's earnings.

Its core business is now in exports, which along with foreign operations contribute more than 50% of net income. Domestic operations include the manufacture and supply of trailers, tankers, tyres and containers.

Runner-up in the Top 100 this year is aggressive banking and financial services group Investec. Its shareholders's wealth has grown by 172% a year in the past five years.

In third spot is retailer Pepgro, with a 129%-a-year increase in shareholder's wealth since 1987.

Other Top 10 performers in the Top 100 include packaging manufacturer and marketer Consol (125%), food and confection supplier Cadbury Schweppes (123%), soft-drink supremo Suncrush (120%), diversified giant Rembrandt (102,93%) and short-term insurer Mutual & Federal (100%).

Two novices make their Top 100 debut and win spots in the Top 10. Investec and vehicle king Imperial, which comes in at No 10.

Also featured in this year's Top 100 are five Royals — companies which have made the top 20 in the past three years.

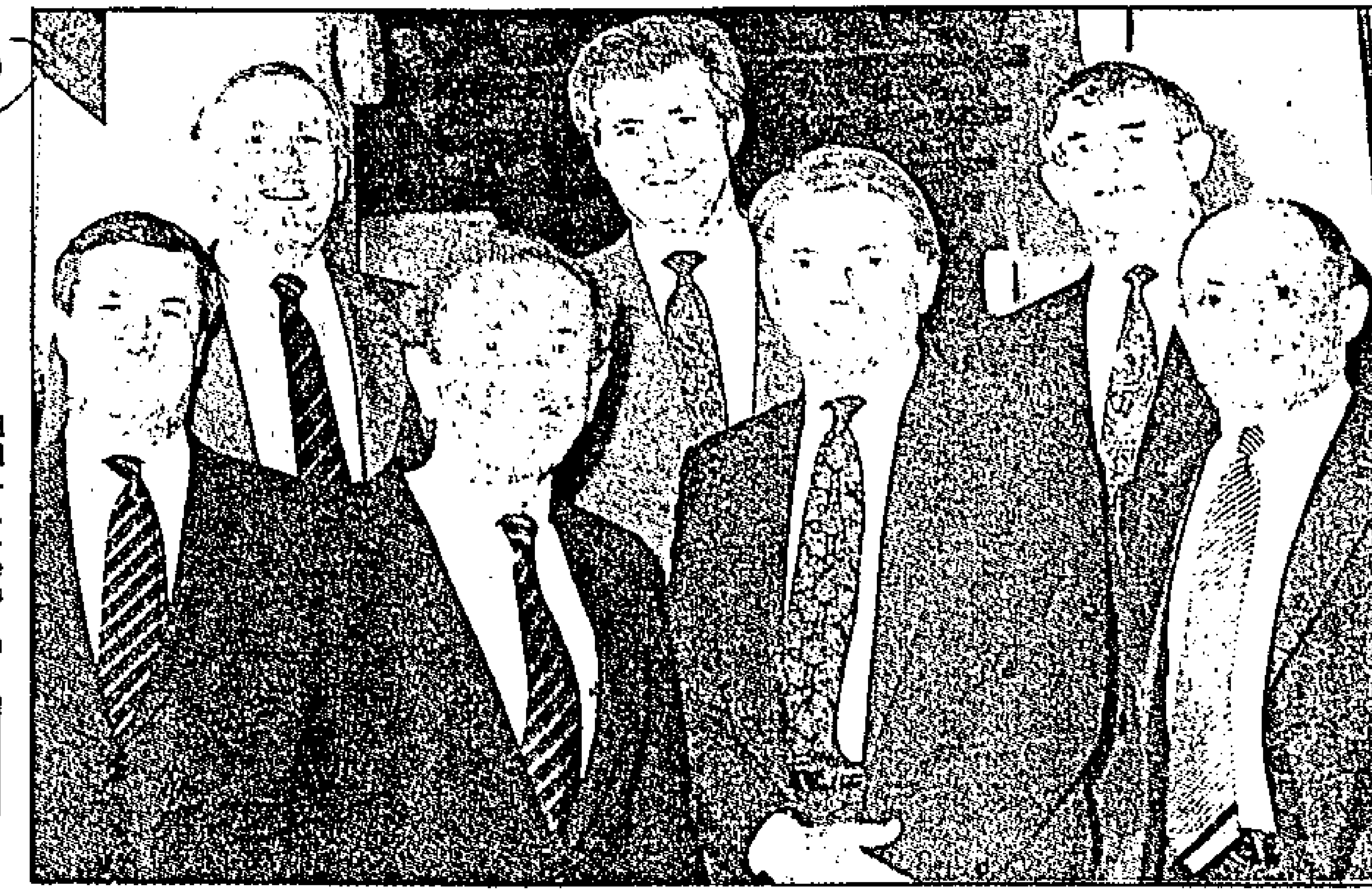
Trencor, Mutual & Federal, Consol, Suncrush and printing and publishing's Argus are the Top 100's royalty this year.

The Top 100 is SA's premier measure of SA's top companies. Listed companies are ranked by what matters most — how they have performed for their shareholders.

We also list those which have not performed for their shareholders — the ill-fated Barplats heading this list with a -83% average annual decline in the past five years.

The Top 100 does not only rank by return on shareholder's wealth in the past five years.

We also survey the best (and worst) performers in the past year and rank the Top 100 by several key variables, such as market capitalisation, taxed profit, return on sales, increase in sales over the past year, return on capital, turnover and growth in earnings a share.



TRENCOR'S WINNING TEAM ... FRONT: Rod Clinton, Neil Jowell, Cecil Jowell and Ray Hasson. BACK: Jimmy McQueen, John Hoare and Deon Bilgnaut

# It's lots of lovely lolly for the NSA politicos

STimes (Buss) 6/12/92.

(180)

THE great difficulty about running a business is that things don't always go right. There you are busy tooling up for a new luxury motor car and wham ... a recession and everyone goes to work on roller skates.

Or you are devotedly digging diamonds out the ground at vast expense only to find that a bunch of raggamuffins in Angola are picking the things off the municipal dump and flogging them to Hatton Garden at half price.

Then there's the fiduciary responsibility of business which makes it well nigh impossible to help yourself to the shareholders' funds without attracting some sort of protest.

## OUTCRY

Assuming the auditors are looking the other way and you can syphon a few million into the Swiss bank account, there is hell to pay when you get caught and if you haven't jumped the country on a false passport there is the faint prospect of prison, unless you have a politician on the board.

Even a hasty self-imposed exile isn't perfect. The inconvenience of leaving the Cape Town mansion, the luxury cars and the mistresses merely because of a handful of moaning minnies who want their money is, to say the least, irksome. After all, where in the world can you get this lifestyle?

There is also the huge public outcry to contend with when you get caught with your fingers in the honey pot.


Talented designors of the New South Africa

By DAVID BULLARD

The whole sordid business can become quite stressful, particularly if one has to downgrade one's lifestyle or, worse still, pay some of the money back.

Fortunately there is an alternative ... politics. I daresay that it is much the same the world over, but I believe that, even if we can't beat the world at cricket or rugby then we can teach them a thing or two about dodgy dealing.

What a product! Forget ecology as the big seller of the 1990s. Try this. You explain to a couple of million voters that you plan to share the country with about 50-million people who don't have a vote.

What is more, they don't have any money or food and so, all donations will be gratefully received. Neat one that; you have hit the guilt button. Next you run a referendum to see if the idea has gone down well and when you see it has, you sit back and collect.

You never have to actually produce anything because the punters think they are going to get a brand NEW SOUTH AFRICA delivered to their door.

Rather like *en primeur* wine, they pay now without having the slightest idea what the quality of the product will be like.

Unfortunately, the production line for NSA experiences a few glitches, but nothing that a lot more money can't sort out. The designers for the NSA keep getting better ideas so the model never actually appears in the showroom. Consider this though.

If the NSA appeared and everyone liked it, would there be any further use for the thousands of talented designers who are already busy working on the next model? No! So why come up with a NSA when the old one works for some of us. Jam yesterday and jam today and who cares about tomorrow?

This exceptional money-making scheme has other benefits. Nobody is actually accountable for anything. So if you thought that R500-million was going to housing people in something other than a storm drain and the money doesn't actually get there ... tough.

You have the consolation of knowing that should you get caught short while driving through the Northern Transvaal then there are plenty of toilet facilities.

Another advantage is that there is no need to rob the other poor pensioners ... yet.

## FAT

This business allows you to buy your pension back to the age of six years old and even if there is no money in the pension fund there is still no problem. It is simply topped up by loans which somebody else pays for.

Even if the pressure gets too much, you can pull out on a fat severence package and go and live on one of the farms that you managed to buy when you were scrimping and saving in your earlier political career.

This astoundingly attractive alternative to the risky world of commerce should surely be swamped with applicants lured by its fabulous risk-reward ratio. Maybe that's why FW has banned by-elections.

■ *David Bullard is managing director of independent options trader Johannesburg Options Market.*

## TOP 100 RANKED BY TAXED PROFIT (including equity accounted)

Attributable earnings after inclusion of associated companies' retained earnings

Yearend cut-off date: November 92.

| No. | Share Name | Financial yearend | (R000s) |
|---|---|---|---|
| 1 | ANGLOS | Mar 92 | 2 198 000 |
| 2 | *DE BEERS | Dec 91P | 2 136 000 |
| 3 | BARLOWS | Sep 92P | 1 724 000 |
| 4 | SASOL | Jun 92 | 1 158 200 |
| 5 | SA BREWS | Mar 92 | 939 800 |
| 6 | C G SMITH | Sep 92P | 789 400 |
| 7 | GENCOR | Aug 92 | 766 000 |
| 8 | REMGRO | Mar 92 | 747 700 |
| 9 | SAFREN | Jun 92 | 621 249 |
| 10 | SBIC | Dec 91 | 572 000 |
| 11 | C G S FOOD | Sep 92P | 516 000 |
| 12 | ANGVAAL | Jun 92 | 501 400 |
| 13 | ABSA | Mar 92 | 469 800 |
| 14 | FIRSTBK | Sep 92P | 466 200 |
| 15 | MALBAK | Aug 92P | 452 000 |
| 16 | AMIC | Dec 91 | 450 000 |
| 17 | JCI | Jun 92 | 439 600 |
| 18 | ENGEN | Aug 92P | 426 000 |
| 19 | NEDCOR | Sep 92P | 408 000 |
| 20 | RUSPLAT | Jun 92 | 407 000 |
| 21 | KERSAF | Jun 92 | 405 620 |
| 22 | TIGER OATS | Sep 92P | 401 000 |
| 23 | ANGLOVAAL IND | Jun 92 | 390 300 |
| 24 | ISCOR | Jun 92P | 342 000 |
| 25 | GFSA | Jun 92 | 316 000 |
| 26 | SAPPI | Feb 92 | 303 100 |
| 27 | RAND MINES | Sep 91 | 301 200 |
| 28 | SAMANCO | Jun 92 | 268 466 |
| 29 | M&R HOLD | Jun 92 | 267 144 |
| 30 | NAMPAK | Sep 92P | 262 600 |
| 31 | PREMIER GRP | Apr 92 | 236 522 |
| 32 | AMGOLD | Mar 92 | 235 500 |
| 33 | PALAMIN | Dec 91 | 233 590 |
| 34 | IMPLATS | Jun 92 | 233 100 |
| 35 | SUN BOP | Jun 92 | 216 022 |
| 36 | ALTRON | Feb 92 | 192 736 |
| 37 | AECI | Dec 91 | 191 000 |
| 38 | RANDCOL | Sep 92P | 172 383 |
| 39 | GENBEL | Jun 92 | 166 000 |
| 40 | CONSOL | Jun 92 | 165 775 |
| 41 | EDGARS | Mar 92 | 157 547 |
| 42 | TONGAAT | Mar 92 | 151 239 |
| 43 | TRNS NTL | Jun 92 | 147 000 |
| 44 | W & A | Dec 91 | 141 091 |
| 45 | REUNERT | Sep 92P | 140 205 |
| 46 | TOYOTA | Dec 91 | 123 502 |
| 47 | PPC | Sep 92P | 119 000 |
| 48 | DORBYL | Sep 91 | 118 221 |
| 49 | ARGUS | Mar 92 | 118 180 |
| 50 | PEPKOR | Feb 92 | 115 587 |
| 51 | METKOR | Sep 91 | 114 034 |
| 52 | PLATE GLASS | Mar 92 | 113 905 |
| 53 | TRENCOR | Jun 92 | 105 497 |
| 54 | ASS MANG | Dec 91 | 105 340 |
| 55 | HOLDAINS | Aug 92P | 105 114 |
| 56 | A ALPHA | Dec 91 | 103 312 |
| 57 | AFROX | Sep 92P | 97 191 |
| 58 | SENTRACHEM | Aug 92 | 97 156 |
| 59 | PEP | Feb 92 | 96 972 |
| 60 | HIVELD | Dec 91 | 95 584 |
| 61 | ALTECH | Feb 92 | 94 775 |
| 62 | DISTIL | Jun 92 | 93 223 |
| 63 | WOOLTRU | Jun 92 | 92 400 |
| 64 | C G SUGAR | Sep 92P | 88 854 |
| 65 | LANGBRG | Sep 92P | 87 500 |
| 66 | HLH | Mar 92 | 85 684 |
| 67 | PIKNPAY | Feb 92 | 84 400 |
| 68 | ADCOCK | Sep 92P | 75 901 |
| 69 | I & J | Jun 92 | 73 881 |
| 70 | FOSCHINI | Mar 92 | 72 184 |
| 71 | POWTECH | Feb 92 | 69 924 |
| 72 | HAGGIE | Dec 91 | 66 680 |
| 73 | NBSHOLD | Mar 92 | 66 300 |
| 74 | LYD PLAT | Oct 91 | 64 501 |
| 75 | ABI | Mar 92 | 64 078 |
| 76 | MID WITS | Jun 92 | 61 452 |
| 77 | GENTYRE A | Dec 91 | 61 302 |
| 78 | VOLTEX | Jun 92P | 59 985 |
| 79 | PREMPHA | Apr 92 | 58 133 |
| 80 | BTR DUNLOP | Dec 91 | 56 560 |
| 81 | FOODCRP | Aug 92 | 56 471 |
| 82 | TRANSUN | Jun 92 | 53 626 |
| 83 | ROYAL | Aug 92P | 52 453 |
| 84 | ISG | Sep 92P | 51 800 |
| 85 | ELLERINE | Aug 92P | 50 736 |
| 86 | RAINBOW | Mar 92 | 49 114 |
| 87 | SUNCRUSH | Jun 92 | 48 333 |
| 88 | STD ENG | Aug 92P | 48 097 |
| 89 | GRINTEK | Jun 92 | 44 696 |
| 90 | SFW | Jun 92 | 43 042 |
| 91 | MCARTHY | Jun 92 | 42 866 |
| 92 | CNA GALLO | Mar 92 | 42 749 |
| 93 | PREFCOR | Jun 92 | 41 636 |
| 94 | PANPROP | Jun 92P | 41 202 |
| 95 | CADSWEP | Dec 91 | 40 624 |
| 96 | WALTONS | Feb 92 | 40 039 |
| 97 | INTERLES | Jun 92 | 39 621 |
| 98 | AMAPROP | Mar 92 | 39 582 |
| 99 | TIMES MEDIA | Mar 92 | 39 468 |
| 100 | METCASH | Apr 92 | 38 197 |

*Based on pro-forma combined results attributable to De Beers/Centenary AG linked units.

The table does not include non-operating pyramid companies, gold mining companies and insurance companies.

Where the company yearend is marked with a "P", the results are based on the latest preliminary results.

Source: I-NET.

# TOP FIVE CLUB MEMBERS GATHER FOR A BANQU

THIRD ROW: Peter Wrighton (Premier Group, 1991); Michael O'Dowd (Anglo American, 1985); Francis Le Riche (Sentrachem, 1980); Henri de Villiers (Standard Bank Investment Corporation, 1985); Ronnie Lubner (Plate & Glass, 1985); David Brink (Murray & Roberts, 1991); Ian McRae (Eskom, 1989); Leslie Boyd (Anglo American Industrial Corporation, 1988); Gavin Relly (Anglo American, 1981); Brian McCarthy (McCarthy Group, 1987); Piet Badenhorst (UBS, 1986); Eugene van As (Sappi, 1990).

FOURTH ROW: Neil Jowell (Trencor, 1991); Cecil Jowell (Trencor, 1991); Ton Vosloo (M-Net, 1992); Christo Wiese (Pepkor, 1988); Louis Shill (Sage, 1969); Grant Thomas (Malbak, 1989); Peter Joubert (Afrox, 1991); Vic Hammond (Edgars, 1990); Chris Saunders (Tongaat, 1970); Bill Venter (Allied Technologies, 1977).

# Fixing the debt trap, the doubt trap, the down and out trap

S/Times (Buss) 6/12/92. 180

**Business Times Reporter**

TRUCKING and manufacturing company Trencor scooped — for the second time in a row — top prize in the Business Times Top 100 company award.

Accepting on behalf of the company at a black tie function at the Carlton Hotel on Monday night, group managing director Ray Hasson attributed success to the efforts of Trencor staff, many of whom never get to don a tux and attend lavish affairs.

He said most of the staff had stuck with the company since its infant years in the transport industry and remained dedicated to it.

Trencor has rewarded investors with a simple average annual return of 246,26% over the past five years.

Hot on its heals is Investec, with 172,32%, and Pepgro, with 129,15%.

The awards excluded companies that showed too little trade on the JSE as well as trusts, holding companies, pyramids, exploration companies and non-SA companies.

Paying tribute to Business Times' Five Businessmen of the Year, Finance Minister Derek Keys said four — Brian Joffe, Stephen Koseff, Gary Maude and Ton Vosloo — were in the business of making worthwhile money, while Reserve Bank governor Chris Stals was trying to make making money worthwhile.

Mr Keys says SA faces three traps: a debt trap, a doubt trap and a down and out trap.

He says a recent confidential report on SA by the IMF criticised the growing budget deficit, saying that it was feared that it may be as high as 6% or 7% of GDP.

Mr Keys says latest estimates show that the deficit is likely to be about 8%, which will mean that Government's interest bill, the second highest item of expenditure after the R23-billion spent on education, is likely to jump from R18-billion to R22-billion next year.

"This is a higher rate of growth than any other item of expenditure."

The solution to the debt trap was to cut expenditure, raise taxes or allow inflation to take its course.

The third option was not acceptable, but raising taxes and cutting expenditure required the mustering of the necessary political will and required national consensus.

Mr Keys says capitalism has its periods when it loses its way, when people start losing confidence in what tomorrow may bring.

He says the US economy under George Bush is a case in point, and that in SA "we have plenty of this doubt".

The lack of investor confidence has had added to it a lack of consumer confidence.

Mr Keys says sales of beer and cigarettes dropped in August for the first time in living memory. "This is doubt."

He says the economy needs to be restarted to take SA out of the cumulative doubt trap: "We need to do this before too long."

Mr Keys says there is an enormous cost to delayed growth: one percent growth forgone is social pensions for one million people for ever.

"We've thrown away more than 1% during the past few years."

Mr Keys says underdevelopment has firmly established itself in SA during the past few years. This sector is characterised by low incomes, high fertility, poor nutrition, bad health, poor work potential and poor education.

This Mr Keys describes as the down and out trap.

He says that when he came to government he was fond of saying he was there to do deals. The deal he is offering to business is simple: "I'll fix the debt trap, you fix the doubt trap and together we'll fix the down and out trap."

DEREK KEYS ... Keynote speaker at this week's Top 100 banquet

FRONT ROW (left to right): Sydney Press (Edgars, 1974); Stephen Koseff (Investec, 1992); Gary Maude (Gengold, 1992); Brian Joffe (Bidcorp, 1992); Mervyn King (Tradegro, 1987); Eric Ellerine (Ellerine Holdings, 1972); Natie Kirsh (Kirsh Industries, 1981); Jeff Liebesman (W&A Investment, 1990).

SECOND ROW: Chris Stals (Reserve Bank, 1992); Nic Wiehahn (Labour Law Reformer, 1981); Kobus Loubser (SA Railways, 1976); Clive Menell (Anglovaal, 1979); Derek Keys (Gencor, 1987); Donald Gordon (Liberty Life, 1970); Ian MacKenzie (Stanbic, 1978); Aaron Searll (Seardel Investment, 1982); Conrad Strauss (Standard Bank, 1986); Len Miller (OK Bazaars, 1968); Bert Cottrell (NCR, 1971); Eric Samson (Macsteel, 1989).

# BEST OVER ONE YEAR

180

| No | Company | Return to share-holders (%) |
|---|---|---|
| 1 | FARM-AG | 326,47 |
| 2 | CROWN FOOD HOLDINGS | 218,18 |
| 3 | PREMIER PHARMACEUTICAL CO | 132,68 |
| 4 | SECHOLD | 110,17 |
| 5 | DATAKOR | 110,12 |
| 6 | ROYAL FOODS | 103,39 |
| 7 | ROYAL CORPORATION | 101,57 |
| 8 | SPL | 98,92 |
| 9 | SHIELD TRADING CORPORATION | 90,29 |
| 10 | PUBLICO | 87,50 |
| 11 | AFCOM GROUP | 85,22 |
| 12 | SIMMER AND JACK MINES | 81,59 |
| 13 | DIMENSION DATA HOLDINGS | 78,66 |
| 14 | SOUTH AFRICAN EAGLE INSURANCE COMPANY | 78,23 |
| 15 | TRENCOR | 77,95 |
| 16 | PRESIDENT MEDICAL INVESTMENTS | 77,33 |
| 17 | BID CORPORATION | 72,06 |
| 18 | C T P HOLDINGS | 64,57 |
| 19 | SANTAM | 64,02 |
| 20 | IMPHOLD | 63,64 |
| 21 | NORIMED | 61,39 |
| 22 | HARWILL INVESTMENTS | 59,78 |
| 23 | OZZ | 57,17 |
| 24 | SPUR STEAK RANCHES | 55,41 |
| 25 | METROPOLITAN LIFE | 54,42 |
| 26 | PREMIER GROUP | 53,00 |
| 27 | STANDARD BANK INVESTMENT CORPORATION | 50,57 |
| 28 | MUTUAL AND FEDERAL INSURANCE COMPANY | 47,21 |
| 29 | INVESTEC HOLDINGS | 45,17 |
| 30 | LIBERTY HOLDINGS | 45,12 |
| 31 | GROOTVLEI PROPRIETARY MINES | 44,19 |
| 32 | OTIS ELEVATOR COMPANY | 43,35 |
| 33 | RUSTENBURG PLATINUM HOLDINGS | 42,16 |
| 34 | AFRICAN OXYGEN | 41,85 |
| 35 | ENGEN | 41,58 |
| 36 | PICARDI BELEGGINGS | 41,03 |
| 37 | ALLIED TECHNOLOGIES | 38,79 |
| 38 | BENGUELA CONCESSIONS | 37,14 |
| 39 | MOMENTUM LIFE ASSURERS | 36,79 |
| 40 | SCHARRIGHUISEN HOLDINGS | 35,78 |
| 41 | COMMERCIAL UNION OF SA | 35,42 |
| 42 | LEWIS FOSCHINI INVESTMENT COMPANY | 35,12 |
| 43 | OMNIA HOLDINGS | 34,66 |
| 44 | TRADEHOLD | 33,54 |
| 45 | TIGER OATS | 33,21 |
| 46 | SABLE HOLDINGS | 31,87 |
| 47 | W B HOLDINGS | 31,33 |
| 48 | PEPKOR | 31,29 |
| 49 | PERSKOR BELEGGINGS | 31,09 |
| 50 | AUTOPAGE HOLDINGS | 29,06 |
| 51 | NAMPAK | 28,36 |
| 52 | FIRST NATIONAL BANK HOLDINGS | 27,95 |
| 53 | LENCO HOLDINGS | 27,79 |
| 54 | SOUTHERN LIFE ASSOCIATION | 27,03 |
| 55 | CADBURY SCHWEPPES (SOUTH AFRICA) | 27,00 |
| 56 | WOODROW HOLDINGS | 26,84 |
| 57 | HUDACO INDUSTRIES | 26,40 |
| 58 | OCEANA FISHING GROUP | 26,27 |
| 59 | FOODCORP | 25,61 |
| 60 | REUNERT | 25,27 |
| 61 | C G SMITH | 25,04 |
| 62 | HOSKEN CONSOLIDATED INVESTMENTS | 25,03 |
| 63 | NEDCOR | 24,97 |
| 64 | ANGLOVAAL INDUSTRIES | 24,48 |
| 65 | Q DATA | 24,38 |
| 66 | SAPPI | 23,56 |
| 67 | ALLIED ELECTRONICS CORPORATION | 22,94 |
| 68 | SOUTH AFRICAN FREIGHT CORPORATION | 22,82 |
| 69 | ABS HOLDINGS | 22,63 |
| 70 | BLUE CIRCLE | 22,16 |
| 71 | C G SMITH FOODS | 21,45 |
| 72 | MURRAY & ROBERTS INVESTMENTS | 20,98 |
| 73 | FINTECH | 20,78 |
| 74 | REMBRANDT GROUP | 20,59 |
| 75 | SAFMARINE & RENNIES HOLDINGS | 20,47 |
| 76 | FEDSURE HOLDINGS | 20,46 |
| 77 | MALBAK | 19,22 |
| 78 | GENREC HOLDINGS | 18,63 |
| 79 | IRVIN & JOHNSON | 18,09 |
| 80 | AMALGAMATED BEVERAGE INDUSTRIES | 17,85 |
| 81 | RACY GROUP HOLDINGS | 17,68 |
| 82 | SA DRUGGISTS | 16,87 |
| 83 | METKOR GROUP | 16,66 |
| 84 | SILTEK | 16,61 |
| 85 | SAGE GROUP | 15,64 |
| 86 | TIMES MEDIA | 15,60 |
| 87 | AFRICAN LIFE ASSURANCE COMPANY | 15,00 |
| 88 | KUDU GRANITE HOLDINGS | 13,85 |
| 89 | AMALGAMATED BANKS OF SOUTH AFRICA | 13,73 |
| 90 | ASSOCIATED ORE & METAL CORPORATION | 13,62 |
| 91 | MERHOLD | 13,40 |
| 92 | FREE STATE CONSOLIDATED GOLD MINES | 12,74 |
| 93 | CLICKS STORES | 12,31 |
| 94 | STORECO | 12,18 |
| 95 | ADCOCK-INGRAM | 12,14 |
| 96 | POWER TECHNOLOGIES | 12,05 |
| 97 | CORPORATE MANAGEMENT SERVICES | 12,00 |
| 98 | GDM FINANCE | 11,30 |
| 99 | TOMKOR | 10,85 |
| 100 | IGI INSURANCE COMPANY | 10,77 |

S/Times (Bus) 6/12/92

This table excludes pyramids, holding companies, investment trusts, property trusts, non-South African companies and exploration companies.

Source: I-NET.

# HIGH-FLYERS THAT FELL FROM GRACE

STimes (BUSS) 6/12/92.

~~232~~ ~~214~~ ~~227~~ (180)

Sunday Times

TOP 100

**By JULIE WALKER**

## No fewer than 27 out of the 50 worst-performing shares since 1987 are gold-mining companies

THE only good thing to be said about the worst performers on the JSE in five years is that at least they have not gone into liquidation.

Predictably, gold and mining exploration shares dominate the 50 worst performers table, but the wooden spoon goes to Barplats Mines (Barmines).

This noble venture started its life in 1987 as Lefkochrysos. It was to be the first producer of platinum from the UG2 Reef only at a mine near Brits.

In the same year, Rand Mines began development at Barplats Investments near Kennedy's Vale in the Eastern Transvaal. It, too, was to produce platinum from the UG2 Reef. The reef had never been mined and treated in isolation, although established platinum operations were tapping their own reserves of the ore to blend with easy-going Merensky Reef.

Barplats' go-ahead added credibility to the would-be pioneer of UG2 mining — Lefkochrysos. When Lefko's management failed to raise more capital to complete development of the Brits mine, control of the company passed to Rand Mines. Barplats became the pyramid holding company of Lefko, which was renamed Barmines.

### STREAM

But Rand Mines itself had underestimated the capital requirements of bringing the two operations on stream. First, it mothballed Kennedy's Vale and was then obliged to sell to Impala Platinum Holdings, which mothballed the Crocodile River mine near Brits.

Revolt from minority shareholders in the group is all that prevents the delisting of the shares. Their worth is only speculative at the moment. From R25 the Barmine price has crashed to 15c and Barplats from more than R22 to 45c.

Barmine was not the only platinum mine to struggle. Messina Investments underwent a major change by selling its assets other than the rights to a platinum deposit at Zebediela. Impala took 55% control of Messina, but progress at the mine was frozen because of the low platinum price.

Over a single year, JCI's Lebowa Platinum Mines has shown the fourth-worst return. Its price has dived on the mine's inability to meet production targets and make a profit. JCI is developing the Potgietersrust Platinums mine on the Platreef which has better prospects than does Lebowa Plats.

But no fewer than 27 out of the 50 worst-performing shares since 1987 are gold-mining companies and a tenth are in mining exploration.

No amount of mining-house backing, management, endorsement or integrity could halt the decline in heavyweights, such as Vaal Reefs, Harties, Winkelhaak, Randfontein, Durban Deep and Deelkraal.

Independents also suffered badly — Cons Modder, East Dagga, West Wits and Rand Leases illustrate the point.

### POOR

If producing mines ailed, there was even less future for the likes of Freddev and New Central Wits, where prospects of a new gold-mining development receded.

Poor mining fortunes were merely one of the reasons behind the showing of AECI — which incurred a negative return of more than 10% a year for shareholders.

Competition in explosives, drought-hit fertiliser, a strong challenge from certain imports and unfavourable tax dispensations made life tough for South Africa's premier chemicals and allied business.

The Frame group's downsizing was not accompanied by improving profits because of the absurdities of SA's structural adjustment programme (SAP). Aimed to boost exports, it was much abused and turned into a nightmare for textile companies such as Frame and Da Gama.

Frame was caught in a Catch-22 position. SA's new-found business philosophy dictates that companies must stand on their own, but not the farmers. SA's cotton-growers have to be paid well above world prices for their crop, yet Frame et al must make fabrics in competition with Far Eastern exporters whose governments subsidise the cotton price.

Amendments to the SAP have been suggested almost since its launch, but nothing has been done about the iniquitous position.

Engineering group NEI Africa fared 17th-worst over five years. Significant fraud was uncovered in the former pale-blue chip in 1990, such as accounting entries of bank balances that were actually borrowings.

### DELIVER

A total of R55-million had to be written off in 1991 and recessionary conditions in general have been compounded by cutbacks in electricity-generating capacity — a business which was the backbone of NEI Africa. Profit remains elusive, and the share has dived from R45-plus to R3,25.

Unidev and Tollgate were Cape Town companies that failed for various reasons, principally overborrowing. There are signs tha Unidev might start to come right under new management after a dive from glamour-stock status in the early years.

Tollgate is also on an asset-selling exercise to reduce debt. Now controlled by SA-boy-made-good-in-England Julian Askin, the group has yet to deliver.

Borrowings certainly cause doubts in investors' minds. Take W&A — the Business Times top company two years in a row as recently as 1990, and now the 36th-worst.

Its businesses are holding up well in spite of the recession, but R1-billion of borrowings caused alarm in a long spell of high interest rates. W&A has sold its hosiery division for R200-million and has other disposals in the pipeline. But until the bottom line looks consistent, investors will shy away from the company.

### ABSURD

Construction groups Basil Read and Grinaker fared worst of their sector, but on different counts. Basil Read has never been really well capitalised and has always struggled with high gearing, whereas Grinaker's electronics investments were hit by cutbacks in the defence industry.

If ever a listing hit absurd heights, Fintech was it. On a euphoric wave of electronic-share hype, Fintech's share price hit R87 — about 10 times its worth. But after the 1987 crash it fell to R3 by 1990. It has since rallied to a realistic R17 on steady profit growth.

Over one year, granite share Keeley gave the poorest return to investors. Its share price held up well while those of other granite producers — Kudu and Marlin — were falling, but eventually it succumbed to the same pressure. World recession is hampering the export-oriented granite market.

Other features among the one-year decliners include Iscor (for failing to meet profitability forecasts), Anglovaal Insurance Holdings (for a disastrous investment portfolio and actuarial shortcomings), Saambou on write-offs and Board of Executors on perceptions of too much property; Berzack, Voltex and Elcentre, and Afcol as well as many gold mines.

# DIVERSE INTERESTS SEEK A SANE CENTRE

S Times (Buss) 6/12/92.

(182) (180) (183)

By PIERRE DU TOIT

WHEN South Africa's Top 100 companies look at the future, the basic ingredients are no different for them than for anyone else. They, too, look with concern at the economic decline while politicians and administrators fiddle and filch.

When their executives look at that future, they, like so many fellow South Africans in "business", feel the pressure of their concern for their families and themselves in a world that is moving from certain disaster to uncertain hope.

But the thing that characterises them without exception is that they can pursue the future in the face of the present — that they can have the faith that gives the drive and success even while the moment looks desperate.

In the nation's tax life, as everywhere else, the moment looks desperate indeed. The State is overspending hugely, the pressure on the taxpayer can be felt in a new aggression from legislator and administrator alike, and out in the streets the language of tax revolt, that classic definition of revolution, has become common-place yet real.

The immediate future also looks brittle — politically the demands and expectations of angry and deprived generations are intimidating and the need of 16,4-million people living below the minimum living level (Vatcom — a government commission) is awesome. And unless we plunge into the suicidal whirlpool of doctrinaire socialism, all that stands between that infinite need and finite resources is the besieged tax system.

But the Top 100 are at the top because they can look, not past, but through the blood and dust and grief and fear of now and see a remarkable process taking place.

A little out of the mainstream of emotion, yet today deeply in contact with the realities that surround them, diverse interests are working to a sane centre.

An Albie Sachs can confess at an investment conference that Maputo has cured him of "shoes for the masses" socialism; Derek Keys can state in Washington that, in spite of some things that still bother him, ANC economic policy is workable.

Common ground is developing. In that common ground, the tax system will be vital. But here, too, those who look beyond the obvious are quietly confident.

There is a great need for a balance of perception — if the producers of wealth believe that they are unreasonably burdened, they will leave or stop producing and the people will starve; if the people believe that their needs are not at least partially met, they will stop the producers in their tracks with anarchy.

What is again remarkable when one looks behind the hysteria of the headlines, is the degree to which both sides of the producer-beneficiary divide today subscribe to this balance of perception.

The New South Africa which ultimately will, repeat will, emerge from the chaos and violence of its birth, will not bring lower tax rates for some time, but nor will it see drastically increased rates; it will see some new wealth taxes, none of them crippling.

## SURVIVAL

In short, it will see very little that will not be recognisable from today's perspective.

But the top 100 in any group are not in Top 100 companies because they think faith and courage can do it alone; even thoughts and concepts, no matter how astute, do not make money. Only actions do.

There are two things even the Top 100 must do.

First, they must regard tax as a merely another cost. Girded with their own absolute legality, they must plan their taxes, manage their taxes, and ultimately reduce them within the law, with a combination of sober aggression, sound strategy, uncompromising expertise and the sustained energy warranted by the fact that it is a cost representing much more than 50% of their hard-won profits. On this depends their survival.

Second, they must jealously guard their right to do so, for in that lies the difference between the prosperity of the rule of law and the destitution of anarchy or despotism. The strong ones, those at the top, must never waiver in their defence, on their own behalf and on behalf of everyone else, of the law as the sole arbiter between the State and citizen, corporate and individual, in tax and in all else.

That defence must be against all comers; this government, an interim government and a new government. For on this depends the survival of the nation, also the New nation.

■ *Pierre du Toit is senior tax partner, Arthur Andersen & Associates.*

# UPHILL AHEAD FOR INDUSTRIALS

S/Times (Buss) 6/12/92.

By ZILLA EFRAT

THE harsh conditions encountered by companies listed in the JSE's industrial sector are likely to continue well into next year.

Uncertainty on the political and business fronts in 1992 undermined their ability to plan for the future.

The operating environment was overshadowed by the the recession which has lasted longer than the Great Depression and has been exacerbated by last summer's drought.

Nonetheless, various sectors of the JSE industrial index did well in spite of the negative factors.

## FISHING

According to Ed Hern, Rudolph Inc analyst Syd Vianello, the transport sector, boosted by Trencor, showed the largest growth of 48% from January to October. The pharmaceutical index was up 29%, fishing 25% and electronics 14%.

The steel sector suffered the biggest drop of 58%, followed by clothing and textiles, down 33%, and furniture 31%. Other poor performers included motoring, building and fishing.

Looking ahead, industrialists have little to be cheerful about. Sacob economist Keith Lockwood says Christmas sales are expected to fall by 2,6% in real terms this year. Some products will do better than others, but there is a danger that several firms will close early next year.

Economists and businessmen expect tough trading conditions to persist and say growth prospects will be limited.

Some believe that 1993 will be a time of consolidation in preparation for better times from 1994 onwards.

Trading conditions in the third quarter of 1992 were particularly tough after the breakdown in political negotiations, Boipatong and the ensuing mass-action campaign. Gross domestic product fell 5,7% in this quarter and economists expect economic activity to fall again in the fourth quarter.

## BELTS

Companies have been pulling in their belts, cutting back on staff and delaying investment decisons. Foreign investors generally are keeping away from SA because of political uncertainty.

Total fixed investment in the first half of the year was more than 10% lower than in the same time in 1991.

Most manufacturers faced increased competition in their markets and their margins came under pressure. In the first half, real consumer spending was 3% down on a year ago. Absa says real disposable income will decline by an average of 4,5% this year.

Sluggish conditions in world markets dented the growth in export sales. World commodity prices lost their upward momentum in the third quarter.

Mr Lockwood says some SA industrialists have underestimated competition on the world market. Although the general export incentive scheme (GEIS) has helped sales abroad, its future is clouded in terms of how long it will last and whether it will be affected by the Uruguay round of the General Agreement on Tariffs and Trade.

However, as the world continued to open up to SA, some industrial sectors recorded large export growth this year. They include transport equipment, chemicals, plastics and rubber.

Mr Vianello says the effects of improved export sales are beginning to filter through from several industrial companies.

The lifting of sanctions has also brought new threats. Mr Lockwood says some SA companies have been hurt by increased competition from foreigners.

Industrialists have also had to deal with extremely high wage expectations from workers, backed by unprocedural industrial action, says Andrew Levy of labour consultants Andrew Levy & Associates.

## FORCE

Strikes accelerated rapidly in the third quarter, bringing total mandays lost for the first nine months of the year to 3,1-million compared with 2-million in the same time in 1991.

Mr Levy believes that SA manufacturers face the most militant labour force in the world. The poor economy has, however, blunted trade-union action.

Wages have shown a real decline for the first time in a decade. The average pay rise has fallen from 16,5% last year to 12,1%.

This has helped curtail production costs. Producer-price inflation dropped to 8,8% in September from 9,5% in August.

But Mr Lockwood says staff and other cutbacks in industry may improve manufacturing productivity. The question is whether these improvements will be better than those of SA's major trading partners who are also in recession.

AHI president George Huysamer says much will depend on Trade and Industry and Finance Minister Derek Keys' economic model, how much confidence it will generate and how much uncertainty it will eliminate.

Mr Huysamer says balancing of the next Budget will have an import influence. Investors are concerned that increases in the VAT rate and petrol price could fuel inflation.

An interim government and improved labour stability are needed to restore confidence, he says.

(180)

## LATER

Export growth will depend on world market conditions. According to Safto, signs are that an upturn in world global economic activity will be later and less dramatic than previously hoped.

Mr Lockwood says wage and salary increases in 1993 are likely to be below the inflation rate and this will lower disposable income. Higher unemployment is probable.

Mr Levy expects industrial action will continue at high levels next year because of trade-union growth and political uncertainty.

S/Times (Russ) 6/12/92.

# TOP 100 RANKED BY FIVE-YEAR COMPOUND GROWTH IN EARNINGS PER SHARE

Compound growth in published equity accounted earnings per share over five years

Yearend cut-off date: November 92

180

| No. | Share Name | Financial yearend | |
|---|---|---|---|
| 1 | OMNIA | Dec 91 | 53,9% |
| 2 | JD GROUP | Dec 91 | 52,0% |
| 3 | SABLE | Jun 92 | 50,9% |
| 4 | PEPKOR | Feb 92 | 48,1% |
| 5 | CONCOR | Jun 92 | 48,1% |
| 6 | MCPHAIL | Dec 91 | 47,3% |
| 7 | TOYOTA | Dec 91 | 43,3% |
| 8 | TRENCOR | Jun 92 | 42,4% |
| 9 | SPUR | Feb 92 | 40,8% |
| 10 | SUN BOP | Jun 92 | 40,3% |
| 11 | PRESMED | Feb 92 | 39,8% |
| 12 | LTA | Mar 92 | 39,0% |
| 13 | ARGUS | Mar 92 | 36,4% |
| 14 | BRIST IN | Feb 92 | 36,0% |
| 15 | M&R HOLD | Jun 92 | 35,6% |
| 16 | CONSOL | Jun 92 | 35,0% |
| 17 | SHOPRIT | Feb 92P | 34,6% |
| 18 | KLIPTON | Jun 92 | 32,4% |
| 19 | COATES | Dec 91 | 32,2% |
| 20 | BERZAK | Jun 92 | 31,8% |
| 21 | FINTECH | Feb 92 | 31,7% |
| 22 | CADSWEP | Dec 91 | 31,2% |
| 23 | CARLCOR | Aug 92P | 31,2% |
| 24 | BURLINGTON | Dec 91 | 30,7% |
| 25 | CNA GALLO | Mar 92 | 30,6% |
| 26 | CTP | Mar 92 | 30,5% |
| 27 | TIMES MEDIA | Mar 92 | 30,4% |
| 28 | FENNER | Aug 92P | 29,9% |
| 29 | Q DATA | Jun 92 | 29,6% |
| 30 | SUNCRUSH | Jun 92 | 29,1% |
| 31 | DUIKFR | Sep 91 | 29,0% |
| 32 | GENTYRE A | Dec 91 | 28,8% |
| 33 | ABERDARE | Dec 91 | 28,7% |
| 34 | UTICO | Dec 91 | 28,7% |
| 35 | UNIHOLD | Dec 91 | 28,5% |
| 36 | ADCOCK | Sep 92P | 28,3% |
| 37 | TRNS HEX | Mar 92 | 28,0% |
| 38 | DELTA | Dec 91 | 27,1% |
| 39 | PERSKOR | Jun 92P | 27,0% |
| 40 | EDGARS | Mar 92 | 26,7% |
| 41 | POWTECH | Feb 92 | 26,2% |
| 42 | ELLERINE | Aug 92P | 25,1% |
| 43 | MSAULI | Dec 91P | 24,2% |
| 44 | KERSAF | Jun 92 | 24,1% |
| 45 | IMPERIAL | Jun 91 | 24,1% |
| 46 | ASS MANG | Dec 91 | 23,6% |
| 47 | FOSCHINI | Mar 92 | 23,4% |
| 48 | CASHBIL | Jun 92P | 23,1% |
| 49 | BTR DUNLOP | Dec 91 | 22,5% |
| 50 | SAFCOR | Jun 92 | 22,3% |
| 51 | AFROX | Sep 92P | 22,3% |
| 52 | ED L BATE | Jun 92 | 22,3% |
| 53 | ENSIGN | Dec 91 | 22,3% |
| 54 | SAFREN | Jun 92 | 21,9% |
| 55 | MASHOLD | Feb 92 | 21,2% |
| 56 | C G S FOOD | Sep 92P | 20,9% |
| 57 | SA BREWS | Mar 92 | 20,9% |
| 58 | CHEMSERVE | Dec 91 | 20,9% |
| 59 | GF PROP | Dec 91 | 20,6% |
| 60 | METAIR | Dec 91 | 20,6% |
| 61 | A ALPHA | Dec 91 | 20,4% |
| 62 | SPL | Feb 92 | 20,4% |
| 63 | AMAPROP | Mar 92 | 19,7% |
| 64 | REUNERT | Sep 92P | 19,5% |
| 65 | *DE BEERS | Dec 91P | 19,4% |
| 66 | SAPPI | Feb 92 | 19,3% |
| 67 | TIGER OATS | Sep 92P | 19,3% |
| 68 | PEP | Feb 92 | 19,2% |
| 69 | CLICKS | Apr 92 | 18,9% |
| 70 | NEW CENT | Mar 92 | 18,8% |
| 71 | TONGAAT | Mar 92 | 18,7% |
| 72 | ALEXNDR | Jun 92P | 18,5% |
| 73 | NAMPAK | Sep 92P | 18,4% |
| 74 | PALAMIN | Dec 91 | 18,1% |
| 75 | GRINCOR | Dec 91 | 17,8% |
| 76 | C G SMITH | Sep 92P | 17,7% |
| 77 | WOOLTRU | Jun 92 | 17,4% |
| 78 | WALTONS | Feb 92 | 17,2% |
| 79 | PPC | Sep 92P | 17,1% |
| 80 | ANGLOVAAL IND | Jun 92 | 16,9% |
| 81 | SASOL | Jun 92 | 16,7% |
| 82 | CONGELLA FED | Dec 91 | 16,6% |
| 83 | JCI | Jun 92 | 16,3% |
| 84 | HLH | Mar 92 | 16,2% |
| 85 | MCARTHY | Jun 92 | 16,2% |
| 86 | I & J | Jun 92 | 16,1% |
| 87 | PUBHOLD | Feb 92 | 16,0% |
| 88 | INTERLES | Jun 92 | 15,8% |
| 89 | DORBYL | Sep 91 | 15,1% |
| 90 | NEW KLEINS | Jun 92 | 14,8% |
| 91 | PIKNPAY | Feb 92 | 14,4% |
| 92 | ALTRON | Feb 92 | 14,4% |
| 93 | ELCENTR | Jun 92P | 14,1% |
| 94 | CHUBB | Mar 92 | 13,5% |
| 95 | TRNS NTL | Jun 92P | 13,3% |
| 96 | MASNITE | Dec 91 | 13,2% |
| 97 | PROFURN | Dec 91 | 12,9% |
| 98 | AVHOLD | Jun 92 | 12,8% |
| 99 | HUDACO | Nov 91 | 12,7% |
| 100 | BASREAD | Jun 92P | 12,7% |

*Based on pro-forma combined financial statistics per linked unit.

The table does not include non-operating pyramids, gold-mining and insurance companies and banks.

Where the company yearend is indicated with a "P", the results are based on the latest preliminary results.

Source: I-NET.

# BEST BY INDUSTRY

S/Times (BUSS) 6/12/92

180

### TRANSPORT, MOTOR

| | | | |
|---|---|---|---|
| 1 | (1) | Trencor | 246,26 |
| 2 | (46) | Unitrans | 43,21 |
| 3 | (74) | Gentyre Industries | 21,84 |
| 4 | (87) | Toyota South Africa | 15,27 |
| 5 | (93) | Wesco Investments | 11,57 |

### CLOTHING, MANUFACTURE AND RETAIL

| | | | |
|---|---|---|---|
| 1 | (48) | Wooltru | 40,33 |
| 2 | (72) | Lenco Holdings | 22,97 |

### BEVERAGES, HOTELS, LEISURE

| | | | |
|---|---|---|---|
| 1 | (6) | Suncrush | 120,68 |
| 2 | (10) | Sun International (Bophuthatswana) | 92,63 |
| 3 | (24) | Spur Steak Ranches | 67,47 |
| 4 | (62) | SA Breweries | 28,47 |
| 5 | (86) | Kersaf Investments | 15,80 |

### MINING, MINING HOUSES

| | | | |
|---|---|---|---|
| 1 | (35) | Samancor | 54,37 |
| 2 | (38) | Palabora Mining Company | 51,76 |
| 3 | (47) | Randcoal | 43,00 |
| 4 | (53) | Anglo American Coal Corporation | 36,73 |
| 5 | (54) | Trans Hex Group | 36,09 |
| 6 | (69) | Associated Ore & Metal Corporation | 23,78 |
| 7 | (71) | Gold Fields Coal | 23,03 |
| 8 | (76) | Anglovaal Holdings | 20,05 |
| 9 | (78) | Gencor | 18,48 |
| 10 | (83) | Rustenburg Platinum Holdings | 16,09 |
| 11 | (84) | Trans Natal Coal Corporation | 16,07 |
| 12 | (98) | Middle Witwatersrand (Western Areas) | 9,16 |

### WHOLESALE, RETAIL

| | | | |
|---|---|---|---|
| 1 | (3) | Pepgro | 129,15 |
| 2 | (26) | Foschini | 66,86 |
| 3 | (27) | CNA Gallo | 66,32 |
| 4 | (44) | Ellerine Holdings | 45,05 |
| 5 | (51) | Clicks Stores | 37,86 |
| 6 | (56) | Edgars Stores | 35,44 |
| 7 | (64) | Pick 'n Pay Stores | 26,15 |
| 8 | (67) | McCarthy Group | 25,29 |
| 9 | (79) | Storeco | 18,04 |

### INDUSTRIAL HOLDINGS

| | | | |
|---|---|---|---|
| 1 | (9) | Imperial Group | 98,82 |
| 2 | (20) | Royal Corporation | 72,92 |
| 3 | (28) | South African Freight Corporation | 65,28 |
| 4 | (31) | Murray & Roberts Holdings | 61,92 |
| 5 | (36) | Anglovaal Industries | 53,40 |
| 6 | (37) | Safmarine & Rennies Holdings | 52,73 |
| 7 | (49) | C G Smith | 40,10 |
| 8 | (65) | Hunt Leuchars & Hepburn Holdings | 25,96 |
| 9 | (70) | Barlow Rand | 23,40 |
| 10 | (77) | Grindrod Unicorn Group | 19,77 |
| 11 | (81) | Currie Finance Corporation | 17,31 |
| 12 | (82) | BTR Dunlop | 16,12 |
| 13 | (99) | Malbak | 8,80 |

### PAPER, PACKAGING, PUBLISHING

| | | | |
|---|---|---|---|
| 1 | (4) | Consol | 125,83 |
| 2 | (13) | Argus Holdings | 89,11 |
| 3 | (19) | Perskor Groep | 73,85 |
| 4 | (25) | Times Media | 66,87 |
| 5 | (39) | Nampak | 51,51 |
| 6 | (57) | Holdains | 33,16 |
| 7 | (89) | Sappi | 13,51 |

### INSURERS, ASSURERS, BANKS

| | | | |
|---|---|---|---|
| 1 | (2) | Investec Holdings | 172,32 |
| 2 | (8) | Mutual & Federal Insurance Company | 100,08 |
| 3 | (11) | Liberty Holdings | 92,01 |
| 4 | (12) | Safrican Life Investment Holdings | 90,88 |
| 5 | (14) | SA Eagle Insurance Company | 85,41 |
| 6 | (16) | Santam | 81,59 |
| 7 | (22) | Metropolitan Life | 70,66 |
| 8 | (23) | NBS Holdings | 67,81 |
| 9 | (40) | Standard Bank Investment Corporation | 51,32 |
| 10 | (42) | Southern Life Association | 48,91 |
| 11 | (45) | First National Bank Holdings | 44,73 |
| 12 | (58) | Nedcor | 31,59 |

## INDUSTRIAL HOLDINGS

| | | | |
|---|---|---|---|
| 1 | ( 9) | Imperial Group | 98,82 |
| 2 | (20) | Royal Corporation | 72,92 |
| 3 | (28) | South African Freight Corporation | 65,28 |
| 4 | (31) | Murray & Roberts Holdings | 61,92 |
| 5 | (36) | Anglovaal Industries | 53,40 |
| 6 | (37) | Safmarine & Rennies Holdings | 52,73 |
| 7 | (49) | C G Smith | 40,10 |
| 8 | (65) | Hunt Leuchars & Hepburn Holdings | 25,96 |
| 9 | (70) | Barlow Rand | 23,40 |
| 10 | (77) | Grindrod Unicorn Group | 19,77 |
| 11 | (81) | Currie Finance Corporation | 17,31 |
| 12 | (82) | BTR Dunlop | 16,12 |
| 13 | (99) | Malbak | 8,80 |

## PAPER, PACKAGING, PUBLISHING

| | | | |
|---|---|---|---|
| 1 | ( 4) | Consol | 125,83 |
| 2 | (13) | Argus Holdings | 89,11 |
| 3 | (19) | Perskor Groep | 73,85 |
| 4 | (25) | Times Media | 66,87 |
| 5 | (39) | Nampak | 51,51 |
| 6 | (57) | Holdains | 33,16 |
| 7 | (89) | Sappi | 13,51 |

## INSURERS, ASSURERS, BANKS

| | | | |
|---|---|---|---|
| 1 | ( 2) | Investec Holdings | 172,32 |
| 2 | ( 8) | Mutual & Federal Insurance Company | 100,08 |
| 3 | (11) | Liberty Holdings | 92,01 |
| 4 | (12) | Safrican Life Investment Holdings | 90,88 |
| 5 | (14) | SA Eagle Insurance Company | 85,41 |
| 6 | (16) | Santam | 81,59 |
| 7 | (22) | Metropolitan Life | 70,66 |
| 8 | (23) | NBS Holdings | 67,81 |
| 9 | (40) | Standard Bank Investment Corporation | 51,32 |
| 10 | (42) | Southern Life Association | 48,91 |
| 11 | (45) | First National Bank Holdings | 44,73 |
| 12 | (58) | Nedcor | 31,59 |
| 13 | (59) | Amalgamated Banks of South Africa | 31,05 |
| 14 | (73) | Hosken Consolidated Investments | 22,79 |
| 15 | (75) | Boland Bank | 20,23 |
| 16 | (88) | Sechold | 14,58 |
| 17 | (96) | IGI Insurance Company | 9,91 |

## IRON, STEEL, ELECTRONICS, ENGINEERING AND CONSTRUCTION

| | | | |
|---|---|---|---|
| 1 | ( 18) | African Oxygen | 74,52 |
| 2 | ( 30) | Autopage Holdings | 62,88 |
| 3 | ( 33) | Delta Electrical Industries | 56,75 |
| 4 | ( 50) | Pretoria Portland Cement Company | 38,81 |
| 5 | ( 55) | Blue Circle | 35,59 |
| 6 | ( 61) | Edward L Bateman | 29,16 |
| 7 | ( 63) | Aberdare Cables Africa | 26,34 |
| 8 | ( 66) | Anglo Alpha | 25,91 |
| 9 | ( 68) | Hudaco Industries | 24,65 |
| 10 | ( 80) | Dimension Data Holdings | 17,49 |
| 11 | ( 85) | Highveld Steel & Vanadium Corporation | 15,90 |
| 12 | ( 91) | Consolidated Metallurgical Industries | 12,39 |
| 13 | ( 92) | Group Five | 11,61 |
| 14 | ( 95) | LTA | 10,78 |
| 15 | ( 97) | Metkor Group | 9,63 |
| 16 | (100) | Dorbyl | 8,59 |

## FOOD

| | | | |
|---|---|---|---|
| 1 | ( 5) | Cadbury Schweppes (South Africa) | 123,51 |
| 2 | (29) | W B Holdings | 64,81 |
| 3 | (32) | Tiger Oats | 59,25 |
| 4 | (41) | Premier Group | 50,76 |
| 5 | (43) | C G Smith Foods | 45,26 |
| 6 | (52) | Irvin & Johnson | 36,74 |
| 7 | (60) | Foodcorp | 29,87 |
| 8 | (90) | Oceana Fishing Group | 13,44 |

## PHARMACEUTICAL AND MEDICAL

| | | | |
|---|---|---|---|
| 1 | (15) | Adcock-Ingram | 84,67 |

## TOBACCO

| | | | |
|---|---|---|---|
| 1 | ( 7) | Rembrandt Group | 102,93 |
| 2 | (17) | Utico Holdings | 76,89 |

## CHEMICALS AND OILS

| | | | |
|---|---|---|---|
| 1 | (21) | Engen | 72,3[illegible] |
| 2 | (34) | Omnia Holdings | 55,8[illegible] |
| 3 | (94) | Sasol | 10,95 |

# TOP 100 RANKED BY TURNOVER

Excluding turnover of associated companies.

Yearend cut-off date: November 92.

S/Times Bus (S) 6/12/92

| No | Share Name | Financial yearend | (R000s) |
|---|---|---|---|
| 1 | BARLOWS | Sep 92P | 35 165 000 |
| 2 | C G SMITH | Sep 92P | 17 836 300 |
| 3 | SA BREWS | Mar 92 | 17 698 600 |
| 4 | C G S FOOD | Sep 92P | 12 749 600 |
| 5 | MALBAK | Aug 92P | 10 992 000 |
| 6 | * DE BEERS | Dec 91P | 10 760 000 |
| 7 | PREMIER GRP | Apr 92 | 9 819 916 |
| 8 | TIGER OATS | Sep 92P | 9 212 000 |
| 9 | ISCOR | Jun 92P | 8 616 100 |
| 10 | ANGVAAL | Jun 92P | 8 205 800 |
| 11 | ANGLOVAAL IND | Jun 92 | 7 957 700 |
| 12 | SASOL | Jun 92 | 7 853 900 |
| 13 | ENGEN | Aug 92P | 6 560 000 |
| 14 | AMIC | Dec 91 | 6 460 000 |
| 15 | PIKNPAY | Feb 92 | 5 911 100 |
| 16 | M&R HOLD | Jun 92 | 5 841 876 |
| 17 | AECI | Dec 91 | 5 280 000 |
| 18 | OK | Mar 92 | 5 044 793 |
| 19 | METCASH | Apr 92 | 4 889 810 |
| 20 | SAFREN | Jun 92 | 4 698 300 |
| 21 | NAMPAK | Sep 92P | 4 364 200 |
| 22 | PEPKOR | Feb 92 | 4 265 818 |
| 23 | TONGAAT | Mar 92 | 3 968 297 |
| 24 | WOOLTRU | Jun 92 | 3 804 400 |
| 25 | TOYOTA | Dec 91 | 3 466 947 |
| 26 | TRADEGRO | Feb 92 | 3 322 754 |
| 27 | W & A | Dec 91 | 3 227 630 |
| 28 | METKOR | Sep 91 | 3 215 524 |
| 29 | MCARTHY | Jun 92 | 3 072 674 |
| 30 | RUSPLAT | Jun 92 | 2 910 100 |
| 31 | DORBYL | Sep 91 | 2 896 025 |
| 32 | SAPPI | Feb 92 | 2 843 700 |
| 33 | EDGARS | Mar 92 | 2 748 500 |
| 34 | ALTRON | Feb 92 | 2 645 461 |
| 35 | SENTRACHEM | Aug 92 | 2 433 168 |
| 36 | HOLDAINS | Aug 92P | 2 316 387 |
| 37 | REUNERT | Sep 92P | 2 277 588 |
| 38 | IMPLATS | Jun 92P | 2 263 800 |
| 39 | GRINAKR | Jun 92 | 2 161 181 |
| 40 | ICS | Sep 91 | 2 109 259 |
| 41 | CONSOL | Jun 92 | 2 097 600 |
| 42 | SAMANCO | Jun 92 | 2 063 904 |
| 43 | KERSAF | Jun 92 | 2 050 216 |
| 44 | ARGUS | Mar 92 | 2 011 539 |
| 45 | PLATE GLASS | Mar 92 | 1 981 341 |
| 46 | AMCOAL | Mar 92 | 1 895 646 |
| 47 | LTA | Mar 92 | 1 876 000 |
| 48 | RAND MINES | Sep 91 | 1 755 800 |
| 49 | FOODCRP | Aug 92 | 1 704 706 |
| 50 | I & J | Jun 92 | 1 638 490 |
| 51 | RANDCOL | Sep 92P | 1 620 863 |
| 52 | TRNS NTL | Jun 92P | 1 564 100 |
| 53 | SAFICON | Mar 92 | 1 530 996 |
| 54 | RAINBOW | Mar 92 | 1 510 923 |
| 55 | PEP | Feb 92 | 1 467 621 |
| 56 | STOCKS | Apr 92 | 1 438 702 |
| 57 | RUSFURN | Jun 92P | 1 422 727 |
| 58 | SA DRUG | Aug 92P | 1 388 194 |
| 59 | GROUP 5 | Jun 92P | 1 380 296 |
| 60 | HIVELD | Dec 91 | 1 378 434 |
| 61 | GRINTEK | Jun 92 | 1 235 209 |
| 62 | VOLTEX | Jun 92P | 1 226 571 |
| 63 | PREFCOR | Jun 92 | 1 218 698 |
| 64 | CURRIE FIN | Jun 92P | 1 210 323 |
| 65 | SAFCOR | Jun 92 | 1 201 618 |
| 66 | HAGGIE | Dec 91 | 1 181 571 |
| 67 | BOUMAT | Mar 92 | 1 163 235 |
| 68 | POWTECH | Feb 92 | 1 151 758 |
| 69 | C G SUGAR | Sep 92P | 1 143 409 |
| 70 | AFROX | Sep 92P | 1 113 248 |
| 71 | PALAMIN | Dec 91 | 1 106 081 |
| 72 | SEARDEL | Jun 92 | 1 058 679 |
| 73 | SCOCLIK | Apr 92 | 1 056 609 |
| 74 | ISG | Sep 92P | 1 048 500 |
| 75 | ABI | Mar 92 | 1 045 400 |
| 76 | AMREL | Mar 92 | 1 003 124 |
| 77 | SUN BOP | Jun 92 | 1 000 397 |
| 78 | SILTEK | Jun 92P | 978 956 |
| 79 | ALTECH | Feb 92 | 929 997 |
| 80 | GRESHAM | Apr 92P | 928 836 |
| 81 | FOSCHINI | Mar 92 | 922 815 |
| 82 | ADCOCK | Sep 92P | 914 997 |
| 83 | PPC | Sep 92P | 899 000 |
| 84 | CNA GALLO | Mar 92 | 840 359 |
| 85 | NEI AFR | Dec 91 | 797 327 |
| 86 | AFCOL | Mar 92 | 791 488 |
| 87 | SHIELD | Feb 92P | 782 042 |
| 88 | IMPHOLD | Jun 92 | 781 253 |
| 89 | WALTONS | Feb 92 | 748 163 |
| 90 | LANGBRG | Sep 92P | 741 800 |
| 91 | MICOR | Jun 92 | 731 181 |
| 92 | A ALPHA | Dec 91 | 728 226 |
| 93 | ROMATEX | Sep 91 | 722 400 |
| 94 | CLICKS | Apr 92 | 717 273 |
| 95 | HLH | Mar 92 | 693 724 |
| 96 | STD ENG | Aug 92P | 688 433 |
| 97 | PERSKOR | Jun 92P | 673 328 |
| 98 | BTR DUNLOP | Dec 91 | 671 980 |
| 99 | CONS FRAME | Jun 92P | 652 170 |
| 100 | TRENCOR | Jun 92 | 643 766 |

* Based on pro-forma combined results attributable to De Beers/Centenary AG linked units.

The table does not include non-operating pyramid companies, gold mining companies, insurance companies and banks. Where the company year-end is indicated with a "P", the results are based on the latest preliminary results.

Source: I-NET.

# Boomers, busters of the '87 spree

(180)

S Times (Buss) 6/12/92

**By JULIE WALKER**

THE listings boom of 1987 produced 10 companies which have made the Top 100 growth table in the five years since October 1 of that year.

Those heady days, when almost every flotation found overwhelming public support and handsome oversubscription, are perhaps better remembered for the large number of failures than for the winners. But investors in one of the Top 10 must be well pleased with their selection.

Top of the 1987 pops five years on are Imperial Group, followed by Royal Corporation, NBS, Safcor, Autopage, Unitrans, Lenco, Dimension Data, Sechold and Amshoe.

Several have changed their names. Royal started as Lovasz Chemicals, which expanded into food. It distributed food and chemical company shares to its members. Sechold started as Securities Discount House, but shortened its name to its common abbreviation and is one to watch for next year.

Amalgamated Shoe started as Jaguar before gobbling up competitors and broadening its scope.

## CRAZY

Slightly more than 200 companies found their way to the JSE boards in that crazy year and 70% of them are still listed in one form or another. In many cases, the original managements bought back the assets they so readily sold into listing vehicles at handsome premiums, leaving the company as a cash shell.

Merchant banks and boutiques made a living filling these cash shells with other businesses ready to list. A notorious example is Subroc, now KNJ, whose managing director of the time, Keith Jenkins, regrets having reversed into the listed vehicle because the remnants caused so much trouble.

In other cases, small companies that were a thorn in the side of bigger competitors were bought out — such as AECI's take-out of Swimline, Powertech's purchase of Yelland and UBS's takeover of Allied to become Absa.

Many will sorrowfully remember Lefkochrysos, Loucas Pouroulis's "white gold" platinum mine at Brits. Pitched at an average of R13, the price shot to R25 before the October 1987 global equity-market crash proved the turning point in Lefko's fortunes.

I remember having lunch during the week of the crash with a man who thought he had picked up Lefko shares at a bargain R16. When Mr Pouroulis ran out of financial backers for the underbudgeted project, it was onsold to Rand Mines at R4,50 a share and renamed Barmines.

Rand Mines had already begun establishing its own platinum mine, Barplats, at Kennedy's Vale in the Eastern Transvaal. But this was shelved in favour of Barmines.

When Rand Mines discovered the true cost of mining, both projects were mothballed and control passed to Gencor's Impala Platinum. Barmines and Barplats shares are nearly worthless now.

Barbrook was a 1987 gold-mine listing after a run of independents such as Osprey, Eersteling and Rogold. Mining-house championing was to have been the key to success, but Barbrook also proved more trouble than it was worth to Rand Mines and went into liquidation.

Northam and Lebowa Plats were two more platinum ventures listed that year — both have yet to display full merit.

It was a year of granite listings — Marlin, Kudu and Keeley all coming to the market. They all flew for a while and became investors' darlings, but have suffered from world recession for two years and are reportedly seeking to rationalise. Kudu has already struck a deal with unlisted Impala Granite.

The year 1987 might be remembered by many for the clutch of computer companies that came to market. My view was one of plenty of failures, but on closer examination many have actually done well.

Didata is one of the best and companies such as Spescom, Datakor, Kopp and Jasco spring to mind as success stories. Among those gone to grief count Computer Warehouse, Control Data Systems and CRB.

Financial services companies generally shaped well. The 1987 listings include Fidelity Bank, Crulife, Saambou and Board of Executors.

At its peak, the Development Capital Market numbered more than 100 listings. Now there are a quarter of that. Several companies graduated to the main board, such as Klipton, Spur Holdings and Aries Packaging. Yet more went down the tube, such as World of Music, Fred Whitehead and Playtime.

# Big money-spinners

THESE are the real biggies of corporate South Africa — the top profit makers.

Anglo American Corporation and De Beers are still easily SA's most profitable companies — despite both suffering a drop in earnings in the past year. The only significant change from last year's Top 100 is that Anglo American has now edged ahead of its stablemate.

De Beers, which features in the Fortune 500 rankings, is rated as the world's 41st most profitable industrial company.

Barlows, which reported mediocre results, has moved up in the rankings from being the sixth-most profitable company to the third. But this is largely as a result of previous contenders, such as Gencor, showing a bottom-line decline.

The profit ranking includes equity-accounted earnings. This means there is a lot of double counting — between the likes of De Beers and Anglo and Barlows and its subsidiaries.

Four companies can be classed billionaires this year, but Gencor has lost this status after its profit fell from R1,4-billion in 1991 to R766-million.

Another 51 companies achieved profits of more than R100-million.

# Barlows a world leader

(180) STimes 6/12/92

By CHERILYN IRETON

INDUSTRIAL conglomerate Barlow Rand and its food subsidiaries are far ahead of corporate South Africa when it comes to sales, as shown by the table.

The group's dominance is in part due to double counting. Barlows' main earnings generator is CG Smith, which in turn holds CG Smith Foods and Tiger Oats.

Barlows is not only a heavyweight in South Africa. Fortune magazine, which uses sales to measure the world's largest industrial corporations, this year ranked the group 118th in its Global 500 list. The top Fortune company was General Motors with sales of $123,8-billion.

## RETAILER

In spite of taking strain from the recession, 77 of the listed companies generated sales of more than a billion rands. This is six more than managed this last year.

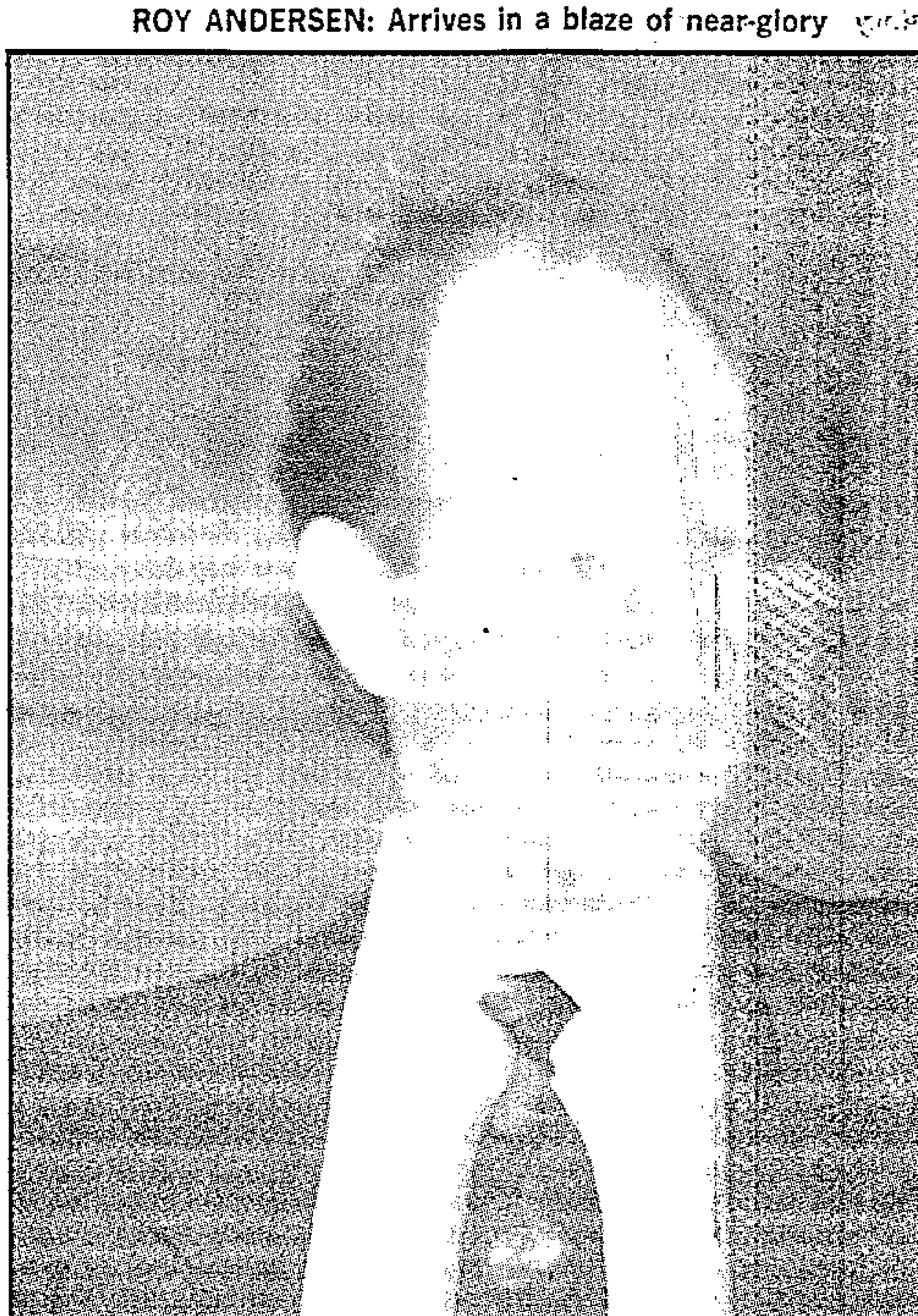
The top listed retailer is Pick 'n Pay with sales of R5,9-billion. OK is not far behind with R5-billion. Pepkor, Wooltru and Tradegro make it into the top 30.

Toyota is top motor manufacturer with sales of R3,4-million.

Other companies to make the Fortune global list are De Beers, ranked 349th, Sasol 450th and Iscor 476th.

The Business Times top company Trencor scrapes into the Turnover Top 100 with sales of R643,8-million.

ROY ANDERSEN: Arrives in a blaze of near-glory



GREG BLANK: Out on his ear after a scam

# The good, the bad — and those who got away

180

S/Times 6/12/92

By JULIE WALKER

Sunday Times TOP 100

CONVICTED fraudster and former stockbroker Greg Blank must take the chequered flag for this year's arch-villain.

His crime — defrauding the Old Mutual of R10-million by operating on his own account ahead of acting for the life office — certainly smacks of villainy.

But it is highly unlikely that Blank is the only person ever to have acted in this fashion. He was merely caught — and stayed to face the music and an eight-year jail sentence.

Other parties to the crimes, such as Old Mutual's Marco Celotti and David Schapiro, fled the country.

While we are on the JSE, new president Roy Andersen came to the fore in April in a near-blaze of glory. Tighter control, financial discipline and surveillance made for more-nervous stockbrokers, but perhaps eased the minds of investors.

## JIBES

Mr Andersen's predecessor Tony Norton unfairly took much of the rap for the profligate ways of the JSE committee itself on such issues as the gilts trading floor (a disaster), the Traded Options Market (an embarrassment) and the insistence that all brokers use the new broker-dealer accounting computer system because its high development cost had to be covered somehow (a travesty in the bastion of free enterprise).

To his credit, Mr Norton has never responded to the jibes. He is now head of the Council of Clearing Bankers.

Seldom have businessmen been so united in their views as they were about the yes vote in March's constitutional referendum. It seems like an eternity ago now, but Times Media managing director of the day Stephen Mulholland openly led a campaign to get the nation's affirmative. Premier's Peter Wrighton was another vocal supporter.

Domestically, business was hampered by the inability of politicians to get their heads together and sort out a new constitution.

The highly disruptive mass-action campaign, spearheaded by communistic ANC executive Ronnie Kasrils, damaged any positive moves made by more moderate policy makers.

Mr Kasrils was at the helm of the Bisho marchers, 29 of whom met their death. Mr Justice Goldstone in his inquiry into the massacre recommended that Mr Kasrils be censured for knowingly or negligently leading the marchers into a hail of gunfire.

After Bisho, the financial rand collapsed and the potential for foreign companies to invest in SA receded.

Strikes also played their part in damaging an already difficult economy. Trade unionist Bernie Fanaroff kept Seifsa employees out of work for three months. Steel and engineering companies simply could not and would not meet the demand for high pay increases and strike-leader Fanaroff had to back down with loss of face.

The generally high level of violence was said to have been responsible for the cancellation of talks between Foodcorp and US food giant Heinz.

At the other end of the spectrum, the departure of three National Party stalwarts — Barend du Plessis, Gerrit Viljoen and Stoffel van der Merwe — in the past 12 months looked akin to rats deserting the sinking ship.

SA's bankers deserve a collective medal for promoting the country abroad and establishing banks and branches in neighbouring territories and wider afield.

Least-sung hero is Standard Bank chairman Conrad Strauss, whose reassurances to the world about SA's longer-term prospects were well received.

September's agreement to get the national economic forum underway brought to the fore one Jayendra Naidoo — not to be confused with Cosatu general secretary Jay Naidoo. Bobby Godsell, too, had a part to play in getting together this body which will give government, labour and business a platform to reach consensus on sound economic and political practice.

The ANC's Jayendra Naidoo also played a key role behind the peace accord scenes, first co-ordinating the ANC-SACP-Cosatu delegation and then editing 60 pages of comment received from the draft document.

Jayendra Naidoo and Bobby Godsell, too, worked together through Saccola and Cosatu to avert stayaways at the height of the mass-action campaigns.

Mr Naidoo was nevertheless quick to pay tribute to mediator John Hall, whose negotiating experience at the coal face of business helped to keep the accord alive.

Mr Hall, chairman of the peace accord committee, is a member of the Sunday Times Top Five businessman club for his services to Barlows and industry in general.

## FRIENDS

Cosatu proved an ally for Eskom chief executive Ian McRae, whose willingness to meet the mass-march on Megawatt Park in June raised his esteem and contributed to his appointment for one more year at the helm of the electricity company.

He is the moving force behind Eskom's drive to connect more houses to the grid this year — connections reached the target 15 000 a month mid-year whereas only 38 000 houses were linked up in the whole of 1991.

De Beers lost a few best friends after its management's upbeat roadshow at mid-year. The shares came down by more than half on the JSE after the group announced a possible cut in final dividend.

# Preparing the path to profitabilit

STAR 7/12/92

**Retired company executives are quitting their garden deck chairs and bowling greens to volunteer to put their talent and experience back into use to guide a new generation of entrepreneurs into the business world, reports MICHAEL CHESTER.**

MORE and more budding black entrepreneurs are being steered by the invisible hand of a team of seasoned experts who have come out of retirement to show the newcomers how to climb the business ladder.

It is a low-profile exercise to mobilise the talent and hard-headed experience of former corporate executives to act as backroom advisers to the next generation of entrepreneurs.

The retired gurus — engineers and technicians to accountants and salesmen — are being persuaded to pack away their garden deckchairs to join a task force of volunteers known as the International Executive Service Corps (IESC).

Their triumphs as troubleshooters when new mini-business ventures run into snags are becoming legendary as their numbers grow and their assignments multiply.

"It's often on the bush telegraph that we hear about fledgling small firms encountering problems," says Kenneth van de Laar, executive director of IESC South Africa. "We hand-pick the ideal troubleshooter familiar with the snags — and off he goes to put the business back on course.

"Finding the solutions may take a few hours, or several days, even weeks. The root of the problem may be technical, poor bookkeeping, mistakes in production budgets, or difficulties in finding the best markets. Our chaps stick at it until the problems are licked.

"We find lots of enthusiasm and sheer determination in most new mini-ventures struggling to find a foothold in business, but also a lot of inevitable frustration caused by lack of basic management know-how among newcomers to the business world.

"That's where we can mobilise the grey matter of lifetime experience. It's amazing how many executives go into retirement — and then itch to put their skills and talents back into use from time to time."

The IESC, based in the US and backed by the US Agency for International Development, runs a global network of similar operations to encourage Third World enterprise. South Africa had to wait until apartheid was off the agenda before it joined the exercise, but the Johannesburg head office has already spread to branches in Durban, Cape Town, Port Elizabeth and East London.

Scores of former executives have added their names to the roster of volunteers on standby for firms that run into trouble.

Xhosa dressmaker Yolisa Mzamo is one of hundreds of entrepreneurs whose mini-businesses have been set on the road to success.

She was confident she had found the ideal designs for the fashion range of clothes she was producing at the industrial estate at Mdantsane in the Ciskei, but complaints streamed in that the colours began to run when the garments were washed.

IESC trouble-shooter Cedric Harrop, a former director of a pharmaceutical company, homed in on the problem. Yolisa was advised to stick with the designs, but use different fabrics, and a special new set of dyes recommended after a lot of research.

Within weeks the new fashion range was a top-seller in boutiques in Cape Town and Johannesburg. And now orders are flowing in from Germany.

The Rivoni Workshop for the Blind at Louis Trichardt also sent out an SOS. Though handicapped with no better than partial sight, the workers were packed with enthusiasm ... but frustrated with the poor profit margins on the wire coat-hangers and wooden stools they were turning out.

Retired engineer Arnold Nelson set off from Johannesburg to lend a hand.

"In the coat-hanger section, production methods were ingenious, but impractical," he reflects. "In the woodwork section, the crafted stools being made looked very attractive, but unprofitable as a business proposition."

Production lines were re-designed. Most of the equipment was replaced. New tools were used. Output rocketed to 2 400 hangers a day. Instead of making stools, the carpenters switched to making wooden pallets with an instant order book from a large tile manufacturer.

It was Nelson's production know-how that also went into the success of a small company that was started in Soweto to manufacture metal window frames for supply to local house builders.

The down-to-earth approach of the volunteer teams was also set in motion to solve the constant problems encountered by township spazas and hawkers who had no access to freezers to keep foods and drinks cold and fresh, either because of the expense or simply the lack of electricity.

Volunteer Ray Mitchley sat down to search for solutions with Tony Sibiya, chairman of the Zimbambeleni National Spazas and Hawkers' Association in northern Natal.

The result: the design and production of a low-cost galvanised iron cooler chest, the size of a kitchen table, using blocks of dry ice that keep the contents well below freezing level for as long as 10 days at a time. The design means neither mains electricity nor batteries are needed, and maintenance chores have been reduced to almost zero.

A prototype has proved the viability of the unit, and Mitchley and Sibiya believe demand will be enormous once production starts in earnest.


**Success story . . .**

Volunteer business adviser Ron Pitchford admires products assembled in the workshops at a small company named Shabax on the outskirts of Alexandra. Jerry Ntimbane, head of the firm, holds one of the hundreds of washing machine control panels that the workshops supply to Barlow Rand.

"We had problems with bookkeeping, cash flows and hitting delivery dates," recalled Ntimbane. "We asked the IESC to lend a hand — and now sub-contract orders for engineering components are coming in from several big companies."

Picture: George Mashinini

"There are an estimated 150 000 spaza shopkeepers in South Africa," notes Van de Laar. "More than half must be without refrigeration so one can easily imagine the impact the new units could have on shopping routines."

Also being developed are new designs for smaller cooler boxes for use by street vendors.

"Bringing more black business ventures into the economic mainstream is both crucial and urgent," says Van de Laar. "Our particular concern is that they are run on sound economic principles.

"Whatever the eventual outcome of the debate surrounding the redistribution of wealth in this country, it is quite clear that until the population as a whole begins to perceive personal benefits under a system of free enterprise, the future for corporate South Africa will continue to be uncertain.

"Most business leaders now agree with that proposition and its corollary that way
be found to multiply
bers of medium to la
esses that are seen to
or controlled by black

"There are few c
ates that could main
competitive edge if t
took unique or unusua
risks. The ideal situat
fore would be for gr
compete in a particu
trial sector to jointly
allocate a percentag
net profit for invest
venture capital fund e
for new mini-business

"For example, the
sector, life assuranc
and the mining hou
each set up a fund of
Or else they could all
to a single unified fu
seas international dev
agencies and foundat
indicated willingness
pate if leading local
take the initiative
their commitment t
able development.

"Bridging the gap
the industrialised com
our country and the d
sector of the populat
of the gravest long-ra
lems and one of the
challenges we face to
tional network to e
survival of the free
system is vital.

"A new culture ne
initiated at all levels o
life. Opportunities for
been called internal
tion should be inv
Managers should be e
to look beyond sub-c
the catering, office
gardening and similar

"Component manuf
sembly, finishing and
pects of production
targeted.

"A new era of latera
and innovative ide
begin. In time we
that the process wil
colour-blind. But what
pens, one principle m
violate — the basis f
ing black ownership
ways be economically

# Pro-business slant to ANC anti-trust policy

By Sven Lünsche

180

STAR 7/12/92

Anti-trust legislation by the ANC is likely to have a "pro-business" bias and is to be separated from policies aimed at addressing the concentration of economic ownership, says ANC economist Tito Mboweni.

He was speaking at the conclusion yesterday of a three day workshop on anti-trust, monopoly and merger policy.

The workshop was attended by ANC economists, private sector managers and a range of international experts on anti-trust laws.

The ANC's strong focus on anti-trust legislation is an indication that it will take the place of large-scale nationalisation as the major tool to redefine the largely white-controlled patterns of ownership.

Mboweni said the ANC had identified a set of key issues in dealing with anti-trust legislation, including setting-up an investigative arm similar to the UK's Monopolies and Mergers Commission.

Legal powers to take action on such findings should rest with the Department of Trade and Industry, he added.

"We are certainly not convinced that the SA Competitions Board, which has a very weak profile, can serve as a basis to investigate monopolies and mergers which impede competition in the economy."

Mboweni said anti-trust legislation could not be seen in isolation from "the power of the conglomerates and a long-term industrial strategy".

Yet, he added, the overriding tone of the workshop suggested that anti-trust policies should be "pro-business" and the ANC identified with this sentiment.

He said the organisation would use the input from the participants in the workshop to draw up a comprehensive anti-trust document, possibly by the end of February next year.

It also seems that the ANC will heed the advice of the senior economist of the UK's Monopolies and Mergers Commission, Geoffrey Sumner, who told the workshop that the confluence of economic power in the economy should not be redressed by retroactive competition policy.

Sumner said investigatory and tribunal agencies should be set up which "as far as possible should not have political bias".

The ANC was also warned that anti-trust policies alone could not achieve a radical change in the patterns of ownership and control.

JSE president Roy Andersen said the inward-looking policies of exchange controls, import tariff protection, import substitution and self-sufficiency during the apartheid years had played a critical role in the development of this concentration.

"These are the underlying causes of concentration which need to be dealt with," he said.

Despite the focus on anti-trust policies, the ANC has not ruled out partial nationalisation of mining groups.

In a paper to the workshop, ANC minerals economist Dr Paul Jordan said the state had a right to equity participation in private mining companies because of its ownership of the natural resources of a land.

Strategies proposed by Jordan included nationalising cross share ownerships between mining groups, particularly De Beers and Anglo American, and giving the state a minority equity holding of about 20 percent.

He said joint control of a mining group was working well in the case of De Beers and the Botswana government through the jointly contolled Debswana operation.

Furthermore, white control could be diminished by "a meaningful employee share holding scheme, which is not based on income".

Mboweni said the proposals addressed the problem of inter-locking directorships, but added that it remained to be seen whether this should be dealt with through nationalisation or anti-trust policies.

# Palladium rises to 18-month high

By Neil Behrmann

LONDON — Palladium prices surged to their highest levels in 18 months last week in response to lower Russian supplies and a sharp increase in orders from Japan.

At $103 an ounce, palladium, the main by-product of platinum, is 25 percent higher than levels in August. Its trading range was $80 to $85 for most of this year.

Palladium, by far, has been the best-performing precious metal. Its appreciation since August compares with a four percent increase in the price of platinum, a constant silver price and a four percent decline in gold.

The rise in palladium prices is a welcome boost to SA platinum companies.

SA palladium production is forecast at 1,28 million ounces this year, compared with 2,82 million ounces of platinum, according to Johnson Matthey.

For each $10 increase in the palladium price, revenue for Rustenburg, Impala, Western and others rises by $12,8 million — not an insignificant sum.

Platinum's price increased by about $13 in the same period.

Since the rand has fallen against the dollar, platinum companies which were under pressure earlier in the year, should be on a better footing.

Yet actual revenue gains will depend on contract prices.

A palladium futures contract was introduced in August on Tokom, Tokyo's commodity exchange. Dealers say that on Wednesday volume reached a quarter of a million ounces and on Thursday 650 000 ounces.

Thursday's trade alone equalled activity for the whole of last month, say dealers.

London dealers are perplexed about the sudden burst of buying on the Tokyo futures exchange.

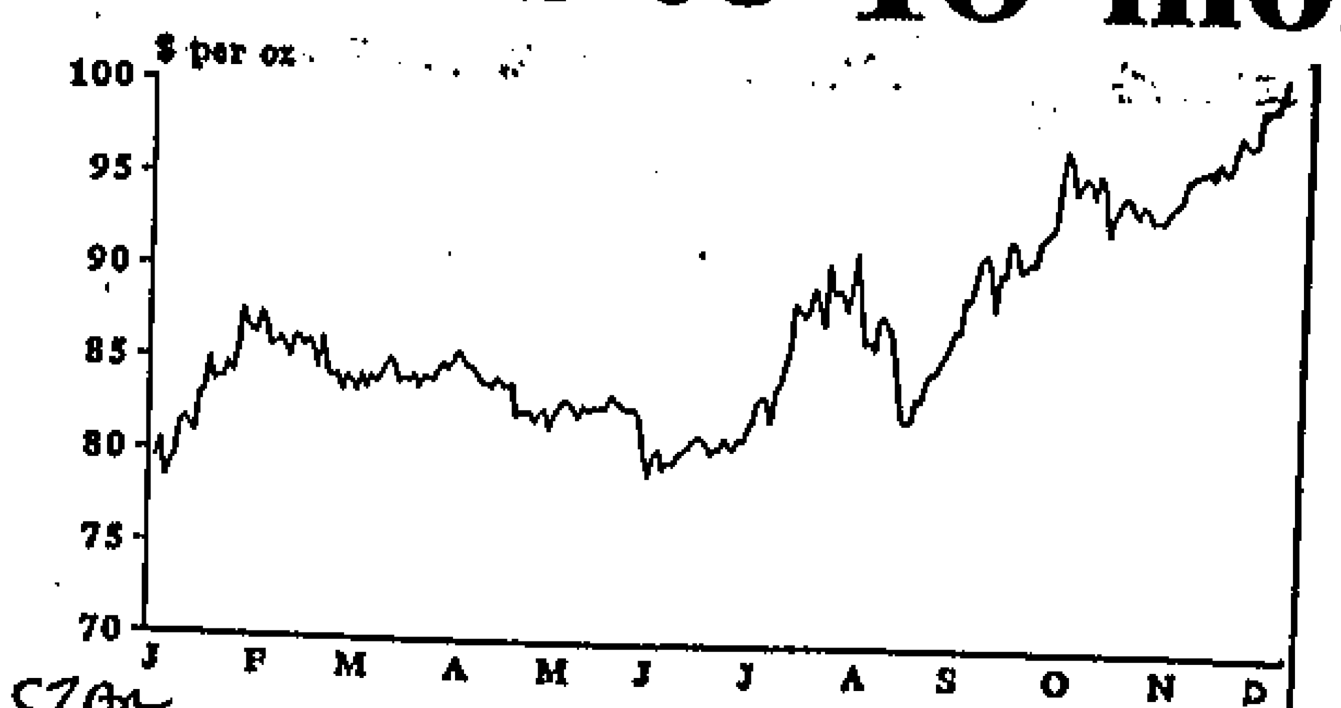
Some believe that Japanese motor companies intend using more palladium in anti-pollution auto catalysts.

Others say that "cold fusion" energy experiments are keeping the palladium pot boiling.

Cold fusion requires palladium to generate energy, but so far there is no scientific proof on whether the process will work.

According to some scientists, energy is produced when an electric current is sent through palladium electrodes that are immersed in a jar of heavy water enriched by a heavy form of hydrogen known as deuterium.

Japan, totally dependent on oil imports, is anxious to develop alternative energy sources.




STAR 7/12/92.

The price of palladium this year

Robbie Williams . . . taxing food is untenable

# IDC disposes of Senchem shares

STAR 7/12/92

Finance Staff

The Industrial Development Corporation (IDC) has placed its R90 million shareholding in chemical group Sentrachem with 14 fund management groups.

IDC senior general manager Gerard Morse said at the weekend the IDC had sold its 13,5 percent stake as part of its policy of realising mature investments to fund new industrial projects.

Morse said the IDC had had a long, happy and productive association with Sentrachem, but that its development role had now been fulfilled and it was appropriate that it should realise its investment for other projects.

He said Alusaf, the Columbus stainless steel project and Namakwa Sands were some of the projects requiring IDC support.

The IDC is currently investigating the unbundling of Industrial Selections and National Selections, its two listed investment trusts.

All 14 institutions accepting the shares have committed themselves to supporting Sentrachem's proposed 40-for-100 rights issue.

The rights issue will go ahead only if the purchase of Chemplex Australia is successfully completed.

While the transaction has been delayed as a result of the Government's move to limit the use of the finrand for off-shore acquisitions, Sentrachem chief executive Dr John Job is said to be leaving for Australia soon to finalise the deal.

Job said the IDC's disposal provided an ideal opportunity to broaden shareholder participation in Sentrachem.

Seven of the institutions, which accepted the shares at 575c each, are new holders.

# Williams favours export incentives

By Stephen Cranston

STAR 7/12/92

Tiger Oats chairman Robbie Williams has urged the Government to retain export incentives and not to succumb to pressure them.

In the annual report for the year to September, Williams says group exports and international sales now exceed R1,2 billion.

But it would be most unwise to expect SA to be able to compete effectively without such incentives when export subsidies in one form or another are commonplace worldwide.

"As a group we are acutely aware of the need to be internationally involved and competitive."

While Tiger Oats supports VAT as a better method of indirect tax than GST, the company feels strongly that for food, zero-rating should be applied across as broad a front as possible.

"The argument that this would allow the rich to eat tax-free is more than outweighed by the crying need to feed people as cost-effectively as possible.

"Unless adequate arrangements are made through food aid schemes to provide basic sustenance for the poor, we believe taxing food is untenable."

# Tiger Oats should narrow its focus

STAR 7/12/92

By Stephen Cranston

Earnings growth at Tiger Oats has been consistent over the last three years.

After two years of increases in earnings per share of about 13 percent, the group turned in an 11 percent increase in the year to end-September.

This is not the kind of performance that would normally lead to Tiger's demanding rating of a 20,1 P/E ratio and a 1,7 percent dividend yield.

But investors like Tiger because it has taken a long-term view of its food basket. Market share, rather than short-term profitability, is king.

The group seems to tolerate a mediocre performance in some divisions — returns in the edible oil business have been poor for some years — but it has been able to acquire a formidable portfolio of companies and brands which have compensated for this.

Unlike arch-rival Premier, Tiger has held on to its interests in poultry and eggs, even though they have undoubtedly been a drain on margins and profitability.

The exact contribution of these interests cannot be determined from the annual report.

But margins for County Fair and Golden Lay were poor and under pressure and Tiger is waiting for rationalisation in these industries. It has the financial muscle to ride out such attrition.

It is surviving a price war in the animal feed area, for example. The group says a number of rival animal feed mills have closed down because of over-capacity in the market, but Tiger can afford to live with negligible margins.

But is it in the interests of Tiger shareholders to persist with a group with such an inconsistent profit mix?

In the agri-business and food processing division, for example, Langeberg, with a third of the turnover contributed, two-thirds of the profits.

Tiger is counting on improvements and can point to edible oils, margarine and peanut butter, which lifted operating profit by 48 percent, though off a very low base, and which still have a negligible opeating margin of less than three percent.

Tiger can still rely on certain divisions ensuring that its growth at least exceeds 10 percent.

Pharmaceuticals now contribute a quarter of operating profit.

## Forefront

Adcock Ingram continues to be at the forefront of new product development and has the country's best portfolio of pharmaceutical brands.

Spar continues to show good growth. Perhaps the best opportunities will arise from its international shipping and trading operations.

It is well-placed to meet new opportunities after the R21 million expansion of its Durban bulk shipping facilities.

Tiger's advantage over other food suppliers is that it is represented in all the staple categories — and in the case of rice is the only producer, so if there is swapping in consumption between maize, bread, rice and pasta Tiger will be represented.

But is such breadth always an advantage? Tiger might be advised to take a look at its portfolio and concentrate its resources and efforts on areas providing the best returns.

# JSE could gain from Hong Kong crash

STAR 8/12/92

By Neil Behrmann

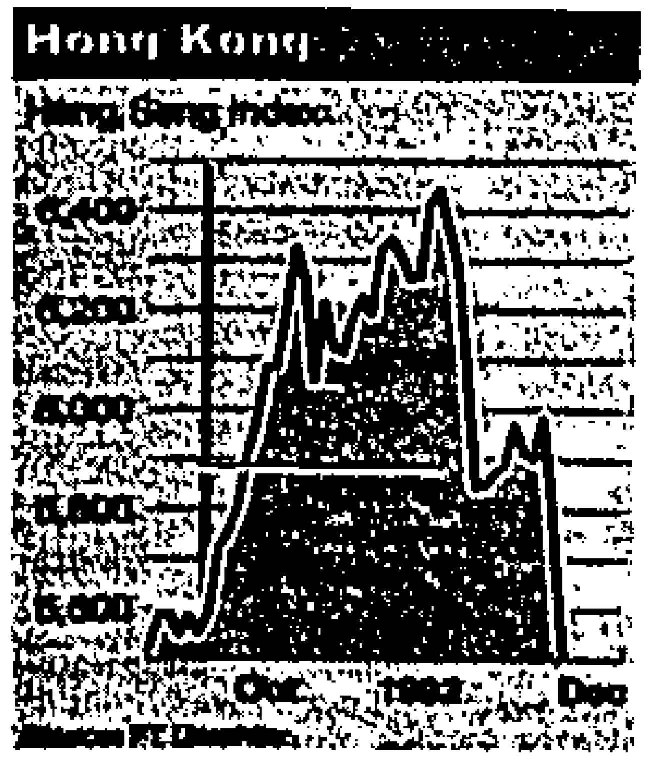
LONDON — The crash on the Hong Kong share market might benefit the Johannesburg Stock Exchange indirectly.

International investors may begin to perceive that the abnormally high international returns of South African investments are compensating for the risks, while Chinese citizens may well buy more gold.

Since its low point of 2 300 points on the Hang Seng index in mid-1989, the Hong Kong market has been oblivious to political risk and soared to a peak of 6 70 points three weeks ago. It was up by 50 percent on the year at that time.

Since then the market has tumbled by 20 percent because international and local investors are concerned about China's intentions towards the colony. The transfer of power to the Communist regime takes place in 1997.

Fund managers who sold Hong Kong shares in 1989 when the Beijing regime ruthlessly




suppressed a democratic movement, poured money into the market this year. Before the crash, average price-earnings of Hong Kong shares topped 15, compared with norms of 10 in the past.

Foreign fund managers, on the other hand can buy rand government bonds on yields of 23,5 percent, giving a real return of nearly 12 percent after inflation and an income payback on capital of just over three years.

Shares such as Anglo American and De Beers, huge multinationals by any standards, are on price-earnings ratios of four and five and leading gold share dividend yields are between 12 and 15 percent.

Those returns illustrate that South Africa is still being shunned. But developments in Hong Kong may well be a catalyst for a change in thinking.

The high SA returns may reflect excessive pessimism, particularly since much lower returns in "emerging markets" do not truly reflect their risks.

The crisis in Hong Kong accelerated in October when the new governor, Chris Patten, proposed some minor democratic changes to basically a benevolent colonial dictatorship of Britain.

The Beijing regime, which continues to repress its own citizens brutally, was furious.

It made an ominous threat: "Contracts, leases, and agreements signed by the Hong Kong government which are not approved by the Chinese side will be invalid after June 30 1997."

Projects affected are a $1,2 billion container terminal, power station investments, tunnels, telecom, television, bus and ferry franchises.

Earlier during the dispute, optimists argued that the China would concentrate on politics and not threaten the economy.

Now there are deep concerns and many vested Hong Kong and international businessmen want Patten to back down and continue previous British policies of appeasement.

The market is worried. The United States, Britain and others are deeply concerned about Beijing's human rights record. President-elect Clinton is threatening to end China's favoured nation trade status.

Once again the market is becoming aware that Hong Kong's economic growth rate of six percent may not continue at such a pace.

UK fund managers whom I interviewed were cautious about the Hong Kong market's short-term prospects.

London brokers, who do not have axes to grind, say that Hong Kong price-earnings ratios, currently 12, should be lower because of political risk.

International banks will be wary about exposure to Hong Kong. They do not like China's threats to Hong Kong government projects.

If loans are not forthcoming, Hong Kong's economic growth will be adversely affected, say brokers.

## Faster rate

SA securities are beginning to recover on international markets because the government and ANC are negotiating for a power-sharing agreement.

Hong Kong is growing at a far faster rate than depressed South Africa, but at least SA is moving towards democracy.

The Beijing regime, on the other hand, is out of step with the rest of the world and after the latest jolt, international investors are asking what will happen to Hong Kong in four years time?

And what average price-earnings ratio reflects political risk?

# DP shoots down ANC proposal

(180)

The ANC suggestion that the cross-holdings of large conglomerates be nationalised should be rejected out of hand, says Democratic Party (DP) finance spokesman Ken Andrew.

An ANC economist put forward over the weekend at the organisation's anti-trust policy workshop that such a move could help to address the large imbalances in ownership patterns in white-controlled mining finance houses. STAR

"The ANC professes concern about the economy and low levels of investment, but it is irresponsible statements such as this that contribute significantly to our economic woes," Mr Andrew said yesterday.

"The mere fact that one of the ANC's economists made such a suggestion will be enough to scare off investors."

Economists say the adoption of such recommendations would cause a further outflow of capital from South Africa, which already has perilously low levels of investment. 8/12/92

— Sapa.

# Close corporation registrations on rise

STAR 8/12/92

Despite the recession there was a net increase in the number of new close corporations formed in the first five months of this year, says the credit information organisation Kreditinform.

Central Statistical Service figures for January to May 1992, with the total for 1991 in brackets, were:

New proprietary limited companies formed — 2 981 (7 233).

De-registered and dissolved proprietary limited companies — 2 985 (6 800).

New close corporations — 13 895 (33 069).

De-registered and dissolved close corporations 3 076 (5 521).

Ivor Jones, managing director of Kreditinform, says: "The balance of newly formed CCs versus de-registration and dissolutions leaves a net gain of some 10 000 CCs, while fewer proprietary companies are being formed.

"It appears that as CCs are easier to establish and control and require less red tape, more are being established.

"Retrenched people setting up their own businesses will have also contributed to the figure."

However, Jones warns that researchers compiling credit and business information reports have noted that CCs are also a vehicle to formalise an association and relationship between the members of various CCs.

In business, especially those extending credit, it is vital for companies to know who they are dealing with and their creditworthiness and operating credentials.

"The trick for credit-granting companies is to find the relationship between CC members and other CCs and companies — especially if they have been involved previously in liquidation.

"Fortunately, the modern systems for the database management of business information enable users to establish instantly any relationship between the directors of existing and new Pty Ltd companies and CCs.

— STAR 8/12/92.

# JSE could gain from Hong Kong crash

STAR 8/12/92

By Neil Behrmann

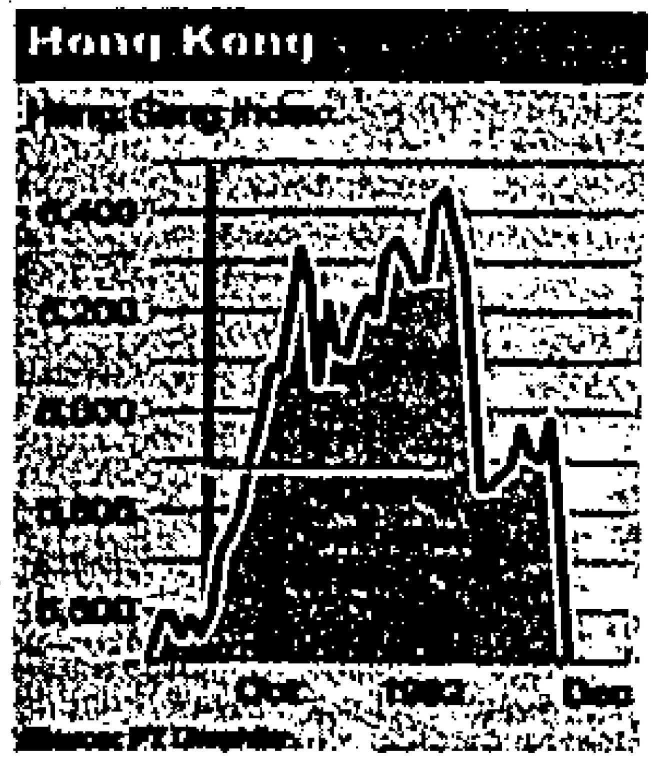
LONDON — The crash on the Hong Kong share market might benefit the Johannesburg Stock Exchange indirectly.

International investors may begin to perceive that the abnormally high international returns of South African investments are compensating for the risks, while Chinese citizens may well buy more gold.

Since its low point of 2 300 points on the Hang Seng index in mid-1989, the Hong Kong market has been oblivious to political risk and soared to a peak of 6 70 points three weeks ago. It was up by 50 percent on the year at that time.

Since then the market has tumbled by 20 percent because international and local investors are concerned about China's intentions towards the colony. The transfer of power to the Communist regime takes place in 1997.

Fund managers who sold Hong Kong shares in 1989 when the Beijing regime ruthlessly




suppressed a democratic movement, poured money into the market this year. Before the crash, average price-earnings of Hong Kong shares topped 15, compared with norms of 10 in the past.

Foreign fund managers, on the other hand can buy rand government bonds on yields of 23,5 percent, giving a real return of nearly 12 percent after inflation and an income payback on capital of just over three years.

Shares such as Anglo American and De Beers, huge multinationals by any standards, are on price-earnings ratios of four and five and leading gold share dividend yields are between 12 and 15 percent.

Those returns illustrate that South Africa is still being shunned. But developments in Hong Kong may well be a catalyst for a change in thinking.

The high SA returns may reflect excessive pessimism, particularly since much lower returns in "emerging markets" do not truly reflect their risks.

The crisis in Hong Kong accelerated in October when the new governor, Chris Patten, proposed some minor democratic changes to basically a benevolent colonial dictatorship of Britain.

The Beijing regime, which continues to repress its own citizens brutally, was furious.

It made an ominous threat: "Contracts, leases, and agreements signed by the Hong Kong government which are not approved by the Chinese side will be invalid after June 30 1997."

Projects affected are a $1,2 billion container terminal, power station investments, tunnels, telecom, television, bus and ferry franchises.

Earlier during the dispute, optimists argued that the China would concentrate on politics and not threaten the economy.

Now there are deep concerns and many vested Hong Kong and international businessmen want Patten to back down and continue previous British policies of appeasement.

The market is worried. The United States, Britain and others are deeply concerned about Beijing's human rights record. President-elect Clinton is threatening to end China's favoured nation trade status.

Once again the market is becoming aware that Hong Kong's economic growth rate of six percent may not continue at such a pace.

UK fund managers whom I interviewed were cautious about the Hong Kong market's short-term prospects.

London brokers, who do not have axes to grind, say that Hong Kong price-earnings ratios, currently 12, should be lower because of political risk.

International banks will be wary about exposure to Hong Kong. They do not like China's threats to Hong Kong government projects.

If loans are not forthcoming, Hong Kong's economic growth will be adversely affected, say brokers.

### Faster rate

SA securities are beginning to recover on international markets because the government and ANC are negotiating for a power-sharing agreement.

Hong Kong is growing at a far faster rate than depressed South Africa, but at least SA is moving towards democracy.

The Beijing regime, on the other hand, is out of step with the rest of the world and after the latest jolt, international investors are asking what will happen to Hong Kong in four years time?

And what average price-earnings ratio reflects political risk?

# DP shoots down ANC proposal

The ANC suggestion that the cross-holdings of large conglomerates be nationalised should be rejected out of hand, says Democratic Party (DP) finance spokesman Ken Andrew.

An ANC economist put forward over the weekend at the organisation's anti-trust policy workshop that such a move could help to address the large imbalances in ownership patterns in white-controlled mining finance houses. STAR

"The ANC professes concern about the economy and low levels of investment, but it is irresponsible statements such as this that contribute significantly to our economic woes," Mr Andrew said yesterday.

"The mere fact that one of the ANC's economists made such a suggestion will be enough to scare off investors."

Economists say the adoption of such recommendations would cause a further outflow of capital from South Africa, which already has perilously low levels of investment. 8/12/92

— Sapa.

# Close corporation registrations on rise

STAR 8/12/92 (180)

Despite the recession there was a net increase in the number of new close corporations formed in the first five months of this year, says the credit information organisation Kreditinform.

Central Statistical Service figures for January to May 1992, with the total for 1991 in brackets, were:

New proprietary limited companies formed — 2 981 (7 233).

De-registered and dissolved proprietary limited companies — 2 985 (6 800).

New close corporations — 13 895 (33 069).

De-registered and dissolved close corporations 3 076 (5 521).

Ivor Jones, managing director of Kreditinform, says: "The balance of newly formed CCs versus de-registration and dissolutions leaves a net gain of some 10 000 CCs, while fewer proprietary companies are being formed.

"It appears that as CCs are easier to establish and control and require less red tape, more are being established.

"Retrenched people setting up their own businesses will have also contributed to the figure."

However, Jones warns that researchers compiling credit and business information reports have noted that CCs are also a vehicle to formalise an association and relationship between the members of various CCs.

In business, especially those extending credit, it is vital for companies to know who they are dealing with and their creditworthiness and operating credentials.

"The trick for credit-granting companies is to find the relationship between CC members and other CCs and companies — especially if they have been involved previously in liquidation.

"Fortunately, the modern systems for the database management of business information enable users to establish instantly any relationship between the directors of existing and new Pty Ltd companies and CCs.

— STAR 8/12/92.

Franchising

# Franchising 'set to take off in SA'

BIDAY 9/12/92

9/12/92

(180)

THEO RAWANA

THE Black Integrated Commercial Support Network intends binding big and small business in 250 marriages that will see black-owned enterprises flourishing in the next five years, says CE Leyland Hazzlewood.

The network is a USAid-funded, five-year project established to lift black businesses into the mainstream of the economy.

It organised a two-day international franchise conference which started in Johannesburg yesterday. The co-organiser is the International Franchise Association (IFA), whose president, Willian Cherkasky, is former executive director of the US Senate's select committee on small business.

Hazzlewood told the conference that during the five-year period it had been granted, the network aimed to train 500 new entrepreneurs and undertake "a range of additional activities that strengthen the role of black business people in the SA economy".

He said the network was "not a social responsibility programme. Its aim is to make an impact on economic development by targeting growth-orientated enterprises and helping them grow as fast as they can.

"We have targeted franchising as one of our business development strategies because of its potential to transfer sound business systems and approaches to SA's new entrepreneurs who have the challenge of creating the bulk of new jobs needed in the country."

"Franchising has been called the single most successful marketing concept. In the US a new business opens every 17 minutes. It is the success story of the 1990s and is poised for takeoff in SA."

# Upturn in 1993 — Sacob

By Michael Chester

The economy will begin to recover in the next 12 months, the SA Chamber of Business (Sacob) predicted yesterday when it announced that business confidence rose in November to its highest level in more than a year.

Sacob's business confidence index increased last month from 90,1 to 93 points — its highest since the second half of last year — partly because of a rise in business optimism resulting from new bilateral talks between the Government and the ANC.

Sacob forecast a gross domestic product (GDP) growth rate of 1 percent next year, climbing to between 1,5 and 2 percent by the end of the 1993/94 fiscal year.

However, with 300 000 jobs already axed by the formal sector in the prolonged recession, Sacob feared there was still no indication that retrenchments had come to an end.

The creation of new job opportunities was unlikely to resume in earnest until production levels picked up momentum in the second half of next year — but opportunities would still fall short of the number of new entrants into the jobs market.

Economic recovery also hinged on an end to the drought, the nature of the 1993 Budget, and the performance of key overseas economies, Sacob said.

● Still nervous - Page 27

180 183

2/12/92

# Businessmen appear more confident but still nervous

STAR 9/12/92. (180)

South African business confidence picked up significantly in November but analysts were hesitant about whether it signalled a bottoming-out of the country's deep recession.

The SA Chamber of Business' (Sacob) business confidence index moved up by almost three percentage points from October to 93 points in November, according to figures released yesterday.

The chamber's chief economist Dr Ben van Rensburg said it appeared the business mood had ended the year on a more hopeful note, albeit nervous.

He said: "It may or may not be an early sign of the recession bottoming out. There are many other factors which could affect (economic) growth in the coming year."

Political strife between the country's negotiating partners and continued violence could set the battle-scarred economy back. Positive influences on the BCI in November were; lower short-term interest rates, a slight decrease in the number of registered unemployed, a dramatic drop in the consumer price index, a large gain in the value of building plans passed and a significant rise in the physical volume of manufacturing production.

The weakening in the commercial and financial exchange rates against the US dollar, the decline in the gold price and a fall in imports and exports had a negative impact on the business mood.

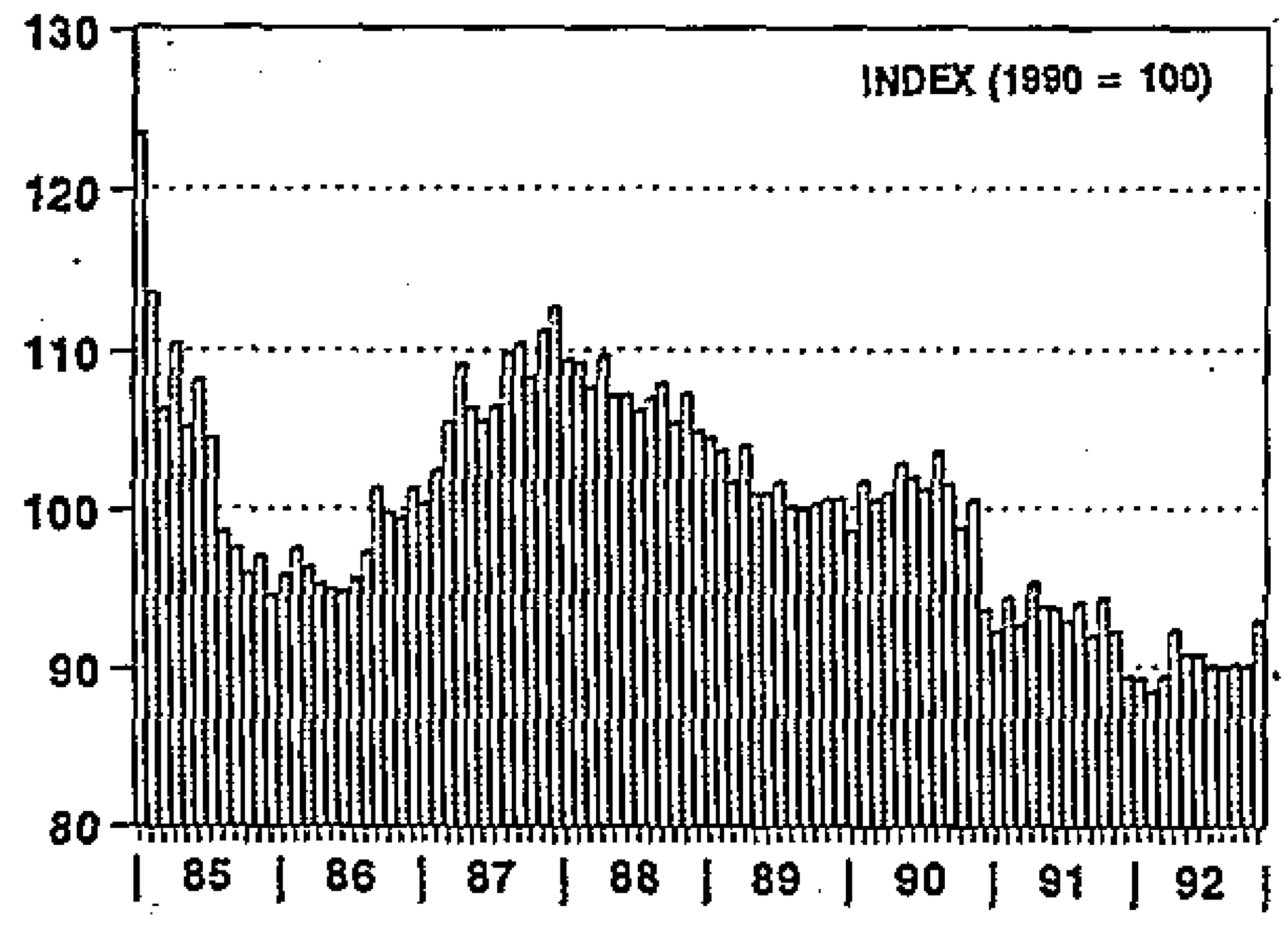
The BCI would have to show further strengthening before expecting a significant upturn in the SA economy, Van Rensburg said.

Sacob said the business mood remained fragile and everything should be done to rebuild consumer and business confidence to bring about a better economy for 1993.

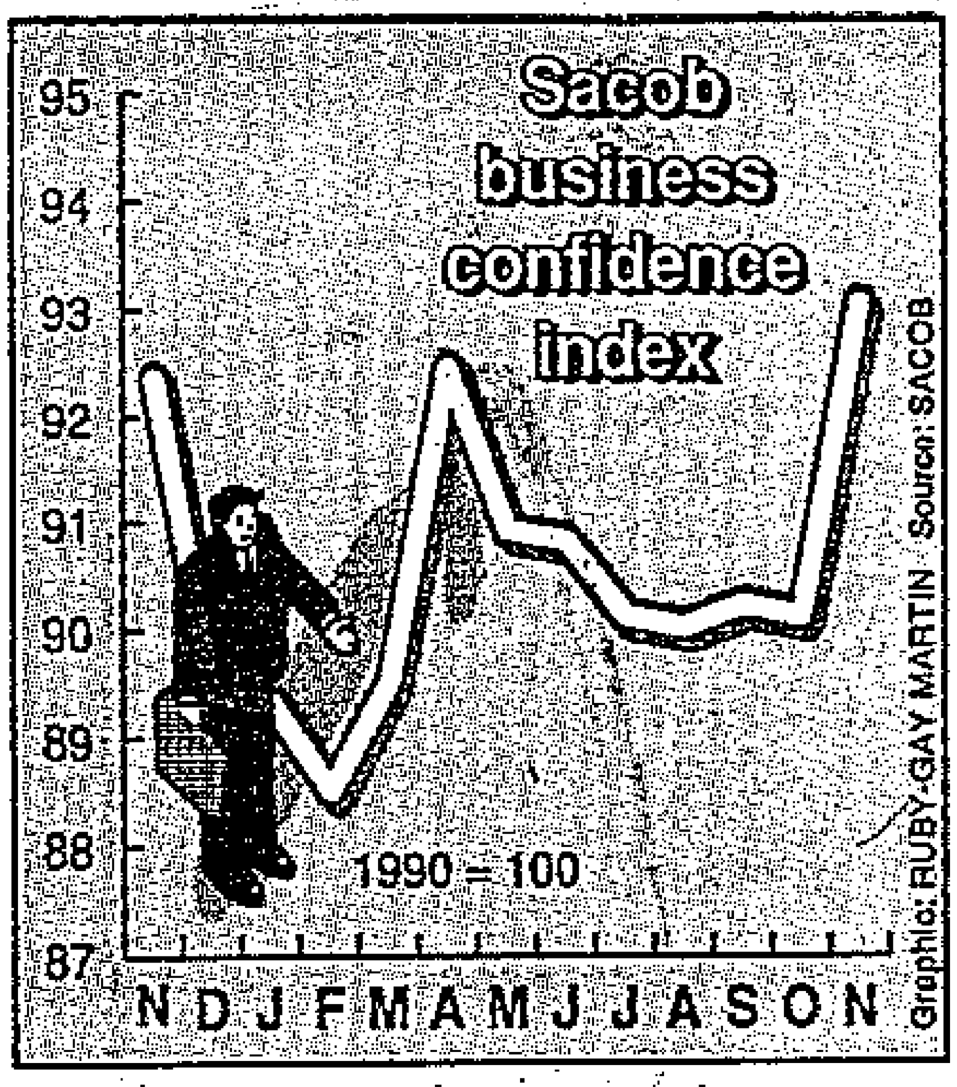
● The Afrikaanse Handelsinstituut says that a recent survey among its members already indicated that Christmas season sales this year would show a real decline on the same period in 1991.

The AHI survey indicates that while chain stores would appear to be keeping their real turnover at last year's level they had to sacrifice profit margins in order to do so.

The clothing industry was particularly badly affected by the recession and the AHI estimates that clothing sales will be down by five percent from last year's Christmas season. — Sapa.



Confidence . . . but has the recession bottomed?




# Sacob predicts growth in 1993

(180) HILARY GUSH

SA COULD look forward to improved economic conditions in 1993, although growth might be tempered by negative political developments and sluggish world economic recovery, according to Sacob.

At the release of the November business confidence index (BCI) — which rose sharply to 93 from October's 91,1 — Sacob economic policy director Ben van Rensburg said prospects for growth in 1993 rested on "precarious economic and political factors". BIDAY 9/12/92

Assuming no change in tax rates, real GDP growth of 1,5%, and average inflation of 11% in fiscal 1993/94, he said government could expect to raise about R9bn in additional tax revenue.

He added: "To achieve a deficit before borrowing of not more than 6% of GDP implies that government would have to contain spending to around R108bn — a reduction of around 7,5% in real terms when compared to this year's levels."

It was unlikely that government would attempt to achieve such a reduction, and would probably resort to a hike in taxes. An increase in the VAT rate to 13% — with some exemptions on basic foodstuffs — could then be expected. This would probably push inflation up by between 1,5 and 2

☐ To Page 2

## Sacob

BIDAY 9/12/92 (180)

☐ From Page 1

percentage points and undermine consumers' real disposable income.

"While Sacob is not opposed to higher rates of indirect taxes in principle, there is concern at the timing of an increase. Imposing a higher VAT rate on a contracting economy is likely to increase the severity of the recession and could result in only a minimal increase in VAT collections and a reduction in collections of other taxes."

Ultimately, increased government revenue could come only from growth and expansion of the economy, and government expenditure had to be drastically reduced to bring the fiscal deficit down to "manageable and sustainable levels".

Van Rensburg expected wage and salary increases to remain below the inflation rate next year, while employment levels continued to slide. This would lead to a slight decline in real private consumption expenditure, which would deteriorate further if indirect taxes were increased.

Despite recent rains, the effect of an end to the drought would show up only in the second quarter national accounts figures next year, he said.

"If production in this sector returns to pre-drought levels, it will add about 1.3% to GDP growth. An end to the drought will also have the important effect of reducing inflationary pressures on food prices, which could serve to strengthen consumer confidence levels, and would also result in a reduction in the import bill."

# Code of business practice envisaged

BDM 8/12/92 (180)

A TASK force to provide guideline recommendations on corporate governance is to be established under the auspices of the Institute of Directors in Southern Africa (IOD).

The move follows a spate of business failures, declining ethical standards and the urgent need to improve accountability in the public and private sectors.

IOD executive director Richard Wilkinson said in a statement the IOD would play a leading role in formulating a "code of best practice" designed to achieve high standards of corporate behaviour.

Wilkinson said the IOD had held preliminary discussions with the SA Institute of Chartered Accountants, the SA Institute of Business Ethics, the Association of Law Societies of SA, the JSE and Sacob.

They were all supportive of the project and other like-minded organisations and prominent individuals would be invited to take part in the venture. Quoting from the Advisory Board of the UK National Association of Corporate Directors, he said corporate governance ensured all long-term strategic objectives and plans were established and proper management structures were in place to achieve them, while maintaining the corporation's integrity, reputation and responsibility to its various constituencies.

ROBERT WICKS

The task force — to be chaired by Frame Group chairman Mervyn King — would try to find a balance between the free spirit of entrepreneurship and the constraints of effective accountability.

"This goes to the heart of companies' — and SA's — competitive position, and it is in the interest of commerce, industry, and government that some code of practice be established without delay," said IOD chairman Pieter Kieser.

Kieser said corporate governance was very high on the agenda in a number of countries, including the UK, US, Australia and Canada.

"The IOD believes that in the light of recent experiences in both the private and public sectors and business failures this issue should become a priority in SA as well," he said.

The task force committee would be asked to make recommendations regarding the responsibilities of executive and non-executive directors to review and report on performance to shareholders; the frequency, clarity and form of such information; the appointment of audit committees; the principal role of auditors and their responsibilities; the links between shareholders, the board of directors and the auditors; and measures to ensure the future of the code.

The economic terrain must be levelled for take-off, argues **Stephen Meintjes** (180)

# Grounding high fliers to let labour and capital soa

Star 8/12/92

HOWEVER far, fast or high we want economic growth to fly, it will remain land-based. For no one has yet invented any means of creating wealth other than by applying labour and capital to land.

Yet, despite all the talk about levelling the economic playing field, it is astonishing how little thought is given to that end.

All that is needed is to replace taxation by site-value user charges — the players on the High Ground (best metropolitan sites and arable land) pay more than those on the Low Ground.

The advantages enjoyed by High Ground players are reflected by the prices they pay — for example, R5 000 sq/m for land in the Johannesburg CBD as against R50 per hectare in an arid region.

So the market is telling us that the best land is many times more productive than the poorest.

Clearly not all can play on the High Ground and no matter how skilfully the players on the Low Ground use their capital and apply their expertise, they will be outplayed.

In golf, where the terrain is the same for all players but it is accepted that skills differ, handicaps are used to give weaker players a chance to win.

So on the economic playground, one would think that the High Ground players would incur a "handicap".

On the contrary, due to the "oversight that caused all the trouble", it is the Low Ground players who are handicapped! Quite apart from the ruinous effect of VAT and petrol taxes on the ultra-poor millions eking out a subsistence in remote rural areas, formal economic activity there is also effectively penalised.

Even companies merely breaking even on the Low Ground — and hence paying no company tax — are not let off the hook.

In addition to VAT, hefty imposts are payable via PAYE, petrol levies and other indirect taxes.

As Ben Vosloo, MD of the Small Business Development Corporation, points out, small and medium-sized enterprises — many of whom are Low Ground players — actually pay taxes at much higher rates than High Ground corporations enjoying export, sponsorship, and other allowances.

No wonder there is little formal economic activity outside the metropolitan areas and there is an irresistible compulsion on the part of Low Ground players to flee to the High Ground, even if it means squatting there.

So what was the "oversight that caused all the trouble"?

Briefly it was the failure of governments since the Industrial Revolution to see that locational advantage is the one indisputable input in the process of creating wealth for which the state, by underwriting security of tenure, can take full credit.

That process consists simply of applying labour and capital on land. The primary claims on the resulting wealth are earnings, profit and rent, respectively.

Rent is the term used by economists to describe the additional output on better land compared with that on the least productive, given the same imput of labour and capital. It is the natural source of revenue.

By ignoring locational advantage, and taxing instead the fruits of labour and capital, governments penalise all who work and venture their capital. This attitude encourages underutilisation of land and natural resources.

So capital and labour fight like two dogs while the third, ownership of natural resources, walks off with the bone of unearned income.

Ironically, by socialising locational advantage via site-user charges, governments would, for the first time, create truly free and efficient markets in natural resources, thus ending what Winston Churchill called "the oldest monopoly in the world".

He inveighed against the curious system in which five percent of the human race can appropriate the face of the earth and charge the rest through the nose for the "privilege" of living and working on "their" planet.

Site-value user charges would end all that nonsense because owners of natural resources, who now understandably may prefer the leisurely wait for risk-free capital appreciation to the effort and risk of fully developing their property, would have a clear incentive to do so.

Those without the inclination or ability would dispose of their properties.

Moreover, the closer the annual user charge came to capturing the full locational advantage, the closer acquisition costs of land would tend to zero. Property prices would therefore reflect the value of improvements only.

Separate auction or tender mechanisms for the user charges would ensure that they accurately reflected the annual market value of the land. Such auctions would be held between sale and registration of property with bidders being obliged to furnish security to ensure the seller got his price if they won and the original purchaser failed to match their bid.

The effect on the economy would be electrifying. Market forces would immediately ensure the efficient use of all land and effect a rational redistribution.

Political pressures for arbitrary land redistribution would be satisfied and the massive alienation of black South Africans from the free enterprise system would end overnight.

The curse of inflation, in large part due to the claim on production by ownership of land for no equivalent input, would be dealt a mortal blow. ☐H

*Stephen Meintjes is an investment manager.*

# W Cape re-stocks for upturn

CT 10/12/92 (180)

By AUDREY D'ANGELO
Business Editor

MORE than half the manufacturers in the Western Cape expect both production and sales volumes to rise in the coming months, the SA Chamber of Business (Sacob) November survey of manufacturing confidence shows.

And, Sacob economist Keith Lockwood comments: "It is noteworthy that the Western Cape is the first region to indicate that it plans to start re-stocking — an important leading indicator for an upturn.

"All other regions still expect to reduce their stock of finished goods in the next 12 months."

But, although 59% of respondents in the greater Cape Town area expect to spend more on maintaining plant and equipment and 53% will increase their capacity they are not planning to employ more people in the short term.

However, Lockwood points out that more jobs will become available if the economy really picks up steam.

## More jobs

"Because employment levels have already been cut significantly in most sectors it will become necessary to start increasing jobs as sales and production volumes start to increase.

"Initially overtime may be worked because of doubts about the sustainability of any increase in activity. But once it becomes clear that a new upturn has begun employment levels can be expected to rise.

"At the moment, however, prospects for school leavers and the existing unemployed are still bleak."

Throughout the country 63% of respondents expect to employ fewer unskilled workers and 59% fewer skilled workers in the coming year.

Lockwood says this is because signs of recovery are still tentative and the future uncertain.

"The Western Cape is the only region that expects to increase its capital expenditure in real terms in the next 12 months."

# Integration is this decade's goal

B10rm 10/12/92

INFORMATION Technology (IT) alone does not lead to competitive advantage. Rather, if IT is not fundamentally changing how companies run, it is not doing its job.

This is a key theme in the new Andersen Consulting book, Trends in Information Technology.

The goal of successful companies *in the '90s is business integration.* Strategy, people, operations and technology must work together.

The book says organisations are drowning in information, yet are thirsting for the data they really want and need. "The success stories of this decade will be written by those who learn to manage the information deluge."

It has also become vital to deliver the right information quickly, and to find faster ways to make products and serve customers. This places extra burdens on operations, and will lead to different strategies and technologies that create more flexible and responsive organisations.

With globalisation a key component in the '90s, and intensified competition, the authors say companies will need to provide consistent levels of high-quality products and services.

The book says five key technologies and methodologies will shape businesses in the '90s: (180)

☐ Multimedia and ~~the human/~~ computer interface will see more graphical user interfaces and other enhancements to make it easier for people to access the electronic world, and to use the full potential of systems. An increasing number of senses will become involved in the interface, and the methods by which users relate to systems will increase;

☐ Co-operative processing brings a new processing environment where the main focus shifts from the mainframe to workstations. Users have more control over more information, and the systems provide flexibility so that business processes can be re-engineered;

☐ With telecommunications and interorganisational networks, there will be more data, image and voice sent over networks, and the book advises telecommunications planners to carefully monitor rapid developments in fibre and digital transmission techniques — as well as connectivity standards across the globe;

☐ With about 80% of the typical organisation's IT budget allocated to maintaining existing systems, the fourth technology to watch is object-orientated systems development.

The problems of maintenance, of code re-usability and system flexibility are being addressed by this new method of systems development.

Object-orientated systems development allows the system to become a software model of the business, and the system is in this way shielded from the effects of change; and

☐ There is computer-aided software engineering (Case) which has become an increasingly attractive method of enhancing productivity during systems development. By providing an entire development environment for building systems, Case allows systems developers to spend time on solving business problems, and less time on details of administration and co-ordination.

# Auditor's role unenviable

BDAY 11/12/92 (180)

ADRIAN DADD

THE recent demise of various companies with high public profiles has raised questions about the role of the auditor. The question is often raised as to how apparently healthy companies could have collapsed before the ink on the unqualified audit report was dry.

One of the fundamental assumptions upon which financial statements are drawn up is that the entity will continue in operation for the foreseeable future, which is normally considered to be one year from balance sheet date. This is known as the going concern concept.

If the assumption does apply, the assets are typically recorded at cost prices on the understanding that the entity will not have to dispose of them in a forced sale situation. This value is often far greater than the amount obtainable when in liquidation. If the assumption does not apply, the statements should reflect amounts likely to be obtained on a liquidation or break-up basis.

One must also distinguish between the responsibilities and obligations of management and the duties of the auditors. Management is responsible for the appropriateness of the assumptions underlying the financial statements and the presumption that the entity is a going concern. Auditors rely on management to provide evidence confirming the validity of management's assumptions in concluding whether the financial statements are fairly presented.

In considering whether the going concern concept is appropriate, auditors look at adverse financial indicators such as inability to service debt or the existence of ongoing losses; operating indicators as loss of key management, major markets or suppliers; and other indicators such as pending legal proceedings. If these factors indicate doubt about the entity's ability to continue as a going concern, the auditor considers any mitigating factors before deciding on the appropriateness of the going concern assumption.

Consider the problem for an auditor when the going concern assumption is questioned. The auditor's decision in this regard is very sensitive and it has been argued that an auditor who expresses concern regarding the future of an entity in the auditor's report could find that it is a self-fulfilling prophecy. A qualified report may add to the entity's difficulties, and hasten its demise.

Fear of an adverse effect on a client's situation should never stop an auditor from qualifying his report, because he is not responsible for his client's situation. Furthermore, research in the US seems to indicate that fears of a self-fulfilling prophecy are unfounded. The problem is that, if the auditor gives a clean opinion and the entity subsequently fails, the public accuses the auditor of performing a sub-standard audit. Whichever way the auditor reports he is in an unenviable position but, nevertheless, he has to report on the facts as they exist.

These facts have hounded the auditing profession for decades, and it is extremely difficult to lay down objective and unambiguous auditing standards as to how the future should be evaluated or how management's evidence should be assessed. No solution has been forthcoming in SA or, for that matter, internationally.

Ultimately, the decision regarding the going concern concept is a matter of professional judgment. Different auditors could use different evaluation techniques and come to different conclusions. This lack of uniformity and highly subjective approach could lead to confusion on the part of users of financial statements. In addition, events which auditors could not reasonably have foreseen could rapidly overturn the view which they formed when they signed the auditor's report.

The auditor's report cannot and should not be viewed as a guarantee of the entity's ability to continue trading. In a free market economy investors take business risks and should not blame auditors for poor investment decisions, although auditing standards are designed to diminish the possibility of an unexpected failure by ensuring all relevant and material information is available in the financial statements.

There is a school of thought which believes that auditors should specifically address and report on the prospects of an entity and its future profitability. To satisfy this need, substantial additional work would be required from the auditor, at a significant additional cost to the entity.

If auditors expand their reporting responsibilities to cover the business condition of entities, rather than merely the financial position, a key expectation of the users of financial statements could be addressed. In view of the difficulties discussed, unless there are substantial changes to auditors' legal exposure and unless the users' expectations are feasible, it is highly unlikely that auditors' reports will ever present the information regarding the future which users of financial statements seek.

**☐ Dadd is SA Institute of Chartered Accountants auditing director.**

IDC (180) (280) (282)

# Unlocking wealth

FM 11\12\92

**Government's directive** last year — that the IDC should realise assets to mobilise finance for industrial development — is probably behind its decision to unbundle two investment trusts, National Selections (Natsel) and Industrial Selections (Indsel), and lighten its investment in Sentrachem.

The move is expected to free more than R600m for investment in several major projects. A number of these will require substantial cash injections this financial year: the IDC is expected to fund R800m for the Alusaf expansion; R370m for Anglo's Namakwa Sands; and about R1bn for the Columbus stainless steel project.

The IDC has also placed its 13,5% stake in Sentrachem with 14 financial managers who are committed to following a 40-for-100 rights issue if the chemical company's offshore acquisition is finalised. This will raise about another R250m. The IDC holds 50% of Natsel, whose market capitalisation is R690m; it has 52% of Indsel, with a market cap of R807m.

The IDC could use two methods to unlock the value of investments within these companies. The first is a dividend *in specie,* whereby it would offer to its 20 major shareholders the value quoted in shares. To the 3 000-plus minority shareholders, a cash offer close to NAV of the underlying investments would seem the most feasible. This method is unlikely to be practical.

The second is the formation of what one source calls a market portfolio. Listed shares in it would be sold, unlisted shares absorbed by the IDC, and the proceeds distributed to shareholders.

Both Natsel and Indsel have traded at big discounts to NAV in recent months. In mid-November they gained 20%, perhaps on advance information about the announcement. This was followed by a further 25% increase following the cautionary.

The JSE tends to impose discounts to NAV when valuing holding companies; Anglo American is a good example of the refusal to value a counter anywhere near the worth of its underlying assets. It is this ten-

FM 11\12\92 (180) (~~280~~) (282)

dency which moved Gencor ex-chairman Derek Keys to suggest that unbundling might be necessary to unlock wealth in these companies for shareholders' benefit.

The most recent example of unbundling is JCI's Dabi. On announcement of the pending liquidation of its portfolio, 4 100 shares, worth almost R56 000, changed hands in five deals. The share rose 37% in two days.

The IDC's decision may be a precursor to a rash of similar actions, all designed to realise underlying wealth. *Marylou Greig*

 FM 11/12/92 (180)

ANTI-TRUST DEBATE

# Beyond outback

**The open** and public debate, called for by the ANC's Albie Sachs, into unbundling took a step forward last week when a conference on the adaptation of anti-trust policies was hosted by the ANC.

SA business approached the forum with some trepidation — with cause. The conference predictably got off to a poor start from business's perspective, punctuated as it was by heated rhetoric delivered by impassioned speakers representing specific constituencies. Of course, the ANC is, after all, an alliance and it is a logical corollary that vested interests and special groups will want to be lyrical on occasions such as these.

Despite that, businessmen were pleasantly surprised at the relaxed attitude of most participants, many of whom proved more pragmatic than had been expected.

There should be no doubt about the primary objectives of the conference. They were articulated by Nelson Mandela when he opened proceedings: how to reduce the perceived concentration of power in the economy and how, in particular, to accord black participants (especially black businessmen) a bigger stake in the economy without retarding growth.

Businessmen say the conference achieved a lot more than they had expected. One positive aspect was that it was conceded, after two days of discussion, that much more research was needed before the ANC would be in a position to formulate an acceptable and reasonable competition policy. Another was that the US system of anti-trust legislation was generally seen to be inappropriate in the SA context.

The more favoured example and one which gathered support as the conference delved deeper, were the UK and European competition models. "Don't get me wrong," says one participant, "that doesn't mean, if they are adopted, that it will be easy sailing for business. This is the real world and the going will be tough. But at least we will have an equitable playing field."

As many delegates expected, the position of an efficient sole supplier (namely the SAB) was attacked; however, there was no indication of any doctrinaire determination to break it up. Conglomerates were also attacked but the view that spinning off some of their interests would be better achieved by political normalisation and the relaxation of exchange controls was not seriously challenged.

The matter of pyramids, which has exercised some formidable minds in the SA context recently, was left largely unresolved. So was the matter of democracy in companies. Issues relating to corporate governance were scarcely debated.

One paper which electrified some sections was that delivered by ANC minerals economist Paul Jordan. He argued essentially that the State has an entitlement to equity participation in mining companies because of its ownership of SA's natural resources. To support his thesis, Jordan quoted the success of the partnership between De Beers and the Botswana government. Extending the principle to Anglo American and De Beers crossholdings would give the State a minority holding of about 20% in the two giants.

Your correspondent must confess to a certain sense of *dejà vu*. About 24 years ago, he attended a meeting of the Economics Society of Zambia at which an erudite and guilt-ridden British socialist set out a mechanism for the nationalisation of the country's great copper mining industry. Two years later, the plan was put into effect.

Twenty-two years later, a new Zambian government cannot wait to roll it back.

*David Gleason*

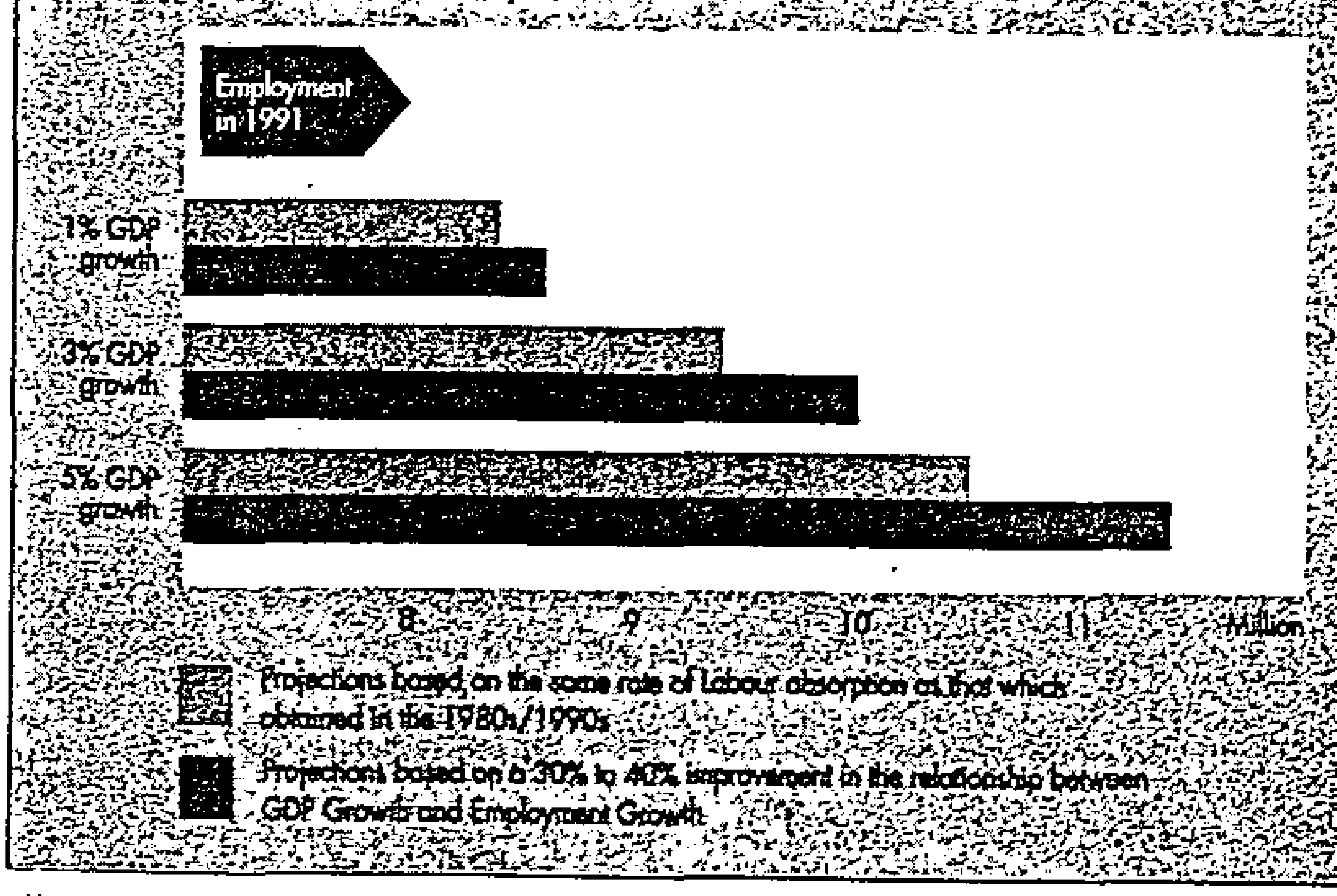
**BUSINESS**

# Anglo plan to help the poor

w/mail 11/12-17/12/92 (180)

*Anglo nas responded positively to the ANC challenge to present alternatives to nationalisation, reports* **REG RUMNEY**

**Figure 1: EMPLOYMENT IN THE YEAR 2000**
In relation to various rates of annual GDP growth




Source: Optima

THE Anglo American Corporation has come up with some sensible ideas for tackling poverty in South Africa.

The proposals are contained in a draft document, put together by several people at Anglo, and published in summary form in the latest issue of *Optima,* Anglo's corporate journal.

The document was clearly a response to the African National Congress challenge to business to present alternatives to nationalisation. But *Optima* remarks that political groupings approached did not take up the invitation to debate the ideas proposed.

Understandably, the proposals fall within the business community's free-market ideology. Anglo stresses at the outset: "Economic growth is the only meaningful way to reduce poverty over time." The authors quote a World Bank study to show that a "market-friendly approach" by government to poverty alleviation is a pre-requisite for economic success. They remind that unsustainable social spending and over-extension of the tax base is a common cause of growth collapse and increased poverty. And they strongly if not blindly support the growth of the informal sector.

Anglo, however, has also compiled an array of programmes which could form part of a short-term anti-poverty strategy, crucially ensuring access to water and job brigades to soak up unemployment.

The authors have even drawn up a rough budget of the annual cost of some such anti-poverty strategies. This gives a cost of around R12-billion and isn't immediately possible — it would probably double the Budget deficit. Tradeoffs will be necessary, though higher growth of five percent a year or more makes more possible.

In the course of identifying short-term interventions the report takes a close look at poverty in South Africa, making some useful observations and liberally quoting younger, less conservative, economists like Peter Moll and Nicoli Nattrass as well as the World Bank and establishment thinkers.

Above all, the authors note the really dire poverty in South Africa is rural. And they say the need to address absolute poverty in South Africa is unquestionably more urgent than putting right relative poverty.

Growth, it shows, using an Urban Foundation study, will automatically lead to a narrowing of South Africa's income gap.

For example, a 2,5 percent growth in gross domestic product between 1991 and 1995 will mean real per capita incomes for blacks, coloureds and Asians will be 15 percent higher in 1995 than they were in 1985. By contrast, white per capita incomes will have fallen by 9 percent.

But this conceals wealth movements within race groups. So inequality within such groups could increase while equality between race groups falls.

In the Philippines an improving proportion of income going to the poorest 40 percent of the population between 1961 and 1971 hid the fact that the share going to the poorest 20 percent fell drastically.

The poorest of the poor — the people without access to housing, basic health care, adequate nutrition or clean water — cannot afford to wait for the kind of gradual adjustment in the economy brought about by a steadily climbing growth rate, say the authors.

These people will also be hardest hit, they add, by a restructuring of the economy aimed at an immediate reduction of income and wealth inequalities between racial groups, at the expense of addressing the problem of poverty *per se.*

Noting that 12-million South Africans, mostly in rural areas, don't have access to an adequate supply of clean water, they cite research to show basic water and sanitation could be provided with R11-billion capital cost plus R600-million recurring costs a year. They suggest a number of specific actions, such as greater use of underground water by urban communities to allow water from central dams to be re-routed to dry areas.

Examining the increasingly popular idea of job brigades, the authors warn against the short-term political benefits of using them for grand public works programmes. They should be used to create assets from which the poor will draw particular benefit, such as erosion control in the homelands. And they could be used to reinforce other components of an anti-poverty strategy including water supply and construction of basic health care or educational facilities.

"Where possible, job brigades should be run along more than simple 'make-work' lines, but this need not always be the case. Indeed, the World Bank (1990) and others recommend job brigades essentially as welfare programmes where the objective is simply to get income to poor families by setting wages low enough to be unattractive to the non-poor."

The authors warn against large-scale job creation projects: talk of employing a million or more people at wage rates comparable with those in the formal sector, they say, would cost too much, consuming around R9-billion in 1990 prices, or four percent of gross domestic product a year. They may also compete with existing formal sector employment, possibly limiting current job opportunities.

# No business trust in anti-trust

w/mail 11/12 - 17/12/92 180

Weekly Mail Reporter

PREDICTABLY, the N-word uttered at a conference on anti-trust policy attracted most media attention.

African National Congress mineral economist Paul Jordan suggested that to address the concentration of ownership by whites in mining industry cross-holdings between South Africa's large mining finance houses should be nationalised.

This drew an immediate reaction from big business which saw it as a threat of direct attack on the corporate sector. Johannesburg Consolidated Investment economist Ronnie Bethlehem warned of capital flight and a loss of foreign investor confidence as well as problems of compensation.

Jordan went to the heart of the ANC's qualms about South African business, however: much of the conference concerned the concentration of economic power and the exclusion of blacks from the formal economy.

ANC Department of Economic Policy economist Tito Mboweni said that anti-trust policy must be clearly focused on issues such as market dominance and anti-competitive behaviour.

He says it emerged from the conference that the over-concentration of economic power does not fall specifically within anti-trust policy.

Mboweni stresses that over-concentration does pose problems and will have to be addressed.

"Perhaps we need to put in place a short-term commission to look at measures to bring about a more diffuse and dispersed organisation of business without jeopardising operational questions."

Explaining this, he says that big is not necessarily bad but aspects of concentration of power are bad.

Anti-trust policy must not be confused with fostering black economic empowerment, Mboweni says. This requires a separate policy.

However, less concentration of economic power might spur the growth of small and medium sized businesses, which might aid black economic empowerment.

Mboweni says the ANC will try to publish a discussion document on anti-trust policy in the new year.

**TAKING STOCK OF SA:** *Country can get its act together, but it may not have had enough shock therapy, says legendary industrialist*

# Diversity is our strength

STAR 12/12/92.

(180)

**MAJOR problems beset South Africa — and no one is better qualified to assess them, and to offer practical solutions, than industrialist, businessman and philanthropist Anton Rupert. He spoke, in an exclusive year-end interview, to Cape Town editor and publisher HUGH MURRAY about how he sees the future.**

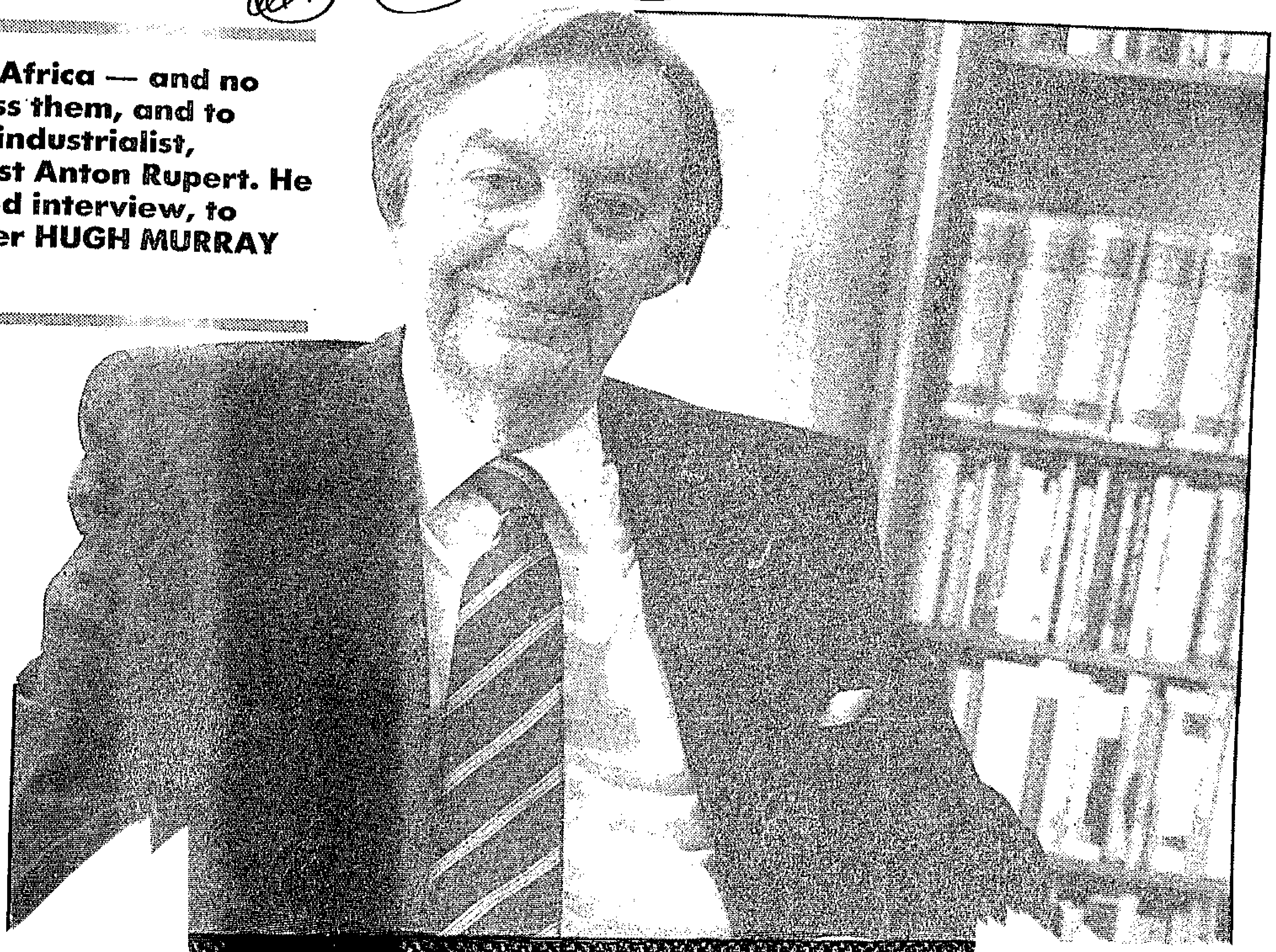
**MURRAY: For an organisation to succeed, it needs good managers. Does South Africa have sufficient depth in this regard?**

RUPERT: I think we have lost far too many good people. We should get them back, and I think many will be prepared to come back. I have hardly ever met a South African who doesn't want to return. The magnetic quality of this land is strong. In the meantime, these people have gained an enormous amount of experience overseas that will benefit us in the future. We need their inputs.

But this is not all. We have to entice people here by making them better offers. And if we fail, the consequences could be very sad.

**WITHOUT adequate political management now, do we not face total chaos?**

THE highest priority is for our leaders to reach consensus. If they do not achieve it, there will be nothing left for them to control. There will certainly be chaos. Still, I believe they have enough sense. Mr de Klerk, Mr Mandela and Dr Buthelezi are high-quality people. But they have to understand that there is no more time.



high degree of efficiency.

**CAN we compete in this area?**

THERE is a problem looming, and that is increasing automation. Our workers need to understand this. You ask whether we can compete, and I say yes, but the only way we can compete against automation is with productive wages.

**CAN you take union leaders along with you on such a contentious matter?**

WE NEED to take these leaders to places like Hong Kong, Singapore and Malaysia to show them what is happening. Certainly one doesn't want to underpay people, but things get serious when societies undergo radical transformation.

**IS NOT one of our problems in South Africa short-term thinking and planning?**

PART of our Americanisation has been this quarter-by-quarter reporting. One advantage of family-controlled companies is that one is not under that kind of pressure. If you start a new industry and pay a dividend in the first five years, I think you are bound to fail. Industrialists cannot think short-term.

**ON A political level: Do you favour any particular system?**

I BELIEVE the Swiss system is the one that could work. We need a federation, not a union. Furthermore, the system needs to be broken down into local units. I don't mind how many there are, but they must [illegible]

**OUR currency's real value is out of sync with our trading partners. Where should the rand be?**

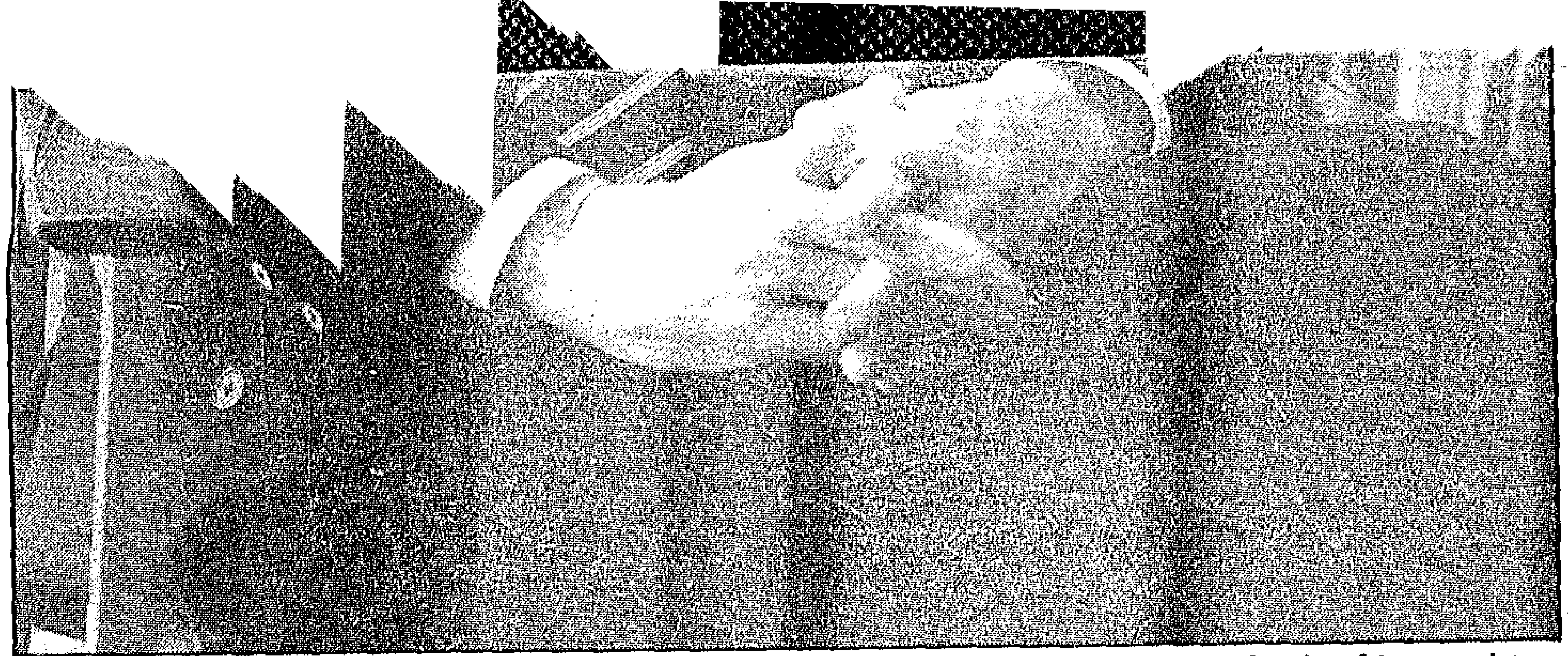
THAT'S difficult to say. However, I can tell you that unless we get salaries and wages under control, the rand will drop and drop. We are completely out of tune. We pay a minimum wage of R10 an hour to sweepers in our tobacco factories. If you add housing, pension and medical benefits, this comprises a minimum of R2 700 a month. Yet some still strike. Our industries cannot compete and the rand will remain under pressure until we have a government strong enough to understand and act on what I am saying to you. We are in competition with countries like Malaysia and Singapore. These people are highly intelligent, very effective, and they work.

**CAN we emulate the Pacific Rim experience?**

YES we can — provided we contain our costs. Then we need stable government; a strong currency, in the sense that it retains its value; and we must control our wants and desires within reasonable limits. Unless we are able to cut our coat according to our cloth, we will not make the grade. I believe we can do it, but I don't know whether we have had enough shock therapy.

**DOES the level of corruption in business and government circles not cause concern? There seems to be a massive decline in financial morality.**

YES — on both accounts. There is an urgent need for us to regain confidence in our currency. If governments do not see to it that their currencies are stable, people start becoming really dishonest. Also, if you think about it, virtually every great power that has fallen has done so when its currency collapsed. You can hold it up artificially for a while, but the end is inevitable. I'm not saying I wouldn't put these people in jail, but I can understand how it happens.



INTO THE FUTURE: Dr Anton Rupert sees automation as a problem which workers in South Africa need to understand. The only way to compete is with productive wages, he says.

*I LIVE in the future. One of the problems of my life is that I have probably paid the price for living too far in the future. I saw problems. We have all the problems of tomorrow without the sympathy of the world of today. In the late 40s, I saw what the future was going to hold for us. And, of course, it has happened. It gives me no pleasure to see this.*

□ □ □

*THE highest priority is for our leaders to reach consensus ... Mr De Klerk, Mr Mandela and Dr Buthelezi are high-quality people. But they have to understand that there is no more time.*

**DR ANTON RUPERT**

IT EVEN becomes a fashion as some civil servants, perhaps worried about their pensions, make hay while the sun shines. We had a fantastically honest civil service, whose ethics we inherited from the British. I think it is still excellent, but judging from the number of court cases I see reported in the newspapers, there is a serious tendency towards graft. But I believe these things are related to the decline in our currency. Perhaps a priority is to make sure the Reserve Bank is truly independent of this Government — any government for that matter — so that they can get on with the job of rigorously maintaining the value of the rand.

**OUR national product is starting to look really shabby. We still have to market ourselves out of this appalling situation. How do we start?**

FIRST, you cannot — or should not — advertise a bad product. This will ensure that you will not easily have an opportunity to sell it again. The product must first be right. Then we have to remember that the customer is king. We have to adapt ourselves to the customer. When a young man joins me, I tell him immediately that he is not working for me but for the customer.

If we are selling overseas we have to be better than our competitors, and they include every country in the southern hemisphere. We have got to be better, more honest, and work harder. We have a lot of competition. What's more, we must decide what are the right products.

**IF you had to look at South Africa as a group of companies with diversified product ranges, what would the most attractive of these be?**

OUR biggest and best industry, which is there for the taking, is tourism. With the game parks rating among the top in the world, we can certainly attract wealthy visitors. But we need to allow companies to arrange extensive charter flights. If Lufthansa can do it with their Condor airline, so can we. But we need to recognise the mutual dependency of eco-tourism and nature conservation, and then rationalise responsibly these aspects.

**YOU have a particular interest in the Peace Park to be established up on the Kruger Park and Mozambique border. What is it like?**

IT'S absolutely fantastic - and it will happen if they have peace in Mozambique. President Chissano is very keen on it. The land is ideal for game and could comprise various eco-systems.

**ARE South Africans showing an aptitude for a sophisticated industry, such as the manufacture of electronic components?**

ANYONE with hands can work in this field. If I see the way some African women work, with beading and so on, why can we not train them to do what their counterparts on the Pacific Rim do? Obviously, we'll have to give intensive training of a sophisticated nature. But we can achieve a viable. Small units would work.

We must look at what is most important to people — what binds them together. Generally, it's things like the church, the school, the local rugby or soccer team, and so on. This is what we must focus on. I am also convinced that our strength lies in our diversity. I would have suggested the motto Diversity is Strength, rather than Unity is Strength, for this country.

**YOU have been a great proponent of partnership, which seems to stand you in good stead philosophically for what lies ahead.**

IT comes from a basic belief that there is no other way. Partnership has stood us in very good stead and everything we do has been built on that concept.

**HOW about your foreign partnerships? You must have had some difficulties there because of local pressures.**

IT was difficult. But we are innovators — always cats on a hot tin roof. And we're never satisfied.

**WHAT do you want to do in the foreseeable future?**

I'M doing what I like doing — nature conservation, small business, the art foundation as well as the other four foundations I'm involved with. I spend most of my time with that. I'm busy now, and interested enough. I only hope that in my lifetime I'll see a flourishing South Africa, a stable society and a stable government.

**HAVE you ever failed at anything?**

I FAILED in selling the idea of partnership to all and that our strength lies in our diversity. I have tried to encourage change, and I'm thankful it has happened in my lifetime. But I pray the change will not lead to chaos. I don't want to see chaos. I want to see a great, equitable society of which every citizen will be proud.

● *This article appears in the inaugural issue of Millennium, a magazine published by Churchill Murray Publications of Cape Town for the first quarter of 1993.*

THE CHANGING SA: *Experts underline positive political, economic aspects*

# Small firms given hope for future

(180)

STAR 12/12/92

GUN BATTLES at the corner cafe, declining sales at squeezed profit margins and the stress of the on-off political scenario all contribute to the seemingly pervasive air of pessimism among small business entrepreneurs today.

However, all good things come to those who think and act positively and the business arena is no different.

Chartered accountants Kessel Feinstein recently hosted a presentation aimed specifically at entrepreneurial companies in an attempt to reduce the confusion and pessimism which is impacting on growth-oriented businesses.

The focus was on providing entrepreneurs with new ideas and perspectives for developing their business strategies for 1993. Expert speakers gave their views on the political scenario, the economic enviroment, operating a business in times of uncertainty and the psychology of managing uncertainty.

Professor Robert Schrire of the department of political studies at the University of Cape Town elucidated the political changes since 1990.

## Violence

Encouragingly, he said, tremendous progress had been made on the political front without it always being realised. Viewed in perspective, he added, several of the stumbling blocks or "irreconcilable differences" which existed between the Government and the ANC appeared to have been resolved.

The negative factors affecting the reform process included the economic decline, the legacy of the past, weaknesses of both the white and black political parties, as well as the ongoing violence.

However, the exis-

**THINK and act positively — that's the message during this time of uncertainty and pessimism. LEIGH HASSALL continues her series aimed at guiding the entrepreneur through the hazards of launching a business.**

DR FRIEDMAN: "No need to be preoccupied with disaster."

factor for surviving the reform period.

Schrire added that on the one hand the ANC had the power of the vote in numbers, but the whites had the power of expertise and control of the State and democracy. South Africa also had in its favour a strong civil society which was supported by a solid business community.

□ Mike Brown, economic and investment consultant at stockbrokers Frankel Max Pollock Vinderine, offered his predictions on the 1993 economy. He said that in view of the massive Budget deficit, the VAT rate was likely to go up by 2 percent.

On a more positive note, he forecast that interest rates would decline by a further two percentage points. Infla-

was currently running at an annualised month-to-month basis of 10 percent.

Brown said the export sector would be one of 1993's building blocks. In 1992, exports comprised 25 percent of gross domestic product. He added that export activity would rise, despite an increase in protectionism in the non-American countries.

□ The lack of reliable information on which to base decisions resulted in a sense of loss of control and helplessness in the business executive. This was the message of Dr Merle Friedman, clinical psychologist and senior lecturer in the department of psychology at the University of the Witwatersrand.

She advised entrepreneurs to move away from a defensive approach and look for the inherent opportunities which existed in the South African market place.

Ways to achieve this resilient approach included: eliminating preoccupation with disaster; developing psychological resilience through effective stress management and social support; building resilience within one's business, for example, with a flatter management structure.

## Market share

□ Nic Frangos, group chairman and chief executive of listed electronics group Datakor, gave advice on how the entrepreneur should be managing his business in these times of uncertainty. He said the entrepreneur should be using this time to refocus on his own business issues.

He added the current climate was ideal to increase market share by repositioning business units to benefit from the inherent opportunities in the market.

Frangos stressed the importance of adapting to the continually changing environment. He advised entrepreneurs to develop a step-by-step strategic planning model to analyse their businesses' present position, where they would like to

PROF SCHRIRE: "Tremedous progress."

NIC FRANGOS: "Time to reposition."

# Confidence begins at home, SA told

C/Press 13/12/92

**MONEY TALK**

AN important West European leader, Edouard Balladur of France, has pointed out some unpleasant truths to South Africans during a fairly low-key visit to the country this month. C/Press

It is important that we take note of his remarks. He was economics, finance and privatisation minister in the government of Jacques Chirac. What is even more important is that he is a possible new prime minister should there be a change of government in France after the March elections.

Balladur has warned, for instance, that the reluctance of SA businessmen to invest in their own country's future is having a detrimental effect on foreign perceptions about possibilities here.

Balladur pointed out that French industrialists have been decentralising their activities for many years – firstly to neighbouring countries such as Spain and Portugal and then to countries as far afield as Malaysia.

Although he did not say it, it is clear that SA is very low down on the list of French investor priorities.

Apart from new investments he even foresees the possibility that we may lose existing investments. Continuing violence, labour unrest, high taxes and similar factors are causing local and foreign investors to spread their risk by investing overseas. (180)

Yet Balladur and others of his ilk understand that we are experiencing a transitional period, and, one can assume, they are still sufficiently interested to get a foothold here, given the right conditions.

At the moment he believes our trade with western Europe – the world's largest trading block – depends too heavily on raw and semi-processed materials. We should add more value to create greater wealth locally.

Yet here lies the crux of the problem. To do so needs confidence and new investments in the future of the country. At the moment so many of our own businessmen are reluctant to commit themselves while overseas industrialists are fed regular TV scenes of violence and confrontations between business and labour that they are understandably inclined to look elsewhere for opportunities.

Thus, Balladur's message is clear: the world owes us nothing, but is interested in doing business with us provided we create the a stable and profitable climate.

# Annual reports could do better

S/Times (Buss) 13/12/92 180

### Business Times Reporter

SOUTH AFRICAN annual reports remain world class but provide too little information on company prospects and capital expansion programmes.

This is the conclusion of the Institute of Chartered Secretaries and Administrators (CIS) in announcing the results of the 1992 Annual Report Competition.

This year's winners in their respective categories are Rand Mines, First National Bank, SA Breweries, York Timber, Anglo-Alpha and Southern Life.

Rand Mines won a special award for coming first in the mining category five years in a row.

CIS chief executive — and chairman of the competition's panel of judges — Alan Barrable says there was an overall improvement in the quality of annual reports this year.

## Target

The lack of detail concerning long- and short-term prospects, however, was disappointing.

"While we accept that the future is always a moving target, we felt that shareholders and analysts deserved more detail about budgets and forecasts."

He says it is disturbing that few companies provide inflation-adjusted accounting in a high inflation environment.

Companies also failed to provide much detail on capex programmes, but there was an improvement in information on idustrial relations, social involvement and environmental activities.

From next year there will be a special award for environmental reporting.

The competition aims to stimulate responsible and clear annual reporting on a par with that practised overseas.

Entries are received from most leading companies listed on the JSE. They are judged on content, presentation and the quality and quantity of information.

# Investors advised to temper their pessimism about equities

(180)

BDM 14/12/92

Investors should not be too pessimistic about prospects for the equity market in 1993 despite the poor shape of the world economy and the low gold price. Leading stockbrokers tell **MERVYN HARRIS** their views on the pitfalls and hopes for the coming year.

SIMPSON McKie MD Dixie Strong believes the market is expensive on fundmentals, and that a correction could occur soon. He says some leading consumer-related industrial shares, in particular, are no longer offering value.

The food sector is currently on a PE of 22,2 and a dividend yield of 1,6% and the beverage-hotel-leisure sector is on a PE and dividend yield of 19,2 and 2,5% respectively. Earnings growth for the coming year is forecast at 18% and 9% for these two sectors.

For the industrial market as a whole, the firm's research team's expectation of weighted earnings growth is about 7% for the next year. These demanding ratios should hardly encourage investor enthusiasm. Why then the current strength and what can be expected?

Institutional liquidity and extremely low marketability are important factors, they say. The "top 30" JSE industrial index constituents are trading 3,6% of their current market capitalisation and investor interest is very heavily concentrated in index stocks.

The market is already adopting a positive stance towards the possibility of a satisfactory local political settlement and more recently appears to be anticipating a mild US economic recovery.

"We believe, however, that areas of concern remain, such as the deteriorating economic situation in Germany, uncertainties and problems surrounding GATT and Maastricht and the likelihood of a bumpy ride along the road to transition in SA.

"After the recent surge has run its course, we expect a correction which will provide buying opportunities. The industrial, overall and all gold indices will probably be higher by next December and, on an 18-month to two-year view, the best value in the market can now be found in those shares which typically fall just beyond the list of the most obvious 'big ticket' institutional investor market leaders.

"Gold shares may yet surprise us all on the positive side in 1993, while the prevailing gloomy predictions for gilts may prove to have been wrong on a three to six months view," Strong says.

Senekal Mouton & Kitshoff's Louis Geldenhuys says the world economy, and Europe and Japan in particular, are not in good shape. The gold price in US dollar terms looks trapped at lower levels and cyclical and other forces important for the SA economy indicate that recessionary conditions are still well-entrenched.

Moreover, the SA fiscal situation had deteriorated to such an extent it held the potential of genuinely causing domestic economic instability.

The domestic political process had reached a difficult stage with a high degree of potential for conflict and disappointment. The scene was not set for a take-off in economic growth in 1993 even should the weather be kinder and inflation edge lower in coming months.

Are these sufficient reasons to expect markedly lower equity prices?

Probably not, says Geldenhuys.

The market is not without risks and due consideration should be given to the demanding circumstances and their negative impact on company earnings. But care should be exercised not to become too pessimistic about the equity market.

He says a proper bull market in all sectors of the market is unlikely but, as in the past year, investment in segments and/or specific companies could prove very rewarding.

Geldenhuys offers several broad observations to temper possible pessimism. Negative sentiments about 1993 are known in the market and therefore already discounted to a certain extent.

The US economy is on a slow recovery path which will become prominent in the second half of 1993.

Alternatives, such as fixed interest and property, do not look attractive in terms of the uncertainties facing the SA economy and society. Equity investment holds the promise of success in an uncertain environment because dynamic managements can at least adjust to circumstances not envisaged at this stage.

"Although we do not regard the equity outlook as all doom and gloom, we do consider it prudent to consider mainly investment in companies where future earnings are pretty secure. Share selection for 1993 will be crucial as the performance of the overall market may not be very rewarding," says Geldénhuys.

Davis Borkum Hare's Max Borkum says the dramatic fluctuations in the finrand were one of the major features of the year. The unit was established to prevent a drain on SA's forex reserves by disinvesting non-residents, and its current weakness largely reflected the drive by SA companies to invest offshore.

Prevented from making acquisitions during the sanctions era, companies are keen to re-establish themselves as world players. Rightly so, says Borkum, since they are generally well managed, low-geared, and market leaders in their fields.

This trend of investing offshore is likely to continue during 1993, maintaining pressure on the finrand in spite of the recent moves by the Finance Minister to alleviate the demand for foreign currency.

Weakness in the finrand reduced the overall returns of existing foreign investors as the foreign value of the investment diminished, but it did not necessarily directly affect the local value of quoted shares. Instead, local investors recognised that these international acquisitions offered long-term opportunities to SA companies through the diversification of markets, and ultimately, the quality of earnings.

Borkum says this negative scenario for the finrand may not persist, since a weak finrand increases the attractiveness of equities to offshore investors. Any subsequent buying of SA equities would be positive, not only for equities but also for the finrand.

**BUSINESS** Caution must be exercised before the signing of any contracts

# SA behind in franchising

Sowetan 14/12/92 (180) ~~233~~

**■ FOR NEWCOMERS** Tested as most successful form of business venture:

> **'Franchise businesses are not perfect but they are more successful than any other kind of business'**

**By Mzimkulu Malunga**

IT WILL TAKE about 30 years for franchise business to gain momentum in South Africa, says president of the International Franchise Association (IFA) William Cherkasky.

Though franchising has been internationally tested as the most successful form of venture for newcomers in the business world, franchisers must exercise a high level of caution before making any contractual obligations, he said.

While it has been around for over a century in the United States - the country where it is most successful - it was only fully realised about 32 years ago.

"But you have to start somewhere. After all, South Africa is a land of opportunities," said Cherkasky.

Complicating the issue for prospective franchisees in this country is the fact that there are no laws regulating the sector, making it a fertile hunting ground for shady operators.

Organisations like the South Africa Franchise Association, though they have certain ethical standards, do not command statutory powers which renders them powerless.

According Cherkasky, there was a time in the US when the US business community regarded franchising as a scam and opportunities which accompanied such ventures, with proper guidance, were overlooked.

"But when IFA was formed in 1960, it cleaned up the image of the business and approached the government for statutory powers which all franchisers have to abide by," he said.

The recent conference on franchising was just the beginning. Cherkasky said IFA was planning to hold a similar conference in November next year as a follow up.

**Funding for education**

For the next five years, the United States Agency for International Development will be funding projects aimed at educating local entrepreneurs about franchising as part of a broad programme to stimulate entrepreneurship.

"Franchise businesses are not perfect but they are more successful than any other kind of venture," he said. He warned potential franchisees that before buying a franchise they should have satisfied themselves that the prospective franchiser was genuine.

In the US franchisers are required by law to disclose all facts about their company to the franchisee before deals could be finalised. There is also a ten day educational period in which the franchisee gets a chance to analyse the company from which he is buying franchise from within before a deal can be finalised. This year's conference was attended by 15 fran-chisers from the US and the aim was to bring more in November 1993.

STAR 14/12/92.

# Minorities getting a raw deal

By Leigh Hassall 180

Many South African companies are not giving their minority shareholders the respect they deserve.

Timeous financial statement reporting is important to all shareholders yet a recent survey of the top 100 companies shows that over half the companies held their annual meetings four months or more after the year-end.

Directors' approval of the financial statements was equally slow — in 1991, 42 percent of the companies surveyed obtained approval more than two months after the year-end.

These are the findings of a survey among the country's top 100 companes produced for the SA Institute of Chartered Accountants (SAICA) by the Department of Acounting at Wits University.

The survey, released last week, was undertaken to determine and identify trends in accounting thought and practice.

## Standards

It aims to raise the standard of financial reporting in South Africa.

The survey also found that there is little support by preparers of financial statements for comprehensive inflation accounting. Encouragingly however, an increasing number of companies are disclosing an inflation adjusted earnings per share figure.

Also of interest is the fact that 87 of the Top 100 companies were audited by one of the "big six" audit firms. Deloittes & Touche topped the list, followed by Aiken & Peat and Ernst & Young.

The return of South Africa to international markets emphasises the need for local accounting standards to harmonise with the international standards. South Africa still has a long way to go.

Challenges facing the standard setters include giving legal backing to accounting standards, upgrading existing standards and ensuring a system of monitoring compliance with the standards is in place.

"A Survey of Financial Reporting in South Africa 1992" is the fourth in the series.

OPINION

# A plague that blights our land

## Multipartyism can help put the brakes on political corruption, writes R W Johnson

STAR 14/12/92.

(180)

THE biggest story of the year is also the most difficult to write about: it is the symbiotic relationship which has developed between the new black political elite and Johannesburg's corporate rich. This is not just a matter of the Tambos living in great style thanks to the generosity of Tiny Rowland or Zinzi Mandela's honeymoon being paid for by Sol Kerzner. Who has not heard stories about Allan Boesak's Lancia and house in Bishop's Court, Thabo Mbeki's BMW, Chris Hani's daughter's expensive private school, Cyril Ramaphosa's sojourns at expensive trout-fishing retreats, or Steve Tshwete's expensive clothes, watches and Killarney penthouse?

Even some months back things had reached a point where Style magazine could happily run an article — "The lifestyles of the rich and militant" — detailing this and more of the same, happily welcoming a new cast of glitterati to [illegible] habitually fills its [illegible] is, of anything that can be printed — it's all about who's abusing their position as trustee of this or that charity or foundation, who has become so accustomed to the high life that they refuse to go anywhere save to five-star hotels by first-class air travel, or, more plainly, who's had R200 000 or R500 000 or, in one particularly outrageous case, R1 million, stuffed into their back pocket by which businessman. To go on would be otiose: there is, as doctors say, as they shrug hopelessly during a flu epidemic, "a lot of it about".

Mention of such facts often produces twin reactions of cheerful cynicism. The first argues that the Nats were just the same: from the earliest days of NP rule there has been a quite brazen racket of crooked land deals in the bantustans, over rigged deals for everything from school textbooks to the usual building contractor scams, not to mention the most outrageous fiddles over salaries, expenses and pensions. Secondly, many whites draw deep enjoyment from stories of black politicians receiving, shall we say, gifts, for such stories fulfil a variety of negative racial stereotypes about the intrinsic corruption of all African politicians. We're just changing one lot of crooks for another, they say; and, no matter how illegitimately acquired this new wealth may be, it's a good thing because it gives the new elite a stake in the system.

Such reactions miss almost all the important points. First, what keeps politicians honest is fear of defeat — and nothing so entrenches corruption as a one party system or a long period of single party government such as the Nats have enjoyed. It follows as night follows day that the greater the degree of single party dominance in the new South Africa, the greater the degree of corruption we shall have to face.

And it could be a great deal worse than it is now — for it is not sensible to assimilate NP corruption with that of African models to the north. At least until recently, multipartyism plus a basic Calvinist sense of propriety kept corruption within certain limits. It always existed and was always bad, but it had little in common with the truly staggering corruption of Mobutu's Zaire, of Nigerian politics at any time, or even of Mugabe's Zimbabwe where the three richest men are the President, Vice-President, and the army chief. Whatever one wishes to say about De Klerk, Gerrit Viljoen and Magnus Malan, no one believes they — or their predecessors — have mysteriously become the richest men in the country. If our new black elite can become rich this quick in opposition, God save us all when they get into government.

And South Africa is, or ought to be, different. One reason for political corruption to the north is that, all too often, there is only the political kingdom: not much else exists. But here there is a large and thriving private sector and a civil society of multiple groups who can provide a counter-weight to the power of the political elites. The injunction to seek ye first the political kingdom and then rob everyone else blind, need not apply here.

Much of the business world feels comforted at the sight of this growing corruption: the ANC is becoming capitalist, it says. Such judgments are premature. Corruption is an individual matter; you can buy an ANC politician but the ANC itself is not for sale. Moreover, you will quickly find that you haven't bought your man, you've just rented him, as have a number of other folk, unbeknownst to you — and you'd better keep up your payments or else.

But South Africa ought to have a huge advantage over the rest of Africa — the existence of a powerful Communist Party. Everywhere else in the world it has always been the far Left that has been the most merciless in its exposure and condemnation of the mercenary behaviour of the political rich. To date, however, the SACP and its Cosatu ally have maintained a strange silence about this flourishing new class of "haves".

To a modest degree this is because the SACP seems to be part of the problem. In Britain a Labour MP who sends his child to a private school will be de-selected by his constituency party on the turn; yet no one seems even to have queried similar behaviour by Chris Hani and others and there has been no pressure for disclosure of where the funds have come from to buy houses for the SACP leadership. But on the whole, the SACP elite lives modestly in comparison with the ANC nouveaux riches and is manfully restraining its criticism in order to preserve the ANC-SACP alliance. How long, though, can Cosatu remain recognisably socialist or the SACP remain communist, if one of their major objectives is to provide protective cover for the new bourgeoisie which has so ostentatiously arrived at the very heart of the liberation movement? □

● *R W Johnson is a Rhodes scholar on sabbatical at the University of Natal, Durban.*

# Open up anti-trust debate

BDAY 15/12/92

180

**MICHAEL SPICER**

THE debate on competition policy which has been sharpened by the recent ANC anti-trust workshop is an important part of the overall economic debate on how SA can become a winning nation in a highly competitive world.

Clearly it is vital that such a debate should consider the issue of competition in a holistic and balanced fashion, not only carefully studying the variety and evolution of competition policies internationally, but also considering the important role that governments play in promoting, or equally importantly, hindering competition.

Responsible businesses in SA recognise the need for a competition policy that is targeted at clear abuses of power such as price collusion, the use of dominant positions in specific markets to exclude new entrants to those markets and the creation of monopolies not based on superior performance.

It was inevitable that the whole issue of large companies and corporate governance should be dragged in to a rational discussion of competition but what was unfortunate was that a representative of an old US style anti-trust orthodoxy which has been in retreat ever since the 1960s should present a populist prescription so inappropriate to SA's circumstances in the 1990s.

Small, developing SA is not analogous to the biggest, most industrialised economy in the world, let alone to the US at the turn of the century, when trade with the rest of the world accounted for an infinitesimal proportion of US GNP. Where, in the unanswered challenge of one participant to Massachusetts University economics department chairman Prof William Shepherd, is one example of a small developing country today which is pursuing anti-trust policies?

Interestingly, it was the British academic and member of the monopolies and mergers commission, Prof Geoffrey Whittington, who commented that conventional anti-trust cannot deal with issues relating to corporate governance and that conglomerates as such, are not normally targeted in terms of anti-trust policies. He made the useful suggestion that issues relating to corporate governance, such as the use of pyramids, be considered in a separate conference.

But since Shepherd has raised the subject in a manner hardly representative of the debate, creating the false impression that evidence was adduced that the large companies were the major factor in limiting competition in SA, it is important to reflect the many arguments raised that Shepherd has omitted.

Not one of the business attendees denied that the SA private sector was concentrated. But they posed the question, was it unique in its concentration? The clear answer is no, a useful table from The Economist of May 30 proving the well known point that small competitive economies are characterised by the existence of large and successful domestically headquartered multinational companies: In eight of these the top 10 companies accounted for more than 40% of the market capitalisation of the local stock exchange.

Far more important, though, was to ask the question, what factors accounted for the degree of concentration in SA over and above what might be considered the norm of a small developing country? In other words, was anti-competitive behaviour the major cause of even a cause at all of market concentration?

The business representatives and some of the independent analysts produced an impressive list of factors which, unless they are tackled energetically by policy-makers, will at the outset undermine and indeed render counter-productive any competition policy. Remarkably, Shepherd is silent on these factors.

Exchange control, perhaps the best known of these, bottles up the investment capital of SA companies in the small domestic market and discourages foreign entrants.

The egregious agricultural boards are a well-known variant of government induced limits to competition, but less well known are the panoply of regulations and licensing provisions which distort competition in a wide range of fields. And what of government monopolies? The fact that the state owns 52% of total fixed assets, a large proportion constituted by monopolistic parastatals, seems to have eluded Shepherd, though frequently mentioned.

The degree of concentration of SA companies has ironically most recently been given a boost by sanctions and particularly disinvestment.

The large companies are already playing a highly constructive role in SA — Business Day itself commented (December 10) on the fact that it was only the large companies which could give such psychological and tangible boost to confidence in the SA economy by launching half a dozen major long-term projects during the depths of a recession and a very bumpy political transition.

Part of the policy imperative to achieve the high road will be a deregulated, liberalised and open economy in which competition will be enchanced by free inward and outward flows of a investment and technology. Of course, there will be a need for a competition policy, but it will be a policy that works with the markets, not against them.

I and other business participants went away from the seminar under the firm impression that the participants had begun an important debate and had decided that the British and European models of competition policy were far more appropriate to SA circumstances than the US model. The conference organisers accepted that further study and discussions with all parties would be required to tackle a complex subject, particularly as competition policy would have to be consonant with wider economic policy.

Shepherd's version of the seminar read more like a determined lynching party of big companies. It would be a pity if the ANC were to leave such an impression of events as it would inhibit the further progress of this important debate.

☐ **Spicer is Anglo American Corporation group public affairs consultant.**

**LETTERS**

# Bleak outlook for SA manufacturing

BDay 15/12/92. (180)

LINDA ENSOR

CAPE TOWN — Business conditions in the manufacturing sector were getting desperate and confidence in the sector had plummeted, Stellenbosch University Bureau for Economic Research (BER) director Ockie Stuart said yesterday.

A nationwide survey of the manufacturing sector found only 8% of respondents felt that 1992's fourth quarter was better than the previous year's, he said.

While respondents were slightly more optimistic about the first quarter of next year, a small majority believed business conditions in a year's time would be weaker than at present, despite an expected increase in exports. Fixed investment plans had been scaled down and five out of 10 manufacturers believed that although the rate of retrenchments increased during the fourth quarter, they would have to continue.

Business confidence measured 12 on a scale of 100, the lowest level since the BER began to measure it.

There were no signs of recovery in the manufacturing sector.

The rate of deterioration in production and sales in the sector slowed down in the fourth quarter compared with a year earlier but showed an improvement over the third quarter — a trend which was expected to continue into the new year.

Manufacturing sales in the domestic market were in real terms roughly in line with the expectations of half the respondents, who said sales were weaker compared to a year ago. The rate of deterioration would probably begin to bottom in the new year.

Export sales were slightly weaker in the fourth quarter on account of the poor conditions in the economies of SA's major trading partners.

As a result of the decline in sales, manufacturers produced less than a year ago. Fewer orders were received and there were fewer unfinished orders relative to sales.

Stuart said the net majority of producers had too many supplies of finished goods and raw materials. There was also so much unutilised capacity that it would be a year before it became necessary to buy more machinery and equipment.

The tendency for the rate of increase of selling prices to decline continued and it appeared that the prices of exported goods were under downward pressure.

Ten percent of respondents indicated that their production was seriously limited by a shortage of skilled labour. About 40% had problems with getting raw materials, especially in the shoe and leather industries.

# Manufacturers take a dim view of short-term outlook

STAR 15/12/92

By Sven Lünsche (180)

Poor business conditions in the manufacturing industry are unlikely to improve markedly over the first few months of next year.

The latest survey by the Bureau for Economic Research (BER) shows, however, that there should be no further deterioration in orders, exports and stock levels next year.

Manufacturing has been one of the sectors most severely affected by the recession, with production volumes showing a sharp decrease on the same levels a year ago. (see graph)

According to the BER, business confidence in the industry in the fourth quarter — at 12 points out of 100 — was at its lowest level since the index was introduced.

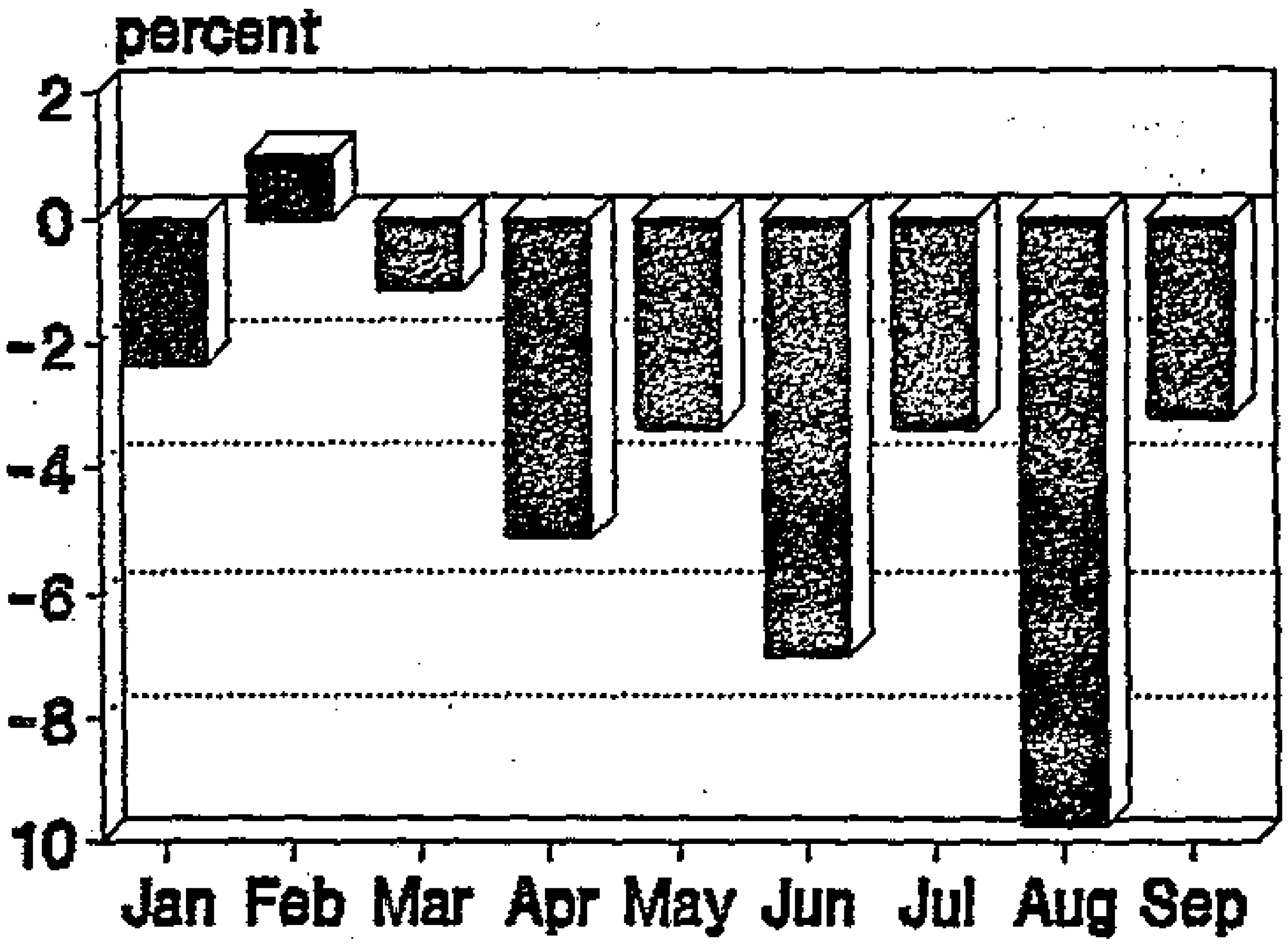
Five out of 10 respondents said sales in the fourth quarter this year would be lower than in 1991. For the first three months of 1992, four out of 10 respondents expected a continued weakening in year-on-year sales growth.

The weaker trend was also felt in orders received from both the local and export markets.

The BER says poor overseas demand is understandable, given the weaker economies of major trading partners. The trend is likely to continue in the first quarter next year, it says.

The decline in demand has led to lower production volumes and significantly reduced stock levels, although the BER adds that inventory levels are still too high, given the poor demand outlook.

"The respondents indicated that capacity was sufficient to keep production running for at least a year without necessitating further acquisitions of equipment and machinery," the BER says.




Manufacturing production volumes this year (percentage change year on year)

The worst consequence of the recession in manufacturing was the continued lay-off of unskilled workers, which the respondents said would carry-on well into the new year.

However, there might be some relief for manufacturers in sight, judging from the BER's survey of the retail industry.

The survey indicates that a large net majority of retailers are experiencing a real increase in sales over the fourth quarter of 1991, with a slightly bigger majority even expecting first quarter 1993 sales to better than those a year ago.

As a result, most retailers are placing more orders with their suppliers and expect to place even more orders during the first three months next year, the BER says.

Because of this trend the BER says the confidence level among retailers has improved substantially from the all-time low recorded in the third quarter.

Not such good news for the building industry, though, in the third survey analysis released by the BER yesterday.

Builders of both residential and non-residential structures reckon business conditions in the fourth quarter have deteriorated markedly since a year ago.

Competition in tendering is described as "extremely keen" and contractors at times have had to tender at below cost in order to keep operations going.

Although the rate of deterioration is expected to level off next year, confidence in the industry is at a low level of 10 out of a 100.

Conditions are bleak for architects and quantity surveyors. The BER says the architectural profession performed so badly "that many of these highly qualified workers had to close shop or look for work elsewhere".

# Producer price index follows healthy trend

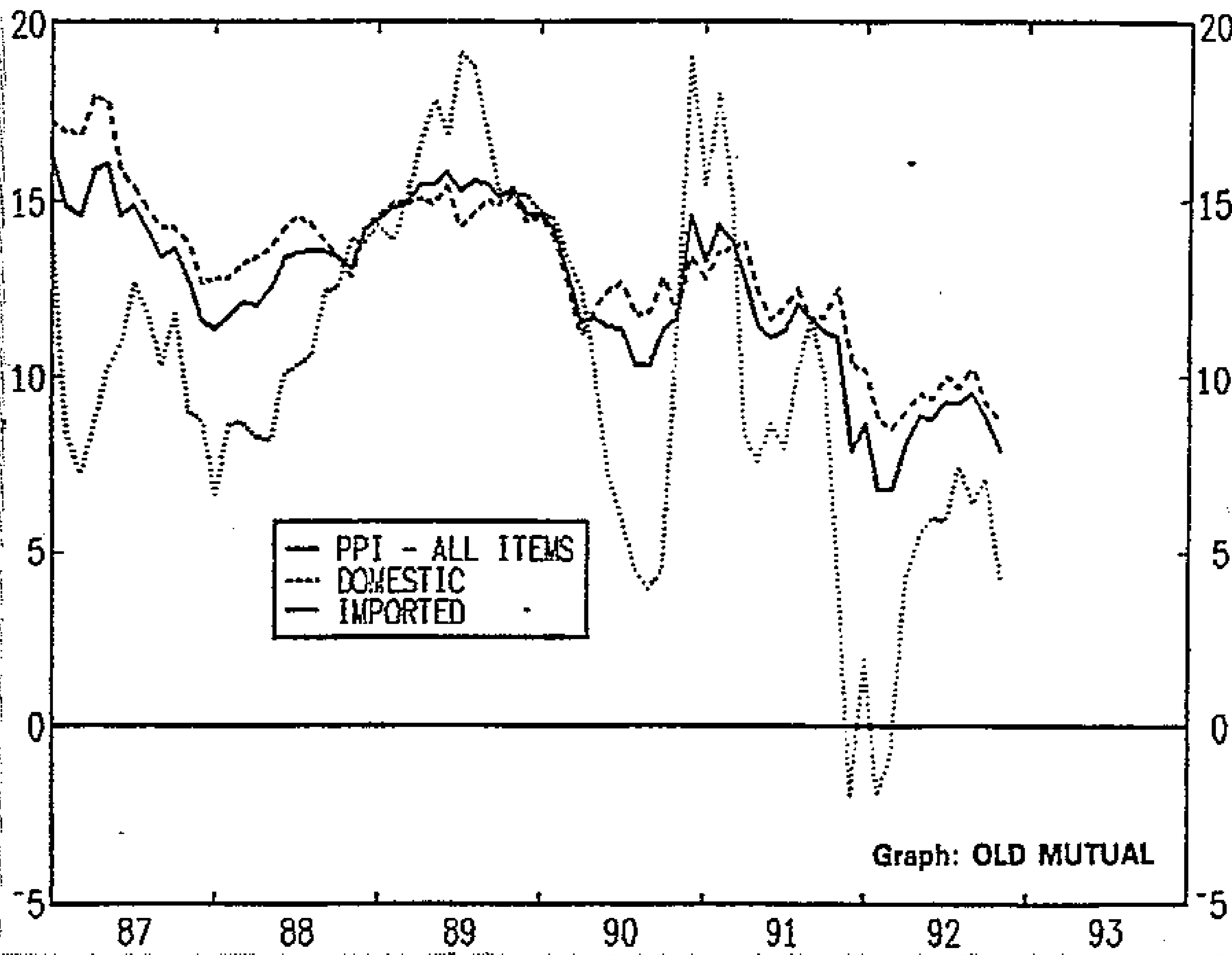
CT 16/12/92 180

By AUDREY D'ANGELO
Business Editor

THE producer price index (PPI) continued its downward trend in October. It rose 7,8% year on year, compared with 8,8% in September and 11,1% in October last year. And the rise between September and October was only 0,5%.

Imported inflation did not rise at all month on month, reflecting the stability of the rand against a basket of currencies in October.

Welcoming these figures, economists said they would feed through to the consumer price index (CPI), which should continue to fall in the early months of 1993.




But the economists warned that inflation will rise again if, as expected, the fuel price is increased and VAT raised to 13% or 14%.

Figures released by the Central Statistical Service yesterday showed that the PPI for locally produced goods rose by 8,7% year on year in October compared with 9,2% in September. But the month on month pared with 0,5% in October.

The year on year rise for imported goods was 4,3% compared with 7,1% in September. The month on month rise was nil compared with 0,4% in September.

From a base of 100 in 1990 the all commodities index was 123,8 in October compared with 123,2 in September and 114,8 a year earlier. The index for locally produced commodities rose to 125,9 and the index for imported commodities to 114,6.

Amalgamated Banks of SA (Absa) economist Adam Jacobs said the annualised and monthly figures looked very promising.

"They look even better if you consider that between May and August the seasonally adjusted annual rate of PPI inflation was 15,8%, this dropped to 10,3% between June and September and 5% between July and October. Between September and October it was only 2%.

"So the trend is definitely downward.

"Unfortunately, the tax increases we expect can reverse this trend in the New Year.

Meanwhile, Jacobs commented: "These are nice figures to end the year on."

Old Mutual economist Johan Els said the figures showed the inflationary pressures were decreasing because of the prolonged recession. "This good news will eventually impact on the CPI — probably in about three months' time."

Els said he expected the PPI to "remain in the 8% range year on year."

Boland Bank chief economist Louis Fourie said the low rate of imported inflation was due mainly to the steep fall in the exchange rate for the British pound in October. This would affect the PPI in November.

"Some good things are happening and this downward trend in the PPI, which will affect the CPI, will to some extent neutralise the effect of the expected rise in VAT."

Sanlam economist Pieter Calitz said the low year on year rise in the PPI was "partly due to technical factors, because there was a big rise last October and it is up from a high base."

But it showed that monetary policy was having an effect and inflationary trends were downwards.

# Task force appointed to formulate code of practice for business

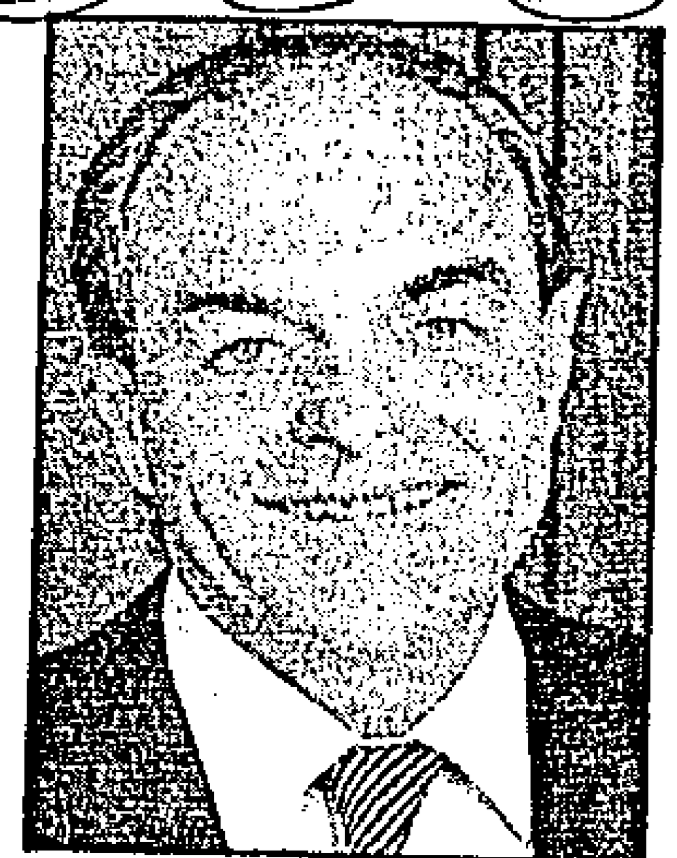
STAR 16/12/92

By Des Parker

DURBAN — Frame group executive chairman and former supreme court judge Mervyn King is to head a task force to make recommendations aimed at raising standards of accountability in the private and public sectors.

The group is being formed at a time when the Office for Serious Economic Offences (Oseo) is understood to be investigating business scams involving more than R1 billion and when companies are failing at a higher rate than at almost any time this century.

Institute of Directors (IOD) executive director Richard Wilkinson said yesterday the force had the support of numerous professional bodies and similar organisations, such as the Institute of Chartered Accountants, the SA Institute of Business Ethics, the JSE the Association



Mervyn King . . . heads task force.

of Law Societies and the SA Chamber of Business (Sacob).

Other like-minded organisations and prominent people would be asked to take part on the 12-person committee.

"Corporate governance is very high on the agenda in a number of countries, including the UK, US, Australia and Canada," said Wilkinson.

"The IOD believes that in the light of recent business failures, this issue should become a priority in SA as well. For some time the institute has considered a code of ethics for directors of business and recently amended its mission and adopted a credo and code of ethics."

One of the documents the force would draw most heavily on was Britain's Cadbury Committee Draft Report on the Financial Aspects of Corporate Governance (1992), which contained a "code of best practice" designed to achieve high standards of business behaviour.

From next June, companies listing on the London Stock Exchange would have to comply with this code.

"At the heart of the task force's efforts is an endeavour to find a balance between the free spirit of entrepreneurship and the constraints of effective accountability," said Wilkinson.

"This goes to the heart of companies and SA's competitive position, and it is in the interest of commerce, industry and Government that some code of practice be established without delay."

Recommendations could include amendments to legislation, particularly in fields such as financial reporting and directors' responsibilities.

● Meanwhile, the Institute of Chartered Accountants (Saica) and the Public Accountants' Auditors' Board (Paab) have warned that copies of their registration certificates have been forged.

The organisations said in a statement: "Members of the public are asked to be aware of the posible fraudulent use of these certificates.

"If they have any doubt about the authenticity of a certificate, they are invited to contact Rene Pheiffer, at (011) 622-6655 in respect of Saica certificates and Jane O'Connor at (011) 622-6665 in respect of Paab certificates."

# Producer price rises still slowing down

By Sven Lünsche

STAR 16/12/92

Price increases at the producer level continued to slow down in October on the back of a noticeable deceleration in agricultural food prices.

Central Statistical Services said yesterday the year-on-year increase in the producer price index (PPI) in October fell to 7,8 percent from 8,8 percent in September.

On a monthly basis — from September to October — it increased by an encouragingly low 0,5 percent.

Lower rates of increases were reported for both imported goods and locally produced commodities.

The annual rise in the PPI for imported commodities fell from 7,1 percent in September to 4,3 percent in October, aided by the firmer trade-weighted level of the rand.

Locally produced goods rose by a year-on-year 8,7 percent in October (9,2 percent in September).

While the drought was only effectively broken last month, there were already indications in October that agricultural food price rises were slowing down.

CSS says agricultural food prices were 20 percent up on an annual basis in October (22,8 percent the previous month).

Food prices at the manufacturing level have decelerated more markedly and maintained September's annual rate of 7,3 percent in October.

The good rains in November and December will have a favourable impact on food prices, although lower vegetable and fruit prices could be slightly offset by higher meat prices, as farmers try to restock herds depleted by the drought.

Sapa reports that the investigation of the price mechanism in the food chain by the Board of Trade and Tariffs (BTT) has been completed.

A report on the investigation has been forwarded to the Minister of Finance and Trade and Industry and the Minister of Agriculture for evaluation.

The Food Logistics Forum, which includes consumer bodies and representatives of the retail industry, said in October the BTT report would show the drought had caused shortages and the need to import food had fuelled food price inflation by eight percent.

There has been widespread outrage at escalating food prices in recent months and the drought, value-added tax, steep profit-taking measures of retailers and government control boards have variously been blamed.

Food inflation at the consumer level reached a level of 30 percent in August, but has recently dropped to about 22 percent.

The forum said VAT had also added six percent to food prices, but it was optimistic that the controversial tax had now worked its way through the system.

# IBM to lay off 25 000

STAR 16/12/92

NEW YORK — IBM said yesterday it would reduce its workforce by about 25 000 in 1993 and further trim global manufacturing capacity as part of another round of cost-cutting.

The latest moves would result in a charge of about $6 billion in the current fourth quarter, the company said.

That's on top of $5,4 billion in charges against earnings the computer maker earlier said it would take this year.

IBM issued its strongest warning yet that it might have to end its historic practice of getting rid of excess staff through voluntary means and move to forced layoffs.

Chairman John F Akers said that if business conditions did not improve significantly, "it is likely that some business units will be unable to maintain full employment in 1993."

Full employment is IBM's term for not having layoffs.

IBM said the reductions in manufacturing capacity would be concentrated in the company's computer chip, mainframe computer and computer data-storage products businesses.

IBM further said it would cut spending on product development by about $1 billion in 1993.

The company also said it would take steps to further increase the autonomy of its business units. — Sapa-AP.

# Bibby takes

# Mystery deepens over Rowland's sale of shares

STAR 16/12/92

# Last fling from master of controversy

LONDON — It is 31 years since Roland "Tiny" Rowland was recruited by Angus Ogilvy, then an executive of Harley Drayton's 117 Old Broad Street group, while on a visit to Rhodesia to sort out the troubles of

Lonrho over, but was repulsed by a 93-page Lonrho document which alleged that the Bond Corporation was financially unsound. Indeed, Bond later went bankrupt.

BDAY 18/12/92

# W & A buys UK assets

180 MARCIA KLEIN

W & A has made two acquisitions worth more than R6m — in commercial rands — through UK subsidiary AAF Industries.

AAF said this week it had acquired the share capital of industrial aluminium cladding specialist Stamford-Pickard for about £1,08m, and its wholly owned subsidiary Formscaff UK had bought the business of PHD Scaffolding.

The Stamford deal involved an upfront payment of £600 000 and a deferred payment based on profits to end-March 1993.

Stamford reported turnover of £3,7m and pretax profit of £435 000 for the year to end-March.

The acquisition would enable AAF subsidiary Premier Building Group to expand its product range, AAF said.

Formscaff's £200 000 acquisition of PHD would include payment of £100 000 and further payment on January 4. Liabilities would be settled by PHD, which recorded turnover of more than £2m in the 11 months to end-September.

# Cruel '93 for corporate SA

S/Times (BUSS) 20/12/92 180

**By ZILLA EFRAT and CIARAN RYAN**

**CORPORATE failures are set to soar in the New Year.**

A number of large and medium sized companies face closure in February and March following one of the worst years for company liquidations since Rubicon.

Business failures are expected to accelerate in the first quarter when spending levels collapse following the seasonal upturn.

Many small firms are expected to simply close their doors if Christmas sales do not materialise. These will not be reflected in the statistics.

Economists fear that liquidation figures for 1992 could be up 50% on last year if current patterns continue. Nearly 10 companies or close corporations were liquidated each working day this year and 3 400 individuals — the highest ever — faced sequestration, says Information Trust Corporation (ITC).

Nearly 100 000 consumers were summonsed each month this year for failing to repay debts. This does not include those cases which did not reach the courts. Credit experts say billions of rand could be involved.

ITC says 15% of the consumers on its nationwide database of 10-million are in some kind of financial difficulty.

Compulsory liquidations in October accounted for 92,7% of all liquidations. This is far higher than seen in previous recessions, where the figure was never higher than 75%.

Credit Guarantee economist Luke Doig says this reflects the desperation of creditors and their reduced ability to grant an extension of terms.

Hopes that Christmas will come to the rescue of a retail sector battered by rising unemployment and falling personal incomes appear to be ill-founded.

Chief economist at Nedbank, Edward Osborn, says the Christmas season will reflect the continuing decline in the fortunes of the retail sector.

"Christmas sales should be below those of last year. Although the good rains should have an immediate impact on gross domestic product, this won't necessarily percolate through to the manufacturing sector. Things will remain tough in the first quarter of 1993."

## Solution

Mr Osborn forecasts an economic growth rate of 2% in 1993, with the upturn occurring later in the year.

"People who find themselves in debt should rather confront the problem with their creditors to reach a mutually acceptable solution," says David Rosin, ITC's senior executive, market development. "They should not attempt to evade their creditors by absconding and hoping that their debt will go away."

Mr Doig says the wholesale and retail sectors, followed by manufacturing and construction, will take the biggest knock next year.

Liquidations up until now, and in past recessions, have largely involved smaller sized firms. But Mr Doig predicts that more medium sized businesses could also go to the wall early next year.

Year-on-year figures for October show that company liquidations are up 43,8%, reflecting the extremely tight trading conditions and slumping consumer demand.

Failures in the manufacturing sector soared 103% compared with October last year, and were up 84% on September 1992. Wholesale and retail business failures were up 56% on October 1991.

Mr Doig says companies in the instalment sale business are in great danger as consumers and companies are struggling to pay these off.

## Highest

Instalment sale transactions accounted for most of the deterioration in civil default and consent judgments for debt in September. These judgments for business enterprises soared 744%, while those for private persons leapt 56%.

Mr Doig says this position could worsen after Christmas, as consumers tend to buy bigger ticket items on instalment.

Judgments against businesses in September of R46,955-million were the highest on record.

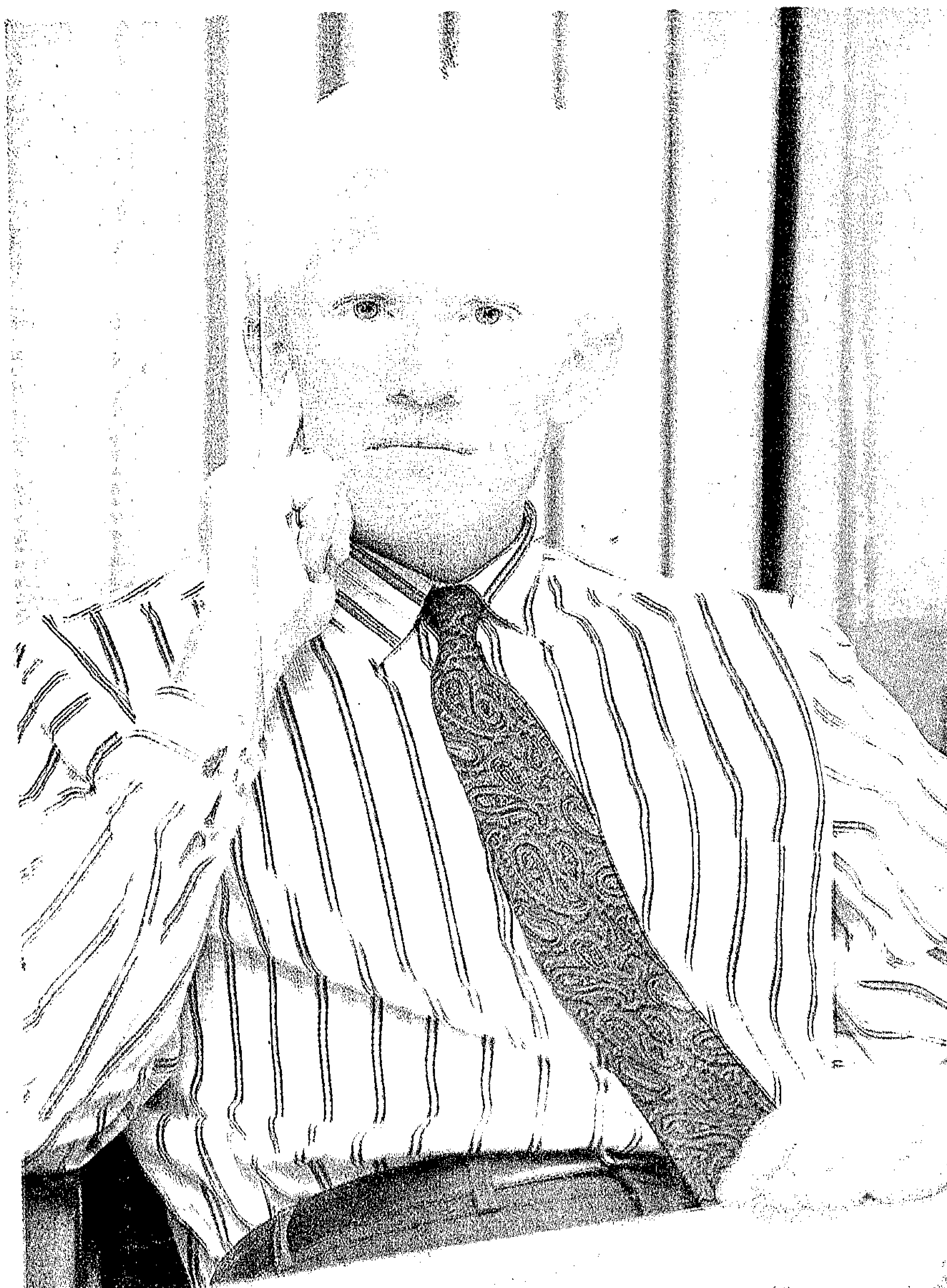
Mr Doig says the rise in liquidations will reflect a knock-on effect and there is very little to break this spiral.

Mr Doig says: "While most pre-Christmas orders have already been placed and executed, what must be worrying all and sundry is the eventual outcome of retail sales.

"It is quite simple: if consumers don't buy or meet commitments, the retailer or wholesaler cannot pay the manufacturer for costs already incurred."

Mr Doig says the worst of the individual insolvencies are also not behind us.

He says: "Can anyone offer viable reasons why this uncomfortable plateau of closures is not set to endure over the coming months?"



LUKE DOIG . . . 'Can anyone offer viable reasons why this plateau of closures is not set to endure?'

S Times (BUSS) 20/12/92

# The mighty get the most out of Geis

180

SOUTH AFRICA's mega-corporations are the ~~largest~~ re-cipients of the General Export Incentive Scheme (Geis). The export programme appears to have done little to encourage new exporters of manufactured goods.

Nearly R450-million was paid out to base metal products producers in iron and steel in 1991. Most of this was paid to companies, such as Iscor, believed to be the largest single recipient of Geis, and Macsteel. Basic iron and steel exporters qualify for a government incentive of up to 7% of the value of exports under Category 3 of Geis.

By CIARAN RYAN

The export programme will cost more than R1,5-billion this year, paid for by the taxpayer.

Almost R100-million was paid to manufacturers of paper and pulp products, most of which would have gone to the two major paper companies, Mondi and Sappi. Three-quarters of paper and pulp exports qualify for a maximum 7% benefit under Category 3.

Exporters of prepared foods and beverages, such as SA Breweries, Kanhym, KWV and ICS, were paid an estimated R170-million. Half SA's prepared food exports of R2-billion in 1991 qualified for a maximum 19,5% benefit under Category 4 of Geis.

## Qualify

There was a 20% growth in prepared food exports between 1990 and 1991, indicating that Geis was a strong export incentive in this category.

More than R100-million was paid to exporters of textiles and clothing. The bulk of this amount was paid to clothing manufacturers. Textile producers received only R20-million.

About R80-million was paid to chemicals producers, such as AECI and Sentrachem. About two-thirds of chemicals exports qualify for a maximum 2% benefit under Category 2 of Geis.

Unclassified exports — comprising mainly gold, oil products and arms — amounted to R24,5-billion in 1991. It is estimated that arms accounted for R300-million of this. The Geis rebate on this figure would have been more than R50-million.

Geis was launched in 1990 to promote exports of manufactured goods, but most of the recipients are companies which were already exporting.

Kevin Lings, in an analysis of Geis and exports in Nedbank's November Guide to the Economy, concludes that:

"Although Geis has been in existence for only a relatively short period of time, indications are that, as a general export incentive, it is not proving successful, particularly from a cost-effective point of view."

There were, however, some notable exceptions.

There was a 40% growth in exports of machinery, appliances and electrical equipment, which qualify for a maximum 19,5% Category 4 benefit under Geis. About R180-million was paid to these exporters under Geis in 1991.

There was a 33% growth in exports of vehicles and transport equipment, which fall under Phase VI of the local content programme for the motor industry and do not qualify for Geis.

Exports of containers, amounting to R375-million, account for much of the growth in transport equipment. Containers do not qualify for Phase VI rebates.

Exports of resins, plastics and rubber grew by 43,5% to R582-million. Most of these exports qualify for a 2% benefit under Category 2 of Geis. Exports of animal products, also Category 2 items, grew 40% to R691-million in 1991.

## Dependent

These successes are isolated, however. SA remains almost entirely dependent on exports of primary and primary beneficiated products. Gold, coal, platinum, diamonds, minerals and base metals accounted for 71,5% of exports in 1991. There is no Geis incentive for beneficiated primary products.

The total value of exports in 1991 was R64,4-billion.

Geis has done little to boost the overall level of manufactured exports. Fully manufactured Category 4 products, as well as exports under Phase VI of the local content programme, accounted for about 8,6% of total exports in 1991, yet roughly half of all Geis payments were made to exporters of manufactured goods.

# Jolly taxing time for CCs

STimes (BUSS) 20/12/92 (180)

By CHERILYN IRETON

A MISERABLE Christmas looms for taxpayers who have been using close corporations (CCs) and employment agencies to postpone or avoid payment of their tax liabilities.

An amendment to the Income Tax Act, activated by Finance Minister Derek Keys last week, demands that employers now bear the responsibility for deducting PAYE and SITE on all monies paid to so-called "labour brokers" or taxpayers who make their services available through agencies.

The amendment covers any remuneration paid on or after March 1 1993.

It will affect temporary workers, such as secretaries and bookkeepers, who are placed by specialist agencies.

It will also affect individuals who set up close corporations and then negotiate a work contract between their employer and the CC.

Francois Strydom, tax manager at Deloitte & Touche, says that in the case of professional firms such as lawyers, auditors and architects where services are performed by an enterprise — as opposed to providing persons to a client, as with a temporary bookkeeper — the enterprise will not be regarded as a labour broker.

There will be relief, in the form of exemptions, to qualifying labour brokers. The key will be whether the labour broker carries on an independent trade, says Strydom.

Issues that will determine its independence include whether the CC operates from its own premises and the number of clients that it has. This is clearly designed to draw one-man operations — working for one employer — into the tax net.

Other exemptions will be granted by the Receiver, for a period of one year at a time, if the labour broker is registered as a provisional taxpayer, is registered as an employer and his tax affairs are in order.

"Where no exemption has been granted, employees' tax must be deducted in line with the employees' tax tables — if the payment is made to individuals.

"In the case of payment to companies and close corporations, the current corporate tax rate of 48% will apply," says Mr Strydom.

He adds that taxpayers can apply for a reduction of the rate but will then have to prove that their taxable income will be less than the remuneration suggests.

Mr Strydom says it is unfortunate that the implementation was announced at such a late stage.

"The fact that only two months are effectively available to obtain exemption may cause prejudice to the taxpayers' concerned."

# Fixed investment unlikely to show much improvement

STAR 22/12/92

**KEITH LOCKWOOD, economist with the SA Chamber of Business looks at the prospects for fixed investment in the coming year.**

(180)

**Outlook '93**

Trying to make economic forecasts is a tricky business at the best of times, but attempting to predict what will happen to a highly volatile component of the GDP such as Gross Domestic Fixed Investment at this time is fraught with dangers.

More than anything, investment in fixed assets is orientated towards the future, and in South Africa's case, that future is filled with many uncertainties.

There are probably four chief determinants that will govern the level of fixed investment in the South African economy in 1993. They are:

- The level of investor and business confidence;
- The ability of the public sector to invest;
- The extent to which existing capacity is being utilised; and
- Technological changes.

## Confidence

During the past three years the business community has suffered from a "crisis of confidence", because of the uncertainties generated by the political transition, the violence, the drought and the poor performance of the world economy.

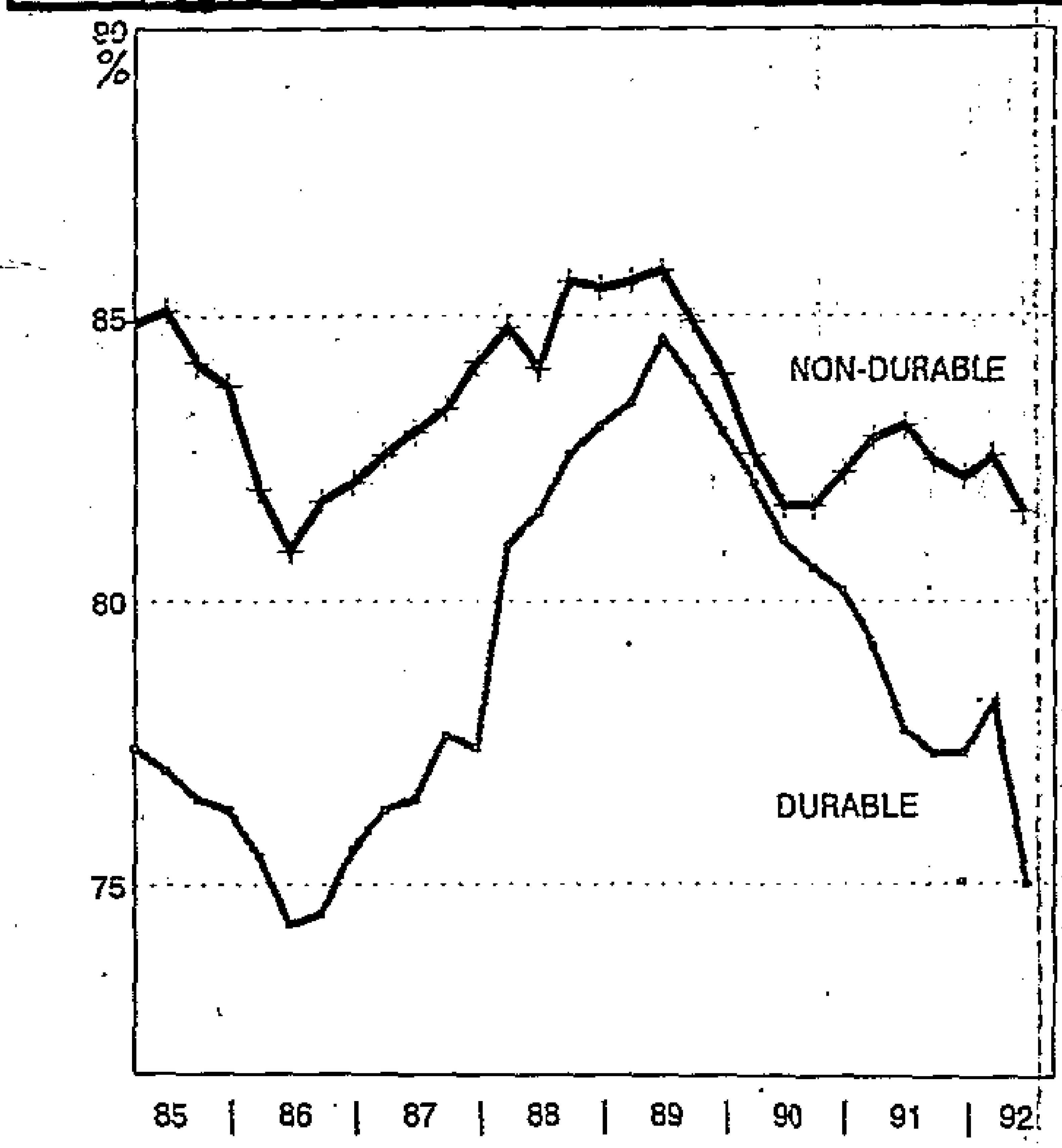
SACOB's Business Confidence Index (BCI) reflected this dismal mood by steadily falling to the lowest level since its inception. Fortunately, the most recent index — for November 1992 — showed a sharp improvement. However, we must recognise that confidence is a fragile thing, and that there are many unresolved issues that could impact negatively on the sentiment of investors.

Another interesting thing about "confidence" is that it can be catching. That is why, all other debates about their merits aside, recent announcements concerning large-scale projects such as the R7,2 billion Alusaf smelter, the R2,4 billion Columbus Stainless Steel project, and the R1 billion Namakwa Sands are important.

## Public sector

When business decision-makers see that others in the private sector are sufficiently confident to make large-scale investments, they are likely to reconsider their own investment plans.

There has been a steady decline in the amount invested by the public sector, on a per capita basis, since the late 1970s. Given the prevailing pressures on Government for increased social spending, and the large deficit that already exists between revenue and expenditure, this trend is unlikely to be reversed in 1993, despite a general recognition amongst policy-makers of the need to do so.




Source: SARB

Capacity utilisation levels in the manufacture of durable and non-durable goods.— Source SARB.

Excess capacity in most parastatals will also reduce the prospects for an increase in investment from this source.

## Capacity Utilisation

Even in the event of sustained rise in confidence levels, the fact that less than 79 percent of manufacturing capacity is being utilised will mitigate against significant investment in this sector in the short term.

The biggest reason for the relatively low capacity utilisation is insufficient demand, which will only improve as consumers — both inside and outside of South Africa — enjoy an increase in real disposable incomes.

Depressed commodity prices will tend to maintain pressure on investment by the mining industry, whilst excess capacity in available office and factory space is also likely to prevent an increase in construction-related investment.

Given the rapid rate of technological advance, and the low levels of investment in the economy over the past decade, much of the existing plant and equipment is technologically-dated. In some sectors, it might therefore be necessary to modernise plant and equipment even though capacity utilisation is still not optimal, because failure to do so will result in declining competitiveness, and a further erosion of sales.

Taking these factors in to account, I believe that real fixed investments will continue to decline for at least the first half of 1993, following which there is likely to be a fairly gradual turnaround which will gather momentum in 1994.

After a real decline of 8,4 percent in 1991 and an expected decline of around 12 percent in 1992, a further contraction of about two percent seems likely in 1993. However, this could be significantly better or worse, depending on what happens in the political arena.

# Manufacturing production volumes at 11-month high

(180) STAR 23/12/92.

Production volumes among SA's manufacturers showed a slight improvement in October on the previous month but are still well down on the levels prevailing in October last year.

According to Central Statistical Services figures released yesterday, the volume of manufacturing production gained 3,4 percent in October from September this year.

However, October's index of 103,4 was marginally less than last year's October index of 104.

The CSS trend cycle is reaching the low levels of manufacturing production seen last in early 1986 after it had peaked in late 1988.

The monthly gain in production was due to an increase in 18 of the 27 major manufacturing groups; primarily other chemical products, metal products, paper and paper products, electrical machinery and basic non-ferrous metal products industries.

"Manufacturers in these major groups indicated that increased orders from both local and export markets resulted in the production increases," CSS said.

October's actual index of the physical volume of manufacturing production of 111,4 was the easily the highest level achieved in the last eleven months.

In a seperate report on manufacturing's financial statistics for the second quarter of this year, CSS said both profitability ratios increased slightly from the comparative quarter last year.

The taxed-profit/turnover ratio increased from 4,61 percent in the June quarter last year to 4,71 percent in the second quarter of 1992. But this profitability ratio was lower compared to the March quarter this year of 4,81 percent.

The taxed-profit/fixed-assets ratio was up slightly at 3,12 percent in the June quarter from last year's 3,09 percent but down on the previous quarter in 1992 of 3,28 percent.

The capital expenditure on new assets expressed as a percentage of turnover decreased from 6,56 percent for the second quarter of 1991 to 5,53 percent for the June quarter of 1992. — Sapa.

# Manufacturing production keeps up its momentum

BDAY 23/12/92 (180)

JONO WATERS

THE physical volume of SA's manufacturing production continued its upward momentum in October, but was lower when compared to a year earlier.

Figures released by the Central Statistical Service yesterday showed a 3,4% seasonally adjusted gain in October to 103,4 on the index from September 1992. This was 0,6% down on October last year.

Increased production was recorded in 18 of the 27 major manufacturing groups. Those which contributed the most included metal products, paper and paper products, electrical machinery and basic nonferrous metal products industries.

"Manufacturers in these major groups indicated that increased orders from both local and export markets resulted in the production increases," the CSS said.

However, the physical volume of manufacturing production for the third quarter of 1992 showed a 2,5% decrease compared with the second quarter of 1992 after seasonal adjustment. The largest decreases were recorded by the printing, other chemical and chemical products, other metallic mineral products and metal products industries.

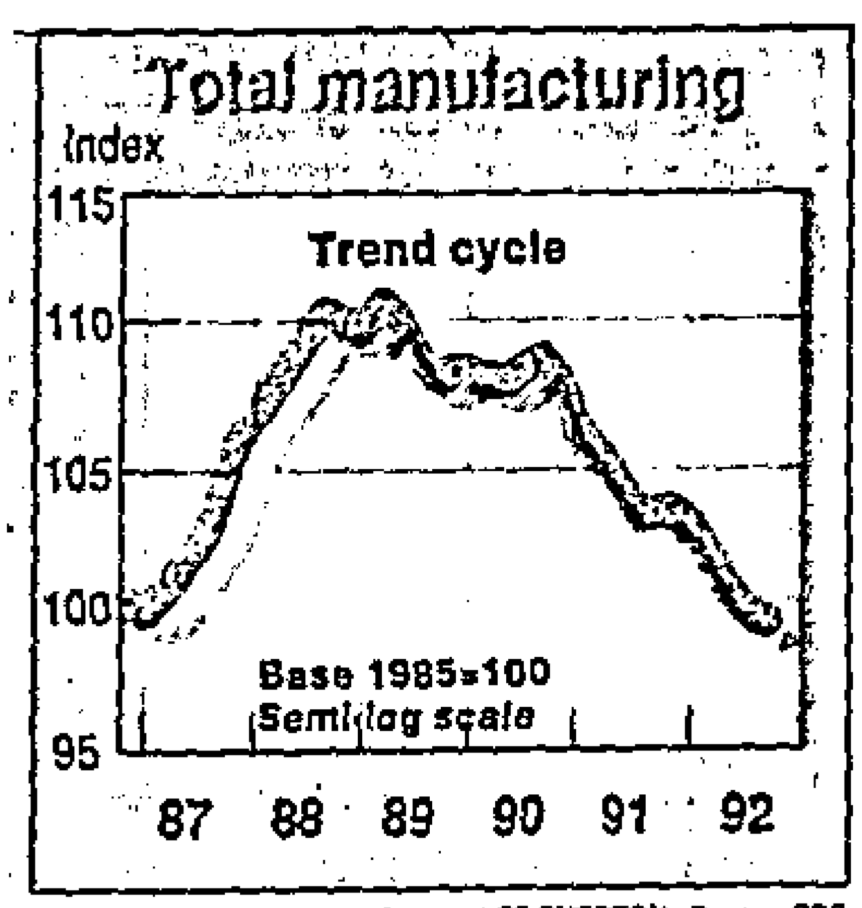
The seasonally adjusted value of sales of manufactured products for the third quarter showed a slight increase of 0,8% compared with the second quarter of 1992.

Increases came mainly from the food, basic iron and steel, and motor vehicle industries.

Manufacturing's financial statistics for the second quarter of this year showed profitability ratios increased slightly from the comparable quarter last year.

The net profit after tax/turnover ratio increased to 4,71% in the second quarter of 1992 from 4,6% a year earlier. However, the profitability ratio was lower compared to the March quarter this year of 4,8%.

The net profit after tax/fixed assets ratio was up slightly at 3,12% in the June quarter from last year's 3,09% but down on the March quarter figure of 3,3%. Capex expressed as a percentage of turnover decreased to 5,5% for the June quarter of 1992 from 6,6% a year earlier.




Graphic: LEE EMERTON Source: CSS

# Manufacturing output down on last year

(180)

CT 23/12/92

JOHANNESBURG. — The physical volume of manufacturing production in SA in October was higher than the previous month but was still lower than the level last year.

According to Central Statistical Services figures released yesterday, the volume of manufacturing production seasonally adjusted gained 3,4% in October from September this year.

However, October's index of 103,4 was marginally less than the equivalent month last year of 104,0.

The CSS trend cycle is reaching the low levels of manufacturing production seen last in early 1986 before the momentum was upwards achieving a peak in late 1988.

The monthly gain October 1992 in production was due to an increase in 18 of the 27 major manufacturing groups; primarily other chemical products, metal products, paper and paper products, electrical machinery and basic non-ferrous metal products industries.

"Manufacturers in these major groups indicated that increased orders from both local and export markets resulted in the production increases," CSS said.

October's actual index of the physical volume of manufacturing production of 111,4 was the easily the highest level achieved in the last eleven months.

In a seperate report on manufacturing's financial statistics for the second quarter of this year, CSS said both profitability ratios increased slightly from the comparative quarter last year.

The net-profit-after-tax/turnover ratio increased from 4,61% in the June quarter last year to 4,71% in the second quarter of 1992. But this profitability ratio was lower compared to the March quarter this year of 4,81%.

The net-profit-after-tax/fixed-assets ratio was up slightly at 3,12% in the June quarter from last year's 3,09% but down on the previous quarter in 1992 of 3,28%.

The capital expenditure on new assets expressed as a percentage of of turnover decreased from 6,56% for the second quarter of 1991 to 5,53% for the June quarter of 1992. — Sapa

JSE market capitalisation falls 8%

# Rocketing rights issues raise R8bn

B|DAY 24/12/92. (180) ~~232~~

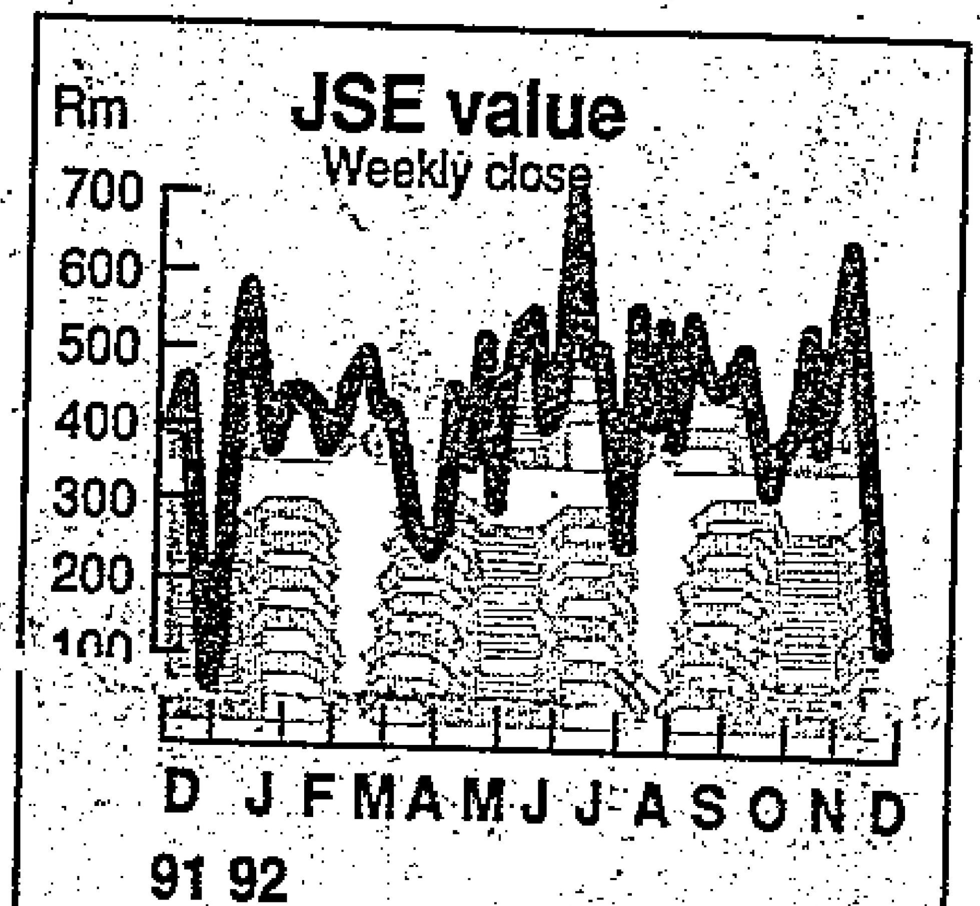
MARCIA KLEIN

COMPANIES raised R8,07bn in rights issues during the 12 months ended November, according to JSE figures.

This was 40,8% more than the previous year's R5,73bn and included some of the largest issues handled on the JSE. Among them were Gencor's issue for nearly R2bn, Gencor-Beherend's for R1,1bn and Sasol's for R1,1bn.

Standard Bank Investment Corporation raised R647,8m, First National Bank R545,7m and Tiger Oats R387,4m. Pepkor came to the market for R262,4m, and M-Net raised R254m.

The recession took its toll on JSE prices. At end-November, the JSE's total market capitalisation was R477,5bn — 8% lower than the previous year's R519,2bn.




Graphic: LEE EMERTON Source: I-NET

In addition, the value of shares traded from December 1991 to November 1992 totalled R21,6bn, slightly less than the previous year's R22bn. July and September were the busiest months in terms of the value of shares traded.

The top company traded by value was De Beers, followed by Anglos, Richemont, Minorco, Barlows and SA Breweries. Absa, Gencor, Liberty and Sasol also featured in the top 10.

Reluctance to list in depressed economic circumstances resulted in only 12 new listings during the year, compared with 15 new listings in 1990.

Some of the major new listings included CG Smith Sugar, Langeberg, Servgro International, City Lodge, Persetech, RMB Holdings, Lenco and Abcon Properties.

The 56 de-listings were surprisingly fewer than the 59 recorded in 1991. Among the companies to de-list were Columbia Consultants, Darling & Hodgson, Grant Andrews, Lanchem, Waverley Gold Mines, Rand London, Placor, Pleasure Foods, Elcentre Group Holdings, Bankorp, Kanhym, Sun Packaging, Modder B, Sage and Noristan.

At the end of November, the industrial sector had a market capitalisation of R245,8bn, or 51,5% of the market. Mining finance made up 17,3% of the JSE total

☐ To Page 2

## Rights issues

B|DAY 24/12/92 (180) ~~232~~

☐ From Page 1

market capitalisation, and the financial sector 14,4%.

Diamonds represented 5,76% of the JSE's market capitalisation, and all gold 5,62%. The development capital market took up a mere 0,22%, and the venture capital market 0%.

Although comparative figures for the previous year had not been given, a market source said the mining stocks' contribution to the JSE's total market capitalisation had declined significantly.

The all share index closed yesterday at 3 242 from 3 542 at end-November 1991. The industrial index has been surprisingly buoyant in a difficult year, closing yesterday at 4 329 above last November's 4 220.

But the all gold index has dropped significantly over the year to yesterday's 817 points from 1 233 last November.

# Businessmen 'can learn from laws of the jungle'

B10B1
24/12/92 MEREDITH JENSEN (180)

WHAT could a pride of lions possibly teach a group of astute businessmen? A great deal, says wildlife expert and lecturer Ian Thomas.

Thomas has travelled throughout SA, Europe and the US, for the past four years, giving seminars on teamwork and efficiency to a variety of companies. After years working in the bush, he began to see correlations between lions on a hunt and businessmen in the workplace, which encouraged him to design a business presentation highlighting the analogies between business teams and lions.

Thomas says many problems in the workplace arise because employees do not regard teamwork as an advantage. Instead, employees often compete destructively in order to advance within a company.

"Lions form teams in order to gain advantage. When people join a company they do not see they are joining a team which will work to their advantage." Thomas said people ought to focus on goals and incentives, following the example of lion behaviour.

He said incentive was built around the premise "if you kill, you eat", though he admitted this aspect should be modified for business purposes.

Thomas encourages companies to emulate the social structure found within a pride of lions where powerful individuals benefit from belonging to a group of equally powerful individuals. However, the efficiency of a team depends on its members. Much as weak cubs are left to starve and die, so managers should be careful to choose employees who are capable of performing at a certain level, Thomas said.

Though harsh, Thomas maintains only the successful survive, be it in the African bush or the business jungle.

BARLOW RAND . FM 25/12/92 (180)

# Rewarding the parts that perform

**Activities:** *Mining, manufacturing, distribution, food, pharmaceuticals and property.*
**Control:** *Old Mutual (34,5%), Sanlam (7,9%).*
**Chairman:** *W A M Clewlow; MD: D E Cooper.*
**Capital structure:** *195,5m ords. Market capitalisation: R8,79bn.*
**Share market:** *Price: 4 450c. Yields: 3,9% on dividend; 9,8% on earnings; p:e ratio, 10,2; cover, 2,5. 12-month high, 6 050c; low, 4 200c. Trading volume last quarter, 3,5m shares.*

| Year to Sep 30 | '89 | '90 | '91 | '92 |
|---|---|---|---|---|
| ST debt (Rm) | 1 376 | 1 494 | 2 004 | 1 830 |
| LT debt (Rm) | 2 044 | 2 669 | 2 367 | 2 716 |
| Debt:equity ratio | 0,39 | 0,42 | 0,43 | 0,32 |
| Shareholders' interest | 0,43 | 0,4 | 0,43 | 0,43 |
| Int & leasing cover | 10,3 | 7,2 | 6,0 | 9,9 |
| Return on cap (%) | 17,3 | 13,7 | 13,6 | 12,7 |
| Turnover (Rbn) | 26,4 | 29,1 | 32,0 | 35,2 |
| Pre-int profit (Rm) | 2 824 | 2 549 | 2 633 | 2 809 |
| Pre-int margin (%) | 10,2 | 8,5 | 8,0 | 7,7 |
| Earnings (c) | 544 | 462 | 431 | 438 |
| Dividends (c) | 170 | 170 | 170 | 173 |
| Net worth (c) | 1 991 | 2 262 | 2 258 | 2 407 |

**Barlows' Clewlow** ...
*satisfactory results*

**Chairman** Warren Clewlow starts his annual review with the statement that he believes 1992's results to have been satisfactory taking into account difficult economic conditions, locally and abroad. If this was intended as a signal that things are not as bad as they might seem, it is a message that has been totally lost on the market which has sharply downgraded its rating of Barlows shares.

The deterioration of Barlows' rating was one of the points highlighted by the *FM* after release of the preliminary results (*Leaders* November 20) when its yields were compared with those of other conglomerates as well as the JSE Industrial index. An interesting sideline to this is the extent to which the rating has slipped relative to other group companies, most notably sub-group C G Smith, which is pretty much a conglomerate itself.

Over the past year, whereas Barlows' share price has slipped about 12%, that of C G Smith has risen 22%. Apart from indicating that Smith's current price (R133) is 39% more than it would have been if it had moved in line with its parent, a chasm has opened between the respective ratings of the two shares. It puts Barlows at a discount of between 33% and 41% to its subsidiary, depending on whether this is measured in terms of earnings or dividends.

The point here is that, in its downgrading of Barlows, the market is not rejecting the group *per se*. It is quite happy to accord good ratings to the parts that can perform, as did Smith last year, but less so in the case of the parts that don't — which at the moment include a number of Barlows' wholly owned subsidiaries as well as what is now called the Mineral Resources division, where results in 1992 continued to exert a strongly negative influence on the overall group.

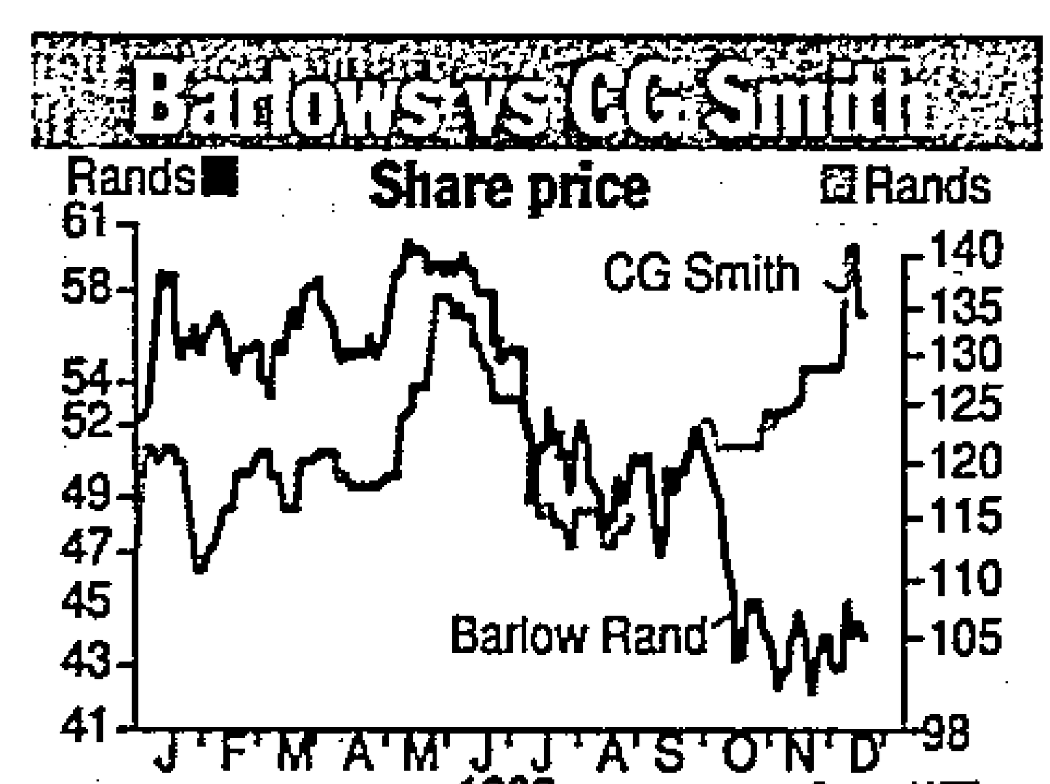
At the start of the year, following the sale of Middelburg Steel & Alloys together with the chromite mining interests, the *FM* estimated group results should have benefited from the deployment of the disposal proceeds of R1,1bn by around R100m which, alone, should have added 12% to attributable earnings if everything else had stood still.

This benefit was achieved, if one takes the turnaround from a R66m attributable loss to a R50m profit from the Financial Services/ Group Admin division.

But the boost to Barlows' bottom line was substantially diluted by reduced contributions from Mineral Resoures (down R54m) and Industry (R44m lower). For this reason investors obviously disagree with Clewlow's comment on the group's performance, which in turn accounts for the downrating of the share.

By the same token, the combined contribution of the Packaging & Textiles and Food & Pharmaceuticals divisions — in other words, the Smith group — rose by R22m. And whereas Smith chairman Robbie Williams forecasts "some growth" in this year's earnings, the forecast for Barlows is that it will be difficult to show any growth while business conditions remain as they are. Put simply, this points to an expectation on the part of management that 1993 will see more of the same in terms of the performance of Barlows relative to Smith.

As things stand, it is an open question as to whether the final dismemberment of Rand Mines will yield any material improvement in results, thereby reversing the progressive




decline in the contribution from the Mineral Resources division which has been evident for a number of years (see graph). As far as the Industrial division is concerned, last year's problems centred on three wholly owned subsectors — Robor (tube manufacture and steel merchanting), Barlows Consumer Electric Products (consumer electric durables) and Federated-Blaikie (building materials) whose combined contribution to earnings was R54m lower than in 1991.

Clearly, a lasting turnaround here will depend largely on an improvement in fixed investment expenditure. Since this cycle normally lags the general economy, the short-term outlook for the division, where most interests are tied significantly to the fixed investment cycle, is not particularly promis-

## DIVISIONAL PERFORMANCE

| | Taxed profit | | Shareholders' funds† | | Return | |
|---|---|---|---|---|---|---|
| | 1991 Rm | 1992 Rm | 1991 Rm | 1992 Rm | 1991 % | 1992 % |
| Mineral Resources | 427 | 371 | 2 226 | 2 416 | 19,2 | 15,4 |
| Industry | 373 | 361 | 1 727 | 1 864 | 21,6 | 19,4 |
| Packaging & Textiles | 249 | 275 | 1 436 | 1 617 | 17,3 | 17,0 |
| Food & Pharmaceuticals | 498 | 564 | 2 575 | 3 372 | 19,3 | 16,7 |
| International | 122 | 133 | 814 | 939 | 15,0 | 14,2 |
| Financial services & Group Administration | (64) | 51 | 373 | 196 | (17,2) | 26,0 |
| Total | 1 605 | 1 755 | 9 151 | 10 404 | 17,5 | 16,9 |

† Includes minority interests, deferred tax and loan stock.



P.T.O

FM 25/12/92

180

LABOUR BROKERS 180

# The axe falls

FM 25/12/92.

**Revenue has** launched its long-awaited offensive against taxpayers who channel their earnings through private companies and close corporations (CCs) — thereby escaping employees' tax (Paye and Site). Also targeted are individuals, such as typists, who market their services to various clients through employment agencies — often escaping the Paye net.

Amendments to the Income Tax Act, enacted in 1990, have now been activated by government notice. Their effect is to import into the Act a new fiscal concept — that of labour broker, drawn from the Labour Relations Act. The Act now treats as employees, for tax purposes, persons falling within this definition, as well as individuals operating through labour brokers.

From March 1, 1993, Revenue will apply the definition of "labour broker" and require the withholding of Paye and Site from the fee earnings of those who fall within the definition and who have not been granted exemption. Employees' tax will have to be deducted at the rate of 48% in the case of companies and CCs, while an individual labour broker would have employees' tax deducted at the applicable personal rate.

Furthermore, also from March 1, 1993, if the individual operating through the labour broker receives a fee from that broker, then he or she will also have to be subjected to employee's tax (at personal rates) to be deducted by the broker.

However, the definition of "labour broker" is so wide that it potentially covers all legitimate providers of services including professional people, such as accountants and attorneys, as well as the real targets of the legislation — employment agencies and certain one-person CCs. The abusers of one-person CCs include people such as draftsmen, computer programmers and artisans (frequently from overseas) working through CCs for one "client" only — a method of postponing the payment of tax. In some cases the practice has amounted to tax evasion (ie fraud) as no CC was ever registered.

Deloitte & Touche tax manager Francois Strydom says it seems Revenue's approach will be to distinguish the provision of *services* to a client from the provision of *persons* to perform those services. This distinction will filter out the professional practitioners and other providers of services, who will not need to apply for exemption.

It remains to provide a procedure to distinguish between genuinely independent labour brokers (such as traditional employment agencies and independent one-person CCs) and those cases which Revenue considers to be disguised employer/employee relationships.

One important legal argument, says Deloitte tax manager Louise Vosloo, may be raised by taxpayers — that the definition of labour broker does not include a one-person CC. The argument is that one purpose of the Labour Relations Act is to protect employees rendering services to a labour broker. It seems unlikely, therefore, that the legislature intended to extend this protection to a one-person CC, where the only member is the person whose services are offered to clients. If successful, this argument would render the amendments ineffective in relation to all one-person CCs.

Any taxpayer falling within the definition of labour broker, who wishes to obtain exemption from the Paye and Site requirements, will now have to complete form IRP 30(a) and submit it to the local Receiver.

The labour broker will have to show it:

☐ Carries on an independent trade;
☐ Is registered both as an employer and as a provisional taxpayer; and
☐ Has submitted all tax returns to date or has a valid extension.

The problem lies with the concept "independent trade". According to Strydom, Revenue favours the "supervision and control" test. If the client, not the broker, determines the manner in which duties are performed as well as working hours, then there is no independent trade. The payment of remuneration at regular intervals may also lead to that inference.

The IRP30(a) also asks whether:

☐ The broker provides services to more than one client;
☐ It operates from its own office;
☐ The persons performing the services are subject to the terms and conditions of the contract between the labour broker and its client;
☐ There is a contract between the client and the broker's employees; and
☐ Those employees receive benefits, such as housing assistance or training from the client.

Answers to the questions in IRP30(a) will distinguish independent labour brokers from cases of disguised employment.

The labour broker will have to apply annually for an extension of the exemption. Employers using the services of labour brokers will now have to be wary. If an exemption is not granted, failure to deduct Paye will attract penalties as well as interest payable to Revenue. What is not clear yet is whether Site will apply if the annual remuneration is R50 000 or less — though it seems probable Site will apply.

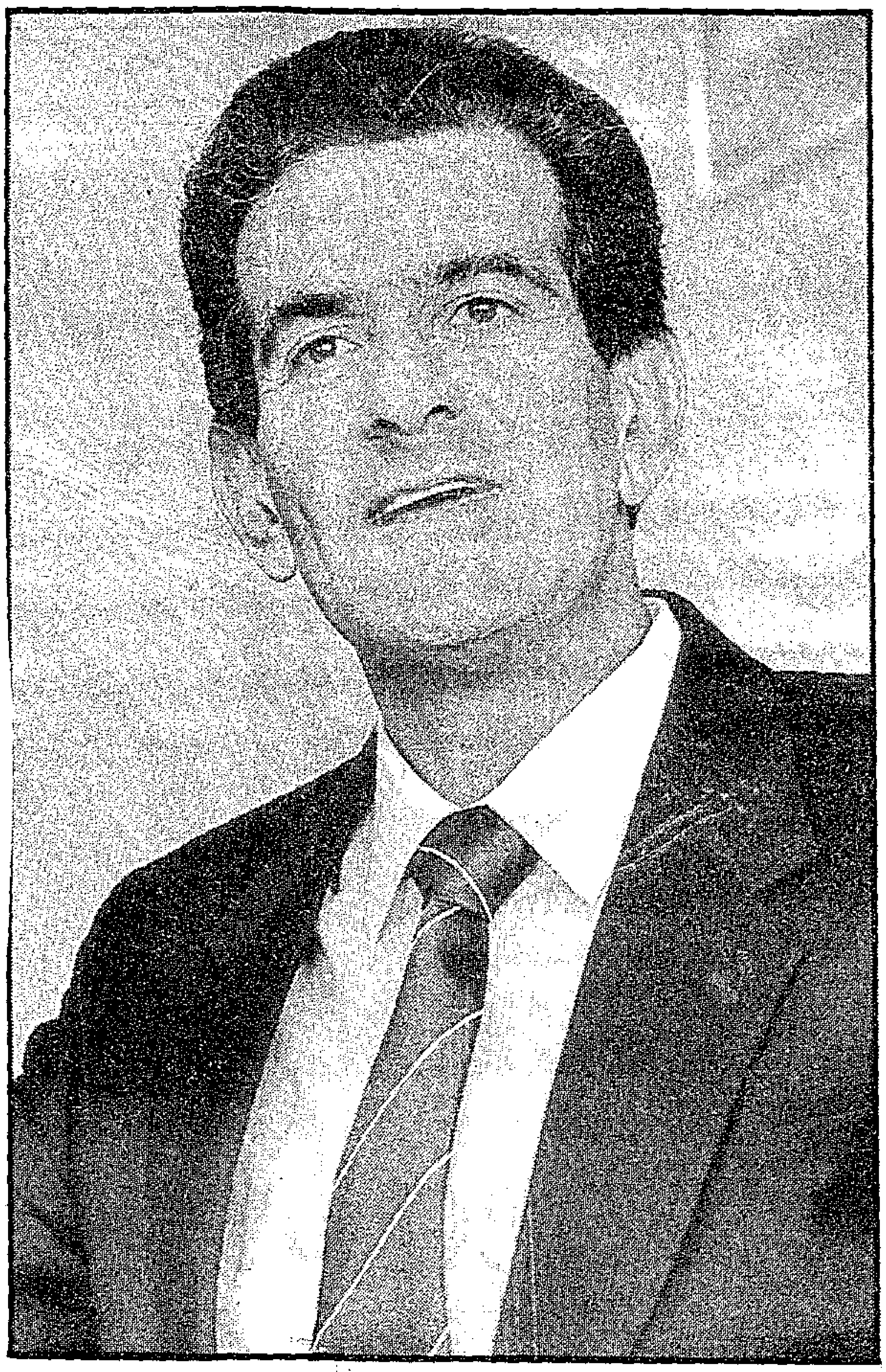
Vosloo assumes that Paye and Site payments made by companies and CCs will qualify as credits against final assessments.

If a broker does not obtain an exemption there can be a double deduction of Paye — firstly by the client, secondly by the labour broker itself; that is, if it pays a salary to its own employee or fees to individuals it places with the client.

But no Paye will be payable by a CC on amounts paid over to its members, who are treated on the same basis as directors of private companies for tax purposes. Of course, the member will be taxed as a provisional taxpayer on all earnings, which would include fees from the CC, but not distributions from the CC (the counterpart of dividends from a company).

A labour broker may apply for a reduction in the standard rate, on the basis that its taxable income will be less than the remuneration equal to gross fees. This will be the case where the broker has deductible expenses not taken into account for Paye or Site purposes.

A serious question is whether an effective two months (to the end of February) will be enough to process applications for exemption. Strydom says he hopes the brochure to be issued explaining the procedure will be adequately detailed and that Revenue offices will have staff available to process the exemptions in time to meet the March 1 deadline. ■



AZAR JAMMINE: Harsh environment has made manufacturers lean and mean

# Conditions (180) are worst since 1980

S1Times (Buss) 27/12/92.

By ZILLA EFRAT

THERE is little to ease the pain of the manufacturing sector where employment levels are at their lowest since January 1980.

The Bureau for Economic Research (BER) says business conditions in the sector are getting desperate and there are no signs of recovery.

Business confidence measured 12 on a scale of 100 in BER's latest manufacturing survey, the lowest level since the BER began measuring it.

The harshness of the environment, hit by poor local and international demand, is highlighted by the sector's 103% year-on-year jump in liquidations in October. Some 59 manufacturing concerns failed during October — an 84% rise on September.

Nedbank's economic unit says the manufacturing sector has shed 65 600 jobs in a two-year period to the second quarter of this year.

The only two industries which created jobs during this time were beverages and tobacco — a sign of where the consumer's money is going.

Consumers, however, are not tucking in or dressing up. The food industry lost the most jobs (8 000) followed by the textile industry (7 500).

A positive sign is that manufacturing production volumes hit an 11-month high in October, but the sector still produced less than it did in October last year.

With no miracles expected from Christmas sales this year, retrenchments and liquidations in the sector should continue well into the New Year.

"The manufacturing sector may have seen the worst of the recession, but it has not seen the start of a turnaround yet," says Credit Guarantee senior economist Luke Doig.

While stock levels are already low, these will continue to be cut back in the first half of 1993, surveys by Sacob suggest. Any improvement in inventories are likely to be gradual.

Economists do not forecast an economic recovery before the middle of next year, and any turnaround is unlikely to be dramatic.

Sacob predicts economic growth of between 0,5% and 1% in 1993. Nedbank's economic unit expects, at best, a growth rate of 2% for 1993, taking the economy back to where it was in 1991.

## Volumes

The unit says the uncertain political climate, violence and a disturbingly high crime rate will continue to obstruct SA's potential for achieving higher economic growth next year.

Much will depend on an improvement in international economic conditions. The International Monetary Fund, however, has revised its forecasts for growth in worldwide economic output in 1993 to 2,3%. This is down from the 3,1% it foresaw in October and the 3,5% foretold last May.

South African manufacturers are discovering how competitive the international market is, but they can expect to increase their export volumes, albeit at a gradual pace, in 1993. Sacob forecasts a 2,4% rise for the year.

Commodity producers are unlikely to see significantly higher prices for their products in 1993 as they will continue to suffer from underutilised capacity, says Nedbank's economic unit.

Econometrix director Azar Jammine says the positive developments for manufacturers include an end to the drought, as well as lower interest and inflation rates which have made doing business more affordable than a year ago.

A major plus is that SA's manufacturers are now lean and mean after having learnt to survive under extremely tough conditions.

Negatives could include the state of the government's finances and the possibility of major unrest if political negotiations are not successful, says Dr Jammine.

## Settlement

While local producers should continue to be constrained by uncompetitive cost structures, conditions on the labour front may ease.

Pat Stone, a director of Andrew Levy & Associates, says manufacturers can expect less working days to be lost in 1993 unless the political process runs off the tracks. This year SA lost 4,2-million days compared to 3,8-million in 1991.

He says average wage settlement levels should also move closer towards single digit figures next year. The level settled at about 12% towards the end of 1992 — a massive decline from the average of 16,1% seen last year.

Sacob's view is that salary and wage increases could be limited to between 5% and 8% in most sectors of the economy next year.

ABSA economist Christo Luus says industrialists will benefit from lower interest rates next year which will reduce the cost of borrowing and capital. He expects rates to fall a further 2% in the first half.

However, Mr Doig says manufacturers could find themselves stretched when the economy picks up and they have to increase their capacity.

By this time, a lot of plant and equipment will be reaching the end of the line and will need to be replaced.

Another challenge manufacturers could face next year is a lowering of tariffs called for by the Uruguay round of Gatt.

# Tax bonanza for top firms

ST Times (Buss) (180)

27/12/92 By CHERILYN IRETON

SOME of SA's leading corporations are paying little or no tax at a time when the government is scrambling to find additional funds to finance its spending.

Almost a fifth of the JSE's industrial companies that detailed their tax payments in their latest audited results, enjoyed an effective rate of under 20%, according to figures provided by information service I-Net.

Iscor, labelled as the world's most profitable steel company by Fortune magazine, paid just 0,1% of its profit in tax for the year to June while paper and pulp producer Sappi remitted just 1% of its R216,7-million pre-tax profit to the Receiver of Revenue.

Anglo American Industrial Corporation — which houses Anglo's interests in companies like Mondi, Hiveld Steel and Haggie — paid tax at a rate of 13% last year.

Hiveld — which stands to gain further tax benefits from its involvement in the Columbus Stainless Steel project — paid tax at a rate of 12,5%.

The International Monetary Fund has warned that accelerated depreciation allowances granted to projects like Columbus — under section 37E of the Income Tax Act — will be a further drain on the country in the next few years in terms of lost revenues.

Other noteable tax rates are:

- Gencor 9%;
- Rand Mines 6,8%;
- Absa 26%;
- W&A 2%;
- Engen 10,2%;
- Dorbyl 11,4%;
- Safren 17,2%;
- Anglo Alpha 19,1%;
- Sasol 23,5% and
- South African Breweries 36,6%.

The rates are kept low by legitimate use of benefits from assessed tax losses and allowances for investment in capital projects.

Meanwhile, there are growing signs that individuals will be called on to fund the widening shortfall between government income and expenditure which is expected to be around R26-billion for the current fiscal year.

Sanlam economist Pieter Calitz says the government has three options: to reduce expenditure, increase taxes — preferably indirect taxes — or to fund the deficit through borrowings.

He believes government will have to use a combination of all three.

Increases in indirect taxes are expected to take the form of a higher VAT rate of 13% and a 10% increase in the fuel levy. Both will have an impact on inflation and could delay an upturn in the economy.

Although the government is not expected to raise individual tax rates in the next Budget, direct payments from individuals will be up at least 20% through fiscal drag, says Mr Calitz.

"To reduce real government spending by 3% will be difficult at this time. Minister Derek Keys' only way of achieving that is to fire public servants. That in itself can be contra-cyclical because of the severance costs."

Sacob, in its outlook for the 1993/94 budget advocates a cut in the corporate tax rate from its current 48% to bolster confidence.

The IMF, in a report on the South African economy released earlier this month, said every effort should be made to broaden the tax base and to eliminate tax expenditures.

## Substantial

It criticised the accelerated depreciation allowances granted to large scale export beneficiation projects because they will entail a substantial cost to the government over the next few years in terms of lost revenue.

The depreciation allowances allow companies to apply the present 20% allowance from the date that they put up the funds for the project rather than from the date of commission.

This means that government will have to bear the cost of the allowances, which can be transfered to companies not even linked to the project, long before the project comes on stream or produces any revenue for the fiscus.

The I-Net analysis used published taxed rates from the latest audited financial statements.

# Corporate insurance rates may jump

ANDREW KRUMM

CORPORATE premium insurance rates could jump by as much as 25% in 1993 in spite of increased competition, industry sources said last week. (180)(93).

Even with hefty premium increases in certain sectors, the short-term insurance industry probably would not achieve 1992 levels of profitability in 1993, Aegis Insurance MD Brian Seach said.

The corporate market was in urgent need of revaluation and a forecast increase in competition between industry players would not prevent upward adjustment.

"Frankly, this is needed. Three factors — poor performance on the JSE, declining interest rates, plus very severe changes in the cost of reinsurance protection and excess of loss premiums — call strongly for drastic increases in commercial rates."

IGI director Terence Maher agreed that insurers would have to look for profitability in underwriting as investment income from the JSE and interest income from the money market dropped off in 1993.

A series of natural disasters around the world was forcing Lloyds and other US and European insurers to reassess risk and adjust their capacity downwards.

Seach said: "The cost of buying excess of loss insurance will escalate by between 40% and 100% depending on risk, market views and past performance."

Seach, who also chairs the SA Insurance Association, said the industry's profitability in 1992 was deceptive as insurers had received a R150m boon from the implementation of VAT.

Maher said further rationalisation was on the cards, with companies "sharpening" their underwriting activities, and the prospect of a few mergers or acquisitions.

# Property faces glum prospects

Blday 28/12/92

(180)

PETER GALLI

THE next year is unlikely to see any impovement in the tough conditions experienced by the commercial and industrial property markets in the past year, leading economists and market sources say.

The failure of the local economy to show any signs of a recovery, combined with the prospect of little growth next year and the likelihood of a continued world recession, hold little short-term hope for the industry.

Economists have said that while the next 12 months will be another difficult period for the industry and property players will have to continue to tighten their belts, there is some light at the end of the tunnel.

"Indications are that the market will start to turn in 1994. The property market follows the economy and will thus be dependent on positive developments there," property economist Neville Berkowitz said.

The present general oversupply of office space was expected to continue next year and an improvement was likely only in 1994, he said.

Rode Report editor Erwin Rode said the past year had been characterised by a substantial drop in demand for office accommodation and the resulting oversupply of space had placed rental levels under pressure.

Mortimer Property Group MD Paul Maddison said over the past year the commercial market had shown absolutely no rental growth. The outlook for next year remained bleak as there were no fundamentals or emerging demand to stimulate rental growth.

Anglo American Property Services (Ampros) chairman Gerald Leissner agreed. He said rents in the commercial market had generally fallen in both nominal and real terms.

"Tenants whose long leases are maturing now are renegotiating their rental levels and these are invariably lower than they had been paying before the lease expired," he said.

Office and industrial tenants were the only people benefiting from the present economic downturn and were taking advantage of the oversupplied markets to get the best deal possible.

As a result, landlords had been forced to offer a variety of incentives other than lower rentals to lure prospective tenants.

The war on rent-free periods had gained momentum when Ampros announced it was offering new tenants 30% off their net rent, in certain buildings, for the first 30 months of a five-year lease signed before December 30. However, the discount excluded operating costs and rates, and lease escalations were believed to be higher than the industry average.

But, in some cases, landlords were keeping space empty rather than finance the relocation and alteration allowances demanded by many tenants, who also wanted to commit to shorter leases.

Developers and investors had also been forced to look for options to traditional markets. The buzzword was niche markets — identifying new growth areas and keeping ahead of the competition.

Health care, smaller office buildings offering corporate identity and neighbourhood shopping centres were all possible growth areas.

The construction industry also took a battering this year as building levels dropped and competition for existing work became increasingly cutthroat, with many players tendering at breakeven point or below.

Credit Guarantee economist Luke Doig said earlier in the year indications were that close to 300 building and construction companies would go to the wall by the year-end.

# Funding for SA products at world fairs

EDWARD WEST

THE Trade and Industry Department allocated R6,4m in the 1992/93 financial year to fund SA product displays at 23 international exhibitions. BDAY 29/12/92

The latest SA/British Trade Association Bulletin says about 320 companies will have been able to display their products in national pavilions at the exhibitions in the financial year ending on March 30 1993. From April to August 1992, 275 companies made use of such assistance.

(180)

The bulletin said judging from the number of applications, the amount allocated was adequate. However, in the 1993/94 financial year a surge in applications was expected and an increased amount probably would be made available.

The department organises official SA participation in trade fairs abroad by means of national pavilions to encourage individual exporters to display their goods.

# Nafcoc sets goals for black business

ADRIAN HADLAND

UP TO 60% of all managerial positions in JSE-listed companies should be held by black businessmen by the year 2000, says former National African Federated Chamber of Commerce (Nafcoc) president Sam Motsuenyane.

Quoted in the recently published Portfolio of Black Business in SA 1993, Motsuenyane said the aim was part of a four-point plan adopted by Nafcoc to improve black participation in SA business.

The other three aims identified by Nafcoc were 30% black representation on the boards of all companies listed on the JSE, a 40% black holding of the equity of all JSE companies, and JSE companies sourcing 50% of all external needs from black entrepreneurs by 2000, Motsuenyane said.

"We realise that this will mean a complete reorientation of development strategies. But we would like the performance of the large corporations to be judged against those targets," he added.

Motsuenyane, Nafcoc president from 1968 until his retirement this year, said large white-controlled companies should try to emulate the Japanese by contracting out as much of their needs as possible to small black businesses.

To Page 2

## Nafcoc

BDay 29/12/92

From Page 1

This would prevent big companies getting even bigger and outmanoeuvring small companies in the market place, he said.

"The organisation's target is that, by the end of the century, 50% of the discretionary needs of large companies should be contracted out to small ones."

Although blacks needed to get a greater slice of big business, black business remained eminently suited to exploiting the huge growth potential in the small business sector, both formal and informal, Portfolio publisher Willie Rameshaba said.

"Black business is on the brink of unprecedented growth," he said.

Bax Nomvete, executive director of the Africa Institute for Policy Analysis and Economic Integration, said the marginalisation of SA's largest development resource — "the latent intellectual capacity and ingenuity of the black population" — was a major obstacle to generating sustainable economic growth and maintaining social, political and economic stability.

## Capital market turns bullish

# Hopes rise for a further cut in Bank rate

(180)

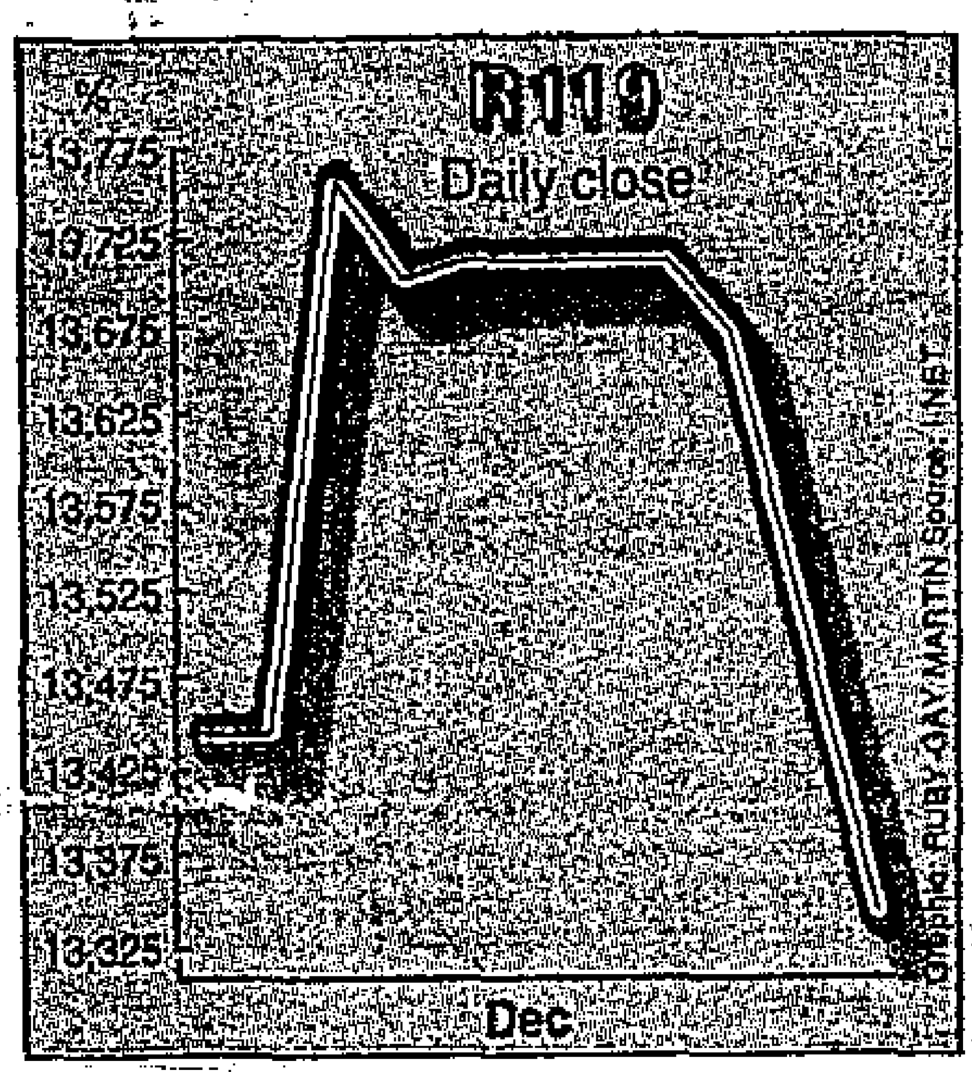
BDAY 31/12/92

GRETA STEYN

BULLISH sentiment gained momentum in the capital market yesterday in a continued response to positive inflation figures as players anticipated a one percentage point cut in Bank rate in the new year.

Sharp falls in interest rates on medium-dated gilts were sparked by the anticipation of lower short-term interest rates, dealers said. Rates on government's R119 plummeted 33 points while other similar-dated stocks declined by a substantial 15 to 20 points.

The movements on the longer-term stocks, the R150 and Eskom's E168, were more muted. However, dealers pointed out these two key rates fell below the benchmark 15% level as rates adjusted to the positive inflation figures.




They said optimism over Bank rate was more likely to be reflected in the medium-dated area rather than the 20-year stocks.

The medium-dated R119 traded at 13,34%, more than 30 points down, while the R150 was last quoted at 14,945% from an overnight 15,085%. The E168 was quoted at 14,95% from a close of 15,085%.

Some dealers said there had been evidence of institutional buying, and they speculated that this would speed up in the new year as players returned to the market. The movements in rates were on small volumes, with one analyst estimating volumes below R100m.

Positive factors for a cut in Bank rate were the fall in inflation to 11% and the moderate growth in the money supply. M3 was this week reported to be comfortably within the Reserve Bank's 7%-10% guideline range.

However, an economist said the balance of payments (BoP) was cause for concern and could counteract positive factors for a Bank rate cut. Recent weakness in the trade surplus and large foreign debt payments were putting pressure on the foreign

☐ To Page 2

## Bank rate

BDAY 31/12/92

(180)

☐ From Page 1

exchange reserves, and could see Bank Governor Chris Stals hold off until the situation improved.

The BoP problem would be further aggravated by local companies switching to domestic finance from foreign finance as SA interest rates dropped. This trend was already evident in the third quarter with the Bank reporting in its Quarterly Bulletin that "considerable switching from foreign to domestic trade financing took place in the third quarter of 1992, probably because of the relatively favourable costs of domestic credit". This could be a factor preventing Stals from cutting interest rates if the trade balance did not recover, an economist said.

But economists regard the key factor for interest rates as the Budget, which will be released only in March.

Fears of a huge deficit were the main reason for the reversal of the major bull run in the gilts market, with long-term rates climbing back from their low of 13,7% reached in October to recent levels around 15,15%. Analysts are divided over whether the present turnaround signals a correction in a bear trend, or whether it is the start of a new bull run.

MANUFACTURING – GENERAL

1993

JANUARY — ~~[illegible]~~ APRIL

# New SA holds 'mega' hope

STAR 2/1/93, (180) (222)

LEIGH HASSAL

STOCK market investors would be wise to increase their exposure to the expected "megatrends" in the new South Africa, says Arthur Thompson, of stockbroking firm E W Balderson, in a special survey. These "megatrends" are likely to be better and increased education, new African markets, mass housing and tourism.

The astute business person will make the most of the new directions to reposition his or her business in the market place. No less smart share investors, who will refocus their portfolios to benefit from the winds of change.

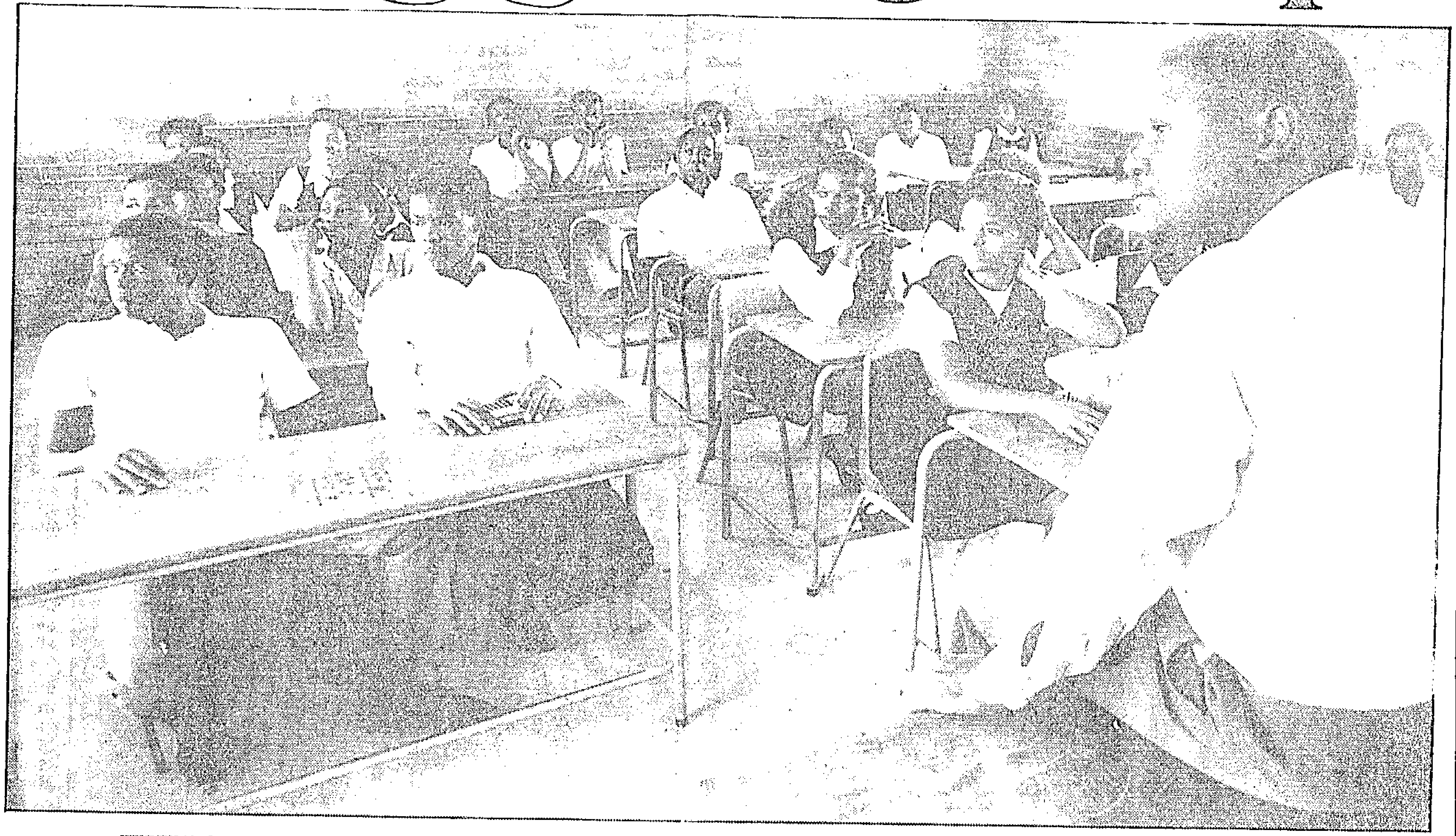
Thompson says share prices anticipate megatrends and appreciate in value in advance of the actual change. He cautions that while the risks will be lower to the shareholder who waits for the scenario to unfold, the share prices will probably be substantially higher.

Thompson has identified several probable megatrends as well as the larger listed industrial companies which stand to benefit from the changes. Although Thompson keeps to the blue chip industrials in his synposis, he says similar logic can be appliied to the second and third-line counters. The large industrial conglomerates have also been excluded, unless they have sufficiently focused divisions.

Mass housing with its substantial "trickle-down" effect on the rest of the economy is essential for even moderate economic prosperity.

Electrification and the related infrastructure development such as roads, schools and civic buildings will be boosted. Thompson identifies Murray and Roberts, Boumat, PPC, Powertech, Elcentre and Cashbuild as corporations which will gain from the new emphasis.

Corporations providing household electrical appliances and affordable-furniture distributors such as Ellerine will benefit from the trickle down effect of the housing boom.



FERTILE GROUND: Education is one of the "megatrend" areas where increased spending may generate investment opportunities.

## Changing society could be bountiful for investors

Education will be upgraded and expanded to the broader population. Thompson points out that this sector will have to be heavily state subsidised because the lower-income groups are unlikely to make any significant financial contribution. CNAGallo has repositioned itself to benefit from the wider education net.

The information technology corporations, such as Datakor and Dimension Data, are in line to grow from the education boom, as well as from the expected growth in the financial services industry.

In both South Africa and the new African markets, affordable products will sell best. However, Thompson stresses that lower-priced, and not lower-value, products will hold appeal. The cigarette division of Richemont stands to gain, as does the tobacco division of Remgro.

Clothing retailers aimed at the low and middle-income groups, such as Pep, will benefit from the expanded market. Clothing chains that make their merchandise more affordable by offering credit terms, for example Edgars, will grow from their credit strategy.

Beverage suppliers that are correctly positioned in the market-place, such as SA Breweries, ABI, Cadswep and Suncrush, will reap the benefits of a more sophisticated population. Food companies Premier, Tiger Oats and Foodcorp will also benefit from the new markets opening up in Africa. Thompson includes Pepkor on the list as he sees turnaround potential in the Checkers/Shoprite division.

The packaging industry should benefit from both the increased demand of the new African markets and the increasingly sophisticated population. Nampak and Holdains are mentioned here. Thompson adds that Holdains already has a foot in the door of the African markets through its recent acquisition of 30 percent of Crown Cork USA's African interests.

Diversified industrial conglomerate Malbak is well-positioned to benefit from the new directions, having interests in packaging, beverage cans and tops, food, health care and construction.

Aids and the spread of the medical aid system to the broader population will provide growth for the health-care industry. Adcock Ingram and SA Druggists are mentioned by Thompson in this category.

Tourism could emerge as a substantial growth industry, provided violence is curbed. Thompson mentions Sun Bop, because of the Lost City's potential.

Exports will become increasingly important to local companies. Thompson says companies like Engen, whose products have a natural competitive advantage, will benefit the most.

# Companies face JSE suspension

STAR 5/1/93.

Finance Staff 180 282

The Johannesburg Stock Exchange has warned shareholders of nine companies that their listings are under threat of suspension or termination because they had failed to provide annual financial statements within six months of their year-ends.

"Should the companies not submit their annual financial statements by the end of January 1993, their listings will automatically be suspended, pending the convening of a special meeting of the general committee of the JSE to consider the continued suspension or termination of their listings," the JSE said in a statement.

The companies are Consolidated Diamond Corporation, Consolidated Modderfontein Mines, Digoco Mining, Femco Technology Holdings, Foston, Grovewalk Holdings, Norvic Manufacturing, Quagga Holdings and South Roodepoort Main Reef Areas.

The JSE tightened its reporting requirements last year so that shareholders could be informed in time of their company's financial performance.

# JSE gets tough on company reports

(180) DUMA GQUBULE

NINE companies were under threat of suspension or termination of their JSE listings after failing to submit annual financial statements on time, JSE executive president Roy Andersen said yesterday.

In a cautionary statement, the JSE said the companies had been informed that the listing of their securities would be suspended or possibly terminated if the statements were not submitted by the end of January.

The decision would depend on a meeting of the JSE's general committee.

The companies were Consolidated Diamond Corporation, Digoco Mining, Femco Technology Holdings, Foston, Grovewalk Holdings, Norvic Manufacturing, Quagga Holdings, Consolidated Modderfontein and South Roodepoort Main Reef Areas.

Andersen said the JSE had introduced two new procedures to tighten up requirements on reports to shareholders.

Companies not submitting annual financial statements within six months of their financial year end would be given a further one month's grace before being suspended. For interim results, companies would be given three months and a further 14 days grace.

Anderson said the JSE had introduced the regulations because it believed shareholders "must be timeously informed of the fortunes of their companies".

Most of the companies had submitted

☐ To Page 2

## JSE

B/DAY 5/1/93.

(180) (282) ☐ From Page 1

interim reports at some stage last year, but had not produced annual financial statements for at least six months.

Cons Modder and South Roodepoort Main Reef company secretary Jack Freedman said last night he thought, as far his companies were concerned, the action by the JSE "was a bit harsh".

"All that has happened was that the financial statements were a bit late because of the holidays. We already have advised the JSE that Cons Modder statements will be be available tomorrow, and South Roodepoort's by the end of the month."

Freedman said the company had received an extension for Cons Modder to the end of December from the JSE and the Registrar of Companies, and thought it "hardly worthwhile" to apply for a further extension of six days.

year in an attempt to keep the VAT ... comprehensive approach to provide

Sowetan 7/1/93 (180)

# Boosting small businesses

**German organisation may open office in South Africa:**

**By Mzimkulu Malunga**

A GERMAN organisation specialising in the enrichment of small business may open an office in South Africa.

Klaus Dienst, a representative of an organisation called Senior Experten Service (SES), comprising retired German craftsmen, paid a short visit to this country to make contact with small business.

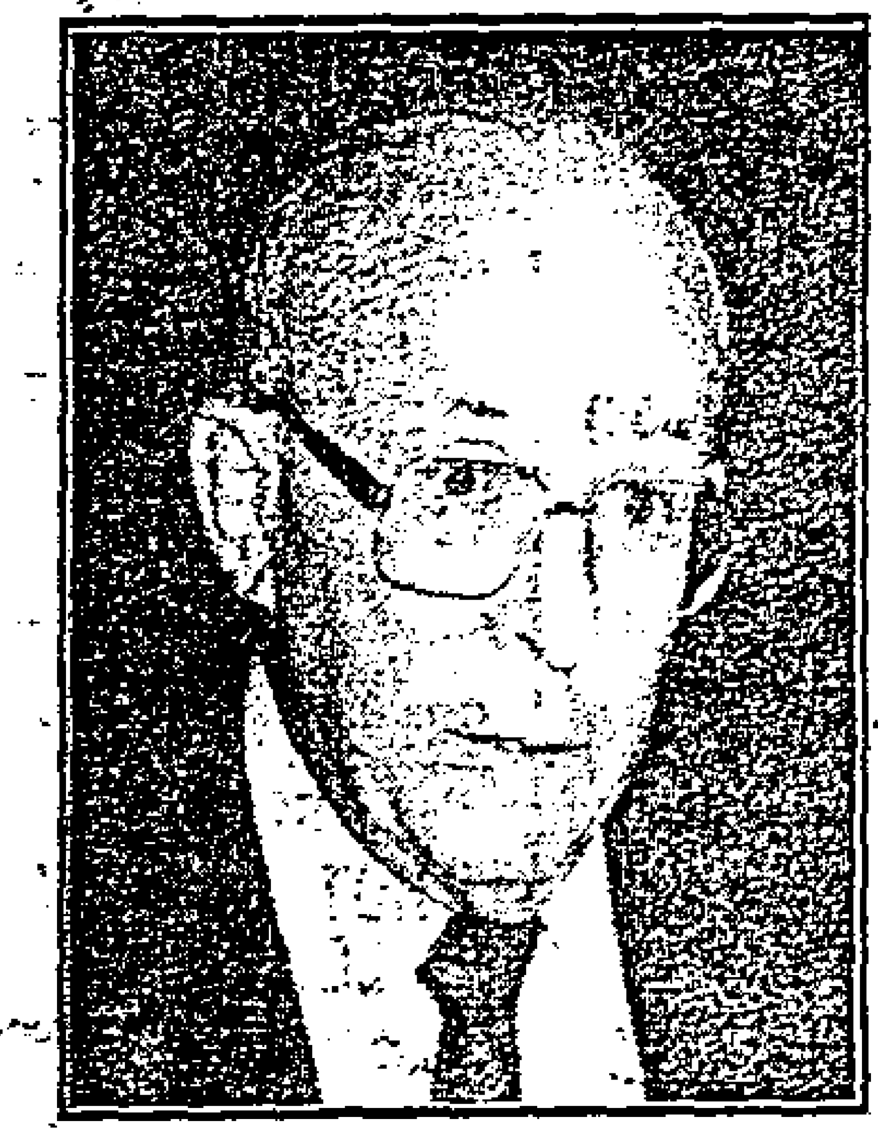
The organisation operates in 98 developing countries and is just waiting for an invitation from South Africa's infant industries.

Funded by the German government, the SES is a nonprofit-making organisation with about 3 000 members.

South African-born Dienst said if the project gets off the ground, it will have a much greater impact than existing local organisations which comprise retired executives as opposed to craftsmen.

"My worry with retired executives who consult for small business is that they do not really understand the needs of infant enterprises," he said.

The retired technocrats are skilled in various fields, ranging from engineering, forestry, livestock breeding and construction to brewing.



Klaus Dienst

# Cape super-rich topple Randlords

180

STAR 8/1/93

THE FIRST generation of Randlords, whose legendary fortunes made gold and diamonds the original hallmarks of wealth when the South African business world took shape, must have stirred in their graves yesterday.

It seemed a page in history was being turned when a new survey disclosed that the Oppenheimer dynasty — regarded as equal to royalty in local high society — had been toppled from its pinnacle as the wealthiest family in South Africa in terms of the stock market shares they own.

One suspects there were also a few mild gasps among members enfolded in plush leather armchairs at the exclusive Rand Club in Johannesburg where the next successors in the business hierarchy still hold court.

The crown was moved from the hustle and bustle of Johannesburg to the quiet Cape wineland capital of Stellenbosch.

The title was claimed by the Rupert and Hertzog families, who between them founded and still control the vast Rembrandt tobacco and wine empire and whose massive portfolio of shares on the Johannesburg Stock Exchange had grown to a staggering R2 843 million by the latest count.

It was only a few hundred million rands that cost the Oppenheimers the title — not a disaster when wealth is counted in billions, but enough to lose a No 1 rank that had been widely assumed to be almost permanent in the South African firmament of the super-rich.

Now in official retirement at age 84 but still active behind the scenes, Harry Oppenheimer can explain to the family over the dinner table that they must direct the blame at the way lots of JSE share prices have been hit by the recession — and the dramatic tumble in prices on world gold and diamond markets.

The value of their mountain of shares — including millions in the Anglo American Corporation and De Beers empires — had fallen in 12 months from R2 872 million last year to R2 355 million in 1992.

The Oppenheimers had had a close shave in holding the JSE title in 1991 as the founders of the Rembrandt empire, Dr Anton Rupert and his close business intimate Dr E de la H Hertzog, increased their family fortunes.

Now, even though the combined shares held by the Ruperts and Hertzogs in their joint operations in Stellenbosch moved only marginally, from R2 818 million to R2 843 million, it was enough to snatch the No 1 ranking.

Then again, though, the comparisons of wealth had been restricted to no more than what each of the dynasties owns in JSE investments.

There was much more to their total wealth than JSE portfolios, it was explained yesterday by Robin McGregor, author of the well-known "Who Owns Whom" investment handbook, whose business information service undertook the new survey in an exercise with the Financial Mail magazine. The results are the cover story in the current issue.

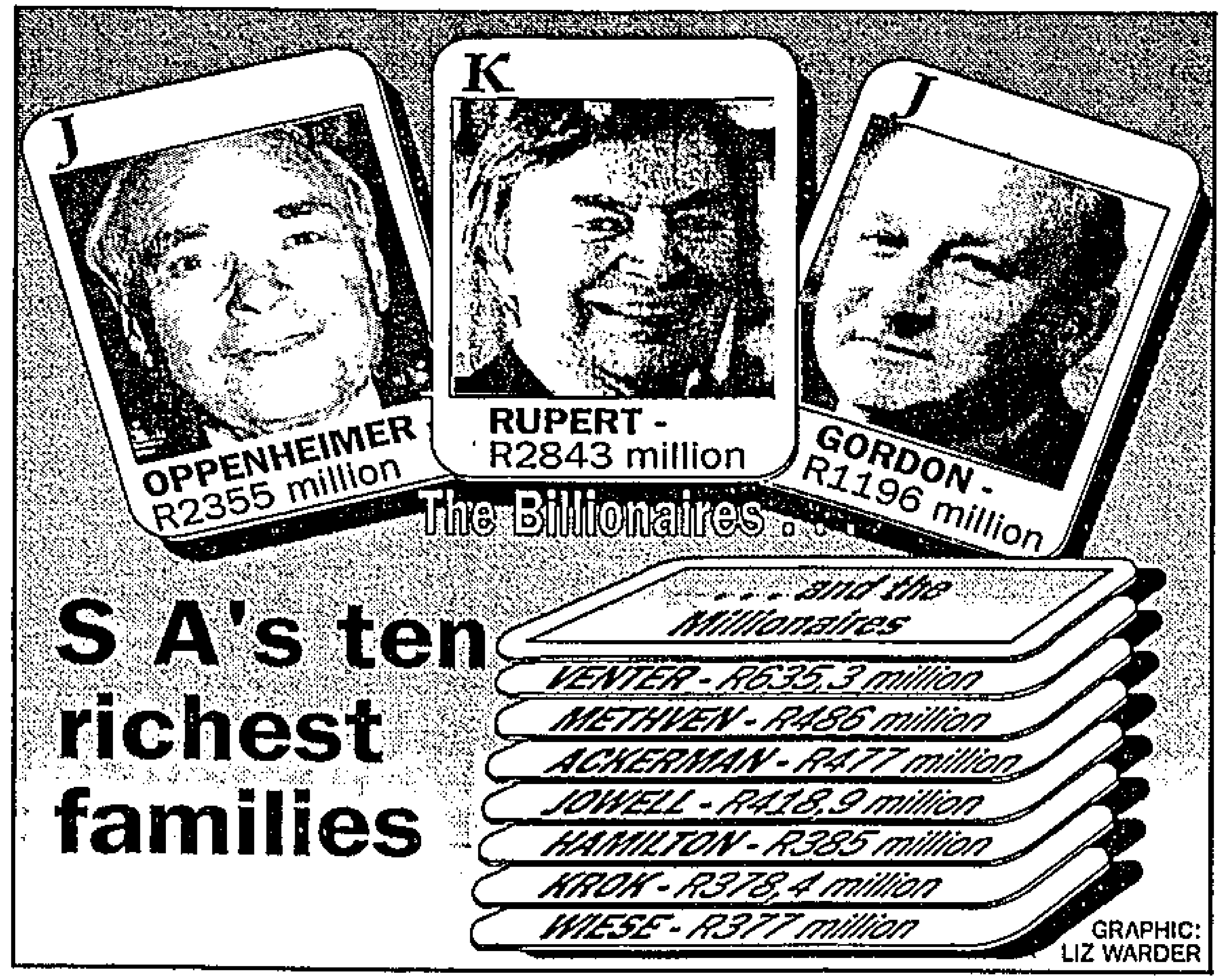
"It is virtually impossible to ascertain the ultimate total wealth of the families," he told The Star. "They have enormous investments quite apart from shareholdings in listed companies that have not come into the survey — held in private companies such as E Oppenheimer and Son Ltd — where family secrets are secure from public curiosity. And there are family trusts.

**The ghosts of earlier generations of gold mine Randlords were in mourning yesterday on news that the most powerful of their successors — the Oppenheimers — have been toppled from the throne as the wealthiest shareholders on the stock market. The throne has been taken by the Rupert and Hertzog families, whose fortunes come from the Rembrandt tobacco and wine business, writes MICHAEL CHESTER.**

"For example, what about the fabulous diamond collection owned by the Oppenheimers — perhaps the biggest private collection in the world? And what about the famous Oppenheimer library of Africana literature, worth a fortune on its own? Or the houses and properties the family owns all over the world?

"It turn, what about the value of the extraordinary art collection amassed by Anton Rupert? And the vast properties owned by the Rupert/Hertzog dynasties?

"Perhaps that sort of count would put the Oppenheimers back in first place. We may never know the total wealth of the super-rich. But our survey gives a sound indication of the individual clout of each dynasty on the stock market."




GRAPHIC: LIZ WARDER

The results of the survey give the Ruperts and Hertzogs a far higher public profile than they normally seek. Unlike the Oppenheimers, they have built their fortunes in a single generation.

They linked forces back in the depression years of the '30s to launch one of the first Afrikaner challenges to the almost exclusive domination of the English-speaking business community — with a young Anton Rupert using talents learnt as a chemistry student at the University of Pretoria to produce cigarettes.

The modest operation, which found Stellenbosch the ideal setting in which to launch into the wine business too, has now grown into a vast empire with colonies scattered all over the world.

The enlargement of Rembrandt with the takeover of Richemont in Europe has added more tentacles — the Cartier and Dunhill jewellery businesses, Rothmans of Pall Mall, banking, engineering, mining, insurance, medical services, timber, oil and gas . . .

The McGregor/Financial Mail survey confirms that the Gordon family — headed by Donald Gordon, whose meteoric rise since he founded the Liberty Life insurance company has stunned the business world at home and abroad — holds its grip on third place among the richest JSE shareholders.

In fact, their hold on the third slot has been reinforced by a leap in the value of their JSE portfolios that has carried them into the exclusive ranks of billionaires — until now the reserve of the the Oppenheimer and Rupert/Hertzog families.

The Gordon portfolio jumped in value from R890 million to R1 196 million.

Electronics wizard Bill Venter, who created the Allied Technologies kingdom from modest beginnings on the East Rand, has also put the Venter family on the stairway to the billionaire stratosphere.

The Venters increased the value of their JSE portfolio from under R428 million to more than R635 million to jump from sixth to fourth slot.

That involved overtaking both the Methven family, whose wealth was laid by the Rainbow Chicken business, and the Raymond Ackerman family, which owes its fortune to the cash tills of the Pick 'n Pay supermarket chain.

The Methven portfolio shrank from R735 million to R486 million. Even the shrewdness of Raymond Ackerman failed to stop a R10 million tumble in family shares down to R477 million.

Hard on their heels come the Jowell brothers, Neil and Cecil, joint managing directors of Trencor. Their combined family stake of 10,3 million shares in the Mobil garage chain has been the main driving force behind a striking increase in the value of their shares portfolio to nearly R419 million — and won them seventh place in the rankings.

The Hamilton family, headed by Robin Hamilton, chairman of Suncrush and with huge investments in well-known soft-drinks labels, has slipped a notch from seventh to eighth. Nevertheless, its JSE shares climbed in value to a tidy R385 million.

Next come the twins Abraham and Solomon Krok, who created the Twins pharmaceutical company that has now been swallowed by the huge Premier conglomerate. Their shareholdings jumped in value from R208 million to more than R378 million.

Clinging on to a place among the 10 richest JSE shareholders is Christo Wiese, chairman of the Pep chain of stores. Even though he dropped a couple of slots in the rankings, R377 million in shares secured 10th place.

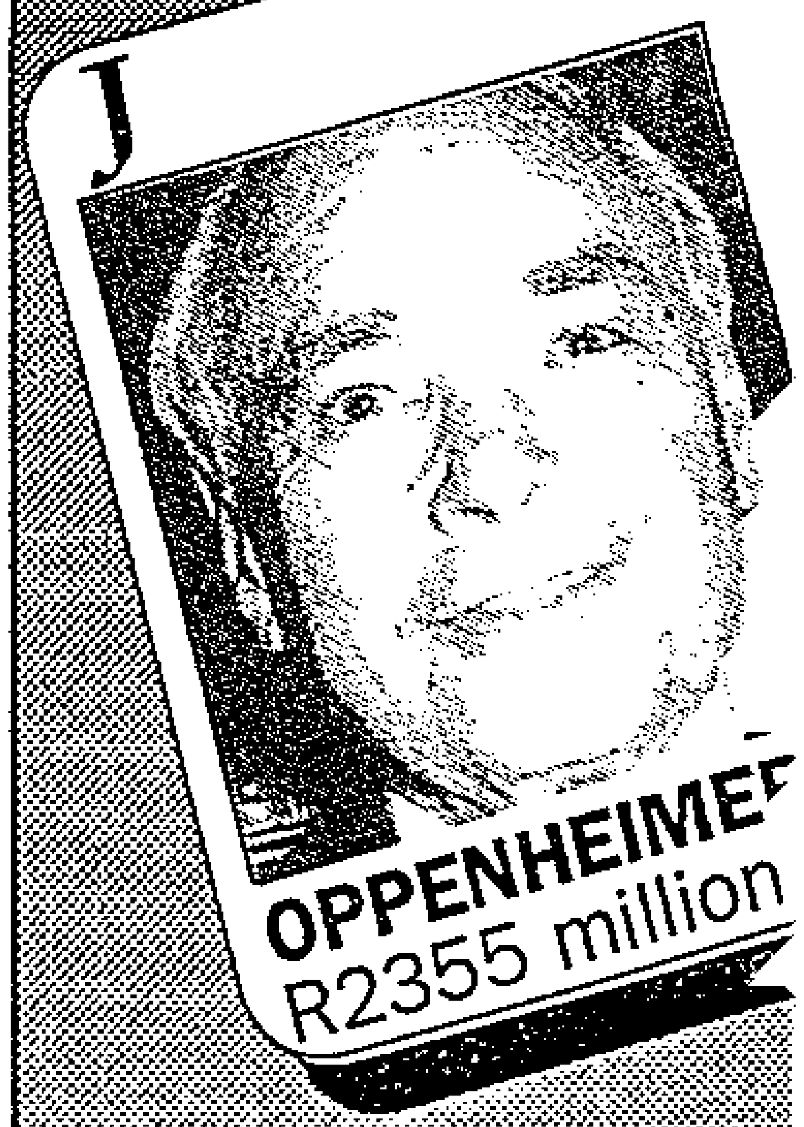
By George! Where are the rest of the families that formed the Randlords circle when the mine barons led the pack?

The old Randlords can rest in peace. The Hersov and Menell families, now headed by Basil Hersov (66) and Clive Menell (61) and which between them hold equal controlling stakes in the Anglovaal mining empire that their families created, are still in the vanguard of wealthiest shareholders.

They may have fallen from 11th to 12th slot but they still hold a combined share portfolio worth a formidable R195 million. ▫

BRIE

# Cape super-rich




## S A's t richest families

180

STAR 8/1/93

**The ghosts of earlier generations of gold mine Randlords were in mourning yesterday on news that the most powerful of their successors — the Oppenheimers — have been toppled from the throne as the wealthiest shareholders on the stock market. The throne has been taken by the Rupert and Hertzog families, whose fortunes come from the Rembrandt tobacco and wine business, writes MICHAEL CHESTER.**

THE FIRST generation of Randlords, whose legendary fortunes made gold and diamonds the original hallmarks of wealth when the South African business world took shape, must have stirred in their graves yesterday.

It seemed a page in history was being turned when a new survey disclosed that the Oppenheimer dynasty — regarded as equal to royalty in local high society — had been toppled from its pinnacle as the wealthiest family in South Africa in terms of the stock market shares they own.

One suspects there were also a few mild gasps among members enfolded in plush leather armchairs at the exclusive Rand Club in Johannesburg where the next successors in the business hierarchy still hold court.

The crown was moved from the hustle and bustle of Johannesburg to the quiet Cape wineland capital of Stellenbosch.

The title was claimed by the Rupert and Hertzog families, who between them founded and still control the vast Rembrandt tobacco and wine empire and whose massive portfolio of shares on the Johannesburg Stock Exchange had grown to a staggering R2 843 million by the latest count.

It was only a few hundred million rands that cost the Oppenheimers the title — not a disaster when wealth is counted in billions, but enough to lose a No 1 rank that had been widely assumed to be almost permanent in the South African firmament of the super-rich.

Now in official retirement at age 84 but still active behind the scenes, Harry Oppenheimer can explain to the family over the dinner table that they must direct the blame at the way lots of JSE share prices have been hit by the recession — and the dramatic tumble in prices on world gold and diamond markets.

The value of their mountain of shares — including millions in the Anglo American Corporation and De Beers empires — had fallen in 12 months from R2 872 million last year to R2 355 million in 1992.

The Oppenheimers had had a close shave in holding the JSE title in 1991 as the founders of the Rembrandt empire, Dr Anton Rupert and his close business intimate Dr E de la H Hertzog, increased their family fortunes.

Now, even though the combined shares held by the Ruperts and Hertzogs in their joint operations in Stellenbosch moved only marginally, from R2 818 million to R2 843 million, it was enough to snatch the No 1 ranking.

Then again, though, the comparisons of wealth had been restricted to no more than what each of the dynasties owns in JSE investments.

There was much more to their total wealth than JSE portfolios, it was explained yesterday by Robin McGregor, author of the well-known "Who Owns Whom" investment handbook, whose business information service undertook the new survey in an exercise with the Financial Mail magazine. The results are the cover story in the current issue.

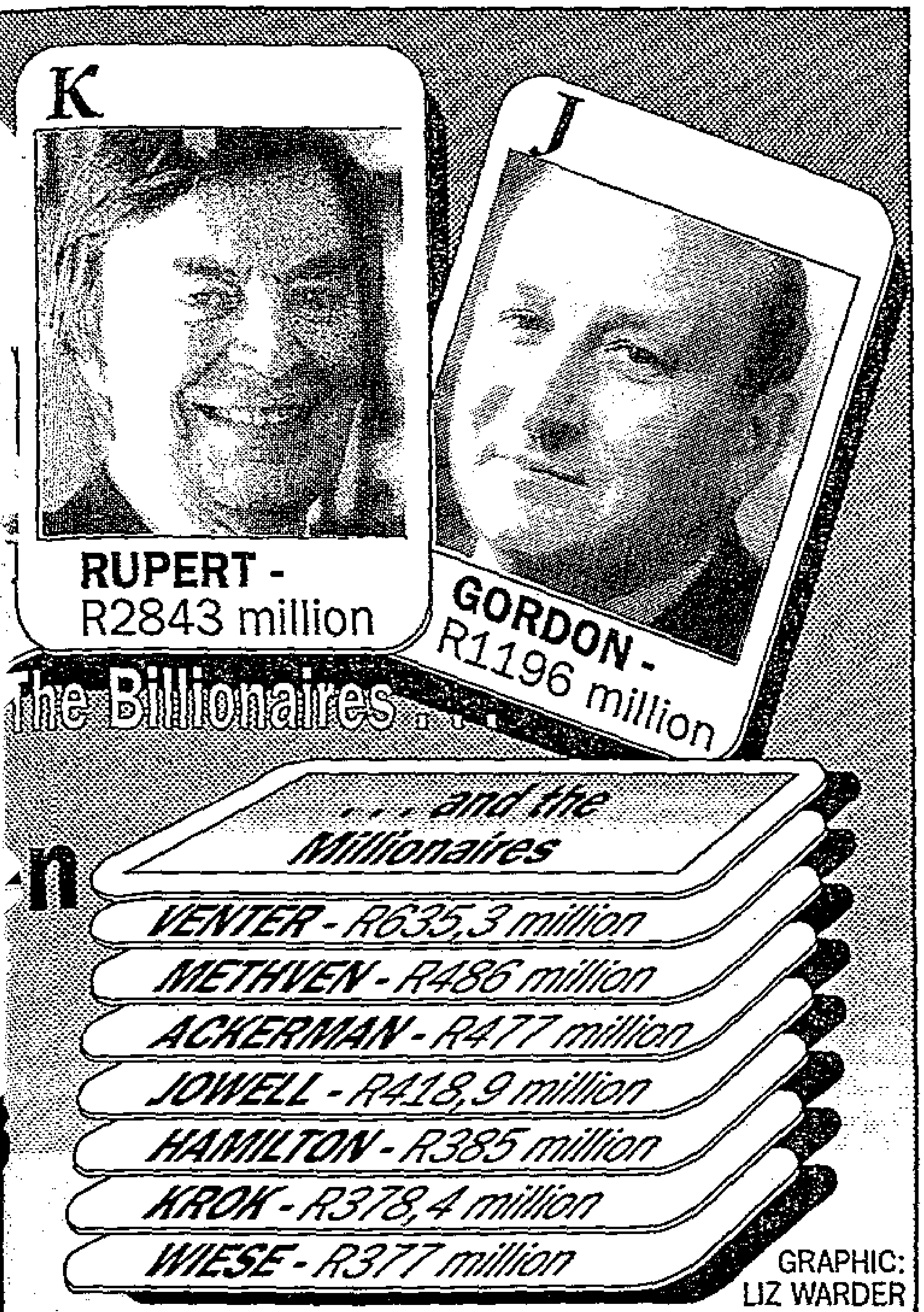
"It is virtually impossible to ascertain the ultimate total wealth of the families," he told The Star. "They have enormous investments quite apart from shareholdings in listed companies that have not come into the survey — held in private companies such as E Oppenheimer and Son Ltd — where family secrets are secure from public curiosity. And there are family trusts.

"For example, what about the fabulous diamond collection owned by the Oppenheimers — perhaps the biggest private collection in the world? And what about the famous Oppenheimer library of Africana literature, worth a fortune on its own? Or the houses and properties the family owns all over the world?

"It turn, what about the value of the extraordinary art collection amassed by Anton Rupert? And the vast properties owned by the Rupert/Hertzog dynasties?

"Perhaps that sort of count would put the Oppenheimers back in first place. We may never know the total wealth of the super-rich. But our survey gives a sound indication of the individual clout of each dynasty on the stock market."

# topple Randlords



GRAPHIC: LIZ WARDER

The results of the survey give the Ruperts and Hertzogs a far higher public profile than they normally seek. Unlike the Oppenheimers, they have built their fortunes in a single generation.

They linked forces back in the depression years of the '30s to launch one of the first Afrikaner challenges to the almost exclusive domination of the English-speaking business community — with a young Anton Rupert using talents learnt as a chemistry student at the University of Pretoria to produce cigarettes.

The modest operation, which found Stellenbosch the ideal setting in which to launch into the wine business too, has now grown into a vast empire with colonies scattered all over the world.

The enlargement of Rembrandt with the takeover of Richemont in Europe has added more tentacles — the Cartier and Dunhill jewellery businesses, Rothmans of Pall Mall, banking, engineering, mining, insurance, medical services, timber, oil and gas . . .

The McGregor/Financial Mail survey confirms that the Gordon family — headed by Donald Gordon, whose meteoric rise since he founded the Liberty Life insurance company has stunned the business world at home and abroad — holds its grip on third place among the richest JSE shareholders.

In fact, their hold on the third slot has been reinforced by a leap in the value of their JSE portfolios that has carried them into the exclusive ranks of billionaires — until now the reserve of the the Oppenheimer and Rupert/Hertzog families.

The Gordon portfolio jumped in value from R890 million to R1 196 million.

Electronics wizard Bill Venter, who created the Allied Technologies kingdom from modest beginnings on the East Rand, has also put the Venter family on the stairway to the billionaire stratosphere.

The Venters increased the value of their JSE portfolio from under R428 million to more than R635 million to jump from sixth to fourth slot.

That involved overtaking both the Methven family, whose wealth was laid by the Rainbow Chicken business, and the Raymond Ackerman family, which owes its fortune to the cash tills of the Pick 'n Pay supermarket chain.

The Methven portfolio shrank from R735 million to R486 million. Even the shrewdness of Raymond Ackerman failed to stop a R10 million tumble in family shares down to R477 million.

Hard on their heels come the Jowell brothers, Neil and Cecil, joint managing directors of Trencor. Their combined family stake of 10,3 million shares in the Mobil garage chain has been the main driving force behind a striking increase in the value of their shares portfolio to nearly R419 million — and won them seventh place in the rankings.

The Hamilton family, headed by Robin Hamilton, chairman of Suncrush and with huge investments in well-known soft-drinks labels, has slipped a notch from seventh to eighth. Nevertheless, its JSE shares climbed in value to a tidy R385 million.

Next come the twins Abraham and Solomon Krok, who created the Twins pharmaceutical company that has now been swallowed by the huge Premier conglomerate. Their shareholdings jumped in value from R208 million to more than R378 million.

Clinging on to a place among the 10 richest JSE shareholders is Christo Wiese, chairman of the Pep chain of stores. Even though he dropped a couple of slots in the rankings, R377 million in shares secured 10th place.

By George! Where are the rest of the families that formed the Randlords circle when the mine barons led the pack?

The old Randlords can rest in peace. The Hersov and Menell families, now headed by Basil Hersov (66) and Clive Menell (61) and which between them hold equal controlling stakes in the Anglovaal mining empire that their families created, are still in the vanguard of wealthiest shareholders.

They may have fallen from 11th to 12th slot but they still hold a combined share portfolio worth a formidable R195 million. □

# Extraordinary items likely to go the way of the dodo

By Leigh Hassall

(180)

Companies beware! — the current trend of massaging earnings through the use of extraordinary items looks like buckling under pressure from accounting authorities.

A consistent and rising profit record does wonders for a company's rating in the stock market.

One of the easiest methods to facilitate this is by classifying certain losses or profits as extraordinary items.

This accounting phenomenon allows such loss or profit to be excluded from the computation of the all-important earnings per share.

STAR 8/1/93

Extraordinary items are rather more commonplace than the term implies. As reported in "A Survey of Financial Reporting in South Africa 1992", 75 percent of the top 100 companies surveyed had one or more extraordinary items in their 1991 financials.

The most popular extraordinary items were the sale of investments, non-depreciable assets and investment properties, the write-off of goodwill, and the sale or abandonment of an identifiable part of the business.

Internationally there has been a clampdown by the relevant accounting authorities on the widespread abuse of the extraordinary classification.

Last year in the UK an emergency ruling was made barring companies from disclosing reorganisation and redundancy costs as extraordinary.

The recently released new accounting standard issued by the UK authorities stresses that extraordinary items are extremely rare.

South African accounting authorities look set to follow a similar path. Mark Bunting, director of accounting of the Institute of Chartered Accountants says the issue of extraordinary items is a top priority for 1993.

He adds that the 'rarity' concept is likely to be included in a new exposure draft, which should come out in the second half of this year.

# A CLOSE LOOK AT THE GREAT COMPANIES AND THEIR LEADERS

FM 8/1/93

(180)

**The *Financial Mail*** and Churchill Murray Publications are to co-operate in the production of a major publication titled *The Great Companies of South Africa.*

Edited by the *FM*'s Nigel Bruce and published by CMP's Hugh Murray, it will profile companies that have distinguished themselves as main contributors to the economy.

It will not in any way attempt to emulate the *FM*'s *Top Companies*. Instead, it will focus on such aspects as corporate histories, image, corporate architecture, social responsibility and environmental awareness.

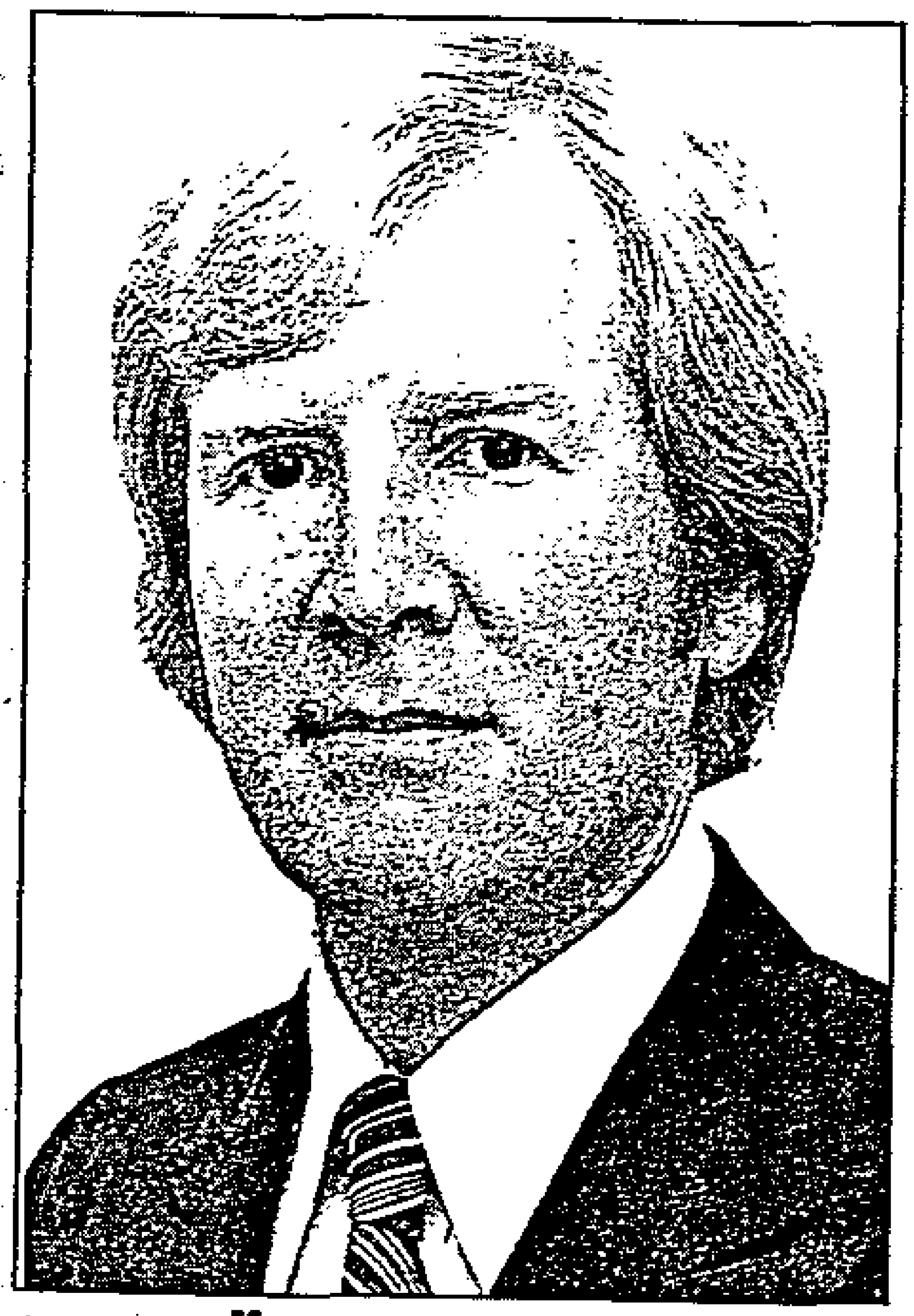
*Great Companies* will also profile SA's most important business leaders and assess their companies according to investor, public and employee perceptions.

The publication will deal with organisations operating in both the private and public sectors and should prove an invaluable reference work for businessmen here and abroad.

Scheduled for release in April, this special edition will be aimed at *FM* subscribers. It is also the intention of the partners in this venture to distribute *Great Companies* to leaders and opinion-makers worldwide who need to be well informed about corporate SA:

- ☐ Investors, actual and potential, in SA enterprises;
- ☐ G-7 governments, Asian governments, the EC, African and other governments whose understanding, support and goodwill is important;
- ☐ Providers of finance and financial services to SA enterprises and public-sector organisations;
- ☐ Customers for SA products;
- ☐ Business partners of SA enterprises;
- ☐ Marketers to SA;
- ☐ International organisations such as the IMF, World Bank and Bank for International Settlements; and
- ☐ Major reference libraries worldwide.

*Great Companies* will be available in a high-quality, soft-cover version. Depending on demand, a hard-cover version may be available at a special price.



**Murray** ... *venture of this magnitude*

Though there will be significant contributions from top local and foreign personalities, the *FM*'s team of specialist writers will be responsible for the bulk of the text. CMP's photographers and designers will give the publication the finish which is the hallmark of CMP's work. A major departure from conventional business publications will be the substantial visual content, represented chiefly by the photographs and images of David Goldblatt and Herman Potgieter.

*Great Companies* will concentrate on organisations that have the potential to lead SA and the subcontinent out of the economic wilderness. It will underline the importance of the country's First-World component in dealing with the increasing number of Third-World problems.

It is hoped that this will be the first of several joint ventures between the *FM* and CMP. Murray, chairman of CMP, founded *Leadership* magazine — now wholly owned by Times Media — in 1982. He recently launched *Millennium Magazine.*

Says Murray: "Having spent many years on the *FM*, I am especially pleased to be co-operating with some valued colleagues on a venture of this magnitude."

Advertising inquiries may be directed to Murray or Susan Fawson at (021) 683-3752 or fax (021) 683-5462.

Advertising will be sold at the prevailing *FM* rate.

SA's SUPER RICH

Fm 8/1/93

180

RANKING THE RICH

# 1992's snakes and ladders

**It would** be most unwise for anyone to attach too much importance to this annual review. It is much too incomplete for it to be regarded as anything other than the equivalent of a few broad brush strokes on a wide canvas.

The reasons should be obvious. Some overseas financial journals devote considerable effort and manpower to the annual research of the personal fortunes of powerful families. The *FM* does not. It would be impractical and uneconomic.

Instead, the *FM*, assisted by the McGregor research group, seeks merely to establish the wealth of the country's richest families by recourse to data already in the public domain. Inevitably, that means examining the disclosed shareholdings and applying the JSE's ruling price at the close of business on a selected day.

That process leaves unanswered a host of intriguing questions. For example, it is well established that many families have been receiving handsome dividend cheques for decades from their core investments. What has happened to that money?

Some of it will have been applied in ensuring the continuation of comfortable, perhaps even hedonistic, life styles. Some may have found its way into other investments, all carefully structured in such a manner that an outside individual cannot be privy to the ultimate ownership.

That is not unreasonable. Everyone is entitled to privacy in the way his or her life is organised and arranged and that privacy extends, surely, to financial matters.

But, to give another example, what has happened to Fred Keeley? He was in 18th position in the 1991 rankings with R85m. A year later he slid off our list. Now it is true that Keeley's predominant investment — granite mining — hasn't exactly been the flavour of the year on the JSE. But that doesn't answer the conundrum. Keeley sold 49% of the holdings of his trusts to mining house Gencor for R95m in cash (plus a sweetener in another producer). What has happened to that money?

The *FM* doesn't know and nor should it necessarily do so — but it serves to illustrate that the families listed in the survey may not, in fact, be SA's richest and that the wealth quoted may not be an accurate reflection of the true, underlying, fortunes.

Meanwhile, back to the 1992 survey. On the whole, it was a good year for the richest families; it was a year which tended to belie the theory that recessions hurt everyone equally. They hung on with great tenacity and produced a combined year-end crock of money which adds up to R10,52bn — only a shade below 1991's R10,77bn.

Of course, much depends on the state of the stock market at the year-end. The JSE's Industrials index, for example, performed badly from June to mid-October when it staged a 10% recovery; had the survey been conducted then, it would have wiped about R1,1bn off the combined wealth of SA's 20 wealthiest.

But in the 1992 survey there is, for the first time, a change at the top. The Rupert and Hertzog families overtook the Oppenheimers and are now in pole position. For the rest, nearly everyone's ranking changed. In fact, the only two families retaining last year's positions were the Gordons (3) and the Hurwitzes (15).

Two families dropped off the list — Keeley and Mowszowski. They were replaced by two from the same commercial stable, Ferreiras (16) and Dippenaars (19), both with core investments in recently listed Rand Merchant Bank Holdings.

Families which changed rankings most dramatically included the Kroks (improved from 13 to 9), Imermans (from 16 to 13) and, moving the wrong way, the Wessels (from 10 to 14) and Liebesmans (14 to 17).

There's one last thing to remember: if any of these families decided to liquidate their holdings, it doesn't mean they would realise anything like the market price. The chances are they'd get a lot less, though it is possible that, in a few isolated cases, they would receive a premium (perhaps because a buyer would be prepared to pay over the odds to secure control).

So this is merely a guide.

## 1 Rupert & Hertzog

**The year** 1992 is the one the Oppenheimer family moved over to make room for the Rupert and Hertzog dynasties as SA's richest. Harry O's businesses had a bad year; Anton Rupert's are better positioned and the year-end difference of R488m is significant.

Of course, there is an irony here which will escape few seasoned observers. For the Afrikaner peoples, emerging at the turn of the century from a long war with an imperial enemy and over subsequent decades from a cold and bitter peace, true freedom was marked first by the accession to political power and then by remarkable strides in conquering the economic heights, held almost exclusively by English speakers.

The irony is that in the year in which a quintessential Afrikaner family finally swept to the leadership of the moneyed ranks, so the new SA is on the verge of irredeemable political change. The question has to be: does it matter? The answer: life being what it is, people will always want to know who is doing what to whom.

For the Rupert and Hertzog families, 1992 was a year of marking time in their listed investments. The share price of Tegniese & Industriële Beleggings, the pyramid

**Anton Rupert** ... *the economic heights conquered*

company in which the controlling stake in Rembrandt is held, fell marginally, but the effect was offset by a 10% increase in the price of Richemont.

Both Rembrandt and Richemont have continued to benefit from their status as leading blue chips but it's signifcant that even Richemont isn't immune to recession, as the company's most recent interim results show.

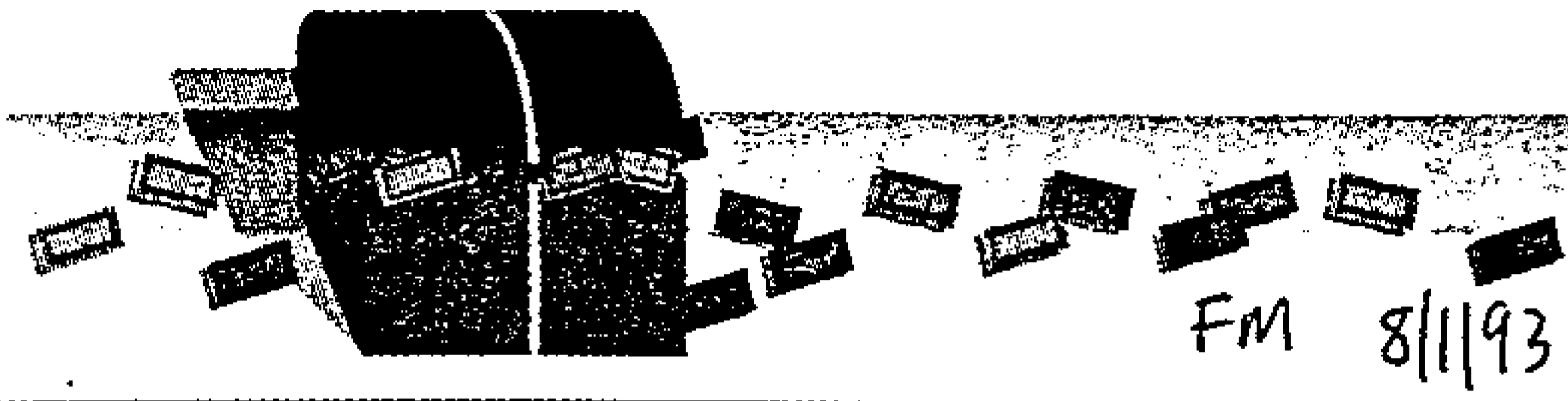
Performance was static, marking the divergence of the two core businesses. Operating margins in luxury goods were squeezed; Richemont was rescued from its problems by improved margins in tobacco trading.

That, of course, is the families' great dilemma: in an age that eschews self-abuse, tobacco and cigarettes are the last words in sin.

Analysts say the group's wealth derives significantly less now from tobacco than from its other interests, but the stigma will remain for a long while.

Not that Anton will worry about it on his way to the bank.

In fact, the public perception of him is probably accurate: slightly rumpled, enigmatic always, kindly and concerned — about



# SA's SUPER RICH

FM 8/1/93 (180)

## The wealthiest families
By holdings in JSE shares




















| Rank | Family | 1992 | 1991 | Position |
|---|---|---|---|---|
| 1 | Rupert & Hertzog | R2 843m | R2 818m | UP ONE |
| 2 | Oppenheimer | R2 355m | R2 872m | DOWN ONE |
| 3 | Gordon | R1 196m | R890m | NO CHANGE |
| 4 | Venter | R635,3m | R427,8m | UP TWO |
| 5 | Methven | R486m | R735m | DOWN ONE |
| 6 | Ackerman | R477m | R487m | DOWN ONE |
| 7 | Jowell | R418,9m | R321,6m | UP TWO |
| 8 | Hamilton | R385m | R363,7m | DOWN ONE |
| 9 | Krok | R378,4m | R208,4m | UP FOUR |
| 10 | Wiese | R377m | R334,8m | DOWN TWO |
| 11 | Lewis | R271,8m | R220,5m | UP ONE |
| 12 | Hersov & Menell | R195,4m | R270m | DOWN ONE |
| 13 | Imerman | R174,9m | R97m | UP THREE |
| 14 | Wessels | R174,9m | R299,7m | DOWN FOUR |
| 15 | Hurwitz | R120,7m | R114,1m | NO CHANGE |
| 16 | Ferreira | R92,9m | N/A | NEW ENTRY |
| 17 | Barrow | R91,9m | R66m | UP TWO |
| 17 | Liebesman | R91,9m | R127,1m | DOWN FOUR |
| 19 | Dippenaar | R91,7m | N/A | NEW ENTRY |
| 20 | Sacco | R90m | R87m | DOWN THREE |

Source: McGREGORS ONLINE INFORMATION

continued

 FM 8|1|93 180

jobs for people and protecting animals and the environment, an entrepreneur slightly bemused by all his good fortune.

## 2 Oppenheimer

**Who could** imagine that the Oppenheimers, SA's home-grown equivalent of royalty, would ever *not* be the country's richest family? Not many — yet 1992 is the year it happened. Harry O's empire of diamonds, gold and assorted other metals and minerals has given way to Anton Rupert's kingdom of tobacco and luxury goods.

In fact, the Oppenheimers' wealth declined by a cool half-billion rand from last year.

Is Harry O alarmed about it? Probably not. After all, he's seen recessions before and economic cycles are nothing new to him. If the family's not quite so rich this year, well, not to worry: it'll be really very rich indeed when the next upturn takes hold.

**Harry Oppenheimer**

For all that, 1992 wasn't a good year. Anglo American, the Oppenheimer's core holding, slid from R125 a share last year to R85,50 and nearly a third was wiped off the family's investment. That is largely because Anglo's share price tends to mirror the fortunes of its stable sister De Beers and, as the investment world is well aware, diamonds and De Beers had one of that company's most harrowing 12 months ever.

Minorco, the Luxembourg-registered mining company that grew out of Zambian Anglo American when that country's copper mining industry was nationalised, is the other pillar of the family's fortune. Its share price appreciated by a handsome 43% to R62,75; that buttressed an otherwise sagging portfolio.

Of course, the game of who's the richest that we play each year can't hope to get to the real underlying wealth. The *FM* doesn't mind admitting the shortcomings in its calculations and they are clearly illustrated in the case of the Oppenheimers. For instance, isn't De Beers supposed to be part of the Oppenheimer empire? Yes it is, but the family's ownership is held through other structures. And hasn't the family been earning large dividends for many years? Yes, but we've no way of gaining access to Harry O's current account. So, he probably reads this annual attempt to quantify his wealth for its amusement value.

Besides which, Harry O (84) combines the unusual qualities of being nice with being successful. Though retired, he is still a workaholic. Asked what he'd done to celebrate his most recent birthday, his wife, Bridget, is said to have responded: "He spent it at the office, of course. What d'you expect?"

In general discussion with an *FM* staffer recently, Oppenheimer's response to being asked whether, at his venerable age, he had any regrets, he replied: "Once I got over wanting to be an engine driver, I just went on with trying to develop what my father had done." Didn't he just.

## 3 Gordon

**Liberty Life** chief Donald Gordon (62) remained in third place but he certainly consolidated his position. It has been a feature of previous reviews of the seriously rich that the gap between the first two and third has been considerable. Last year, for example, Gordon trailed Rupert by nearly R2bn.

Not this year. A small decrease in the family's holding in Libvest (it sold 2,5m shares worth around R20m — and that must have been quite a party), was offset by a 36% rise in the price of the share. That took Donny's family fortune to well over R1bn and narrows the gap between himself and Harry O to a more manageable R1,16bn. Donny Gordon is putting in a charge.

"Gordon likes playing monopoly with his companies," says one analyst. "And he usually gets what he wants out of his extraordinary manipulations." Before he embarked on a radical restructuring of his overseas holdings, Gordon's company structure was that the group owned 61,25% of First Investment Trust (FIT), and FIT owned 49,3% of TransAtlantic (TA). TA and the French insurance giant UAP each owned 27,7% of Sun Life and TA also owned 79,8% of property group Capital & Counties (Capco).

Then Gordon's pen went to work. Now, the Liberty group owns 44,5% of FIT, FIT owns 36,8% of TA, Liberty Life directly owns 17,4% of TA, UAP owns 17,1% of TA and TA and UAP each own 50% of Sun Life. TA has been listed in what's been described as a successful placing and Capco and Sun Life were delisted. It's a complicated corporate planning process called getting your ducks in a row.

**Donald Gordon** ... *a position consolidated*

Donny likes to share his success; he dishes out bonus dividends to grateful shareholders and the last one, to mark the group's 35th birthday, cost more than R200m. No wonder he's so popular.

Of course, being really rich has its compensations as well as obligations. Among the blessings are that you can expect a hairdresser or tailor to visit you, rather than the other way round. As Donny found, this carries unexpected hazards — especially when the tailor is measuring, Donny's in his shirt tails and socks and no-one's remembered to advise the great man's secretary of the activities taking place in his office. On this occasion, it is said Gordon, usually swift with a response, had nothing to say.

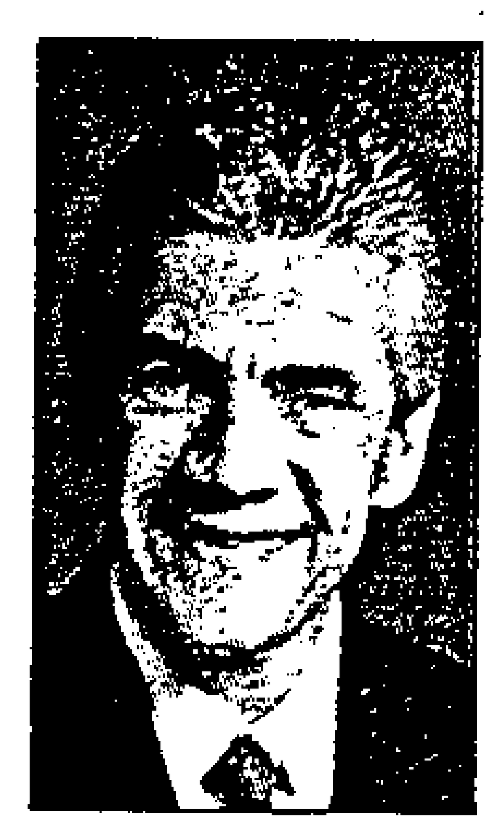
But he keeps on piling up the wealth.

## 4 Venter

**Last year,** Bill Venter was head of SA's sixth richest family. This year he's been promoted to fourth and he's R207m heavier to prove it.

Venter's group is ending the year on a high note. The proposed share swap between Altech and long-standing partner and investor Alcatel, which will give the French telecommunications giant a 50% stake in local firm STC, is intended to strengthen the Altron group's move into international markets.

The Altron holding in Telemetrix was restructured, with Venter personally underwriting a rights issue that left him with 42% of the company. It may have been a contribution to unbundling, but it also enhanced Venter's personal wealth. The exercise cost him R54m. It's now worth about R200m — not a bad return.



**Bill Venter**

Powertech, another company in Venter's stable, has also been on the acquisition trail. Deciding to diversify into the white goods business is a move which some analysts question; nevertheless, that's what Powertech did when it arranged a takeover deal for the Pickard businesses, primarily Picapli.

Unfortunately for Powertech, the terms offered to minorities succeeded only in enraging them. Subsequently, a revised offer was put on the table by Pickard which looks as though it will be accepted; nevertheless, some of the opprobrium will have washed off on to Venter's group.

FM 8/1/93.



(180)

In a surprise and fortuitous move, Philips offered to sell its large stake in Aberdare, something the Venter group had lusted after for years. Needless to say, the deal was struck in double tempo time.

Venter is known for his sartorial elegance — rarely does he ever appear in public in a condition anything less than immaculate. This meticulous attention to detail translates itself into his work — the approach is no different. An overseas businessman is reported to have said of him: "Some people grow up not knowing some things are impossible. Venter's one of those people."

## 5 Methven

**The Methven** family falls one place and its wealth has diminished considerably — from R735m in 1991 to R486m this year.

Most of the slide in the family's fortunes stems from its investment in Rainbow Chicken. This was once a flagship operation but this year it incurred massive losses, apparently having misread the market rather badly. The company reported an interim loss of 5,1c a share compared with the previous EPS of 1,7c. Not surprisingly, the dividend was passed.

In one way or another, the family holds 180m shares in Rainbow. Its price when the *FM* survey was conducted last year was R4,10; this year it was R2,70.

Not that the family appears to have much to do with the way Rainbow is managed; the company is effectively controlled now by Hunt Leuchars & Hepburn (HLH) which, in turn, is controlled by Rembrandt. Founder Stanley Methven's widow, Lilian, sits on the board in a non-executive capacity. So does his sister, Shirley Pfeiffer, and Desmond Loch Davis, who manages the family trusts, is Rainbow's group chairman.

Last year, the *FM* reported that Rainbow "is markedly different from the business Methven built up." Too true. He had a reputation for making profits. After 1992's performance, perhaps the family ought to be asking a few searching questions.

Rainbow continues to dominate the poultry industry. It provides about 47% of SA's annual demand of more than 485 000 t — representing 42% of all meat sales, compared with only 25% in 1980.

At least part of the mess facing the industry lies in stiff competition from imports. Predictably, poultry producers squawked loudly when imports started to hurt the local industry. The other part of the mess is that government interference with the pricing mechanisms for inputs (including foods) makes producers uncompetitive.

Be that as it may, it will take some time before Rainbow recovers its former premium rating.

## 6 Ackerman

**Slipping back** one place in the rankings this year, Raymond Ackerman's family fortune has, nonetheless, remained remarkably constant — it's only R10m below last year's level, a mere bagatelle in this sort of company.

The family's holding in Pick 'n Pay (PnP) has almost exactly doubled, following a recent two-for-one share split. It now stands at 82,9m shares with a current value of R5,75 each.

Ackerman (61) has much to be proud about: he founded his famous company in 1967 and since then it's become as much a part of the SA way of life as sunshine, braaivleis and sport. Ackerman, clever PR man that he is, knows this is one of his most important selling weapons — that's why the group's logo celebrating 25 years of community service proclaims that the company is "Part of Your Life."

**Raymond Ackerman**

In its first year, PnP's turnover was R3m. In financial 1992 the group's turnover was R5,9bn and it employs more than 28 000 people. In 1967, Ackerman began with four small supermarkets. He now has 106 supermarkets and 14 hypermarkets. This year's interim results showed another 15% rise in EPS and the *FM* likened that to "something akin to a triumphal march." PnP MD Hugh Herman is quoted as saying the group's market "is currently the highest it's ever been." Everything with Ackerman seems to be phrased in superlatives.

In the process, Ackerman has collected some interesting footnotes to add to an impressive CV: the *FM* selected him as Man of the Year in 1983, he has an honorary doctorate in law from Rhodes (1986), was selected as one of The Men of the Decade by the Women's Bureau of SA (1987) and he attended this year's Earth Summit conference in his capacity as a member of the Geneva-based Business Council for Sustainable Development.

Ackerman's hobbies are listed in *Who's Who* as golf, snooker, reading and skiing. But his real hobby as well as work is PnP and he remains involved in it. The consumer, says Ackerman in the group's annual report, is sovereign and 1993 will be another year of persuading anyone who hasn't tasted it yet to indulge in PnP's shopping experience.

## 7 Jowell

**The Jowell** brothers have added nearly R100m to the family's pot of wealth over the past year — and that's enough to move them to seventh spot among the seriously rich. Calculations are based on the family's holding of 10,3m shares in holding company Mobile; they do not reflect the statement made recently to announce the intention to subdivide the shares of Mobile and its subsidiary Trencor.

Neil and Cecil Jowell share the dubious honour of originating in the small northern Cape town of Springbok. As a wag said, coming from a place like that is a great and unfair burden to carry through life.

Not that the Jowells would agree. It's made them famous, wealthy and wise. After all, Springbok is where father Jowell (Joe) began the family business in 1930 when the railways discontinued its road service from the railhead at Bitterfontein. That left towns to the north out on a limb. It also presented an opportunity. Like all good entrepreneurs, Jowell took it.

The brothers Jowell grew up in Springbok, "mucking around," says Neil, "in the garages and driving some of the trucks." Both men secured law degrees from UCT and they are joint MDs of the principal operating company, Trencor. Living 1 000 km apart, Neil in Cape Town and Cecil in Johannesburg, probably helps

**Neil Jowell**

continued

## FIVE-STEP PROCEDURE

**The shareholder** information was prepared for the *FM* by McGregors Online Information, using a five-step procedure:

☐ Examine the controlling shareholder of every company listed on the JSE for director or family control;

☐ Examine annual reports, share registers, circulars and other supporting documentation for holdings by families/directors in relevant companies and other companies listed on the JSE from the findings above;

☐ Scan the computer data base for any individual, trust or family holding company, using search software;

☐ All relevant companies were contacted to verify the information where the holdings were not clearly stated; and

☐ Calculate the value of shares held — share price at the close of November 27.

 FM 8/1/93

(172) (180) (232)

to ensure they don't disagree too much, though Neil says their different personalities make it easy for them to get along.

That's borne out by the results: Trencor's earnings performance to the end of June was well ahead of that of most other industrial companies. There was a 20% growth in turnover that worked its way through to an increase in EPS of 23%. The dividend payout for the year was 195c — well ahead of inflation.

Chairman Neil tends to keep the cards close to his chest: he has no intention of revealing his strategies. But the record suggests the Jowells and their team will stay one jump ahead.

## 8 Hamilton

**An increase** in the family's wealth of R23m over 1991 wasn't enough to keep the Hamiltons (soft drink companies) in last year's seventh slot. In nominal terms the family marked time but, after inflation, there was a serious setback — an unavoidable problem for many in a year of hard recession.

The Hamiltons hold their core interests through 7,8m shares in Dalys and 1,9m shares in Tempora. Both counters had good years. Dalys touched a low of 3 950c in January and is now trading at 4 600c, a 12-month high; Tempora opened the year at 1 675c, touched a low of 1 450c and is now trading at a satisfactory 2 000c.

**Robin Hamilton**

Of course, the business of soft drinks is generally reckoned to be recession-proof — especially if your portfolio includes the Coca-Cola range along with Schweppes and various Sparletta flavours. Turnover in the important operating company Suncrush has gone from R84m in 1983 to R535m for financial 1992.

Third generation chairman Robin Hamilton is known for his desire to power Suncrush into new ventures. In 1991 he guided Tempora into the purchase of a 17% holding in Cadbury Schweppes which, he says, has reported good results for its half-year period. In June Tempora raised R82m through a rights issue.

But last year's euphoria has given way to a more sober appraisal of conditions. In his chairman's statement, Hamilton says eloquently that even in the best run of businesses there comes a time when the combination of disruption, violence and a consistently poor economy outweighs ingenuity and every attempt to increase sales. The first 10 weeks of the new financial year were bad.

However, with the franchises the Hamilton's have tucked away, the family shouldn't have any difficulty surviving torrid times.

## 9 Krok

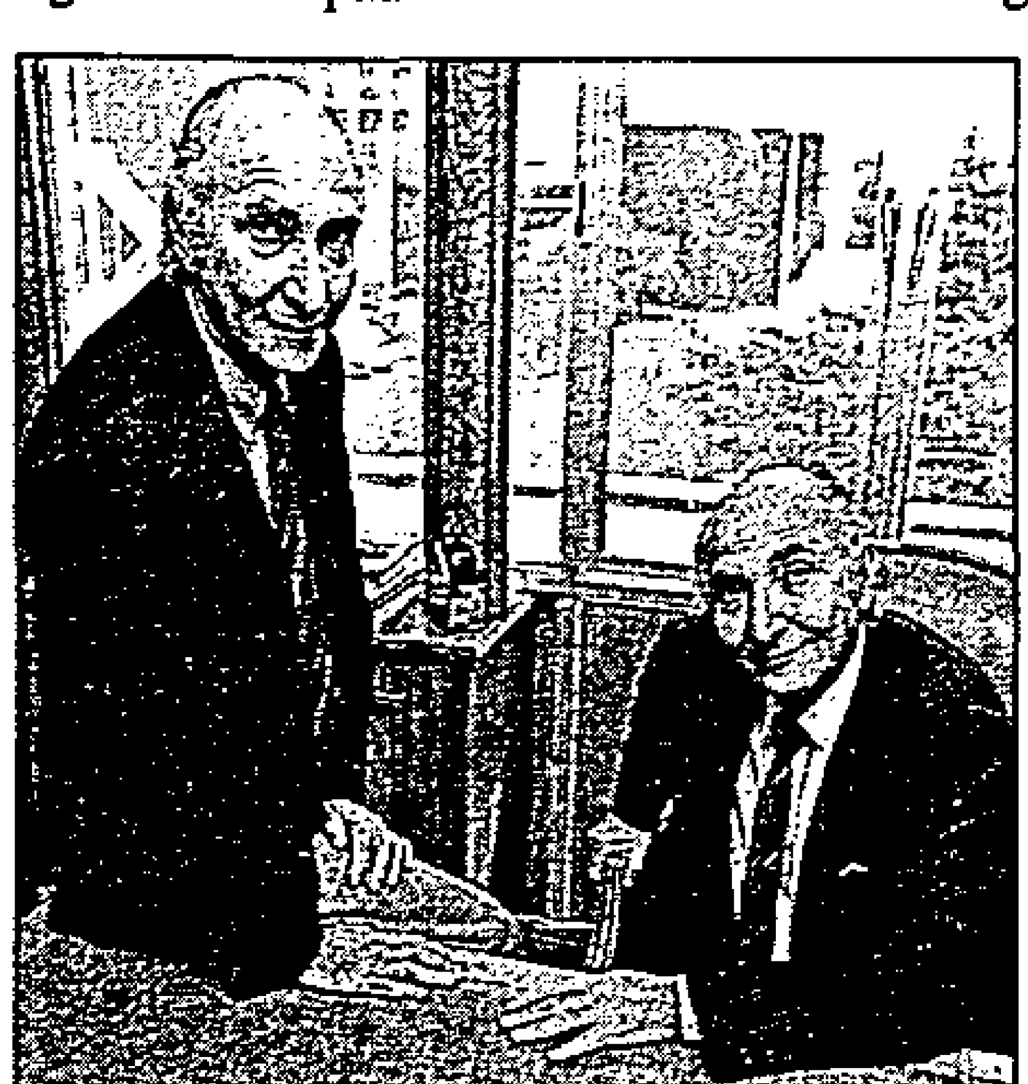
**Everyone enjoys** reading about the exploits of the Krok brothers — they are a national institution, and twins Abraham and Solomon (63) had a good 1992, increasing the family's wealth from R208m in 1991 to R378m — an improvement of about 82%. It earned the family a warm spot in 1992's top 10.

Not that 1992 was easy. Far from it. The Kroks were involved in their usual litany of argument and controversy. Solly ended the year on a high note when he indulged in a slanging match with the normally reserved Premier MD Peter Wrighton. And, predictably, it was all about how the Kroks' joint creation — Twins (now Premier Pharmaceuticals or Prempharm) — is to be managed and controlled.

"For Solly Krok to talk about Premier's bad management," Wrighton told the *FM*, "is really a laugh, given his record of disastrous deals in the past, both here and abroad." Of course, that was a sly reference to the Kroks' 1991 debacle in the US when Sol spent several months extricating himself and the family from the nastiness which developed over the Epilady hair remover device. Epi Products, a company run by Solly's daughters Sharon and Arlene, developed a debt of US$24m and filed for Chapter 11 bankruptcy protection.

That adventure's over but the argument with Premier continues. The Kroks contend that, having acquired control of Prempharm, Premier's managers are now attempting to saddle the company with assets it doesn't need and doesn't want. The twins aren't having it, not at any price. Wrighton thinks differently. An agreement was entered into, and he intends to ensure it's carried through; if necessary, he'll enlist the help of the courts.

In September it was reported that an investigation by the Office for Serious Economic Offences into certain foreign transaction involving Solly and Abe was nearing completion. The press suggested a decision on whether or not to institute proceedings against the pair was imminent. Nothing more has been heard.



**Abe & Sol Krok** ... *sparking fame and controversy*

The pair are famous for their support of philanthropic enterprises. These extend to Jewish causes. Your correspondent was taken aback a few weeks ago when, guided through an anteroom to an interview with Solly, he was confronted by two large rabbis, complete with hats. "Don't worry about them," cracked Solly, "they're just my bodyguards."

## 10 Wiese

**It's interesting** how little sometimes separates the families — purely a matter of the closing prices on the JSE on a particular day. November 27 favoured the Kroks over Christo Wiese (Pepgro) by as little as R1m. After all, what's a million between friends at these levels?

**Christo Wiese**

Wiese's 10th spot is two down from last year's ranking and it's not because he's done badly — the family's fortune increased 13% to R377m; it's that a few others did rather better. The Wiese family's core holding is in Pepgro, an investment holding company with a controlling interest in Pepkor; its holding in Pepgro in 1991 was 5,4m shares. However, a share split resulted in the family's holdings growing to 29m shares at the end of 1992, though at the much reduced price of R13 each.

In his last annual chairman's statement, Wiese is predictably cock-a-hoop about the group's acquisitions: four listed companies were brought into the fold — Smart Centre, Tradegro, Tradehold and Cashbuild. The interim results to the end of August tend to bear out his optimism. Despite the obvious dangers of having taken on too much, line managers demonstrated their ability to go on generating profits, even in the most difficult circumstances.

Turnover grew 172% (because of Tradegro) and operating income rose 12% to R96,6m. There was a fair degree of paper manipulation during the half year as Wiese sought to restructure the group to his satisfaction. The important matter is that, provided conditions don't deteriorate further, the group's earnings growth will be continued.

Meanwhile, the enigmatic Wiese has been lured by Finance Minister Derek Keys into a different pool — Wiese has been appointed the new chairman of the IDC. He assumes the chair at the very time it is taking on considerable new investments as well as restructuring itself to realise some of the money which will be needed in the months ahead.

FM 8/1/93 (180)



New IDC projects and participations include Alusaf, Columbus Steel and Anglo's Namakwa Sands.

## 11 Lewis

**"Foschini,"** the *FM* told its readers in November, "is a rarity among retailers. It has continued to produce real earnings growth throughout this long recession." Which is no doubt one of the reasons the Lewis family has moved up a notch in the rankings from last year's 12th position. Stanley Lewis has increased his family's wealth by an additional R51m this year, and the number of shares the family holds in Lewis Foschini (Lefic) has increased to 12,9m largely from the accumulation of new shares issued to satisfy dividends declared.

**Stanley Lewis**

Last year, the father-and-son team of Stanley and Michael appeared on numerous occasions in the press, locally and in the UK. This year's been different: comparative obscurity. So it's worth reciting a few of the juicier morsels from earlier times.

The Lewis family's offshore arm is Oceana Investment Plc in which Foschini has a significant holding. In 1991 Oceana launched a hostile bid for UK retailer Etam, a 251-store chain. The bid failed and it led to some strong words from Etam MD Rodney East. Oceana was precluded under the rules of the LSE from making another bid for 12 months — which has since expired.

So what's popping? Silence. But that doesn't mean Stanley's been seen off. His chairman's statement for Lefic and Foschini for 1992, a masterpiece of disguise, understatement and thinly-veiled intention, discloses that Oceana's 34,4% holding in Etam makes it that company's largest single shareholder; that Oceana is satisfied with its holding; and that its "only regret is that it has thus far been unable to persuade the board of Etam to meet and discuss how group experience and expertise through board representation can be made available to Etam."

Does that mean Stanley's given up? Not for a moment. He tells Etam's directors that he will "strive for an acceptable solution in the interests of Etam, its employees, and all shareholders." Get ready. Preparations must be under way.

Meanwhile, Foschini powers on, now under the leadership of new group MD Clive Hirschohn. The company has, says an *FM* analysis a "superior earnings capability." That's what justifies its superior rating in our rankings.

## 12 Hersov & Menell

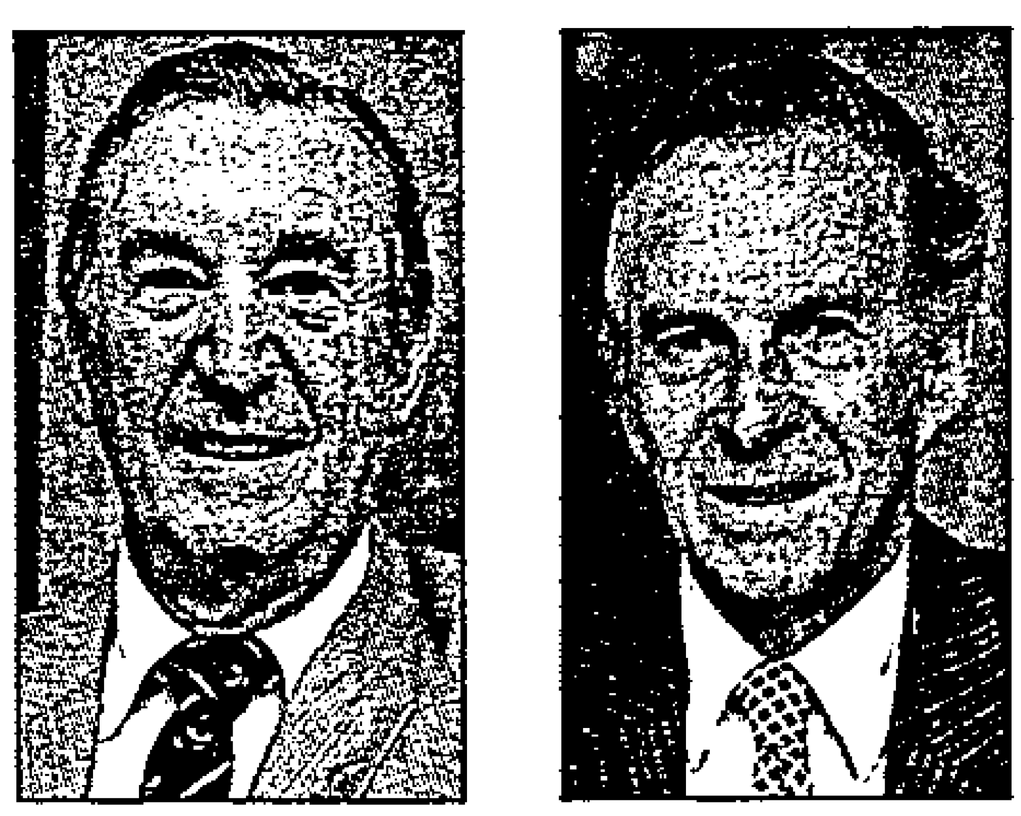
**Why are** some families treated separately and others jointly? It seems a bit unfair. The answer, at least in the case of the Hersovs and Menells, is that the holdings of the two families are equal and can't legally be separated.

Which means they can comfort each other about the R75m that has slipped, though only in theory, down the tubes between 1991's ranking and 1992's.

Basil Hersov (66) and Clive Menell (61) continue to lead families which are heirs to the house founded in 1933 by Bob Hersov and Slip Menell.

They hold a 51% interest in Anglovaal Holdings, which holds 50,2% of Anglovaal, a mining house that is small but respectable, and which can bark too — Hersov is said to have expressed his anger at the construction by Anglo of its new building which directly adjoins, and overshadows, Anglovaal's Main Street head office in Johannesburg. There it stands.

The Anglovaal group is positioned, at least in respect to its gold mining operations, rather poorly. It has Hartebeestfontein, the quality producer in the Klerksdorp field, Loraine in the Free State, a mine which doesn't exactly excite investors, and ET Cons in the eastern Transvaal, small but profitable.



**Hersov, Menell**

What's next, the market's been asking? The answer appeared to lie with the group's Sun and Target prospecting areas immediately north of Loraine.

But hopes for the establishment of a large-scale gold mine in the area were dashed in September when the company announced that political uncertainty coupled with inadequate gold prices had persuaded it to postpone the projects.

The geological results from a long exploration programme appeared reasonably encouraging; the problems centre around the capital outlay of developing a deep mine at an estimated cost of as much as R2,5bn in the face of static gold prices.

Still, the families can take some comfort from the skilful growth of Anglovaal Industries which continues to perform well. Perhaps that's where the group's future lies ultimately, though it may not have been the original intention of the founders.

## 13 Imerman

**This family** is suffering from a severe case of press over-exposure. But then, that's what you'd expect from royalty. It may sound weak but Vivian Imerman's Royal group has excited considerable interest in the past two months, from investors, speculators, observers and — yes — pressmen.

After all, it's not often a relatively small SA food company specialising in chewing gum and baking powder tries to take over an international food giant, in this case Del Monte Foods International (DMFI) headquartered in the UK and with operations spanning continental Europe. Everyone loves a fight, especially if it's between David and Goliath. Could little Royal, around R1bn in capitalisation (with love and not too much precision), take over DMFI, with an asking price of about R2,1bn?

**Vivian Imerman**

Imerman (37) thought he could do it. What's more, he persuaded Anglo's Graham Boustred, reputedly not the easiest of men, that he was the man for the job and that Anglo, to boot, stood to gain significantly if it backed him. Then he went about the task methodically and calmly; if he ever panicked as deadlines drew ominously closer and potential backers hummed and hawed, he never revealed it to anyone but himself. An Anglo veteran, not readily moved after decades in the bullring, confessed that he was deeply impressed. Well, that's leadership.

As we know now, Imerman got to the bank before the teller put up the closed sign. DMFI is part of Royal; Royal has become a great rand-hedge stock; and what's more, DMFI will offer important avenues for increasing exports of SA-grown produce. Imerman pulled it off just ahead of an increasingly concerned Treasury which finally drew down the shutters on the use of the financial rand by SA companies wishing to diversify abroad. Last year the Imerman family, which is quoted as holding 20,2m shares in Royhold, logged in as 16 in the rankings. This year it's 13. Is anyone bold or foolish enough to hazard a guess for next year's position?

## 14 Wessels

**On the** face of it, it looks as though the Wessels and Imerman families tied for 13th place; in fact, Imerman squeaked in just R16 000 ahead. It represents a severe fall in the rankings for Bert Wessels and his family: their wealth fell a colossal R125m or 42%.

The family holding is of just under 5m

* Continued →

 FM 8/1/93

180

shares in Wesco; last year Wesco's share price had risen to R60 and the Wessels were worth R300m. This time round the share has fallen to levels approximating those last seen in 1990.

The reasons are not hard to find. First, the market for motor vehicles has continued to be flabby. Early hopes that the industry would have a recovery in the second half of 1992 proved unfounded. Second, and compounding the effects of the prolonged recession, was Toyota's disastrous experience in labour relations beginning in May. By the end of June, the company's plants in the Durban area had clocked in 33 days of lost production.

That found its way through to the income statement. Turnover fell 11,6%; net income attributable to ordinary shareholders dropped a huge 74%. The truth is that a group the size of Toyota cannot record results like that without an immediate backlash from the market. Toyota shares took a pounding. So did Wesco.

Nor is the bad news entirely over. Toyota chairman Bert Wessels told shareholders in August that labour disruption had continued until July 22; even so, he expected the second-half results to show an improvement. So he should, considering the low level of the interim figures.

**Bert Wessels**

Still, the group ended the year on a high note with the launch in November of its new Camry series about which one SA motoring critic wrote that it goes about its business "with a confidence that will be frightening to the German establishment." Of course, the car has to prove itself by recovering lost market share and that may not be easy; Wessels has admitted that restoring Toyota to its prime position in the SA market may be difficult.

Well, it's unreasonable to expect everything to keep going right, all the time.

## 15 Hurwitz

**It's taken** some doing, but the pharmacist from Fordsburg has shown that medicine pays. A newcomer to the rankings last year, Hurwitz holds on to his ranking of 15th place on the back of a marginal increase in the family's fortune.

Remarkably, the share price of Clinic Holdings, the family's core investment, is unchanged from last year; the increase of R6,6m comes from a rise in the family's holding to just over 50m shares.

Hurwitz has been described as the pioneer of private hospitals in SA and the company operates 12 hospitals countrywide. A planned restructuring of the group, which entails merging the hospital trading operations with the landlords' property-owning interests, has been agreed on in principle. When details of that plan are finally revealed, it should put to rest market criticism that the relationship between property-owning and trading companies led to a conflict of interest.

**Barney Hurwitz** ... *pioneer in medical services*

The unlisted hospital properties are owned by the Hurwitz family; the family also controls Clinic. Since Clinic pays rent to the property-owning companies, it's easy to see how the disquiet has arisen.

Meanwhile, the group's interim financial results to March indicate a consistently good performance. Turnover rose 19% and that worked its way through to an increase of 17% in bottom-line EPS — ahead of inflation and pleasing for shareholders.

Hospitals and medicine can't be the easiest ways of making money, interwoven as they are with matters of high emotion and individual satisfaction (or otherwise). Basically, people resent being ill and then having to pay for the privilege of getting better, and it's a fact that medical costs — on every level — have risen frighteningly in recent years.

But, for Hurwitz, a 1934 immigrant from Poland, and married to Leah for nearly 48 years (which, if not a record, is still worth remarking upon), hospitals have been the way to a considerable personal fortune.

## 16 Ferreira

**It is always** a pleasure for the *FM* to welcome new entrants to the ranks of the seriously rich; in Ferreira's case, his first appearance is made notable by the comparatively high ranking achieved.

Gerrit Thomas Ferreira (GT as he is known to the financial community), executive chairman of Rand Merchant Bank, derives his family's wealth from the recent listing of Rand Merchant Bank Holdings (RMBH). In November RMBH was listed on the JSE in what was described by some analysts as a remarkably good early performance; Ferreira is shown as holding 8,4m shares, and they traded at a price of R11 on the day of this annual survey.

Ferreira is no stranger to controversy. He has let fly in recent months about the archaic governance, as he sees it, of the JSE. In particular, Ferreira is angry that the exchange refuses to countenance dual capacity trading, in which members are permitted to act both as agents and principals — in other words as marketmakers.

He is adamantly opposed to the application of fixed commissions and believes they must be replaced as soon as possible by negotiated commissions which reflect particular circumstances. He is also vexed that the JSE does not permit corporate membership.

Ferreira says all these things in public, from whatever platform offers a good opportunity — including the JSE itself during the course of a workshop called by the exchange to consider its future role and strategies. Predictably, his outspokenness doesn't earn him many friends among the broking community.

**G T Ferreira**

GT is known also for his involuntary association with Johannesburg's Blue Light Gang. It is not an adventure he recalls with any pleasure. But he admits the experience of being apprehended, accosted, shot, robbed and left for dead, has "given me a new perspective about life and working."

Ferriera was born in Graaff-Reinet; so was Anton Rupert. He attended Stellenbosch University; so did Johan Rupert. Rupert's bank, RMB, was merged with Ferreira's Rand Consolidated Investments in 1984 and the combined operation is now considered one of the country's blue-chip banking establishments.

What is that if not happiness?

## 17 Barrow

**John Barrow's** investment in Fedsure Holdings, the insurance holding company of which he is chairman, remains at last year's 8,4m shares. But the share price has appreciated considerably — from R7,90 last year to R11, and that increases his family's fortune by R26m. The Barrow ranking last year was 19th; this year the family finds itself sharing 17th position with FSI's Liebesman.

Last year's *FM* survey found Barrow's desire to guard his privacy to be sufficiently advanced to be worthy of comment. This year's no different. He doesn't even appear in *Who's Who.* We know he likes walking in the Drakensberg, that he's an active conservationist and that he's married and has four children.

Somehow that isn't enough knowledge of a man who controls the country's sixth-largest life assurer with assets of about R5bn. Fedsure CE Arnold Basserabie tells the *FM* that Barrow is "astute, approachable, down-to-earth, easygoing and relates well to people at all levels." But then, you would expect the CE to say that of his chairman.


**John Barrow**

Fedsure was listed in 1987. Barrow's father founded the company half a century ago. Fedsure's principal subsidiary is Fedbel, whose main investment is the long-term insurance company Fedlife Assurance, which in turn is the holding company of short-term insurer Fedgen.

## 17 Liebesman

**Jeff Liebesman** was in 14th position last year but his group hasn't had the best of times and his wealth has fallen an appreciable R35m. That pulls him down to share 17th spot in 1992 with the Barrows of Fedsure.

His holdings in the listed companies within his operations are 47m ords and 800 000 preferreds in FS Group, 2,7m ords and 400 000 prefs in FSI, 5m ords and 300 000 convertible debentures in W&A, and 3,7m ords in Waicor.

Of course, there was a time when the market saw Liebesman as the latest in a line of extraordinarily talented whiz-kids. But FSI and W&A have not quite lived up to market expectations; the group has been rerated — downwards. Indeed, FSI began the year at 400c and touched a low in November of 170c before recovering to trade at the current 220c. W&A had the market sufficiently worried to halve its price while it awaited the June interim results announcement (which turned out not to be the disaster analysts were expecting).

The *FM*'s comment at the time was that W&A's results indicated its reliance on a few activities for most of its profit with Form-Scaff, Gentyre and the overseas operations contributing 69% of trading profit. That, said the *FM,* "reflects the beating being taken by the consumer division, particularly JD Group."

Another matter of interest was that overseas operations accounted for 26% of trading profit and half of attributable earnings. That, at least, is some sign of encouragement


**Jeff Liebesman** ...
*that falling feeling*

in that it begins to bestow upon a section of the group some indication of rand hedge advantages — which could prove important in the months ahead.

The 1990 year was the year for Liebesman. He was named as one of the *Sunday Times's* top five businessmen of the year and W&A was judged *Business Times's* top-ranked company in the annual Top 100 Companies contest.

It will be some time before those feats are repeated.

## 19 Dippenaar

**Lauritz Lanser Dippenaar** (Laurie) is the second newcomer to the *FM's* rankings and, like his colleague and long-time associate and friend, GT Ferreira, he has achieved his newly found affluence and prominence by virtue of his holdings in RMBH — the banking holding company listed in November.

Dippenaar's holdings are disclosed by the company as being 8,3m shares and with the share price at R11 it brings his family wealth in at a shade under R92m.

The merger effected in July made RMB Holdings a pyramid with a 77% interest in Momentum Life, and that in turn holds 100% of Rand Merchant Bank and Momentum Asset Trust. What changed is that RMB Holdings relinquished its status as a bank-controlling company — that status has been transferred to Momentum Life.


**Laurie Dippenaar**

It is of Momentum that Dippenaar (44) is the chairman (along with RMB Asset Management). He's also MD of RMB. Dippenaar agrees the life office was good at managing its assets but says the new company "can do it better." RMB Asset Management is a separate company with Momentum its biggest single client. Dippenaar says it's the same arm's-length structure used to such good effect in other merchant banking operations.

The hype that has surrounded RMBH's successful listing isn't without foundation. It's worth noting, for example, that Rand Merchant Bank and RMBH achieved their 14th consecutive year of profit during 1992.

## 20 Sacco

**The Sacco** family, still led by the venerable Guido, now 92, has concentrated its investment in Associated Ore & Metals (Assore), a mining holding company with interests principally in base metals and minerals.

Assore is controlled by unlisted Oresteel Investments but the Sacco family declares a direct investment in Assore of 439 000 shares. With the share price at R205 that brings the family fortune in at R90m — just enough to secure 20th spot in the rankings, compared with last year's 17th position.

Assore's last set of annual results reflect the state of the international markets in which the company operates — and the picture isn't a happy one for shareholders. Attributable income has more than halved in two years and the same is true for earnings.

But new chairman Desmond Sacco says the comparison is unfair because the ferrochrome markets were unusually strong in 1989 and 1990. "It's a cyclical business and I really believe the company's current levels of profitability, which are more in keeping with those of 1987 and 1988, are reasonable."

Assore shares had an unusual roller-coaster over 1992. They began the year at R190, touched a low of R130 in February and reached a high in October of R220. In March, the share price jumped 40% on the back of a single deal worth about R46m.

This is an intriguing performance. Over calendar 1991 only 8 000 shares were traded. An *FM* assessment undertaken in October showed that over 1992 236 000 shares changed hands. Sacco says he believes the substantial increase in volumes traded reflects merely a large bookover between two institutions.


**Guido Sacco**

Assore's major investment is in Anglovaal associate Assmang (Associated Manganese Mines) and through it, in Ferralloys. It has other interests in chrome ore mining and property development. Head of the family, Guido, has stepped down from his long tenure as chairman of Assore. He's now the company's president. ■

ANNUAL ACCOUNTS AWARD (172) (180) (232) FM 8/1/93.

# Dance of the seven veils

## Recession is a reason for improved rather than opaque reporting

**Many of** those appearing in this year's Top Twenty are familiar names — companies which have for years been striving to inform their stakeholders and the investment community as fully as possible about their business. But this time Morkels has leapt to the top of the league, scoring 156 points, or 100%.

Morkels' achievement is made all the more creditable by the company's relatively small size. Though no lightweight operation, with annual turnover now exceeding R300m, it is not part of one of the really large industrial groups — in contrast with many of the other leaders in this ranking.

Ever since listing in 1987, Morkels has placed a premium on all-round reporting standards. It is, for example, one of the few industrial companies to publish financial reports every quarter. It has consistently appeared in the Top Twenty for some years; last year it was ranked 11th, with 138 points, or 88,5%. This time the standard was lifted even higher.

Though they do not appear in the Top Twenty, two others also scored 100% — Anglo-Alpha and York Timber Organisation (Yorkcor). Both have won the award on three previous occasions and so are listed in the Roll of Honour (along with Protea Holdings and Massey-Ferguson). It's noteworthy that their attitude towards maintaining the highest standards of reporting is such that they continue to score full marks, even though the rules have been made more stringent in recent times.

### The Winners

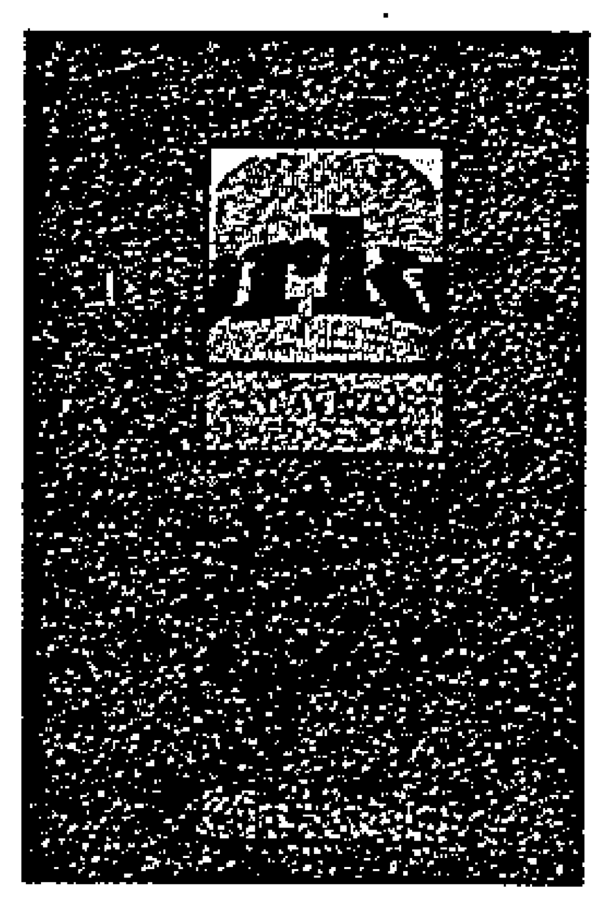
| | |
|---|---|
| 1991 | Morkels |
| 1990 | SA Breweries/Seardel |
| 1989 | SA Breweries |
| 1988 | Adcock Ingram |
| 1987 | Anglo-Alpha |
| 1986 | York Timber Organisation |
| 1985 | York Timber Organisation |
| 1984 | Chemical Services/Anglo-Alpha |
| 1983 | Anglo-Alpha/Chemical Services |
| 1982 | York Timber Organisation |
| 1981 | Quinton Hazell Superite/Dunlop |
| 1980 | Dunlop |
| 1979 | Protea Holdings |
| 1978 | Abercom |
| 1977 | AECI |
| 1976 | Rennies Consolidated |
| 1975 | PP Cement |
| 1974 | Protea Holdings |
| 1973 | Protea Holdings |
| 1972 | United Tobacco |
| 1971 | Stewards & Lloyds |
| 1970 | Stewards & Lloyds |
| 1969 | Protea Holdings |
| 1968 | Massey-Ferguson |
| 1967 | Massey-Ferguson |
| 1966 | Massey-Ferguson |
| 1965 | Massey-Ferguson |
| 1964 | Massey-Ferguson |

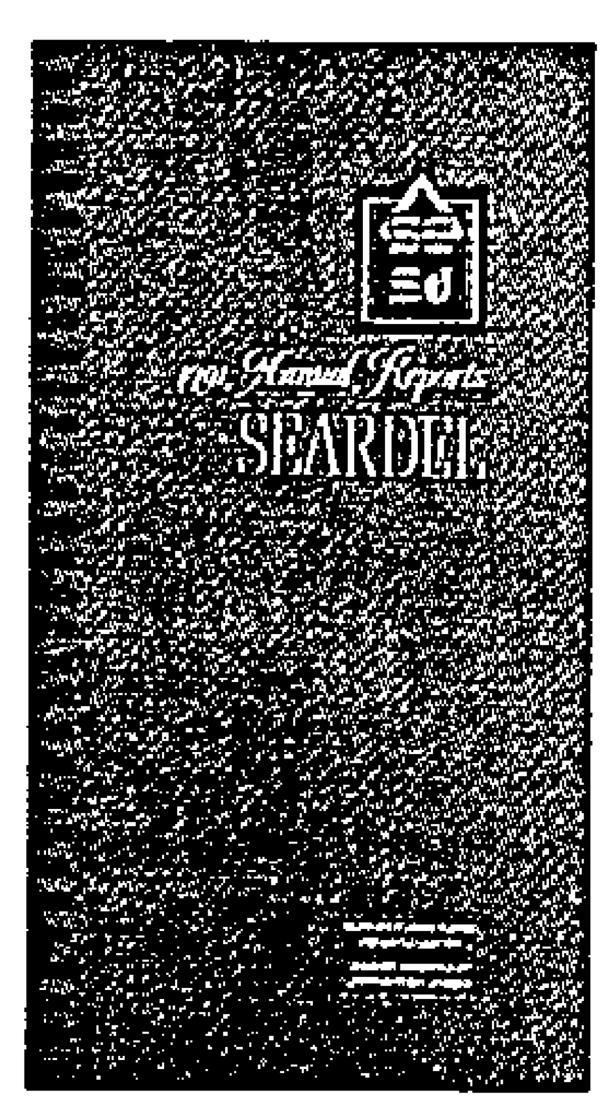
### Roll of Honour

Anglo-Alpha
Massey-Ferguson
Protea Holdings
York Timber Organisation

Yorkcor is an old, family-controlled company and, as it happened, 1991 was its 75th anniversary. With a market capitalisation now around R12,5m, Yorkcor is hardly one of the JSE's giants, but it has long chosen to maintain the highest possible reporting standards — the 1991 annual report is packed with information and is extensively illustrated.

This is a package which goes beyond the usual needs of investors, but is patently also aimed at many other stakeholders such as employees and customers. It's notable, too, that Yorkcor believes in timeous reporting; the annual report is invariably published within a few weeks of the financial year-end.






The much larger Anglo-Alpha — with a market capitalisation of about R840m and major shareholders, including Holderbank Financiere Glaris Ltd (of Switzerland) and Anglovaal — has built up a similar record.

Its latest accounts were produced without undue delay and they give the various users comprehensive but concise details about the business. Again, like many of the others in the Top Twenty, it's not only the financial community that is intended to benefit; the *Social Report*, for example, is informative and conveys much about the corporate culture.

Stricter rules applying from last year have contributed to various changes elsewhere in the ranking. Last year's joint winner, Seardel Cons, remains in second place, with 151 points or 96,8%; while the other joint winner, SA Breweries, has slipped slightly, with 149 points, or 95,5%.

It is almost three decades since the *FM* initiated the annual accounts award in 1964, when it was won by Massey-Ferguson. Its purpose is twofold: to commend companies that take the trouble to maintain high standards of reporting to stakeholders; and to expose those that persist in revealing as little as they can legally get away with.

Judging is done on the same basis as in the past. In contrast with some other such awards, credit is given solely for the disclosure of financial and related information that would help investors and other stakeholders to analyse and understand the company. Points are awarded for inclusion of specified data or comments in interim or annual reports. This adjudication is done according to a set of rules which are published and made known to all listed companies.

As we have often emphasised before, a distinctive aspect of this award is its objectivity. It is readily apparent to all involved where points are gained or lost. What counts here is disclosure; no attempt is made to evaluate subjective features such as the quality of presentation, the design of the annual report, the number of glossy (perhaps even informative) pictures — or, as is sometimes assumed, the length of the chairman's statement.

Some of these may well be important. It's probably no coincidence that most of the companies maintaining high standards of disclosure also choose to publish well-designed and attractive annual reports. On the other hand, there is no shortage of annual reports which are packed with glossy illustrations and loquacious commentary but are woefully short on useful information.

Rules are formulated by the *FM* and the University of Pretoria's Bureau of Financial Analysis (BFA). Judging is supervised by the BFA's Professor Leon Brummer and administered by senior lecturer Jean Myburgh.

Companies do not enter for this competition. The BFA evaluates the accounts and interim reports of all companies listed on the industrial board of the JSE. This, incidentally, includes those who may prefer to be ex-

## Top Twenty

| Rank | Company | Points |
|---|---|---|
| 1* | Morkels | 156 |
| 2* | Searle/Cons Hlds | 152 |
| 3* | Chemical services | 151 |
| 4* | CG Smith Foods | 151 |
| 5* | Nampak | 151 |
| 6* | Adcock Ingram | 149 |
| 7* | Amalgamated Retail | 149 |
| 8* | Pretoria Portland Cement | 149 |
| 9 | SA Bias Hlds | 149 |
| 10* | South African Breweries | 149 |
| 11* | Barlow Rand | 147 |
| 12* | Edgars Stores | 145 |
| 13* | South African Druggists | 145 |
| 14* | CG Smith | 144 |
| 15* | Associated Furniture Companies | 141 |
| 16* | Lion Match | 141 |
| 17* | ICS Holdings | 140 |
| 18* | Reunert | 140 |
| 19 | Cadbury Schweppes SA | 139 |
| 20* | AECI | 138 |

cluded. The purpose is to expose both the best and the worst. Companies listed in the financial services or mining sectors have not up to now been included. Their accounts are drawn up according to a more specialised format and could not be judged according to the same set of rules.

Companies with 1991 year-ends were considered for the latest award. Each year there is a lengthy but unavoidable lag between the publication of many of the reports involved and the announcement of the final rankings. This is because each award is based on an evaluation of all companies' accounts for a particular financial year.

As all listed industrial companies are included, it's necessary to wait for release of the last of those with December year-ends. And it is extraordinary how long some companies take to produce their accounts. Indeed, the disdainful attitudes some companies have towards reporting to shareholders is often apparent in two ways: tardy as well as woefully inadequate disclosure.

JSE and Companies Act requirements are that audited annual accounts must be published within six months of financial year-ends. Yet some of the December annual reports are only received well into the third and fourth quarters of the following year.

Last month, the JSE announced it intends adopting a tougher approach and in future will summarily suspend the shares of later reporters. Perhaps it is time to introduce a new feature when announcing results of this competition and include the financial year-ends and dates of receipt of the accounts.

There is, however, another reason for the lag before results of the *FM*'s award are published: the rapid growth of JSE listings in recent years has made the judging more arduous for the adjudicators. This problem will doubtless be eased and perhaps resolved by the trend that emerged in 1991, when delistings began to eclipse the new listings.

Meritorious as the achievements of those in, or approaching, the Top Twenty may be, it's interesting to note how many lower-ranked companies are upgrading reporting standards. Twenty such companies are ranked in the Most Improved table, starting with Lonrho Sugar. By opting to offer shareholders more than the minimum, this company has climbed firmly out of the Bottom Twenty, where it has long languished.

Next biggest improvement was by Scharrighuisen, the burgeoning mining and engineering group listed a few years ago. It is followed by T&N Holdings, Natal Ocean Trawling and Argus Holdings.

Stocks & Stocks, ninth in the Most Improved table, is another that featured in last year's Bottom Twenty. Last year it scored a mere 50 points (32%); this time it scored 71 points (45,5%). But this is a substantial company, with turnover well over R1,3bn, and its shareholders doubtless deserve even better.

Spur Steak Ranches has been a good performer from the standpoint of earnings and share price, but for a number of years since the listing in 1987 its reporting standards were of a decidedly weaker standard. It, too, no longer appears in the Bottom Twenty and its holding company, Spur Holdings, is ranked 13th in the Most Improved table.

It's hoped that these improvements will be sustained. Regrettably, in some instances they are followed by lapses — as is the case this year with Rembrandt Group, which for many years featured in the Bottom Twenty, persistently maintaining dismal levels of disclosure for such a large and otherwise highly respected group.

Sadly, after rising out of the Bottom Twenty last year, Remgro is back again, where it sits

## Bottom Twenty

| Rank | Company | Points |
|---|---|---|
| 1 | Rubenstein Holdings | 43 |
| 2* | Quick Holdings | 43 |
| 3 | Eurevest | 44 |
| 4* | Rale Holdings | 45 |
| 5* | IB Joffe | 45 |
| 6 | Focus Holdings | 46 |
| 7 | Safety Technologies | 48 |
| 8 | Raptor Motor Holdings | 48 |
| 9 | Invicta Holdings | 48 |
| 10 | Eddies Stores | 48 |
| 11 | The Debonair Group | 48 |
| 12 | Choice Holdings | 48 |
| 13 | Spicer-Mitchell Holdings | 49 |
| 14 | Ohio Group | 49 |
| 15 | Medhold | 49 |
| 16 | Acrem Holdings | 49 |
| 17 | Rembrandt Group | 51 |
| 18* | Harwill Investments | 51 |
| 19 | Tollgate Holdings | 52 |
| 20 | Transpaco | 52 |

*In last year's bottom twenty

oddly alongside the general quality of company in that ranking. Market observers will be watching with interest to see whether the changes occurring in Remgro's senior management will eventually lead to a new approach to corporate reporting.

Renewed attention to this topic is something all companies should consider. In a recession or bear market, investors are quick to penalise opaque disclosure.■

## Most Improved

| Rank | Company | Points Previous | Points Latest | Overall position Previous | Overall position Latest | Change in position |
|---|---|---|---|---|---|---|
| 1 | Lonrho Sugar | 39 | 90 | 396 | 142 | +254 |
| 2 | Scharrighuisen Hold | 69 | 104 | 278 | 97 | +181 |
| 3 | T&N Hold | 75 | 113 | 234 | 72 | +162 |
| 4 | Natal Ocean Trawling | 72 | 98 | 263 | 114 | +149 |
| 5 | Argus Hold | 80 | 115 | 204 | 60 | +144 |
| 6 | Dropp-Inn | 59 | 80 | 342 | 198 | +144 |
| 7 | Glodina Hold | 59 | 79 | 344 | 207 | +137 |
| 8 | Italtile | 73 | 97 | 251 | 117 | +134 |
| 9 | Stocks & Stocks Hold | 50 | 71 | 383 | 253 | +130 |
| 10 | PDC Hold | 56 | 73 | 362 | 242 | +120 |
| 11 | Sasol | 83 | 114 | 182 | 63 | +119 |
| 12 | KWV Beleggings | 73 | 97 | 293 | 117 | +106 |
| 13 | Spur Hold | 52 | 69 | 377 | 269 | +108 |
| 14 | Concor | 65 | 79 | 304 | 204 | +100 |
| 15 | Interleisure | 90 | 120 | 146 | 49 | +97 |
| 16 | Omnia Hold | 71 | 84 | 265 | 170 | +95 |
| 17 | Macams Bakery | 54 | 67 | 369 | 278 | +91 |
| 18 | Environmental Resources | 60 | 72 | 335 | 246 | +89 |
| 19 | Titaco Cons | 59 | 70 | 350 | 261 | +89 |
| 20 | U-Control | 77 | 93 | 223 | 135 | +88 |

FM 8/1/93 (180)

MINORITY RIGHTS FM 8/1/93

## Gaping loopholes

(180)

**Nothing hurts** more than being taken for a ride — and that's the way many minorities feel after a month in which controlling shareholders in various listed companies have taken steps which some shareholders regard as being detrimental to their best interests.

This is an important matter which revolves around the use of an apparent loophole in the Companies Act to enable controlling shareholders to dispose of the assets of a company. This effectively means a change of control in the company without the scrutiny of the Securities Regulation Panel. Section 228 permits a controlling shareholder to obtain approval for such a transaction by securing a simple majority of shareholders voting in a general meeting. The shareholder proposing the transaction may vote his own shares.

That is what enrages some minorities, who say that the only equitable and reasonable method is to poll minorities other than the controlling shareholder. The argument against this method is that shareholder democracy is diminished: each share carries a vote, it is argued. That right cannot be abrogated simply because one shareholder holds more votes than others.

JSE executive president Roy Andersen says the exchange has always been concerned to ensure minorities are protected adequately. "Our attention has certainly been drawn to recent actions and we are resolved to take the matter further with the Standing Advisory Committee on Company Law," he says.

The options available, says Andersen, include encouraging an amendment to the Companies Act, the effect of which will be to strengthen the rights of minorities even if Section 228 is used as the vehicle. Alternatively, it may be possible to enable the regulation panel to examine such transactions in terms of its regulations. Both possibilities will require amendment to legislation and may take considerable time to complete.

A third avenue, that of changing the listing requirements of the JSE, by restricting the voting rights of the controlling shareholders in certain instances, has been considered and rejected. The JSE's legal advisers have indicated that such a course might run counter to rights under common law or in terms of the Companies Act.

Companies in which minorities believe their interests are being compromised by recent proposals include Micor, Hi-Score and Score Clicks, and Racy. It is believed many similar transactions may be brought before shareholders soon.

In each case, some minorities believe the proposals have been designed to benefit only the controlling shareholders. In the case of Micor, whose activities are concentrated on international and domestic freight, travel and finance, directors holding about 45% of the issued equity are involved in a consortium which intends buying the company's principal assets for about R15m — substantially below NAV.

Premier has told minorities in Hi-Score and Score Clicks, two linked pyramids which effectively control Clicks (and hold smaller positions in Metcash and Score Supermarkets) that it intends taking them out — at a discount to underlying NAV. Predictably, this has raised the ire of various minority parties.

However, they are quick to point out also that Premier's route has been by way of a scheme of arrangement under Section 311 of the Companies Act. This requires the approval of 75% of minority shareholders in a general meeting and prohibits the casting of votes by the controlling shareholder. This method does give disaffected minorities the opportunity of blocking the scheme.

Unfortunately, that doesn't apply in the case of Micor and Racy, where controlling shareholders have elected to make use of Section 228 of the Companies Act. In the case of Micor, for example, that effectively means minorities have little chance of blocking the proposed transaction.

**JSE's Andersen** ... *resolved to take the matter further*

Racy, involved in the motor industry, produced a chapter of accidents when its controlling shareholders attempted to extract the company's assets. Six members of two families, the Jacobsons and Hendlers, all directors of Racy, had entered into an agreement with the company to buy its assets and to leave it as a cash shell.

The proposed transaction elicited criticism on two grounds. Firstly, the directors appeared to be buying the company's assets at a significant discount to NAV. Secondly, the shareholders' meeting was called in the middle of the holiday season.

As it turned out, the laugh was on the directors. Apparently a large number of minority stockholders put in an appearance. A number of directors didn't — it seems they were either on the beach or overseas. And, just a few minutes before the meeting was to begin, a counterproposal was lodged for the purchase of a controlling interest in the company — effectively at a price 10% higher than the directors offered for the assets. That put the cat among the pigeons and the meeting was postponed to Monday.

These are serious matters which require urgent and intensive debate within the business community and among corporate lawyers.

*David Gleason*

# *focus on* **monopolies**

Sowetan 11|1|93

**Tito Mboweni**, a senior ANC economist, outlines the movement's policy towards monopolies. At the recent ANC workshop on antitrust policy, broad agreement was reached on the need to change radically South Africa's current competition law:

(180)

WHAT IS ANTITRUST POLICY? Antitrust policy is interchangeably referred to as competition policy as well.

The usage of the concept of antitrust originates from the United States in the 1880s when trusts was the common legal name for new combinations and the opposition to them was called the antitrust movement.

The trust as a legal device was soon abandoned but the antitrust name has continued. So basically antitrust is competition policy.

### Protection of competition

Antitrust policy therefore aims at the promotion and protection of competition. It acts dispassionately against monopolies, and dominant firms (market dominance), anti-competitive behaviour or collusion and anti-competitive mergers.

In the United States, the law (Sherman Act and subsequent amendments) has given powers to the Federal Trade Commission (FTC), the Antitrust Division of the Justice Department and other agencies to ensure that competition is promoted and protected.

### Celebrated cases

The most celebrated cases of US antitrust actions are those which involved Standard Oil, AT&T and IBM.

In the UK, there is a strict definition of monopolies. Two types of monopolies are identified by the law.

These are scale and complex monopolies. Scale monopolies would exist where a person, company or members of an interconnected group of companies have at least 25 percent of market share.

Complex monopolies would exist in situations where persons and companies which are members of a group, have at least 25 percent of the market and conduct their affairs by agreement in such a way as to prevent, restrict or distort competition.

In both cases, and subject to the recommendations of the Monopolies and Mergers Commission Merg (MMC) and acceptance of these by the Secretary of State for Trade and Industry, the persons, company or companies in question would be forced to divest so that they hold less than 25 percent of the market share.

### Separation of powers

The UK has a triangular institutional framework, with clear separation of powers, to implement competition policy, that is, the office of Fair Trading, the Monopolies and Mergers Commission and the Department of Trade and Industry.

Variations of these exist in other countries, most notably Germany.

Tito Mboweni

Our workshop did not delve into the details of such issues as the level at which a monopoly can be said to exist or the sort of institutional framework which would be appropriate for South Africa.

### Strict procedures

However, there seems to have been some general preference for the UK type triangular institutional arrangements with a proviso that the minister for trade and industry should be compelled by strict procedures in responding to professional recommendations.

What is clear to us though, is that both the current competition law in South Africa and the institutional framework within which competition policy operates, will have to change radically in order for a fresh start to antitrust to be realised here.

**"What is clear to us though, is that both the current competition law in South Africa and the institutional framework within which competition policy operates, will have to change radically in order for a fresh start to antitrust to be realised here"**

The discussions at our workshop also focused from time to time on the issue of conglomerates and there was a general feeling (perhaps not a consensus) at the workshop that a special commission may have to be put in place to deal with the issue.

### Related issues

The issue of conglomerates and antitrust are not as separate as other business people would argue. We are of the opinion that a policy dealing with antitrust should also make suggestions on how to approach the issue of conglomerates and conglomerate power in the ecomony. The issues are somewhat related.

Antitrust may sound somewhat negative as far as some people are concerned. However, this should not be the case.

The concept of antitrust is popular on the ground and as such there is a preference to use it prominently than competitions policy.

There is no contradiction between the two. At the end of the day, antitrust is a pro-business policy and it is relevant here in South Africa as well.

# Data indicate 'mild recovery in progress'

B/DAY 11/1/93 180

EDWARD WEST

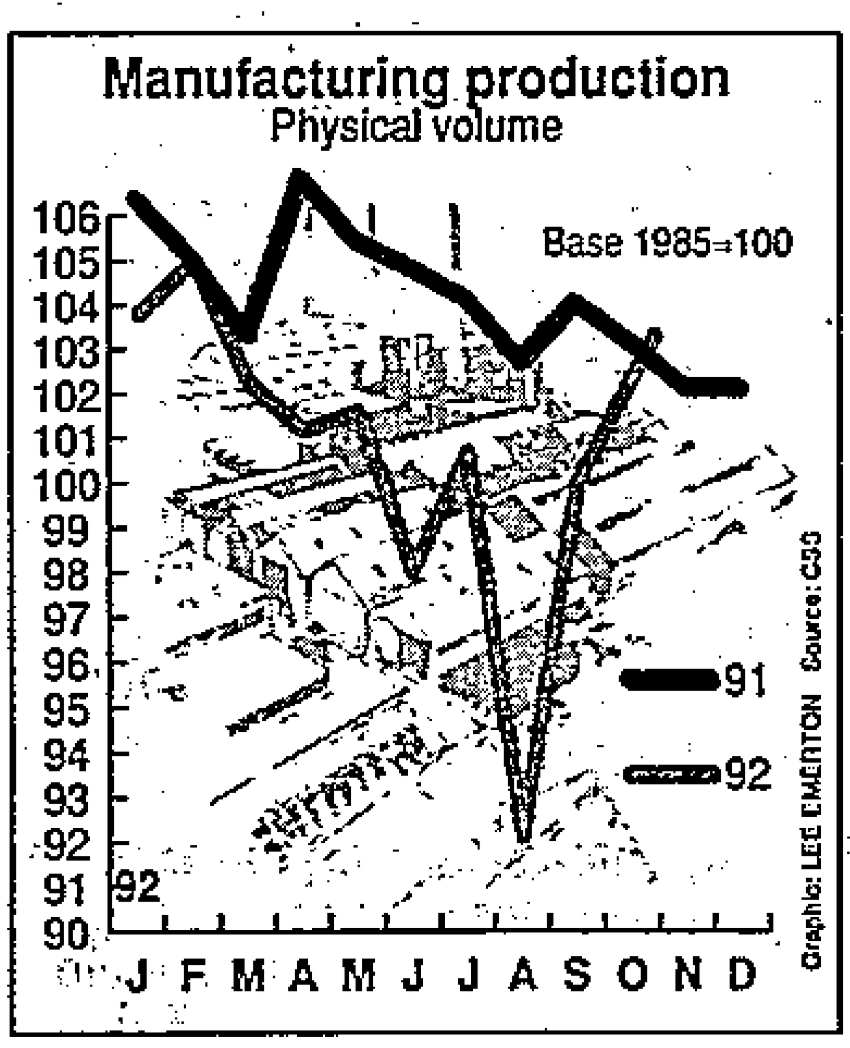
MANUFACTURING production volumes and vehicle sales from August could be indicators of mildly improving economic activity, Econometrix chief economist Azar Jammine said.

He said the recession could have bottomed in August in that economic growth was at its worst and that while the economy had continued to decline, deterioration was slower.

Manufacturing statistics supported this suggestion and year-on-year production growth improved in September to -3,2 points from August's -9,7. August volumes were affected by a steel engineering industry stayaway.

CSS statistics showed manufacturing production for the three months to October 1992 down 1,6% compared to the previous three months, but the seasonally adjusted index was 3,4% higher than for September 1992.

Largest contributors were "other chemical products", metal products, paper products, electrical machinery and basic non-ferrous industries.




"Other chemicals" included products such as petroleum products, paints, inks, adhesives, explosives and pharmaceutical products.

Increased production was reported by 18 of the 27 manufacturing groups in October, and increases in value of unfulfilled orders were reported by 18 of the 30 selected subgroups. Total value of sales for October 1992 increased 5,9%, compared with September 1992 after seasonal adjustment. Main contributors were the motor vehicle, electrical machinery, "other chemicals" and paper product industries.

Jammine said November vehicle sales improved over the same month in 1991, while the 10% increase in car sales was the first positive year-on-year growth in this category for a month in almost two years.

The trend in the year-on-year growth for cars and commercial vehicles was at about -5% compared with about -12% in August. Economist Tony Twine said the upward trend appeared to have continued in December, with retailers reporting better than expected sales.

Jammine said the extent of the slump in the third quarter of 1992 implied that, barring political instability and major increases in indirect taxes, economic growth ought to be at least 2% in 1993 because the 1992 base against which the 1993 figures would be compared was so low.

# Institutional money fuelling boom in industrial property

STAR 12/1/93

By Meg Wilson
Property Editor

180

For some time there has been little scope for new property development of any scale, but the industrial sector is now bucking the trend.

The major players in the market are the large financial institutions and big construction companies — which must say something about where they think the economy is going.

For example, demand for industrial space in Strijdom Park, Randburg, has improved to such an extent that owner Sanlam Properties has decided to expand its lettable space in the area by more than 6000 sqm, in a 15-unit mini-factory complex worth about R9-million.

Hugo Mocke, regional manager, investments, says the area has proved to be one of the most popular mini-factory nodes in the PWV. Sanlam's two other developments in the area, Sanlam Industrial Park (35 units) and Tungsten Park (22 units), are fully let.

In the Cape, Propnet has put together a consortium to handle a multi-million warehousing/factory shop development in Maitland.

To be known as Freeway Park, it will have 6000 sqm of lettable space in 45 units which, says project manager Jan van Dijken, will accommodate factory shops and service industries, decentralised offices and micro-factories.

In Natal, Russel Marriott and Boyd Trust, together with Grinaker Construction, will redevelop the old Umgeni power station site in New Germany into a 30 ha industrial township.

## Sales value

The retail sales value of land in the township is expected to be around R35 million and the development should bring 86 industrial firms to the region.

Meanwhile, letting of existing industrial space has also picked up. Anglo American Property Services, which administers 143 000 sqm of industrial space as 10 percent of its portfolio, has recently renewed leases on two prime warehousing facilities — one in Heriotdale and one in Robertsham — in deals worth almost R10-million.

And Old Mutual Properties (OMP) let more than 18 000 sqm in its Transvaal industrial portfolio between July and October.

Ian Watt, property investment mananger for Old Mutual, says there is still scant opportunity for developers to create new space speculatively, and that the institution is committed to tenant-driven projects.

However, he says, there is also a real need for job creation, which can best be met by focussing on a manufacture-driven economy — which means increased demand for industrial space.

He also believes the warehousing market will improve as imports from overseas manufacturers and producers grow and as South African beneficiation of raw materials increases.

OMP recently completed six mini-warehouses in Hulley Road, Isando, ranging in size from 600 sq m to 1300 sqm. A second phase of 1750 sqm is to be built in accordance with a future tenant's requirements.

Also in Isando, it leased 3000 sqm in the old Mather and Platt building to cooling tower manufacturer Evapco SA for three years. The building is now fully let, with Marathon Materials Handling occupying the remaining 500 sqm.

Other recent Isando leases were for 1500 sqm with Xeratech and for 800 sqm with Reumech at Old Mutual Business Park.

OMP is custom-building a warehouse and office facility for Warner Lambert SA on a 10 000 sqm site at Fairway Park, Maraisburg Extension 11. It has a further 16 stands, totalling 60 000 sqm available for immeidate development.

## Warehousing

It also has a factory/warehouse complex nearing completion at Droste Park, just off the M2 East. The first tenant, Eldon Stationery, has signed a five-year lease for 3462 sqm.At Wemmer Place, south of Johannesburg, LKM Chickens and Greg's Diff and Gearbox leased around 900 sqm each.

In the Cape, OMP recently completed two industrial parks — at Epping and at Montague Gardens. Units at Omupark, Epping 2, range from 500 sqm to 3600 sqm, at rentals from R9/sqm. The first tenants at Montague Gardens Industrial Park have taken occupation, and three more of the 14 factory/warehouse units are under negotiation.

# Positive 'burst of activity' in industrial sector

BDay 20/1/93 (180)

ANDREW KRUMM

THE industrial property market had shown an "extraordinarily" high level of activity since the first week of January — although this was unlikely to be sustained into 1993 — market sources said yesterday.

JH Isaacs director Wayne Wright said the burst in activity was driven by new tenants who had revised their expectations upwards, and it was sustained by determination among institutional landlords to fill vacant space.

Russell Marriot and Boyd Trust director David Alcock agreed, but added that the level of activity was unlikely to be maintained.

"SA's political D-Day is nearly upon us, and uncertainty surrounding the formation and makeup of an interim government will probably lead to indecision in the industrial market later in the year."

Wright said that since January was traditionally a slow month, the increased activity was a strange phenomenon. "It seems that fencesitters, who were largely uncertain about the state of the market in November, have taken a more positive view of the economy."

The factors contributing to this view were the fall in interest rates, lower inflation and signs of political progress.

"A spate of policy decisions by institutional landlords to fill their buildings has also helped the market, and is getting new tenants in at lower rentals. In some instances rentals are down 30% on last year's levels."

Existing tenants had noticed the competitive atmosphere, and were using the opportunity to extract lower rentals, or alter leasing agreements.

"As a result it is quite difficult for property brokers to set benchmark rentals, which would allow for greater stability in the market."

Wright said activity was highest on the Johannesburg CBD fringe in areas like Selby, Benrose, and Denver. However, since these areas were prime industrial nodes, rentals had not come off much and were largely stable.

Industrial areas around Sandton — such as Wynberg — had not shown the level of activity seen in Johannesburg, although the Randburg industrial market was "certainly busy". A lot of interest had also been shown in Isando on the East Rand and industrial space in Midrand, Wright said.

TRACY SCHNEIDER reports that Sanlam Properties investment GM Fanie Lategan said the commercial and industrial property market would adopt a "wait and see" attitude this year, hoping the market would pick up in 1994.

"Broadly speaking, 1993 will not look much different from 1992 as the property market lags behind the general economy. We hope this is the bottom of the slump and factors seem in place for the market to look better in 1994," he said.

SA Property Owners' Association executive director Brian Kirchmann said: "There is not much activity in the commercial field. The sector is still tight and there will probably be upgrading from C and B grade space to A accommodation as there is much office space available."

Stauch Vorster architects deputy chairman Derrick Garvie said his firm's income had dropped 60% from 1990 to 1992.

"Architects are unable to project themselves even three months ahead. There is much caution as developers do not want to construct buildings that will stand empty," he said.

Lategan added that Sanlam Properties would act "very selectively" this year, ensuring tenants before committing themselves to a project.

"We don't intend to enter the property market on a big scale this year," he said.

# Durban could lead recovery

TRACY SCHNEIDER

THE industrial property market in Durban is expected to recover sooner than that on the Reef, says Williams Palmer Industrial Brokers MD Peter Sherwen.

An oversupply of space had resulted in fairly static rentals, but Sherwen said in a statement the market was showing more positive signs for a number of reasons. These included Durban's smaller percentage of oversupply compared with other cities, its lack of speculative development and the positive effect on demand of an increase in foreign trade through the harbour.

Rentals were under pressure, but the general level of activity in the industrial market was reasonably high. New projects were being planned to take advantage of current low building costs.

"Vacant, well-located land continues to be in short supply, but more land should become available within the next two years, with at least four new industrial townships planned for development."

Sherwen said 30% of Durban's gross geographic product was in manufacturing, despite the importance of the harbour to economic development.

"Demand for manufacturing industrial space is predominantly in the 1 000m² range, with emphasis on transport accessibility for the workforce," he said.

In the warehouse and distribution market, the gap between prime industrial and secondary industrial rentals would widen, encouraging property owners of secondary buildings to develop and refurbish to retain good tenants.

"With land at such a premium, I expect to see buildings constructed to a greater height. This will allow tenants to benefit from cubic capacity savings. The relatively small percentage increase in building costs to achieve greater height will be rewarded by additional rental and better occupancy levels.".

Sherwen said developers should design a greater degree of flexibility into their projects to ensure new buildings could respond to the changing environment.

Meanwhile, Durban's commercial property market may also take a long-awaited turn. Office accommodation vacancies remained static and in some cases had decreased since April, said the J H Isaacs Group Commercial and Industrial News Digest.

Vacancies for A and B grade accommodation were at 12,3% in November, similar to the April 1992 figure, while A grade accommodation dropped from 29% in April to 27% in November.

Demand for well-located CBD shops from the clothing and food sectors continued, despite the severe economic climate.

The report added there had been a slight increase in rentals in West Street's prime trading strip, between Field and Gardiner streets.

"Landlords adopted a realistic attitude regarding rental levels and in many cases assisted tenants with unblemished track records presently struggling to maintain turnover," the report said.

Demand for well-located, well-tenanted properties, mainly in the R500 000-R1m range, continued.

A survey of activity and confidence trends in the manufacturing sector indicated these were at their lowest levels since 1986, the report said.

However, it added that J H Isaacs had a steady rate of inquiry into the leasing of industrial premises.

180

3/12/93

# Liquidations sharply higher

STAR 15/1/93.

Finance Staff 180

More than nine companies and close corporations were liquidated every working day in the first 11 months of 1992, Central Statistical Service (CSS) figures show.

Liquidations totalled 2 206 between January and November last year, almost 31 percent more than the 1 686 in the same period in 1991, and by far the largest number in the past six years.

Compulsory liquidations rose by more than 33 percent to 1 998, against 1 497 in the same period of 1991.

However, with the exception of the 11-month period in 1991, the number of voluntary liquidations was the lowest in the six years reviewed by the CSS.

Last year there were 208 voluntary liquidations, compared with 189 in 1991. By contrast, there were 610 voluntary liquidations in 1988 and 531 in 1989.

Insolvencies rose by 13,5 percent to 3 919 in the 10 months from January to October last year, against 3 454 in the same period in 1991.

The CSS says the number of company and close corporation liquidations was still showing a sharply increasing trend late last year.

In the three months to November, 614 companies and close corporations were liquidated — 38,9 percent more than the 442 in the corresponding period of 1991, and about 69 percent more than the 362 in the 1990 period.

The worst affected sectors were wholesale and retail trade, catering and accommodation services, financing, insurance, real estate and business services, manufacturing, and construction.

Although there were 1 283 insolvencies of individuals and partnerships in the three months to October last year — 16 percent more than in the previous three months — the total represented a 0,6 percent drop from the corresponding period in 1991.

Commenting on the figures, Credit Guarantee economist Luke Doig says liquidations and sequestrations are stabilising "at an uncomfortably high level".

He warns that the poor Christmas sales and wage increases below inflation are set to force even more companies and individuals to go under.

FM 15|1|93

# CORPORATE PROFITS: TAKING A BRUISING

180

| Company | | Reporting Period | Turnover Rm | Turnover % change | Operating Profit Rm | Operating Profit % change | Finance Charges Rm | Finance Charges % change | EPS cents | EPS % change | DPS cents | DPS % change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chubb Hold | I | Oct 9 | 91,9 | 2,8 | 6,6 | 55,2 | ▲1,2 | −45,5 | 53,4 | 72,8 | 14,0 | 55,6 |
| Dorbyl | P | Sep 30 | 2 977,1 | 2,8 | 141,1 | −18,5 | ▲37,2 | 12,5 | 287,6 | −21,2 | 108,0 | 0,0 |
| Ed L Bateman | P | Jun 30 | 633,9 | −19,4 | 36,9 | 2,0 | 5,1 | 115,6 | 88,1 | 9,7 | 30,5 | 15,1 |
| Fenner | P | Aug 31 | 233,0 | −5,2 | 28,7 | 3,2 | §2,3 | −44,4 | 73,1 | 10,1 | 23,0 | 4,5 |
| Fraser Alex | P | Jun 30 | 350,3 | 49,7 | •26,3 | 7,7 | n/d | — | 115,4 | −7,6 | 39,0 | 0,0 |
| Genrec | P | Jun 30 | 526,5 | −11,2 | 48,4 | 20,3 | 1,6 | — | 289,0 | 8,2 | 105,0 | 16,7 |
| Haggie | I | Jun 30 | 606,5 | 3,9 | 64,4 | 4,0 | ▲9,9 | 2,2 | 169,7 | 4,7 | 47,0 | 0,0 |
| Metkor | P | Sep 30 | 3 229,4 | 0,4 | 135,1 | −27,1 | 47,3 | −3,4 | 13,2 | −38,9 | 13,8 | −11,7 |
| NEI Africa | I | Jun 30 | 290,9 | −19,2 | −11,0 | — | §15,7 | 15,3 | −429,4 | — | 0,0 | — |
| Standard Eng | P | Aug 31 | 688,4 | 7,7 | 70,8 | −3,8 | 15,5 | −14,3 | 121,5 | 0,5 | 42,0 | 5,0 |
| Unihold | I | Jun 30 | 140,4 | 33,6 | 6,8 | −38,5 | 5,1 | 62,3 | 3,4 | −70,4 | 0,0 | — |
| **FISHING** | | | | | | | | | | | | |
| Oceana Fishing | P | Sep 30 | 375,4 | 15,2 | 36,3 | 71,4 | n/d | — | 192,8 | 35,0 | 120,0 | 33,3 |
| **FOOD** | | | | | | | | | | | | |
| Cadbury Schweppes | I | Jun 13 | 296,5 | 23,6 | 26,3 | 21,6 | 6,7 | 50,4 | 61,2 | 28,0 | 15,0 | 25,0 |
| CGS Food | P | Sep 30 | 12 749,6 | 12,5 | 872,0 | 9,8 | 180,0 | −0,4 | 321,9 | 7,0 | 105,0 | 6,1 |
| ICS | P | Jun 30 | 2 143,4 | 1,6 | 26,5 | −5,6 | 10,8 | −39,5 | 147,0 | 22,5 | 45,0 | 21,6 |
| I & J | P | Jun 30 | 1 638,5 | 15,9 | 107,4 | 10,5 | 10,7 | 93,8 | 258,4 | 9,9 | 86,0 | 10,3 |
| Langeberg | P | Sep 30 | 741,8 | 14,9 | 102,9 | 29,6 | §15,4 | −9,9 | 54,7 | 40,6 | 16,0 | 41,6 |
| Lebowa Bakeries | P | Sep 30 | ♣102,2 | 12,2 | ♣10,8 | 1,1 | ♣0,6 | −37,2 | ♣24,3 | 5,7 | ♣9,5 | 2,7 |
| Premier Group | I | Oct 31 | 5 420,0 | 21,2 | 212,7 | 9,3 | ▲17,7 | −55,1 | 113,0 | 14,1 | 36,0 | 12,5 |
| Rainbow Chicken | I | Sep 30 | 787,5 | 6,3 | −0,5 | — | 18,2 | 24,2 | −5,1 | — | 0,0 | — |
| Tiger Oats | P | Sep 30 | 9 212,0 | 15,4 | 677,0 | 13,2 | ▲74,0 | −16,9 | 230,0 | 11,1 | 79,0 | 11,3 |
| **FURNITURE AND HOUSEHOLD** | | | | | | | | | | | | |
| Afcol | I | Sep 30 | 391,7 | 0,7 | 17,3 | −22,8 | 3,3 | −68,9 | 51,9 | 2,4 | 26,0 | 2,0 |
| Amrel | I | Sep 30 | 469,4 | 1,5 | 30,2 | −15,2 | §34,2 | −3,3 | −22,9 | — | 0,0 | — |
| Ellerine | P | Aug 31 | 588,2 | −0,7 | 97,8 | −6,6 | ▲2,2 | — | 702,0 | −9,3 | 233,0 | −9,3 |
| Mathieson & Ashley | P | Jun 30 | 145,7 | 16,5 | 0,6 | −74,2 | 3,4 | 31,4 | −6,5 | — | 0,0 | — |
| Morkels | I | Sep 30 | 143,3 | 5,3 | 9,6 | 21,9 | 8,5 | 14,0 | 1,3 | 18,2 | 0,0 | — |
| Rusfurn | P | Jun 30 | 1 422,7 | 1,0 | 4,1 | — | 85,4 | 2,0 | −443,0 | — | 0,0 | — |
| **MOTOR** | | | | | | | | | | | | |
| Brian Porter | P | Jun 30 | 340,8 | 11,0 | 7,5 | 2,6 | ▲3,8 | 25,6 | 63,4 | −18,9 | 18,0 | −14,3 |
| Combined Motor | I | Aug 31 | 263,4 | 32,0 | 3,0 | 0,8 | ▲1,7 | 43,3 | 4,6 | −28,1 | 1,6 | −23,8 |
| Gentyre | I | Jun 30 | 243,8 | 6,3 | 22,6 | −11,1 | n/d | — | 179,0 | −3,8 | 55,0 | 0,0 |
| McCarthy Group | I | Jun 30 | 3 072,7 | 6,2 | 103,5 | −2,1 | 16,7 | 139,5 | 50,9 | −14,9 | 21,0 | −10,6 |
| Metair | I | Jun 30 | n/d | — | •4,5 | −68,2 | n/d | — | 12,0 | −90,8 | — | — |
| Toyota | I | Jun 30 | 1 515,8 | −11,6 | 59,4 | −54,1 | 31,7 | 9,1 | 29,1 | −74,4 | 0,0 | — |
| Urquhart Motor | P | Jun 30 | 279,3 | 19,0 | 5,3 | −10,5 | 2,5 | 3 627,3 | 10,3 | −69,3 | 6,0 | — |
| Vektra | I | Jun 30 | 230,3 | −5,1 | 11,3 | −10,6 | 5,8 | −14,9 | 16,2 | −0,6 | 6,0 | 0,0 |
| Wesco | I | Jun 30 | 1 515,8 | −11,6 | 58,7 | −61,6 | 31,7 | −39,4 | 27,0 | −90,4 | — | — |
| **PAPER AND PACKAGING** | | | | | | | | | | | | |
| Afcom Group | P | Jun 30 | 120,0 | 12,1 | 15,6 | 27,6 | 3,6 | 4,6 | 21,7 | 23,3 | 8,7 | 24,3 |
| Carlton Paper | P | Aug 31 | 444,4 | 0,9 | 54,8 | −18,3 | 3,6 | 10,1 | 207,0 | −20,6 | 75,0 | 0,0 |
| Coates | I | Jun 30 | 86,5 | 10,8 | 9,3 | 17,5 | n/d | — | 141,8 | 17,5 | 21,0 | 10,5 |
| Consol | P | Jun 30 | 2 097,6 | 1,3 | 290,9 | −8,9 | §0,6 | −98,2 | 216,7 | 11,5 | 62,0 | 12,7 |
| CTP Holdings | I | Sep 30 | 288,2 | 10,6 | 28,6 | −0,6 | 2,0 | −39,9 | 51,7 | 8,4 | 6,7 | 8,9 |
| Holdains | P | Aug 31 | 2 316,4 | 18,7 | 192,9 | 11,5 | 43,2 | 1,2 | 349,3 | −2,5 | 121,0 | 0,0 |
| Nampak | P | Sep 30 | 4 364,2 | 9,3 | 495,6 | 12,6 | ▲54,8 | −5,4 | 531,0 | 8,1 | 205,0 | 7,9 |
| Sappi | I | Aug 31 | 2 022,8 | 13,5 | 221,2 | −14,0 | §4,5 | 96,4 | 130,0 | 18,2 | 80,0 | 0,0 |
| **PHARMACEUTICAL AND MEDICAL** | | | | | | | | | | | | |
| Adcock Ingram | P | Sep 30 | 915,0 | 18,3 | 140,9 | 19,0 | 5,8 | −4,5 | 279,0 | 18,7 | 105,0 | 19,3 |
| Premier Pharm | I | Oct 31 | 234,7 | 4,5 | 60,4 | 11,9 | n/d | — | 36,0 | 21,6 | 13,0 | 30,0 |
| **PRINTING AND PUBLISHING** | | | | | | | | | | | | |
| Argus | I | Sep 30 | 1 007,9 | 12,9 | 71,8 | 13,5 | 8,8 | 193,7 | 84,0 | 3,7 | 15,0 | 0,0 |
| Caxton | I | Sep 30 | 288,2 | 10,6 | 28,8 | −1,0 | 2,0 | −39,9 | 32,5 | 9,8 | 4,0 | 13,0 |
| Perskorgroep | P | Jun 30 | 673,3 | 12,3 | •43,0 | 32,4 | n/d | — | 386,9 | 17,4 | 49,0 | 10,1 |
| Times Media | I | Sep 30 | 178,8 | 19,1 | 29,5 | 35,2 | 3,0 | 222,3 | 98,0 | 15,3 | 24,0 | 9,1 |
| **RETAILERS AND WHOLESALERS** | | | | | | | | | | | | |
| Bergers Trading | I | Jun 30 | 70,2 | −0,9 | •1,5 | −61,8 | n/d | — | 1,2 | −60,0 | — | — |
| Boymans* | I | Sep 30 | 110,4 | 0,1 | 5,0 | −30,2 | 3,6 | −32,4 | 2,7 | −68,2 | 0,0 | — |
| Cashbuild | P | Jun 27 | 425,9 | 10,0 | 15,9 | −10,0 | §0,7 | 219,0 | 33,3 | −9,5 | 13,5 | −10,0 |
| CNA Gallo | I | Sep 30 | 419,7 | 15,2 | 21,9 | 23,9 | §10,3 | 45,4 | 37,0 | −4,4 | 13,0 | 0,0 |
| Edgars | I | Sep 30 | 1 406,4 | 8,7 | 194,4 | 6,9 | §36,3 | 17,1 | 162,0 | 4,5 | 38,0 | 5,6 |
| Foschini | I | Sep 30 | n/d | — | •73,9 | 19,6 | n/d | — | 89,3 | 20,7 | — | — |
| Gresham | I | Oct 31 | 492,0 | 5,0 | 6,5 | −44,7 | ▲4,2 | −21,9 | 2,6 | −62,9 | 0,0 | — |
| Mas Holdings | I | Aug 31 | 110,9 | 13,3 | •−0,9 | — | n/d | — | −3,6 | — | 0,0 | — |
| Midas | I | Aug 31 | 148,5 | 2,1 | 4,0 | −45,8 | 4,3 | 39,4 | −14,3 | — | 0,0 | — |
| OK Bazaars | I | Sep 30 | 2 544,7 | 4,1 | 58,6 | −21,9 | ▲57,0 | −0,7 | 20,0 | −72,2 | 10,0 | −73,0 |
| Pep | I | Aug 31 | 679,5 | −11,2 | 76,9 | 6,7 | 9,8 | 361,2 | 18,9 | 1,1 | 7,5 | 10,3 |
| Pepkor | I | Aug 31 | 3 716,9 | 171,9 | 96,6 | 11,6 | 28,6 | 25,8 | 28,2 | 18,0 | 8,0 | 12,7 |
| Pick 'n Pay | I | Aug 31 | 3 096,8 | 10,0 | 57,9 | 2,5 | n/d | — | 46,6 | 15,3 | 14,5 | 16,0 |
| Smart Centre | I | Aug 31 | 80,3 | 4,1 | 6,3 | −2,0 | 2,0 | −35,0 | 6,0 | 20,0 | — | — |
| Specialty Stores | I | Aug 31 | 164,4 | 31,2 | 12,2 | 5,2 | 4,1 | 52,6 | 29,4 | 2,8 | 10,0 | 0,0 |
| Teljoy Hold | I | Sep 30 | 87,9 | 2,2 | 16,7 | −5,8 | §5,6 | −6,4 | 13,8 | −3,5 | 4,5 | 0,0 |
| Waltons | I | Aug 31 | 376,0 | 5,5 | 30,7 | −21,5 | §8,5 | 1,5 | 13,6 | −27,3 | 5,0 | −28,6 |
| Wooltru | P | Jun 28 | 3 804,4 | 15,2 | •164,7 | −38,7 | n/d | — | 263,3 | −37,6 | 170,0 | 0,0 |
| **STEEL AND ALLIED** | | | | | | | | | | | | |
| CMI | P | Jun 30 | 306,4 | 11,6 | 14,9 | — | ▲10,6 | −45,3 | −12,0 | — | 0,0 | — |
| Highveld | I | Jun 30 | 696,2 | 7,4 | •35,9 | −28,5 | n/d | — | 35,1 | −46,2 | 20,0 | −33,3 |
| Iscor | P | Jun 30 | 8 616,0 | 16,6 | 748,0 | −14,4 | 403,0 | 73,0 | 18,5 | −44,6 | 6,0 | −45,5 |
| **SUGAR** | | | | | | | | | | | | |
| CG Smith Sugar | P | Sep 30 | 1 143,4 | 15,3 | 142,9 | 6,1 | 35,0 | 13,5 | 55,3 | — | 23,0 | — |
| Tongaat-Hulett | I | Sep 30 | 1 947,3 | −3,6 | 141,6 | −0,2 | 38,9 | −27,5 | 87,4 | 1,9 | 23,0 | 0,0 |
| **TOBACCO AND MATCH** | | | | | | | | | | | | |
| Lion Match | I | Sep 30 | 138,5 | −16,0 | 17,1 | 7,9 | 3,7 | −42,4 | 13,3 | 17,4 | 5,3 | 16,7 |
| Rembrandt Group | I | Sep 30 | n/d | — | 559,1 | −1,5 | 19,0 | −18,8 | 87,2 | 4,8 | 14,2 | 12,7 |
| Utico | I | Jun 30 | 270,2 | 11,5 | 24,0 | 19,1 | 2,2 | 167,0 | 195,0 | 11,4 | 117,0 | 11,4 |
| **TRANSPORTATION** | | | | | | | | | | | | |
| Cargo Carriers | I | Aug 31 | 91,3 | −2,1 | −1,4 | — | 3,0 | −21,5 | −11,3 | — | 0,0 | — |
| Putco | P | Jun 30 | 397,9 | 10,6 | 23,2 | — | 0,0 | −99,5 | 53,2 | — | 30,0 | 0,0 |
| Trencor | P | Jun 30 | 997,7 | 20,3 | •170,1 | 28,9 | n/d | — | 905,0 | 23,2 | 195,0 | 21,9 |
| Unitrans | P | Jun 30 | ♣327,3 | 27,3 | ♣43,9 | 17,4 | ♣7,4 | −43,1 | ♣88,9 | 22,6 | ♣25,6 | 8,9 |

I = Interim. P = Preliminary. n/d = Not disclosed. • = Income before tax. ▲ = Net interest. § = Net finance charges. ♣ = Annualised. * = 7 months.

CORPORATE PROFITS (180) (282) FM 15/1/93

# Back on a slippery slope

## After signs of improvement the trend shows a marked deterioration

**The *FM's*** corporate profit round-up published a year ago was headed "Through the hoop" — as a prognosis, this proved remarkably accurate, though hardly in the sense intended.

It seemed then that corporate SA had seen the worst of the recession. Expectations were running high that an acceptable political solution was in sight; there had been a fairly significant uptick in the economy during the third quarter of 1991 (the latest economic data available then); and, most significantly, average earnings growth had continued to recover after a marginal decline in 1990.

Sadly, the hoop proved to be situated on the edge of a precipice. Whatever positive indications there were at the start of 1992 had buckets of cold water poured on them throughout the year. Effects on corporate earnings are clearly seen in the latest round-up which shows, on average, negative earnings growth of 2,7% — a 10-percentage-point turnaround from the situation at end-1991, and by far the worst performance since the start of the recession.

The survey follows the familiar pattern: it is a round-up of results of major industrial/commercial companies which reported in the second half of calendar 1992, with an arbitrary annual turnover cut-off of around R100m.

The table is made up of about 170 companies having, for the most part, reporting periods — either for interim results or annual prelims — to the second or third quarters of the year. Because of the size cut-off, the list remains mostly unchanged from survey to survey, thus providing a meaningful assessment of the JSE's major industrial companies.

Comparing the latest results with those of a year ago, there have been deteriorations in four of the five income statement items on which the survey is based. The exception was finance charges which, for the first time, declined by 5,4% on average against a 55% increase previously.

This improvement reflected a combination of lower interest rates, tighter asset management and, in some cases, the refinancing of debt with permanent capital through rights issues. Even this has backfired in that the savings in interest charges have generally been insufficient to compensate for the increased number of shares outstanding, so that rights issues, though benefiting balance sheet structures, seem to have contributed to the decline in EPS.

Average turnover growth for the sample, at 11,9%, was almost two percentage points lower than the 13,7% average of a year ago. The only positive aspect is that the slowdown could be partly a reflection of lower inflation and not necessarily indicative of a corresponding reduction in turnover volumes. The 11,9% "growth" is almost one percentage point more than the current inflation rate, whereas last year's 13,7% turnover increase was negative relative to inflation.

But there was almost no profit benefit from the higher rand value of sales — continued and intense pressure on margins, as companies battled to keep their share of a static economic cake, took care of that. The ratio of operating profit to sales declined over the year from 9,3% to 8,5%. Growth in operating profit was a meagre 2,1%, down from 10% a year ago.

As indicated earlier, the one bright spot in this latest round-up was that interest charges have moved into reverse. The 5,4% decline here should have had the effect of doubling the pre-tax profit growth rate relative to operating profit, and is therefore estimated at 4%, but the more important consideration is that indicated interest cover for the sample has recovered from 5 times to 5,4. This equals the position as based on end-1990 results and suggests most companies have remained successful in maintaining sound balance sheet structures, despite the long and deep recession. On average, companies appear to be well placed to finance greater activity when economic conditions permit.

The disparity between a 4% positive growth in pre-tax profit and a 2,7% decline in EPS can be largely attributed to two factors: tax seems to be taking a larger proportion of profits as companies, having eliminated loss-making activities, start to run out of assessed tax losses; and rights issues have resulted in attributable profit being spread across a greater number of issued shares, with a dilution of EPS.

Averages throughout these surveys are based on the percentage change in total turnover, profits and so on for the full sample. Slightly different results would be obtained by, for instance, averaging the individual company percentage changes; another variation would be derived (as in the composition of share price indices) if individual results were weighted according to company size.

The effect on EPS growth can be illustrated by comparing the 2,7% decline as calculated by the *FM* with the positive 0,7% growth implicit from the change in earnings yield on the JSE Industrial index over the past year — the main difference being that the index-based calculation is, in effect, weighted in terms of the market capitalisation of the companies concerned.

In the case of dividend growth the variation is less marked, with the *FM*'s calculation reflecting a 3,1% improvement over the year compared with the index-based calculation's 3,6%. In each case, the indication is that companies have generally maintained some dividend growth, despite flat or declining earnings — which in part can be attributed to a more comfortable internal cash flow, particularly those companies that have either restructured their balance sheets through injections of fresh permanent capital, or have retired significant debt through better asset management.

In most instances overall growth rates of the various income statement items reflected an improvement on the position six months ago. The round-up published on July 17 showed a turnover increase of 7,6% against the latest 11,9%, operating profits up 0,9% against 2,1%, finance charges up 7% against this time's minus 5,4%, and dividend growth of 1,1% against 3,1%. This leaves earnings growth which was still a positive 2,7% six months ago against the negative 2,7% now.

The general improvement could be taken as a positive indication; or it may simply be the result of a different reporting period, remembering that though the list of companies included in the July round-up is basically the same, the companies now reporting annual results were then reporting interims, while the present six-monthly interims have replaced the previous annual figures.

It could come as a surprise that five of the 19 sectors covered still showed real earnings growth. These were Fishing, whose sole representative, Oceana, achieved 35% EPS growth in the year to end-September; Transport, where a 31% average EPS improvement was materially helped by a turnaround from loss to profit at Putco and continued sound growth at Trencor; Pharmaceuticals (19%); Printing & Publishing where Perskor was primarily responsible for a 14,5% average gain; and Food, where only Rainbow failed to grow.

A feature of the latest round-up is the weakness of consumer stocks which, up until about a year ago, had held up well. This time, three of the five sectors with the greatest earnings declines are consumer-based, led by Motors (average earnings down 55,6%) where the Wesco group — Wesco, Toyota and Metair — were notable.

Unless there is a dramatic improvement in political sentiment and, hence, business confidence, it is difficult to be optimistic about short-term profit prospects — a point emphasised in almost every annual report. Indications are that, structurally, major companies are generally in reasonable shape, suggesting that the upturn, when it comes, will lead to strong profit recovery. Until then, investment opportunities are likely to be confined mainly to special situations.

*Brian Thompson*

# Executives forecast a gloomy year

BIDAY 15/1/93 (180)

GERALD REILLY

PRETORIA — Forecasts by executives of the top 100 listed industrial companies point to an uncertain economic, social and political environment in the year ahead, according to a survey by Unisa's Bureau for Market Research.

There was a sharp drop in business confidence expressed by the executives, with 34% foreseeing greater confidence in 1993 against 54% last year.

About 32% were negative and 34% were unsure about the confidence level.

They forecast an inflation rate of 13,1%.

They were slightly more optimistic on the growth rate. The drastic fall in agricultural production pushed real growth down to -5,7% in the third quarter of last year, they point out.

If the trend continued, however, in the fourth quarter the economy was heading for negative growth of at least -2% for 1992 although for this year a positive 0,5% was expected.

On affirmative action, 81% of the executives felt pressure on them to fulfil social responsibility programmes would not decrease.

And 78% disagreed with a scenario forecasting a drop in unemployment.

Only 39% believed labour unrest and strikes would intensify. They agreed that unions would play a smaller role in the labour field this year.

On the political situation, 31% said it would not get worse, 32% said it would and 37% did not know.

# Sandton 'needs space badly'

GAVIN DU VENAGE

SANDTON would expand beyond its boundaries within two years and needed space urgently for its economy to grow, the Demarcation Board heard yesterday.

The board is considering proposals to carve up a stretch of land north-west of Johannesburg, and include it within the municipal boundaries of Krugersdorp, Roodepoort, Randburg, Sandton, Midrand and Verwoerdburg. Area community representatives vociferously oppose the scheme, fearing the area will become a squatter "dumping ground".

Sandton representative David Osborn said the city was fast approaching capacity, and the added pressure of urbanisation meant its land requirements had to be met soon. It was inevitable informal communities would spring up on the urban periphery, but this had to be planned.

The Local Government Authorities Council (LGAC) approach of allowing local committees to manage development at their own pace was inappropriate now.

The councils had to move in and take control, as the LGAC had neither financial resources nor manpower to cope with an influx expected to double the PWV's population within a decade. Present economic trends indicated that many job opportunities would be created in Sandton, and accomodation had to be found through extended boundaries, he said. (127)

Sandton's existing infrastructure could be extended to the greenbelt area, making sewerage and water delivery systems cheaper. Under LGAC proposals, these infrastructures would have to be built by individual local authorities, he said.

Sapa reports Sandton Town Council planning director Jacobus Alberts said Sandton possessed the infrastructure, and it was easier to extend services than create a new authority. BIDAY 15/1/93

Garden Triangle Action Group chairman Robert van Tonder said yesterday the councils were lying about not wanting to turn the greenbelt area into a squatter dumping ground.

# PPI continues to slow down

CT 16/1/93 (180)

MAGGIE ROWLEY
Deputy News Editor

SURPRISING lower domestic inflation saw the Producer Price Index (PPI) continue its downward trend in November last year rising 7,5% year-on-year against 7,8% in October.

On a month-on-month basis, the domestic component dropped 0,1%, bringing the year-on-year increase for locally produced goods to 8,2% in November against 8,7% in October and 9,2% in September last year.

Welcoming these figures, economists said they should feed through to the Consumer Price Index (CPI) — which could fall to 10,5% or even lower for December against 11% recorded in November.

After showing no growth in October, export inflation was up in November by 0,8% month on the month but on a year-on-year basis, the increase of 4,1% was lower than the 4,3% recorded in October and 7,1% in September last year.

From a base of 100 in 1990, the All Commodities index was 123,9 in November, compared to 123,8 in October and 123,2 in September.

The index for locally produced commodities dropped to 125,8 from 125,9 while the index for imported commodities rose to 115,5 from 114,6.

Old Mutual economist Johann Els said the decrease in the domestic component of the PPI indicated that inflationary pressures were becoming less and less.

If this trend continues, average PPI for 1992 would be around 8,2% against 11,5% in 1991 and boded well for PPI figures of below 10% for 1993, probably averaging out at around 9%, he said.

Both Els and Sanlam chief economist Johan Louw agreed the lower PPI figures should feed through to the CPI.

Els believed the CPI could fall to 10,5% in December while Louw was slightly more optimistic, forecasting a 10,3% increase against November's 11%.

This would bring the CPI average for 1992 to 14,1% against 15,3% in 1991.

They said that while the Budget deficit was of concern and VAT was likely to be increased to at least 13% in March, stronger fiscal policy would no doubt give the Reserve Bank room to move in lowering interest rates further.

These could fall a further 1% in the first half of the year and another percent in the second half.

Louw said the price paid by the economy in getting inflation under control had been very high and the economy could not deal with both a strict monetary and fiscal policy.

In spite of expected VAT and petrol price increases, an average inflation rate of 11% for 1993 would still be possible due to among other things the fact that wage and salary increases had generally been below inflation and were therefore unlikely to fuel it.

However, Louw pointed out that the true test of whether or not strict monetary policy had been successfull in curtailing the inflation rate would only be tested when the economy finally picked up.

"It is possible that the lower inflation rate is a result of the current economic climate", Louw said.

# Call for lower corporate tax rate to fuel growth

180

ADRIAN HADLAND

PRETORIA — SA's high 48% corporate tax rate was a strong disincentive for investment and was stunting economic growth, Ernst & Young national tax director Ian MacKenzie said yesterday.

Speaking at the Platform for Investment conference, MacKenzie urged government to reduce the corporate rate to 40%, in line with other middle-income economies, in order to improve SA's competitive standing in the international community.

Urgent measures should also be taken to increase the upper personal tax threshold of R150 000 to encourage capital accumulation, to limit tax brackets to four and to avoid fiscal drag, MacKenzie said.

While it was inevitable that VAT would be raised to at least 13% in March and possibly further in the medium term, government should consider instituting a multiple rate system of VAT, MacKenzie argued.

If negotiated politically, the implementation of a multiple rate system would lead to higher incomes from the tax in particular with regard to the "low-visibility" informal sector.

Investor confidence in the SA economy would be significantly boosted if more appropriate personal and corporate tax rates could be established, if the tax base was broadened and if an equitable, legitimate and consistent system of taxation was efficiently administered, MacKenzie said.

"We are not suggesting the immediate implementation of these proposals, but it is vital to set meaningful goals in the transitional period or impair investors' confidence," he added.

BDay 30/11/93

CORPORATE PAPER 180

# Coming out

FM 22/1/93

**Low trading** volumes in SA's first corporate bond issue should not affect the prospects for issues coming to the market over the next few months. The intrinsic value of blue-chip paper should ensure the issues are taken up by institutions starved of quality equity.

One of the reasons trading in the R1bn issue of SAB paper is low, according to Mark Barnes, executive director of Standard Merchant Bank (SMB), which is lead manager and one of the market makers in the issue, is that it is being held for long-term investment

continues



rather than to make a short-term capital profit. Tim Hacker, of sponsoring broker Fergusson Bros, estimates roughly two-thirds of the SAB stock is held by institutions — for the long term.

Barnes says speculative investors would probably trade in the far larger RSA 147, for example, at least until the corporate bond market is more established. Redemption dates are similar: the year 2000 for SAB paper and 1999 for RSA 147 stock. Options are available in the RSA 147.

JSE figures show that, after its highly successful launch on December 4 (*Economy* December 11), trading in SAB tailed off sharply from R224,5m on the first day. These figures, of course, reflect only a portion of total trade in the paper — about 10%, according to SMB's Chris Kenny, though others put the ratio at up to 30%. Off-JSE trade is said to have followed a similar pattern, inhibited by the holiday season which reduced liquidity throughout the market.

UAL Merchant Bank's Chris Pearce says further corporate bond issues will bring depth to the market, increasing the prospects of interchangeability (and therefore tradeability). Other blue-chip corporations, such as Anglo American, Barlows, De Beers, Rembrandt, Liberty Life and Standard Bank, have been named as possible issuers. Barnes estimates there are about 20 prospective local candidates for corporate bond issues.

Other reasons turnover in corporate paper may continue to be relatively low are:

- The issues are small compared with the benchmark Eskom 168, with a nominal value of R16bn, and the RSA 147 at R14,6bn. This limits the interest of institutions which prefer issues of over R1bn; and
- The absence of an options market which would attract interest by providing its own trading opportunity — to buy or sell the option for a fee. Should the option holder exercise an option to buy, liquidity in the underlying paper will increase.

But the problem is that the low volumes of trade in the underlying paper may inhibit the development of an options market.

Who should establish an options market? Generally this falls to the market makers — in this case Rand Merchant Bank, UAL and SMB. But RMB's Russell Loubser believes the issuer, SAB, should help to establish the market. He contends the issue is too small for the market makers alone to establish an options market. However, SAB financial director Selwyn MacFarlane says SAB will not establish an options market.

Bond brokers suggest liquidity would improve were the market makers to lower their spread (commission) in the paper — which they say is wider than comparable trades in other stock.

Corporate paper provides companies with an opportunity to lock themselves into fixed-interest borrowing. SAB has locked itself into paper with a pre-tax cost of 14,9%, being the yield to maturity (YTM) from issue to redemption in seven-and-a-half years. The paper has a 14% coupon but was issued at 96,01543 to give a 14,9% YTM.

Last trade in the paper was at marginally under 14,7%, suggesting new corporate issues will have a coupon around the 14,7% level should they be placed soon and have a similar risk profile. ■

# Shortage of entrepreneurs a problem, says IDC chief

STAR 22/1/93.

180

By David Canning

DURBAN — South Africa suffers from a shortage of entrepreneurs, says Jan de Bruyn, senior general manager at the Industrial Development Corporation (IDC).

Asked in an interview whether the IDC was doing enough to help small-to-medium-sized industry, he said the organisation had financial resources to help "every applicant who can produce an economically viable plan for industry".

No applicants with viable plans had failed to receive help.

However, the biggest obstacle was the shortage of entrepreneurs — people with the necessary skills coupled with a willingness to take risks.

The IDC, which recently announced a move towards promoting hotels and tourism, did not have a master plan for allocating funding to different industrial sectors.

It did try to favour small-to-medium-sized industry, although it did not seek to divide its funding according to set parameters, distinguishing between big and small industry.

De Bruyn was asked why it had been necessary for the IDC, as a state-controlled body, to become involved in part funding of huge projects like the Alusaf aluminium smelter and Columbus stainless steel project.

Could the IDC's resources not have been more effectively used for small to medium-sized enterprises?

The IMF has criticised government tax breaks for ~~large~~ South African projects. The IDC is also providing R800 million for Alusaf in the form of subordinated long-term loans.

De Bruyn defended IDC involvement with the Alusaf project as being within the ambit of IDC activities and not involving funds flowing from the state.

He said it was the IDC's brief to promote industrial development, big or small, within SA. Two of its main objectives were the promotion of further beneficiation of the country's natural resources and of exports.

The IDC had completed its own viability studies on the Alusaf project and was convinced it was in the national interest.

## Natural step

Moreover, the additional investment was a natural step because the IDC had been involved in the first Alusaf scheme.

The IDC, now 52 years old, was formed during the war when SA found its traditional access to Commonwealth-manufactured products limited.

Its governing Act says it must facilitate, promote, guide and assist in financing of new and expanding industries.

It also promotes better organisation and modernisation of industry and undertakes special investigations on behalf of Government departments — such as last year's report on SA's import tariffs.

While it charges for research projects on behalf of the Government, the IDC has not received government funding for many years.

In fact, unlike other development agencies in the world — some of which were modelled on the IDC — it pays tax (R99 million last year).

Lending is entirely from its own resources.

Asked why the IDC had not been formally privatised — its directors are still appointed by the Government — De Bruyn said such a proposal was looked at a couple of years ago.

As with other state-owned organisations, the issue had not proceeded for political reasons. There were feelings among some parties that such sales would be tantamount to "selling the crown jewels".

De Bruyn, who is also a director of the Small Business Development Corporation (SBDC) — which is 50 percent-owned by the IDC — said there was little overlap between the organisations.

Unlike the IDC, the SBDC set upper limits for businesses it was prepared to help and it was also involved in "after-care" services.

The IDC estimates that projects with which it is involved will make total capital investments of R10 billion in the next four years. Its own investment is R3 billion.

Last year it increased loan approvals to industrialists by R712 million to R1,97 billion and its total assets rose to R6,6 billion.

It said in its 50th anniversary report in 1990 that 67 percent of its projects involved firms with total assets then worth less than R10 million.

# Manufacturing output declines

(180)

The physical volume of manufacturing production in November 1992 contracted after a healthy increase in the previous month, figures released yesterday by the Central Statistical Services show. STAR 22/1/93.

The index of the physical volume of manufacturing production in November decreased by 3,1 percent after seasonal adjustment from October.

Compared with November 1991, the index eased 1,4 percent.

The food, paper products, metal products and motor vehicle industries experienced the biggest fall off in volumes.

CSS said decreases in production were recorded in 18 of the 27 major manufacturing groups.

However, the change in the physical volume of manufacturing production in the three months to end-November 1992 was 5,1 percent higher than the three months to August. — Sapa.

**BUSINESS** Investment seminar for bigger business

# Investment geared for black firms

Sowetan 22/1/93.

A MAJOR INVESTMENT seminar aimed at black business will be held at the Carlton Hotel on February 23.

Sponsored jointly by *Sowetan* and a leading stockbroking company, Simpson McKie Inc, it is hoped that the seminar will attract prominent black business people in the PWV area.

This occasion is the first of its kind geared mainly to black business.

"We realised that most business seminars for blacks tend to concentrate only on small business management issues.

"Clearly there is a need to enlighten middle-income to upper-income black people about issues relating to personal investment. With this seminar we hope to empower our people with the kind of knowledge that will enable them to take advantage of the enormous opportunities of the Johannesburg Stock Exchange," says *Sowetan* day editor Thami Mazwai.

Among the speakers will be *Sowetan* Editor Aggrey Klaaste and the JSE president Roy Anderson.

## HIGH HOPES

First seminar of its kind for blacks:

Bill Yeowart, partner in Simpson McKie, concurs: "The seminar is deliberately aimed at the middle-income to upper-income business person. They are the ones who are currently not catered for when occasions of this nature are organised.

"South Africa has a huge black middle-class and upper-class with lots of disposable income. But due to lack of investment information, most of their funds are not invested optimally and our objective is to correct the situation. Participants pay a R100 fee, which includes tea and lunch."

180

AS debates on monopolies and measures to curtail their power rages on, Dr Daniel F Leach, a senior lecturer in the University of the Witwatersrand Department of Business Economics, responds to ANC economist Tito Mboweni's views on antitrust legislation:

(180)

IN HIS article *Focus on Monopolies* (January 11) ANC economist Tito Mboweni reports that the recent ANC workshop on antitrust policy seemed to prefer the UK approach, in which there is a "strict definition" of monopoly.

As Mboweni reports, UK antitrust policy defines a monopoly as a company (or interconnected group of companies) with a market share of 25 percent or more.

If such a company acts "in such a way as to prevent, restrict or distort competition" it would be forced to divest so as to bring its market share below 25.

The perverseness of the UK approach is readily apparent. It assumes quite arbitrarily that a company with 25 percent or more of the market might act "in such a way as to prevent, restrict or distort competition", while a company with less than 25 percent of the market will not.

Mboweni reports that the ANC workshop "did not delve into the details of ... the level at which a monopoly can be said to exist" but any level of market share would be arbitrary.

Most would say that South African Breweries (SAB), with 99,9 percent of the malt beer market is a monopoly. But as Professor Franklin Fisher of the Massachusetts Institute of Technology (MIT) points out, "the confusion of monopoly with large share is dangerous".

In order to identify a monopoly you must look at the constraints on the company's ability to raise price, not at its market share.

One constraint on SAB's ability to raise price is competition from the wine market and from the massive sorghum beer market. If SAB raises its prices excessively, consumers can and will switch to the products available in these competing markets.

Another constraint facing SAB is potential competition from new firms coming into the market and taking away its business. Over the years SAB has fought off several competitive threats and maintained its dominant position.

If a large market share - even a 100 percent market share - is maintained solely because of low prices or better products, then as MIT's Professor Fisher points out "we are looking at what competition is supposed to do and not at a monopoly".

On the other hand if the Government protects it from competition, an industry with thousands of firms can be a monopoly. With legal power granted by the Government, control boards for a long time have restricted competition and kept prices high for many agricultural products such as bananas, maize, milk, meat and potatoes.

This has meant that the thousands of farmers producing these products have been forced to be monopolists whether they wanted to or not. Luckily for consumers these control boards have been under pressure from adverse court

**"The confusion of monopoly with large share is dangerous. In order to identify a monopoly you must look at the constraints on the company's ability to raise price not at its market share"**

Sowetan 22/1/93

decisions and from farmers who want to compete.

This pressure has reached the point where a Government-appointed commission has recommended that the legal powers of the control boards be completely eliminated.

Even though it may be an error to arbitrary define as a monopoly a company with 25 percent (or any percentage) or more of the market, in the UK no action will be taken against that company unless, as noted above, it acts "in such a way as to prevent, restrict or distort competition".

You might ask, "What's wrong with that?" What's wrong is that most actions taken by a company to maintain or increase its market share are efficient and competitive, but the antitrust authorities have perversely tended to associate such business practices with monopoly.

For example, in the UK a traditional practice in the beer industry has been the "tied house" system in which the major brewers owned their own pubs, through which they exclusively sold their own brands. The UK Mergers and Monopolies Commission (MMC), however, ruled that this was a monopolistic practice.

Forced to divest themselves of many on their pubs, the brewers naturally sold off their least profitable pubs. Now thousands of these pubs are being closed down because they are no longer economically viable without the tie to a major brewer.

Not knowing what it was doing, the MMC destroyed an efficient, competitive business practice and consumers - especially in poorer areas - now will have less choice and pay higher prices. As we Americans like to say, "If it ain't broke, don't fit it".

Thus Mboweni is quite wrong when he asserts that "antitrust is a probusiness policy", except in the well-known perverse sense so compellingly documented by Robert Bork in his widely cited book, *The Antitrust Paradox: A Policy at War with Itself.*

Antitrust policy frequently is pro-small business and anti-consumer. Small and medium businesses are protected from the vigorous "unfair" competition of large firms to the detriment of consumers.

According to Mboweni, "antitrust policy ... aims at the promotion and protection of competition". But the truth is that antitrust policy often protects competitors instead of competition. In the UK and the US, firms that cannot succeed in the market call their lawyers. Every successful firm must expect to be sued by its rivals on antitrust grounds.

Thus IBM was forced to defend itself in case after case, including the US government's infamous 13 year vendetta. That case began in January 1969 and ended in January 1982 when the assistant attorney general in charge of the Antitrust Division of the Justice Department agreed to a dismissal of the case as "without merit".

As reported by Professor Fisher and his coauthors in *Folded, Spindled and Mutilated: Economic Analysis and US vs IBM*, the government's entire case was a litany of complaints about IBM's lower prices and better products - the opposite of what monopoly is supposed to bring about.

IBM was unusually successful in ultimately winning that case and every other case brought against it, but only after spending a reported R3 billion to defend itself.

Mboweni merely reports the US government's case against IBM as one (together with Standard Oil and AT&T) of the "most celebrated cases of US antitrust action", ingenuously failing to reveal US vs IBM as yet another unmitigated antitrust disaster.

# SABS to lose test monopoly

(180)

CT 23/11/93

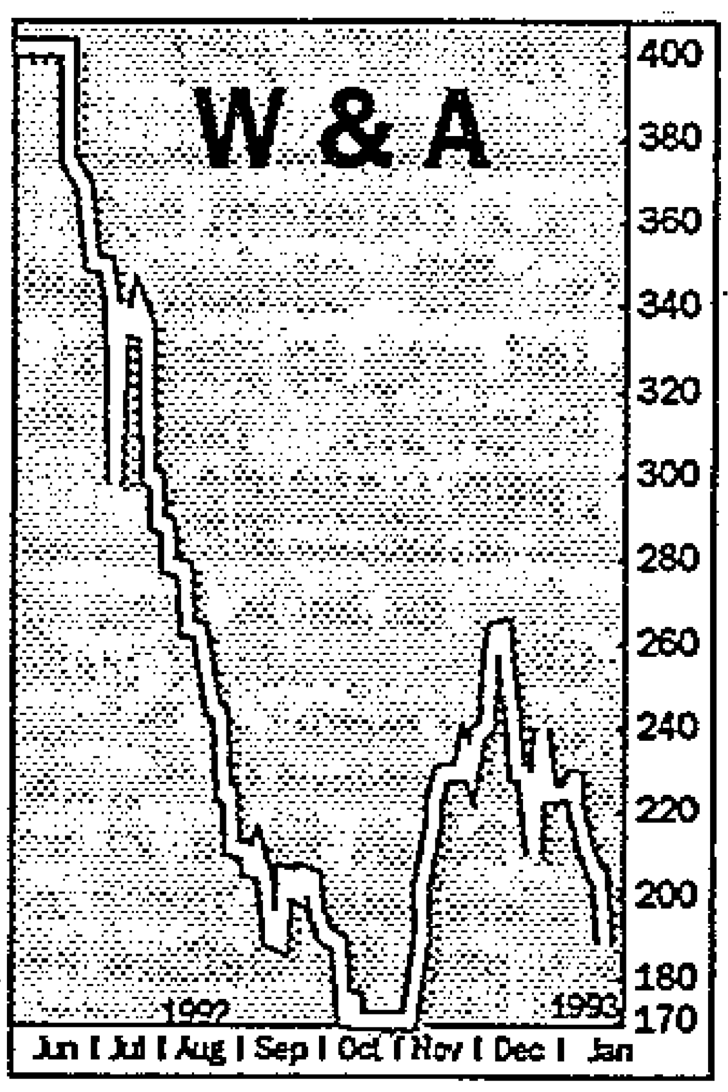
Own Correspondent

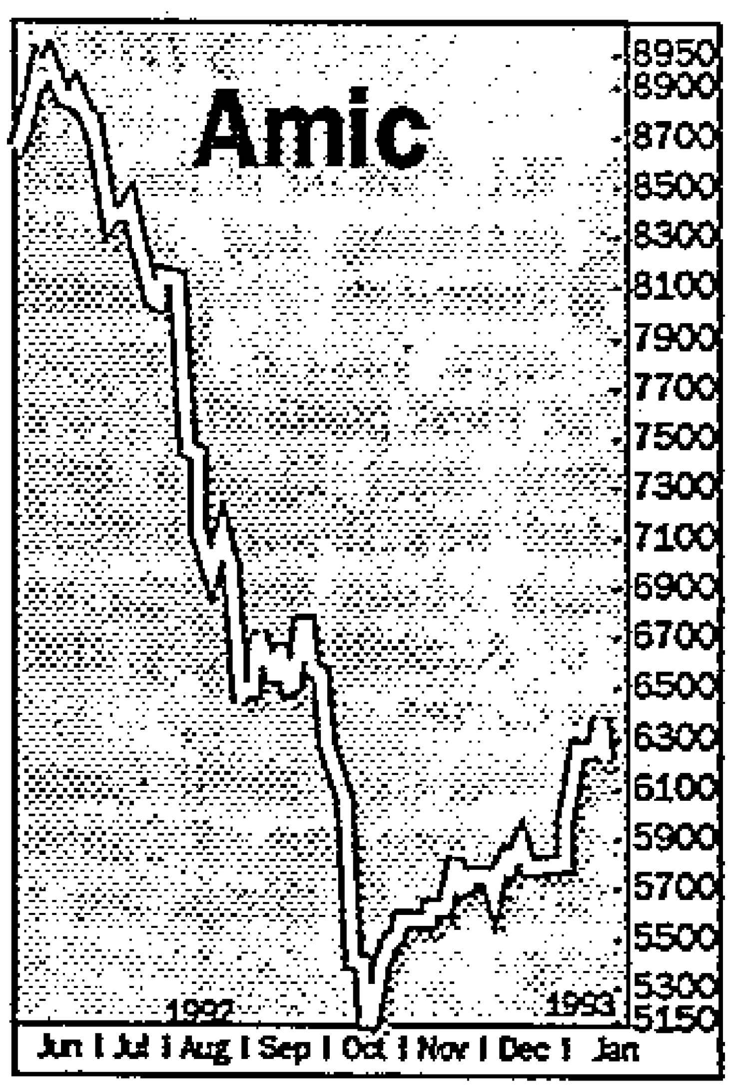
PRETORIA. — The South African Bureau of Standards will lose its monopoly on product testing after the introduction of a new Standards Act in the coming parliamentary session.

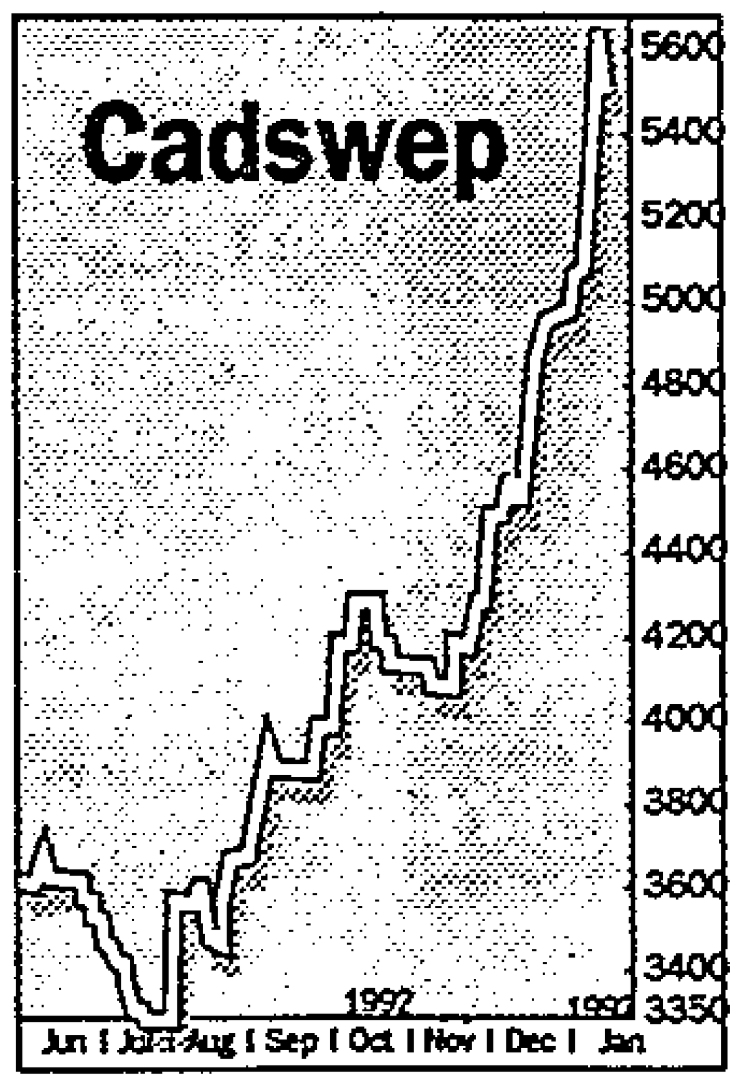
The new act, which is expected to be cleared by government lawyers next week, will provide significant opportunities for South African businesses, a Trade and Industry Department spokesman said.

# Market braced for poor results from major industrials

STAR 25/1/93. (180)




By Stephen Cranston

The market is bracing itself for poor results from most of December year-end industrial companies, which are expected to report from the beginning of February onwards.

These companies predominantly trade in the heavy industrial sector and are expected to report reduced earnings, in line with the problems in the sector.

The major holding companies reporting, Amic and W & A, have both slipped over the past six months, with Amic's price falling from R83 to R61,50 and W & A's from 335c to 190c.

But while Amic's price hit a floor of R51,50 and has recovered over the past two months, W & A has renewed its freefall and offers a staggering dividend yield of 19,7 percent.

Market predictions for W & A's earnings and dividend performance vary from 26 percent to 50 percent, and analysts believe there is little prospect of recovery in the current year.

Even so, it looks cheap at a future yield of 10 percent. Even if the dividend is halved again the following year, it has some value.

But W & A is perceived as too risky by the generally conservative investment community.

Unlike Amic, W & A does not have a cash-rich parent, and its gearing, estimated by some analysts to be 80 percent, might not come down significantly without further asset sales.

W & A's tax rate is increasing, though it will rise only from two percent last year to about six percent.

But the underlying operations remain sound. Some, like the shoe retailer Safshoe and automotive parts supplier Vektra, should actually increase earnings.

W & A has a significant offshore presence in London-listed AAF and its worldwide scaffolding business.

Its furniture retailer, the JD Group, is among the best regarded in the sector, with a high-quality debtors' book.

Amic's earnings will be down for the third consecutive year, but much of this can be attributed to weaker commodity prices, principally steel, pulp and paper and chemicals.

Unlike W & A it has strong cash resources and a glamorous long-term project, the Columbus Joint Venture, which will produce half a million tons of stainless steel by 1995.

Amic should be able to hold its dividend, giving a 5,7 percent yield.

But with worldwide overcapacity in many areas it could be many years, if ever, before Amic can reach the levels of profitability it enjoyed in the late 1980s.

Amic has only a small exposure, through furniture trader Prefhold and to some extent through Tongaat-Hulett, to the expanding consumer markets. Even the shareholding in Royal Foods is held through Anglo American itself rather than Amic.

And it's still the quality consumer shares the market looks for.

Cadbury Schweppes should relieve some of the gloom from recent results.

At half-time it increased earnings by 28 percent. Over six months the share has gained R20 to R53,50 and sits on an amazing 37,1 P/E ratio and one percent dividend yield.

Cadbury Schweppes enjoyed a good Christmas period and looks certain to increase earnings by well over 20 percent for the year to December.

Consumer company Utico should also achieve real earnings growth, though perhaps no more than 14 percent.

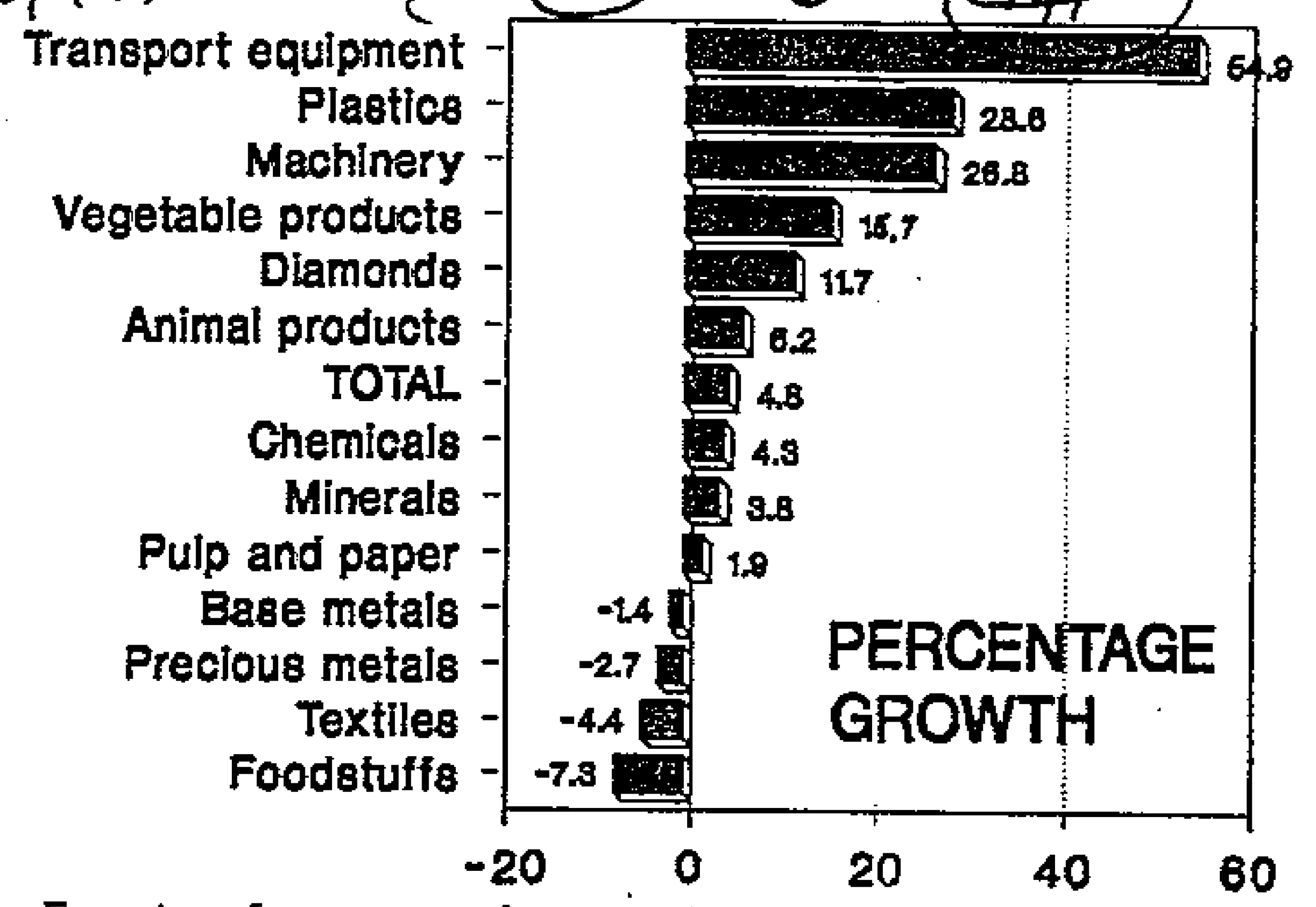
Its share price has also moved up, from R69,50 to R81,50 over six months, and its P/E of 16,8 now outstrips that of its arch-rival in the tobacco sector, Rembro.

Prospects for improving volumes and increasing market share in the tobacco and snacks markets in which Utico trades are considerable.

# Drought costs R2-bn in extra farm imports

Star 26/1/93 (180)

By Sven Lünsche




Export performances of commodities and manufactured goods in 1992.

The devastating drought cost SA almost R2 billion in additional agricultural imports last year.

This emerges from the trade figures for 1992, which were released by the Department of Customs and Excise yesterday.

Total exports for 1992 improved by 4,8 percent to R67,46 billion from R64,36 billion in 1991.

But imports increased by 7,2 percent from R48,21 billion to R51,92 billion.

This left the 1992 trade surplus at R15,5 billion — 4,3 percent lower than 1991's R16,2 billion — but better than had been expected by most economists.

The improved trend was also evident in the monthly trade figures for the last few months of 1992.

From its low level of R783 million in October, the trade surplus recovered to a revised R1,04 billion in November and R1,76 billion in December.

This was mainly achieved on the back of improved weather conditions, which cut the import bill from just over R5 billion in September to R3,79 billion in December.

Exports in the four months held steady at R5,5 billion.

However, the drought had a devastating effect on the trade bill for 1992 as a whole, when poor agricultural production forced large-scale imports of food and other products.

Imports of live animals and animal products last year shot up by 61 percent to R440 million (1991: R270 million).

Fats and oils were 58 percent higher at R464 million (R269 million) and vegetable products climbed 45 percent to R2,55 billion (R1,14 billion).

Combined, these products pushed up the import bill from R1,58 billion in 1991 to R3,46 billion last year.

The relatively large increase in the total import bill surprised economists, who had expected a slight decline, given the poor state of the economy.

Yet key industrial goods imports continued to rise at steady levels, headed by imports of machinery, which rose by seven percent from R13,98 billion to R14,97 billion.

Chemical imports firmed to R5,77 billion (R5,4 billion), but imports of transport equipment, vehicles and aircraft fell slightly from R6,77 billion to R6,51 billion.

It was once again left to manufacturers to give the trade picture a measure of respectability, as exports of primary products suffered from declining international commodity prices.

Exports of unclassified goods (mainly gold and platinum), the largest export category, fell 2,7 percent to R24,31 billion (R24,98 billion).

Base metals dropped 1,4 percent to R9,4 billion (R9,53 billion).

Exports of diamonds improved 12 percent to R7,57 billion (R6,78 billion), but the figure includes gems transferred by De Beers mines in Botswana and Namibia to its Central Selling Organisation in London.

The subdued state of the economies of SA's largest trading partners did not deter local manufacturers from expanding their export base.

Car manufacturers, aided by the Government export incentives under the Phase VI system, lifted exports 55 percent from R1,53 billion to R2,37 billion.

Other manufacturering sectors which, again with help from the General Export Incentive Scheme, showed good growth included plastics, up 28,6 percent to R748 million (R582 million), and machinery, up 26,8 percent to R2,13 billion (R1,68 billion).

# Bad time to raise taxes — business

BDAY 26/1/93.

(180) (66)

GRETA STEYN

ORGANISED commerce and industry have called on government not to increase taxes, as the timing was not right while the economy remained in recession.

Government was asked formally at an economic forum process committee meeting last week to avoid addressing the deficit problem by raising taxes, sources said.

While the private sector provided government with inputs on the Budget last week, labour representatives have not yet provided economic policymakers with any formal input, although they have signalled their opposition to tax increases.

While the suggestions handed to government at the forum meeting could not be obtained, business representatives spoke out openly against tax increases.

Sacob, in a reference to speculation that the VAT rate would be increased, said yesterday: "While Sacob is not opposed to higher rates of indirect taxes in principle, there is concern at the timing of such an increase. Imposing a higher rate of VAT on a contracting economy is likely to increase the severity of the recession."

Sacob said the move could result in only a minimal increase in VAT collections and a reduction in collections of other taxes, because of the effects of a recession on government revenue.

The organisation also opposed raising the fuel levy and said a petrol price increase at this point in the business cycle might affect the economy more than in previous years. A higher fuel levy would be inflationary and would also result in lower collections in other areas.

Sacob said direct taxes were already too high by international standards and SA could not afford a more uncompetitive tax regime, as this encouraged companies to transfer profits offshore.

The Afrikaanse Handelsinstituut (AHI) is expected to present Finance Minister Derek Keys with a similar view when the organisation meets him today. The AHI expressed opposition to an increase in the VAT rate last year.

Sacob's calculations show that a deficit of about 6% of GDP is possible without increasing taxes, provided government keeps the increase in spending below 7%.

On the basis of prevailing tax rates, and assuming real GDP growth of 1,5% over the fiscal year, government could raise about R8,5bn in additional tax revenue.

The organisation said the only option that could really work in addressing the deficit problem was to cut state expenditure.

# Financial statements require clarity

BDM 27/1/93. (180)

DOUG BROOKING

WITH the possibilities of foreign investment opening up in SA, a prerequisite is that the investor be provided with financial statements which are fully equal to those available to him in his own capital market.

Equal in this sense means comparable as well as equivalent in terms of relevance, reliability and understandability. This places a responsibility on our national standard setters to keep accounting standards at least within striking distance of best international practice, and on our companies to accept the cost and effort of contributing to the standard-setting process and of complying with its output. Local investors, of course, also need and benefit from a programme of continuous improvement in financial reporting.

Mercifully, some leading international capital markets, including London, do not impose their own national accounting standards on foreign companies whose securities they list. In the US, however, the Securities Exchange Commission demands that companies seeking equity finance through the New York Stock Exchange comply with the very demanding standards of the US Federal Accounting Standards Board.

Perhaps SA, along with other countries seeking future access to the vast US capital markets, will find a route via the standards of the International Accounting Standards Committee (IASC) which is engaged in a determined effort to achieve international recognition of its standards for the purposes of cross-border capital raising. Three of our leading companies — AECI, Barlow Rand and SAB — already issue financial statements which comply with the international standards, as does Minorco. More will follow.

Thanks largely to the exceptional degree of goodwill which exists among members of the accountancy profession worldwide, SA was able to retain its position on the IASC board throughout the sanctions years. Our experience and close international connections in this area should pay handsome dividends as SA companies enter a new and more open financial era.

Given the growing internationalisation of business and finance and the daunting costs of continuing to involve ourselves in both international and parochial standard-setting processes, SA accountants may well become persuaded that the practical approach is for our companies increasingly to adopt international standards, and to phase out the local standards except where overriding and unique objections prevail.

Most affected by such a change in policy could be our mining groups, which have long pursued an original and independent route in reporting for single-venture, wasting-asset situations such as the gold mines.

Producers of financial reports for international consumption will also find value and perhaps even inspiration in a new publication, Financial Reporting in the 1990s and Beyond, issued in the US by the Association for Investment Management and Research (AIMR). This study takes a penetrating look at several current disclosure practices which, from a user perspective, it finds wanting. Unsurprisingly these include accounting for goodwill and other intangible assets, the use of valuations on the balance sheet, segmental data and the income statement in general.

And all company directors occasionally need reminding that, in the words of the AIMR, "users of financial statements are also the owners of the enterprises being reported upon, and it is the users, who in addition to receiving the benefits, ultimately bear the cost of providing financial reports".

Looking further ahead, investment analysts are already pointing out that the globalisation of asset management requires that financial data on all eligible investments should be totally comparable and consistent — suitable for incorporation in a gigantic database through which analysts and global portfolio managers can search and sort at will.

Then at least we may be able to talk about accounting as a universal language of business.

☐ **Brooking represents the SA Institute of Chartered Accountants on the IASC board. The SAICA will present its annual CA reporting award next month.**

REVIEW

# 10 JSE companies fall foul of fund

B/Dom 28/1/93 180

ALAN FINE

MINING companies in the Gold Fields of SA and Anglovaal stables are among the most prominent companies which the newly formed unit trust, the Community Growth Fund (CGF), has pinpointed as "inappropriate" investment vehicles.

Tobacco products manufacturers Rembrandt and United Tobacco and hotel group Kersaf have also been declared undesirable for investment.

The CGF, whose investments are managed by Syfrets, was launched in June at the initiative of the Labour Research Service and seven unions affiliated to Cosatu and Nactu. It released a report yesterday for the half-year ended December 31.

The CGF was designed as an investment vehicle primarily for union members' retirement funds — and for the general public. It invests in listed companies selected for their performance in the fields of labour relations and social responsibility, as well as financial performance.

Other "rejected" companies include Clinic Holdings, Richemont, Safcor and Berzack Brothers.

Shares from a list selected by Syfrets according to financial criteria are approved or rejected according to 17 criteria by a committee representing the seven unions, which include Cosatu's NUM and Nactu's Metal and Electrical Workers' Union of SA (Mewusa). Mewusa general secretary Tommy Olifant is chairman of the selection committee called Unity.

The report for the half-year shows the fund invested R6,6m of its R20,9m in assets in 11 companies — Stanbic, Malbak, Murray & Roberts, Safmarine and Rennies, City Lodge, LTA, Lenco, Delta Electrical, Hudaco, Foodcorp and Unitrans. Other shares had been approved in terms of the unions' criteria but would not be identified until purchased.

Syfrets Managed Assets MD Leon Campher said he expected the bulk of CGF assets to be invested in equities by mid-year. While pointing out that a six-month period was insufficient for a proper comparison, he noted that between July and December the CGF (8,77%) had outper-

To Page 2

## Fund

B/Dom 28/1/93 180

…m Page 1

formed both the Syfrets Growth Fund (4,56%) and Syfrets Trustee (1,9%).

Olifant explained that United Tobacco and Rembrandt had been rejected over the issue of tobacco manufacture. Rembrandt was also rejected because of its substantial holding in GFSA Holdings "whose mines have been rejected outright for their anti-union stance". Driefontein and Kloof were specified, along with Anglovaal's Hartebeestfontein in the mining sector.

Another share rejected by reason of product or service was Clinic Holdings, which "provides medical care mainly to the wealthy minority".

Kersaf was rejected because of alleged bad industrial relations practices in Bophuthatswana. Richemont received the thumbs down because, with the bulk of assets outside SA, there is "no employment benefit within SA". Safcor was accused of poor labour practices while Berzack Brothers was said to have failed adequately to prom… ement.

Companie… aving implemented adeq… skills training and/or a… ammes … included H… b and Murray & Roberts.

Safren, through Rennies, was found to have implemented good labour relations practices and paid fair wages. Its indirect holding in Sun Bophuthatswana "remains a problem and will be closely watched".

Stanbic, Malbak, LTA and Delta Electrical were all approved on the basis of enlightened labour practices and fair wages. City Lodge, too, was said to pay wages above the industry average, and its expansion programmes which would lead to job creation also found favour.

Foodcorp was approved on the basis of its attempts to iron out "uneven" employment practices and its socially responsible shop floor policies.

● Picture: Page 3

# Directors tackle corporate ethics

ANDREW KRUMM

THE formation of a private sector task force to provide guidelines on corporate accountability and ethics was announced by the Institute of Directors yesterday.

Institute executive director Richard Wilkinson said the move followed a spate of high-profile business failures, an apparent lowering of ethical standards, and the urgent need to improve accountability in the private sector. BDay 29/1/93.

Wilkinson said former Supreme Court judge and Frame group chairman Mervyn King had been appointed chairman of the 12-member committee. King would be assisted by Judge Cecil Margo and corporate lawyer Prof Michael Katz.

"The private sector is represented by Premier Group chairman Peter Wrighton, Wesco Investments chairman Elisabeth Bradley, Dr Nthato Motlana, and African Bank chairman and former Nafcoc president Dr Sam Motsuenyane."

They will be joined by Bas Kardol of Investec, Max Borkum, Afrox chairman Peter Joubert and JSE president Roy Andersen. KPMG Aiken and Peat senior partner Guy Smith would represent the accounting profession. 180

King said the group met on Tuesday for the first time, but had yet to finalise its terms of reference. "We are to meet with several statutory and quasi-statutory bodies in an endeavour to avoid an overlap in recommendations."

He said the committee had a ready-made set of recommendations in the form of the Cadbury commission report on corporate governance in Britain, which developed a code of best practice.

A similar code was envisioned for SA, which would take into consideration the country's special cicumstances, King said.

Wilkinson said "in the new SA confidence in the corporate system is vital if the principles of a free market economy are to survive and flourish".

BUSINESS

# Investing in good conscience

WMail 29/1 - 4/2/93

(180)

*The benefits of social responsibility were shown this week as a new unit trust revealed which companies got the thumbs-up for investment.*

*By* **FERIAL HAFFAJEE**

INVESTMENT with a conscience is set to become South Africa's next growth industry. The first report of the six-month-old Community Growth Fund (CGF) this week showed an 8,8 percent return for investors and R20-million in investment.

The CGF is a unit trust jointly owned by Syfrets and seven unions, which formed the Unity company.

This week it revealed the eagerly awaited criteria it uses to select companies for investment — South Africa's first social responsibility index.

And rumour has it that the idea is catching on; those companies rejected for investment by the CGF are queuing up to meet the unit trust's directors to discuss putting things right.

Companies which got the "viva" include Standard Bank, Malbak, Safren and the City Lodge group of hotels.

Tommy Olifant, chairman of the Unity corporation which makes the final share selection, says: "There is no perfect company. We are satisfied with at least a 70 percent compliance."

Syfrets makes the initial share selection which the Labour Research Services (LRS) and Unity corporation allocate points to. A company which scores below 60 percent is rarely given the thumbs up.

"But nothing we do is cast in concrete," says Mark Anderson of the LRS, adding that companies are regulary assessed and where they improve, they can be selected for investment.

The fund managers are playing things carefully: they decided to keep about R14-million in cash reserves and invested R 6,6-million in 11 companies.

These companies were chosen primarily on their ability to create jobs, their industrial relations practices and working conditions. But the recession has demanded flexibility from the CGF with even enlightened companies being forced to retrench workers.

Leon Campher

"We had hoped to rate companies on job creation. Now we have to rate them on not retrenching," said director Gordon Young.

Good health and safety regimes, training and equal opportunities policies as well as strong bottom lines were also all convincing factors. And then, finally, environmental awareness, worker participation schemes, information disclosure, the political profile of a company and social spending played a part.

The fund did not invest in recently privatised companies or in those operations that are wholly or primarily concentrated overseas. Standard Bank boasts uniform employment practices throughout South Africa — including the homelands — among the highest wages in the sector and an affirmative action programme.

Malbak's commitment to wiping out illiteracy in its entire workforce by 1998 impressed CGF investors and so did its fair wage structure. At the transport company, Unitrans, the regular specialist training for 1 500 drivers and a management trainee programme for employees were important factors.

The company also supports a national bargaining forum for the goods transport industry and has not retrenched any workers over the past 18 months.

About 70 jobs a year will be created by expansion at the City Lodge hotel group, the only hotel group chosen for investment, but their practice of allowing only white workers to use guest toilets was criticised.

Although new style industrial relations are still burgeoning at Foodcorp, the third-largest food company in the country, it got the biggest individual slice of the investment pie.

The company's commitment to abolishing racial discrimination by ordering the opening of all canteens and toilets and by establishing social clubs for the use of all employees won it kudos.

Clothing company, Lenco, was chosen primarily for its job creation record: in four years it has expanded its employment threefold. An engineering company, Hudaco, and an electrical company, Delta Electrical, were also selected for investment.

At this week's presentation, union representatives questioned the investment in Malbak, which is the holding company of South African Druggists where unions have problems organising.

Despite problems in subsidiary companies, investment "depends on overall score", said fund manager Leon Campher.

United Tobacco and Clinic Holdings were rejected because of their low product and service ratings: the CGF will not invest in tobacco product manufacturers while Clinic Holdings was rejected because workers have no access to its luxury services.

"The development of private hospitals has also led to the effective privatisation of public health provision, which unions do not wish to finance," Campher said.

Gold Fields mines were rejected for their labour practices and because Rembrandt owns a 40 percent share in GFSA it was also rejected.

# Where are SA's risk takers?

**MONEY TALK**

RAPID industrial development has been described as SA's only real hope of creating enough new jobs to get us out of the present economic quagmire.

The big question is, of course, how to truly get development off the ground.

Our own industralists are at present more interested in survival than in investing.

It has been stated over and over again that if our own businessmen are not prepared to invest, how can we expect foreigners to risk their money here?

But the problem goes much deeper, points out Jan de Bruyn, senior general manager of the Industrial Development Corporation (IDC).

He said in Durban that while the IDC had sufficient financial resources to stimulate industrial development, it was struggling to find enough entrepreneurs.

The IDC recently announced plans to promote tourism. This is a tremendous growth area as SA, with its weak rand, is a veritable tourists' paradise. However, we are not going to get those tourists if they only see violent TV scenes from SA.

The IDC has been criticised for lending R800-million to Alusaf, the huge aluminium project in Natal. It is also involved in the Columbus stainless steel project.

De Bruyn reckons the IDC, as a state-controlled body, had to promote development big or small. And two of its main objectives are to promote further beneficiation of the country's exports. It is, therefore, in the national interest to back projects such as Alusaf and Columbus. (180)

However, organised business and educationists should consider carefully his remarks about the lack of entrepreneurs.

The answer lies not only in training our people, but also motivating them to take the risks associated with entrepreneurship.

The prospect of high profits is normally the strongest motivating factor and here one can rightly ask whether we are on the right track when the government seems determined to tax all high income earners out of existence.

# Gencor unbundling is still on the cards

BDM 1/2/93 180

**JONO WATERS**

THE unbundling of Gencor remained a distinct possibility, Gencor Beherend chairman Marinus Daling said in the company's annual report for the year ended August 31 1992.

But, Gencor had deferred a decision on the matter as it had to overcome fiscal problems to complete the process at an acceptable cost to shareholders, he said.

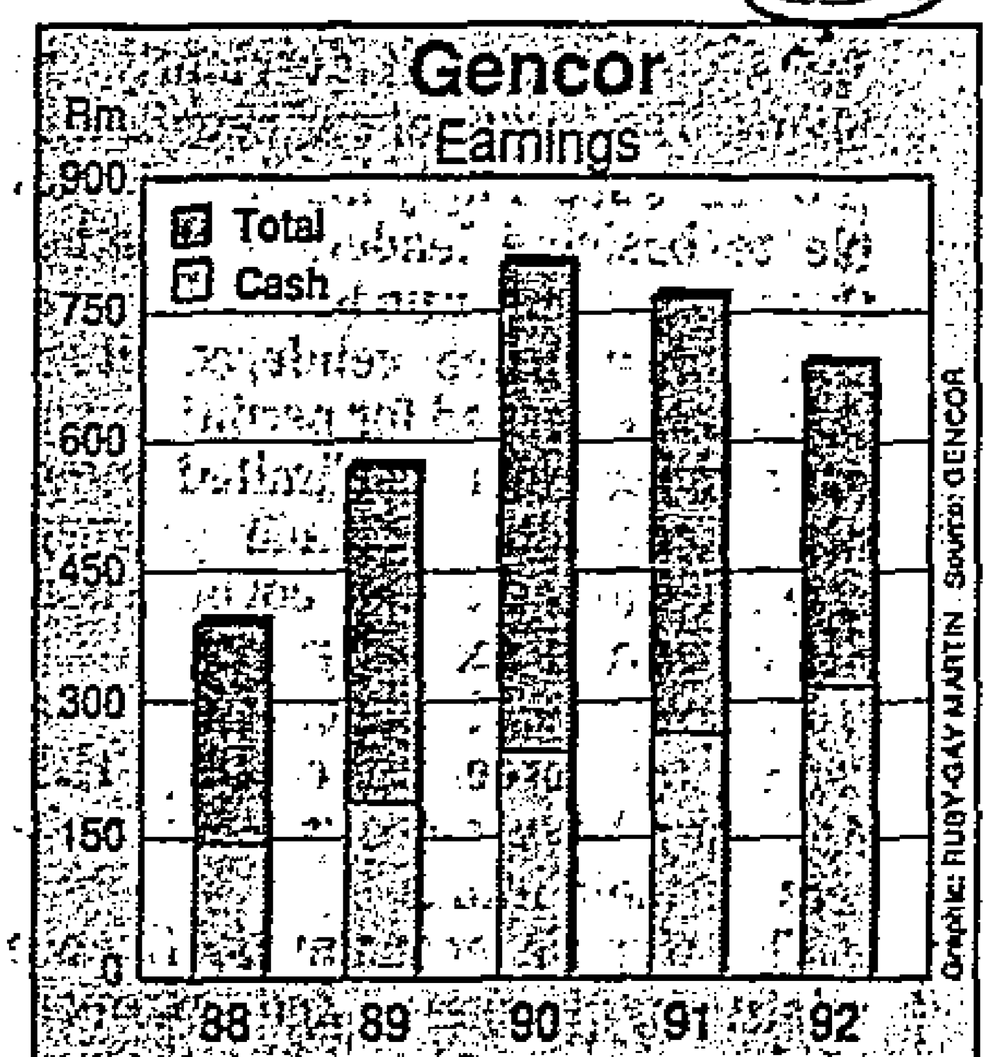
"The Gencor Beherend board will consider the matter in the light of the Gencor board's eventual decision, the timing of which is not possible to indicate at this stage."

Gencor Beherend's only investment is a 54,8% stake in Gencor. The Sanlam group has a 54% interest in Gencor Beherend and the Rembrandt group holds 25%.

Weakness of major world economies resulted in weak demand for Gencor's export products in the past financial year. International commodity prices came under severe pressure and with few exceptions average export prices were down on previous years, he said.

"Limited weakness in the rand/dollar rate provided some relief, but not enough to counter the effects of a stubbornly high rate of domestic inflation."

Trading conditions in the domestic market were difficult as a result of the recession and were aggravated by the drought and political uncertainty. But Gencor divisions were well positioned to benefit from the next upturn, by advancing or completing major projects and important strategic acquisitions.




Daling said the current year would be difficult for Gencor as the economy was not expected to improve and earnings were likely to be lower. But, Gencor's businesses were healthy and investments made over the past year provided the group with a sound platform for the future.

At the end of the financial year, Gencor had R2,4bn in liquid financial resources for investment in growth projects, he said.

# Momentum forecasts cut in company tax rate

(180)

BDay 2/2/93

COMPANIES could expect a lower nominal tax rate once an interim government was installed, but individuals would not be as lucky, the Momentum Life quarterly bulletin forecast yesterday.

Predicting possible economic policy over the next three years using a "middle road" scenario, the bulletin said individuals could expect tax rates at least to remain the same between now and 1995.

"The need to reduce the relative size of the deficit, coupled with pressing socio-economic spending priorities, will make a material reduction of personal tax rates very difficult in the 1994 and 1995 Budgets," the bulletin said.

In addition, the introduction of some form of redistributive taxes such as capital gains or capital transfer taxes was likely in the same period.

Nominal corporate tax rates, however, were expected to be lowered in March 1994 to spur investment.

The bulletin said one way to cut the deficit — this was forecast to be around R23bn at the end of the 1993/1994 Budget year — was through an arrangement with the IMF.

ANDREW KRUMM

"The interim government should be able to negotiate a standby facility with the IMF in late 1993," it said. As part of any arrangement, a new government would undertake to reduce its budget deficit over the following fiscal years.

The bulletin also forecast a new government would probably maintain the independent status of the Reserve Bank.

"This will ensure positive real short-term interest rates, and prevent structural inflationary pressures in the SA economy from pushing the inflation rate beyond 15% at any stage during the forecasting period," it said.

The review added that another debt agreement between SA and its creditor banks was probable in 1993, which should allow debt inside the net to be repaid at the same pace as at present.

On the subject of economic growth, the bulletin forecast the economy would recover weakly in late 1993, and grow in 1994 and 1995 — if only at a subdued pace.

# Property buyers advised on how to protect interests

BIDAY 3/2/93.

PETER GALLI

PROPERTY buyers have lost a large measure of protection because of legal changes to the "voetstoets" principle and should insist on warranties in writing, says Werksmans attorneys partner Stan Bragg.

This follows the most recent Appellate Division decision where the court held that for a seller to lose the protection afforded him under the "voetstoets" clause, it must be proved he was both aware of the existence of a latent defect and that he intentionally concealed this to defraud the buyer, Bragg says.

"The buyer has lost a large measure of protection by the changed legal position. It will be very difficult, if not impossible, to prove fraud on the part of the seller."

The buyer must never rely on the oral assurances of either the seller or his agent. An agent usually has no authority to make oral warranties on behalf of the seller, who can deny giving such warranties and which are excluded by the written agreement anyway, he says.

The buyer should ensure that written warranties specific to the item concerned are included in the sale agreement. An example of this would be to insert a clause stating: "The seller warrants that the swimming pool is not leaking and the filter is in proper working order and both will be in such condition on the date of occupation," says Bragg.

"Such warranties can be included for any aspect of the property about which the buyer is uncertain or dissatisfied...

"If the warranty is breached, it may entitle the buyer to claim a reduction in the price or even a cancellation of the sale," he says.

Another confusing issue was the question of which items in a building were fixtures, and which were fittings that could be removed.

Generally, a movable article that can be removed without damaging either the building or the article — and which has not become an integral part of the building — would be regarded as a removable fitting.

A distinction has been drawn by the courts between an installation that is essential to the functioning of the building and an installation that is related to an activity carried on in the building.

"For example, in a house, doors and windows and probably also the stove are essential to the functioning of the house as a dwelling and thus are fixtures. However, a television aerial is relevant only to the activities of the occupants and is classified as a fitting," Bragg says.

The courts have held that a generally accepted test is to determine whether the person who attached the article to the building intended it to remain there permanently.

# Trend among industrialists to buy premises

BIDAY 3/2/93 (180)

PETER GALLI

THE trend among industrialists to buy and occupy their industrial premises rather than rent them is continuing, says Rhobeta Developments MD Ray Bowers.

"In particular, areas like Strijdom Park have remained popular because of its proximity to the western bypass, the Randburg CBD and several residential areas.

"The last land with industrial zoning rights in Strijdom Park has been developed and, as there is good demand for space in the area and no new space is available, the time is right to launch our Rhodium Industrial Park development," he said.

The park, which offered 7 000m² of rentable space in 15 units, was due for completion by March 31. Two of the units had been let and negotiations were under way for another three.

The security of the area, coupled with security within the development, was a large drawcard to prospective buyers, Bowers said.

The Fontainbleau Centre on Republic Road offered retailers units with an industrial specification at industrial rentals. "This concept, which has been underused in the PWV area, offers a great opportunity to value centres, factory shops and discount outlets," he said.

# Govt awarding smaller contracts

BIDAY 3/2/93.

EDWARD WEST

THE days of multimillion-rand government construction contracts were virtually over, with the emphasis shifting to smaller contracts for essential services, industry sources said.

Murray & Roberts (M & R) Gillis-Mason chairman Adrian Boyd said the civil engineering market had changed in the past few months, with township infrastructure development becoming more predominant at the expense of more conventional infrastructure development such as roads.

SA Federation of Civil Engineering Contractors executive director William Vance said he believed the March Budget would vote substantial funds for uplifting poor communities.

Boyd said supplying services to townships had for years been impeded by bureaucracy and the several "forums" and commissions set up to resolve the problem. "To date no co-ordinated concept of urbanisation has emerged."

M & R suppliers and services director Brian Bruce said the changed emphasis in spending had resulted in the awarding of more small and medium-sized contracts at local and regional government levels.

Although several heavy civils contracts existed in the private sector, they would start only in the second quarter of 1993. These included the Columbus project, the Alusaf smelter, sewerage extensions in Johannesburg and Rand Water Board extensions.

# Jo'burg still has most head offices

(180)

BDay 3/12/93

PETER GALLI

THE Transvaal is still the hub of commerce and industry. More than 70% of the Financial Mail's top 300 companies have their head offices in the region, according to a report compiled by Anglo American Properties (Ampros) research department.

The Johannesburg CBD and periphery heads the list, with 41 or 16% of head offices of the top 300 companies, followed by the area east of Johannesburg (40), Sandton (39), the northern suburbs (27), west of Johannesburg (15), south of Johannesburg (13), Midrand (10), Pretoria (9) and Randurg (7).

The greater Johannesburg area remains the most densely populated head office area. Sandton's rapid growth is reflected in the fact 39 head offices are now located there. Almost 43% of leading beverage, hotel and leisure companies have their headquarters in Sandton, as do 32% of electronic companies.

While the PWV is the strongest area, there are geographically preferred areas for certain commercial sectors, the Ampros report says.

"Towns and suburbs to the north of Johannesburg, including Sandton, Randburg, Midrand, Parktown and Rosebank, are popular with electronic companies, housing 84% of the national total, and 50% of pharmaceutical and medical companies. Towns east of Johannesburg — from Bruma to Springs and Elandsfontein — have the highest concentration of engineering companies at 58% and 36% of those in the electrical and battery sector."

Outside the Transvaal, the western Cape has the highest number of headquarters at 47, with Natal at 30 and the Eastern Cape with seven.

"Cape Town CBD remains the hub of the western Cape with 20 of the region's 47 head offices. This region remains the preferred choice for retailers and wholesalers (39%), clothing, footwear and textile operations (32%) and fishing (50%)," the report says.

Eight of the top 300 companies are outside the major centres in areas including Pietersburg, Vereeniging, Middelburg, Witbank, Ga-Rankuwa and Namibia.

# Knightsbridge sold out in two days

ANDREW KRUMM

GROUP Five Homes launched a fifth Good Address Small Home (Gash) housing development at Knightsbridge in Bruma on the weekend, which sold out in two days, MD Rob Ballentine said yesterday.

"Once again sales were beyond expectation. The 72-unit project sold out over the weekend," Ballentine said. Units were priced from R99 000 and offered facilities such as satellite TV, security, a clubhouse, launderette, pool and gym.

The Knightsbridge development followed the rapid sellout of four previous projects based on the Gash formula.

"At our previous project, the 60-unit Templeton Green in Berea, Durban, people were queueing to buy two-bedroomed units priced from R189 000. The development was sold out in four hours," he added.

All projects were built using fast track methods by Group Five subsidiary Goldstein Housing. "The complexes appeal to young executives and the upwardly mobile element, and attracted a number of property investors, who account for a large proportion of sales."

Group Five Homes planned to launch a second phase at Khyber Rock in Sandton next month. The 24 second and third phase units would be priced from about R298 000.

# 'New' attitude needed

BIDAY 4/2/93

ADRIAN HADLAND (180)

PRETORIA — It is vital that local businessmen reappraise their attitudes towards the competitive process as SA re-enters international markets, says Competition Board chairman Pierre Brooks. (245)

"We are moving from what in many respects is a siege economy to being part of the international community and there is still a lack of appreciation for the way effective competition is supposed to work."

Consumers did not realise that introducing competitiveness did not necessarily mean the immediate lowering of prices, he said. On occasion, such as when the market sharing arrangement between bakeries fell away and increased transport costs had to be included in the price of bread, it could mean the opposite.

Brooks said some businessmen were too selective in their commitment to the private enterprise system and apparently did not recognise an effective competition policy was one of the system's cornerstones. With the Competition Board established only in 1980, SA's economy had a long history of non-competitiveness.

# Big business not optimistic

Sowetan 4/2/93

■ Top executives are deeply divided:

**By Mzimkulu Malunga** (180)

BIG business is deeply divided on the political situation likely to prevail this year.

Contrary to 1992 when the majority were optimistic about positive political developments — which could stimulate business confidence — executives are divided into three groups.

A report compiled by the Bureau of Market Research at the University of South Africa shows that 32 percent of top executives expect the political situation to worsen in 1993 while 31 percent are optimistic and 37 percent unsure.

This is the eighth report on the opinions of the top 100 industrial companies listed on the Johannesburg Stock Exchange.

As for business confidence, 34 percent foresee an increase, 32 percent believe confidence will be eroded and 34 percent does not know what to expect.

An overwhelming majority of executives are anticipating increased pressure to implement their social responsibility programmes.

Many also expect the unemployment figures to remain high as forecasts count on only 0,5 percent economic growth in 1993.

Pessimism about gold, the price of the country's principal foreign exchange earner, is high. The commodity is expected to trade at R1 031 to R1 089.

Though 60 percent expect a decline in strike actions, the labour movement will continue to play an influential role.

**BUSINESS** More co-operation needed with informal sector

# Schlemmer predicts a more stable future

Sowetan 5/2/93

(180)

## POSITIVE ACTION

Businessmen urged to take part in mapping out the future:

By Mzimkulu Malunga

SOUTH Africa's medium-term future will be more stable than currently expected, says general manager of the Human Science and Research Council Professor Lawrence Schlemmer.

Addressing an investment conference in Sandton last week, Schlemmer said the business community should develop a basic coherence to prevalent uncertainties.

"Business must not defend its interests negatively but proactively by insisting on its right to negotiate and be part of the policy formulation that affects it," he said.

Even after a political settlement had been achieved current problems would not disappear, hence it was important for business not to panic but instead put the uncertainty into perspective and speak in one voice.

"The future operating environment will be somewhere between a second and third prize situation, but certainly not the booby prize," he said.

Prof Lawrence Schlemmer

Mike Brown

Speaking at the same conference, Mr Mike Brown, the chief economist at Frankel Max Pollack Vinderine Inc, said South Africa's survival depended on four key issues.

One was setting the economy on a growth path, then creating a climate conducive to investment, finding mechanisms for some form of wealth distribution and employment creation.

Labour-intensive ventures, promotion of small to medium-sized enterprises as well as infrastructural construction in low income communities were some of the mechanisms which could set the economy on a growth path.

"We cannot rely on foreign investment, but it is a critical facet to kick-start the economy," Brown said.

Distribution aimed at stimulating an entrepreneurial culture had to be embarked on. "International experts refer to South Africa as a country of the missing middle," he argued, referring to the absence of a strong middle class.

While it cost R50 000 to create one job in the formal sector, about R15 000 was required in the informal sector.

Mr Ian MacKenzie, national director of a tax consultancy firm, Ernst & Young, said South Africa had to lower its corporate tax if it were to lure in international investors.

The current 48 percent corporate tax rate was among the highest in the world and the medium-term objective should be to cut it to 40 percent.

# Manage the inventory and boost profits

**Danie Botha is managing partner of SMC Inventory in Sandton**

180

FM 5/2/93

**For most** trading and manufacturing businesses, investment in inventory represents one of the largest assets on the balance sheet. But despite current interest-rate levels and high cost of warehousing, insurance and obsolescence, many companies assign a low priority to inventory management. In many instances senior management has very little involvement with inventory — until imbalances in stock levels are finally identified as a major culprit in eroding profitability.

Take, for example, one typical trading company, holding R30m in inventory and turning over R60m a year (at cost). This company spends around R5m a month on replenishing stock. In other words, the company is making a R5m monthly investment and, like all investments, the medium- and long-term repercussions will be significant.

Was this company making the right investment? An examination showed that the answer was clearly no. Investing in the wrong stock had added significantly to excesses, tying up huge chunks of expensive working capital, for long periods, while under-investment in critical stock had resulted in lost sales from stockouts and the ensuing badwill and lost customers.

The company implemented a comprehensive inventory management programme, which succeeded within a few months in getting the inventory investment mix right.

Inventory profiles taken across a variety of industries and companies show a surprising uniformity. In SA, companies holding significant inventories (more than R10m) typically have 25% of their inventory in dead stock, contributing less than 5% to sales; 50% in slow-moving stock contributing 10%-30% to sales; and the final 25% of inventory in fast-moving items making up the core of the business and contributing 60%-90% to sales.

Obviously, when 25%-75% of a company's inventory comprises slow-moving or obsolete items, the bottom line will be hurt.

In the trading-company example, the R30m inventory included R7,5m-R15m in dead or very slow-moving stock. At a cost of capital of 20% (ignoring obsolescence, insurance, warehousing and shrinkage costs), this meant a financing cost of unproductive working capital of R1,5m-R3m a year. Over time, stock write-downs resulted in some tax relief, but the cost remained high.

In addition, while the company was spending too much money on poor stock, it was not spending enough on the quality stock that accounted for the bulk of its profits. This meant lost sales and lower profits.

Very few managers appreciate the cost of stockouts because it's difficult to measure the lost sales. But it's likely that the cost of under-investment in fast-moving stock is about the same as the cost of over-investment in obsolete stock.

For the trading company, this assumption doubled the cost of inventory mismanagement to R3m-R6m a year.

Many managers are unable to manage their inventories well for several reasons:

☐ Conventional stock systems have a limited ability to provide management with the tools to devise an appropriate inventory investment strategy and then implement that strategy at the line-item level;

☐ Insufficient time and effort are channelled into the two areas of greatest uncertainty in inventory management: the forecasting of sales/usage and the prediction of supplier lead times;

☐ Managers usually find themselves too busy with the supervision of day-to-day trading and manufacturing activities to devote enough time to inventory issues; and

☐ Personnel involved with inventory policy setting, inventory purchasing and other critical areas of inventory management are often not qualified.

To manage a company's inventory effectively, managers must be given the training and technology to develop and carry out an inventory investment strategy that dovetails with the overall corporate objectives.

Inventory is so much a part of the daily lives of managers that they tend to forget how much it contributes to costs and to profits. But as the MD of the trading company in the example says: "In a recession, with high working capital costs, there are clearly few other areas in the operation of a business that afford the same opportunity to improve the bottom line as immediately as the implementation of an effective inventory management programme."

FM 5/2/93 (180)

DELISTINGS

# In full flood

**It would** be encouraging to read the fractionally lower number of delistings in 1992 as a sign that the trend, which started in 1989, of declining JSE quotations has bottomed. Sadly, that's not the case. Last year's 57 delistings were two fewer than in 1991, but with only 12 new shares appearing on the board the net loss to the JSE was 45 companies, compared to 43 in 1991.

Added to that are two delistings — Claw Investment Holdings and Buffalo Corp — which have taken place this year. And shares of 18 companies, including Tollgate Holdings, are suspended, the majority while liquidation procedures are finalised. Most will leave the boards over the next few months, indicating the high level of delistings will continue for the first quarter of the year at least.

There are now about 679 companies listed on the JSE, compared with 728 a year ago. But, even if the trend of declining membership is not yet about to reverse, at least it has slowed dramatically.

One factor influencing this seems to be that most of the chaff which came to the market during the listings boom of 1986-1987 has gone. In 1991 more than three-fifths of the companies delisted were from the yuppie investment period in the two years before the market crashed. Last year, slightly more than 45% of the delistings came to the market during 1986-1987.

About half that percentage left ignobly: liquidated; in contravention of the Stock Exchange Control Act; or as expired cash shells. That's still a large casualty list, and in the end means some shareholders have lost money.

Less than half 1992's delistings — about 24 companies — are what the JSE considers "straight delistings," that is, shares belonging to companies which failed financially or were in contravention of listing requirements or sections of the Stock Exchange Control Act. The rest came about through takeovers and mergers, restructurings, and often buy-outs of minorities to secure control or to enable a holding company to delist a subsidiary, not uncommonly followed by the holding company itself d[illegible]ng.

That's a symptom of the weak economy. The failures are not necessarily a bad thing. JSE president Roy Andersen says while it is sad to lose a listing, the overall effect is that the quality of companies on the market is improving.

It seems the issue is not so much the JSE's listing requirements — which were tightened last year, with financial thresholds raised — but the inability of companies to sustain earnings. That's behind many of the 1986/1987 failures, and in part reflects on the accounting profession, merchant banks and brokers who helped list the companies.

But the low liquidity of the market must also be making companies question the validity of listing, or retaining a listing. Andersen would like to see this improve, but notes the usual obstacles, including marketable securities tax, uncertainty about the tax status of shares and foreign exchange controls.

The JSE is launching an extensive education programme aimed at luring back the small investor.

This year's list shows mining shares to be the hardest hit, though it's misleading because at least three were incorporated into new groups through schemes of arrangement. Waverley Gold Mines, which didn't mine but held mineral and mining rights, received an offer from Knights Gold Mining, while marginal mines Libanon and Venterspost were absorbed by Kloof.

Many other delistings resulted from competitors or holding companies taking out minorities. NTC, on the board since 1944, was delisted along with its holding company, while Hudaco took out the minorities in Valhold and Valard and Clicks Stores took out minorites in Musica.

There were the usual quirky transactions. Columbia Consultants, which in 1991 took out the minorities in Pride Consultants, delisted itself towards the end of last year, paying a distribution *in specie*.
Bankorp.

There were the usual quirky transactions. Columbia Consultants, which in 1991 took out the minorites in Pride Consultants, delisted itself towards the end of last year, paying a distribution *in specie*.

Some old companies left the market, notably Waverley Gold Mines, listed since 1902. Other listings proved ridiculously short, like Saambou Properties, which came to the market in February 1991 and delisted just 20 months later. It seems Saambou Holdings, after arranging its property interests in a separate listed company, found the share did not have a sufficient spread and was hardly trading.

This year will probably not see much easing of the delistings trend. Besides the suspensions mentioned, which should keep the listings department busy for the next few months, the JSE is adopting a stricter approach towards companies that report late. It is also taking a harder line on cash shells. Two companies have had shares suspended for reporting late and could face automatic delisting.

*Shaun Harris*

FM 5/2/93 (180)

## DELISTINGS OF 1992

| Share | Sector | Year listed | Date delisted | Comment |
|---|---|---|---|---|
| Adprom Holdings | Electronics | 1986 | Jan 20 | Offer to minorities |
| Euravest | Ind hold | 1988 | Jan 21 | Offer to minorities |
| National Trading Hold | Engineering | 1987 | Jan 24 | Offer to minorities |
| NTC | Engineering | 1944 | Jan 24 | Offer to minorities |
| Pennypinchers Boards | Retail | 1987 | Jan 31 | Offer to minorities |
| Vadek Paints | Retail | 1987 | Feb 11 | Stock Exchange Control Act |
| Darling & Hodgson | Ind hold | 1973 | Feb 14 | Offer to minorities |
| Filati Holdings | DCM | 1987 | Feb 18 | Stock Exchange Control Act |
| Fintech Informatics | Electronics | 1986 | Feb 28 | Termination of 10% prefs |
| Grant Andrews | Furniture | 1987 | Feb 28 | Termination |
| Lanchem | DCM | 1949 | Mar 10 | Stock Exchange Control Act |
| Valhold | Engineering | 1986 | Mar 13 | Scheme of arrangement |
| Valard | Engineering | 1947 | Mar 13 | Scheme of arrangement |
| Masterbore | Engineering | 1987 | Apr 1 | Stock Exchange Control Act |
| Rand London Corp | Mining hold | 1989 | Apr 7 | Stock Exchange Control Act |
| Placor Holdings | Ind hold | 1968 | Apr 10 | Scheme of arrangement |
| Rico Breweries | VCM | 1989 | Apr 14 | Stock Exchange Control Act |
| Transvaal Distillers | DCM | 1987 | Apr 14 | Stock Exchange Control Act |
| Lyntex Transport Ex | DCM | 1987 | Apr 21 | Stock Exchange Control Act |
| Waverley Gold Mines | Gold — Wits | 1902 | Apr 30 | Scheme of arrangement |
| Longmile | Ind hold | 1987 | May 22 | Scheme of arrangement |
| Pleasure Foods | Bev, hotels & leis | 1985 | May 22 | Scheme of arrangement |
| Kemtrade Holdings | Pharmaceutical | 1986 | Jun 2 | Liquidation |
| Europa Acceptances | Retail | 1968 | Jun 9 | Liquidation |
| Elcentre Group Holdings | Electronics | 1987 | Jun 16 | Redemption of shares for cash |
| Pennypinchers Holdings | Retail | 1986 | Jun 19 | Redemption of shares for cash |
| Elsburg Gold Mining | Gold/west Wits | 1966 | Jun 19 | Voluntary winding-up |
| New Company Invest | VCM | 1990 | Jun 30 | Financial position of company |
| Kanhym Investments | Food | 1969 | Jul 10 | Merger with Fedfood |
| Money & Mangement Hold | Banks & Fin Serv | 1987 | Jul 21 | Financial position of company |
| Bankorp | Banks & Fin Serv | 1963 | Jul 24 | Takeover by Absa |
| Sun Packaging Holdings | Paper & pack | 1986 | Jul 31 | Scheme of arrangement |
| Sun Packaging Invest | Paper & pack | 1988 | Jul 31 | Scheme of arrangement |
| Biopolymers | VCM | 1990 | Jul 31 | Scheme of arrangement |
| Vansa Vanadium SA | Metals | 1986 | Aug 4 | Expired cash shell |
| Drop-Inn Group Holdings | Retail | 1987 | Aug 7 | Scheme of arrantement |
| Barbrook Mines | Gold/curt ops | 1987 | Aug 11 | Final liquidation |
| Modder B | Gold — Wits | 1985 | Aug 18 | Final liquidation |
| Haib | Mining exp | 1985 | Sep 1 | Financial position of company |
| Goldfields Industrial | Engineering | 1956 | Sep 14 | Offer to minorities |
| Frigate Group | Mining — coal | 1989 | Sep 15 | At request of directors |
| Musica | Retail | 1988 | Sep 18 | Offer to minorities |
| Sage Property Holdings | Property | 1987 | Sep 18 | Scheme of arrangement |
| Sage Holdings | Banks & Fin Serv | 1969 | Sep 18 | Scheme of arrangement |
| Libanon | Gold/west Wits | 1936 | Sep 18 | Scheme of arrangement |
| Venterspost | Gold/west Wits | 1934 | Sep 18 | Scheme of arrangement |
| Genrec Holdings | Engineering | 1974 | Oct 9 | Offer to minorities |
| Norimed | Pharmaceutical | 1949 | Oct 23 | Redemption of ords |
| Dukel Holdings | Motor | 1987 | Oct 27 | Expired cash shell |
| Leegall Clothing | Clothing | 1950 | Nov 10 | Final liquidation |
| Computermatic | Electronics | 1986 | Nov 12 | Expired cash shell |
| Saambou Properties | Property | 1991 | Nov 27 | Offer to minorities |
| Transvaal Clothing | Clothing | 1987 | Nov 27 | Voluntary liquidation |
| Noristan Holdings | Pharmaceutical | 1988 | Nov 27 | Conversion of ords into unlisted prefs |
| Shield Trading Corp | Retail | 1987 | Nov 27 | Offer to minorities |
| Columbia Consultants | Banks & Fin Serv | 1986 | Nov 27 | Distribution in specie |
| Tedelex | Electronics | 1969 | Dec 11 | Scheme of arrangement |

FM 5/2/93 (180)

Star 5/2/93

# W & A intends to hold on to core retail interests

(180)

By Stephen Cranston

W&A deputy chairman Hennie van der Merwe.

Speculation that W&A will spin off its retail interests and concentrate on manufacturing are incorrect, says W&A deputy chairman Hennie van der Merwe.

He says that certain retail operations, particularly furniture retailer the JD Group and the shoe chain Safshoe are core businesses as W&A is committed to reinforcing its position in mass consumer markets.

Nevertheless, W&A has identified seven or eight companies for sale, and the sale of one of these companies had been conditionally agreed.

The asset sale should proceed more quickly now that the future of the group has been assured by Trencor's decision to invest R350 million into the group as part of a R500 million rights issue.

## Bargain hunters

Previously, prospective buyers of group companies were hoping to get a better price as W&A got deeper into debt and more desperate for money.

Possible candidates for disposal include outfitter John Craig, direct selling operation Housewares Exclusive, Sembel-It and two small textile converters, the Fabric Library and W&A Textiles.

The 31 percent stake in consumer electronics retailer Milstan is also up for sale.

The toy division Metrotoy and to a lesser extent the tools division Tarry Group fit least easily with the core businesses, which are strongest in scaffolding, bolts and tyres.

W&A is likely to hold on to coal distributor MacPhail which has produced good cash flows for the group but which operates in an area with limited growth and no synergies with the rest of the group.

Trencor chairman Neil Jowell says that the investment in W&A will not dilute Trencor's own focus on road transport and trailer manufacturing. He says Trencor will remain a separate entity with decentralised operations.

He says the purchase of the stake in W&A was the best use to which Trencor could put its funds as it is more difficult to invest in overseas businesses because of Reserve Bank restrictions and Trencor's existing businesses overseas are already stable and well-funded.

Locally, Trencor's businesses already have a large presence in their markets and operate in mature industries.

Trencor had sufficient cash resources to invest R350 million as it had R165 million in cash at June year-end and received R210 million from Consol for its 26 percent stake in Tredcor.

Jowell says that W&A's operations have performed well in difficult markets during the last two to three years and will benefit appreciably from any upturn.

## FANTASY GAPS: *Share prices too high*

Star 6/2/93

# Beware of the pink elephants

(180)

**FINANCE STAFF**

FORGET the bulls and bears. The most dangerous creatures on the stock exchange for 1993 are pink elephants. Or — as Dee Campouroglou, market analyst at Frankel Pollak Vinderine Inc terms them — fantasy gaps.

Campouroglou was one of the speakers at The Star First National Bank Investors' Club meeting held on Thursday.

According to her, the "fantasy gaps" refer to the discrepancy between real returns on earnings and current stock market prices.

"So far in the '90s the traditional relationship between equity prices and the real economy has become distorted ... Despite the recession and an overall negative real earnings growth, the market has powered ahead."

She shows that over the last three years these fantasy gaps have continued to widen.

"Industrials are the most overheated in terms of expectations. There has to be a 20 to 30 percent growth in earnings to justify the prices we are seeing now ...

"The risk-return ratio is high, and this sector is the one most likely to experience a blow-off scenario later in the year. Be particularly careful of equity markets towards the end of the year."

She also predicts that the sector leadership is likely to change. Areas most likely to benefit earliest by some economic recovery would be supply companies in building and construction, chemicals and oils, furniture, motor cars and stores. This could be followed later in the year by growth in electronics and possibly sugar. Specific recommendations include Anglo Alpha Cement, PPC, Sasol, Engen, M&R Holdings, Malbak, Ellerine, Toyota, Holdains, CNA Gallo, Edgars, McCarthy, Wooltru, SFW, Suncrush and M-Net.

Mining and mining financials show the smallest fantasy gaps, and these sectors are the ones she particularly favours for 1993.

Her specific share investment recommendations are De Beers, Anglo American, JCI, Genbel, Middle Wits, Amgold, Palamin and Samancor. She notes that there has already been a strong appreciation in these shares recently, and predicts further improvement.

Frankel Pollak Vinderine's forecast for economic growth in 1993 is put at a negative 0,5 percent, which is an improvement from last year's decline of 2 percent.

One reason for this low forecast is the prolonged drought. In addition, the restrained monetary policy of Reserve Bank Governor Chris Stals is not providing economic stimulus. Investor confidence continues to be eroded by adverse political developments, the firm says.

However, the potential for a workable political accord could turn this situation around. The firm is forecasting that the inflation rate will drop to an average of 10,2 percent and the Bank rate to 12,5 percent.

The rand is likely to drop from R3,05 (at the end of last year) to R3,55 to the dollar. Ironically, Campouroglou notes that the negative outlook for the exchange rate is a positive force for equity prices. She suggests this is the first key for investment in 1993.

The second key to investment is the improvement in the world commodity index. This, she feels, should start picking up towards the end of the year. Because the world markets impact almost immediately on our own, the upwards growth rate in the US holds positive benefits for SA.

JOB MARKET

# Industrial councils throttling small businesses

S/Times (BUSS) 7/2/93

(180)

By CIARAN RYAN

ABRAHAM ADAMSON, owner of A&A Motor Spares in Athlone, Cape Town, was dealing with a client in June 1991 when the sheriff of the court walked in and seized 21 gearboxes and various other movable assets.

His crime was failing to pay two of his 14 employees the overtime rate stipulated by an industrial council which a few weeks previously he never even knew existed — the Industrial Council for the Motor Industry, which determines minimum wages, overtime, leave, bonuses and other working conditions for workers in the motor industry.

This is one of 90 industrial councils in SA representing 800 000 workers.

Mr Adamson borrowed R3 000 from the Small Business Development Corporation (SBDC) to pay the industrial council and keep his business afloat. He was forced to lay off nine employees, most of whom have little chance of re-employment.

## Levies

He is still under a three-year suspended sentence for failing to pay Unemployment Insurance Fund contributions of R1 500.

"Before this I knew nothing about UIF," says Mr Adamson. "I am a small employer. I can't afford to pay these council levies. My employees also don't want to pay levies because they know they will get nothing back from the industrial council.

"Either I pay them below the minimum wage or I close my doors and they lose their jobs. They prefer to have their jobs."

It is alleged that some industrial councils are using spies to keep tabs on small businesses.

Fortunately, Mr Adamson still has his business. Less fortunate was Sallie Solomons, owner of Cape Town clothing company Mosallo CMT, who was forced to close his business and lay off his 18 staff after the Industrial Council for the Clothing Industry demanded backpay and provident fund levies amounting to R7 700.

His staff signed a letter that they were happy to work for R160 a week instead of the council's minimum R200, but this was rejected by the council.

"They arrived one week and told me I was underpaying my staff," says Mr Solomons. "A few weeks after my first contact with the council, I was out of business.

"They sent the sheriff round to my house to value my furniture in case I didn't pay. They do not seem to care that the people they are supposed to be representing lose their jobs."

Johan Naude, an SBDC senior manager, says he is aware of 10 cases in the Western Cape where businesses were liquidated by industrial councils over the last two years, generally for non-payment of levies.

## Monopoly

"The industrial councils represent enormous vested interests — there are the large employers on the one hand, who are happy to drive smaller competitors out of business by insisting that they pay the same labour rates as they do, and the unions on the other, who want to make sure that they have the monopoly on labour."

David Matthews, a painting and roofing contractor employing 50 workers, has a criminal conviction because he worked on a Saturday.

He was so incensed with the conviction that he got together with like-minded contractors and formed the Small Builders Association "as a self-defence organisation to protect ourselves from the predatory ravages of the industrial council".

## Objectives

The association then took a seat on the Industrial Council for the Building Industry (Western Cape) to represent the interests of the small builder.

"We wanted to do battle with the vested interests from within.

"The implementation of the industrial councils system in the 1920s was the first nail in the coffin of free enterprise in this country," says Mr Matthews.

"The real objectives of the system — such as harmonising industrial relations — were used as an excuse by the vested interests to obtain monopolistic powers over their competitors from the Department of Manpower in order to stifle competition and extort levies from non-party employers and employees alike."

A few weeks after opening his new business, Dennis Slyper, managing director of a Nelspruit furniture manufacturer, Linden Industries, was approached by a representative of the Industrial Council for the Furniture and Bedding Manufacturers Industries and informed that his workers were required to possess council "tickets".

"I was then told that to get a ticket an employee had to have worked in a company which was a member of the council," says Mr Slyper.

## Permission

"I interviewed 2 000 people to fill 22 vacancies and not one had a ticket. When I told the council official this she replied: 'That's okay, we don't worry too much about tickets these days.'

"Then they told me that I am underpaying some of my staff. If I want my staff to work overtime I have to apply to the secretary of the council for permission.

"They want to tell me when I can open and close my factory at Christmas. These people are killing employment.

"If I comply with these rules I will have to close down my company."

Tim Cawood of Annie's Creations, which won an entrepreneurial award in 1992, has been threatened with closure unless he joins the industrial council system in East London.

## Agreements

He says he would rather risk imprisonment on the grounds that basic rights, such as the right to work and freedom of association are being violated.

The right of industrial councils to make agreements which are binding on non-council members is being challenged in the Cape Supreme Court by the National Independent Employers Association of SA (NIEASA).

NIEASA, with a membership of about 100 companies, was formed last year to challenge the right of the industrial councils to make agreements which are binding on employers and employees who are neither consulted nor signatories to the agreements.

"This case is one of the most important in SA's legal history from a labour relations point of view," says Mr Naude.

The Industrial Registrar, who oversees the councils, does not possess a single copy of the legal application forms required to register the Building Industrial Council (Western Province), according to Mr Matthews.

He says the contents of the required forms would disclose the council's illegality.

## Intervened

Seven companies escaped prosecution in the Cape magistrate's courts when the industrial councils concerned were pressed for proof of their legality.

"We intervened in these cases and asked the industrial councils concerned for further particulars, including a copy of the original application forms for registration as required under the 1937 Act," says NIEASA secretary Horst Peschkes.

"The councils, unable to supply the information we required, withdrew their cases because they began to realise that what they were doing was illegal."

# Amic, Anglo are 'tidying up'

B/Day 9/2/93 (180)

EDWARD WEST

THE consolidation of construction group LTA into Anglo American Industrial Corporation (Amic) might reflect a change in strategic thinking inside Anglo American and Amic, suggesting further streamlining of cross-shareholdings is in the pipeline.

Amic chairman Leslie Boyd yesterday confirmed that cross-shareholdings between Anglo and its industrial holding company were being reviewed. The process, involving a "steady tidying up" of shareholdings, would not be fast.

Amic yesterday announced the acquisition of a 48,8% interest in construction group LTA from AA to bring its stake in LTA to 71,6% from 22,8% to simplify its control structure, set up clearer reporting lines and demarcate management responsibility and accountability.

LTA financial director Jimmy Oosthuizen said LTA's consolidation meant it moved from being an associate to a subsidiary of Amic. The move was not likely to affect operations, but would probably mean LTA's financial year-end would change from March to coincide with Amic's in December.

LTA's consolidation was effected by Amic acquiring 13,13-million LTA shares in exchange for the issue to Anglo of 1,06-million new Amic shares. LTA and Amic shares were valued at R5 and R61,70 respectively.

The deal was not expected to have a significant effect on either firm's net asset value or earnings a share. However, the new shares issued to Anglo could affect its debt-to-equity ratio.

Other operations held jointly by Anglo and Amic are Mondi, NTE and Tongaat-Hulett.

# Sacob trims its growth forecast

STAR 9/2/93

By Sven Lünsche (180)

The SA Chamber of Business (Sacob) has scaled back its economic growth forecast for this year in response to evidence that the economy has weakened once more since the beginning of the year.

Presenting the Chamber's Business Confidence Index (BCI) for January, chief economist Dr Ben van Rensburg said recent developments suggested that economic growth was unlikely to exceed 0,5 percent. In December he had forecast one percent growth.

"The lower growth prospects are supported by the performance of certain key economic variables in the past two months, which have sunk back after improving in preceding months," Van Rensburg said.

The most striking feature is the renewed sharp reversal in retail sales growth since October last year. The Central Statistical Service expects retail sales in January to have shown a sharp 7,2 percent drop.

This, in turn, is expected to work its way through to manufacturing production volumes, which have already fallen slightly from positive growth of 0,4 percent in October to a decline of 1,8 percent in November.

Other evidence of a renewed downturn include the weaker new car sales in January as well as the BCI itself, which fell to 92,9 in December and January from 93 in November.

Business confidence in November showed a strong improvement on indications that the economic downturn had bottomed out in the fourth quarter of last year.

Van Rensburg ascribed the renewed pessimism to a general scaling down of growth expectations after much of the year-end optimism was based on the "bunching of both production and sales as a result of disruptions to the economy in August".

He lists five key factors that would determine the level of economic growth this year:

- Progress on the political front.
- The levels of violence.
- The performance of the world economy.
- Prospects for the agricultural sector.
- The extent to which the Budget will promote or hinder economic growth.

The Budget in particular is seen as a crucial determinant of economic prospects.

Sacob director general Raymond Parsons says: "The Budget proposals could move the economy from intensive care to the recovery unit or to the morgue."

Sacob says the government will have to reduce the expected R30 billion (nine percent of GDP) deficit in 1992-93 to about six percent in 1993-94 through a combination of cuts in spending and increases in taxes.

PROPERTY

# Relocation should suit workers' needs

PETER GALLI

COMPANIES looking to relocate their offices should not be driven by cheaper rentals or incentives alone, but should consider a number of other issues, commercial brokers say.

"A bad decision could affect staff morale, undermine productivity, result in high overheads and seriously reduce profitability. Despite this, many decisions are based on insufficient information, inadequate investigation and a weak knowledge of the leasing market," says J H Isaacs Transvaal office leasing and sales director Steven Kesler.

Relocation needs to be seen as a strategic opportunity as it allows the company to reposition itself in relation to its competitors, revitalise the organisation and improve communication within the company and the market at large, he says.

Russell Mariott & Boyd Trust director Stan Arenson says the trend for many company directors to relocate their premises close to their homes has to change, as staff needs should be taken into consideration.

"Many families do not have two cars and the location and accessibility of the new premises to transport routes is essential.

"Also, while salaries are the greatest expense for many companies after the rent bill, the possible expense from the loss of staff productivity needs to be weighed against the rental savings before any decision is taken," he says.

Kesler agrees, saying staff needs are a top priority. Moving staff to attractive premises far from home and not easily accessible can do more harm than good.

"Another main criterion should be where the majority of its clients are situated. Exposure is another salient issue as some companies prefer to keep a low profile while others need to be located in a high traffic area where they enjoy greater visibility," he says.

Mortimer Property Group MD Paul Maddison says most tenants pay a lot of attention to what is involved in any relocation and do not base such decisions on a whim. "However, in many cases if one looks at the area to which the company is relocating, it is surprisingly close to where the director lives. The question here is whose travelling time is more important and needs to be reduced: top management's or the staff's?"

# Unbundling 'to feature in Keys reform deal'

BDAY 10/2/93. [redacted] (186)

LINDA ENSOR

CAPE TOWN — The unbundling of conglomerates was likely to be part of the economic restructuring programme to be announced by Finance Minister Derek Keys shortly, Board of Executors (BoE) senior portfolio manager Rob Lee said yesterday at a seminar on asset management in the future SA.

He said a great deal of unbundling could be expected in the next few years. This would act as a compromise with the trade unions which would be required, in return, to reduce their wage demands to make the economy internationally competitive.

Lee believed restructuring would require the support and co-operation of all parties in the national economic forum.

Other likely components of the package forecast by BoE were: cutbacks in state spending by reducing the public service salary bill; prescribed investments for the life industry to fund housing and electrification programmes; the abolition of tariff protection and exchange controls and the phasing out of the financial rand; the promotion of manufactured exports and tourism; the achievement of positive real interest rates; and tax reform.

Lee was confident that inflation under a new government would not reach as high as 20% because Reserve Bank Governor Chris Stals had laid the foundation for low inflation and was committed to sustaining it. He had gathered from private talks that the ANC would like Stals to continue as Governor when his term ended in 18 months and that Stals had indicated he would do so.

Lee said the ANC recognised that tax levels were too high and that they acted as a disincentive to growth.

BoE Cape regional director Tom Boardman said it appeared unlikely that a new government would introduce material changes to income tax rates although differential VAT rates could be widened with higher rates applied to luxury goods and food being zero-rated.

A single capital transfer tax, consolidating stamp duty, transfer duty and marketable securities tax were also likely while ad valorem taxes would have to be cut if SA was to participate in international trade agreements.

Estate duty would probably rise to 20% from 15%. Boardman did not envisage great changes to property taxes except for unutilised or undeveloped land.

# Cape manufacturers cautious on growth

CT 10/2/93 (180)

By AUDREY D'ANGELO
Business Editor

MANUFACTURERS in the Western Cape are less optimistic about the coming year than those in other parts of the country, says SA Chamber of Business (Sacob) economist Keith Lockwood.

His January survey of confidence in the manufacturing sector shows "a more hopeful outlook for sales and production" in SA as a whole in 1993.

But, in spite of this, retrenchments are likely to continue. "A large majority of those polled still expect to reduce employment levels."

Lockwood says a "slightly more positive attitude is spread fairly uniformly over most regions, with only the Western Cape remaining fairly cautious about prospects.

"This could be linked to that region's dependence on private consumption expenditure, which is anticipated to remain under pressure for most of the year."

Colin Boyes, deputy director of the Cape Chamber of Industries, agreed with that interpretation.

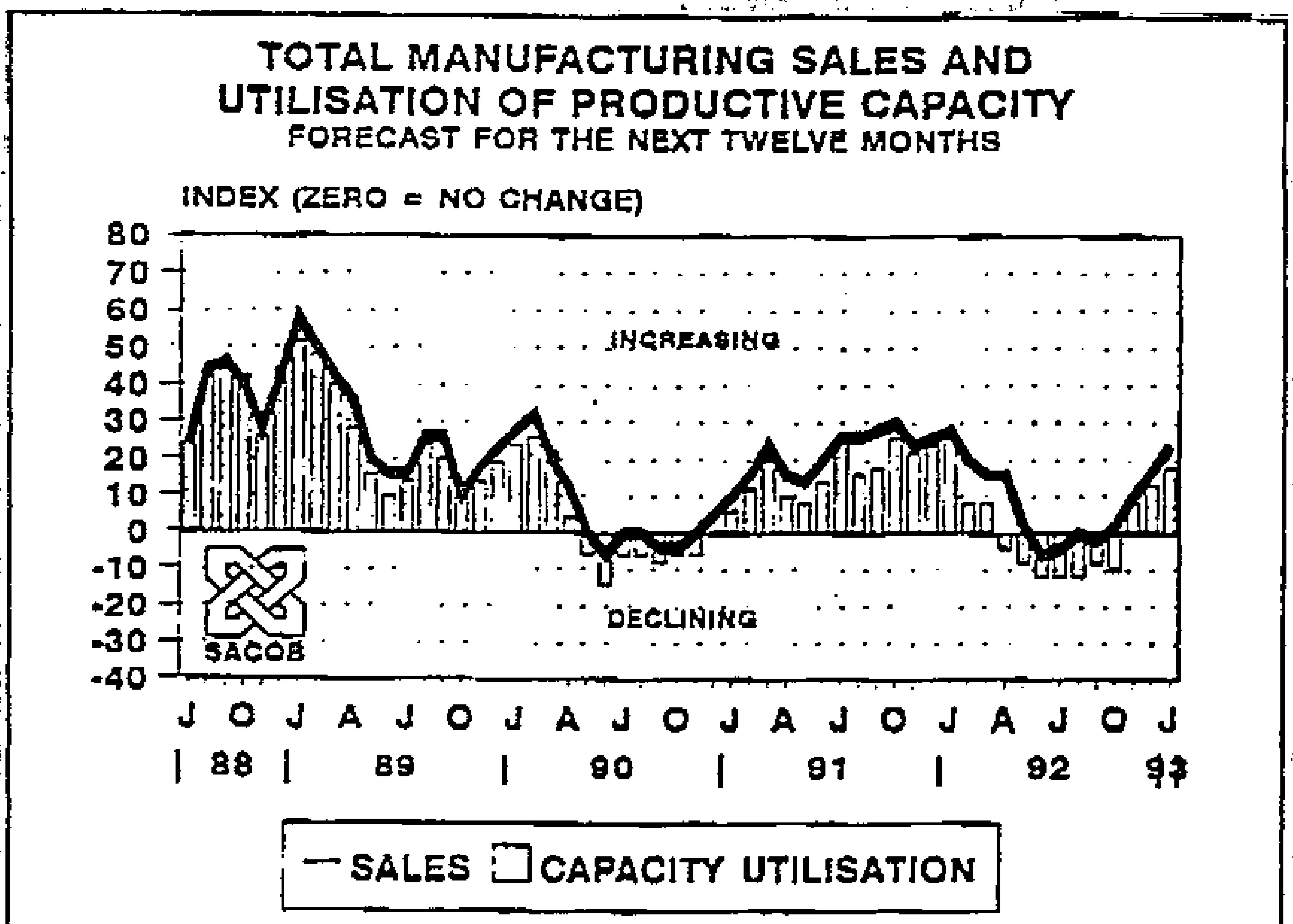
"I was surprised to hear that people in our region were more pessimistic than the rest of the country, because we have been hit less hard by the recession.

"I suppose one reason may be that the other regions see a flicker of hope from a lower base than ours. The PWV area has always been affected by recessions earlier than we are but comes out of them faster.

"Another reason is that a lot of local industry supplies consumer goods. And we know, from results from retail companies, that the consumer is almost blown out of the water.

"Demand even for basic things like food and clothing has withered."

Boyes said feedback from CCI members showed they were more worried about the political situation than anything else. "The need for a political settlement transcends any other problem.




## Further job losses on the cards in '93

"Beside that everything else pales into insignificance."

Discussing the growing optimism among manufacturers in the rest of the country, Lockwood points out that, "because of the nature of production processes and the extent of the investment made, industrialists are forced to take a longer term view of prospects.

"Early signs of a revival will therefore tend to have a more significant impact on perceptions in this sector than may be the case in other sectors."

He says the volume of new orders in January "once again showed an improvement over the previous month, with 52% of respondents expecting order volumes to rise."

But it will be difficult to draw any firm conclusions over this indicator until March.

"Although the figures are usually quite distorted over the December-February period because of year-end shutdowns, it is significant that activity levels in the sector have now risen for five consecutive months.

"The improvements in September were probably linked to a bunching arising from the disruptions of early August, while higher orders in October and November can usually be ascribed to the festive season.

"January usually benefits from some restocking at a retail level and February generally shows an improvement because it is the first full month of operation."

However, "the fact that a large majority of respondents expect the new order intake to be higher in 1993 than in 1992 suggests that further improvements are expected in the months that lie ahead."

### Reduction in incomes

Lockwood points out that "against the backdrop of a further reduction in real personal disposable incomes, and the intention to cut government consumption expenditure in real terms, prospects for higher manufacturing sales must lie largely with increased fixed investment, restocking and export growth."

He says 68% of respondents in the Transvaal, 64% in the Durban and Maritzburg areas and 59% in East London expect higher sales volumes.

But in the Western Cape "the number of respondents expecting an improvement is offset by those expecting a decline which, in view of the industrial profile of the area, supports the view that the demand for consumer goods will remain under pressure."

# Corporate reporting is hamstrung by red tape

BDM 11/2/93.

(180)

**MARGO STEELE**

CORPORATE reporting in SA has been hamstrung by legislation. Group financial statements have foundered on the definition of a subsidiary. Fair presentation has been constrained by linking it to "generally accepted accounting practices".

Corporate reporting has suffered from the emergence of accounting practices developed to maximise the bottom line and minimise the gearing ratio. This manipulating of legislation as a means to a dubious end has impinged on the credibility of corporate reporting.

As custodian of professional accounting standards, the SA Institute of Chartered Accountants (Saica) expedites and monitors developments in accounting practices. Through its accounting practices committee it addresses current and emerging issues and develops and codifies accounting policies from a framework of accounting concepts and principles. Through a continuing research project, carried out on its behalf by Wits University's accounting department, it monitors compliance with the statements of accounting standards issued by the Accounting Practices Board.

The 1988 publication of A Survey of Financial Reporting in SA addressed the topical issues of cash flow information and off balance sheet financing. Corporate management and financial analysts had been aware of the deficiencies inherent in a financial report disclosing information reflecting "movements in working capital. The plethora of literature triggered by the WG Grant bankruptcy in the US identified cash flow information as superior.

The Accounting Practices Board has significantly influenced the reporting of funds flow during the past few years.

This has led more recently to the publication by companies in the SAB group of cash flow ratios, including cash flow per share. While no major research projects in SA have yet established how cash flow ratios can or are being used, research has at least established that cash flow ratios provide information different from related traditional ratios.

On the premise that different information may provide incremental information, the tools of fundamental analysis may have been enhanced by the development of the statement of cash flow information. The concrete reality of cash flow information is at least a proxy for the elusive current value disclosure. Of the companies surveyed in the 1992 publication, only 10 are disclosing current value information.

In the late '80s concerns were being expressed about aspects of company legislation which were adversely affecting the integrity of corporate reporting. The definition of the subsidiary, the statutory limitation on the composition of the group, and the linking of generally accepted accounting practice to fair presentation resulted in a burgeoning of schemes devised to keep liabilities and risk off balance sheet.

Reliance on de jure control and the disregard of de facto control has promoted accounting practices which have become generally accepted but which are not always generally acceptable. Invoking the letter of the law rather than its spirit is a ploy afforded by imperfections in the wording of the statute. The emergence of the controlled non-subsidiary, the joint finance company and the special purpose transaction has tested the integrity of preparers of financial information in the application of substance over form as a fundamental criterion of fairness.

The institute's representation on the standing advisory committee on company law afforded opportunities to take part in formulating proposals for changes to the Companies Act which should result in enhancing the quality of reported information. This participation has seen the recent promulgation of statutes integrating the disclosure requirements of the accounting standards with those of Schedule 4, and the definition of the subsidiary recognising control through "voting rights" rather than mere equity holdings.

While it is not yet certain that this definition will bring all controlled subsidiaries into the fold, it is apparent that the issue of the board's statement of accounting practice AC119 — Accounting for Interests in Joint Ventures — in January 1993 will at least subject all joint finance companies to proportionate consolidation. This, with the stringent disclosure requirements of the 1992 revision of AC110, Accounting for Investments in Associates and Non-consolidated Subsidiaries, will ensure that information about risk in all group activities is disclosed.

SA's membership of the International Accounting Standards Committee — which is committed to the international harmonisation of accounting standards — has afforded it an opportunity to be at the forefront of international accounting developments.

**☐ Prof Steele is head of Wits University's accounting department and co-editor of Saica's Survey of Financial Reporting in SA — 1992. Saica will present its annual CA reporting award next week.**

TRADITIONALLY, financial state-

general, the research reveals a de-

# Sacob calls for debate on exchange rate policy

B|DAY 12/2/93.

180

ANDREW KRUMM

SACOB yesterday called on government to refer discussion of exchange rate depreciation to the National Economic Forum, following calls for devaluation of the rand.

Reacting to an Afrikaanse Handelsinstituut (AHI) appeal to let the rand exchange rate absorb part of the pressure on the balance of payments, Sacob said SA's BoP constraint was a structural problem that had to be addressed "holistically".

Sacob chief economist Ben van Rensburg said exchange rate policy, together with tariff protection and other policies, would have to be set in accordance with any structural adjustment programme that the country could embark on.

At this stage prospects for the agricultural sector indicated agricultural imports would be significantly reduced.

He cautioned that depreciation now would be a "knee-jerk" response.

"A sharp depreciation in the value of the rand would necessitate a rapid creation of money, giving rise to inflationary pressures and create instability in the financial markets."

Van Rensburg said a depreciation of the rand could be regarded as a concession to SA's inability to maintain stability.

However, AHI chief economist Nick Barnardt argued that the nearly R4bn decline in the BoP surplus between March to December 1992 was not related to structural problems in the economy. Domestic overspending and financial indiscipline had been tightly controlled since Reserve Bank Governor Chris Stals took office in 1989, Barnardt said.

Rather, the current pressure on the BoP has arisen from the Reserve Bank's "stated mission" to support the external value of the rand.

The artificial use of a full one-third of existing net foreign exchange reserves to support the rand resulted in the unusual situation of a growing BoP deficit in a deepening recession.

Exogenous influences such as capital outflows and abnormal agricultural imports would not disappear in 1993, and the Reserve Bank would again be "forced" to support the exchange rate at an artificial level.

SA could see a replay of the recent BoP trends. Erosion of BoP surplus could possibly delay the domestic economic upswing by two years.

Should the Reserve Bank allow the exchange rate to decline sufficiently to head off any further loss of reserves, such a policy would have a neutral influence on the M3 money supply.

"Within this context BoP and exchange rate considerations would not necessarily present a severe stumbling block in the way of modest decline in nominal interest rates — although any perceptible decline in real interest rates is out of the question," he said.

GENCOR BEHEREND FM 12/2/93 180

# Pedestrian financial performance

**Activities:** *Investment company whose sole interest is ownership of 54,8% of Gencor.*
**Control:** *Sanlam 54%.*
**Chairman:** *M H Daling; MD: B P Gilbertson.*
**Capital structure:** *834m ords. Market capitalisation: R7bn.*
**Share market:** *Price: 840c. Yields: 4,8% on dividend; 10,6% on earnings; p:e ratio, 9,4; cover, 2,2. 12-month high, 1 115c; low, 770c. Trading volume last quarter, 2,5m shares.*

| Year to Aug 31 | '90 | '91 | '92 |
|---|---|---|---|
| Dividend income (Rm) | 257 | 277 | 322 |
| Taxation (Rm) | 2 | 1 | 1 |
| Attributable income (Rm) | 805 | 764 | 687 |
| Earnings (c) | 113,9 | 108,1 | 89,2 |
| Dividends (c) | 35,5 | 38,0 | 40,0 |
| Net worth (c) | 975,3 | 1 116,8 | 991,8 |

**Gencor Beherend's** annual report for 1992 is about as inspiring as a visit to the dentist. In other words, it is painfully boring. Of course, the company's sole reason for existence is to hold Sanlam's control of Gencor. Being a conduit emphasises its dullness.

The company's financial performance was understandably pedestrian. Dividend income rose an encouraging 16%; in an inflationary era it is always great to beat the index. But attributable income fell to R687m from R764m: that is a decline of 10%, and occurred because of a reduction of R124m in its share of Gencor's retained income.

And therein lies a tale. Gencor's total retained income fell by R225m, largely because of the mining house's need to subscribe heavily in major capital projects. Beherend itself was obliged to turn to its shareholders to enable it to fund its obligations to Gencor, and raised R1,14bn in a rights issue.

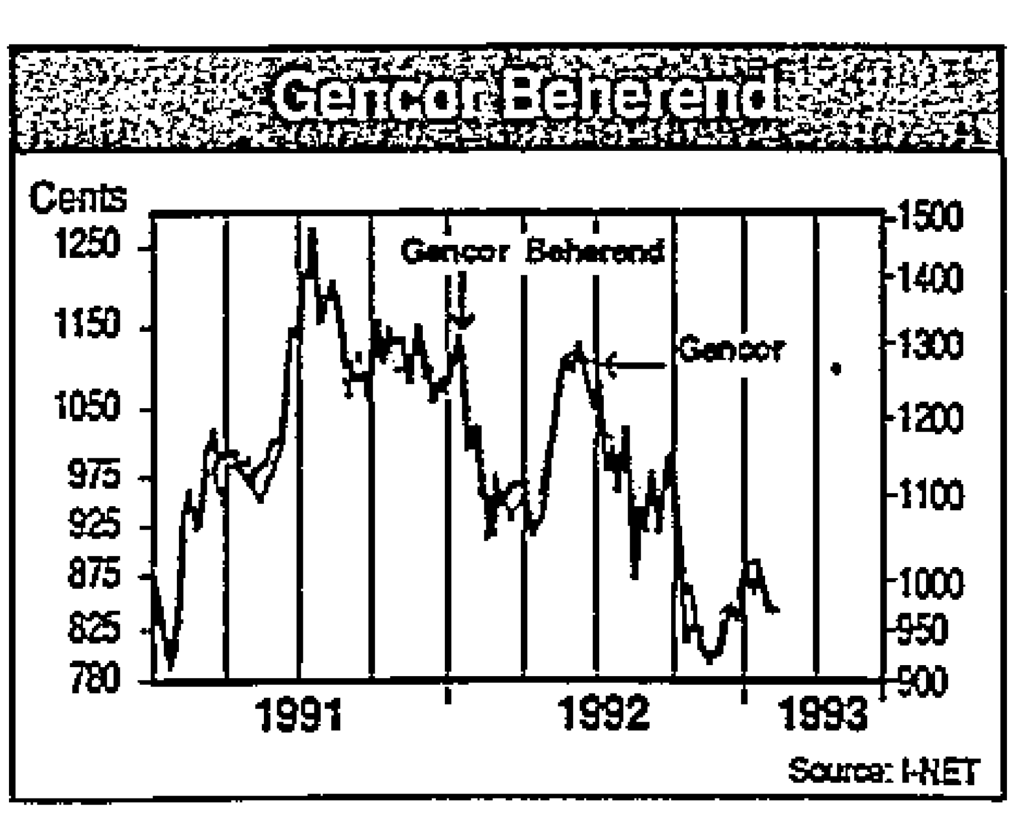
Chairman Marinus Daling carries the same message as most of the industry's captains: demand for Gencor's products declined in another year of international economic gloom. And demand weakness was reflected in sharp falls in world commodity prices. "With few exceptions," complains Daling, "export prices received were well down on the levels achieved in the previous year."

For some reason, ever since Gencor former chairman Derek Keys first expounded on the subject, Gencor companies have found a reference to the question of unbundling *de rigueur*. Daling is similarly impelled in his chairman's statement this year. Unfortunately, he casts no new light on the subject. We are dealing with the matter, he says.

There is little reason for investors to prefer this company to a direct holding in Gencor unless it is because, in the JSE's perverse way, it is suddenly available at an attractive discount to its sole underlying asset.

*David Gleason*

**Beherend's Daling** ... *export prices well down*



BUSINESS No respite for ailing ecor

# Confidence in business takes another knock

(180)

■ Value of rand against the US dollar also a factor:

Sowetan 11/2/93

By Mzimkulu Malunga

DESPITE hopes that economic conditions will improve this year, business confidence declined by 0,1 percent to 92,9 during December and January.

Dr Ben van Rensburg, economic policy director of the South African Chamber of Business (Sacob), this week said the internal political situation, the violence and the performance of the world economy were among the causes.

## Not entirely negative

Eight of the 13 factors which Sacob takes into consideration in its monthly gauging of business confidence contributed to the decline.

Issues, such as the unemployment rate, retail sales, the rand's value against the US dollar, the gold price, companies' performances as well as the volumes of exports and imports, influenced the slump.

Unemployment showed no signs of easing during the past two months, about 4 000 companies went bust during the same period, while the gold price hovered well below expectations and retail sales plummet.

However, the situation was not entirely negative.

The inflation rate dropped below 10 percent for the first time in 14 years and manufacturing production increased marginally.

Though agricultural production is not going to reach anticipated levels, it is expected to be higher than last year, a factor that will have an influence on the entire economy.

## Production will rise

Business is also worried about the continuing Government debt which is expected to be around R30 billion during the 1992-93 tax year.

Van Rensburg says a number of structural constraints are likely to prevent any significant improvement in the economy.

"Sacob believes that it is more important than ever to take all possible measures to rebuild both business and consumer confidence.

"The success of political negotiations and the forthcoming Budget will be crucial in this respect," he says.

# Scheme for export zones to get exemption from VAT

S Times (Buss) 14/2/93. (180)

By CIARAN RYAN

THE government proposes exempting export processing zones (EPZs) from VAT, customs duties and export levies, according to a draft proposal released this week.

EPZ users will be subject to South African laws and all output must be exported from the South African customs area to qualify for EPZ benefits. No tax holidays are planned, as is common in many successful EPZs around the world.

The finance and operation of the EPZs will be left to the private sector. All EPZs must be located within 50km of an airport or international port and approval must be obtained from an EPZ Board.

Normal South African corporate tax rates apply, drawing into question the ability of the proposed EPZs to attract local and, particularly, foreign capital in competition with countries offering generous tax breaks, such as Mauritius, Argentina and Mexico.

The compensation is that EPZ companies qualify for General Export Incentive Scheme (Geis) benefits, ranging from 2% to 19,5% of export value, the Regional Industrial Development Programme (grants equal to 10,5% of operational assets in the first two years and a profit-based incentive for three years) and the Export Marketing Assistance Schemes — all of which are currently available to South African businesses.

Only newly incorporated companies may establish in EPZs, eliminating the possibility of existing firms relocating to take advantage of the benefits.

Non-residents must invest through the financial rand in compliance with Reserve Bank regulations. Dividends, royalties and interest may be remitted in commercial rands.

The obligation to buy and sell assets through the financial rand is a frequently cited reason for SA's inability to attract foreign capital.

## Weak

Low interest loans from the Industrial Development Corporation and financing from the Small Business Development Corporation are also offered as incentives.

The draft proposal on EPZs is unlikely to attract a stampede of investors.

With the exception of exemption on customs duties on imports, export levies and VAT on imports of plant, equipment, raw materials and components — and the implied relaxation of restrictive regulations where this is accepted by local authorities, business and organised labour — the proposal has little new to offer investors and is particularly weak on incentives.

Plant and machinery qualify for 20% depreciation over five years, buildings for 5%, wear and tear on office equipment 10% and motor vehicles 20%. Scientific research qualifies for a 25% deduction, according to the draft proposal.

JOB MARKET

# Why big business does not use the small man

S/Times (Buss) 14/2/93. (180)

By ZILLA EFRAT

MOST South African companies are doing very little to buy from black small businesses or to set them up using entrepreneurial employees, a BMI survey has found.

BMI Industrial Consulting director Clive Mantle says that, except for the few companies that have small business units (SBUs), most SA companies do not do much to foster black business and are not planning to do so.

He claims that most attempts at contracting and sub-contracting to small businesses in SA have been poor and fragmented.

Less than 25 companies have SBUs, although these — and foreign companies operating in SA — tend to be more proactive in this area.

Nonetheless, there have been some successes.

Anglo American, for example, saves at least R5-million a year by contracting services out to small businesses and buying goods from them.

BMI's research — the first of its type in SA — looks at the practices of 108 of the largest local companies and targets 170 respondents.

Mr Mantle notes that 25% of corporations have no plans to introduce projects to assist small businesses.

He adds that many companies are not aware of the benefits of contracting or sub-contracting or how small businesses can be used strategically.

Many companies still see their programmes as "corporate responsibility" rather than just making good business sense.

## Efficient

Mr Mantle says that any scheme must be based on ordinary economic principles or it will collapse in the medium-term.

"A company must buy from a small business because it is cheaper and offers the best service."

Those that do sub-contract successfully often find that their services become more efficient and motivated. There are also less labour disruptions.

However, only 200 to 300 small businesses have been set up in this way.

BMI finds that services account for 58% of what is bought from small black businesses. These could range from cleaning, catering and maintenance to deliveries and photostating.

Manufactured products accounted for 38%. Products and services bought from small black businesses are largely of a simple nature involving low level technology. Small businesses also operate in highly competitive areas with low barriers to entry.

Mr Mantle says this differs considerably from the thriving economies of the Far East, where small businesses supply vital core products to big business. In SA, however, only 20% of the products bought were in that category.

The companies surveyed believed that many small businesses were greatly lacking in the areas of pricing, quality control and costing.

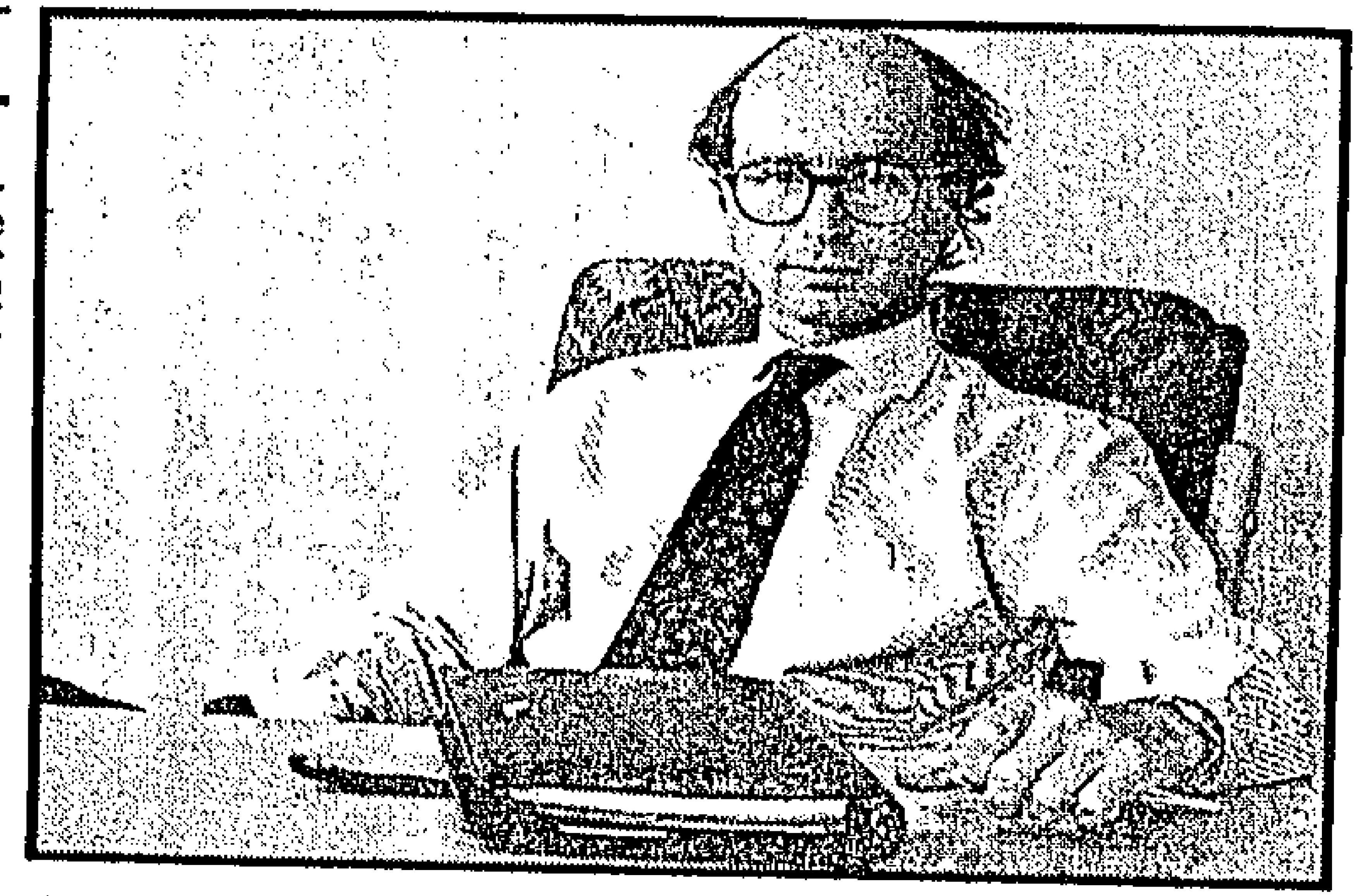
## Culture

A related poll of 200 black businesses reveals a need for training and assistance to enable entrepreneurs to access the mainstream of the economy.

Mr Mantle cautions that contracting and sub-contracting projects do not work unless proper training and financial support is given to entrepreneurs.

To do a proper job, however, a SBU or someone who champions the cause is needed.

Any programme requires top management commitment to the culture and philosophy of assisting small businesses. A company must also be proactive, as small businesses are hesitant to approach large companies.



BMI Industrial Consulting's Clive Mantle . . . 'A company must buy from a small business because it is cheaper and offers the best service'

# PPI holds downward trend

## Imported components register hefty drop

(180) CT 16/2/93

By AUDREY D'ANGELO
Business Editor

THE producer price index (PPI) continued its downward trend in December, helped by a substantial drop in the index for imported components. It fell to 7,3% year on year, compared with 7,5% in November.

The PPI index for locally produced goods was unchanged from November at 8,2% year on year. The month on month rise was 0,3% compared with a fall of 0,1% in November.

The index for imported goods fell by a full 1% to 3,1% year on year, compared with 4,1% in November. The month on month rise was 0,2% compared with 0,8% in November.

These figures, released by the Central Statistical Services yesterday, mean that the PPI averaged 8,3% in 1992 compared with 11,4% in 1992 and 12% in 1990.

The PPI for locally produced goods for consumption in this country averaged 9,1% for the year compared with 7,5% for the total output of SA industry.

The PPI for imported commodities averaged 4,2% compared with an average of 8,3% in 1991.

Welcoming these figures, economists said they showed the trend of underlying inflation was still downwards. The consumer price index (CPI) should remain below 10% unless it was pushed up by high tax increases in next month's budget.

Southern Life economist Mike Daly said the falling PPI had played an important part in bringing the CPI down to 9,6%. Tough trading conditions had kept the local PPI down by preventing manufacturers from putting up their prices.

Some Western Cape clothing manufacturers, in particular, were selling at last year's prices — or even at 1991 prices — resulting in zero inflation for their customers.

The low imported inflation showed the strength of the rand at the effective exchange rate. "It has not been allowed to depreciate as much the difference between our inflation rate and those of our trading partners would indicate."

Daly warned that the rand might depreciate more rapidly if the outflow of funds from SA continued at the rate of the past two months.

But as far as inflation was concerned "the situation now is very comfortable."

The signs were that underlying inflation would decline for the rest of the year, said Daly.

If the CPI were pushed up by higher taxation it would be "a technical factor and there are signs that (Reserve Bank Governor) Dr Stals will consider that when deciding monetary policy."

Old Mutual chief economist David Mohr said it was encouraging that the PPI had been below 10% for the whole of last year and that the domestic component of the PPI had dropped. "It is not just lower imported inflation that is pulling it down."

Provided tax increases in the budget were moderate "there is still a chance that the average CPI for this year will be below 10%. Inflationary forces are largely absent at this stage."

Mohr said it was mainly high wage and salary increases which had kept inflation high in recent years. "But wage increases are coming down fast now — a lot of people will get less than 10% this year. And a lot of people are not earning a wage at all."

Boland Bank chief economist Louis Fourie said it was particularly encouraging that imported inflation had been kept under control in spite of the depreciation of the rand against the US dollar.

The rand had retained its strength against the currencies of other trading partners.

It was now clear that there would be no inflationary pressures on the CPI for the next three months at least "other than from fiscal sources.

### Matter of confidence

"The good news is at last coming through. Now we must only believe in SA."

Sanlam economist Pieter Calitz pointed out that inflation was falling throughout the world, and that a substantial proportion of imports came from Europe and were not affected by the strengthening of the dollar against the rand.

Import prices had benefited particularly from the weakening of the British pound against the rand.

The Reserve Bank's firm anti-inflationary policy was achieving results at home. People in this country were at last losing their inflationary expectations. "Producers no longer put up their prices automatically every year."

# Productivity below par in SA

JOHN DLUDLU

SOUTH African companies needed to make full use of their production capacity to compete internationally, leading economists said yesterday.

Credit Guarantee senior economic and investment adviser Luke Doig said most SA companies were complacent about their productivity rate which was well below their high cost structure. "We need to reverse this situation to compete with the world." B/DAY 17/2/93

He attributed this imbalance to a dependency syndrome in SA. "We're all used to getting things done for us. This applies to the whole spectrum. This needs to be outgrown."

Doig also said the South African work ethic was problematic. "The ethic was designed for the employee to support the firm, which would in turn support him. People are now more concerned with their welfare."

A multipronged strategy — designed to educate people on productivity — was needed to redress the problem, he said.

NPI executive director Jan Visser said there was "spare capacity" that could improve productivity if used. He attributed this extra capacity to the recession which limited the market for locally produced goods. (180)

The main problem was the management of capital investment as labour was adjustable, he said.

However, with the world in recession, Visser reckoned that SA would have to change its "inward-focused" economy. "Our management skills also have to be improved."

Sacob economist Keith Lockwood felt SA companies had not taken productivity seriously because of recession.

"Most companies think they're productive. But a look at them shows significant room for improvement."

Richards Bay Iron and Titanium (Pty) Ltd

| Claim period | Claim value (R) | Interest (R) |
|---|---|---|
| 1.9.80–31.12.80 | 920 313 | 224 714 |
| 1.1.81–31.12.81 | 3 919 654 | 951 035 |
| 1.1.82–31.12.82 | 5 152 385 | 1 248 889 |
| 1.1.83–31.12.83 | 5 459 073 | 1 311 244 |
| 1.1.84–31.12.84 | 8 574 107 | 1 990 050 |
| 1.1.85–31.12.85 | 16 033 667 | 3 641 788 |
| 1.1.86–31.12.86 | 20 063 783 | 3 773 998 |
| 1.1.87–31.12.87 | 17 925 033 | 3 371 699 |
| 1.1.88–31.12.88 | 26 913 955 | 5 062 514 |
| 1.1.89–31.12.89 | 34 895 204 | 6 563 788 |
| 1.1.90–31.12.90 | 8 110 995 | 1 525 678 |
| | 147 968 169 | 29 665 397 |

Tisand (Pty) Ltd

| Claim period | Claim value (R) | Interest (R) |
|---|---|---|
| 1.1.80–31.12.80 | 12 511 | — |
| 1.1.81–31.12.81 | 44 968 | 14 502 |
| 1.1.82–31.12.82 | 40 669 | 13 116 |
| 1.1.83–31.12.83 | 34 070 | 10 988 |
| 1.1.84–31.12.84 | 37 580 | 8 722 |
| 1.1.85–31.12.85 | 30 585 | 7 099 |
| 1.1.86–31.12.86 | 41 716 | 7 847 |
| 1.1.87–31.12.87 | 65 610 | 12 341 |
| 1.1.88–31.12.88 | 70 765 | 13 311 |
| 1.1.89–31.12.89 | 68 820 | 12 945 |
| 1.1.90–31.12.90 | 9 655 | — |
| | 456 949 | 100 871 |

In addition, Richards Bay Iron and Titanium (Pty) Ltd received in total an amount of R165 852 615 under the electricity rebate scheme during the period 1983 to 1992, which scheme was discontinued on 31 December 1992.

(2) Yes, loan funding has been provided by a consortium of banks, including the Industrial Development Corporation (IDC), to the company concerned.

(a) and (b) The information cannot be provided as IDC loan particulars are confidential. The information is, however, known to the Minister of Trade and Industry and can, on a confidential basis, be furnished to the hon member.

(3) The company does not, apart from the above-mentioned, receive any other assistance from the Department of Trade and Industry.



*Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.*

**Monetary donations by State to companies**

*7. Mr J CHIOLÉ asked the Minister of Trade and Industry:†

(1) Whether the Government made any monetary donations to certain companies during the period 1 January 1989 up to and including 31 December 1992; if so, (a) to what companies and (b) why, in each case;

(2) whether an analysis of the profits of these companies was made during this period; if not, why not; if so, with what results;

(3) whether it is envisaged to donate state funds to these companies in 1993; if so, what estimated total amount;

(4) whether he will make a statement on the matter? B44E

180

The MINISTER OF TRADE AND INDUSTRY:

(1) The period referred to in the question suggests that the hon member is referring to the threshold support granted to companies in terms of the Innovation Support for Electronics (ISE) Programme, administered by the Department of Trade and Industry in conjunction with the Industrial Development Corporation. Accordingly the following information is furnished:

(a) Particulars of the companies which received funds for completed projects, as well as of projects which are still in progress for which funds have been allocated since the inception of the programme up to 30 September 1992, have been published. A copy of the latest six-monthly report for the period ending 30 September 1992 was made available to the hon member. The next report will cover the period up to 31 March 1993 and will be released shortly after that date.

(b) The financial support provided is in respect of research and development of new electronic products. This threshold support covers fifty per cent of specified costs and is subject to a financial ceiling set for each project, not to exceed R2 million for a single project.



(2) Analyses of the financial position of companies applying for support are made before allocation of funds, to establish whether the companies receiving the support would be able to fulfil their contractual financial obligations in terms of the programme. Companies must be in the position to fund the costs of the development in respect of which an agreed amount is refunded after the completion of each specified milestone, based on actual expenditure. Payment is effected against audited claims. The company must also certify with each claim that its financial position has not substantially deteriorated.

(3) Payments will be made to beneficiaries in 1993 in terms of existing uncompleted contracts as and when milestones are reached. An amount of R42,7 million has been allocated for outstanding milestones scheduled to be completed after 30 September 1992. Claims for assistance may be submitted in accordance with the underlying contracts in respect of new applications considered after 30 September 1992 with milestones to be completed in 1993 and thereafter. According to the latest six-monthly report on the ISE Programme, an amount of R69,3 million is available for new applications. The allocation for the ISE Programme for the 1992-93 financial year has been reduced from R40 million to R19 million. No provision is made for the ISE Programme in the 1993-94 financial year.

(4) In the light of the success achieved with the ISE Programme, which demonstrated multiple returns on Government's investment in electronic product research and development, Government has decided to extend the ISE programme to cover all sectors of industry. A proposed new Support Programme for Industrial Innovation (SPII) will be introduced on 1 April 1993. Apart from its wider product coverage, the SPII will differ from the ISE Programme in that support will be limited to one third of the specified development costs of new innovative products to a maximum of R1 million per project. This will permit the accommodation of the larger number of applications expected. Consideration is also being given to the repayment of financial support received by companies in the case of successful products, following the example of other similar schemes locally and overseas. In this manner, financial assistance can be rendered on a broader base in support of essential product innovation, which holds the key to technological advancement and the international competitiveness of South Africa's manufacturing industry.

180

The SPII will be launched on 1 April 1993 with the available ISE funds (approximately R88 million) as well as funds allocated for the general promotion of technology (approximately R18 million). These funds could be supplemented by Government in view of future requirements and the success of the new programme.

**Call-up instructions complied with**

*8. Dr W J SNYMAN asked the Minister of Defence:†

What percentage of (a) Commando and (b) Citizen Force members of the South African Defence Force had complied with their call-up instructions during the latest specified period of 12 months for which information is available? B45E

The MINISTER OF DEFENCE:

1 January 1992–31 December 1992

If the percentage of members who complied with their call-up instructions includes those members who obtained deferment/exemption or could not report for a specific reason, then the percentages are as follows:

(a) 89,3%

(b) 86,2%

cont - - D

# Palamin takes knock but shareholders get payout

BIDAM 18/2/93

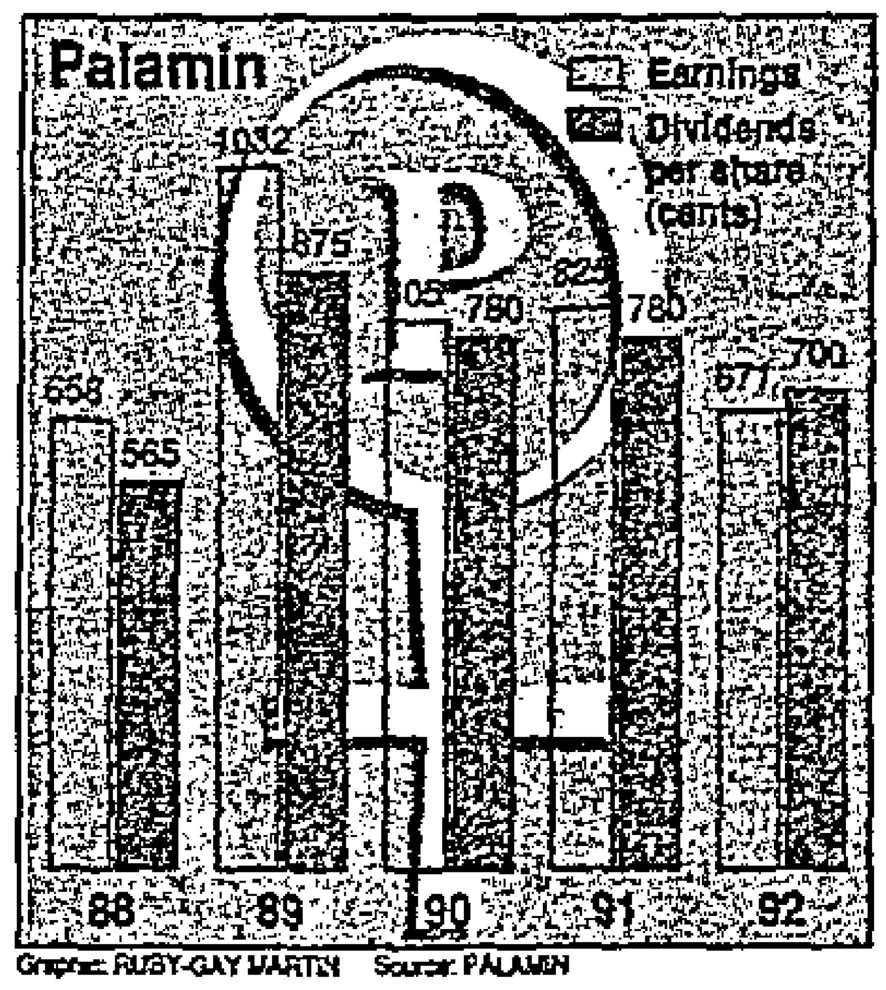
JONO WATERS

PALABORA Mining (Palamin), SA's largest copper producer and owned by Rio Tinto Zinc, reported a sharp drop in earnings a share in the year ended December 1992 as profit was knocked by flat rand copper prices, lower copper metal sales and rising costs.

Earnings before extraordinary items amounted to 671c (825c) a share.

Palamin paid out all its earnings to shareholders — a final dividend of R3,10 a share was declared — bringing the total payout to R7,00, compared with R7,80 the previous year.

The group normally pays out 90% of earnings to shareholders, but company secretary Keith Lendrum said yesterday that the company paid out "a 100% dividend instead of 95% as planned as the difference was only R10m".



Graphic: RUBY-GAY MARTIN Source: PALAMIN

Palamin does not publish turnover figures in its year-end statement, but the company said operating profit fell to R374m (R452m).

MD Frank Fenwick was not available for comment, and the group gave few details of the volumes of copper metal and concentrate sold.

Pre-tax profit fell to R392m (R458m) and Palamin paid out R202m (R225m) in tax and lease considerations.

After-tax profit dropped to R190m (R234m) and extraordinary items of R8,67m (R10,9m) pushed attributable income to R199m (R244m).

Lendrum said "better than expected" copper prices averaged R6 596/t (R6 537/t) on a 5% drop in metal sales to 108 000 tons. However, copper concentrate sales more than doubled.

Output from Palamin's smelter was "below budget", Lendrum said, but declined to say whether this reflected lower recoveries from the plant.

He added that the project to upgrade the ageing smelter was at "an advanced stage". Most of the work would be completed by mid-year.

# Profurn performs strongly despite liquidation setback

BIDAM 18/2/93.

MARCIA KLEIN

IN A difficult year to end-December which included the liquidation of ultimate holding companies Supreme Holdings and Supreme Investment Holdings, Protea Furnishers (Profurn) reported a 15,4% rise in attributable earnings to R6m (R5,2m).

Earnings a share were reduced to 6c (7,3c) on an increased number of shares in issue.

CE Alex Maraney said yesterday the results were achieved in a difficult trading environment, which included the severe effect of the liquidations.

A 20,2% turnover rise to R158,2m reflected good trading in November and December and the inclusion of several new stores.

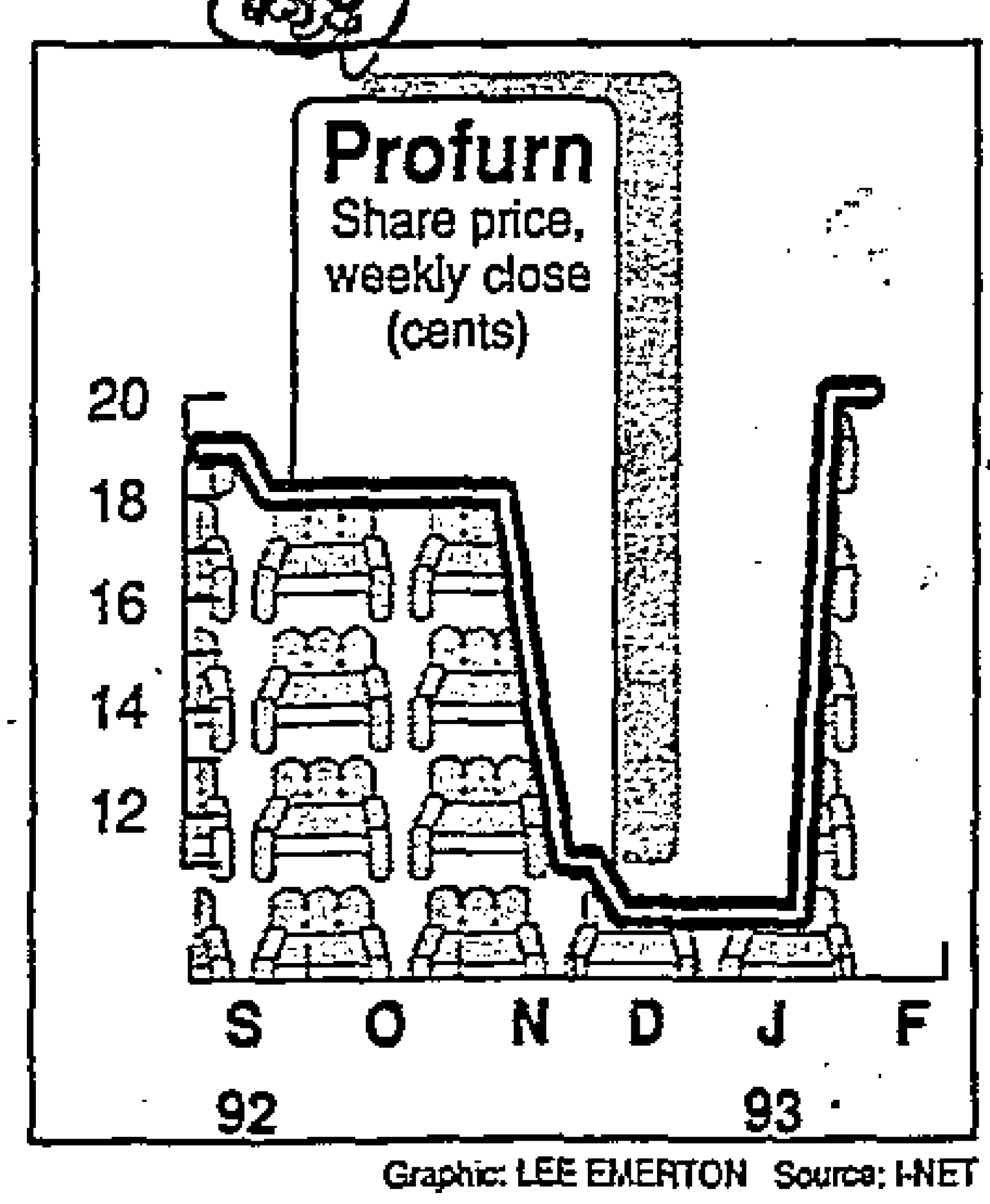
Operating profit was 13,8% higher at R26,3m with the pressure on margins reflecting difficulty in obtaining supplies.

The interest bill rose 16,7% to R14,9m.

Financial director Brian Rosenberg said agreement had been reached between the liquidators, the trustee for the holding companies' debenture holders, Profurn and other parties to capitalise R45,3m debt due to the liquidated holding companies. The agreement, awaiting approval of debenture holders, would see controlling companies receive 252-million shares at 18c each in settlement of the debt.

If the debt were to capitalised, results and gearing would reap substantial benefits, he said.

Gearing would be reduced to below 15% from 200%, and would be kept low as Profurn would not use borrowings to expand.



Graphic: LEE EMERTON Source: I-NET

Taxation was reduced by 2,9% to R4,7m, bringing profit after tax up 21,7% to R6,6m. But after an increase in profit attributable to outside shareholders, attributable profit was 15,4% up on the previous year.

An R8,5m extraordinary item referred to provisions for losses from the closure of 11 stores.

No dividend was declared.

Maraney said results were now comparable with the major furniture groups. Debtors provisions amounted to 38,4% (25,4%) of the gross debtors book.

# Bank scraps paper rule

BIDAM 18/2/93 (180)

DUMA GQUBULE

THE Reserve Bank has bowed to pressure and scrapped a regulation which had been hampering the development of a significant commercial paper market in the country.

It relaxed the requirement that companies wishing to borrow from each other by issuing commercial paper should have commercial bank endorsement for the transactions.

The Reserve Bank, however, restricted such transactions to companies with a net asset value of R100m. The minimum amount for the transactions is R1m.

Standard Merchant Bank treasurer Chris Kenny said yesterday the Reserve Bank had cleared a major obstacle to the development of a commercial paper market in SA.

He knew of only two corporate issues which had been floated last year.

Some major corporates had not been prepared to seek bank endorsement, believing they were more creditworthy than some the major banks involved.

# Amic streamlines holdings

(120)

The industrial holdings of the Anglo American Industrial Corporation have recently been streamlined due to acquisitions and the McCarthy-Prefcor merger. STAR 18/2/93.

As a result of the merger, Amic's stake in the McCarthy Group has decreased from 37 percent to 31,4 percent.

An Anglo spokesman said yesterday the change in shareholding had effectively increased Amic's interest in the motor business and introduced a new investment in the cash and credit retailing of furniture, appliances and clothing as well as the mass merchandising business.

Mondi Paper Company acquired 100 percent of NTE from the Anglo American Corporation, Amic and De Beers with effect from the beginning of this year. — Sapa.

# Govt pledges millions on technology support

A MULTI-MILLION rand Government programme to support industrial technology development was announced by the Deputy Minister of Trade and Industry, David Graaff, yesterday.

He said in a statement that the state's Innovation Support for Electronics Programme had brought multiple returns on investment in product innovation in the form of local and overseas sales.

Government had therefore decided to extend the programme in a modifed form to all branches of industry.

180 CT 18/2/93

A Support Programme for Industrial Innovation (SPII) would be launched on April 1 to complement Government's existing support of technology development in industry.

"This form of threshold support is applied worldwide in preference to product subsidisation with its distorting market effect and consequent trade disputes," he said.

The programme would offer grants covering one third of specified development cost limited to R1m per project. — Sapa

# Local manufacturers optimistic on growth

CT 18/2/93 (180)

By AUDREY D'ANGELO
Business Editor

TRADING conditions are getting better in the Western Cape and most manufacturers expect the economy to improve in a year or 18 months, according to a survey carried out by the Cape Chamber of Industries (CCI) last month.

Although only 7% of respondents reported that trading conditions were good, compared with 5% in June, 52% said they were "fair", compared with 45% in June and 44% a year ago. The number reporting that trading conditions were "poor" dropped to 41% from 50% in June and 46% in January.

Only 1% expected profit performance over the next year to be "much better", compared with none at all in June. But 23% expected profits to be "better", compared with 17% in June and 40% expected them to remain the same compared with 32% in June.

Only 2% expected them to be "much worse" compared with 13% in June, and 34% expected them to be "worse" compared with 38% in June.

A tiny proportion — 3% — thought the economy was on the point of improving now, compared with none at all in June. Another 16% expected an improvement in six months, 34% in 12 months and 28% in 18 months. Only 19% thought it would take longer.

## Political stability

All respondents said political stability was by far the most important factor needed to create a climate "that will allow business to grow."

"Clearly the appeal industrialists across the board are making is that political change should take place sooner rather than later," says Colin Boyes, deputy director of the CCI, in his report on the survey.

"Through the establishment of an interim government the broad political leadership will be called upon to share the responsibility of government, which should contribute to the creation of a climate of peace and stability so necessary for the restoration of confidence.

"Meaningful political progress will also give the country greater international acceptability and see the removal of the last vestiges of sanctions, particularly financial sanctions, necessary in assisting SA with its economic reconstruction."

Boyes explains that although political stability was the crucial factor for all sectors, lower interest rates and labour peace were of particular concern to the engineering and furniture industries, with labour peace and tax relief coming first and second for the clothing industry.

"The plastics industry places importance on export development and labour peace.

"On the negative side, besides political conflict and violence and unrest, all sectors gave considerable emphasis to the prolonged world recession.

"Foreign competition does not worry any of the sectors except the plastics industry, which gives it a high rating."

# Investors face 'switch' challenge

BDay 19/2/93.

MATTHEW CURTIN

FUND managers and investors are facing the challenge of holding increasingly expensive industrial counters or switching to better-value commodity-based stock, whose upside is still capped by the sustained trough in world commodity prices.

Dividend yields from defensive industrial counters have sunk as low at 0,7% in the case of Richemont, and vary from 1,1% to 2,3% for shares such as Anglovaal Industries, ABI, SA Breweries, Suncrush and Trencor. Yields are little more attractive from bank stock like Investec and Nedcor.

The industrial index dividend yield of 2,5% is near lows of 2,4% touched a year ago, then the lowest since the 1987 stock market crash

Analysts said investors' unease was in part reflected in the rush to buy undervalued gold shares in the past two weeks, even though dollar gold prices remained sluggish, blighted by weak world economic growth and the threat of sales of gold by central bank.

180

One cautioned that although higher rand gold prices promised good earnings and dividends from SA gold mines, inevitable rises in labour costs and capital spending would dent profits.

However, one market source said yesterday that with industrial shares becoming over-priced, fund managers had to make the "critical decision" as to how long to delay a switch to better value shares.

# Companies Act under review

6 Day 19/2/93 (180)

DUMA GQUBULE

THE Standing Advisory Committee on Company Law and the Securities Regulation Panel have recommended Section 228 of the Companies Act be amended.

Judge Cecil Margo said it had been decided to recommend that a change of control, affected by a disposal of assets under Section 228, be supervised by the panel.

Section 228 allows companies to bypass provisions of the Securities Regulation Code on Takeovers and Mergers designed to protect minority shareholders.

The section has recently been used by controlling shareholders of Racy and Micor in bids for assets of the companies without consulting minorities.

In terms of Section 228 such transactions require simple majority shareholder approval. These transactions are not regulated in accordance with provisions of the code by the Securities Regulation Panel.

A majority shareholder can therefore sanction the transactions without consulting minorities.

A committee statement said yesterday its attention had been drawn to an increasing tendency towards achieving mergers of businesses by means of a disposal governed by the provisions of Section 228. It believed there should be equal treatment for takeovers, schemes of arrangement or disposals in terms of Section 228.

The committee was considering other amendments to the Act to further improve minority shareholder protection.

INDUSTRIAL PROPERTY (180) FM 19/2/93.

# Bugs in the minifactory market

**The East Rand**, headquarters of half of SA's largest engineering and a third of its top electronics companies, is signalling some important trends in the industrial property market. Rentals and land prices are down but agents report an increase in inquiries since last month. One reason may be opportunity-taking by companies seeking to relocate to better areas to take advantage of falling rentals and land prices brought about by the recession.

Movement has been from the far to the near East Rand where rentals and land prices have generally decreased on average by 25%. Sebenza and Spartan are examples. Eastleigh is perhaps the only area to have fared well in the recession — mainly due to a shortage of suitable industrial space. Rentals of R8-R9/m² gross are being achieved at Eastleigh.

Wadeville, Germiston, has been the worst hit of the East Rand areas. Rentals have declined by up to 50% in the past 18 months. The area is perceived to be too far from the Johannesburg CBD and too costly as far as transport is concerned.

Says JHI industrial director Wayne Wright: "Very little movement has taken place in Wadeville. We estimate available space in excess of 50 000 m², with a noticeable amount of this in the minifactory category, where landlords are asking for R6/m². For units above 2 000 m² they are asking R4,50/m². Generally, anything above R3,50/m² involves a structured lease whereby rentals or escalations are stepped up over a five-year period, depending on the tenant's strength."

The trend towards the near East Rand is confirmed by AFC Properties which owns investment properties in the far East Rand towns of Boksburg and Benoni.

Wright has recently also found a propensity among prospective tenants to switch from being possible tenants to owner-occupiers. This has come about mainly because of less costly credit and moves by companies to protect themselves against rises in industrial rentals.

Russell Marriot Boyd Trust industrial broker Alan Hendricks believes industrial property developers have made mistakes. "Our research shows that units under 250 m² or over 1 000 m² have let well. But those in between have proved dangerous."

This is borne out by Wright's comments on take-up patterns in at least three locations. In Jet Park, despite its proximity to Jan Smuts airport, vacancies have increased, resulting in a rental drop from R10/m² to R8/m² for units of around 500 m². Not many units above 1 000 m² are available but, where they are, rentals are R6,50-R7/m². Much of the land in this area is in the hands of institions and private developers. Land prices over the past two years have dropped from R120/m² to R90/m².

"In Germiston, which includes Driehoek, Industries West and Industries East, there seems to be a high vacancy factor, particularly in the dominant small unit category averaging 500 m²," says Wright. "In Driehoek oversupply is evident in units of 300 m²-500 m², with the result that, though owners are asking for R10/m², they are getting only R7,50-R8/m². There is about 30 000 m² of vacant space in Driehoek, as well a lot of land available for outright purchase."

In Spartan, Kempton Park, Wright says there's a preference for units around the 250 m² mark. "There has been an upturn in the minifactory market, particularly for units of 200 m²-300 m². Rentals, though, have followed the general pattern, falling by 25%. In the minimarket they have come off from a peak of R12,50/m² to R8,50/m²."

A mistake made by many minifactory developers, according to Hendricks, is that they have not allowed tenants enough yard space for loading by articulated trucks. "They have tended to cover their sites by as much as 80% when the need is for a maximum 50%-60% coverage."

Two other trends evident in Isando are an increase in leaseback activity, particularly among larger users seeking extra cash to sustain stock levels. The other is an innovation whereby refurbishers have identified a niche market in the conversion of dormant, large factories into medium-sized units of around 1 000 m².

On the warehousing side, Hendricks cites numerous inquiries in the past six months, particularly in the vicinity of Jan Smuts airport, from large users for already developed, 6 000 m²-plus, state-of-the-art warehousing.

Facilities sought are those that provide numerous loading docks and doors, racking heights of up to 6 m, ample circulation space in big yards for articulated trucks, and sprinkler systems. Few insititutions will speculate in developments of this size so there is a dearth of space in this category. ■

TIMESHARE FM 19/2/93

## Cooling off time

**Timeshare sales** in 1992 were 1,1% down in volume on 1991 and, in spite of selling 23 000 weeks, the sector recorded a 19% drop in turnover. The average price per unit, at R8 520, was 17,5% down on the previous year. FM 19/2/93

Resort Condominiums International (RCI) MD Steve Griesel told the 1993 Tisa Timeshare Covention at the Wild Coast Sun on Monday that sales in the first half of 1992 were 21% down on the corresponding period in 1991, but picked up in the second half to show a net 1,1% decline on the whole of 1991.

### Discounted unit prices

He attributes the surge in sales in the second half to heavy discounting by developers to stimulate the market. Additional factors were the introduction in October of a five-day cooling off period for buyers and the appointment of a timeshare ombudsman, Mr Justice Cecil Margo, to advise and arbitrate in disputes. This initiative, called Timeshare 2000, resulted in a record R23m in sales in that month.

Discounting has been possible, says Griesel, because strong developers have been able to buy timeshare properties at up to 50% of their replacement costs. His advice to would-be developers this year is that, instead of building anew, they should do more of the same. He also suggests that in the current economy, where buyer finance continues to be tight, developers should consider reducing their infrastructure and selling fewer units at bigger margins.

Keener pricing is also the name of the game in the US. RCI vice-president for resort sales in North America, John Reinhardt, reports that one upmarket resort, Cyprus Point, in Orlando, Florida, is selling three-bedroom unit weeks for US$8 500 compared with a regional average of $11 500. He adds that about 75% of timeshare owners are taking advantage of the exchange option.

The number of salesmen in the local timeshare industry has been dropping consistently: from 1 400 in 1990, to 800 in 1991 and 400 in 1992. The top 100 performers continue to make 70% of all sales.

Griesel believes opportunities exist in Cape Town for new timeshare developments "but only at excellent locations and at excellent prices." Growth in the western Cape continues but is hamstrung by a lack of resorts — only 15 in the region, many of which are mostly sold out. He notes interest in the inland regions, particularly the Transvaal, but says there's been a significant decrease in unit sales in the eastern Cape.

Only 9 600 new weeks came on to the market last year — a reflection of the continued consolidation of the market and a lack of new developments. Griesel says the sector is now approaching an 80% sell-out and there are only about two years of stock left in the

continue

# Business community urged to defend itself in the political arena

STAR 19/2/93.

By Derek Tommey (180)

The business community should enter the political arena and start protecting its own interests by countering economic views hostile to its existence, says Selwyn McFarlane, finance director of SA Breweries.

Speaking at the SAICA 1993 Reporting Awards Dinner in Johannesburg last night, he also said that annual reports were windows into the free market system and their scope should be broadened.

McFarlane said that South Africans were being endlessly bombarded on radio, television and in the media with proposals and counter-proposals about the new constitution.

"Perhaps an even more fundamental debate ... concerns what the appropriate economic system should be.

"Much of this economic debate is actually seeking to uproot the very foundations on which our competitive free-enterprise system is based.

"Fundamental concepts that are entrenched in our whole method and purpose of operation are being subjected to searching questions.

Selwyn McFarlane . . .act now before it is too late.

"Does that not worry you?" he asked what he termed the cream of corporate South Africa.

McFarlane warned that for business to react only after the politicians had decided what was in their best interests would be too late to be relevant, and called for business to be active now. But business would have to be prepared for debate and be able to say what makes the poor richer.

It would have to move into the areas and forums where debate is taking place and it must also set up its own discussion groups.

"Things are going on out there that seriously impinge on our turf, on our own areas of expertise; things that we had better be influencing or, better still, directing. So, the first action is to join the debate — and see that we win convincingly."

He said that only the capitalist system had consistently demonstrated the capacity to generate wealth and provide the means to uplift the masses — and this should feature as the focal point of financial communications.

The corporate community should seek to communicate with the public through their annual reports. These should be broaded to be pertinent to all of the key stakeholders and should emphasise the value-added statement.

"This incredible tool now, more than ever before, needs to be taken out of our armoury and put to proper use.

"Wouldn't it be fantastic to see at least some of our major corporations announcing their results by starting off with a discussion of how much value they have added to the South African economy as a whole, and how it has increased over the year.

"Then, have them deal with the extent of, and movement in, the participation of the various stakeholders".

JOB MARKET

# Industrial councils not throttling small man

(ISO)

S/Times (Buss) 21/2/93.

By CIARAN RYAN

INDUSTRIAL councils have hit back at criticism in Business Times that they are strangling small business.

"We are not attempting to harm small business in any way," says David Levy, general secretary of the largest industrial council, the National Industrial Council for the Iron, Steel, Engineering and Metallurgical Industries (Nicisemi).

The industrial councils are essential if we are to have civilised working conditions and a decent standard of living for employees, whether they come from big or small businesses."

Industrial councils are private bodies empowered by the Labour Relations Act of 1956 to determine minimum working conditions in an industry or region, settle industrial disputes and to carry out collective bargaining.

The councils, of which there are 90 in SA representing 800 000 workers, are made up of employers associations and trade unions.

Dozens of employers replied to a February 7 report in Business Times highlighting the damage allegedly caused by some industrial councils to small businesses.

The industrial council system has been criticised because agreements between employers and trade unions covering minimum wages, pension fund payments and working conditions are made binding on all businesses in an industry, whether or not they are members of the industrial council.

Mr Levy replies that opponents of the system are often businesses with a record of labour exploitation. Industrial councils say companies should not compete with each other at the expense of labour, a view which seeks to remove labour from free market forces.

"One of the main advantages of the industrial council system is that improved working conditions affecting over 300 000 workers in 10 000 companies in the iron and steel industry are negotiated in relatively few meetings," says Mr Levy.

"This saves companies an enormous amount of time, effort, expertise and conflict at plant level.

## Endorsed

"The industrial councils are founded on democratic principles, where the will of the majority also apply to the minority. This principle is endorsed by the International Labour Organisation and is the basis of any democracy in the world."

Advocates of the industrial council system say it allows a measure of self-government to industries and is a quick and effective way of dealing with labour disputes.

Nicisemi settled 843 labour disputes last year and issued 930 exemptions from industrial council agreements, mainly to small businesses.

The industrial councils are funded by levies paid by employers and employees.

Iron and steel workers, depending on their level of skill, pay between 15c and 28c a week to Nicisemi, with a similar contribution from the employer.

The council operates two pension funds with a total value of about R6-billion, a provident fund and medical aid schemes.

## Charges

"There is no doubt that some industrial councils have over-stepped the mark in enforcing regulations, but that does not mean the whole system is wrong," says Mike McDonald, economist with the Steel Engineering Industries Federation (Seifsa).

"It is often said that SA is a Third World country and that these conditions are more appropriate to a First World economy. There is no way that the iron, steel and engineering industries in SA can be considered Third World."

In response to charges that small businesses are unfairly prejudiced by the high cost of complying with industrial council agreements, trade unions and employers represented at the National Manpower Commission have agreed in principle to allow businesses with less than five employees and sales below R250 000 to apply for exemption from these agreements.

"I am strongly in favour of deregulation," says Mr Levy. "The problem has been to convince trade unions that this is in the best interests of job-creation.

"Some unions oppose deregulation on ideological grounds and getting consensus on issues can be bureaucratic and time consuming. But we are moving in that direction."

This has led to charges that, by excluding small businesses, industrial councils will be more representative of the industry.

Several industrial councils have folded because they no longer represented a majority in the industry, or because of disagreements between unions and employers.

Industrial councils now represent a third less workers than they did in the 80s, reflecting in part the decline in employment over the last three years.

## Problem

The Minister of Manpower has indicated that he may not make the Steel Engineering Industries Federation of SA's (Seifsa) agreement with the trade unions binding on non-members of Seifsa because it represents less than half the companies in the industry.

To overcome this problem, Seifsa has attempted to persuade trade unions, which oppose deregulation on ideological grounds, to exempt businesses employing fewer than 10 workers from the agreements. This, says Seifsa, will provide protection for all workers in the industry.

# Pitfalls of a recovery

(180)

S/Times (BUSS)

21/2/93.

By ZILLA EFRAT

COSTA JOHN . . . problems compounded by interest rates

SEVERAL medium-sized companies in South Africa risk surviving the recession and then falling victim to the economic recovery.

Costa John, director of Kessel Feinstein's family business division, says many companies find their cash-flows have been weakened by the recession.

An upturn in the economy may cause a fatal surge in the cash needed to fund the higher levels of stock and debtors that accompany increased sales.

"Add to this the fact that many mid-sized companies may have deferred capital expenditures and maintenance, and these companies find their full order books and positive profit margins overwhelmed by negative cash-flow," says Mr John.

"The South African business environment unfortunately compounds these problems with high interest rates and high inflation."

Credit Guarantee economist Luke Doig adds that during a downturn companies also hold stocks that over time may become redundant.

When the economy turns they find demand rises but not for these goods. The result is that they have to write these assets off as a loss.

## Bankruptcy

Mr Doig says preferred creditors, who have control over a struggling company's assets, may also wait for an upturn before calling in their loans because they know that they will get more in the rand. This could cause a number of companies to collapse.

In addition, companies may find their balance sheets considerably weakened by the recession, to the extent that banks will not give them a loan despite a recovery in their markets and prospects.

Mr Doig says a problem South African companies have experienced, particularly in the early 80s, was created by SA's monetrary policies.

The authorities started raising Bank rate to slow the economy once it began heating up. This resulted in large fluctuations in interest rates, which eventually put a number of companies out of business. "It is hoped that this pattern does not repeat itself in the next upturn," says Mr Doig.

The trend of not surviving a recovery, however, is also seen in the US, where companies have operated in a stable, low interest, low inflation environment.

According to the Bank of America, some 2 000 profitable medium-sized businesses in California filed for bankruptcy each year during the economic recovery of the 80s.

Mr Doig says smaller firms have the ability to adapt more easily to changes in their environment.

He adds: "Big firms have more fat to play with. They have more resources, can raise-finance with greater ease and have wider cost-cutting options.

Medium-sized firms, however, are more finely balanced and vulnerable to sudden changes.

However, Mr John believes the estimated 700 000 medium-sized family businesses in SA have more options which will help them avoid a cash crunch.

Through close relationships with customers, suppliers and lenders, they may improve the cash-flow cycle of the business by negotiating favourable credit terms. Pride in quality and service may yield cost efficiencies and better margins.

As a last resort, more "sweat equity" could be contributed by family employees who delay or reduce compensation. In this way a few percentage points in sales growth may be financed which may otherwise have been financially crippling.

Mr Doig says what counts at the end of the day is a company's ability to manage its assets. Good communication with creditors and bankers is also vital.

# Laws that make an ass of SA's economy

(180) S Times (Bus) 21/2/93.

MORE than 90 laws, policies and practices inhibit the South African economy, says the Nedcor/Old Mutual sponsored Professional Economic Panel.

"The problem is that small and medium emerging enterprises (SMEEs) are shackled. The need to reform is urgent," says PEP.

"There has been such legislative diarrhoea over the years that there is now more than one Act for every word the average person knows in his or her mother tongue."

PEP has listed these laws and practices where a majority of PEP members were in consensus. The list is confined to the removal, relaxation or reform of obstacles to SMEEs.

PEP says most South Africans live under conditions in which the enforcement of most laws is arbitary, impossible or manifestly absurd. Bad law leads to abuse and corruption:

By KEVIN DAVIE

"Corrupt officials and politicians use such laws to get at rivals and to collect bribes and protection money."

PEP has compiled a 60-page document on legal and policy reforms needed to free the economy and create a vibrant small and medium enterprise sector.

Subjects as diverse as animal slaughter and cigarette smoking are addressed, including:

- The common law of product safety liability is adequate to deal with cases such as animal slaughtering and meat processing. Grading could be introduced on a voluntary basis for the export and First World sector.
- Bakeries and butcheries should be treated as ordinary businesses: special licensing provisions should go.
- Entry barriers into trades, occupations and professions should be systematically and critically examined: "As a rule, formal qualifications should be replaced entirely by tests of competency."
- Close corporations are still subject to excessive formalities, such as registration, record-keeping and reporting.
- Most government housing would be condemned under building standard or slum laws. Prohibitions on the private sector have exacerbated, if not caused, the housing shortage. Building codes and minimum standards should be scrapped in low-income areas to allow maximum opportunities for owner-builder and SMEE building contracting.

## Protection

- A computer system should be used to register property transfers, mortgages and leases, allowing conveyancing to be scrapped in simple cases. "Technology can provide better protection than conveyancers. The only merit in the present system is that it protects conveyancers," says PEP.
- The small claims court should be extended to include legal personae, such as SMEEs (at present, only individuals can use these courts). The value of small claims should be increased to R10 000.
- The Deposit-taking Institutions Act makes SA one of the most difficult and costly countries in which to establish a deposit-taking institution. "In the real world, especially in black communities, the DTI laws are transgressed by many stokvels, savings and loan clubs and co-ops," says PEP.

"The formal financial institutions are unjustifiably regarded as somewhat of a sacred cow in SA. It is clear that greater relaxation is necessary in the interests of SMEEs and the economy in general."

- Credit controls should be scrapped in their entirety.

## Absurd

- Switzerland, a country the size of the Transkei, has 300 independent electricity companies, 100 of which produce electricity. PEP says electricity vending in SA should be decriminalised.
- An explosion of SMEEs occurred in the Ciskei after businesses with fewer than 20 employees were exempted from the Factories, Machinery and Building Work Act, despite the extremely unfavourable political climate. "A South African version of the Ciskei Small Business Deregulation Act should be adopted."
- The present absurd situation where gambling is only allowed in the homelands should be normalised, subject at most to controls found in other countries.
- The Businesses Act (which substantially deregulates licensing provisions but is yet to be implemented in some provinces because of opposition from bureaucrats) should be brought into operation throughout the country.

"There is probably no other single measure that could create a greater number of opportunities for SMEEs than this. All the potential resistance has been raised and identified. It is clearly based on self-serving elitism and vested interests."

- Zoning should be sufficiently relaxed to allow for unobtrusive home businesses. "The automatic or default position should be that home businesses are allowed, to the extent that they do not unduly disturb neighbours."
- Hotel and boarding room grading should be optional.
- The import of all used products for resale in the informal sector should be exempt from import quotas and duties.
- SMEEs should be exempt from labour legislation, which has been designed for big business and organised labour. "The majority of workers and job-seekers are not respresented by unions, and it is their interests that have to be served."
- All forms of black title to land should be automatically converted to ownership.

## Access

- All SMEEs of a certain size should be exempted from as many levies (such as regional service) and charges as possible.
- All licensing, except where special circumstances which clearly apply, such as in the sale of liquor and firearms, should be abolished. There should be free and easy access to the liquor trade at both production and distribution levels.
- The right to dispense medicines should be decontrolled so that the law provides for no more than that a qualified person distribute prescription medicines.
- Private, competing postal services should be allowed to the Post Office.
- The right to public interest or class actions in the courts should be introduced.
- Private use of trains on existing tracks should be encouraged immediately. Trains could be bought or leased from Spoornet.
- The Stamp Duties Act, which applies to a wide variety of agreements, contracts, licences and documents, should be repealed as soon as possible.

## Bizarre

- All restrictions on the provision of telephone products and services should be lifted and the statutory telephone monopoly should be phased out.
- Transfer duty in mortgage and land registration should be abolished.
- SMEEs should not be required to register their employees with the Unemployment Insurance Fund.
- A bizarre situation has arisen where the state employs costly teams, such as the Diamond Squad, to lay traps to prosecute (persecute!) people engaged in a mutually volitional trade.

"Clearly, no one is harmed by such trade except a tiny vested interest. There is an argument for restriction on trade in uncut diamonds, namely that the international diamond cartel is of great value to SA.

"However, it is doubtful whether this argument can justify the fact that IDB offenders are sent to jail for longer terms than murderers."

# Analysts predict more big changes at Gencor

BiDoy 22/2/93 (180)

JANE ARBOUS

GENCOR's surprise reshuffle of its top group management last week is unlikely to be the last of major changes at the mining house, say analysts.

They said although many different factors might have triggered the move, they believed the conglomerate was moving closer to a possible restructuring of its interests. "Unbundling has never been more on the cards as it is now," a mining finance analyst said.

Gencor chairman Brian Gilbertson, who gave no indication of his thinking behind the sweeping changes, is overseas and unavailable for comment.

However, Marinus Daling, new deputy chairman of Sanlam which is Gencor's controlling shareholder via Gencor Beherend, said the changes at Gencor had nothing to do with the unbundling issue and "stood in their own right".

"Gencor is a huge group and the management changes are part of the normal process. The reshuffle is also to lighten Brian's load and enable him to take a more overall view," he said.

Daling confirmed that the possibility of Gencor hiving off its disparate mining, industrial and finance interests was still under serious discussion, but declined to comment further.

Analysts said the management changes at Sanlam announced last week were crucial to future developments at Gencor.

Three senior executives appointed to top positions in Sanlam — Pierre Steyn, Daling and Desmond Smith — were all pro-unbundling, said one analyst. They "could swing the vote", he said, referring to known opposition on the Gencor board to loosening the group's tightly held pyramid structure.

"The unbundling of conglomerates is the route that has to be taken in a new SA," said another analyst, adding it would appease the ANC which has expressed concern about what it calls an undue concentration of economic power.

Analysts said key elements in Gencor's management reshuffle were its focus on new business opportunities, and consolidation of the power of Gilbertson whose stated desire is to unbundle the group. "There are a lot of political realignments taking place within the company and this is not the end of it," said an analyst.

Moreover, recent curbs on the use of the financial rand to buy offshore assets meant Gencor needed to re-evaluate its focus on growth opportunities.

Another analyst said a related factor to the reshuffle was the current poor performance of subsidiary Samancor. "A lot of questions have been asked about Samancor's underperformance."

Samancor MD Hans Smith makes way for Mike Salamon, MD of Trans-Natal Coal which is considered a traditional route for promotion of Gencor mining executives, analysts say.

Smith has been appointed CE of Gencor's new business division under its chairman Bernard Smith, who will remain chairman of oil subsidiary Engen. — Reuter.

directors ... vested in a ... with ... OWN — The Post Office expects to double its income in the 1993/94

TIM COHEN

# Court's privacy ruling 'constrains media'

BIDAY 25/2/93 (180)

MATTHEW CURTIN

THE recent Appeal Court decision that public companies had a right to privacy unless overriding considerations of public interest permitted publication left journalists little room to manoeuvre, Harmful Business Practices Committee chairman Prof Louise Tager said yesterday.

"This is very narrow ground. Remember, the public has a right to know. The public relies on a free and unfettered Press as one of the cornerstones of a democratic society. It is an essential tool for public protection," she said.

Tager was addressing business and media representatives at the prize-giving in Sandton for the Syfrets Award for consistent excellence in business journalism, a competition she helped judge.

The decision in the Financial Mail versus Sage Holdings case was a far-reaching one with important implications for business journalists. The courts were now entitled to take a strict view of illegally gathered information. The decision raised the question of how far the fundamental human rights of freedom of the Press and of speech could be curtailed.

Tager pointed out there were already "built-in safeguards" in this regard. The Newspaper Press Union had "exercised self-regulation in a responsible way for years", journalists were bound by ethical principles and deterred from irresponsible reporting through risk of defamation action, while public companies had as much recourse to laws concerning defamation as a private individual. The Press played a crucial role in bringing harmful business practices to the attention of the public.

● Picture: Page 2

Feb 23 to Feb 24

# Manufacturers urged to be globally competitive

CT 24/2/93 (180)

**Business Editor**

SA industrialists will have to become globally competitive — or be pushed out of their own domestic market by foreign firms who can undercut them without "dumping", Peter Brews, professor of economics at the University of Pittsburgh, US, warned yesterday.

He said at a University of Cape Town Graduate School of Business Association lunch at a city hotel that more jobs might be lost in the initial process of becoming more efficient and increasing productivity.

Too many people in SA were paid for doing very little and this was no longer affordable.

Brews said Pacific Rim manufacturers were already buying holding companies in SA and multi-nationals were considering coming back.

SA manufacturers had been protected from world competition for years, sheltering behind tariff barriers. This had made them uncompetitive.

But they would soon have to stand on their own feet. He believed the next government would spend money from the tax base on developing and uplifting the population rather than protecting and helping manufacturers.

Brews said SA had a lot of potential, but would have to work hard to realise it.

There were two paths for the SA economy, one export-led and one domestic-led. For the past 200 years SA industry had concentrated on supplying the domestic market.

It could continue to supply a growing home market. But import substitution — the uneconomic manufacture of goods for a small market, replacing those which could be imported more cheaply from companies enjoying economies of scale — was a waste of time.

Mossgas was an example of politically inspired import substitution which should not have taken place.

Exporting to first world countries forced local manufacturers to update their technology and become more efficient and competitive. Brews advised them to combine in groups of two or three companies to carry out research and development and penetrate new markets, where they would face cut-throat competition. "Don't hunt alone."

He said SA's weather gave it a great advantage in developing its tourist and retirement industries — and a film industry.

There were thousands of rich, elderly people in Europe and the US who would find SA an ideal place to escape their own winters. And the climate was ideal for making films.

Dismissing the informal sector as an answer to SA's employment problems, Brews said most of the people in it were earning too little. The taxi drivers were an example of this.

# Anglo Alpha proves to be a good buy for AVI

By Stephen Cranston

Anglovaal Industries has reported a 21 percent increase in earnings to R147,2 million but because of an increase in the number of shares in issue, earnings per share increased by just nine percent to 464c.

A notable feature was the contribution from the 25 percent holding in Anglo-Alpha, acquired in the second half of last year. It contributed 10 percent of the group's attributable earnings.

## Top earner

Once again National Brands, which holds Bakers, TW Beckett, Pakco and Yardley, was the biggest earnings contributor, with a 28 percent contribution. Packaging and rubber group Consol followed with an unchanged 27 percent.

This was followed by AVI Diversified Holdings, which has interests principally in textiles and engineering. It provided 17 percent of the bottom line. This was down from 21 percent. The textile division reported lower profits, largely because of continued unrest around Mooi River Textiles.

I&J, which reported a 19 percent earnings decline saw its contribution fall from 20 percent to 13 percent. The troubled electronics and construction group Grinaker had an unchanged three percent contribution.

Group turnover increased by six percent to R4,199 billion but profit before tax was up by just one percent to R371,4 million.

A decline in the effective tax rate from 44,6 percent to 41,2 percent, the maiden contribution from Anglo-Alpha and reduced income for minorities turned this into a 21 percent increase at the attributable level.

The net cash position of the group fell by R327,6 million to R141,9 million as a result of the acquisition of 25 percent of Contred by Consol from Trencor and group capital expenditure of R144,2 million.

# Biggest trade display

Sowetan 25/2/93. (180)

## ■ 2 000 African business people invited to SA:

By Mzimkulu Malunga

SOUTHERN Africa's biggest industrial and technological show is due to be held in Johannesburg towards the end of the year.

About 2 000 leading African businessmen and policy makers are expected to attend the conference from August 30 to September 3.

In a move geared towards promoting the event on the continent, co-ordinators of The Africa Initiative have arranged direct presentations in African cities as far afield as the Egyptian capital of Cairo.

This is seen as South African industry's ideal opportunity to market its products to the rest of the continent.

Organised by SAVI and Systems Exhibitions, the initiative has the backing of influential business, industrial and technological groupings in South Africa.

Already 100 local companies have booked exhibition space, some have also helped finance the project.

The African Initiative has it roots in the realisation of the increased problems encountered by local business in its effort to penetrate the African market.

# Industry to get vast new W Cape site

ET 26/2/93 (180)

MAGGIE ROWLEY
Property Editor

A MAJOR industrial development larger than Epping and with a residential component is being planned for a 453ha farm between Brackenfell and Stikland.

Servicing of a 57ha portion of the farm falling in the Bellville municipal area is nearing completion.

Thirty of the 113 industrial erven in the development, which has been named Kaymor, have already been sold, said Mr Coen Roux, financial manager for owner Mr Cecil Morgan, who bought the farm 50 years ago.

Most of the farm, which is currently producing dairy, grapes and lucerne, falls under the Brackenfell Municipality. It was rezoned for industrial use in 1953, Mr Roux said.

The development of this land is governed by a new urban plan for Brackenfell gazetted earlier this month. It zones about 75% of the land for industry and the balance for residential and sports facilities, said Brackenfell town clerk Mr Phillip Graham.

Mr Roux claimed that the development of this land, which was worth "about R300m on the open market", could attract billions of rand in investment and create more than 100 000 job opportunities.

Negotiations, he said, had taken place with a Japanese consortium, but these were still at an early stage.

"They are looking at the possibility of purchasing part of the industrial land for their own development. I can't say any more for fear of jeopardising negotiations."

Mr Roux said the present owners may develop part of the land themselves as they had now had experience in Kaymor, where eventual investment was expected to top R75m.

He said that 30ha of the farm had been sold to South African Breweries two years ago.

FM 26/2/93 180

INVESTMENT OUTLOOK

FM 26/2/93

## Coming of age

180

**SA's three** major metropolitan areas are far more attractive to potential foreign investors than is generally perceived and rank ahead of Mexico, regarded as one of the world's "miracle" economies.

This is one of the key findings of an eight-month study by the Brussels-based Price Waterhouse affiliate, Plant Location International. The study was made on behalf of western Cape investment marketing agency Wesgro, the Greater Durban Marketing Authority and similar organisations.

The study, the first of its kind for SA, dealt with regions:

☐ A — the western and southern Cape;
☐ E — Durban functional region, Newcastle/Ladysmith, Richards Bay; and
☐ H — the PWV.

These were compared with five potential competitors overseas:

☐ The Nordrhein-Westfalen region in Germany;
☐ North Carolina in the US;
☐ Dublin in Ireland;
☐ The Chihuahua region in Mexico; and
☐ The Johor region in Malaysia.

Researchers interviewed 120 international companies on their attitude towards investing in SA and compiled 400 detailed profiles of the needs of companies investing in 15 industrial sectors.

The sectors were: new construction materials, food processing, textile mills and products, high quality clothing, high quality leather footwear, high quality furniture, high quality paper products, bulk chemicals, pharmaceuticals, plastic products, metal products, special industrial machinery for the building industry, mining and agriculture, automotive spare parts and battery manufacturing.

In each sector, companies were questioned on 80 location requirements, including political stability. Their demands were matched with the ability of each region to supply and the results were ranked in order of importance.

The US and Germany were ranked first followed by Malaysia and Ireland, then SA's three metropolitan areas with the western Cape faring best, followed by Durban and the PWV. Next ranked was Mexico.

The study concluded that, while the US and Germany had the most attractive combination of location elements, the three SA metropoles were not far behind Malaysia and Ireland and some improvement in the political and economic climate would push them into the same ranking.

The major strengths of the three metropolitan areas were listed as low electricity costs, good port infrastructure and the industrial infrastructure and environment. Major weaknesses were given as perception of the political situation, high corporate taxes and a weak economy, including an unstable currency.

However, the cost structure of establishing in SA was considered attractive with the financial rand being a major incentive. It was suggested that SA's overall weaker competitive position could be compensated by emphasising cost efficiency.

High profitability and short pay-back periods in particular could be used to counter negative political perceptions and steps should be taken to shorten pay-back periods even more. Reducing corporate tax would be a major incentive and considerably improve SA's competitive position.

Wesgro executive director David Bridgman says he was surprised by the results of the study. "I didn't realise SA was as attractive to foreign investors as it is. The finrand has a phenomenal effect. For example, it can reduce pay-back periods to about two-and-a-half years which should counter perceived political risks."

Bridgman says the findings could be used for formulating new official policies. ■

# ANC may retain trade barriers to achieve goals

BDay 26/2/93. (180)

LINDA ENSOR

SALT ROCK — It might be necessary for an ANC government to retain trade barriers for some time to achieve its industrial policy goals, ANC economics department spokesman Neil Morrison said yesterday.

Speaking at an SA Clothing and Textile Workers' Union-organised national industry summit, he said the central focus of an ANC trade policy would be to promote employment and encourage the manufacturing sector to develop on a labour-intensive growth path.

Other goals would be to achieve local and international competitiveness, a well trained workforce and affordable goods.

"Trade barriers and incentives over the next two years should allow companies to invest in technology to make them internationaly competitive," said Morrison, who is the ANC's co-ordinator for the financial sector.

While SA would have to conform to international trade conventions, such as GATT, it might be possible for it to be classified as a "developing country" within the GATT system.

This would entitle SA to enter into bilateral negotiations with its major trading partners to retain export incentives for up to eight years.

Morrison said an ANC government would strive to establish targeted export incentives and would implement an incentive structure to encourage fixed investment.

He said the export strategy would have to be orientated towards developing niche markets.

The ANC supported the idea of a national training fund to retrain retrenched workers. The fund could be financed by a levy on employers and government assistance.

Morrison said the ANC was developing an anti-trust and competition promotion policy.

The ANC, he added, was not wedded to either nationalisation or privatisation — the criteria would be efficiency.

Board on Tariffs and Trade chairman Nic Swart agreed that the transition to SA's economy becoming internationally competitive "would not happen overnight. Tariffs would have to protect SA industries and long-term barriers would have to be created against dumping by countries such as China and Pakistan."

Swart, who is chairman of the committee devising a long-term strategy for the textile and clothing industries, said the committee was working towards a realistic definition of international competitiveness.

Exports could not be supported "at all costs" and had to be considered in the light of the general welfare of all South Africans.

Speaking at the same conference, Frame group executive chairman Mervyn King warned that effective anti-dumping measures were required to ward off the "attack" by Chinese and Pakistani goods.

Despite its promises to introduce measures by November 1992, the Board on Tariffs and Trade had done nothing.

He recommended the introduction of a one-for-one preferential right of entry under GATT saying it was unrealistic to think SA could compete with mainland China.

King predicted that the Uruguay round of GATT talks would not be sucessfully concluded in January 1995 as scheduled.

He suggested that government should subsidise cotton farmers at an annual cost of R35 a year to bring down the cotton price; the homelands should be abolished to level the playing fields; and non-cash-based export incentives had to be abolished.

# AVI set to achieve eighth growth year

BDAY 26/2/93 (180)

**EDWARD WEST**

ANGLOVAAL Industries (AVI) results for the six months to end-December 1992 show earnings up 21% to R147,2m from R121,5m in 1991 and on track to achieve eight years of consecutive growth in spite of recession.

However, the AVI board said the extent of the forecast earnings improvement for the full financial year would depend on business conditions.

The first-half earnings' increase was diluted to 9% at the earnings a share level to 464c (interim 1991: 425c) following an increase in the issued share capital as a result of the acquisition of 25% of Anglo Alpha and a further 4% of Consol's equity.

Turnover increased 6% to R4,2bn (R3,96bn), but reduced margins limited the rise at operating level to R371,4m (R369,2m). Interest paid fell to R41,7m (R43m), while a lower tax rate reduced the tax charge to R135,9m (R145,5m). Taxed profit was 7% up at R193,8m (R180,7m).

Consol improved its pre-tax profit contribution by 4% and National Brands by 18%. These increases, combined with additional AVI investment income, offset lower earnings of Irvin & Johnson and AVI Diversified Holdings' textile division. Unrest in the residential area serving Mooi River Textiles was unresolved.


Graphic: RUBY-GAY MARTIN Source: I-NET

Earnings from associate companies increased substantially to R13,8m (R3m), largely because of the Anglo Alpha investment in the second half of the past financial year, which contributed 10% to group earnings for the interim period.

Minority interests absorbed R60,3m (R62,1m) and preference dividends an unchanged R0,1m. The number of shares increased to 31,74-million (28,59-million). A R3,2m below the line extraordinary cost related to goodwill written off (R1,6m),

□ To Page 2

## AVI

BDAY 26/2/93.

□ From Page 1

surplus on disposals (R0,5m) and rationalisation costs (R2,1m).

Cash balances dropped to R141,9m from R469,5m at the year to end-June 1992, mainly because of Consol's R212,2m acquisition of the Contred 25,6% minority holding and capex of R144,2m.

Consol's acquisition of the Contred minority resulted in both Tredcor and Tycon becoming wholly owned subsidiaries of Consol. AVI Diversified Holdings subsidiary Aven also acquired further Tristel Holdings shares, raising its interest in that company to 97,6% (94,1%).

Goodwill of R132,5m from both acquisitions was disclosed as a fixed asset. Capex was R144,2m (R102,3m), while authorised capex at half-year end was R215,5m (R137,4m), of which R10[illegible]m (R47,2m) had not been committed.

Net asset value (NAV) climbed to R65,52 (R51,92). In terms of NAV the share was highly rated. It was one of the most actively traded shares on the JSE yesterday, closing 50c up at a 12-month high of R136,50.

The results showed that if AVI produced the same second-half earnings as it did in the 1992 financial year — about R1,9m more than 1993's first-half earnings — 1993 earnings would be 9,4% higher than 1992's.

# Asset or albatross? (180) (...)

FM 26/2/93.

**Ronnie Bowker is national technical services director at Ernst & Young**

**Share purchase** trusts are meant to provide an incentive to employees but they are proving a disincentive in many cases, particularly in small companies that listed in 1987. This is true where the market price of the share is sharply lower than its issue price.

Here is a typical example of a share purchase trust established by a small listed company:

- The original loan made by the company to the trust amounts to R2,7m;
- This covers the cost of 1,5m shares issued to the trust at R1,80 each;
- Of these shares, 500 000 have been allocated to employees; and
- Employees paid an initial amount of 10c per share.

The trust is therefore owed R850 000 by the participants. After paying to the company the initial sums received, the trust still owes R2,65m to it. This is to be paid out of dividends received on scheme shares, repayments by participants and surpluses generated by the trust but, in any event, no later than 10 years after allocation of the shares to participants.

The problem for the trust is that it holds 1m shares at a cost price of 180c each but would be unable to allocate them to participants at that price. It could issue the shares at 35c each, the price at financial yearend, but this will create a shortfall of R1,45m when the loan has to be repaid. The company, therefore, has a long-term receivable which it might never be able to recover in full. In addition, if not all of the R850 000 is recoverable from the participants, the shortfall will increase.

Uncertainty about the future performance of the company and its share price makes it difficult to determine the extent of any provision required in the company's books at the current year-end. Experience has shown that the problem tends to escalate each year so preparers of financial statements should adopt a conservative approach when determining the provision.

A second problem is that the participants, who have been allocated shares at 180c a share, are paying fringe benefits tax on the soft loan of 170c a share, while the share is worth only 35c and company dividends have fallen to low levels. The share purchase *incentive* scheme has now become a *disincentive*. These participants would like to get out because it is costing them money and providing no incentive.

The simplest solution is for the trust to repurchase the shares from participants at the original issue price (180c), though the equity of this may be questioned by some outsiders, especially where directors are major scheme participants. While this solution will relieve the participants of their problem (with no adverse tax implications for them), it will increase the trust's problem in that it will hold even more shares which are overvalued when compared with the current share price.

In such situations, companies are restructuring their share purchase scheme arrangements. Typically, they are writing down the loan to the share trust to an amount which reflects the current share price.

The trust is then able to issue shares to participants at reasonable prices and should be able to meet its full remaining obligations to the company. Clearly, there are other methods of restructuring share purchase schemes, but these will also involve a cost to the company.

What is of concern is that some companies are neither disclosing the shortfall nor making adequate provision for the uncollectable portion of the loan to the share trust.

What is the message to companies and their auditors? Do not assume that the loan to the share trust is recoverable just because it is a long-term debt. If the amounts are substantial, disclosure should be made of the repayment terms, as well as the aggregate of the amounts owing to the trust by participants and the market value of the unallocated shares held by the trust. Where the share price has fallen materially below the original issue price to the trust, the share purchase scheme should be reviewed. Where appropriate, disclosure should be made of the plans and, if necessary, provision should be made for any expected writedown of the loan to the share trust.

Disclosures required by the JSE in relation to share purchase schemes are not sufficient on their own to identify potential shortfalls. Companies should consider the potential shortfalls when finalising the annual financial statements.

# Invest or die, Keys warns SA business

STAR 27/2/93 (180)

OWN CORRESPONDENT

CAPE TOWN — Invest or die — that's the clarion call to South Africa's business people by Finance Minister Derek Keys.

Speaking in Cape Town yesterday, Keys lifted the veil on the Government's plan to put the economy back on its feet. But he warned that the future was in the hands of commerce and industry.

— Trade protection barriers and Government export subsidies had to go, and about an extra R15 billion a year had to be made in the manufacturing industry, if South Africa was to claw its way out of its four-year recession back to long-term growth.

## Confidence

But, warned Keys, the success or failure of the plan would depend to a large extent on the private sector's ability to have the confidence to invest in the country.

Speaking at a Cape Town Chamber of Commerce luncheon, Keys said the plan, which would now be known as the Normative Economic Model, was not a final blueprint but a discussion document. A 40-page easy-to-understand summary of the 600 page report would be published next month before Budget Day on March 17, he said.

Keys indicated he had little doubt that the main thrust of the document would have to be accepted by the business community and all political groupings if South Africa was to become competitive in the international arena.

"But if this vision is incorrect I want to find out about it as soon as possible."

It was only by being competitive internationally that there could be real growth in the economy and with it the creation of jobs.

The two main thrusts mentioned by Keys were:

- The gradual scrapping of all protection barriers with both import tariffs and export subsidies being phased out.
- The increase in capital investment with Government and parastatal investment being increased from four percent to seven percent of gross domestic product a year; and in the private sector from 12 to 15 percent of GDP a year.

South Africa had to enter an age of greater investment in the manufacturing industry and had to move towards non-assisted exports.

Keys said he did not think the Government plan had all the answers, but he pointed out that "if we want a longer-term future we have to start down this road."

He emphasised he wanted a response from everyone and said there had already been strong criticisms from some members of the Government's economic advisory committee.

Keys said everyone, whether employer or employee, had to start thinking in world terms.

# Budget boost to unbundle

S Times (BUSS) 28/2/93. (180)

Business Times Reporters

**FINANCE Minister Derek Keys is expected to facilitate the unbundling of large corporations by granting relief from certain taxes in his Budget next month.**

The concessions could include a waiving of marketable securities tax (MST), stamp duties and/or transfer fees to companies involved in genuine restructuring.

However, there is a growing fear among corporations that these moves will be accompanied by a reintroduction of tax on dividends.

Already, the JSE notes a rush of companies not only declaring dividends but aiming to pay them before the end of the tax year in case this happens.

Investment managers, however, believe these fears are unfounded.

The tax was scrapped two years ago because dividends are declared out of taxed earnings, and it was widely regarded as unfair for dividends to be taxed further in the hands of the recipient.

## Shelved

The Finance Ministry will offer no comment on specific Budget issues, and past attempts to reduce MST have come to little.

Mr Keys's predecessor, Barend du Plessis, got cold feet after taking the first step towards a 0,5% a year stepwise reduction of MST over three years.

It was reduced from 1,5% to 1% in 1991, but the next reduction was shelved because it was viewed as politically incorrect at the time.

Meanwhile, conglomerates are not unbundling because of the costs of MST, notes Sankorp's general manager, Marinus Daling.

He says that, technically, the exchequer is not losing a source of revenue because of this inertia. But MST only collects about R220-million a year, around 0,3% of the total pull, because of it.

JSE president Roy Andersen is unhappy about MST, because the JSE is the only financial market upon which the charge is levied and because it hampers liquidity of the market.

Liquidity on the JSE is the third-worst among the world's bourses and it is not conducive to attracting foreign investors to virtually the only market where MST persists. Nor does it encourage companies to invest when there is an additional cost when realising a mature investment.

Mr Daling says it is for the stockbrokers themselves to lobby the ministry with regard to the complete removal of MST.

Sankorp's stance is that, if the status quo with regard to existing parameters is maintained, there will be no changes; if Mr Keys introduces the moratorium on stamp duties, transfer fees and MST in examples of genuine unbundling, there might be.

Sankorp reorganised its investment wings substantially last year.

Murray & Roberts became the home for gross domestic fixed investment activities, Malbak for consumer business and Servgro for its service investments. Gencor houses mining and energy, as well as substantial stakes in Sappi, M&R and Malbak.

Both M&R and Malbak have pyramid holding companies which, Mr Daling concedes, reduce liquidity within the stocks.

## Hampered

"During the 60s and 70s it was fashionable around the world to grow conglomerates. It was the in thing to buy bad paper with good and the philosophy snowballed.

"The trend is now turning towards greater specialisation and focus, but in South Africa we are hampered from restructuring because of costs," says Mr Daling.

There are two angles to unbundling; the first would be to do away with control pyramids and the other main thrust would be the distribution, possibly by dividend in specie, of shares held by conglomerates in their subsidiaries.

Mr Daling says it is imperative for South Africa to stay in line with the rest of the world.

Some conglomerates do offer a critical mass in which institutional funds can be placed. South Africa's closed economy and limited avenues for investment are well-documented greenhouse factors. There is also an argument in favour of size, because big companies can be globally competitive.

## Cross-held

Beyond Sankorp there are plenty of examples of bundles ripe for unravelling. The English media is extensively cross-held, a thorny issue ahead of a new government. Argus is likely to sell its holding in Times Media this year.

The Industrial Development Corporation deferred its plans to unbundle Natsel and Indsel until after the Budget.

Old Mutual investment manager Rowland Chute agrees that any reduction in dealing costs will be a plus, especially over the longer-term. For institutions, MST is a niggle, but a small price to pay over time. Its scrapping would not dramatically change the investment landscape.

Mr Chute says 1% extra on costs is a significant amount to a dealer, and there are many examples of why one company should be sold to another — but it is not because of the costs.

MARINUS DALING ... stockbrokers themselves must lobby the ministry

## COMPANIES

# Amic borrowing power to grow

MATTHEW CURTIN

THE creation of divisions at Anglo American Industrial Corporation (Amic) will turn the group into an operating company which will have the borrowing power it needs to pursue new business ventures, says chairman Leslie Boyd.

Boyd said yesterday that the new-look Amic would benefit from its already strong balance sheet plus the concentrated earnings flow which would arise if it "divisionalised" wholly owned subsidiaries such as engineering companies Scaw Metals and Boart, motor components supplier Kolbenco and electronics company Control Logic.

BDAY 1/3/93

He said Amic could not exploit the strong earnings of these subsidiaries at present because it could not borrow money against them.

The group would move from being a holding company with wholly owned subsidiaries to an operating company with a number of divisions, plus part-owned subsidiaries like Mondi Paper and LTA, and associates such as Haggie and Dorbyl.

Boyd was clarifying comments made last week in his annual review of the group's results when he said the first aim of the current review of Amic's business was to make the group more financially efficient.

(180)

The group's new thinking was spurred by opportunities it had identified which would require raising finance as well as by rethinking Amic's position in the light of the prolonged trough in the commodities cycle its recent performance. Earnings have fallen for three years in succession.

Boyd likened possible "divisionalisation" at Amic to the existing structure at its 38%-held subsidiary Highveld Steel and Vanadium. Highveld had expanded in the past by buying new companies which became the group's Rand Carbide and Transalloys divisions rather than being held at wholly owned subsidiaries.

Highveld's divisions operated as separate profit centres, independently managed, and imparted a high degree of financial efficiency, as would future Amic divisions.

Amic reported earnings a share of 617c (731c) in the year ended December 1992 and declared an unchanged 350c tota dividend.

# Food giant's assets surge after major acquisitions

(180) ARG 1|3|93

JOHANNESBURG. — The assets of Del Monte Royal Foods (Delfood), the key influence in the Delmonte Royal Group (DMR), increased about nine fold from September to November after three major acquisitions and a substantial distribution agreement with Mars International during the 15 months ending on November 30.

According to a DMR spokesman, the company, complying with regulatory formalities because of having bought Del Monte, came up with a report only three months after publishing one for the year ended August 31.

The group's earnings a share for the 15 months was 36,4c — 59 percent above the 22,9c achieved in the 18 months to August 31, 1991.

Factors influencing results over those three months included:

- The results of Donald Cook's and Fresh Up were consolidated for the first time;
- The Donald Cook's business was restructured and significant costs were incurred;
- Fresh-Up's manufacturing plant was transferred from the Transvaal to the Cape and only contributed after the financial year end; and,
- The Donald Cook's and Fresh-Up acquisitions made during those three months were largely funded out of borrowings and the group's gearing at November 30, 1993, increased accordingly.

The benefits associated with these acquisitions would only be visible at the end of the 1993 financial year.

"Furthermore, the results exclude Delmonte, the biggest of them all, acquired with effect from December 1, 1992, immediately following the period in question," the spokesman said.

"As a result of the major financial restructuring in December, 1992, related to the Del Monte acquisition, funds were raised that could ensure the group's gearing should be well down on the public's figures."

He added this difficulty in tracking down a group's progress was not a new experience for analysts.

"It has moved so rapidly, changing shape, size, year-end, name and even its core operating base so frequently that the past has had little relevance for the present and the present little indication of the future."

However, what was meaningful, was that to a shareholder who invested R1 in Lovasz Chemicals at its listing in October, 1987, was less than six years later worth around R10, plus dividends along the way.

"Over that same period, the group's aggregate market capitalisation has gone from some R26 million to R5,4 billion."

Delfood had also budgeted 60,1c in earnings a share for the current financial year ending on November, 30, 1993, representing a directly comparable increase of 65 percent.

Chairman Vivian Imerman said: "We expect to introduce some exciting new products to South African shelves this year."

# Sacob warns Govt against 'overkill' on VAT and tax

Star 3/3/93

180

By Sven Lünsche

**SACOB FORECASTS FOR 1993**

| | 1991 | 1992 | 1993 |
|---|---|---|---|
| Private Consumption Expenditure (%) | 0,2 | -3,5 | -0,5 |
| Govt Consumption Expenditure (%) | 5,7 | 2,0 | -3,0 |
| Gross Domestic Fixed Investment (%) | -8,4 | -12,0 | -2,5 |
| Investories | — | | + |
| GROSS DOMESTIC EXPENDITURE (%) | -0,4 | -2,8 | -0,3 |
| Exports (%) | 1,2 | 2,0 | 1,8 |
| Imports (%) | 2,5 | 1,0 | -0,5 |
| GROSS DOMESTIC PRODUCT (%) | -0,6 | -2,1 | 0,5 |
| Inflation (% at Year-end) | 16,3 | 9,6 | 9,0 |
| Prime Overdraft Rate (Year-end) | 20,25 | 17,25 | 15,25 |

The SA Chamber of Commerce (Sacob) has come out strongly against a rise in the VAT rate in the forthcoming Budget.

In a briefing to parliamentary correspondents in Cape Town yesterday Sacob Director-General Raymond Parsons said: "It would be unwise to increase VAT at this time and we urge that any increase that may have to be introduced is kept as low as possible."

However, Parson admitted that some tax increases could be unavoidable given the precarious state of the fiscal deficit.

Sacob was particularly concerned at the timing of a VAT rate hike.

"Imposing a higher VAT rate on a contracting economy is likely to increase the severity of the recession and could result in only a minimal increase in collections and reduced collections from other taxes.

"It could also re-politicise VAT just when the system had been accepted by both consumers and businesses," Parsons added.

## Target

In nominal terms he estimated that lifting VAT from 10 to 13 percent (assuming that further exemptions are limited) could raise R3,5 billion with a further R1 billion coming from other tax adjustments.

Against a backdrop of declining disposable incomes, increased taxes would undoubtedly reduce collections below the targeted R4,5 billion.

Sacob admitted, however, that in the absence of tax increases a meaningful reduction in the government's deficit before borrowings was virtually impossible.

Without tax increases, Parsons estimated that — assuming GDP growth of one percent and average inflation of 9,5 percent — the state will raise an additional R8 billion in fiscal 1993/3 from existing taxes.

"To achieve a deficit before borrowing of not more than six percent of GDP, this implies that government would have to contain spending to around R105 billion — a reduction of 9,4 percent in real terms."

Given that even Finance Minister Derek Keys' commitment to a real spending cut of three percent has drawn widespread scepticism, Parsons admitted that this was an impossible task.

"Some increases in taxes might therefore be contemplated," he said.

Preferably though Keys should try and reduce spending still further and may have to accept a deficit higher than six percent.

"The deficit is also a structural problem that has developed over a number of years.

## Time frame

"It is therefore inappropriate to try to correct this problem in a single Budget and we recommend that a broad commitment is made to reduce the deficit to internationally acceptable level over three years," Parsons said.

He also warned that the Budget generally had to guard against "overkill" given the precarious nature of the economy.

"The Budget should aim at rebuilding consumer and business confidence, recognise present economic realities and provide a clear indication of the direction to be pursued in the future."

Sacob also used the opportunity to revise some of its economic forecasts for 1993.

The Chamber now expects GDP to increase by a mere 0,5 percent, gross domestic expenditure to fall by 0,3 percent and inflation to reach nine percent by year-end (see table).

# Accepted barometer of credit risk in world markets

180

A FORMAL rating has a number of benefits for a company:

- For organisations dealing in international markets, where ratings are accepted as the barometer of credit risk, a favourable rating facilitates access to a wider pool of financial and trade counterparties;
- Ratings also facilitate access to a wider pool of local investors and lenders, particularly as many major investors and wholesale depositors give preference to or only deal with rated counterparties;
- With the legislation of a regulatory framework governing the corporate debenture, structured finance and commercial paper markets in SA, companies can now reduce their overall cost of borrowings. These markets will not develop without ratings;
- Ratings have been proved to enhance the liquidity of specific debt issues;
- Strategic advantages associated with a quality rating include it being a good method of differentiating an organisation from "the pack" and enhancing its image, while it can be used as an excellent marketing tool and a source of competitive advantage;
- The ratings exercise provides management with an independent assessment of the strengths and weaknesses within an organisation;

BDay 3/3/93.

## Redress

- Formal ratings redress misconceptions that often prevail in informal ratings of organisations, thereby affecting the share price.

For subscribers, ratings are a highly cost-effective complement to any organisation's internal risk assessment structures for the following reasons:

- Ratings are convenient for investors and lenders who lack the time or expertise to do the necessary credit assessment of a wide range of unfamiliar companies and debt instruments;
- As ratings are future cash flow oriented and usually involve access to sensitive information, RR is uniquely positioned to provide the most sophisticated credit assessments available;
- Ratings establish relative creditworthiness transcending different industries, companies and types of debt by encapsulating a diverse range of complex data in an easy reference and internationally recognised rating scale. As such, they provide the basis for establishing credit exposure limits and pricing levels;
- Findings are continuously reviewed in the light of changing circumstances and subscribers are kept up to date.

# Sacob cautions on tax increases

BIDM 3/3/93 (80)

LINDA ENSOR

CAPE TOWN — Tax increases in the Budget should be avoided or kept to a minimum in the light of the precarious state of the economy, Sacob director-general Raymond Parsons said at a news briefing yesterday.

He noted in order to place the economy on a more productive basis, the tax burden should not increase and urged government to accept that the best way to address the Budget deficit was through economic growth.

Parsons argued that an increase in the VAT rate and in other direct and indirect taxes at a time when the economy was contracting was likely to heighten the severity of the recession. Sacob believed a VAT increase would place more pressure on disposable incomes and have inflationary consequences.

While Sacob estimated an increase in VAT rate to 13% would raise an additional R3,5bn and increases in fuel and other indirect taxes could add about R1bn, increased taxes would reduce collections in other areas.

Parsons said one of the major tasks of the upcoming Budget was to guard against "overkill" as wrong decisions could easily push the precarious economy further into recession.

Finance Minister Derek Keys was faced with a difficult balancing act.

"On the one hand he needs to give attention to the structural issues, and on the other he is faced with demands for additional government consumption expenditure set against a narrow tax base that has little, if anything, to give."

Parsons believed government had little option but to try and reduce its spending in real terms further, and might have to accept a deficit higher than 6% if it was unable to do so.

To achieve a deficit before borrowing of 6% of GDP — assuming there were no tax increases, GDP grew 1%, an average inflation rate of 9,5% and about R8bn in additional tax revenue — government expenditure would have to be cut by 9,4% in real terms. This appeared unlikely.

The two other alternatives proposed were for no tax increases and a 3% real cut in government spending which would bring the deficit down to 7,8% of GDP or for R5bn in additional tax and a 3% cut in real spending in which case the deficit would fall to 6,5% of GDP.

The worst combination would be higher direct and indirect taxes and a cut in government spending.

Parsons said the business community would judge the Budget on the basis of two criteria, namely the extent to which it helped rebuild business and consumer confidence and the extent to which it recognised present realities but also provided a clear indication of the direction to be pursued in future.

Parsons stressed of equal importance to the Budget were political developments and he urged that when multiparty political negotiations resumed, they should include an economic dimension.

# Consumer spending 'will slide further'

BDay 3/3/93

(180)

MARCIA KLEIN

REAL consumer spending was expected to decline further this year, and most retail categories could expect a difficult year, FNB's Retail Trends report for February said.

It said real consumer spending remained under pressure in the second half of 1992.

There may be "an upward blip" in the first quarter of the current year if there was "a surge of pre-tax-increase buying during March". But there would be a decline in the following quarter "as employment, wage and credit trends continue to exert downward pressure on real spending".

Manufacturing production had also remained under pressure in the second half of 1992, and destocking was "especially marked during the third quarter" because of drought and industrial unrest.

Production capacity utilisation remained poor, and there was evidence of further job cuts.

"With the sales outlook remaining poor and real interest rates high, manufacturing production may not yet have hit the bottom."

Retail sales of non-durables had continued to decline in volume terms as disposable income declined. FNB said the next six to 12 months would probably remain difficult.

Arthur Andersen publication International Trends in Retailing said turnovers in SA had grown only marginally in real terms, and most retailers had seen a decrease in profit margins. There had also been signs of a decrease in consumer demand and output.

It said retailers could face difficult months ahead if they did not become more price competitive. Profits would have to come from improved internal efficiencies rather than higher sales volume.

Bureau of Market Research statistics showed black South Africans now commanded the largest market share in food, beverage, footwear, clothing and television and radio sales, it said.

Retailers would be better positioned to take advantage of these opportunities "if the economy was more stable and change came at a more measured pace".

Stockbrokers Irish & Menell Rosenberg said sales were weak in January, and preliminary figures for February showed no improvement. But clients had said business conditions had improved in February compared with the previous month.

bt
er

EYN

er) credit

of a CP
is benefit
investors
he mecha-
the banks.
iting the
banks re-
enable in-
t a higher
onds (with-
ly wasting
also allow
orrowers to
nding cost.
because of
range of in-
portunities
struments
previously
known to in-
market place
ependent in-
relative cre-
s in order to
ntly.
this is one of
reasons why
ablished.

# Formal ratings set to become the norm

WHAT corporate clients have to say about a service rendered to them is among the best means of gauging quality and value.

Business Day approached most of the companies which had been formally rated and all responded positively to the service and assessment by Republic Ratings (RR).

Taking a broad view, Rand Merchant Bank chairman GT Ferreira says formal ratings should ultimately become the norm in the event of raising corporate bonds.

"Being a factor of credit quality and liquidity it will, among other things, help to determine the relative pricing of and differentiate between the spectrum of bonds.

"Investors and institutions will come to rely on a credit rating before investing in corporate paper," says Ferreira.

Investec Bank GM George Kontominas says all private and public sector organisation clients that borrow should be rated. "This is a natural part of the development of the corporate debit market, as well as financial markets in general."

He says Investec knew RR would base its formal rating exercise on a tried and tested international formula, and subsequently found the exercise to be thorough.

"We also received a higher ranking than earlier designated from the informal credit opinion (rating without co-operation). This clearly establishes our position in the market," says Kontominas.

Although Tiger Oats has a high standing in local financial markets, it saw a rating as an opportunity to encourage further ratings as an important preliminary step to opening up the corporate paper market.

"Our decision was therefore strategic as we took a long-term view of the market," says Tiger Oats financial director Haydn Franklin. He says ratings will be of particular benefit to companies which have traditionally had low visability, as they will now have access to a wider range of investors.

## Support

Corporate investors are also most likely to use the ratings as a support for in-house selection procedures.

"Republic's analysis of our company and industry was comprehensive and accurate, as was that of the historical and forecast financial position," says Franklin.

Among the smaller corporates to have been rated was Hudaco.

Financial director Peter Poole says when he received a copy of RR's report on the formal assessment of Hudaco and other companies he found it to be thorough.

"I believe that for the smaller type of corporation this type of rating will materialise particularly once the country has a maturing corporate paper market," he says.

# Rapid progress subdues initial hostile response

(180)

B/Day 3/3/93

SINCE launching its innovative debt rating service three years ago, Republic Ratings (RR) has cleared many hurdles, rapidly gaining market appreciation and demand for its services and products.

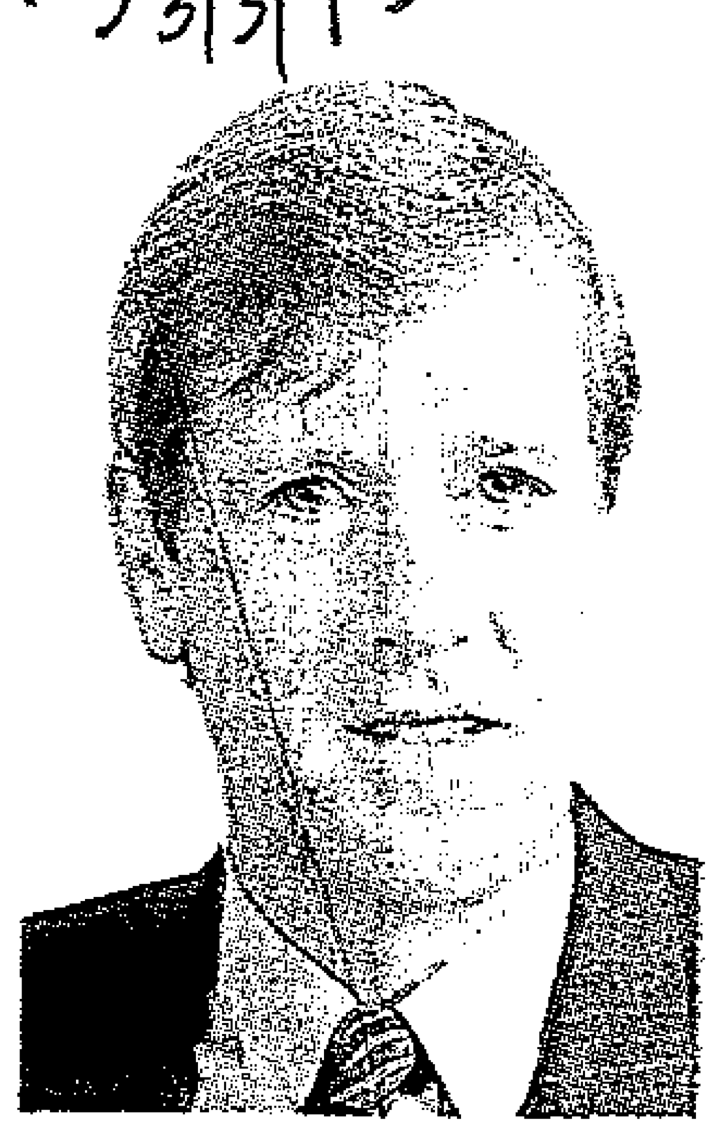
Encouraged by more recent progress after some initial hostile response from certain sectors and tough recessionary conditions, the company has promising plans for the future.

So says RR chairman Dave King, who founded SA's first independent ratings agency in mid-1990.

With the ratings concept relatively unknown in SA three years ago, the continuing development of local financial markets was impeded by the lack of a local and independent ratings agency, he says.

"It is generally accepted in developed countries that ratings are essential for the orderly development of liquid and cost-effective corporate debenture, structured finance and commercial paper markets.

"However, they also play a vital role in entrenching credit quality in the market as a whole, which facilitates the more efficient pricing of risk in general."



CHAIRMAN DAVE KING

He says ratings agencies such as Standard & Poor's and Moody's occupy pivotal roles in the financial markets of the major Western economies, where the serious players invariably only deal with highly rated counterparties.

It was this appreciation that encouraged a powerful business lobby to initiate a study into ratings. Later, the Reserve Bank and some leading players came out strongly in support of the establishment of an independent debt ratings agency.

Such foresight prompted King to successfully mould RR along the lines of its highly reputable international counterparts.

He says local progress can already be gauged from the fact that his team did not take long to secure subscriptions from key players that were not automatically supportive of the modern ratings concept.

Such changing attitudes resulted in various organisations increasingly realising the value of giving preference to using ratings when evaluating their debt portfolios.

RR's subscriber base now looks like a "who's who" of local companies and also includes some of the largest international institutions.

While much of 1991 was spent procuring technology, training staff, developing databases and tailoring international methodologies to suit local requirements, 1992 was a period for breaking into hostile markets.

Having completed only about 10 ratings in its first year, RR now completes about 10 ratings a month.

In the process, ratings have become increasingly institutionalised in local markets. All the major capital market players have been rated and 60% of the banking sector has commissioned ratings, with rapid progress being made in the insurance, corporate and local authority sectors.

That ratings are being utilised by investors is demonstrated by the fact that major corporates such as Eskom and Transnet are on record as having implemented internal policies to give preference to dealings with rated counterparties.

Local ratings are now also being taken into consideration in the international markets, with Reuters recently requesting RR to reflect the ratings on its international networks.

King says the importance big companies attach to their ratings is aptly demonstrated by the increasing utilisation of ratings in advertising campaigns, and the prominence accorded to the rating in published financial statements.

Last year was a landmark year for RR as, after incurring losses in its first two years of operation, it is now trading profitably.

The international norm for ratings agencies is not to break even in the first five years because they have to break into hostile market.

King attributes RR's success to the quality of its research staff and highly sophisticated modelling capabilities.

"We can honestly claim that our product exceeds international standards, notwithstanding our short track record."

The claim is backed by the fact that RR has been approached by one of the major international agencies with a view to taking a stake in the company.

Some of the world's leading suppliers of business information, including SVP, have also expressed interest in utilising RR as their southern African correspondent.

King jokes that RR is probably better known in international markets than it is locally, but this is an issue he intends to address.

Indeed, he believes one of RR's biggest mistakes was its lack of communication with the local market, which led to numerous misunderstandings as to what ratings are and the role agencies play.

RR's medium-term objectives are to expand into sub-Saharan Africa to become a truly southern African rating agency. It also intends to differentiate its products to make them more affordable to the smaller corporates and expand into the broader information market.

**How ratings impact upon pricing**
(Industrial bond yield for different rating levels (US))
Ave yield (Excess yield expressed as a % of AAA yield)

| | AAA | AA | A | BBB | BB | B |
|---|---|---|---|---|---|---|
| 1991 | 9,14 | 1,04 | 8,20 | 29,43 | 31,63 | 124,61 |
| 1990 | 9,78 | 3,58 | 7,65 | 17,38 | 44,18 | 103,38 |
| 1989 | 9,92 | 3,73 | 7,86 | 11,49 | 23,91 | 40,63 |
| 1988 | 9,95 | 3,82 | 9,05 | 12,76 | 14,07 | 25,73 |

Graphic: LEE EMERTON Source: STANDARD & POOR'S (US)

# Formal ratings set to become the norm

WHAT corporate clients have to say about a service rendered to them is among the best means of gauging quality and value.

Business Day approached most of the companies which had been formally rated and all responded positively to the service and assessment by Republic Ratings (RR).

Taking a broad view, Rand Merchant Bank chairman GT Ferreira says formal ratings should ultimately become the norm in the event of raising corporate bonds.

"Being a factor of credit quality and liquidity it will, among other things, help to determine the relative pricing of and differentiate between the spectrum of bonds.

"Investors and institutions will come to rely on a credit rating before investing in corporate paper," says Ferreira.

Investec Bank GM George Kontominas says all private and public sector organisation clients that borrow should be rated. "This is a natural part of the development of the corporate debit market, as well as financial markets in general."

He says Investec knew RR would base its formal rating exercise on a tried and tested international formula, and subsequently found the exercise to be thorough.

"We also received a higher ranking than earlier designated from the informal credit opinion (rating without co-operation). This clearly establishes our position in the market," says Kontominas.

Although Tiger Oats has a high standing in local financial markets, it saw a rating as an opportunity to encourage further ratings as an important preliminary step to opening up the corporate paper market.

"Our decision was therefore strategic as we took a long-term view of the market," says Tiger Oats financial director Haydn Franklin. He says ratings will be of particular benefit to companies which have traditionally had low visability, as they will now have access to a wider range of investors.

## Support

Corporate investors are also most likely to use the ratings as a support for in-house selection procedures.

"Republic's analysis of our company and industry was comprehensive and accurate, as was that of the historical and forecast financial position," says Franklin.

Among the smaller corporates to have been rated was Hudaco.

Financial director Peter Poole says when he received a copy of RR's report on the informal assessment of Hudaco and other companies he found it to be thorough.

"I believe that for the smaller type of corporation this type of rating will materialise particularly once the country has a maturing corporate paper market," he says.

# Business Day SURVEY

*Moulded along the lines of international rating agencies like Standard and Poor's, Republic Ratings was launched three years ago. Since then ratings have become increasingly institutionalised in local markets. All the major capital market players have been rated and 60% of the banking sector.* ***LYNN CARLISLE*** *reports.*

## Research division to meet growing demand

BDAY 3/3/93.

RISING demand for its research services has prompted Republic Ratings to form a research division under the banner of Republic Research, says MD Dave King.

This coincides with the recent appointment of Republic Ratings as the southern African correspondent of one of the world's largest business research groups, SVP.

"The new division will take over all the research functions of the group with immediate effect."

He says it will specialise in:

☐ Industry profiles, consisting of detailed studies on the key SA industries and sub-sectors; and

### Intelligence

☐ Information database and business intelligence, consisting of statistical financial information on all JSE-listed companies and non-listed financial institutions, as well as detailed cross-linkages between companies and directors.

The division will also provide a range of advisory services in the fields of credit and strategic risk analysis, including:

☐ Credit policies. Republic already advises some of the largest corporates on counterparty credit limits in the financial markets and appropriate risk weightings for different instruments;

☐ Structured finance/securitisation issues;

☐ Forecasts and sensitive analysis. The sophisticated financial modelling package in use focuses on the implications of strategic variables on future operational cash flows;

☐ Special research projects. Republic undertake special ad hoc research projects for subscribers and non-clients on request for an agreed sum. Republic is also geared to report confidentially on portfolios of pre-selected companies on a regular basis to meet the needs of its subscribers.

180

With the link-up of SVP and Republic, local businessmen now have access to one of the most extensive international business information and intelligence networks.

MD DAVE KING

## Key industrial financial ratios
(3 year average)

| Ratio* | | AAA | AA | A |
|---|---|---|---|---|
| Pre-tax interest coverage | (x) | 12,0 | 9,1 | 5,5 |
| Funds from operations/ Total debt | (%) | 89,1 | 79,2 | 48,7 |
| Pre-interest return on total average assets | (%) | 26,2 | 21,0 | 17,5 |
| Total debt/capitalisation | (%) | 23,3 | 28,0 | 35,2 |

| Selected SA Cos** | | Tiger | Nampak | Dorbyl |
|---|---|---|---|---|
| Pre-tax interest coverage | (x) | 8,0 | 7,6 | 4,7 |
| Funds from operations/ Total debt | (%) | 99,2 | 99,5 | 85,8 |
| Pre-interest return on total average assets | (%) | 18,0 | 21,7 | 11,3 |
| Total debt/capitalisation | (%) | 23,6 | 25,4 | 20,3 |

Graphic: LEE EMERTON Source: *STANDARD & POOR'S **REPUBLIC RATINGS

# SA corporates match international norms

KEY industrial financial ratios of major SA companies that have been formally rated show similarities to those of US corporates, according to recent findings by Republic Ratings. 180 (~~272~~)

Certain comparisons are shown in the accompanying table. BDM 3/3/93

However, says RR senior analyst Pieter Steyn, such ratios are not intended to act as hurdles that should be cleared to attain a specific debt rating.

Furthermore, caution should be exercised in the application of these ratio medians for comparisons with company specific and/or industry data.

"This is because of the importance of industry or business risk, differing accounting principles and business environments."

He says ratings are designed to be valid over the entire business cycle. The ratios of a particular firm at any point in the business cycle may thus appear to be inconsistent with its assigned debt ratings.

"Proper assessment of debt protection levels requires a broader perspective, involving a thorough review of business fundamentals, including judgments about a company's competitive position and the evaluation of management and its strategies.

"The rating finally accorded is a synthesis of both qualitative and quantitative factors."

Consequently, says Steyn, a situation may arise where a company with superior financial ratios is ranked lower than one with lesser ratios — if the latter's business risk is lower.

An example is Tiger Oats, which qualified for an AAA rating, although key financial ratios lagged international norms.

### Invalidates

Steyn says it is primarily the inability of a financial modelling package to accurately account for business risk that invalidates any "computer generated" rating. "This is particularly when the model predicts future risk based on historical financial statements."

Another critical flaw is that the results of these models are heavily distorted depending on the diverse range of accounting policies employed.

# Issuers of debentures get scrutiny warning

BIPAM 4/3/93.

(180)

PETER GALLI

THE Business Practices Committee has warned it will get tough if companies involved in issuing debentures do not respond to a circular sent to them.

Chairman Louise Tager said the circular required companies to furnish it with comprehensive financial records within three weeks. This formed part of its investigation into aspects of the marketing of debentures and other securities.

She cautioned that steps would be taken against companies refusing to supply information or trying to hide anything.

"If they fail to respond satisfactorily, we have the power to institute an ungazetted preliminary investigation into the operation, allowing us to search and seize material.... If the company remains uncooperative, we can hold a formal inquiry, which is gazetted and can be very damaging."

Many companies felt they were not responsible for the actions of the intermediary or financial broker, and responsibility for this was being investigated.

The circular required the company to state why it raised funds through issuing debentures and to detail whether prospective investors were supplied with sufficient information.

A current cash flow statement, full audited financial statements for the past three years and total debenture exposure, with a quarterly schedule of the total amounts of debentures falling due, had to be supplied. "We also want to know the security offered to debenture holders, a copy of the relevant trust deed, the names and addresses of (those) involved in the marketing of the debentures and the percentage commission paid to intermediaries."

ANIES

# Amic is likely to mark time this year

BIDAY 4/3/93.

ANGLO American Industrial Corporation (Amic) was likely to maintain its year dividend at 350c for the third successive year when it reported expected lower earnings today, analysts said.

"Earnings have been declining since the 1989 peak and, given the economic prospects for 1993, it doesn't look like a turnaround will occur in the current financial year," Barry Sergeant of stockbroker Mathison Hollidge told Reuter.

Amic revised downwards prospects for the year to end-December 1992 at the half-way stage in August, saying most of its subsidiary and associate companies were experiencing reduced local demand and lower export prices. In some cases production runs had been shortened.

Its wide-ranging interests cover commodities, pulp and paper products, electronics, food, textiles, motor assembly and distribution, freight and travel.

Analysts contacted by Reuters forecast lower earnings of between 630 and 590c per share in the period under review versus a previous 731c. They said most of the bad news was probably already in the share price, which has moved from R90 in May to a R52 low in October, then to a current R60.

"Most of its major listed investments such as Highveld Steel and AECI have recently reported lower earnings," said Syd Vianello of Ed Hern, Rudolph Inc.

Exporter Highveld Steel Vanadium Corporation posted a 40% drop to 80c per share in 1992 earnings, while chemicals producer AECI's annual earnings fell 12% to 106c.

Analysts said the two big unknowns were wholly-owned subsidiaries Scaw Metals and Boart International, both of which were major contributors to Amic revenue.

Amic has made several recent changes to group shareholdings in which Amic companies have acquired from parent Anglo American Corporation increased stakes in certain investments.

Nelson Mandela's ANC, which regards itself as a government in waiting, has voiced strong concern over what it sees as an excessive concentration of economic power in the hands of major, white controlled corporations.

It favours antitrust-style policies to counter this. — Reuter.

Star 4/3/93

# Companies warned to invest or face losing market share

180

By Tom Hood

CAPE TOWN — South African industries will have to be international players even if they are not exporters.

That is the message from Bill Cooper, chief executive of diversified industrial group T&N Holdings, which in the year to end-December lifted its earnings a share 23 percent to 86c, its dividend by 41,7 percent to 34c and its operating profit by 21,5 percent to R48,5-million.

These results, says Cooper did not happen by chance.

"In South Africa, the thrust is to grow your business through exports as the local market is dormant."

Although the group's local markets shrunk, its market share and volumes increased, suggesting that competitors took the brunt of the recession.

But most South African companies tend to be introverted rather than outward looking, he says.

As tariff and political barriers drop, there will be new international competitors in the domestic market.

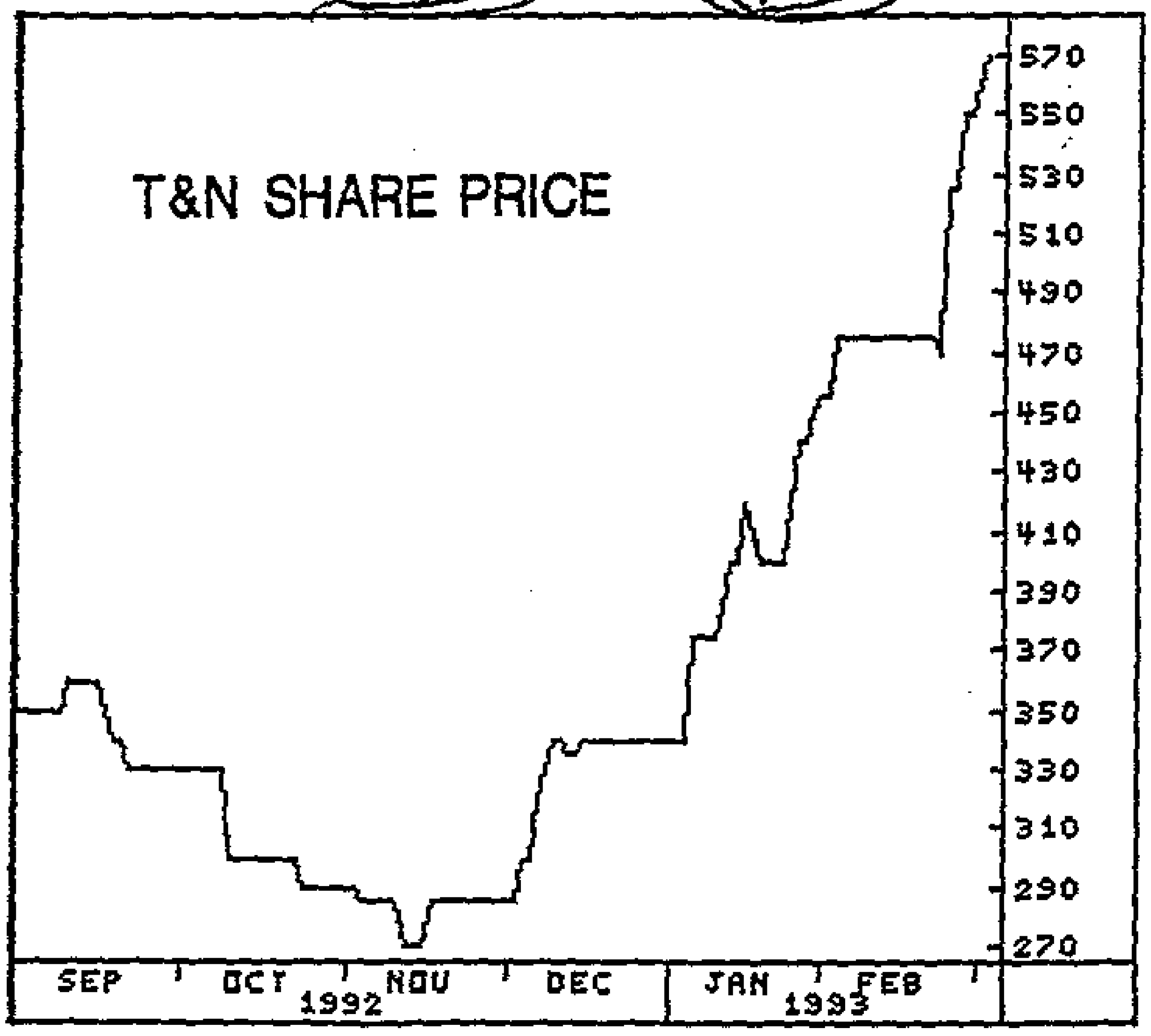
"Things could turn up more quickly than people expect. Usually, when this happens, there's a trebling of uptake. If people start importing, we will lose our market share."

The key here is not to hold back on investments. T&N has committed more than R10-million in the past financial year.

Ferodo, which made a particularly good showing was allotted R2,5-million to increase disc brake capacity by 25 percent.

"We are surprised by our own success. We seem to have got the marketing mix right."

Bill Cooper, T&N chief executive ... "surprised at our own success."




Cooper says the group is budgeting for a 50 to 70 percent increase in turnover at FHE Automotive in 1993.

The company has expanded to incorporate a number of technologies and now provides a full range of heat exchange products.

Last year, two injection moulding machines were installed at a cost of R3-million and the investment in a new plant for automotive heaters has been justified by two major contracts from Nissan.

A joint venture with an air-conditioning company later this year, to be known as Ebcon, entails an investment of R4,5-million. This will facilitate the manufacture of a full range of fully packaged cooling systems.

AE Bearings in Pinetown operated at 100 capacity throughout last year. Shortly before Christmas, the company installed a new bearing line and will add another "in the not too distant future".

Another major development — a R3,2-million investment in AE Sinterline in Pietermaritzburg — will give the company both a local and international edge. Raw material for high quality bearings which was previously imported from Australia can now be produced locally.

Glacier Bearings invested R800 000 in upgrading high precision machinery and TBA Industrial is installing a new calendar at a cost of R300 000 to replace antiquated equipment dating as far back as 1920.

Cooper emphasises that T&N has invested in products with a long-term strategic importance which has meant significant changes in operations and management input.

Because of this T&N disinvested from loss-making Pinetown-based resin business British Industrial Plastics for a tidy R2,3-million profit in September.

The related moulding powder plant was another grey area.

"When they lifted import controls, we took the full brunt of international competition. The plant had to operate differently.

"We invested R1,3-million in additional machinery and revamped the whole plant."

# Sharpening the competitive edge

(180)

FM 5/3/93:

**Steve Burgess, a former executive at Johnson & Johnson, is a business consultant and marketing co-ordinator in the commerce faculty at Wits University**

***FM:* What's the biggest problem facing businesses in SA?**

**Burgess:** We're just not competitive and it's the why that's important. Over the past 40 years, industries were progressively isolated from competition and internally isolated by regulation. Entry barriers placed by government were absurd. Understanding customers? Forget it. There was no real impetus to have to do so. What was important was controlling costs, not getting new business.

**Is that why you compare SA with East Germany?**

There are similarities. It was also highly controlled, held back, regulated. When the Wall came down, the corporate body was on the funeral pyre. There is a powder keg situation here too. People are saying it's not going to be a big deal. That's a joke. There's a false bravado. It's the same bravado that made SA play the two top rugby teams in the world on consecutive weekends. They're about to get a *snotklap*. Why is it that they always need one before they change?

**But, besides bravado, is there not also a sense of despair?**

In a lot of boardrooms, there's a feeling that SA has a "Third-World destiny", that we'll accept third-best, that we'll accept corruption. So why should they want to try? They are kissing off a golden opportunity. They have to assess competitive advantage, as well as discuss competencies in the organisation and how to put them there. Companies are not putting enough people into training, for instance. When times are tough, advertising and training budgets are the first to be cut. But they should be cut last.

**Are SA companies destined to fail? What can they do to prevent failure?**

Companies have to become more market-orientated. They have to get closer to the customer. The first step is behavioural analysis. The second is market-structure analysis. The third is understanding organisational resources, such as cash flow and people. And the fourth is analysing the company's distinctive competencies.

**What is SA's competitive advantage?**

It could be developing First-World technology to satisfy the needs of the developing world. We understand how people live in the First World and the Third World. We have an average GDP and elements of the whole world here.

That's a special competitive advantage. And the developing world is where the growth is. Until now, the tourism effort has been aimed at Europe and the US. What about India and Brazil? There are wealthy people in Bangladesh. We put on blinkers and then we don't see what we should see. We're too Eurocentric.

**What about the idea that SA should be the "gateway to Africa?"**

The GNP for southern Africa is \$300 a year. In Europe, the US and Japan it's more than \$30 000 a year. I think the rest of the world will cede us Africa. They see Aids, violence and poverty.

And companies are deluding themselves if they pretend to have strong links with Africa. I ask them how many of their board members speak French and how many board members — or senior managers — are black. I don't think businesses should have black board members for affirmative action alone, but to understand black society better. The question is: How many black employees are contributing to strategy? In most cases, it's none.

**How are companies missing out?**

Here's an example: Between six and nine people live in a typical four-room house in Soweto, but which company sells furniture designed for those people living in such a small space? Most companies have not given a thought to how people live. If they raised their market research 500%, they might get close. A company might spend R20m on an advertising campaign and never test it first. Where are the products aimed at the people coming into the black middle class? Instead, companies go for incremental advantages in the 10% of the market that is white.

**What about foreign companies coming in?**

For them, ignorance is a plus. New entrants will have to do research. If Proctor & Gamble comes here, I know it will do research to go up against Unilever.

**Are local companies too complacent about the strength of international competitors?**

Definitely. Say Food Lion (a successful US supermarket chain) for some reason decides to come in here and takes just 15% of the market. Pick 'n Pay might not suffer much but what about Checkers and the OK? International competition need not take all your business, just enough to make you hurt.

**You're keen on emphasising the global nature of business today. What do companies say when you talk about globalism?**

They say: "Globalism isn't our cup of tea; we're just concentrating on SA." I tell them globalism does not mean exporting. It has become the organising force for business on every level. If they don't develop the ability to think globally, they won't be able to compete against those who can.

**You say that South Africans are naturally inventive but it's untapped. Why?**

Because of all the authoritarian MDs. They're like time bombs waiting to take SA down the tubes. It's a major problem.

**Which companies aren't going to make it?**

The firms led by authoritarian structures that do little behavioural research. The authoritarian nature stifles people badly. They have no idea what the competition is doing. They run a few ads and think they are into marketing. Those are going to go very fast, especially if they do not have the financial resources to be flexible. The most successful companies are also the most likely to fail. Success breeds rigidity; they just can't change.

**Do companies talk about changing?**

The general opinion is "yes, we should change, but there's so much going on and there's not enough time to do it."

**Do they talk about new strategies?**

Most don't see their strategy changing from what it was five years ago to what it will be five years from now — certainly nothing dramatic.

**Despite that, are you optimistic?**

I tell my students: your destiny is to be rich. The keys are to be honest, inventive. Value diversity in your organisation and in the market.

# Poor commodity prices lash Amic

BDAY 5/3/93

(180)

MATTHEW CURTIN

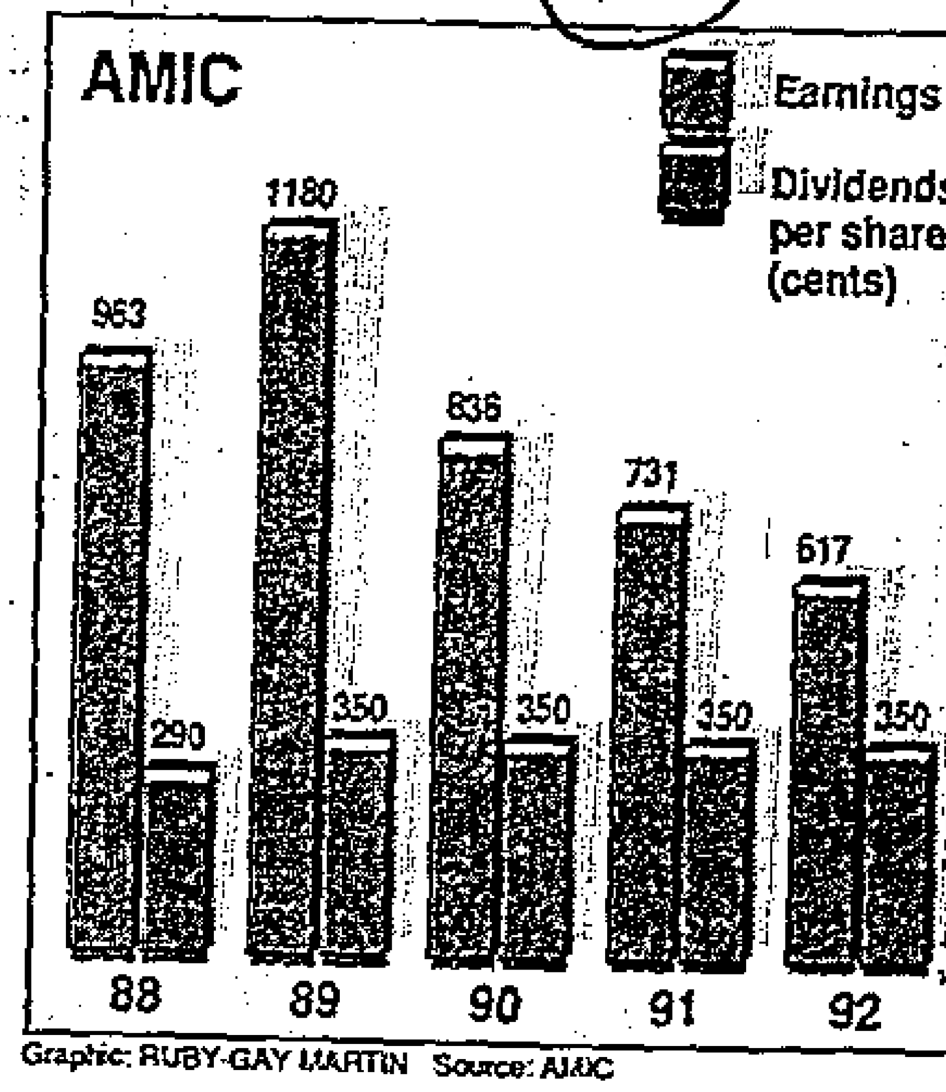
EARNINGS at Anglo American Industrial Corporation (Amic) tumbled 15,6% in the year ended December 31.

This reflects the group's exposure to depressed world commodity prices and the recession-hit local industry.

Earnings a share fell to 617c (731c), in line with the group's interim forecast and diluted by a larger number of shares in issue. Amic paid an unchanged total dividend of 350c a share, reducing dividend cover to 1,7 times from 2,1 times in 1991.

However, the group is offering shareholders a scrip alternative in lieu of a final dividend on not more than half their shares, an option taken up by De Beers and Anglo, Amic's major shareholders. The offer will save the corporation between R48m and R68m in dividend payments.

Chairman Leslie Boyd said it was difficult to forecast the group's prospects in 1993. Amic companies were predicting small variations in earnings, and with the rand's likely depreciation in the year — which would lift export revenue — Amic would at least match 1992 earnings.




Graphic: RUBY-GAY MARTIN Source: AMIC

He told a news conference Amic had three key objectives:

☐ Improve its ability to raise finance by

☐ To Page 2

## Amic

BDAY 5/3/93

(180)

☐ From Page 1

streamlining its financial structure through the divisionalisation of wholly owned subsidiaries where appropriate;

☐ Consolidate industrial interests jointly held with Anglo American, as had happened with construction group LTA; and

☐ Review its business profile by finding contra-cyclical business to balance its sensitivity to the commodities cycle.

Boyd said Amic was keenly investigating the prospects of joint ventures in new businesses with South Korean and Japanese partners, but it was too early to give details of the projects themselves.

Turnover improved to R6,78bn (R6,46bn). The share of earnings from associate companies rose to R210m (R206m), but earnings from operations fell 32% to R295m from R434m.

The biggest blow came from wholly owned subsidiary Mondi Paper whose earnings plunged to R51m from R110m in the face of weakening paper and pulp prices internationally and rising SA paper imports. Boyd said dwindling margins had led Mondi to concentrate on managing its working capital and stock levels in the year. The company successfully reduced borrowings, but closed three SA saw mills permanently, and shut paper machines temporarily during the year.

Depressed iron, steel and vanadium prices affected earnings at Highveld Steel & Vanadium, 51,8% held by Amic, and the contribution from wholly owned Scaw Metals fell to R84m (R76,5m).

Other key earnings contributors were engineering group Boart (flat earnings of R48m), chemicals group AECI, sugar and textiles group Tongaat, electronics holding company Ventron and the enlarged McCarthy Group, merged with retail group Prefcor last year.

Boyd said the group's debt-to-equity ratio remained low at 12% (16%), leaving Amic well placed to finance existing commitments and any new opportunities.

# Mining interests hold back Anglovaal

BDAY 5/3/93 (180)

MATTHEW CURTIN

ANGLOVAAL, the mining and industrial conglomerate, reported a 6% fall in earnings a share in the half-year to December 31. Strong performances from its enlarged industrial interests were not enough to offset a continued fall in contribution from its mining interests.

Earnings a share fell to 226c from 240c, but the group declared an unchanged 33c interim dividend.

Chairman Basil Hersov said in a statement yesterday that trading conditions in the period were "extremely difficult". Drought and political turbulence in SA did not bode well for short-term economic growth.

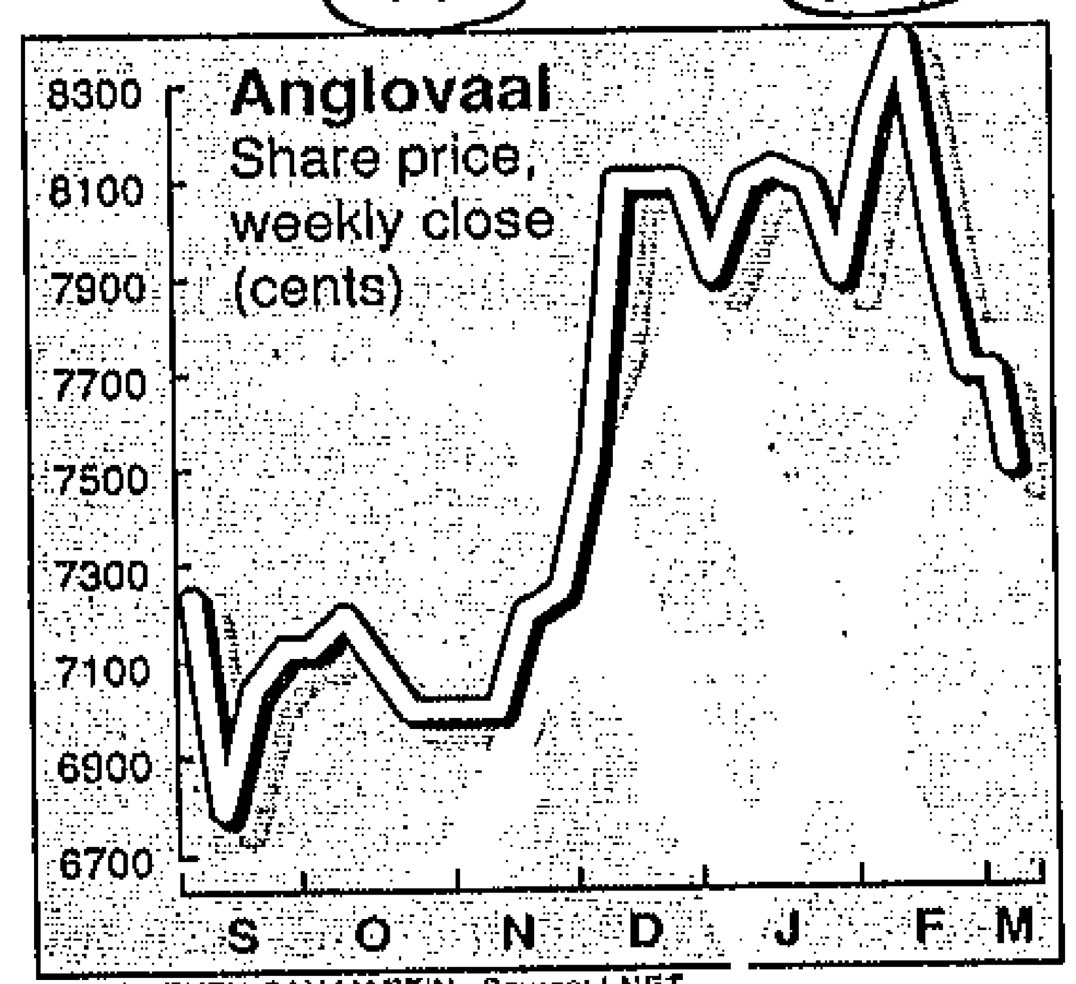
However, Hersov said, if there were progress in political negotiations, an improvement in the world economy, coupled with benefits of lower interest rates and inflation locally, then "there is hope that the lower levels of economic activity will bottom out and that there will be an upwards trend towards the end of 1993".

Anglovaal's turnover rose to R4,3bn (R4,11bn), but operating profit dipped 8% to R345m (R376m). Investment income improved to R26,4m (R22,5m).

Pre-tax profit fell to R371m (R399m), and a lower tax bill led to a marginal increase in after-tax profit at R221m (R220m). Attributable earnings stood at R136m (R143m).

Hersov said AVI's contribution to group earnings jumped 20% because of the industrial group's 9% increase in earnings — thanks to good performances from two subsidiares — rubber, packaging and glass maker Consol and foods group National Brands — and further investments in AVI by Anglovaal. New AVI associate company Anglo-Alpha contributed R14,3m.

Associated Managanese, Anglovaal's ore and alloy producing subsidiary and largest




Graphic: RUBY-GAY MARTIN Source: I-NET

contributor to mining income, reported a 51% fall in earnings as it reeled under the impact of depressed prices and demand in the international steel market.

Hersov said that without a turnaround in market conditions, the contribution from mining, which includes Anglovaal's three gold mines, would continue to decline.

Anglovaal received a sharply increased contribution of R4,7m (R2,8m) from Saturn Mining Prospecting and Development, the company entitled to receive 12,5% of profits after capital recoupment from De Beers new Venetia diamond mine. Anglovaal has a 87,5% stake in Saturn.

However, Hersov said De Beers had told the group that the build-up in Venetia's production would be slowed in 1993 following the application of quotas on all diamond mines selling to the Central Selling Organisation.

Despite the shelving of the group's Sun gold mine project last year, Anglovaal spent R36,5m (R38,2m) on exploration in southern Africa and investigating new mining opportunities.

Overall capital spending stood at R144m (R116m), concentrated within AVI, with another R215m authorised at December 31.

# A lesson SA firms can learn from Zimbabwe

(180)

W/Mail 5/3-11/3/93.

*At a recent seminar corporate social investment consultant* **ANTOINETTE LERESCHE** *presented the results of research she had undertaken into trends in Zimbabwe. South African companies should take note*

OF the lessons South African companies can learn from Zimbabwe about the challenge of development in a society in transition the greatest lies in what not to do.

At independence the new Zimbabwean government regarded business with overwhelming mistrust, based on historic experience as well an overtly socialist ideology. Hence it decided not to entrust business with upliftment and development, and instead implemented its own programmes, focusing mostly on education, housing and health care.

Business response to development challenges at transition can at best be described as lethargic. The level of employee participation in social spending was poor to zero. Many companies did not even have social budgets. Most companies were content to let government get on with the job of development as best it could. They have paid the price for their neglect financially as well as developmentally.

The Zimbabwean government's programmes were mainly funded in three ways: paid-up premiums; foreign aid; and increased personal and company taxes.

Also, mandatory minimum wage and affirmative action legislation was introduced in the public sector.

These strategies have, to a lesser or greater extent, failed. And each failure has contributed to Zimbabwe's economic crisis. Massive lay-offs followed attempts to regulate minimum wages, particularly for domestic workers, as people could not or would not pay those wages. The resultant increase in unemployment created yet another problem for the new government. Affirmative action in the public sector took place according to a set time-table which did not take into consideration the upgrading of peoples' skills or abilities at the same rate, if at all.

Over-promotion brought with it a whole set of incompetencies and problems.

Foreign aid brought with it high interest repayments which further drained the declining economy.

South African companies should take heed of the tendency of the government to increase tax to fund its social investment programmes. Pre-independence company taxes during 1978 were at a high already due to UDI — at 48,3 percent. Immediately after independence and the period following effective tax rates increased to 56,3 percent. Since then taxes have been gradually decreasing, to 44,6 percent for the 1993 tax year. These figures for the effective company tax rate include additional tax levied for drought relief.

South Africa on the brink of "independence" and certainly well into transition has a company tax rate of 48 percent. The tax rate spiral Zimbabwean companies suffered has led to a decline in economic growth. It has also acted as a significant disincentive to foreign investment at a time when it was sorely needed.

Now, the increased level of unionisation coupled with the government's inability to deliver on pre-election promises has again laid the development burden at the feet of business. Will business rise to the challenge this time? Hopefully Zimbabwean firms will be able to turn to their South African counterparts for some pointers in how it should and can be done.

South Africa has a few advantages over Zimbabwe. We already have a highly developed union environment which has gone a long way to achieving basic improvements for workers. Active union participation and industrial action over the past decade have resulted in South African managers having good exposure to and awareness of the socio-political environment. The ratio of whites to blacks in South Africa is higher than it was in Zimbabwe and together with various other factors means any "mass exodus" of skilled labour after "independence" won't be as damaging. Finally we have the experience of our neighbours to reflect upon.

In common with Zimbabwe, we must deal with the challenges of transition to a possibly hostile new government. South Africa must also undo the harm of generations of educationally disadvantaged blacks due to the bias of educational policy. A high level of political turbulence during transition is unlikely to abate. Furthermore, the dominant ideology of the strongest contender for power, the African National Congress, is socialist.

Four separate yet interdependent strategic actions should be undertaken by South African companies: internal social policy, participation, disclosure and increased spending.

Internal social policy must address the needs of the workers as a priority. This includes such aspects as minimum wages, voluntarism, family benefits, on or near-site creche facilities, employee share ownership schemes and affirmative action. Affirmative action must embrace gender as well as race.

Participation is vital at all levels of the economy. At national level interaction in the form of a national forum on social policy is vital. This must filter down to the lowest rung of the working ladder. The Congress of South African Trade Unions recommends discussions at both union-management level and worker-supervisor level. Interaction is the operative word and participation must therefore extend to decision making as well as implementing programmes in a joint initiative to solve social problems.

Disclosure must be aimed at participation rather than publicity. For meaningful participation there must be trust, openness and honesty. If voluntary disclosure is not forthcoming it may be legislatively enforced.

Increased spending is essential. If it is not done voluntarily government may impose a compulsory percentage. Worse, it may simply raise taxes and conduct upliftment programmes itself. If these are as unsuccessful as in Zimbabwe, business will still be saddled with the problem, but with fewer resources to solve it. Opportunities for increased spending are abundant.

Time to prepare for the inevitable transition is limited. The challenge for business in South Africa is whether we will bury our heads in the sand or face up to reality and grasp the nettle.

Star 5/8/93

# Boardroom secrets: are they safe at last?

**News media are not entitled to publish confidential company information — particularly if it is obtained in an unauthorised manner — unless it is in the public interest, said the Appeal Court in a recent judgment. But some sections of the media are unhappy with this ruling. The Star invited two lawyers, one an academic and one a specialist in law pertaining to the media, to give their views.**

## Business freedoms are essential

(180) (Bus)

ETIENNE MUREINIK, professor of law at Wits University

MUCH anxiety has been stirred by the recent judgment of the Appeal Court on how free the press is to publish a company's confidential communications.

Sage Holdings had obtained an interdict from the Witwatersrand Supreme Court to restrain the Financial Mail from publishing an article based on information obtained from an illegal phone tap and from a confidential document internal to a company with which Sage was associated.

On appeal, a majority of the Appeal Court, speaking through Chief Justice Corbett, decided that the court below had been right to interdict the Financial Mail. Judge Corbett held that a company is entitled to the protection of its privacy, provided, it seems, that there is no overriding public interest in disclosure.

Journalists are now understandably worried that the judgment might restrict their freedom to investigate. They are of course correct critically to scrutinise any legal impediment to reporting.

Corruption is rampant in this country, in the public sector and the private. Companies abound which are careless about the harm they cause the consumers of their products, and the devastation they inflict on the environment. Managements flourish which are indifferent to the investors whose funds are entrusted to them.

South Africans are therefore more dependent now than ever upon an energetic press to expose business malpractice. We need, more than ever, to empower the press to protect the powerless. It is right that every clog on the freedom of the press to publish should be suspect; that it should have to be justified.

It is unfortunate, however, that so much of the criticism levelled at FM v Sage should rest upon a casual canvass of the questions in issue.

In a fierce editorial, the Sunday Times, for instance, a sister publication of the Financial Mail, omits entirely to mention that part of the information upon which the offending article was based had been obtained by tapping the telephone of a director of Sage — a serious intrusion not only into company confidentiality, but also into personal privacy.

It is true that the FM was not party to the tapping, but if the courts had licensed it to publish the fruits of unlawful surveillance, how effective could legal protection against phone-tapping hope to be? That protection is easy enough to evade. Freedom to publish the fruits of evasion might be all the incentive necessary to eviscerate legal protection altogether.

The Sunday Times appeals to the idea of a Bill of Rights as protection against judgments like FM v Sage; but Bills of Rights have been hostile to intrusions into personal privacy ever since the American one proclaimed, two centuries ago, that the "right of the people to be secure in their persons, houses, papers and effects, against unreasonable searches and seizures, shall not be violated".

The angry simplicities of the leader writer do not, unfortunately, help to understand Judge Corbett's careful judgment.

What is at stake is quite simply whether we want a modern economy. If we do, then we must want to be able to concentrate resources — labour, capital, expertise — in the way that modern production and distribution require. For that we need business organisations. This is true equally of socialism, capitalism, and any hybrid of the two.

If we want business organisations, then we must want the conditions that permit them to operate. We must want to permit members of organisations to communicate with one another in confidence, and we must want to permit the managers of an organisation to use the telephone free of surveillance. These freedoms are essential to the proper functioning of any organisation.

And since a newspaper is a business organisation too, these freedoms are essential even for the proper functioning of the press.

What effect would it have upon investigative journalism if a newspaper's enemies were entirely free to bug its phones, and to steal and publish its reporters' preliminary notes? The integrity of an organisation might not be as glamorous an ideal as freedom to publish, but it may be every bit as essential for a free and vigorous press.

None of this, of course, means that we want to let predatory businesses abuse confidentiality to conceal exploitation or fraud. That is where Judge Corbett's overriding public interest in disclosures comes in.

The Chief Justice's apparent approval of a judgment of the English Court of Appeal, cited for illustration, suggests that that interest would override privacy easily enough to permit disclosure of the unreliability of breath testers sold to the police to measure intoxication levels in motorists.

Since the public would often have an even greater interest in corruption, or the production or sale of harmful goods, or damage to the environment, or exploitation — whether of workers, consumers or investors — there would seem to be ample scope for the public interest to override privacy. It is far from clear, as many critics have assumed, that the Chief Justice was announcing an extremely narrow exception.

It is true that the Chief Justice did imply that the public interest could override privacy only rarely; but the context of that remark is a discussion of telephone tapping, and it is scarcely surprising that the Chief Justice should have been at pains to discourage that evil; nor that in doing so he should have resorted to emphatic language.

It nevertheless remains true that the language which Judge Corbett used to describe his overriding public interest is more parsimonious, and more tentative, than is desirable. Nor does the assumption that the kind of impropriety which warrants disclosure is a rarity jell with the pervasive malfeasance disclosed daily in the media.

But it is important to appreciate that the Chief Justice's language does not settle the content of the category of overriding public interest.

All that seems clear from his judgment is two principles: business organisations have to be free to communicate in private; and the press has to be free, in the public interest, to trump that privacy.

Those principles are not very controversial, and even the minority judges in FM v Sage (who dissented on a question of little general significance) did not contest them. What is controversial is what counts as private and what counts as an overriding public interest.

Until that is determined — until the line between private and public is drawn by later judgments — much of the concern aroused by the present case is premature.

It may be, of course, that the public ought to be told more about the internal affairs of public companies. If so, the solution must surely be to extend the duties of disclosure required by law.

The answer can hardly be a system of disclosure which depends upon the vagaries of illegal bugging and breach of confidence.

And it can scarcely consist of legal rules which proclaim systematic incentives to ignore what, after the media's brutal exposure of the Windsors' most intimate secrets, is an especially fragile idea: the legal protection of privacy.

Etienne Mureinik . . . 'concern is premature'.

Star 5/3/93

# Boardroom secrets: are they safe at last?

**News media are not entitled to publish confidential company information — particularly if it is obtained in an unauthorised manner — unless it is in the public interest, said the Appeal Court in a recent judgment. But some sections of the media are unhappy with this ruling. The Star invited two lawyers, one an academic and one a specialist in law pertaining to the media, to give their views.**

# Business freedoms are essential

(180)


ETIENNE MUREINIK, professor of law at Wits University


MUCH anxiety has been stirred by the recent judgment of the Appeal Court on how free the press is to publish a company's confidential communications.

Sage Holdings had obtained an interdict from the Witwatersrand Supreme Court to restrain the Financial Mail from publishing an article based on information obtained from an illegal phone tap and from a confidential document internal to a company with which Sage was associated.

On appeal, a majority of the Appeal Court, speaking through Chief Justice Corbett, decided that the court below had been right to interdict the Financial Mail. Judge Corbett held that a company is entitled to the protection of its privacy, provided, it seems, that there is no overriding public interest in disclosure.

Journalists are now understandably worried that the judgment might restrict their freedom to investigate. They are of course correct critically to scrutinise any legal impediment to reporting.

Corruption is rampant in this country, in the public sector and the private. Companies abound which are careless about the harm they cause the consumers of their products, and the devastation they inflict on the environment. Managements flourish which are indifferent to the investors whose funds are entrusted to them.

South Africans are therefore more dependent now than ever upon an energetic press to expose business malpractice. We need, more than ever, to empower the press to protect the powerless. It is right that every clog on the freedom of the press to publish should be suspect; that it should have to be justified.

It is unfortunate, however, that so much of the criticism levelled at FM v Sage should rest upon a casual canvass of the questions in issue.

In a fierce editorial, the Sunday Times, for instance, a sister publication of the Financial Mail, omits entirely to mention that part of the information upon which the offending article was based had been obtained by tapping the telephone of a director of Sage — a serious intrusion not only into company confidentiality, but also into personal privacy.

It is true that the FM was not party to the tapping, but if the courts had licensed it to publish the fruits of unlawful surveillance, how effective could legal protection against phone-tapping hope to be? That protection is easy enough to evade. Freedom to publish the fruits of evasion might be all the incentive necessary to eviscerate legal protection altogether.

The Sunday Times appeals to the idea of a Bill of Rights as protection against judgments like FM v Sage; but Bills of Rights have been hostile to intrusions into personal privacy ever since the American one proclaimed, two centuries ago, that the "right of the people to be secure in their persons, houses, papers and effects, against unreasonable searches and seizures, shall not be violated".

The angry simplicities of the leader writer do not, unfortunately, help to understand Judge Corbett's careful judgment.

What is at stake is quite simply whether we want a modern economy. If we do, then we must want to be able to concentrate resources — labour, capital, expertise — in the way that modern production and distribution require. For that we need business organisations. This is true equally of socialism, capitalism, and any hybrid of the two.

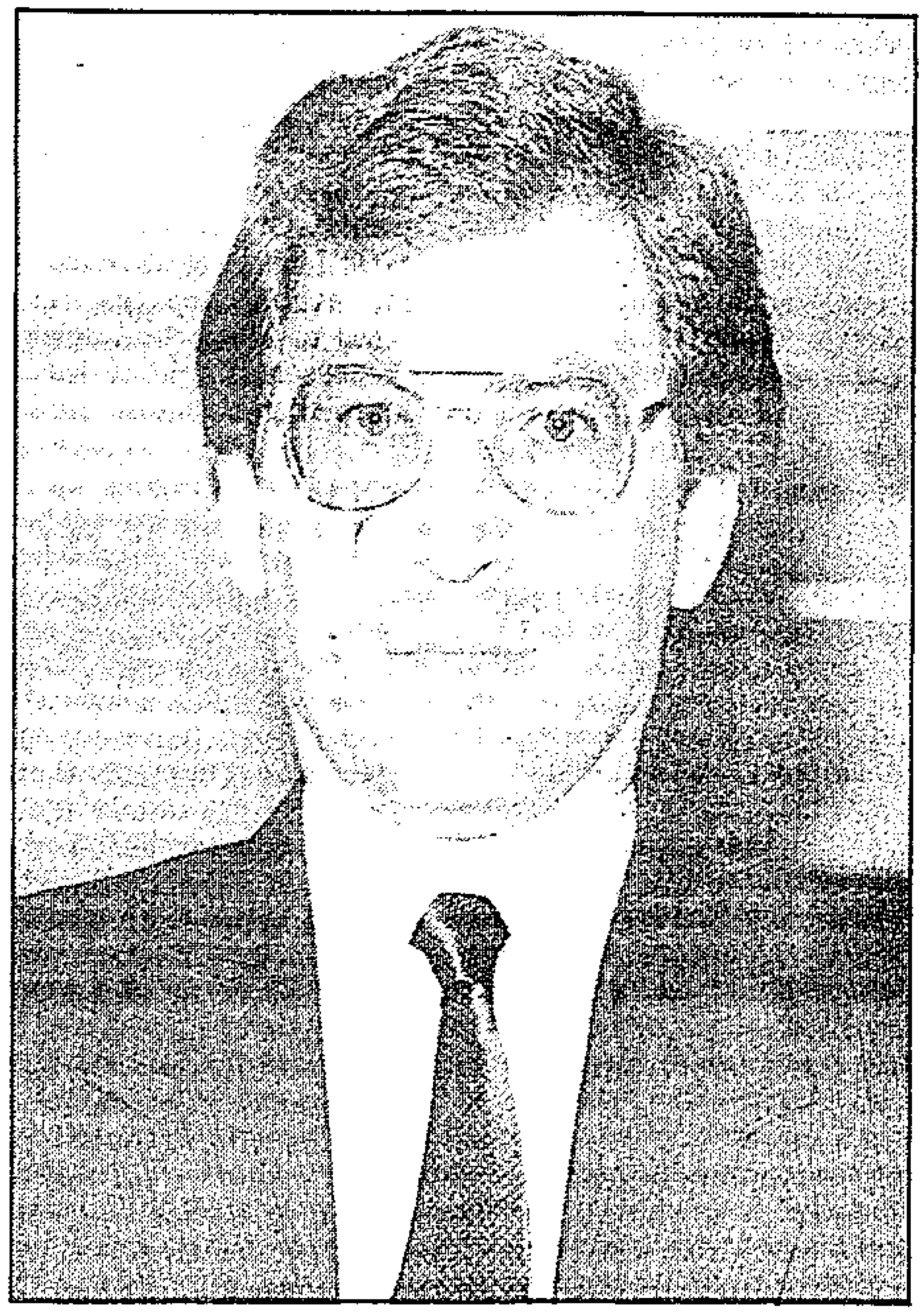
If we want business organisations, then we must want the conditions that permit them to operate. We must want to permit members of organisations to communicate with one another in confidence, and we must want to permit the managers of an organisation to use the telephone free of surveillance. These freedoms are essential to the proper functioning of any organisation.

And since a newspaper is a business organisation too, these freedoms are essential even for the proper functioning of the press.

What effect would it have upon investigative journalism if a newspaper's enemies were entirely free to bug its phones, and to steal and publish its reporters' preliminary notes? The integrity of an organisation might not be as glamorous an ideal as freedom to publish, but it may be every bit as essential for a free and vigorous press.

None of this, of course, means that we want to let predatory businesses abuse confidentiality to conceal exploitation or fraud. That is where Judge Corbett's overriding public interest in disclosures comes in.

The Chief Justice's apparent approval of a judgment of the English Court of Appeal, cited for illustration, suggests that that interest would override privacy easily enough to permit disclosure of the unreliability of breath testers sold to the police to measure intoxication levels in motorists.



Etienne Mureinik . . . 'concern is premature'.

Since the public would often have an even greater interest in corruption, or the production or sale of harmful goods, or damage to the environment, or exploitation — whether of workers, consumers or investors — there would seem to be ample scope for the public interest to override privacy. It is far from clear, as many critics have assumed, that the Chief Justice was announcing an extremely narrow exception.

It is true that the Chief Justice did imply that the public interest could override privacy only rarely; but the context of that remark is a discussion of telephone tapping, and it is scarcely surprising that the Chief Justice should have been at pains to discourage that evil; nor that in doing so he should have resorted to emphatic language.

It nevertheless remains true that the language which Judge Corbett used to describe his overriding public interest is more parsimonious, and more tentative, than is desirable. Nor does the assumption that the kind of impropriety which warrants disclosure is a rarity jell with the pervasive malfeasance disclosed daily in the media.

But it is important to appreciate that the Chief Justice's language does not settle the content of the category of overriding public interest.

All that seems clear from his judgment is two principles: business organisations have to be free to communicate in private; and the press has to be free, in the public interest, to trump that privacy.

Those principles are not very controversial, and even the minority judges in FM v Sage (who dissented on a question of little general significance) did not contest them. What is controversial is what counts as private and what counts as an overriding public interest.

Until that is determined — until the line between private and public is drawn by later judgments — much of the concern aroused by the present case is premature.

It may be, of course, that the public ought to be told more about the internal affairs of public companies. If so, the solution must surely be to extend the duties of disclosure required by law.

The answer can hardly be a system of disclosure which depends upon the vagaries of illegal bugging and breach of confidence.

And it can scarcely consist of legal rules which proclaim systematic incentives to ignore what, after the media's brutal exposure of the Windsors' most intimate secrets, is an especially fragile idea: the legal protection of privacy.

ANGLOVAAL INDUSTRIES (180)
FM 5/3/93
# Hoping for better

**Increased** exposure to cement producer Anglo-Alpha, after the acquisition of a 25% stake and, to a lesser extent, a further 4% — taking the stake to 60% — in Consol, played a major role in Anglovaal Industries (AVI)'s results for the six months to December. This puts it well on track towards achieving eight consecutive years of real growth in financial 1993.

AVI's share of associated company earnings rose substantially to R13,8m (R3m), largely because of the Anglo-Alpha investment which contributed a tenth of group earnings. Consol's acquisition of the Contred minority shareholding resulted in both Tredcor and Tycon becoming wholly owned subsidiaries. Another investment was the purchase by Aveng, a subsidiary of AVI Diversified Holdings, of further Tristel Holding shares, raising its interest to 97,6% (94,1%).

A tough operating environment and rising gearing provided mixed fortunes for construction & electronics subsidiary Grinaker. Its electronic division's EPS dropped 31% to 4,4c but, thanks to a good performance by the building division and Siltek, Grinaker Holdings increased EPS 24%. Its contribution to AVI's earnings remained unchanged at only 3%.

I&J, whose product prices were depressed by oversupply on domestic and international markets, suffered a 19% decline in earnings; it contributed 13% (20%) to AVI's bottom

FM 5/3/93.

line. (180)

AVI Diversified Holdings, with interests in textiles and engineering, was affected by continued unrest in the area around Mooi River Textiles. It provided 17% (21%). But the 4% and 18% improvements in pre-tax profits of Consol and National Brands, meant their contributions to attributable earnings were maintained at 27% and 28% respectively. This, with additional investment income for AVI, more than offset lower earnings by the other interests.

AVI's turnover rose by 6% to R4,2bn, but this was at the expense of margins, limiting the increase in operating profit to 1% or R371m. Interest paid declined 3% to R41,7m. A lower effective tax rate reduced this charge to R136m (R146m), leaving taxed profit up 7% at R194m.

Attributable earnings increased an impressive 21% to R147m. However, EPS were up by a more modest 9% to 464c, following an increase in issued shares.

Increased capex of R144,2m (R102,3m) and Consol's R210m acquisition of the Contred 25,6% minority holding reduced the net cash position 70% to R141,9m.

Management is forecasting improved earnings for the full year, but the extent of this improvement depends largely on business conditions.

AVI remains a rewarding investment. Though the share is not cheap, the prospect of an improved payout in the present climate could preserve the premium rating.

*Marylou Greig*

Star 5/3/93 180

# Help stop moral rot, business leaders urged

By Shirley Woodgate

The moral fibre of the nation was shattered and in danger of disintegration, and the business sector carried a huge responsibility to help rebuild the walls and ensure there were no gaps for escape, former Amalgamated Banks of South Africa deputy chief executive Piet Liebenberg said yesterday.

Addressing a business ethics breakfast seminar organised by the Rotary Club of Johannesburg, he warned that no new government or constitution would work unless "we have the law within ourselves".

Neither would peace come to the country, to towns or to individuals unless people developed integrity and a sense of real values.

Claiming the country was in grave danger of the entire system breaking down, Anglo American executive director Gavin Relly stressed there was still time for a thorough cleansing.

While it would be a pity if free enterprise were blamed for gross corruption, it would be a disaster if the belief grew that more regulation was the answer to excesses, he said.

# Manufacturing falls 3%

180

C 15/3/93

JOHANNESBURG. — The level of manufacturing production last year was three percent lower than 1991, but figures released yesterday by the Central Statistical Services indicate the three-and-a-half year decline may have bottomed-out in December 1992.

# Amic's earnings tumble on depressed world prices

(180) CT 5/3/93

JOHANNESBURG. — Earnings at Anglo American Industrial Corporation (Amic) tumbled 15,6% in the year ended December 31.

This reflects the group's exposure to depressed world commodity prices and the recession-hit local industry.

Earnings a share fell to 617c (731c), in line with the group's interim forecast and diluted by a larger number of shares in issue.

Amic paid an unchanged total dividend of 350c a share, reducing dividend cover to 1,7 times from 2,1 times in 1991.

However, the group is offering shareholders a scrip alternative in lieu of a final dividend on not more than half their shares, an option taken up by De Beers and Anglo, Amic's major shareholders. The offer will save the corporation between R48m and R68m in dividend payments.

Chairman Leslie Boyd said it was difficult to forecast the group's prospects in 1993. Amic companies were predicting small variations in earnings, and with the rand's likely depreciation in the year — which would lift export revenue — Amic would at least match 1992 earnings.

He told a news conference Amic had three key objectives:

- Improve its ability to raise finance by streamlining its financial structure through the divisionalisation of wholly owned subsidiaries where appropriate;
- Consolidate industrial interests jointly held with Anglo American, as had happened with construction group LTA; and
- Review its business profile by finding contra-cyclical business to balance its sensitivity to the commodities cycle.

Boyd said Amic was keenly investigating the prospects of joint ventures in new businesses with South Korean and Japanese partners, but it was too early to give details of the projects themselves.

Turnover improved to R6,78bn (R6,46bn). The share of earnings from associate companies rose to R210m (R206m), but earnings from operations fell 32% to R295m from R434m.

The biggest blow came from wholly owned subsidiary Mondi Paper whose earnings plunged to R51m from R110m in the face of weakening paper and pulp prices internationally and rising SA paper imports.

Boyd said dwindling margins had led Mondi to concentrate on managing its working capital and stock levels in the year. The company successfully reduced borrowings, but closed three SA saw mills permanently, and shut paper machines temporarily during the year.

Depressed iron, steel and vanadium prices affected earnings at Highveld Steel & Vanadium, 51,8% held by Amic, and the contribution from wholly owned Scaw Metals fell to R84m (R76,5m).

Other key earnings contributors were engineering group Boart (flat earnings of R48m), chemicals group AECI, sugar and textiles group Tongaat, electronics holding company Ventron and the enlarged McCarthy Group, merged with retail group Prefcor last year.

# Sacob sees signs of hope ahead

B/DAY 9/3/93.

(180)

TIM MARSLAND

THE SA Chamber of Business's business confidence index rose 1,3 percentage points in February, suggesting that the recession might be bottoming out, the organisation said yesterday.

The index rose to 94,2 in February from January's 92,9. The base of 100 points is September 1989.

Sacob chief economist Ben van Rensburg said the rise suggested business might be more hopeful about economic prospects for 1993 as a whole.

The recent rains were the most encouraging signal to business. The harvest could result in an improvement of between R6bn and R7bn in the balance of payments position, with SA exporting about R3,5bn in agricultural products.

February's drop in interest rates, following the Bank rate cut, was also encouraging, as it reduced pressure on disposable income.

However, the foreign exchange reserves position, and continued capital outflows, could hamper a possible economic recovery, said Van Rensburg.

The world economy, he said, was still struggling to avoid a recession. Slow exports made it difficult for SA to enjoy significant economic growth.

Business sentiment was also boosted by current political negotiations although, Van Rensburg said, tangible progress was needed for the effects to be lasting.

It was hoped next week's Budget would prepare the first steps for recovery. Business would like to see confidence and credibility emerge as key elements in the Budget, he said.

A survey of confidence in the manufacturing sector suggested that recovery was expected to be slow.

Sacob economist Keith Lockwood said that there was no indication "of a significant shift towards more capital-intensive means of production — so the continued retrenchments were likely to be aimed at reducing cost structures through improved productivity".

Sacob deputy director-general Ron Haywood also called for measures that assisted small businesses to be included in the Budget.

He targeted taxing of small businesses and proposed various steps to simplify the way they were taxed. He also suggested various areas for tax relief, which would help offset the high cost of finance.

# Lower company tax 'crucial' to Keys's plan

B/Day 9/3/93. (180)

LINDA ENSOR

CAPE TOWN — A plan to reduce the nominal rate of company tax from 48% to 40% by 1997 formed a vital part of Finance Minister Derek Keys's economic model due for release today.

This was said yesterday by tax advisory committee member and Wits University Centre for Applied Legal Studies director Prof Dennis Davis at a Cape Town Chamber of Industries/Deloitte & Touche seminar on taxes in a new SA.

He added that the model included a plan to narrow the wide gap between the nominal and effective rates by cutting down on tax allowances and incentives.

Davis said he had read through the model's proposals for a fundamental restructure of SA's tax system. This would involve government becoming more aggressive in its treatment of corporate tax allowances and tax planning schemes in order to fuse the nominal and effective tax rates. He estimated that in 1992 the fiscus "gave away" over R1bn in allowances.

Davis said there was greater likelihood of SA attracting foreign investment if its nominal tax rate was 40% rather than 48%. There was a marked disparity between the nominal rate and the effective rate which often fluctuated between 20% and 30%.

The model also recommended a shift in emphasis towards indirect taxes so that by 1997 they represented 55% of total tax revenue. This would be achieved by increasing VAT and excise duties.

Keys's model proposed that the tax burden on individual taxpayers be reduced, with the maximum rate falling from 43% to 40%. Fiscal drag would be dealt with by reducing tax brackets.

The model assumed that GDP growth would reach 4,5% by 1997 and that the percentage of tax revenue of GDP would fall from its high of 30% to 24,4% by 1997

☐ To Page 2

# Company tax

B/Day 9/3/93. (180)

☐ From Page 1

while government dissaving would be eliminated. Davis said the tax to GDP ratio in SA was far higher than should be the case for a developing country.

He felt a key omission from the model was proposed ways of decreasing the wastage in government expenditure and increasing its efficiency.

Davis said the model's proposals were not very different from ANC thinking on taxes. He said the ANC accepted it could not increase the percentage of tax revenue to GDP but would focus on restructuring the tax system using a multiple-rated VAT system as a key tool.

There was concern within the ANC over income earners in the middle to lower brackets bearing too great a tax burden. Davis said that in the 1989/90 fiscal year, 79% of all direct income tax was levied on persons earning between R20 000 and R80 000 a year. About 45% of personal income tax was collected in that year from those earning R20 000-R40 000.

There was also consensus on simplifying the tax system, getting rid of allowances, and on the need to reduce the gap between the nominal and effective tax rates.

Keys has said previously that the model provided for an increase in government and parastatal investment from 4% of GDP to 7%, while private sector fixed investment would rise from 12% to 15%.

● See Page 3

Star 9/3/93 (180)

# Business confidence improves

By Sven Lünsche

Business confidence has received a mild boost from the recent cut in interest rates and the successful first-round meeting of the Multi-Party Planning Conference.

The Chamber of Business (Sacob) said yesterday the Business Confidence Index (BCI) had resumed its upward trend in February.

"The upward movement provides further evidence that the recession may now be bottoming out," Sacob chief economist Dr Ben van Rensburg said at a press conference.

He was concerned, however, at the vulnerable state of business confidence and forecast growth of only 0,5 percent this year.

Van Rensburg said the slightly more hopeful note in the business mood was based on the following considerations:

- The widespread rains over recent months, which could result in an improvement of R6 billion to R7 billion in the balance of payments position and thus ease pressure on monetary policy from that side.
- The reduction in Bank rate last month had assisted in reducing some pressure on disposable income.
- A tentative improvement in real economic activity, as evidenced by latest official figures on retail sales, value of building plans passed and maunfacturing production volumes.
- Early expectations that the Multi-Party Planning Conference would have a positive outcome.

Van Rensburg stressed, however, that past experience had shown that a more marked effect on business confidence would come only from tangible progress on the negotiation front.

- Hopes that the Budget would avoid economic "overkill".

Van Rensburg said political developments and the Budget in particular would determine whether the economy was able to move into an upturn this year.

# Sacob, AHI laud model for growth

BDOM 10/3/93.

(180)

Business Day Reporter

SACOB yesterday welcomed the release of the normative economic model which, it said, provided an indication of the direction which government would like the economy to follow.

"Sacob is broadly supportive of the basic thrust of the model, with its emphasis on both the need for economic growth and the equitable access of South Africans to all opportunities within the economy."

However, Sacob stressed that the economic and employment growth targets set in the model were the minimum needed to ensure a measure of stability.

A target of only 3% growth in employment by 1997 meant that the present chronic unemployment problem would worsen.

Political progress is heavily dependent on a, strong economy.

"For this reason, it is essential that the government's proposals, and similar proposals by organised business and labour, are discussed as a matter of urgency."

The chamber believed that the forthcoming Budget would be judged against the targets set by government in its own model.

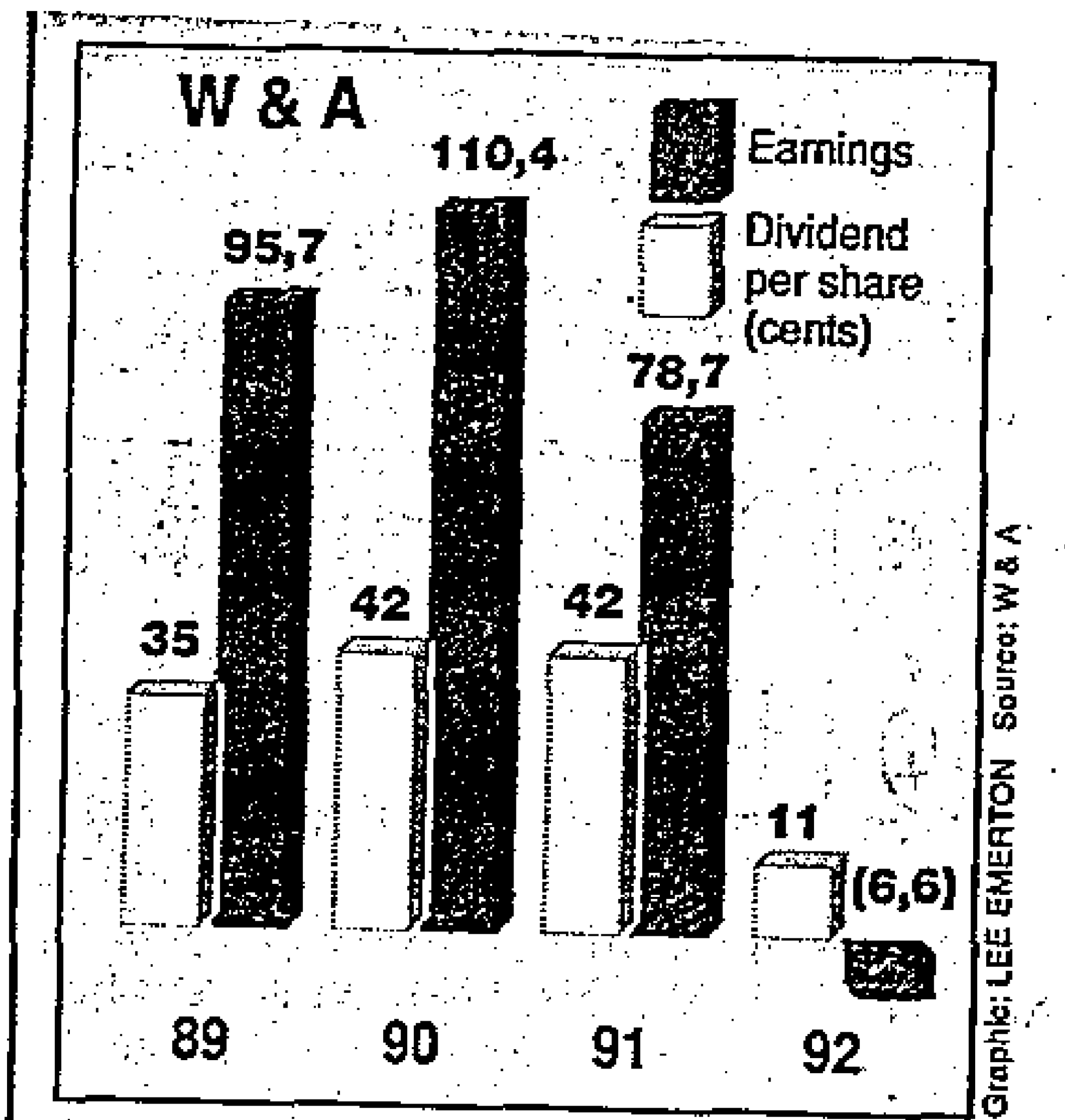
"Should the Minister of Finance fail to make at least some progress towards the attainment of these and other goals contained within the model, the credibility of the model and the Budget will be severely diminished.

"More emphasis needs to be given in the model to the role of foreign investment, since without such investment it would be difficult for SA to achieve its growth and employment targets," Sacob said.

The Afrikaanse Handelsinstituut voiced its approval of the proposals, saying they "merit strong support".

AHI president George Huysamer expressed doubt that the proposals could be achieved within the next three years because of the political consensus needed to implement the measures.

Huysamer expressed the hope that next week's Budget would address the priorities outlined by the model, namely that "an early revival of economic growth must be emphasised, and "a transitional safety net should be in place from early on".




# New W & A criteria reflect R11m loss

(180) MARCIA KLEIN

AFTER a revamp of its accounting criteria, W & A Investment Corporation yesterday announced an attributable loss of R11,5m in the year to end-December from a profit of R129m in the previous year.

Executive chairman Jeff Liebesman said the loss was 'exacerbated by items included in the reassessment of accounting criteria and did not accurately reflect the group's performance over the year.

Results reflected mixed performances by its operating divisions, more conservative accounting policies and various write-offs and provisions.

The group announced it would raise about R650m in a rights offer, through the issue of ordinary shares at 175c a share, which would result in Trencor gaining joint control of the group.

The marginal decline in turnover to R3,19bn from R3,2bn and the 35% reduction in operating profit to R217,6m (R335,5m) was not strictly comparable with the previous year because of the sale of JD Group's debtors' book and the disposal of Burhose. Liebesman said AAF, Gentyre's tyre division, Fabric Library, Form-Scaff/SGB, Housewares and the JD Group had performed well.

The decline in operating profit was largely a result of more conservative accounting policies, rationalisation costs as-

□ To Page 2

## W & A

B/Day 10/3/93. (180)

□ From Page 1

sociated with the acquisition of offshore scaffolding businesses, a decline in Natbolt's export sales, a reduction in the contribution of Gentyre's industrial products division and rationalisation that followed, and a decrease in corporate profits.

Higher borrowings relating to capex on new plants and expansion were reflected in the 8% rise in the interest bill to R164,1m (R151,8m), which saw pre-tax profit decline to R53,5m from R183,7m.

Liebesman said the group's stricter accounting approach mainly affected non-taxpaying companies, and a number of taxpaying businesses turned in strong performances. This accounted for the rise in taxation to R6,7m from R3,6m.

Earnings attributable to outside shareholders rose to R58,5m (R52,1m) because of an improved performance by JD Group and Housewares.

W & A reported a loss of 6,6c (earnings of 78,7c) a share, and passed its final dividend.

Extraordinary items of R218,5m related "to exceptional and non-recurring write-offs".

A *pro forma* balance sheet, reflecting the effect of the proposed rights issue, showed gearing would come down to 44,6% and total shareholders' interest would increase to R1,6bn from R975m.

Liebesman said group recapitalisation and the continuing disposal of non-core assets would reduce gearing further in 1993 and provide a sound base for W & A.

He said 1992 should be viewed as the year that W & A cleaned up, enabling management to focus on operating activities. He expected the group to return to profitability and dividend payments in 1993.

## *mercial and industrial property*

# Industrial recovery a vain hope

180

BDM 11/3/93

HOPES that the economic recovery would be firmly underway by now have been dashed and the industrial market is suffering because it pinned its hopes on such a recovery being export led.

However, RMS Syfrets industrial director Mike Brown says there is more activity on the warehousing and distribution side than in the manufacturing arena.

"Manufacturing capacities are down and deals are being concluded on the distribution and warehousing side. The unionisation of staff and the fact that in many cases it is cheaper to import products has seen a reluctance among industrialists to expand their manufacturing operations."

But Edwards Mortimer & Associates director Phil Grafton disagrees, saying there is more activity on the manufacturing side than the warehousing side, a "good sign" perhaps indicating the start of an economic recovery.

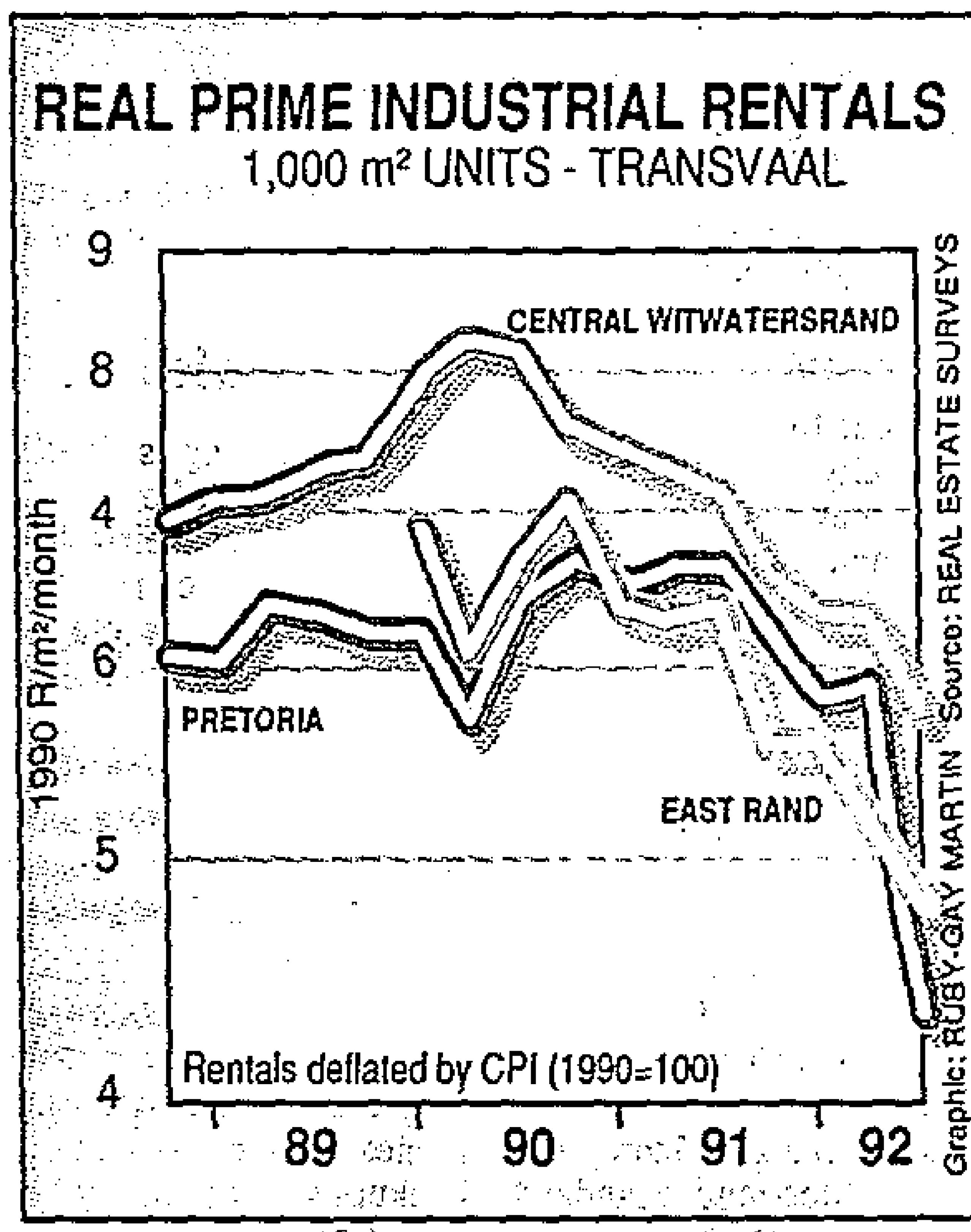
"Politics aside, we are seeing all the positive signs falling into place for an improved economy and a turnabout in the industrial property market. Interest rates are falling, confidence is better and there is already a slow uptake of space," he says.

But Brown says there is not a lot of activity. Industrial vacancies remain relatively static because there are no sizeable new speculative developments coming onto the market.

"The present oversupply of industrial space will only take about nine months to be filled when we have a sustained, real economic recovery. As such, the industry now needs to look at starting to build new space for larger users in good areas," he says.

Now is also a good time to build as costs are at a record low and competition for work is fierce, he says.

"I find it strange that the institutions continue to invest money in speculative office developments but when they are approached with an industrial development that has short-term head leases in place, they will not do the deal," Brown says.




It is quite possible the industrial market will outperform the commercial and retail markets in the next five years and investors need to rerate the industrial market, he says.

Grafton agrees there is little available stock for the large industrial user.

But traditionally industrial rights were granted in areas close to black townships — Isando, Alrode, Wadeville — but the fact that these rights are being granted in other areas is having a stimulatory effect.

# Rentals on downward slide for fourth year

BIDM 11/3/93 (180)

INDUSTRIAL rentals have shown no real growth since the beginning of 1990 and the situation is not expected to improve this year.

"Deflate industrial rentals using the CPI and the true position of the industrial market becomes frighteningly clear," says property economist Erwin Rode.

"Real rentals for industrial units of 1 000m² in nine different nodes across the country have, in most cases, been on a downward slide since the beginning of 1990," he says.

The central Witwatersrand, East Rand and Pretoria have all seen declining rentals since mid-1991 and vacancies have also tended to rise. The pattern for Durban, Cape Town and Port Elizabeth reflects the same trend.

The Bureau for Economic Research at the University of Stellenbosch examined the nature of the current recession, as reflected by the manufacturing industry, compared with the previous two downswings.

It found the seasonally adjusted volume of manufacturing production dropped by 5,4% in real terms over the 12 quarters to the first quarter of 1992 and was still dropping with no sign of improvement.

The downswings of 1981/83 and 1984/86 produced real declines of 11% and 11,8% respectively, but over a period of six to seven quarters, after which production began to improve.

Only four subsectors achieved even mild positive growth since the first quarter of 1989. "Small wonder that both industrial landlords and tenants are hurting," says Rode.

While most rentals were still falling, surprise performers included the East Rand and the far East Rand, where rentals increased in nominal terms.

The only major exception was the West Rand, where prices were lower.

# Companies continue their exodus from Jo'burg CBD

(180) B(ORO) 11/3/93

THE trend among companies to decentralise from the Johannesburg CBD continues, commercial brokers say.

"We have seen a surge in the rate of inquiries for office space since December and the strongest demand continues to come from local companies located in either the Johannesburg CBD or in some of the older first-generation office blocks in the suburban nodes," says JH Isaacs office leasing and sales director Steven Kesler.

Demand has been particularly strong for offices in Rosebank and the decentralised office nodes of Sandton, Woodmead, Epsom Downs and Randburg.

Mortimer property Group MD Paul Maddison agrees, saying the Woodmead node saw a 9 000m² takeup between November 1992 and February 1993, reducing vacancies by 10% to 38% of total space.

This is largely due to a move out of older CBD buildings.

Epsom Downs saw a takeup of 2 700m² between November and February, resulting in vacancies dropping to 8,7% from 15,7%.

"This node has all the infrastructure Woodmead lacks and the decentralisation trend continues to this area. The Sandton CBD has also seen a 16 000m² takeup of space over the period as the average asking rent has dropped to R22,16/m² net from R23,88/m²," he says.

Kesler says interest in Parktown and Bedfordview revived in January after showing only lacklustre demand in 1992.

However, Maddison says the Bedfordview node is looking unhealthy, with vacancies up to 22,5% from 20% previously.

STEVEN KESLER

This is partly because of new stock becoming available and partly because the area was traditionally the head office component for industrial and construction companies, which have been badly affected by the recession.

Parktown has seen a takeup of 11 900m2 of space and only 26 044m², or 10,9%, of A-grade space was vacant in February.

Kesler says there are also a number of groups considering major corporate relocations. This is likely to result in important new developments, beginning in the next 12 to 18 months.

Major new developments will centre around Houghton Isle, the Galleria site in Rosebank, the former Grosvenor Ford site in Rosebank, Sandton Square and the Sunninghill and Woodmead nodes.

# Quality by inspection 'straps SA'

180

LINDA ENSOR

CAPE TOWN — The international competitiveness of SA manufacture would be limited by its adherence to costly quality-by-inspection techniques, Simon Fraser University of Canada professor Ernie Love said yesterday.

Love, who heads the university's management science and production faculty of business administration, said at a UCT Graduate School of Business function that international experience had shown quality by inspection was very costly.

SA would pay the price of practising this form of quality control by being uncompetitive internationally, he added.

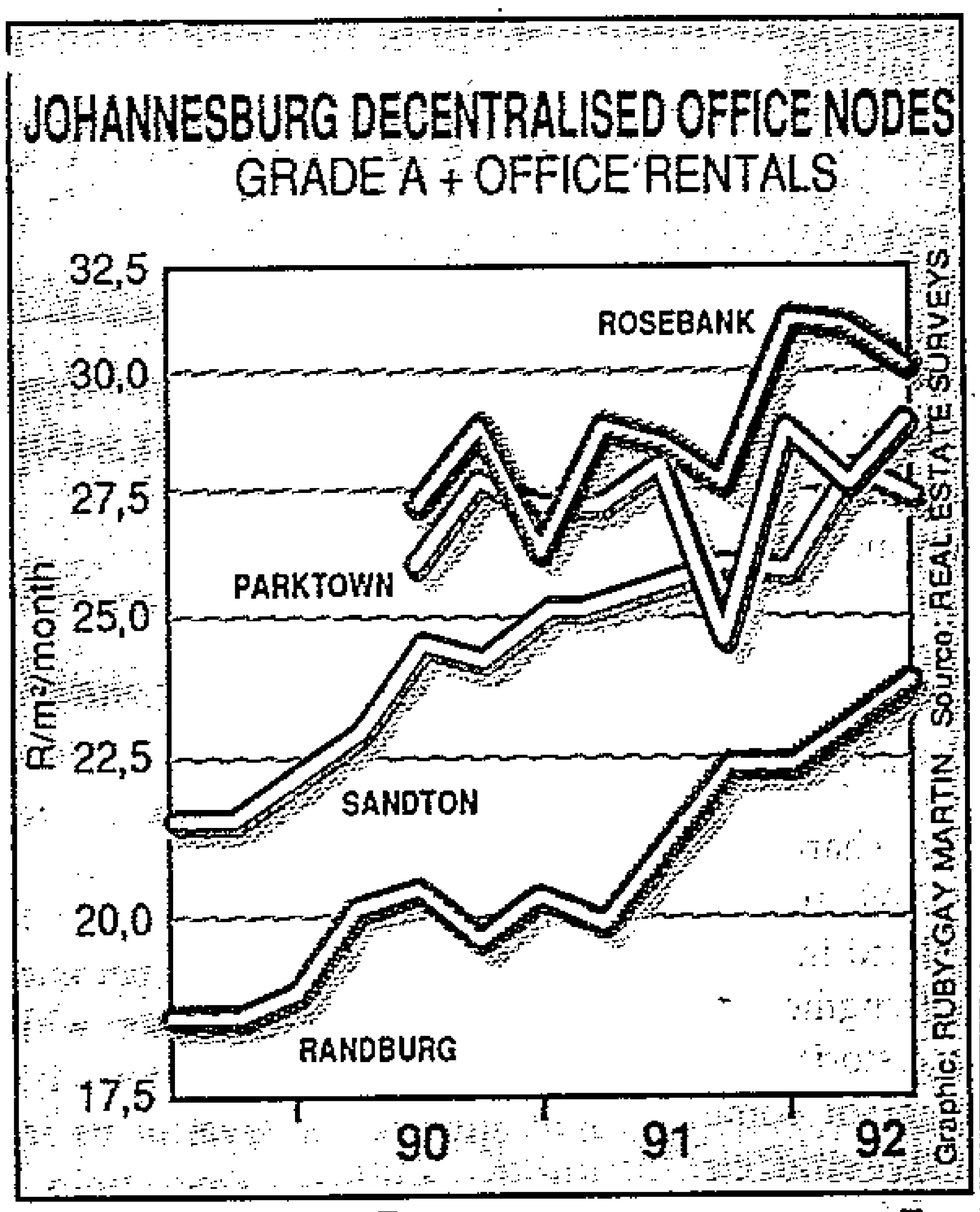
He said it would take time for SA manufacturers to introduce total quality management systems as the country's workforce was untrained and there might be constraints on management playing a leadership role in institutionalising values of quality and customer service as there were fewer managers per number of workers than overseas.

Quality control costs could only be reduced by moving the problem up the line and focusing on customer needs at the design stage. Love said in Japan customers were brought close to production so that their needs could be built into product design. This reduced the number of rejects and warranty returns.

Commercial and ir

# Business Day SURVEY

*Interest rates have started to drop, inflation has fallen to single-digit figures for the first time in years and there is renewed interest in the market — all of which bode well for commercial and industrial property. But any real hope for the industry depends on a speedy political settlement and a sustained economic recovery. **PETER GALLI** reports.*




# Competing landlords push down rentals

OFFICE and industrial rentals are still largely under downward pressure as landlords vie for tenants to fill empty space.

However, rentals for prime properties in good locations are faring better than for refurbished or older buildings in less sought-after areas.

Seeff Organisational Holdings MD Lawrence Seeff says there was no real rental growth last year and there is little chance of any real growth this year.

"It is still a tenants' market and they are using all the ammunition they have to negotiate the best deal. Landlords are still prepared to look at concessions and incentives to move space," he says.

However, many of the institutional landlords are reluctant to enter into long leases with good tenants at the lower prevailing rentals and an increasing trend is towards longer leases that start off at a lower rate but have provision for a free-market review after a few years.

But tenants are not able to negotiate that strongly for space in new, quality buildings in prime locations as space in most of these still reflects good demand, he says.

Mortimer Property Group MD Paul Maddison says rental levels have been moving downwards over the past three or four years and are likely to continue to slide.

BDPM 11/3/93

## Remain

Vacancies are likely to remain much as they are for the rest of the year as there is not much additional space coming on stream. While much is made of vacancy levels in the local market, compared with most offshore countries our vacancy factor is very low, he says.

However, as soon as there is a sustainable upturn in the economy there will be a "frightening increase" in rental levels.

RMS Syfrets commercial director Mike Deacon agrees, saying when the market improves and building costs and land values rise, there will be a considerable upturn in rentals.

Tenants are still negotiating rent-free periods or lease discounts. While these could be as high as nine months in the Johannesburg CBD, a good tenant could only negotiate about three months for space in prime decentralised nodes.

Free market reviews are the route of the future as these take away the need to guess how the market is going to perform in the future and what inflation will be.

"Landlords and tenants are insisting on free market reviews in the lease if it is signed for a lengthy period as, with political uncertainty and a volatile inflation rate, it is difficult to set fixed rental escalations for any period," says Deacon.

Anglo American Property Services sales and marketing director Grahame Lindop says its policy of offering rent-free periods and discounts has worked well.

"We cut rentals substantially last year to move space. We adopted a very aggressive approach and it has paid dividends in terms of increased inquiries and actual deals concluded," he says.

180

## Select

Its initial offer of nine-month free rentals, and now its policy of 30% off the first 30 months of a five-year lease for select buildings in its portfolio, would be maintained until market conditions changed.

As it was Ampros's 30th anniversary it decided to offer the 30% discount strategy, which was also better from a cash flow point of view.

# Politics, economics temper industry's bullish forecasts

B/DAY 11/3/93.

COMMERCIAL and industrial property market players are slightly more bullish about the industry but growth still hinges on economic and political developments.

Interest rates have started to drop, inflation has fallen to single-digit figures for the first time in years and there is renewed interest in the market — all of which bode well for the industry.

But any real hope for the industry hinges on a speedy political settlement and a sustained economic recovery.

## Moderate

RMS Syfrets directors Mike Deacon and Mike Brown say there is only a nine-month oversupply of commercial and industrial space, given a moderate recovery.

If this happens more rapidly than expected, there will be a rapid take-up of the oversupplied space and a shortage will develop. This in turn will stimulate the market, as rentals will be pushed higher and land values rise.

However, while inquiries for commercial and industrial space have increased over the last quarter, deals being concluded are generally subject to intense negotiation and compromise on the part of the landlord.

Concessions in the form of rent-free periods, rental discounts or a variety of allowances remain the norm, although the extent of this is largely determined by the quality of the development and its location.

Landlords with quality buildings in more popular decentralised nodes are less flexible than those with buildings in less popular locations, like CBDs.

The general discount appears to be about three months rent-free for space in decentralised areas on a five-year lease, moving as high as nine-months in the Johannesburg CBD.

While rental levels have continued to fall in real terms almost across the board, rents in certain areas are beginning to show an upward trend — a sign of increased demand.

However, the belief that the country would start to experience an export-led recovery this year has not materialised, placing the industrial market under pressure. Rentals here have fallen and there is little indication of any manufacturing growth or expansion.

The high level of retrenchments has also affected demand for space, with many companies consolidating their premises or merging with others. This has resulted in a decrease in the takeup of space by existing users.

"The harsh realities of the economic recession, which is now in its 51st month, has taken its toll. There are almost no new tenants in the market and most activity taking place is nothing more than musical chairs," says Anglo American Properties sales and marketing director Grahame Lindop.

As such, landlords have had to resort to hard marketing techniques, discounted rentals and other concessions to move tenants into their buildngs.

## Extended

Another sign of the tough times is that this competition has also been extended to the broking level, where companies are attempting to poach successful brokers from other agencies by offering them incentives and increased perks.

While there are some hopeful signs that the worst of the recession is over and conditions in the property market must continue to improve, a step backwards in the negotiating process or an economic hiccough will reverse any positive gains.

# Competition is the key

WMail 12/3-18/3/93.

180

Weekly Mail Reporter

THE Keys model not only insists on higher labour productivity — it is strongly critical of the lack of competition in South African business.

And the document recommends the final decision on matters brought before the Competition Board be taken out of the hands of the government and put before a "competition tribunal" backed up by a special competition appeals court.

"With regard to the structure of the market, economic concentration, mainly in the form of oligopolies, is a salient feature of the South African economy. These conglomerates are characterised by interlocking directorships and cross-shareholding."

The authors go on to say the existence of concentrations of power cannot be held solely responsible for the lack of effective competition. And they accept the argument that such concentrations could even be an advantage in international competition.

"However, this does not mean that concentrations of power are always in the interests of the community," say the authors. They can lead to uncompetitive behaviour like price determination not based on supply and demand.

Hence the structure and behaviour of the market should be monitored to see that restraints on the entry of new participants and illegal practices like horizontal price collusion should be eliminated.

Among other suggestions, the document recommends:

- Price collusion, market sharing, maintenance of resale prices and collusion on tenders should be declared illegal in terms of the Competition Act, and the competition tribunal should be able to declare other forms of anti-competitive conduct illegal on an ad hoc basis.
- On all prospective acquisitions of a predetermined size, or which could lead to predetermined levels of concentration in specific markets, notice to the authorities should be compulsory.
- Acquisitions, restrictive practices, statutory rights and government concessions which could result in monopolies should be evaluated more critically without sacrificing efficiency.
- Company legislation and tax measures should not restrict competition between conglomerates.
- Higher fines for infringements should be considered.

The document balances calls for regulation with calls for deregulation to remove impediments to entering and participating in the market system. Deregulation, the document adds, does not apply solely to government departments but all government institutions. So decreasing tariff protection is also a form of deregulation.

Foreign competition is often the only source of competition in the small domestic market. The protection of local businesses through protective tariffs or surcharges should be guarded against.

# Competition is the key

WMail 12/3-18/3/93. (180)

Weekly Mail Reporter

THE Keys model not only insists on higher labour productivity — it is strongly critical of the lack of competition in South African business.

And the document recommends the final decision on matters brought before the Competition Board be taken out of the hands of the government and put before a "competition tribunal" backed up by a special competition appeals court.

"With regard to the structure of the market, economic concentration, mainly in the form of oligopolies, is a salient feature of the South African economy. These conglomerates are characterised by interlocking directorships and cross-shareholding."

The authors go on to say the existence of concentrations of power cannot be held solely responsible for the lack of effective competition. And they accept the argument that such concentrations could even be an advantage in international competition.

"However, this does not mean that concentrations of power are always in the interests of the community," say the authors. They can lead to uncompetitive behaviour like price determination not based on supply and demand.

Hence the structure and behaviour of the market should be monitored to see that restraints on the entry of new participants and illegal practices like horizontal price collusion should be eliminated.

Among other suggestions, the document recommends:

- Price collusion, market sharing, maintenance of resale prices and collusion on tenders should be declared illegal in terms of the Competition Act, and the competition tribunal should be able to declare other forms of anti-competitive conduct illegal on an ad hoc basis.
- On all prospective acquisitions of a predetermined size, or which could lead to predetermined levels of concentration in specific markets, notice to the authorities should be compulsory.
- Acquisitions, restrictive practices, statutory rights and government concessions which could result in monopolies should be evaluated more critically without sacrificing efficiency.
- Company legislation and tax measures should not restrict competition between conglomerates.
- Higher fines for infringements should be considered.

The document balances calls for regulation with calls for deregulation to remove impediments to entering and participating in the market system. Deregulation, the document adds, does not apply solely to government departments but all government institutions. So decreasing tariff protection is also a form of deregulation.

Foreign competition is often the only source of competition in the small domestic market. The protection of local businesses through protective tariffs or surcharges should be guarded against.

181

# Productivity key to economic plan

Star 12/3/93

(180)

Goals set by the Finance Minister's new economic model mean a greater focus on productivity. This raises thorny issues, reports MICHAEL CHESTER.

THE new five-year economic model unveiled by Finance Minister Derek Keys, with its aim of a R51 billion surge in investment and the creation of 1,3 million new jobs, has put back on the agenda the issue of productivity.

Closer analysis shows that a cornerstone of the model is the emergence of a far stronger industrial sector. However, much still depends on winning the confidence of investors to finance expansions that, in turn, generate a bigger overall labour force.

The Normative Economic Model, as it has been named, seeks to spur a dramatic increase of no less than 80 percent in new investments in the manufacturing sectors between now and 1997.

The next question is how potential investors can be motivated. One of their first demands, quite reasonably, will be signals of radical improvements in productivity.

As protection walls are dismantled, vast improvements in the performance of many South African manufacturers will become crucial if they are to cope with competition from overseas rivals.

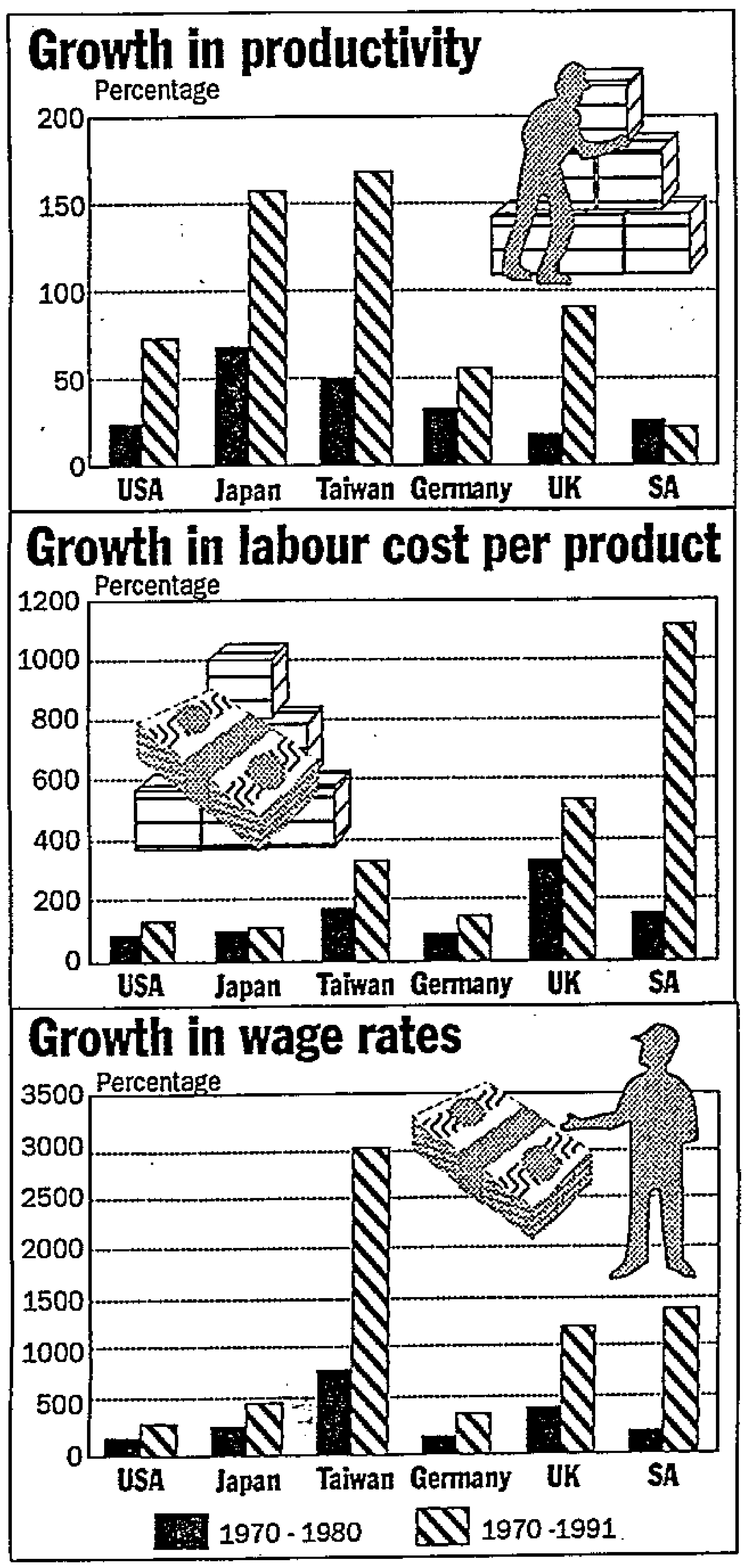
Until now much of the industrial sector has had the luxury of the protection offered by heavy taxes on imported goods. These taxes have, on average, climbed as high as 27 percent of value — 21 percent in tariffs, made worse by special import surcharges.

The new economic model envisages that the protection barriers will be removed in gradual stages, but the ultimate objective means several business sectors will have to begin to brace themselves. Comparing price tags is, eventually, the name of the game.

At the moment, export earnings equal no more than R10 of every R100 of goods coming off production lines. Keys wants the value of export shipments to be increased to R23 in every R100.

He has not been alone in following the ease with which producers — sheltered by various protective measures — have grown used to applying a silent system of inflation indexation when it has came to determining both wages and prices.

One simply follows the course of domestic inflation to match what has been happening to the consumer price index.




Between 1961 and 1972, price increases were contained at a modest average of only 3,3 percent a year. The annual spiral jumped to 11,2 percent from 1973 to 1978, to 13,5 percent between 1979 and 1984 and 15,2 percent from the mid-1980s to last year.

As South Africa rejoins international players in the world trade, it also again falls under rules laid down by trade policemen such as the General Agreement on Tariffs and Trade, as well as the guidelines of the International Monetary Fund.

Barriers to open competition in import/export trade, such as tariff protection on the one hand and excessive export incentive payments on the other, are usually regarded as a no-no.

That, in turn, brings a warning from the National Institute of Productivity about what's been happening on the world scene while South Africa has been in isolation.

NPI economist Karin Liebenberg provides a few blunt reminders in the latest issue of Productivity SA. The accompanying graphics spell out the facts about how South Africa has fared in the past two decades when compared with those with whom it must now do battle globally.

What needs to be noted is South Africa's laggard performance in the growth of productivity — set alongside increases in the size of pay packets.

Here, of course, the process of trying to narrow the black/white pay gaps must be taken into account.

But, before all the blame is heaped on the unions, deeper analysis will show that equal if not more blame must be shouldered by the dismal performance of automation programmes. These were started by many employers as they turned to capital-intensive investment rather than labour-intensive schemes.

It was often seen as an escape route out of labour problems — or else a patchwork of devious schemes to win tax kick-backs. It all ended in a vicious circle.

Whatever the arguments, the result has been an escalation in the final measurement of labour costs per unit of production that leaves many South African companies with their backs to the wall in terms of full-scale international competition.

Fresh hopes of breaking the vicious circle have been provided by proposals in the new economic model that efforts should be made to contain average annual wage increases to within 1 percent above any current inflation rate — in fact to about 0,75 percent in real terms — unless increases can be justified by evidence of productivity performance ahead of new targets (0,9 percent).

The ultimate objective of matching pay packets to productivity is commendable — the promise of boosting the competitiveness of exports and also slamming the brakes on inflation in general.

However, employers should be reminded that the pace of productivity — productivity of capital as well as labour — falls squarely inside the responsibility of good management. □

LONRHO (180) FM 12/3/93.

# In need of discipline

**Activities:** *UK-based multinational with mining, agricultural, commercial and industrial interests and 60 countries.*
**Control:** *D Bock with 19% is the largest shareholder.*
**Chairman:** *M J R Leclezio; Joint MDs: R W Rowland & D Bock.*
**Capital structure:** *661m ords. Market capitalisation: R3,8bn.*
**Share market:** *Price: 585c. Yields: 3,2% on dividend; 1,0% on earnings; p:e ratio, 105; cover, n/a. 12-month high, 800c; low, 350c. Trading volume last quarter, 14,1m shares.*

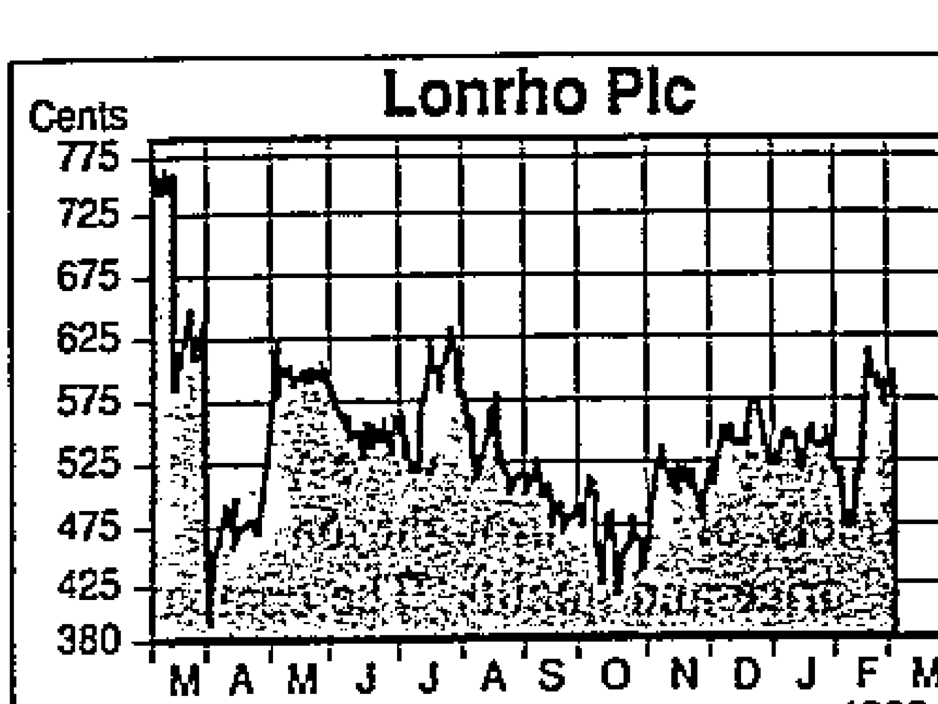
| Year to Sep 30 | '89 | '90 | '91 | '92 |
|---|---|---|---|---|
| Turnover (£m) | 5 108 | 5 476 | 4 846 | 3 866 |
| Pre-int profit (£m) | 273 | 272 | 207 | 179 |
| Pre-int margin (%) | 5,3 | 5,0 | 4,3 | 4,6 |
| Earnings (p) | 27,1 | 23,6 | 14,2 | 1,2 |
| Dividends (p) | 14,2 | 15,7 | 13,0 | 4,0 |
| Net worth (p) | 222 | 216 | 204 | 171 |

**Someone out** there knows a lot more than the rest of us. Why else would Lonrho, whose earnings at 1,2p a share were last this low in 1965 and which has returned sharply declining results for three successive years, be sitting on the extraordinary price:earnings ratio of 105?

Perhaps that someone is the German financier, Dieter Bock, who has just become Lonrho's joint MD and CE. Effectively, that brings to an end the unusual one-man control exercised by Tiny Rowland, an inscrutable manager possessed of a life-long love affair with Africa.

Romanticism is one thing, hard facts are another. This multinational trading conglomerate has colossal borrowings of £849m; its net interest bill for 1992 was £99m; turnover has fallen a cool £1bn from 1991; and attributable profit has fallen to £8m from the previous year's £90m. Lonrho's only saving grace came from extraordinary items, which netted £78m — nearly all from the disposal of a variety of important investments.

The dividend of 4p a share, down from 13p in 1991, is still generous relative to its earnings. Rowland cheerfully tells shareholders in his annual message that the company will be doing better next year — that will not be a moment too soon for loyal followers who have lived for years through Rowland's triumphs and tragedies.




Lonrho does a bit of everything. It owns newspapers and hotels and prints postage stamps; it mines gold, platinum group metals and coal; it is heavily involved in motor vehicle sales and assembly and makes bed linen; it sells aeroplanes and clocks. In the circumstances, it is not surprising the group comprises 700 companies and operates in 60 countries. The wonder is that anyone can keep track of such a diffuse and amorphous congeries.

Lonrho and Rowland have not exactly been beloved of the City. Whether Rowland cares is one thing; unfortunately, it has probably harmed his company and its shareholders in the process. Research for this article led to the interesting discovery that very few major London finance houses or brokerages covers Lonrho on a regular basis. "There's not much interest in it in the UK, old boy," drawled one superior-sounding analyst. "The chaps on the Continent seem to follow it."

What Lonrho needs is more cash by way of equity and less through borrowings — recognising this, it has held a rights issue and sold substantial investments, most of it at a profit. But the debt mountain is still daunting. Suggestions that Lonrho is seeking to capitalise on its highly successful — and unlisted — Western Platinum mine by doing a deal with partner Gencor haven't been confirmed.

Lonrho needs tighter management control and less in the way of African buccaneering and spectacular vendettas about Harrods which derive as much from pique as from lost opportunities. Bock will probably bring qualities of discipline and order to the company. No doubt he will introduce well established Teutonic ways and means and, in time, it will make good money again.

That will make Lonrho predictable and safe; shareholders will applaud. Financial observers and journalists will be bored.

*David Gleason*

ANGLO-ALPHA FM 12/3/93

## Emphasis on cost controls

FM 12/3/93

**Anglo-Alpha's Pretorius ...**
*expansion plans cut back*

**While the** economy and, particularly, the fixed investment cycle remain in recession, the only game in town for companies like Anglo-Alpha is cost-cutting and tight asset management as a means to underpin profits.

In this context, Anglo-Alpha has enjoyed above-average success. Though earnings have declined in each of the past three years, the cumulative fall in historic cost EPS has been confined to under 10% — from a peak of 367c in 1989 to last year's 331c. While the deficit is a wider 26% on current cost earnings, even this is acceptable given the 16% decline in sales volumes experienced over the past two years alone.

**Activities:** *Produces cement and related products.*
**Control:** *Holderbank and AVI through Altur Investments (54,8%).*
**Chairman:** *P Byland; MD: J G Pretorius.*
**Capital structure:** *30,1m ords. Market capitalisation: R1,038bn.*
**Share market:** *Price: 3 450c. Yields: 4,4% on dividend; 9,6% on earnings; p:e ratio, 10,4; cover, 2,2. 12-month high, 4 350c; low, 2 400c. Trading volume last quarter, 412 000 shares.*

| Year to Dec 31 | '89 | '90 | '91 | '92 |
|---|---|---|---|---|
| ST debt (Rm) | 42,6 | 15,2 | 45,6 | 38,3 |
| LT debt (Rm) | 73,0 | 82,2 | 137,2 | 160,2 |
| Debt:equity ratio | 0,19 | 0,14 | 0,23 | 0,19 |
| Shareholders' interest | 0,69 | 0,71 | 0,70 | 0,65 |
| Int & leasing cover | 10,5 | 13,0 | 7,1 | 5,4 |
| Return on cap (%) | 20,4 | 18,5 | 14,1 | 14,3 |
| Turnover (Rm) | 625 | 691 | 728 | 757 |
| Pre-int profit (Rm) | 183,1 | 177,3 | 148,7 | 162,2 |
| Pre-int margin (%) | 27,3 | 24,4 | 19,0 | 19,9 |
| Earnings (c) | 367 | 350 | 343 | 331 |
| Dividends (c) | 115 | 132 | 152 | 152 |
| Net worth (c) | 2 069 | 2 262 | 2 453 | 2 609 |

Last year's fall was due entirely to factors which, for present purposes, can best he described as "non-trading". These can be summarised as:

☐ Interest charges — 1992 interest charges rose R9m from R21m to R30m. The after-tax cost reduced the bottom line by almost R4,7m and the effect was to reduce EPS by about 16c. This was a carry-over from 1991, when total year-end borrowings rose from R97,4m to R182,8m and though interest charges that year increased by 54%, the R21m total for 1991 was still only 11,5% of year-end debt. So the 1992 increase to R30m

Cont — P

FM 12/3/93. (180)

AMIC FM 12/3/93 (180)

## Reviewing the structure

**By and large,** 1992 was a rotten year for most SA companies and results from industrial giant Amic fully reflect this. Turnover improved marginally, but the real pain was felt in attributable earnings, which fell 12% to R352m.

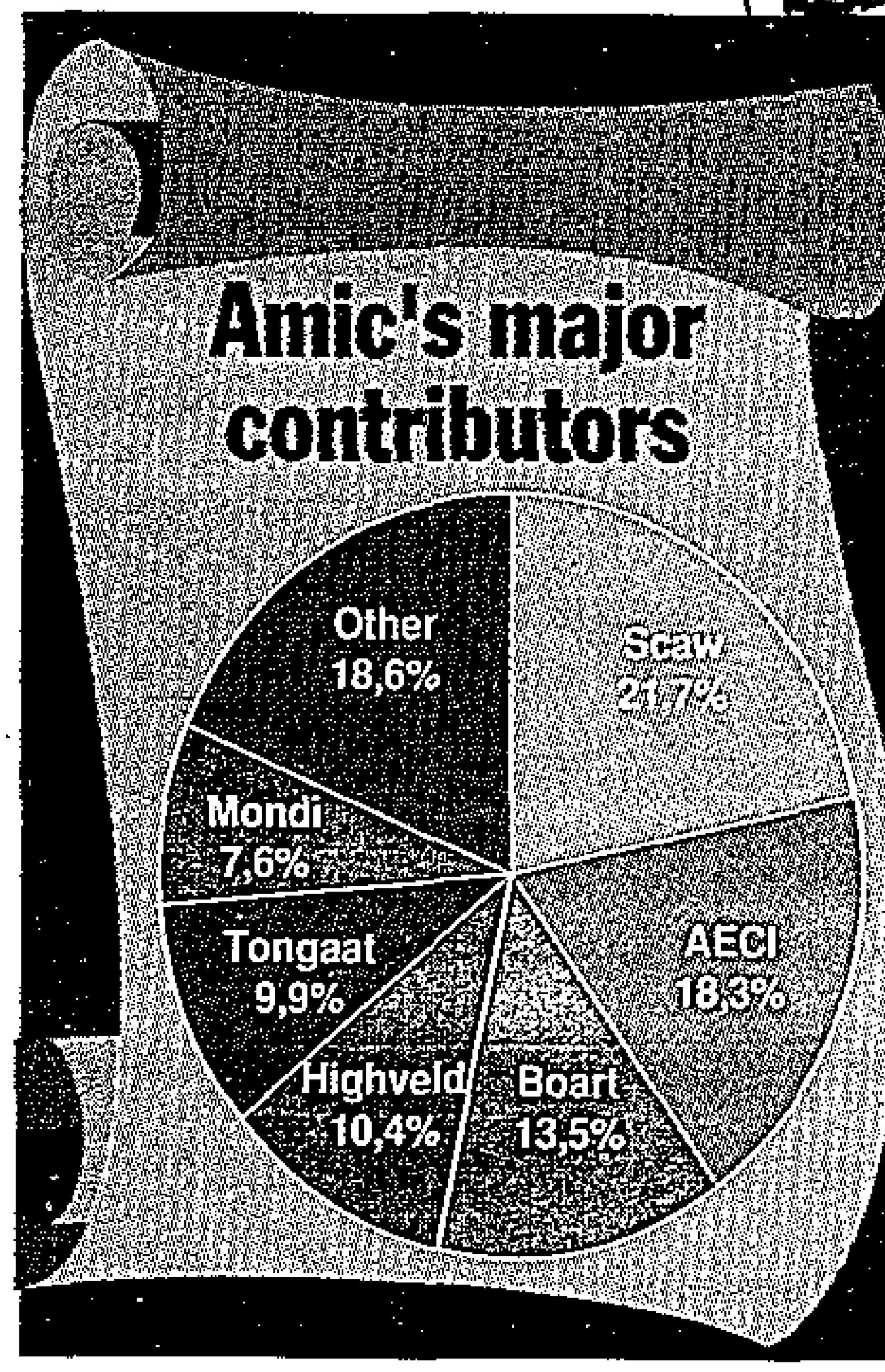
The directors clearly believe, perhaps rather bravely, that the worst is over. They announced an unchanged final dividend at the expense of cover which falls to 1,8 times. Fairly predictably, chairman Leslie Boyd says he is happy with that level, though I would offer no odds that he will move it back above 2 as swiftly as prudence dictates.

Amic derives its considerable revenue from six main sources, which together contributed 81% of equity earnings in 1992 (see graph). Of these, the most important remains Scaw, again Amic's largest single contributor, with earnings of R76,5m. AECI turned in a modest performance, but Boart International rather remarkably maintained earnings at R48m, despite declines in most of the markets it serves. A particularly unhappy result came from Mondi, which more than halved its earnings to R51m. Against the trend, Tongaat managed a small increase (5%) in earnings, more than offset by a decline of 20% in Highveld's performance.

Against that sombre background, Boyd — recently appointed to succeed the illustrious Graham Boustred — says he has been reviewing Amic's structure and its business. That is, of course, a normal event in the life of any enterprise. The surprising part of his statement, however, comes in a rare admission for an Anglo executive director. "The first objective," says Boyd, "is to make the group more financially efficient." It is a sentence loaded with meaning.

He intends to accomplish this by divisionalising some or all of Amic's wholly owned subsidiaries, rationalising and consolidating industrial interests held jointly with Anglo and, finally, by reducing the effect of the commodity cycle on the group.

What does "divisionalising" mean? Boyd managed to be abrupt and forthright at a press conference without answering the question. It is possible to contemplate Boart, wholly owned, becoming a division of Amic. But the benefits that action might bestow are unclear. Would it give untold tax advantages or would it make it easier for Amic to raise cash for Boart's capital programmes?




Boyd says Amic is a company with nothing in it. Divisionalising wholly owned subsidiaries will give it more substance; that will make it easier to raise money successfully.

The rationalisation programme is plain enough. It makes little sense for the greater Anglo group's holdings in, say, LTA, to be divided between Boart and Anglo American. Putting the two together will give Amic a 72% holding in the construction company, which will thus become an important subsidiary. Whether it will then operate any better is another matter.

Reducing Amic's exposure to the commodity cycle is understandable. Boyd says the moves to merge McCarthy with Prefcor and Highveld's Rheem can plant are examples of this business philosophy.

These plans are all well and good; shareholders will be more intent on ascertaining whether the successive years of falling earnings — there have been three so far — have ended. Boyd says they have. In quaint language designed to avoid any suggestion of a commitment, Boyd's prediction for 1993 is that "Amic's earnings will at least equal those of 1992."

He will earn some faint applause if he is right.

*David Gleason*

JOB MARKET

# Competition the new watchword

ST Times [BUSS] 14/3/93.

DEREK KEYS . . . his model is based on tried and tested methods

**Finance Minister Derek Keys has unveiled an economic plan designed to create 1,3-million jobs by 1997. How will he do it? KEVIN DAVIE reports**

THE great economic debate, unleashed in earnest with the unbanning of the ANC and other political parties, in early days focused on the merits of market systems versus socialist systems.

Nationalisation was the watchword. The key protagonists developed their positions as the debate progressed, the focus switching to the twin problems of growth and redistribution.

Finance Minister Derek Keys this week tabled his contribution to the debate. His Normative Economic Model (NEM) is premised on the notion of employment-creating growth.

The model intends transforming the South African economy within this decade from its present status as an under-performer to a performer. In the process, 1,3-million job opportunities will be created.

This might sound like make believe, an impossibility in the current climate of retrenchments, business failures and growing unemployment, but Keys is not proposing anything new.

His elixir is based on tried and tested methods which other economies have successfully implemented during the past few decades while South Africans have been waging the economic warfare known as apartheid on one another.

The plan rests on the principles that SA has to be competitive in foreign markets if the economy is to grow and that it is no good expecting the non-competitive to be able to compete overnight.

The goalposts will be moved on a phased basis so that business is given time to adjust and to learn to compete — much of SA's industry would simply cease to exist if exposed tomorrow to the cruel, competitive world out there.

The NEM says SA's import tax or tariff barrier stands at 21% (weighted by import value) but that this rises to 27% when the effect of special import surcharges still in force are added.

## Complex

It says that while the normal tariff barrier is comparable to the protective levels found in developing countries, the 27% level puts SA among the highly-protected countries in world trade.

These tariffs raise the relative costs of producing internationally tradeable goods in SA and artificially reduce the cost competitiveness of South African goods in export markets.

But the problem goes further in SA's case. "The rather ad hoc process of granting protection to individual industries has given rise to a system which is apparently one of the most complex in the world. It lacks transparency, is prone to continuous change and is open to lobbying."

The high degree of selectivity has resulted in wide variances in nominal and effective rates between products and industries. Food beverages and tobacco have an estimated effective protection of 8,8%, while textiles and apparel have effective protection of 93,6%.

Other sectors with high levels of protection are chemicals (50,6%), wood and wood products (39,7%) and "other manufacturing" (62,8%). Manufacturing has effective average protection of 30,2%, according to a study by the Industrial Development Corporation.

NEM's authors say that any domestic-led recovery of economic activity in SA will almost inevitably produce a deficit on the balance of payments and/or a serious depreciation of the rand exchange rate.

"The likelihood of such a deficit being financed from inflows of foreign capital is slight. A recovery that is export-led, however, requires at the very least the removal of the anti-export bias in the system of industrial protection."

The authors say a revival of economic growth may attract foreign investment, thus easing the pressure on the BoP, but unless this growth is export-led foreign investors are unlikely to be greatly interested.

The plan says this anti-export bias can be countered by giving exporters access to inputs at the best available world prices.

## Reduce

(180)

Options here include establishing export processing zones and extending the rebates allowed on materials used in export processing.

The model says the combined effect of lifting the import surcharge and special duties, such as formula duties, could reduce the protective barrier from its present 27% to 18%.

NEM says a possible approach could be to reduce the maximum rates on consumer goods to 30% and on all other goods at 15%, bringing the protective barrier down to an average 14%. But reducing tariff barriers will not in itself create hundreds of thousands of new jobs. The authors say economic performance depends heavily on the well-targeted and accelerated development of human capacity.

The currently adversarial relationships in industrial relations must end. Competitive behaviour should be encouraged in all markets, including the labour market.

"Certain forms of uncompetitive behaviour, such as price-fixing, market sharing, resale price maintenance and collusive tendering should be outlawed.

"This approach implies a dismantling of most of the government's market participatory and regulatory machinery, which may result in considerable savings for the public sector and the formal and informal private sector, and a reduced bureaucracy."

The model, a major contribution to the debate on how the economy may be best repaired, is proposing a new watchword to guide future policy: competitiveness.

## COMPANIES

# Quality inspections 'essential'

LINDA ENSOR

CAPE TOWN — Overseas buyers were demanding that products be inspected at source by an unbiased third party to avoid receiving poor quality goods, SGS SA chairman Philippe Fatzer said at the weekend.

SGS SA is affiliated to the Swiss-based Société Générale de Surveillance, the world's largest commercial inspection company, and a member of the European Foundation for Quality Management.

Fatzer disagreed with the view of Canadian professor Ernie Love who said last week that quality assessment by inspection was outdated and added significantly to the costs of production. Love preferred total quality management programmes.

"SA manufacturers must realise that inspection is an integral part of total quality management and to ignore it would be to their detriment and prove very costly in the long run," Fatzer said.

Once total quality management had been implemented quality control and inspection costs were low in relation to total costs but achieved substantial savings.

"Inspection is still essential as it provides a manufacturer with the raw data to correct a problem through quality control and avoid recurrence through total quality management," Fatzer said.

"By ignoring this method the manufacturer is unable to monitor the final state of the product to be delivered."

Meanwhile, Arthur Andersen operational consultant in New York Neil Cameron said at an executive briefing last week that businesses could increase their profits up to 50% by re-engineering their businesses.

"Business process re-engineering requires a change in mindset from process management and in order for this to be successfully implemented, departmental barriers have to be broken down and staff have to learn to communicate with each other."

# Recovery seen for SA manufacturing sector

180 ARG 15/3/93

**Business Staff**

THE decline in manufacturing production, evident since the start of the recession in mid-1989, seems to have bottomed out.

According to preliminary Central Statistical Service (CSS) figures, manufacturing production volumes in the fourth quarter last year improved by 4,3 percent on the preceding quarter.

While this figure is slightly distorted by the very low production volumes in the third quarter, after a number of extended strike actions, the seasonally adjusted trend also shows a marginal improvement in the December quarter.

The recovery, is, however, too late to have a marked effect on yearly trends.

Fourth-quarter figures were not only 0,5 percent down on the same quarter in 1991, but manufacturing production for 1992 as a whole was three percent lower than in the previous year.

The largest falls were recorded in the machinery and equipment, electrical machinery and motor vehicle subsectors, with only four categories — other chemical products, plastic products, non-ferrous metal products and professional and scientific instruments — showing gains in production in the 12 months.

The improvement in manufacturing production follows a real increase in retail sales in the fourth quarter to R22,7 million, 3,2 percent higher than in the September quarter.

However, annual trends once again provide evidence of the large decline in consumer spending last year.

Retail sales in 1992 totalled R87,6 million, compared with R79,7 million in 1991, representing a nominal rise of 9,9 percent but a fall in real terms of 4,3 percent.

Large real declines were recorded by butchers (6,7 percent), department stores (3,6 percent), book stores and stationers (9,8 percent) and other dealers in foods (9,5 percent).

Total sales of grocers and other dealers in foods totalled R33,3 million last year (1991: R30,5 million), followed by clothing, footwear and textile shops with R15,3 million (R13,6 million), dealers in furniture and household requisites with R8,7 million (R8 million) and general dealers with R7,9 million (R6,5 million).

# W & A rights issue finds some favour

Star 16/3/93 (180)

By Stephen Cranston

The market has generally reacted favourably to the announcement of the W&A R650 million rights issue, even though the euphoria of the alliance with Trencor has worn off and the share price has fallen from 350c to 210c.

The main attraction of the issue is the price of 175c, which even Martin & Co, which has not been favourable to W&A recently, describes as "an interesting speculative buy".

## Dilution

This puts W&A on a prospective P/E ratio of eight times, and is at a discount to the 210c diluted net asset value.

Although there will be a dilution of three times in the number of permanent equity instruments, the main feature of the issue is that it will bring debt down from R1,37 billion to R720 million, and gearing of well over 100 percent down to 44,6 percent.

But Ed Hern, Rudolph analyst Syd Vianello says that W&A will have had to service the higher borrowings for the first four months of the financial year.

W&A might incur a further loss after the payment of interest on convertible debentures and dividends will be stingy so as to conserve cash, he says.

Although W&A's loss of R11,5 million for the year to December did not exactly impress the market, W&A was given credit for the use of more conservative accounting principles, which led to R218,5 million of exceptional write-offs and provisions.

There is some concern, however, that as with Rusfurn this could only be the first of several asset write-downs.

Moreover, W&A still carries R321,3 million of goodwill which it defines as the market value of its assets less their carrying value, which is an unusual definition, at best.

Without this goodwill, gearing increases to 56 percent.

Much of the credibility of the Trencor management team is at stake and it is widely assumed that the present W&A management, although nominally in joint control, will take a back seat, and that Trencor's Ray Hasson is effectively the chief executive.

At the very least, Trencor's expertise on transport will help W&A.

The JD Group has 1 000 trucks and coal distributor MacPhail also has a considerable fleet. Trencor is a successful exporter of truck containers and will be able to apply its experience to W&A's product range.

## Management

Until now W&A has been considered to be weaker than the sum of its parts.

In the short term, W&A has been able to turn around businesses and motivate management.

But because of the debt at the centre, W&A has not had the money to support the capital expenditure wanted by its subsidiaries when they need to grow.

Even after the rights issue W&A is not out of the woods.

It will need to make a priority of reducing gearing further by asset sales.

# Downturn soon at a 'turning point'

(180)

BDAY 16/3/93.

LINDA ENSOR

CAPE TOWN — The downturn in manufacturing activity could be reaching a turning point, with the bottoming out expected to continue during the second quarter, a survey by Stellenbosch University's Bureau for Economic Research (BER) found.

BER director Ockie Stuart said there were signs of a cyclical improvement in conditions, and business confidence among manufacturers had improved. He said that while conditions remained worse than a year ago, the rate of deterioration was bottoming out.

"The overall conditions caused the index of manufacturing confidence to increase from its previous all-time low of 12 points to reach 20 index points. In the past, sustained confidence changes led changes in the business cycle," Stuart said.

"There is, according to the survey results, ample evidence to justify a forecast of continued improvements in confidence."

However, the improvement in conditions did not stem the number of workers losing their jobs in the first quarter and retrenchments were likely to continue in the second quarter, the survey found.

The survey found that first-quarter sales were slightly better than expected and this had led to a relative improvement in the volume of goods produced, a trend forecast to continue during the second quarter.

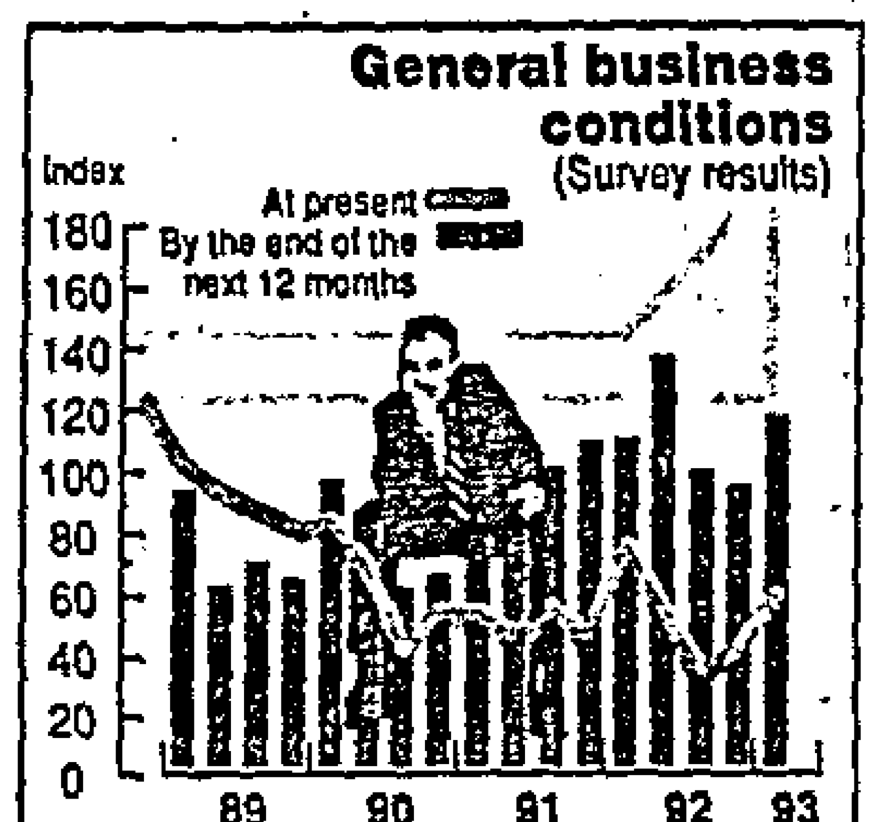
Export performance was disappointing, but most of SA's trading partners were still in a recession. However, expected export sales for the second quarter were above those of a year ago and were forecast to be livelier than domestic demand.

Many producers reported stocks of raw materials were still too high relative to planned production, and the ratio of finished goods to expected domestic demand even worse.

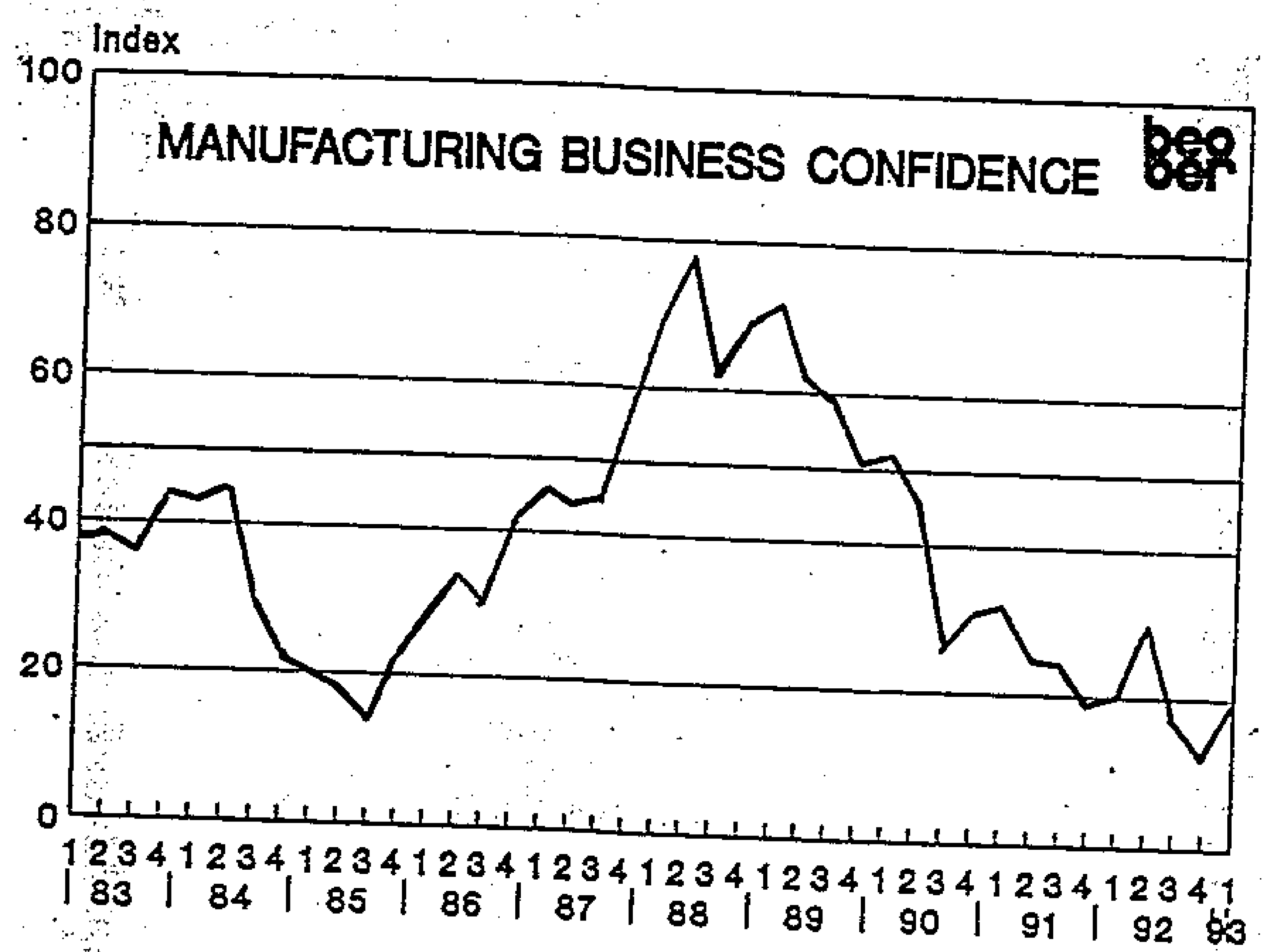
The average selling price of goods sold on the domestic market increased at a faster rate than that of exported goods, and this trend was expected to continue. The declining trend in the rate of increase in domestic producer prices might be reversed in coming months.

Stuart expressed concern that the net majority of manufacturers surveyed did not plan to replace obsolete capital goods during the next 12 months because of the political climate, insufficient demand, the tax structure and the cost of credit.

Also, a fairly substantial percentage did not wish to add to their current capital stock. Stuart warned this policy could have "disastrous effects" on future growth.




Graphic: LEE EMERTON Source: BER




# Cycle close to trough, BER survey indicates

Star 16/3/93

180

By Sven Lünsche

Recent statistical evidence of an improvement in business conditions in the manufacturing industry is confirmed by a survey of business confidence in the industry.

According to the survey by the Bureau for Economic Research at Stellenbosch University (BER), sales in the first quarter this year were better than had been expected by respondents last year.

BER director Dr Ockie Stuart says that although first quarter sales levels were below those of the same quarter in 1992, the respondents suggested that the downturn was likely to continue bottoming out in the second quarter.

A similar trend was evident in production volumes, with the survey showing improved production levels in the first quarter, a development which is expected to continue in the next few months.

## Improvement

"The relative improvement in sales and, more importantly, in production can be traced to an improvement in the tempo at which orders are received, to a better ratio of unfilled orders to expected sales and length of delivery periods," Stuart says.

"All these trends are indicative of a cyclical improvement which suggests that the business cycle is close to a trough."

Several factors were, however, continuing to hamper growth in the manufacturing sector, including insufficient demand, the adverse political climate and an unwillingness to invest in capital.

Manufacturers also received little support from the export market, as most of SA's trading partners were still firmly embedded in recession.

The slight improvement in production volumes did not halt the recent fall in retrenchments in the industry.

Five out of 10 respondents reported that the number of factory workers were reduced during the first quarter and a further four out of 10 suggested that further retrenchments would take place in the second quarter.

"This is a general phenomenon throughout the economy and can be traced to a lack of fixed investment," Stuart says.

# Manufacturing not out of doldrums yet

BDay 16/3/93

(180)

TRACY SCHNEIDER

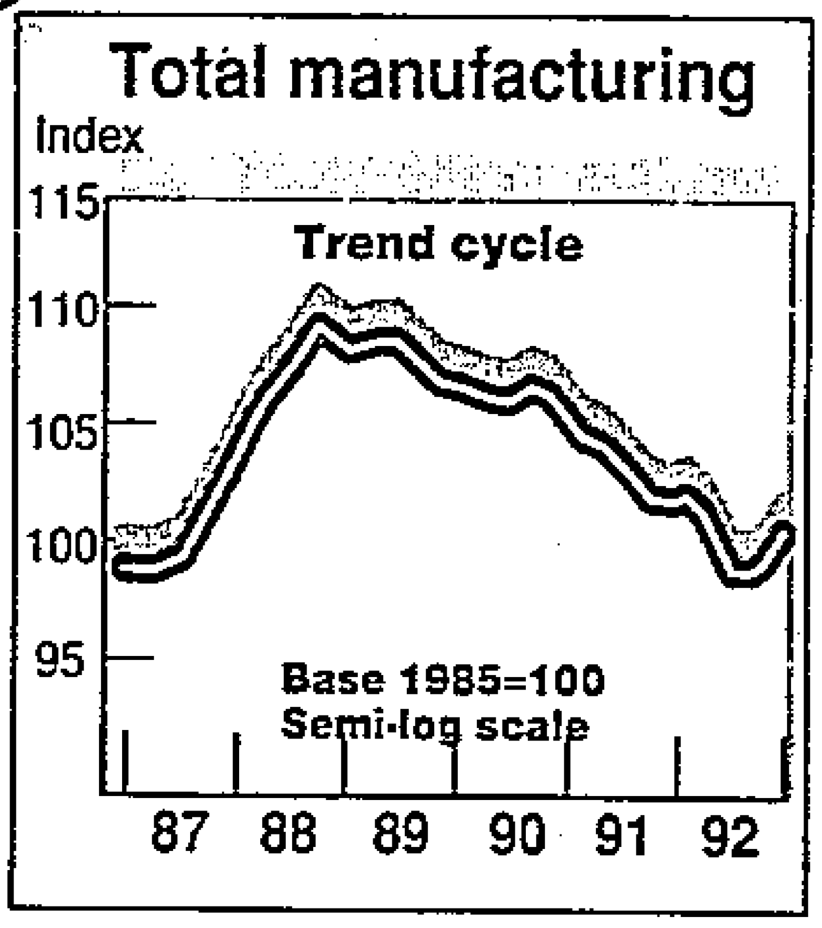
IMPROVEMENT in manufacturing production volumes for the fourth quarter of 1992 was unlikely to signal recession in this sector bottoming out, economists said yesterday.

Central Statistical Service (CSS) preliminary figures showed manufacturing production for the fourth quarter of last year improving 4,7% on the preceeding quarter's figures.

However, production was 0,5% lower than in the fourth quarter of 1991 and the total level of manufacturing production was down 3,0% on the previous year.

Economists said the rate of decline in manufacturing production might have slowed, but further falls should be expected. Credit Guarantee senior economist Luke Doig said: "We are reaching the lowest turning point, but will probably bump along at this level for some time."

SA Chamber of Business (Sacob) economist Keith Lockwood said the upturn had been in line with confidence indicators in the manufacturing sector during the period, but the trend was expected to flatten in the absence of strong conditions necessary for recovery.



Graphic: LEE EMERTON Source: CSS

Econometrix economist Micheil Bester said manufacturing production would be adversely affected by weak final demand and poor inventory levels. A December uptick was distorted by August's poor volumes, mainly attributable to strike action and poor demand.

Manufacturing production for the fourth quarter of 1992 increased in line with a 1,9% real increase in retail sales in the third quarter. But Bester said a real decline in retail sales could be expected for the first half of 1993. The profitability ratio for manufacturing firms declined 1,53% in the third quarter of 1992 against year-earlier figures.

However, capex on new assets relative to turnover increased from 5,55% for the third quarter of 1991 to 6,46% a year later.

Only four major sectors showed increased production for 1992: other chemical products, plastic products, nonferrous metal products and professional and scientific instruments.

# PPI creeps up on higher energy costs

49

(180)

CT 16/3/93

By AUDREY D'ANGELO
Business Editor

A 2,9% fall in the index for agriculture and a 2% fall in the index for manufactured food helped to keep the producer price index (PPI) for January low, in spite of a steep rise in the cost of electricity, gas and water.

This reverses the trend for the past few months, when rising food prices because of the drought limited the fall in the PPI and the consumer price index (CPI).

Figures released by the Central Statistical Services (CSS) yesterday showed that the PPI rose by only 0,2% between December and January.

The January figure for all commodities was 7,4% year on year compared with 7,3% in December.

The index for locally produced commodities for SA consumption rose by 8,3% year on year. But the index for the total output of SA industry rose by only 7%, implying that the cost of exports rose less than that of goods sold on the domestic market.

The PPI for imported commodities rose 3,9% year on year, compared with 3,1% year on year in December. But in fact the imported commodities index fell by 0,4% month on month, between December and January.

However, economists point out that the weakening rand means this downward trend will be reversed in the February PPI.

The CSS reports "relatively large monthly increases" in the indices for footwear, which went up by 2%, rubber and plastic products, which went up by 3%, basic metals, up 4,7%, scientific, optical and related equipment, up 3,1%, and electricity, gas and water, up 5,2%.

Prices of mining and quarrying products fell by 1,6%.

Southern Life chief economist Mike Daly said these figures showed that the trend for inflation was still downward. They should feed through to a continued fall in the consumer price index (CPI), even though this trend might be temporarily reversed after tomorrow's budget.

The year on year PPI figures were higher because the rise in January last year had been exceptionally low.

## 'Excellent'

Old Mutual economist Johan Els said the PPI figures were "excellent".

The positive effect of rains and better agricultural conditions was already beginning to come through.

But "the weakening foreign exchange figures have not come through to the PPI yet. They will affect the February figure.

"However, we still expect the PPI to average 7,5% for 1993."

Metropolitan Life chief economist Chris Visser said he expected the SA component of the PPI to remain low for some time although the imported component would pick up.

"Over the longer term the rand will continue to depreciate but I expect it to stay around its present levels for about six months.

"The PPI is going to remain low for some time, although we shall probably see it picking up a bit towards the end of the year."

Commercial & Industrial Properties

A Star survey

The first quarter of 1993 has seen a surge in rental inquiries for commercial and industrial property, particularly on the Witwatersrand. Industry leaders say our progress out of property's current downturn could be faster than in previous cycles. SUSAN RAMWELL reports.

# Hyde Park Lane almost 40 pc let

Southern Life Properties' low rise collection of six office buildings forming Hyde Park Lane is almost 40 percent let — four leases were signed in a ten-day period this month and a further 1 500 sq m was under negotiation at the time of going to press.

The development, set in an attractively landscaped complex in a prime location in Hyde Park, "is one of the only available office developments with a Hyde Park address", says Tony Moore, regional manager, Transvaal, of Southern Life Properties.

The present tenants are Standard Bank, Sagentra, Prime Cut and Grinaker, and Southern Life Properties is also relocating its corporate headquarters to one of the six individual buildings.

Southern Life leasing manager, Kendal Probert, said the advantages of Hyde Park Lane included easy access, a good position relative to the prime business nodes of Rosebank, Illovo, Sandton and Randburg, and most importantly, that it allows for individual tenants to have their own building.

One of the six has been designed to cater for smaller tenants of 100 sq m and upwards, and a further two buildings that will house tenants in the 500 sq m to 1 200 sq m range.

The buildings are named after the gates at Hyde Lane in London — Victoria, Lancaster, Grosvener, Edinburgh and Rutlard.

The total office space created is 12 626 sq m with a generous parking ratio of four bays per 100 sq m.

Prime property . . . Southern Life Properties' Hyde Park Lane "is one of the only available office developments with a Hyde Park address", says Tony Moore, regional manager, Transvaal, of Southern Life Properties.

**RENTALS HARDENING** and 'time is running out for tenants looking for bargains'

# Market will turn within six months – brokers

STAR 17/3/93. (180)

■ **Upswing ahead:** Most leading brokers in Johannesburg have reported a surge in demand for office and industrial property since January.

Improved inquiry levels and take-up of space for both office and industrial property on the Witwatersrand began in January and has continued throughout the first quarter, report the city's leading brokers.

J H Isaacs director of office leasing and sales Steven Kesler reports an unexpected "surge in demand", particularly in decentralised office nodes in northern Johannesburg that was beginning to fill pockets of available space and "shift the market away from the tenant and in favour of the landlord".

Kesler says there has been a discernable firming of rentals in the north of about 5 percent in the past two months.

Tony Moore, regional manager (southern Transvaal) Southern Life Properties, says: "It's not all gloom. It's harder to get deals but they are there. We noted a big upswing in tenant inquiries and leases signed from January, particularly in industrial space. We're hardening up on tenant concessions. Generally, it's wise to stick to shorter leases ahead of an imminent upturn."

JHI industrial leasing and sales director, Wayne Wright, reports a "phenomenal increase in activity" for the first quarter. With reference to his own portfolio, Wright said there had been demand for 130 000 sq m of industrial space since December 1992, compared with 87 000 sq m for the comparable period the year before — an increase of 60 percent.

Although this does reflect relocation demand as tenants move to take advantage of keener rentals, it does also reflect extended activity in the industrial owner occupier market, says Wright.

"Lower interest rates and the promise of further cuts in prime have made it more viable to buy property. Expectations of reduced inflation, improved export potential and better prospects for a political settlement are also fuelling some demand for more space by industrialists . . ."

No broker is denying that vacancy levels are high, rentals are soft, tenants are driving hard bargains, and the market will remain a tough one for landlords at least until the year-end and possibly until mid-1994.

The point they are making, however, is that the situation shows marked improvement in the past three months. It is a sign that four years of one of the worst property down cycles is bottoming out without having reached low rates of investment return comparable with those in Britain and the United States where capitalisation rates (net annual rental divided by initial investment in the building) have reached as much as 25 percent and in some inner city areas, even 50 percent.

Since capital values on SA's buildings have come down in the recession at a similar rate to rentals, capitalisation rates have remained relatively steady, peaking at about 10,5 percent for offices and 11 percent for industrial space by end 1992, as measured by Real Estate Surveys.

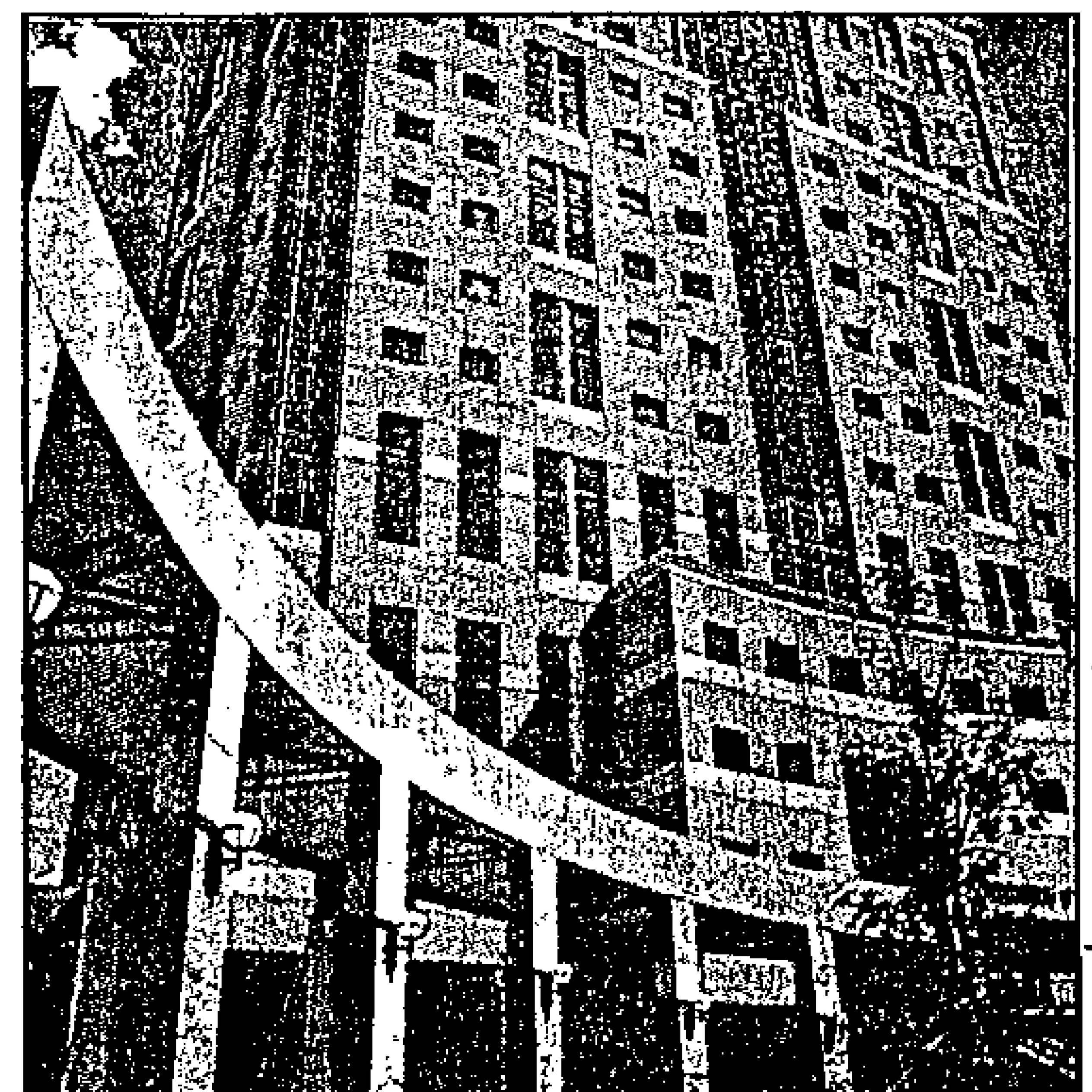
The lowest rate reported was 9,5 percent for Witwatersrand regional shopping centres.

Tony Moore says: "Time is running out for the tenant who is looking for a bargain deal. Rentals are hardening."

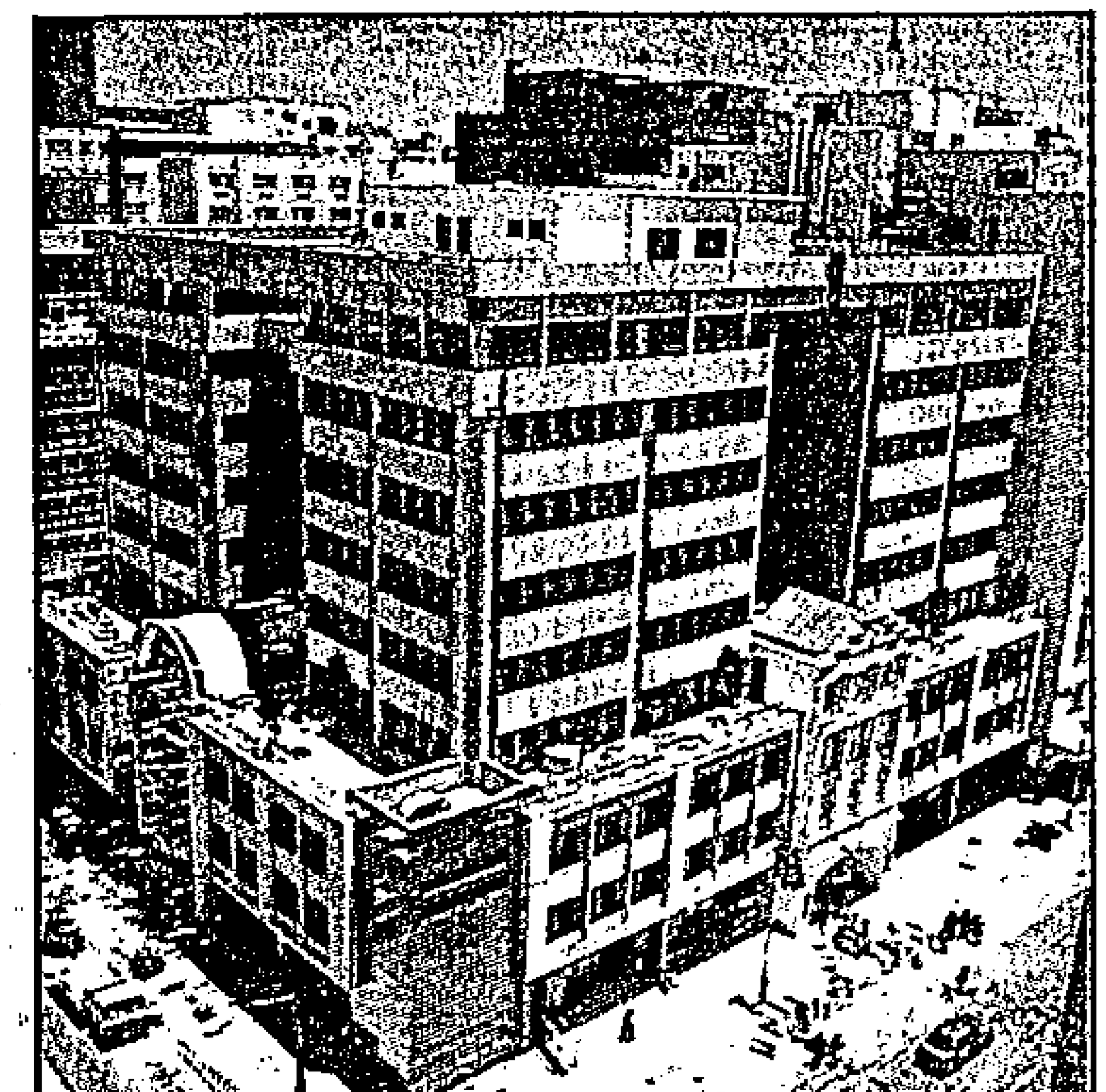
Taking a cross-section of views, landlords believe the turning point in the current tenant's market could be within six months, depending on the timing of an election in SA and the success of multiparty talks.

While the largest proportion of vacancies are in B and C grade properties, there is still enough of a vacancy factor in A grade buildings to offer tenants excellent opportunities.

RMBT's Stan Arenson believes tenants can take best advantage of the current market by taking long-term business requirements, rather than price, into account in choosing a location.



Landmark with a difference . . . Braamfontein's Jorissen Place, with its spacious plazza, archways and trees, is drawing a lot of attention. Liberty Life has relocated its head office to this building.



Old and new . . . Old Mutual Properties' latest inner-city development, Surrey House, has just been completed and comprises eight storeys, 9 300 sq m of office space.

# ANC insider briefings to raise funds

MATTHEW CURTIN

THE ANC is hoping to raise at least R200 000 in cash for its general fund by offering an exclusive service to the business community: regular confidential political briefings hosted by secretary-general Cyril Ramaphosa.

Ramaphosa has commissioned JSE stockbrokers Frankel Pollak Vinderine to set up the dining club to keep the financial community abreast of political developments and ANC policy.

Business leaders can join the "executive club" for R2 000 a year, in return for which Ramaphosa has guaranteed he will address members — over breakfast, lunch or cocktails — at least six times a year. B|DAY

Frankel Pollak Vinderine CE Sidney Frankel said yesterday Ramaphosa undertook to provide "confidential, in-depth briefings of political developments and other topical issues of the day from an ANC viewpoint". Briefings would include "information and analysis not available to the Press or to the general public". 17|3|93

Frankel said the club would require at least 100 members to be a success, and an upper limit on membership would be imposed.

Ramaphosa's first date with the club is on March 29.

Star 19/3/93

# Light shed on interlocking directorates

By Sven Lunsche

CAPE TOWN — The Government has clarified its policy on outlawing interlocking directorates between competing firms.

Jan Dreyer, the head of the Central Economic Advisory Service (CEAS), said yesterday prohibiting interlocking directorates was not part of the Government's proposals as outlined in the Normative Economic Model (NEM) released last week.

Such a clause, however, was contained in the summary of the report compiled separately by former Reserve Bank deputy governor Professor Jan Lombard.

(180)

Dreyer, the architect of the NEM, said that the proposal in the summary could have been an interpretation of the competition policy as contained in the original model.

"However, only the proposals contained in the full report should be regarded as the official policy of the Department of Finance, the Competitions Board and the CEAS," he added.

All three departments were extensively consulted on the NEM's proposals about improving effective competition among suppliers in the market for goods and services.

"Competition means balancing forces, but does not necessarily involve breaking up big corporations," Dreyer said.

Key to the NEM's competition policy was the establishment of an independent judicial system to replace direct government involvement based on the findings and recommendations of the Competitions Board, he said.

Star 17/3/93

# ANC wants to start club to brief business community

180

By Magnus Heystek

The ANC has commissioned the stockbroking firm Frankel Pollak Vinderine Inc to form an "executive club" to help promote closer ties between the organisation and the financial community.

This club intends holding six confidential in-depth briefings a year on the ANC's viewpoint on politics and other topical issues.

It will cost members R2 200 a year. This fee will cover the cost of food and drinks at the meetings.

According to a letter sent to top businessmen by Sydney Frankel, chief executive officer Frankel Pollak Vinderine, the club will need a minimum of 100 members to succeed.

However, the letter adds that the maximum number of members will be restricted to preserve exclusivity and ensure confidences.

Contacted by The Star last night, ANC spokesman Carl Niehaus could not confirm that such a letter had been sent to businessmen. He said there had been discussion within the organisation on the need to brief businessmen.

Niehaus said such an exercise was "perfectly legitimate" as businessmen had in the past attended ANC-organised banquets where they heard ANC speakers explaining policy.

# Big Four still weaving complex web of control

(180) ~~232~~

**The recurring debate about the concentration of economic power in the hands of giant corporations will be stirred afresh by the latest edition of *Who Owns Whom* on the Johannesburg Stock Exchange, reports MICHAEL CHESTER.**

NEW profiles of the titans of high finance in the South African business world show that four mega-empires still command ultimate control over 78 percent of the R500 billion economic clout of the Johannesburg Stock Exchange.

The massive and complex network of control held by the quartet of giant conglomerates is laid out in detail in the new 1993 edition of the *Who Owns Whom* annual analysis of investment patterns.

Author Robin McGregor explains that assessment of control is based on the size of share portfolios in individual companies — not necessarily complete ownership, but investment stakes big enough to influence any final word about corporate affairs.

A first move is to ascertain what insiders call the market capitalisation of the JSE — in short the overall value of all the shares as quoted in current deals. That, on JSE statistics, amounted to no less than R501 324 million at the end of last year.

McGregor sets out every year to track down not only the majority stakeholders in each of the hundreds of listed companies but also precisely who holds control of them when it comes to boardroom decisions.

A 1993 count shows the four titans of the SA business world between them hold the reins on 78,1 percent of the huge market capitalisation total — or R391 billion.

According to the survey, the Anglo American Corporation, the vast mining and industrial conglomerate created by the Oppenheimers, still commands the largest empire.

On McGregor calculations, though its share of the total had toppled from a peak of 60 percent in 1987 — largely as a result of the collapse of world gold prices and the slide of De Beers diamond shares — a current slice of 33,7 percent of overall control still assured Anglo American of the No 1 slot.

Sanlam, whose interests spread from insurance to the multiple tentacles of Gencor, is placed at No 2 with 15,6 percent.

Rembrandt, the tobacco and liquor multinational now credited with ultimate control of both Amalgamated Banks of South Africa (Absa) and Goldfields SA, comes in third with 14,6 percent.

SA Mutual — running neck-to-neck with Sanlam in the insurance sector but also now counting the Barlow Rand industrial giant in its fold — has increased its share of control to 14,2 percent.

McGregor extends the list to discover that the Top Ten companies in the share portfolio league now control as much as 96,2 percent of total JSE market capitalisation.

The batting order brings in companies under the control of their own directors, the Liberty group under Donald Gordon, Anglovaal, corporations under State control, Pepkor, Ventron and the F S Group.

The exhaustive analysis goes as far as probing the ownership of about 25 000 companies either with their own JSE listing or else the subsidiaries or associates of bigger corporations.

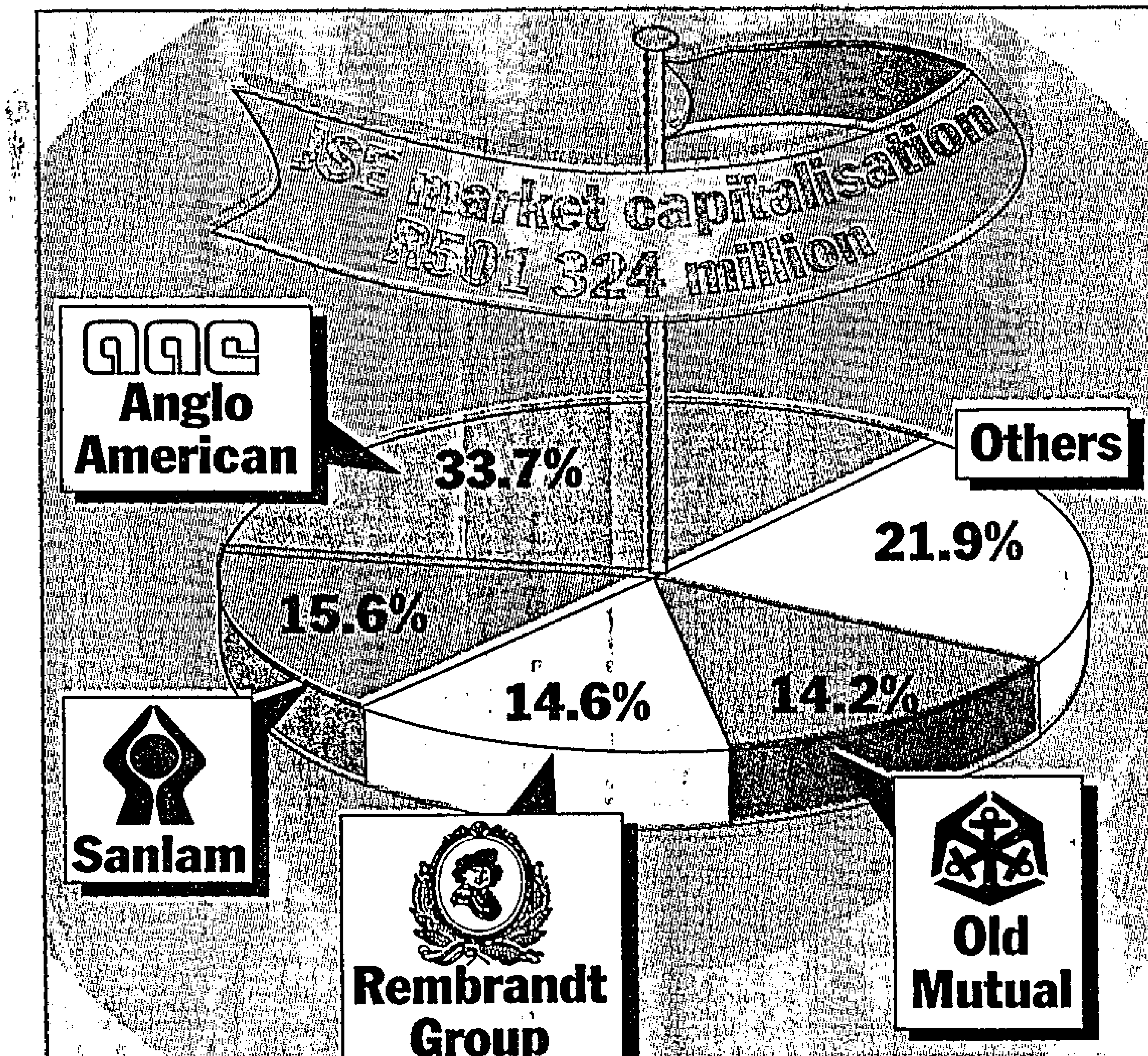
That goes hand in hand with a two-year record of all shareholders with stakes of more than 1 percent in listed ordinary shares.

Nor does McGregor end at that. He also peels away the layers of mystery about the silent movement of shares into a proliferation of ubiquitous nominee companies that normally draw a curtain around themselves.

He rounds off the exercise with an examination of the number of multi-directorships held by several of the high flyers in the business world.

Here one discovers that the top of the league-table is shared by Anglo American colleagues Clem Sunter and Michael King, who each sit on the board of directors of as many as 24 companies.

Meyer Khan of SA Breweries and Warren Clewlow of Barlow Rand come in as joint runners-up with 18 directorships each.




GRAPHIC: LIZ WARDER

Basil Hersov and Clive Menell, who between them hold the helm at Anglovaal, each sit at 17 different boardroom tables.

The detailed charts that draw the web of shareholdings in the portfolios held by the stock market giants — such as Anglo American, Rembrandt, Old Mutual, Sanlam, Liberty and Anglovaal — form a treasure trove of information for observers following the complex unbundling exercises that several of them have started.

More than that, the new *Who Owns Whom* should also prove invaluable as a factual reference as the political debate hots up about the pros and cons of arguments about anti-trust legislation and the extraordinary concentration of economic power in South Africa.

Not forgotten, though, are the thousands of small investors who have poured savings into unit trusts. The performance of all the trusts, as measured by the University of Pretoria, is set out for comparisons.

McGregor has now extended the exercise to bring in explanations of who's who in the stock exchanges operated in neighbouring Zimbabwe, Botswana and Nambia — which adds another 76 listed companies and almost 1 000 subsidiaries.

The new 1 085-page *Who Owns Whom*, published by Juta, is priced at R349.□

P70



(180)

# Industrial opportunities abound certain ranges

STAR 17/3/93

While real prime industrial rentals on the Witwatersrand fell to record lows during 1992 as measured by Real Estate Surveys, RMBT's Dave Alcock says there are definite exceptions in top industrial areas.

Among these were Strijdom Park, Randburg, and eastern areas with good access to the airport, such as Jet Park and, in the Sandton M2 area, Eastgate/Kramerville.

"Modern, functional, well-located industrial premises have seen rentals continue to rise," he said.

"Many industrialists have moved out of older and less functional buildings to smaller but more effective space with higher stacking heights, and in locations closer to main arteries to save on transport and drive time costs.

"There are still some excellent opportunities to develop industrial sites in the midi 1 000 sq m to 2 000 sq m range because there is little available stock," he said.

RMBT is launching its leasing programme on the first phase of a major new industrial development in April — Aeroport Industrial Estate in Kempton Park, developed by Kempton Park Municipality.

This is 60 ha of industrial land which will be developed over three phases in the next four to five years.

The first phase now launching is 26 ha and is very unusual in the range and flexibility of the stand sizes — from 1 200 sq m up to one hectare.

Electricity and water services are situated in road reserves permitting back-to-back combinations of stands.

"One of the most attractive features of Aeroport is its location — five minutes away from Jan Smuts Airport and the R21/R24 interchange.

"It will be ideal for the freight industry and distribution companies. It has an excellent dual carriageway feeder road in Andre Greyvenstein,"

In the long-term, Aeroport when complete will bring 350 000 sq m of industrial space to the market allowing for expansion and growth of the area's industrial sector.

# Company tax cut, but shareholders will pay

Star 18/3/93

(180)

**By Derek Tommey**

The dual company tax system announced in yesterday's Budget was an interesting development and could well be a very productive innovation, Marius van Blerck, Anglo American group tax consultant, said last night.

The system is aimed at stimulating new investment.

Finance Minister Derek Keys said the present company tax rate of 48 percent was to be reduced to 40 percent.

However, to offset the resultant loss of taxable income from this measure, a 15 percent tax will be levied at source on all dividends paid.

Van Blerck said that the tax cut in itself would give companies more funds to reinvest. And more funds — both from company resources and reduced tax payments — would become available for investment if shareholders accepted smaller lower dividends.

Roy Andersen, chairman of the Johannesburg Stock Exchange, said Keys had done a good job in difficult circumstances. But he added that the JSE was disappointed the market securities tax had not been abolished, as promised.

He said the new dual tax structure would help growing companies. But it would probably deter certain companies from paying dividends.

This might result in investors switching to fixed-interest securities in the corporate bond market.

Keys said the dual rate should prove an important incentive for the new and fast growing company.

The more a company exploited investment opportunities and financed itself, the lower its tax rate would be.

## Job-creation

"Such investment is not only important from a job-creation perspective, but can also serve to stimulate domestic demand."

The tax rate would be cut to 40 percent on taxable income for the years of assessment ending on or after April 1 1993.

A company tax of 15 percent would be levied on all profits distributed by companies from March 17, except for those distributions declared by listed companies before this date, but payable only subsequently. This declaration should have been made public.

Keys said the tax on distributed profits would apply irrespective of the recipient.

The tax is in no way a tax on shareholders, inasmuch as the lower rate of 40 percent on taxable income enhances any company's ability to distribute more profits.

"A fast-growing company observing a 3:1 ratio of earnings to profit distribution can pay the same dividend as before and plough back more profits."

Under the dual tax rate such a company would pay a de facto rate of 43 percent.

Keys said the proposed dual company tax system would also apply to mining companies. Gold mines would have a choice between the existing and the new system to ensure that this important sector, with its own tax formulae, was not disadvantaged in any way.

Marginal mines whose profits are less than 5 percent of revenue do not pay tax, but can pay dividends.

The new system would mean that they would have to pay tax on their dividends, so they are better off as they are.

The tax rate on gold mines which adopt the dual tax system and pay tax on their dividends will drop from 58 prcent to 49 percent.

The Budget also benefits non-gold mining companies as their tax rate drops from 49,44 percent to 40 percent.

He pointed out that within the company sector, double tax would be avoided by giving credit to companies for profit distributions that attracted the 15 percent tax.

As a transition measure, this credit would also be given for similar revenue received since September 1 1992 or any later distribution date.

The first payment of the tax on distributed profits would fall due on July 31 and would cover distributions that became payable between March 17 and July 1 this year. Thereafter the tax would be payable within 30 days.

Keys said he assumed that offshore companies would now find SA a better tax proposition too.

"Indeed, this measure reinforces the incentive already available for foreign companies to reduce their tax liability through loan financing and the resultant tax-free interest.

"The new tax dispensation also meets the important criterion of non-selective tax treatment of domestic and offshore companies."

# Dual tax system to encourage growth

BI/DAY 18/3/93. (180)

LINDA ENSOR

CAPE TOWN — Company tax was reduced to 40% and a dual tax system including a 15% secondary tax on distributed profits of all non-mining companies falling under the Income Tax Act was introduced by Finance Minister Derek Keys in his Budget speech yesterday.

Gold mining companies which have their own tax formulas would be given the choice of applying the existing or the new system. They would have to exercise their choices on or before July 31, 1993, and this choice would then be binding.

Keys stressed that the dual tax rate would provide an important incentive to new and fast growing companies — the more a company exploited investment opportunities and financed itself, the lower its tax rate would be.

"A fast-growing company observing a 3:1 ratio of earnings to profit distribution can pay the same dividend as before and plough back more profits. Under the dual tax rate such a company would pay a de facto rate of 43%," Keys said.

The estimated loss of revenue from the reduction in the basic company tax rate would be neutralised by the secondary tax on companies (STC) and no loss for the exchequer should materialise in the 1993/94 fiscal year.

Thereafter the state would benefit from the termination of Section 37E concessions in September and from the stimulus the lower tax rate would have on industrial development.

Keys said the tax on distributed profits could not be seen as a tax on shareholders as they would benefit from the lower company tax rate.

The 40% tax rate would be implemented on those companies whose financial year-ends fell within the period ending March 31, 1994. The 15% STC would be applied to any dividend declared on or after March 17, 1993, or which was declared before that date and was paid after that date.

However, dividends declared by listed companies before March 17 and payable after that date would not be subject to STC if the dividend declaration was made known publicly before March 17.

STC would normally be payable 30 days after the date on which the dividend was declared, or in the case of a dividend in specie within 30 days of the date on which the dividend is delivered to the shareholder.

As an implementation measure the first payment of the STC would fall due on July 31 and would cover distributions paid between or declared between March 17 and July 1, even though liability for the tax might arise earlier.

Keys said double taxation would be avoided by giving credit to companies for profit distributions that had already borne the 15% tax, and as a transition measure this credit would also be given for such revenue received since September 1, 1992, or any later distribution date.

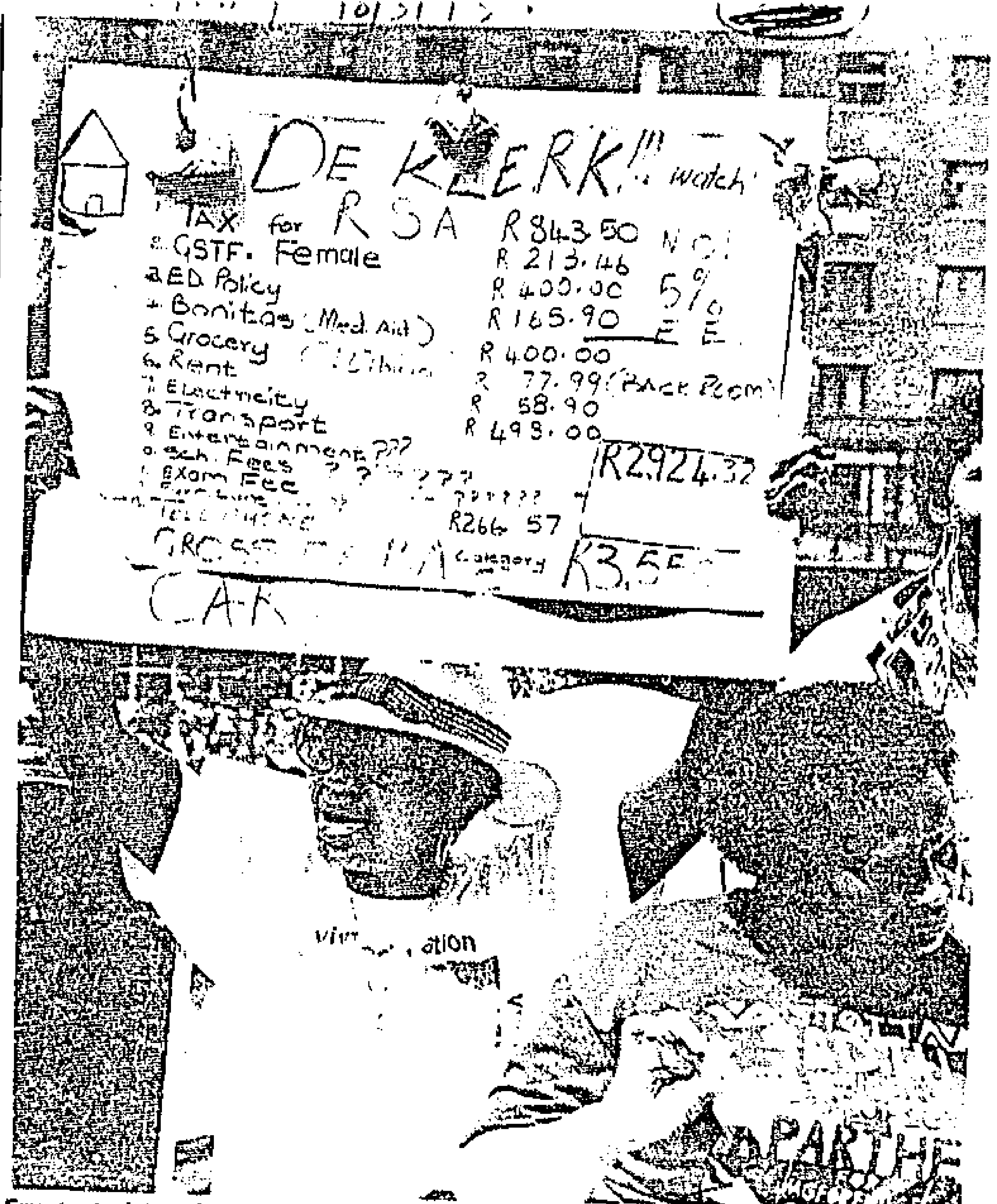
Inland Revenue Commissioner Hannes Hattingh said yesterday the liability for STC would be determined independently from the liability for normal tax.

"It is therefore important to note that the fact that a company has no taxable income and is therefore not liable for normal tax because it is in a loss situation or for any other reason, does not affect the determination of the STC."

# Company tax reduced

THE rate of company tax was to be reduced through the introduction of a dual tax system, the Minister of Finance said. Sowetan 18/3/93

He said in his Budget speech that it was proposed that the present rate of 48 percent on taxable income be reduced to 40 percent, and that a tax of 15 percent on distributed profits be introduced at the same time. 180




Frustrated teachers vented their anger at a demonstration in Johannesburg's Library Gardens yesterday, over government's refusal to increase their pay beyond 5%. They demanded a "living wage" for all teachers. Picture: BRIAN HENDLER

# Business welcomes new dual company tax format

BDAY 18/3/93 (180)

Business Day Reporters

ORGANISED business yesterday gave the new dual company tax structure the thumbs-up.

Sacob welcomed the reduction of the corporate tax rate to 40% and said with tax on distributed profits it should encourage expansion and employment, as well as increase SA's attractiveness as an investment destination.

"The Budget is ... positive for the longer-term economic and employment growth prospects of SA," a Sacob statement said. "However, the failure of government to exercise adequate control over state spending in the past now places a harsh burden on consumers and individual taxpayers in the short term."

The Afrikaanse Handelsinstituut agreed that the corporate tax plan would boost business confidence locally and abroad. Describing it as "innovative", the Steel and Engineering Industries Federation said it could stimulate new capital investment, while National Productivity Institute executive director Jan Visser said it "can only have productivity benefits".

Leading stockbrokers felt the Budget would be neutral to slightly positive for the JSE.

JSE executive president Roy Andersen said: "We are pleased that there is no increase in individual taxes and that there is a fairer distribution of the tax burden. Although we are disappointed that Minister (Derek) Keys was unable to keep to government commitment to abolish marketable securities tax, we welcome proposals to give qualified exemption from stamp duty for the unbundling of pyramid structures."

Frankel, Pollak, Vinderine MD David Shapiro said the reduction in corporate tax rates was the biggest factor in the market moving higher in an initial favourable reaction to the Budget. Bond prices weakened on the back of the Budget, reversing earlier gains, but dealers said this was an initial reaction.

Keys said last night he had put the deficit at R40bn since this accurately reflected the entire government deficit. Addressing a tax seminar, he said he had "gone for the biggest deficit I could find".

Economists expressed mixed views on the Budget, but most agreed Keys had achieved a measure of credibility through it. Rand Merchant Bank economist Rudolf Gouws said Keys had reached a compromise between his goals of reducing the deficit without causing the recession to deepen.

Nedcor Bank chief economist Edward Osborn said SA was caught in the public debt trap, clearly reflected by the burgeoning interest payments. The rise in VAT "had to be done". FNB assistant treasurer Mike Law said the Budget was in line with what was expected, except for the decrease in company tax.

Absa economist Dominick Sutton warned that Keys might have been a "little optimistic" concerning both income and expenditure. The deficit might be more than the predicted 6,8% of GDP before the year ended.

# Little room for hotel industry

MARCIA KLEIN and KELVIN BROWN

THE hotel industry would receive only modest relief from Finance Minister Derek Keys's budget proposals for tourism expenditure, industry sources said yesterday.

They were reacting to Keys's proposal that in addition to the R85,1m in the printed estimate, a further R25m would be made available for tourism.

The Minister said that for income tax purposes, the depreciation period for certain refurbishments of tourist accomodation would be reduced from 20 years to five.

Satour director Ernie Heath said that with the present low occupancy levels, the depreciation allowance was welcomed.

The additional R25m would be used mainly for Satour to promote SA overseas. This came at an opportune time to get the tourist industry on a meaningful growth path in line with the three-year plan which followed last year's White Paper on tourism.

Sources said that hotel groups had been hoping for other forms of relief, including allowances for hotel development and export incentives.

Government had indicated it would give serious consideration to incentives for a new tourism infrastructure, but this had not materialised, they said.

BDAY 18/3/93

# Gold mines now given tax options

BDAY 18/3/93

JONO WATERS and MATTHEW CURTIN

GOLD mines could opt out of the proposed dual company tax system which is set to apply to mining and non-mining companies, Finance Minster Derek Keys said yesterday.

Keys said gold mines could choose between their current tax regime and the new 40% company rate and 15% dividend tax, to avoid any prospect that the sector would be put at a disadvantage.

Under the existing tax structure, gold mines pay taxes on profits, against which they are able to offset all their capital spending, and lease taxation, effectively a royalty paid to government for mining precious metals.

Keys made no mention of plans to lift "ring fencing", the mechanism which prevents one mining company offsetting the cost of development work at a separate sister mine against its own profits.

A Chamber of Mines spokesman said the organisation wanted to take a closer look at the Budget proposals before commenting.

Analysts said gold mines were unlikely to take up the option even if gold prices showed a sharp and sustainable rise.

E W Balderson analyst Nick Goodwin said the only mine likely to benefit from the new structure would be Driefontein, SA's most profitable gold producer. He said that in the six months ended December 1992, Dries paid R147m in tax. Under the new system with the dividend tax, the mine would have paid R133m.

Simpson McKie analyst Peter Bahnemann said that as mines paid out all their bottom line profit in dividends, accepting the new company tax system would bring their tax rate to 55%, a rate they had not paid since recording superprofits in the early and mid-80s.

# Unbundling legislation to come

DRAFT legislation would be introduced to support the unbundling process of the country's large corporations, Finance Minister Derek Keys said in the Budget.

BDAM 18/3/93

He said unwieldy corporate pyramid structures had developed due to company acquisitions, mergers and reconstructions resulting in cost inefficiency in the use of capital.

REPORTS: Business Day Reporters, Political Staff, Sapa (80)

# Big Fou
# complex

The recurring debate about the concentration of economic power in the hands of giant corporations will be stirred afresh by the latest edition of *Who Owns Whom* on the Johannesburg Stock Exchange, reports MICHAEL CHESTER.

NEW profiles of the titans of high finance in the South African business world show that four mega-empires still command ultimate control over 78 percent of the R500 billion economic clout of the Johannesburg Stock Exchange.

The massive and complex network of control held by the quartet of giant conglomerates is laid out in detail in the new 1993 edition of the *Who Owns Whom* annual analysis of investment patterns.

Author Robin McGregor explains that assessment of control is based on the size of share portfolios in individual companies — not necessarily complete ownership, but investment stakes big enough to influence any final word about corporate affairs.

A first move is to ascertain what insiders call the market capitalisation of the JSE — in short the overall value of all the shares as quoted in current deals. That, on JSE statistics, amounted to no less than R501 324 million at the end of last year.

McGregor sets out every year to track down not only the majority stakeholders in each of the hundreds of listed companies but also precisely who holds control of them when it comes to boardroom decisions.

A 1993 count shows the four titans of the SA business world between them hold the reins on 78,1 percent of the huge market capitalisation total — or R391 billion.

According to the survey, the Anglo American Corporation, the vast mining and industrial conglomerate created by the Oppenheimers, still commands the largest empire.

On McGregor calculations, though its share of the total had toppled from a peak of 60 percent in 1987 — largely as a result of the collapse of world gold prices and the slide of De Beers diamond shares — a current slice of 33,7 percent of overall control still assured Anglo American of the No 1 slot.

Sanlam, whose interests spread from insurance to the multiple tentacles of Gencor, is placed at No 2 with 15,6 percent.

Rembrandt, the tobacco and liquor multinational now credited with ultimate control of both Amalgamated Banks of South Africa (Absa) and Goldfields SA, comes in third with 14,6 percent.

SA Mutual — running neck-to-neck with Sanlam in the insurance sector but also now counting the Barlow Rand industrial giant in its fold — has increased its share of control to 14,2 percent.

McGregor extends the list to discover that the Top Ten companies in the share portfolio league now control as much as 96,2 percent of total JSE market capitalisation.

The batting order brings in companies under the control of their own directors, the Liberty group under Donald Gordon, Anglovaal, corporations under State control, Pepkor, Ventron and the F S Group.

The exhaustive analysis goes as far as probing the ownership of about 25 000 companies either with their own JSE listing or else the subsidiaries or associates of bigger corporations.

That goes hand in hand with a two-year record of all shareholders with stakes of more than 1 percent in listed ordinary shares.

Nor does McGregor end at that. He also peels away the layers of mystery about the silent movement of shares into a proliferation of ubiquitous nominee companies that normally draw a curtain around themselves.

He rounds off the exercise with an examination of the number of multi-directorships held by several of the high flyers in the business world.

Here one discovers that the top of the league-table is shared by Anglo American colleagues Clem Sunter and Michael King, who each sit on the board of directors of as many as 24 companies.

Meyer Khan of SA Breweries and Warren Clewlow of Barlow Rand come in as joint runners-up with 18 directorships each.



# Fran
# being
# from

I quetion the accur
data presented ab
in South Africa.

France was rep
safe haven, "the sa
vilised countries w
murders in the who
(The Star, February

Apart from the
tion when, in anot
(The Star, March
was mentioned as
average of 153 r
year, the reality ir
much different. Cr
tics for 1990 (sourc
*Criminality and*
*Statistical Analy*
M Marinelli, dire
National Centre
Research and Stud
scia, Italy) put the
murders at 2 52
100 000). During
year Italy had 3 0
murders (5,2 per 1
Germany 2 419
100 000). Holland w
lation of 14,8 millic
murders had an i
15 per 100 000.

In the first ar
Star, February 23
ber of rapes in S
was given at 6 600
cording to the an
of the Commissi

## Wrong com

Your front page
"SA crime leaves
wake" (The Star
23), claims South
"far and away t
capital of the w
"18 000 killings a
pared to "Britain'
3 838", and "New
2 166". But are
comparing like wi

South Africa's
rate of killings is
flated by politic
emanating from p
gles, tribal confli
lice action in a t
siderable political

A fairer compa
be with India af
dence and Nige
war, when in ea
death toll was
million.

Lonehill,
Sandton

# 'March' companies face hefty tax bill

Star 19/3/93

(180)

By Leigh Hassall

Companies whose financial years end in March are viewing the Budget proposals with alarm.

In addition to losing out on the lower tax rate they will also bear an extra 15 percent tax on their declared dividends.

The Budget proposals allow the new corporate tax rate of 40 percent (previously 48 percent) to be applied to financial years of assessment ending April 1 1993 or thereafter.

Companies with year-ends before this date will not benefit yet from the reduction in rate.

The Budget's proposed secondary tax on dividends (STC) adds insult to injury for March and February year-end companies.

Their dividends, which are declared after the year-end, will bear the 15 percent tax on dividends without the relief afforded by the lower tax rate.

The tax rate for some affected companies could be pushed as high as 55,8 percent compared with the new range from 40 percent to 47,8 percent depending on the extent of dividends declared.

Contrarily, companies with an April year-end will receive a windfall in that the lower corporate rate will be applied to a full year's taxable profits despite still being taxed on their dividends.

A spokesman from the Department of Inland Revenue says the issue of March year-end companies being taxed at the higher rate was not an oversight.

## Transitional problem

This transitional problem had been identified "but with every change in the tax system all transitional problems cannot be addressed", he said.

The transitional measures offered by the STC implementation will afford some relief however, to investment holding companies.

Dividends received from September 1992 or even an earlier date of declaration can reduce the amount of STC payable on the current year's dividends.

March is a common year-end for companies and the list includes such as SAB and Anglo American.

Mark Bower, financial director of Edgars Stores, which is in the SAB stable, says: "The situation is inequitable; affected companies should not have to pay 48 percent tax on their income as well as the 15 percent tax on dividends."

While Finance Minister Keys' Budget corporate proposals have generally been lauded as innovative and brave a number of anomalies are emerging.

Willem Cronje of accountants Deloitte & Touche says: "The lower tax rate and installation of STC is an excellent development which is economically sound provided that there are no further attempts to tax dividends in the hands of the individual."

Cronje notes that the non resident shareholders tax on dividends was not abolished despite Keys saying he would like to level the playing fields between local and foreign investors.

Non residents currently pay a 15 percent withholding tax on dividends unless a Double Tax Agreement exists and a lesser amount is paid.

Cronje adds that companies paying dividends out of accumulated reserves will end up paying an effective tax rate in excess of 50 percent.

Ernest Mazansky of accountants Kessel Feinstein foresees that clarification is needed in limiting the cascading effect of the STC in a three or more tier company group.

He adds that in a two-tier group there is a specific relief provision to prevent the top company paying STC a second time on the dividends passing through it from the bottom company. It is not clear however whether the relief will continue to apply if there are higher companies in the chain.

Further clarification was needed on the definition of the term "dividends paid" in the implementation of the STC.

Mazansky queries whether reserves which had previously been converted to a loan account in a private company could now be attacked as a dividend when the loan is repaid, either in whole or in part, and argues that they should not be.

FM 19/3/93

180

CLOSE CORPORATIONS

FM 19/3/93.

## Death knell?

180

**Close Corporations** are also subject to the new secondary tax on companies (STC). Deloitte & Touche tax partner Anne Pappenheim says private companies have been distributing reserves in anticipation of the reintroduction of tax on dividends. But advisers of CCs generally have not, because their dividend distributions have not been taxed.

To make matters worse, STC is payable even if there is no taxable income. So even tax-aware CC members will be worse off.

CCs typically draw up their accounts well after their year-ends. Many have February year-ends and so will not be able to establish 1993 profits until after Budget day. They will have to pay corporate tax at 48% (the old rate) and STC on dividends on top.

Where there is no existing loan from the member to the CC, will the threatened reintroduction of section 8B deem a loan by the CC to the member a dividend? On the old S8B, shareholders in private companies were fortunate if they had capitalised the company with nominal share capital and large shareholders' loans. They could withdraw funds within the limits of their credit loan accounts without falling under S8B's dividend-deeming effect. How many CCs were set up in this tax-efficient way?

One consolation, says Pappenheim, is that a CC (or company) can still be a conduit for dividends without incurring STC, provided they are passed on to members quickly enough. But will the accountants be able to react with the necessary speed?

Pappenheim says the labour broker provisions struck a major blow at CCs. Will STC be the death knell for this business entity, introduced in 1984 specially to assist small business but obviously now seen by the authorities as just a tax avoidance vehicle? ■

# Revenue outmanoeuvres dividend tax dodgers

BDAY 17/3/93

180

LINDA ENSOR

CAPE TOWN — Private companies which attempted to preempt the introduction of a dividend tax in this week's Budget by declaring dividends in advance have been outmanoeuvred by the taxman.

Inland Revenue Commissioner Hannes Hattingh said in an interview at the Nedbank/Old Mutual Budget forum yesterday he had been aware that a large number of private companies had tried to avoid paying the anticipated tax by declaring dividends before the Budget. In some cases 100% dividends were declared and the funds then loaned back to the companies.

However, in terms of Hattingh's ruling on secondary tax on companies (STC), all dividends declared before March 17 and paid after that date would be subject to a 15% tax, except those of listed companies where the declaration had been publicised.

Hattingh conceded that companies with financial year-ends after April 1 when the new 40% company tax rate takes affect would benefit sooner than those with February year-ends. This advantage was unavoidable.

He said companies worst affected by STC would be those which did not pay tax — because of assessed losses or incentives — but which declared huge dividends.

Finance director-general Gerhard Croeser told the forum the 15% STC acted as a minimum tax on companies.

Hattingh said wide consultations would take place with business in compiling draft legislation for STC. No decision had been taken regarding scrip dividends, but in terms of the present definition of dividends in the Income Tax Act, they would be excluded from STC. However, Inland Revenue would "definitely be looking into this".

Old Mutual legal services manager Abri Meiring said the definition of dividends in the Income Tax Act covered loans to directors. This, he felt, would have to be retained to prevent the creation of a loophole.

Business has expressed concern about the possibility of double taxation of dividends passing up a pyramid structure but Hattingh said only the net dividend received less the dividend declared would be taxable. Credits would be allowed for taxes paid by subsidiaries.

Wooltru financial director Jon Lavis said clarity would have to be given to the declaration of dividends by a subsidiary where the parent company used the funds for investment. He felt such dividends should be untaxed.

Life assurers have been concerned that STC would favour proprietary companies — which would pay tax on dividends declared — over mutual life companies which do not declare dividends.

However, Old Mutual chief operating officer Gerhard van Niekerk said yesterday an initial study had indicated STC would be neutral towards life assurers. Proprietary companies would be able to obtain credits for dividends paid out of their corporate funds, whereas this would not be possible for mutual societies.

| | | | |
|---|---|---|---|
| Administration: House of Delegates | 1 659,0 | 1 824,0 | 10,0 |
| National Health and Population Development | 1 224,0 | 2 243,0 | 83,2 |
| Police | 5 644,7 | 6 451,5 | 14,3 |
| Environment Affairs | 207,0 | 221,0 | 6,7 |
| Water Affairs and Forestry | 389,0 | 409,3 | 5,2 |
| SA Communications Service | 51,6 | 54,0 | 4,6 |
| Constitutional Development Service | 41,2 | 66,3 | 61,0 |
| Local Government and National Housing | 977,5 | 841,6 | −14,0 |
| Regional and Land Affairs | 21 647,0 | 25 193,0 | 16,3 |
| State Expenditure | 606,2 | 682,0 | 12,5 |
| Central Economic Advisory Service | 4,3 | 4,9 | 14,0 |
| Public Enterprises and Privatisation | 7,5 | 8,2 | 9,3 |

(In some cases the allocations for 1992-1993 do not match the allocations as originally printed in the Budget estimates. This is due to a shift in functions and a reclassification of expenditure.)

COMPANY TAX (180)

# Shock to the system

FM 19/3/93

**The revision of** company taxes is major and unexpected. The company tax rate of 48% will be cut to 40% with the simultaneous introduction of a 15% tax on distributed income.

Kessel Feinstein tax partner Ernest Mazansky says the proposed secondary tax on companies (STC) is based on sound international precedents. It will be payable even if a company has an assessed loss. This could arise, for example, where companies with tax losses issue preference shares as a tax-efficient form of funding working capital.

But there is no mechanism to make a company declare a dividend to trigger STC, as the old Undistributed Profits Tax had.

There are particular concerns about foreign companies operating in SA. A branch established by a foreign company will be subject to tax at 40%. If the head office then declares a dividend, the branch will be liable for STC on part of the dividend, pro rata to the SA-sourced profits.

The same rule already applies to non-resident shareholders' tax (NRST). So, if the foreign head office declares a dividend, it should pay SA NRST on so much of the dividend, pro rata, as is attributable to the SA branch profits. In practice, says Mazansky, this does not happen.

Unless Revenue becomes more diligent, not only will the dividend continue to escape NRST but STC will also not be paid.

Deloitte & Touche tax partner Anne Bennett says the formula for taxing dividends paid by foreign companies with SA branches could contravene important double tax treaties. Foreign shareholders in SA companies may be harmed if their domestic tax law, or a double tax treaty, do not allow them to claim a credit for STC paid in SA.

FM 19/3/93

As STC must be paid even if there are no taxable profits, it is classifiable as a withholding tax on dividends. This creates the risk of contravening certain treaties (such as UK/SA) which cap the rate for SA NRST.

Bennett says government seems to be encouraging foreign investors to reduce their tax liabilities by resorting to loan finance, which generates tax-free interest.

Mazansky argues that owner/managers of private companies will set their salaries at a level where their personal marginal rate is 40%, to correspond to the new company rate, rather than be taxed at the personal maximum marginal rate of 43%.

Any additional funds for personal use will be obtained by drawing down the credit loan accounts frequently established since March 1992, when tax on dividends was abolished.

(180)

Deloitte & Touche tax partner Willem Cronje argues that such a transaction could be challenged by Revenue, perhaps under the general anti-avoidance Section 103 of the Income Tax Act. This would apply especially where the transactions were done through journal entries without an actual cash payment of the dividend.

To deter avoiding STC by borrowing from a company or dividend stripping, S8B, S8C and S8D will be reintroduced and tightened. S8B deemed loans by a private company to a shareholder to be a dividend. S8C dealt with the sale of shares in a company with distributable reserves, deeming those reserves a dividend in some circumstances. S8D was an antidote to dividend stripping in private companies. It is confusing, says Cronje, to group this with 8B and 8C.

Bennett notes there will be no relief for profits earned before March 17. This could tempt private companies to backdate dividend declarations credited to a loan account rather than paid in cash.

Companies which have realised exceptionally large capital profits should consider the

continue

# Unbundling steps 'could go further'

KO

ANDREW KRUMM

LEGAL and financial sources have welcomed government proposals to boost the unbundling process, but say it could have gone further.

Hofmeyr Van Der Merwe tax partner Emil Brincker says government could have extended the proposed stamp duty exemptions — allowed to listed companies planning to transfer quoted shares — to non-listed companies.

"The apparent restriction of the incentive to listed companies is unfortunate," Brincker said.

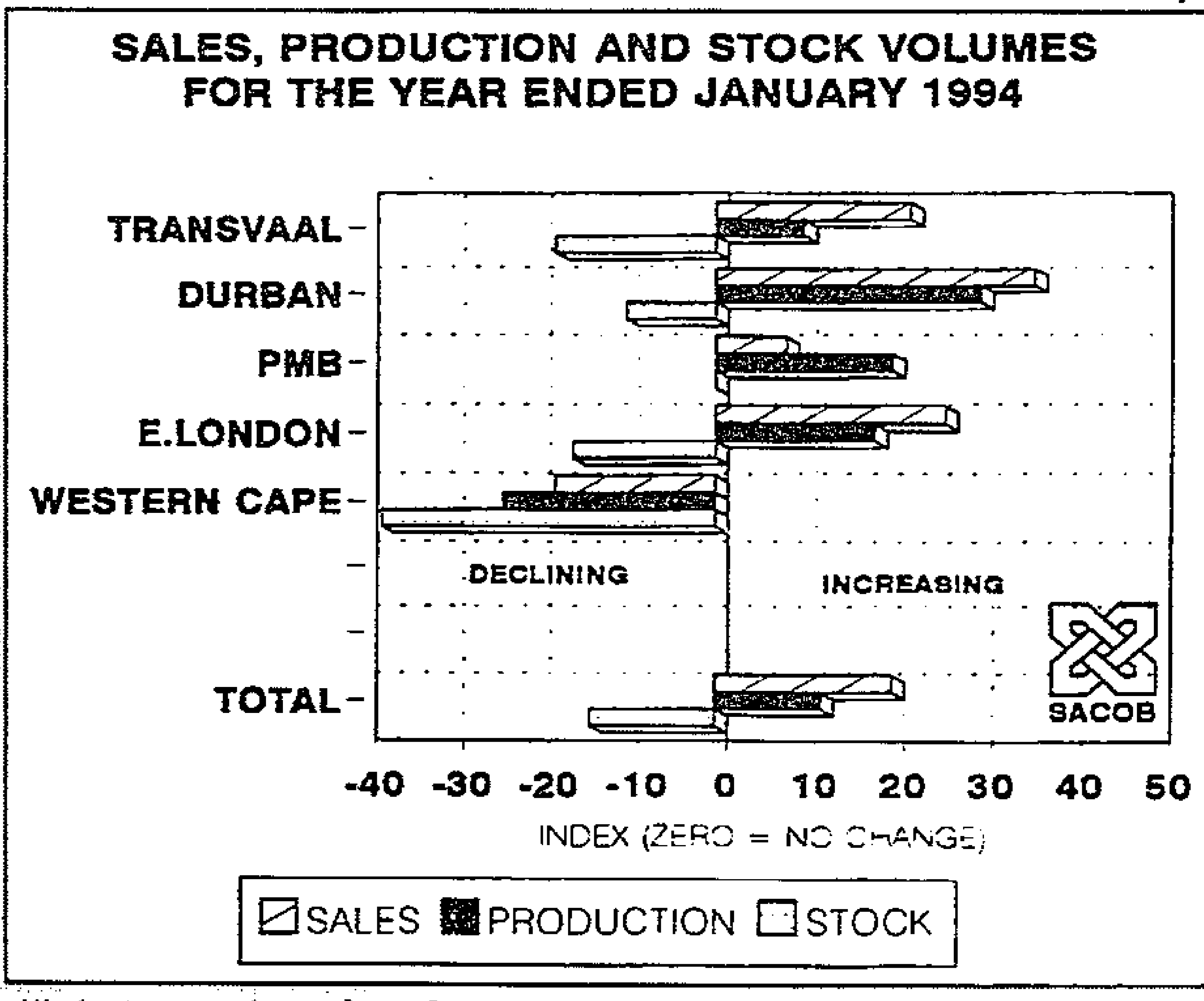
In his Budget review Finance Minister Derek Keys proposed the stamp duty exemptions and said to facilitate unbundling pyramid structures, dividends in specie would be exempt from secondary tax on companies, set at 15%.

Deloitte and Touche tax manager Jocelyn Rindel said government could have used additional measures to assist the process — such as allowing assets to be transferred at book and tax values.

# W Cape manufacturers are 'most pessimistic'

CT 19/3/93

By AUDREY D'ANGELO
Business Editor




MANUFACTURERS in the Western Cape are the most pessimistic in the country and employment prospects here are the worst, according to the SA Chamber of Business (Sacob) manufacturing survey in February.

Most local manufacturers expect to reduce their stock levels in the coming months and the majority expect to employ fewer people, both skilled and unskilled.

Although they may increase capital expenditure on maintaining existing plant and machinery, they expect to spend less on new capacity.

The findings of the Sacob survey are at variance with one carried out by the Cape Chamber of Industries (CCI) in January, which showed that trading conditions were improving in the Western Cape and most expected the economy to improve in a year or 18 months.

But Sacob economist Keith Lockwood suggests in his report that pessimism about the short-term outlook "can partly be explained by the dependence of a large part of industry in the Western Cape on consumer goods — the demand for which is likely to remain under pressure because of expected further declines in personal disposable incomes".

Discussing SA as a whole, Lockwood says most manufacturers "remain fairly optimistic that the economy will show some recovery during 1993.

"However, the nature of the response to other questions in the survey still suggests a cautious approach and indicates that the recovery is expected to be slow and limited in the early stages.

"A majority of respondents continue to expect sales and production volumes to be higher and the extent to which production is utilised to increase.

"However there is still no indication that these expectations will have a beneficial effect on labour markets, since most of the manufacturers surveyed anticipate further reductions in the number of people they employ."

In spite of this, Lockwood points out that "at this stage there is no sign of a significant shift towards more capital-intensive means of production so the continued retrenchments are likely to be aimed at reducing cost structures through improved productivity.

"While this may cause hardship in the short term there are likely to be benefits in respect of international competitiveness and sustainable growth in employment in the longer term."

He says that "although a majority of those manufacturers polled — particularly in the Western Cape — still expect to reduce their stock levels in the coming 12 months, the extent of this majority has been declining steadily in recent months suggesting that a new phase of restocking could soon get under way. This would add impetus to any recovery".

Lockwood says anecdotal evidence suggests that February was a disappointing month in a number of sectors.

"At the same time the relief brought to the agricultural sector by the recent widespread rains, together with the reduction in interest rates, should provide some impetus for many sectors in the months ahead.

"When this process prompts business to start increasing stock levels the economic upturn will start to gather momentum."

Meanwhile, Lockwood continues, "employment prospects for the coming 12 months continue to augur badly for school leavers and those presently unemployed, with 62% of respondents expecting to employ fewer unskilled workers and 60% expecting to employ fewer skilled workers.

"In keeping with the pessimistic sales outlook in the area, prospects are worst in the Western Cape where 70% expect to employ fewer unskilled workers and 63% fewer skilled workers."

However, he continues, "it appears as though the retrenchment phase, while not over, is slowing down".

JSE REACTION 180

# Mild stimulation

FM 19/3/93

**Stockbrokers and** investment managers generally feel that the Budget contains no nasty shocks which could send the market into decline and, with some exceptions, the revised tax structure should benefit corporate profits and cash flow.

Martin's Richard Jesse agrees the Budget will dampen consumer spending but believes the cut in the corporate tax rate will favour rapidly expanding companies.

# Company tax could aid growth

W/Mail 19/3 - 25/3/93 (180)

By HILARY JOFFE

A RADICAL change in company tax was the major innovation of this week's Budget - and if it works, it may turn out to have been one of Finance Minister Derek Keys' smarter moves.

By reducing the company tax rate from 48 to 40 percent, Keys will delight the business community. But by introducing a new "dual tax system" for companies, Keys reckons he can maintain an unchanged company tax burden — and provide an incentive for companies to reinvest their profits, so contributing to growth and, he hopes, job creation.

To the traditional company income tax is added a Secondary Tax on Companies (STC) system. This essentially taxes profits if they are distributed as dividends to shareholders. Companies choosing to be generous with the dividends will pay for this in higher tax rates. Those preferring to retain plenty of profit to finance expansion will benefit.

Said Keys: "The dual tax rate should prove an important incentive for the new and fast growing company: the more a company exploits investment opportunities and finances itself, the lower will its tax rate be."

Keys has in a sense reintroduced the tax on dividends which was abolished in the 1990/91 Budget — but this time as a tax on companies rather than on individual shareholders.

Take a company with 1 000 shareholders earning R100 000 in taxable income: it pays R40 000 in income tax, leaving R60 000 or earnings per share of R60. If it then decides to pay a dividend of R20 per share (an earnings to dividend ratio of three is regarded as prudent) the company becomes liable for STC of R3 a share or R3 000 in total. That gives it a total tax rate (income tax plus STC) of 43 percent.

A board of directors choosing, instead, the path of "dividend stripping" — paying out all the profits to shareholders without reinvesting — takes the company's tax rate up to 48 percent.

Tax experts note that dividend stripping has been fairly common in the past couple of years, particularly in private companies where shareholders have taken advantage of tax-free dividend money.

Keys said loss of state revenue from cutting basic company tax rate would be neutralised in the 1993/94 fiscal year by STC collections. It's not precisely clear how the arithmetic will work but the key is probably in the difference between the accounts companies draw up for the receiver of revenue and for the shareholders. Very few companies actually pay tax at 48 percent — the average effective rate is far lower because of a variety of tax allowances and the like. A company could, for example, have accumulated an assessed tax loss in previous years and be paying no income tax but would now be in profit and paying dividends — so would be liable for STC.

Trading places ... Hard-pressed middle-class wage earners now have reason to envy the poor
Photo: GUY ADAMS

# Competition Board to probe Abacor, Ratplan

CT 19/3/93 (183)

Own Correspondent

JOHANNESBURG. — The Competition Board yesterday announced it would investigate whether state-run abattoir corporation Abacor was a monopoly.

Board chairman Pierre Brooks said the investigation could be completed within two months — before Abacor's planned listing at the end of May.

Brooks also confirmed that the controversial service station rationalisation plan (Ratplan) would be probed to determine whether it was in the public interest.

The Abacor investigation arose from a complaint by Pretoria-based Midnoord Verspreiders cc that Abacor unjustifiably refused to supply it with fat.

Abacor, which conducts 40% of SA's slaughterings, is due to be listed with its R200m net assets being offered for less than R70m.

Meat producers will get 45% of the shares, the meat trade 30%, the public 20% and Abacor staff 5%.

Brooks said his previous pronouncements on the Abacor privatisation — that it be split up — would not affect the investigation. However, if the privatisation proceeded before the probe was completed, this would be taken into account.

Abacor MD Frans van der Vyfer was not available for comment yesterday.

Brooks said it was hoped that the Ratplan investigation could be completed in four to five months.

The Ratplan, an agreement between government and the eight oil companies, restricts entry to the fuel retail market.

Brooks confirmed that the announcement followed a board report to Cabinet on the status of the Ratplan and its agreements.

Public Enterprises Minister Dawie de Villiers had approved the probe.

FM 19/3/93 [redacted] (180)

"Keys is trying to get growth and investment going, and I think he's doing it imaginatively. His example of a company paying the full tax rate with dividends covered three times shows that, under the revised structure, earnings will increase by 10%.

"Companies now paying a much lower effective tax rate and generously distributing dividends will be adversely affected, but I don't know if that's a bad thing."

Jesse believes that overall the Budget could have a mildly stimulative effect on the market, with the possible exception of consumer stocks — where p:e ratios often exceed 20 — because of the implications for consumer spending. If so, shares most vulnerable are those in the food, retail and durables sectors.

Liberty Asset Management chairman Roy McAlpine feels most parts of the Budget were expected and discounted, the exception being corporate tax. "The new structure will have different ramifications for different companies; the 15% tax on distributable income could be a shock for some. But I don't expect a material effect on the market."

Frankel Pollak Vinderine CE Sidney Frankel finds the Budget well constructed. He believes the cut in corporate tax rate gives encouragement to companies, while the tax on distributable profits should not have a dramatic effect on investors.

"It should not really affect shareholders because of companies' ability to increase earnings. Overall I think that, in the context of Keys's five-year plan, it's the best Budget we could expect."

Effects of the new tax structure on corporate profits will be influenced by companies' present effective tax rates, the amount of

FM 19/3/93 [redacted] (180)

dividend paid and the dividend cover. Though most are expected to benefit, those which already have very low effective tax rates could be faced with unexpected additional demands on cash flow.

An obvious possible casualty is Sappi, which last year had a tax rate of 1% and a tax charge of R3,2m, but paid a dividend of R225,4m. Iscor's tax rate was 0,1% and its tax charge R3,3m; it paid a dividend of R112,1m. Highveld Steel's tax rate was 4,8% and its tax charge was R39,8m; it paid a dividend of R39,8m.

On the other hand, many companies have been paying high tax rates while distributing a limited proportion of earnings. These could enjoy significant improvements in cash flow.

Anglovaal Industries (AVI) had a tax charge last year of about R290m, an effective rate of some 43% on the R681m pre-tax profit. A rate of, say, 35%, could reduce the tax charge by around R52m. AVI maintains a high dividend cover (5,2 times last year), so tax at 15% of the R52,4m ordinary dividend would have been only about R8m.

Plate Glass last year posted pre-tax profit of about R217m, on which it paid tax of about R100m, at 47%. If this rate were dropped to, say, 39%, an additional R18m would have been retained. The 15% tax it would have incurred on the R34,2m dividends would be about R5m.

There was some disappointment in the market that there is still no further progress in phasing out MST, as some had expected it might be cut from 1% to 0,5%, for example.

The announcement that legislation will be introduced to assist unbundling, including a qualified exemption from stamp duties on share transfers by listed companies, is seen as one more step towards restructuring corporate SA. But brokers note that the practical steps have yet to be taken. ■

...... ......, March 21, 1993

# Developing a R2bn disaster

ST Times (3455) 21/3/93. (180)

By CIARAN RYAN

THE government's Regional Industrial Development Policy (RIDP) is a R2-billion a year failure, according to a recent report.

The report — entitled "An Evaluation of the RIDP and its Preliminary Impact on Regional Development in SA" — by Development Bank of Southern Africa researcher Andre Wilsenach and Andre Ligthelm of Unisa's Bureau of Market Research — says only half the projects approved by the various development boards will eventually be established, based on historical experience.

By scrapping RIDP the government would be able to drop corporate tax rates by a further 7,5 percentage points to 32,5% instead of the 40% announced in Wednesday's Budget, creating a more powerful investment incentive, says Mr Wilsenach.

The RIDP was introduced in 1991 to replace the 1982 Regional Industrial Development Policy (RDP), which was aimed at creating employment and industrial growth in the homelands in the hope that migration to the cities would be retarded.

The RIDP's purpose was to promote industrial development ~~in~~ those regions with a natural potential for development.

Incentives were toned down, allowing for a two-year establishment grant equal to 10,5% of operational assets and a three-year output-based incentive.

"It would seem that on economic grounds the optimal regional policy would be the abandonment of attempts to influence industrial location through a system of incentives," says the report.

"It would be preferable to give priority to national economic development, with an emphasis on sectoral growth."

The report says the best regional policy for SA "would be to have no policy or to follow a non-interventionist approach to regional development, where the market allocates resources based on the natural development potential of the various regions."

Of the 431 projects approved under the RIDP by October 1992, 25% are relocations from abroad, and 60% of these are from Taiwan.

Nearly two-thirds of the projects are located in Regions A (Western Cape), D (Eastern Cape) and E (Natal). Almost a third of all projects approved were in Region E.

## Bias

The majority of all applications are still from homeland areas, mainly because development corporations in the homelands are marketing the programme.

The authors say the programme appears to have introduced a rural development bias instead of allowing all regions an equal opportunity to attract development.

Roughly half the applications for RIDP incentives were turned down because they did not meet the government's minimum requirements. Capital investment per job varied from R184 271 per job in Region A to R45 245 per job in Region F (Eastern Transvaal).

Of the projects approved, 10,7% were in plastics manufacturing, 10,5% in textiles, 10% in metal products, 7,9% in clothing, 7,2% in motor vehicles and parts and 4,6% in furniture.

Region E is most popular for textiles operations. Of the homeland areas, Kwazulu is most popular for investors.

No incentives apply in Region H — the PWV area — and a lower level of incentives apply in the Cape Peninsula and larger Durban functional area and Maritzburg.

## Abused

Under the previous RIDP, generous incentives were offered to new and relocated industries.

These included employee subsidies of up to 95% of weekly wages, interest and rental subsidies, training allowances, electricity subsidies, rebates of between 40% and 60% on outgoing goods, relocation grants of up to R500 000 and productivity incentives.

The 1982 RIDP incentives were prone to abuse and generally considered "the best regional industrial incentives in the world". However, the programme was costly to run and failed to achieve many of its goals.

The report's authors say the scheme tended to attract industries which were reliant on subsidies, with limited potential to sustain viable industrial development.

The report recommends allowing a five-year tax holiday in conjunction with the RIDP and other incentive schemes, such as the general export incentive scheme (Geis).

"The programme was in the first place not designed to attract foreign investment but rather to support regional industrial development on market principles."

## Favoured

The report says the new RIDP programme could be used as part of a package of incentives in export processing zones, which the government recently recommended.

If the PWV and Durban areas are included in the RIDP, it may require a lower level of incentives all round, as these would be the most favoured areas for industrial location.

"The inclusion of these areas could result in a large administrative burden, adding further weight to the argument in favour of a tax holiday."

# There's a direct banking link to East

St Times (Buss) 21/3/93

FRENCH Bank of Southern Africa can offer local companies a direct link into Singapore and South-East Asia through its parent Banque Indosuez's international network.

Banque Indosuez, one of France's largest banks, transferred its Asian headquarters from Paris to Singapore in mid-1990, enlarging its functions and scope at the same time.

The headquarters supervise branches and affiliates in Hong Kong, Indonesia, Malaysia, People's Republic of China, Singapore, Thailand, Taiwan, the Philippines and Vietnam. It also covers Burma, Cambodia and Laos.

## Renamed

Banque Indosuez's ties to Singapore go back to 1905, when Banque de l'Indochine first opened its doors at Raffles Place. Banque de l'Indochine was merged with Banque de Suez in 1975 and the group was renamed Banque Indosuez in 1981. It is now one of 23 fully licenced foreign banks operating in Singapore.

Banque Indosuez has a 51% stake in FBSA and an active presence in 65 countries. Because of this network, the transactions of SA companies can be handled in-house by FBSA with clear cost and speed advantages, says FBSA assistant general manager Jean-Michel Caffin.

Further ties between FBSA and Banque Indosuez's Asian operations also exist. Eric Maurin, who spent seven years as head of FBSA's corporate banking division, is now managing director of Indosuez Vietnam. And Mr Maurin's predecessor, South African-born Bruce Fraser, now heads the bank's corporate banking international desk in Hong Kong.

FBSA has been in SA since 1949 and operates largely as a wholesale corporate and merchant bank. Its customers are mainly large corporates, multinationals and parastatals.

# Minorities are given the runabout by Racy

STimes (BUSS) 21/3/93

By JULIE WALKER

RACY postponed Friday's general meeting for a week to give its directors time to respond to the Minister of Trade and Industry's investigation into the affairs of the company.

The investigation was asked for by certain minority shareholders who felt oppressed at the way in which Racy's directors bought the assets of Racy at a large discount to audited worth. Standard Merchant Bank advised minorities the deal was fair and reasonable.

Racy's general meeting proposed to convert the ordinary shares into redeemable prefs and redeem them at 50,59c. The effect would turn shareholders into non-shareholders, thereby denying them the right to proceed against the company as an oppressed minority under section 252 of the Companies Act.

Racy says the conversion/redemption method was chosen to reimburse shareholders of the cash in Racy as cheaply and tax-efficiently as possible. Other methods could have achieved the same end without removing shareholder status.

Standard Merchant Bank advised the minority to consult their own advisers on the effect of the redemption.

180

## Response

A special resolution was required to pass the proposal, and minority votes came to more than the 25% required to block the vote.

It was never put to the test, because only a simple majority was required to postpone the meeting until after Racy has replied to the Minister.

SMB's Andrew Leith said he would think about telling minorities what the response contained.

Racy chairman Ivor Jacobson said after the meeting that the minority would still be able to proceed in terms of common law if they were no longer shareholders.

He questioned the motive of a veto that could result in membership of an unlisted public company.

In reply, the minorities say they are adamant that a fair price will be paid for Racy. For them it has become a matter of principle.

# Amic to broaden base

S Times (BUSS) (180)

By JULIE WALKER

AMIC chairman Leslie Boyd aims to broaden Anglo American Investment Corporation's spread to cushion it from the strong influence of commodity cycles. 7/3/93

Presenting annual results, in which attributable earnings fell 12% to R352-million and earnings a share by 15% to 617c, Mr Boyd said the group did not intend to get rid of its current businesses but to invest in consumer-oriented avenues, such as it did in 1992 with McCarthy-Prefcor and the Rheem can plant.

## Swap

Mr Boyd said divisionalisation was under consideration because of certain financial inefficiencies within the group.

Last year it effected a share swap to add parent Anglo American's 49% stake in LTA to its own 23% holding. More moves can be expected.

Amic's gearing is only 12% and there is plenty of capacity to fund new projects.

LESLIE BOYD

Mr Boyd hopes that Eastern investors, such as from Japan and South Korea, will enter joint ventures with Amic and negotiations are already under way in this respect.

He said he had yet to be convinced of the benefits of unbundling, citing no benefit in maximising profit for shareholders. Amic's head office employed only about 20; its operations are managed on site.

## Declined

Although another tough year is expected in 1993, Mr Boyd says Amic could at least equal those of 1992. Budgets were prepared before the end of last year, since when the rand had declined against the dollar.

Export sales were about 42% of 1992's R6,78-billion turnover, and export profits about 30%.

Amic was R60 on Friday, a third off its June peak but R9 higher than the October low.

An unchanged 350c dividend yields 5,8%. Shareholders will be allowed to take up to half in shares; De Beers and Anglo American intend to do so.

# Rewarding shareholders

SI Times (BUSS) 21/3/93.

By JULIE WALKER

THE cut in corporate tax rate from 48% to 40% and the introduction of a 15% company tax on dividends might prompt companies to follow the method of shareholder-reward adopted by Sondor, the Cape-based manufacturer of polyethylene and vinyl acetates and rubber and plastic converter.

On Wednesday, Sondor proceeded to issue 24-million unsecured, indivisibly linked non-interest-bearing redeemable subordinated bonus debentures of 15c (the bonus debentures) one per ordinary share held.

No separate bonus debenture certificate is issued and shareholders' rights will be recorded by endorsing existing share certificates or new ones issued after March 29.

Sondor intends to repay the bonus debentures in half-yearly instalments equal to 25% of its pre-tax profits. It will not declare dividends until the bonus debentures are repaid in full. Sondor has adopted this procedure before, and R8,22-million is still outstanding on the first issue; it will be repaid before the second tranche of repayments begins. Sondor believes that the bonus debenture will save the company an effective 15% in tax.

Private companies widely use the bonus debenture method every year and public companies can be expected to follow, tax-rulings permitting.

# New tax system 'will help firms'

B/DAY 22/3/93. (180) (5)

TIM MARSLAND

THE new system of corporate tax was intended to help companies rather than penalise them, Finance Department director-general Gerhard Croeser said on Friday.

He was reacting to criticism at a Sacob meeting on the Budget that some firms could be disadvantaged by the new ruling because they had done their dividend planning under the old system.

Finance Minister Derek Keys announced on Wednesday that there would be a new 15% tax on distributable income while the nominal company tax rate would be decreased from 48% to 40%.

Croeser also called on the private sector to indicate to government which of its services should be cut back. He believed government should aim at relinquishing services that could be run better by the private sector.

Referring to the Budget, he said the Finance Department had little room to manoeuvre when drawing it up. It had to accept that while there was a need to cut the deficit, SA was in recession, so it had settled on a deficit of just below 7% of GDP.

Croeser said the additions to the zero-rated list would lead to "additional leakage" in terms of VAT collection. However, SA was among the top five countries in the world in terms of its success at collecting VAT. A recent study by the IMF indicated SA collected about 86% of possible collection.

He cautioned against businesses seeking loopholes in VAT collection as the department was employing more staff to police VAT collection.

"This is one area of government we don't mind expanding," he said.

Croeser said the VAT rate would have been 13,25% if it were not for the additional zero-rated items.

He blamed the sharp increase in the VAT rate on the tax having been implemented at too low a rate.

Political considerations had been an important factor behind the implementation of the VAT rate at 10%, which had given SA a "tax holiday for 18 months", he said.

# Host of 'March' companies to lose out on lower tax rate

BDAY 24/3/93 (180)

TIM COHEN

CAPE TOWN — The host of companies whose financial years finish at the end of March would be hit by the new 15% secondary tax on companies (STC) but would not benefit from the lower 40% company tax rate, Commissioner for Inland Revenue Hannes Hattingh confirmed yesterday.

The anomaly arises from the fact that STC comes into effect for many companies on March 17 — the date the dual system was announced — while the lower company tax rate kicks in only on April 1.

Hattingh confirmed that "numerous" companies whose financial year ended at the end of March had already lobbied his office, requesting a special relief because they believed they were prejudiced by this "anomaly".

Hattingh said this, and the possibility that so-called "March" companies could shift their year of assessment one month forward to bypass the situation, was being considered by his office.

"March" companies are the second largest group and they could end up paying 8% more tax each year.

The group embraces many large companies, including SAB and its associates.

According to the supplementary notes issued by the commissioner on the dual tax system, the rate of normal tax imposed on companies whose year of assessment ends during the 12 months ending March 31 next year would be reduced from 48% to 40%.

This formulation implies that companies whose year of assessment ends before March 31 this year will have to pay the 48% rate.

The notes also say the tax liability for STC will apply to any dividend declared on or after March 17 this year, or which was declared before that date and paid after it.

Dividends declared by listed companies before March 17 and which are payable after that date will not be subject to STC if the dividend declaration was made known publicly before March 17, the notes say.

DP MP Geoff Engel said the situation was "patently unfair", especially as Finance Minister Derek Keys had said he wanted to decrease the rate of companies' tax.

# New tax not an incentive

BDay 26/3/93. (180)

JOHN DLUDLU

THE secondary tax on companies (STC) — announced by Finance Minister Derek Keys last Wednesday — will provide neither an impetus for growth nor be an economically efficient incentive for business. Instead, it is the antithesis of a market where individuals freely choose how they organise their companies.

This is the view of Wits University business economics lecturer Sinclair Davidson on Keys's dual tax proposals. The STC — which comes into effect on April 1 — is a 15% tax rate on distributed income and is accompanied by a reduction in the company tax rate from 48% to 40%.

The STC, Davidson says, will result in a decrease in dividends and so increase retained earnings.

"This constitutes a source of cheap finance for the firm, but is expensive for shareholders and ultimately society."

And it would remain relatively cheap only in the short term, he said.

"Keys seems to think that investment from retained earnings is free. This is the only explanation for the STC that is consistent with the view that firms should be self-financing and so reduce their tax burdens. His idea is to channel funds into 'productive' investment rather than into the 'unproductive' hands of owners."

Davidson argues that the use of retained earnings is not free. He points out that this system may encourage the entrenchment of existing managements which may well be inefficient. It does this by reducing the need for incumbent managements to compete for outside funds, which they normally do on the basis of their firm's efficiency.

Automatic reinvestment also increases the costs of capital to new firms by denying shareholders the opportunity to invest those foregone portions of their dividends in new firms. Those dividends, Davidson argues, are rather invested on their behalf in existing firms. This can be construed as a barrier to entry for new, potentially innovative, firms. The foregone shareholders' returns, which would be greater than those offered by the existing firm, are a further cost of retained earnings.

He says Keys, as a corporate insider, cannot appreciate that investors may wish to use their money in other ventures apart from reinvestment.

Companies that have fewer or no new investment opportunities are penalised by the STC for paying out excess cash as dividends.

"Also penalised are those individuals who chose to buy traditionally high dividend shares in order to earn income. Now those individuals bear the cost of the growth that this measure will bring forth."

Anglo American group tax consultant Marius van Blerck recognises the validity of Davidson's argument. He adds, though, that it is only one side of the coin.

Van Blerck said these negative effects would apply strongly only if the STC encouraged the retention of funds by companies that had no productive use for them. "I'll be surprised if this resulted."

The positive aspect of the STC, he points out, is that companies with possible investment opportunities are encouraged to invest retained earnings in such projects.

"Ultimately the shareholders will benefit handsomely if these investment decisions are correct."

With the improvement in the political climate and with many parties committing themselves to growth and productivity, he feels that the STC will give further impetus to potential investment opportunities.

"In the final analysis, the positive effects of the STC far outweigh its negative effects."

Hofmeyr van der Merwe tax partner Elim Brincker believes that although the overall lowering of the tax rate may serve as an incentive for economic growth, the imposition of STC will certainly create a tendency in companies to reduce dividends. "Well-established companies are unlikely to venture into new fields incompatible with their existing business operations. History shows that new ventures are conducted in separate entities due to the risks involved."

He believes the imposition of the STC will result in firms overcapitalising on existing business structures or reverting to capital intensive projects as opposed to labour-intensive projects — a tendency that is in direct conflict with Keys's objectives.

Brincker further argues that, depending on the dividend cover, a tendency may develop to declare only a certain percentage of profits to shareholders and then channel funds to shareholders by other means.

March 26 1993

# Lower tax hits project backers

(180) BDPM 26/3/93

MATTHEW CURTIN

REDUCTION in company tax will knock hundreds of millions of rands off tax credits available to backers of the multibillion-rand Alusaf, Columbus and Namawka Sands projects.

Lowering the company tax rate from 48% to 40% has complicated intricate project finance arrangements for the ventures, which have a combined capital cost of more than R11bn.

The effect will be the projects' financing needs rising more than R250m.

Alusaf's R7,2bn smelter expansion project, the R3,5bn Columbus stainless steel expansion project and the R1,1bn Nawakwa mineral sands venture in the Western Cape have qualified for concessions in terms of Section 37E of the Income Tax Act.

They allow for accelerated write-off of capital spending during construction rather than after the projects are commissioned.

Section 37E tax concessions, applicable to projects adding value to base minerals, were not altered in the Budget. But the tax base of groups financing the projects, against which credits would be set, has been reduced significantly.

The reduced tax credits will add to the peak funding requirements of all three projects.

But they will not materially affect their progress in the long term because the lower company tax rate will improve the projects' cashflow and profitability.

One analyst said yesterday: "Rands today are worth more than rands tomorrow, so the net result of the lower available credits is on the negative side, although the higher start-up costs will be considerably offset in the longer run by improved profitability."

Alusaf smelter expansion project finance director Paul Snyman said lower tax rates would result in pre-commissioning Section 37E credits to Alusaf's R7,2bn project being reduced by about R120m.

The funding package in place at Alusaf — made up of debt and equity raised by Gencor, Eskom and the IDC — was flexible enough to compensate for the increase, he said.

Columbus CE Fred Boshoff said the Samancor/Highveld Steel and Vanadium/IDC joint venture's peak funding requirement would rise in the order of R120m, but Columbus would benefit from the lower tax rate in the future.

He said any decision to increase the company tax rate after the Section 37E credits had run their course would severely prejudice the project's prospects.

Spokesmen for Namakwa Sands were unavailable for comment.

# Development boss claims big success

S Times (Buss) 28/3/93 (180)

By CIARAN RYAN

A TOTAL of 705 projects, with a total investment of R5-billion, has been approved under the regional industrial development programme (RIDP) since 1991.

Replying to criticism of the RIDP in a March 21 Business Times article — drawn from a report by Andre Wilsenach and Andre Ligthelm entitled, An evaluation of the RIDP and its preliminary impact on regional development in SA — RIDP Director-General Coenie de Villiers says the programme is a success, having provided 30 000 jobs since 1991.

"The RIDP is a viable and very effective method to promote industrial development throughout the country, to create wealth, to establish more job opportunities and to ensure a more equitable distribution of development and progress," says Mr de Villiers."

He rejects the report's suggestion that the programme costs R1-billion to R2-billion a year. The RIDP budget for 1993-94 is R739-million, 66% of which is for projects approved under the 1982 RIDP, which is being phased out.

He also rejects the report's recommendation of a five-year tax holiday in conjunction with the RIDP: "The present RIDP allows for a more selective approach leading to effective utilisation of State funds. The RIDP is of a kick-start nature. Incentives are only payable over five years."

## Bias

RIDP incentives include a two-year establishment grant equal to 10,5% of operational assets and a three-year output-based one. The current RIDP replaced the 1982 programme which offered employee subsidies of up to 95%, interest and rent subsidies, training allowances, electricity subsidies, rebates of between 40% and 60% on outgoing goods, relocation grants of up to R500 000 and productivity incentives.

Mr de Villiers denies that the programme has a rural bias.

"The new scheme is aimed at regional economic development rather than at spreading industry to rural areas."

A total of 32% of the projects approved are in metropolitan areas, 29% in intermediate cities, 28% in smaller towns and 11% in rural areas. RIDP incentives vary little outside the PWV or Durban core area — both are excluded from the programme because of "their existing self-sustained economic agglomeration".

## Ideal

Mr de Villiers says the ideal regional industrial policy would offer no assistance to industry.

"Most countries offer generous incentives to industrialists and they are vying for foreign investment which introduces new skills, develops homegrown technology, and through multipliers, provides much-needed employment, fixed investment and income."

He says the RIDP is a small price to pay if SA's share of world trade can be lifted from 0,7% to 1,1% in the next three years.

Mr de Villers says some refinements to the programme are being implemented.

"The new RIDP has the potential to reach most of the goals it was designed and planned for. We are confident this will be the case in the coming months and years."

International markets for manufactured goods are growing faster than those for raw materials.

SA's manufacturing sector requires foreign investment and the RIDP is helping to achieve this, he says.

Star 31/3/93

# Industry sited in SA under disadvantage

By Stephen Cranston

(180)

The world's most competitive manufacturing facility in any industry might not retain its status as an attractive investment if it were located in South Africa, says AECI chairman Gavin Relly.

He says in AECI's annual report for the year to December the comparative disadvantage is caused by the small size of the local market, the lack of skilled people, the risk of disruption and social instability, capital costs, tariff structures and the tax regime.

The combined effect is to raise the rate of return required by investors and to reduce the actual rate of return after tax.

Investment in productive assets is unlikely to flourish in this climate.

All practical resources should be deployed to redress the skills shortage and there needs to be harmonisation of the tax regime and tariff structure with those prevailing in other countries.

The present demands on the fiscus and political perceptions, however, militate against a speedy restructuring of the existing tax regime.

In the short term, the abolition of protective measures against imports would have a profoundly negative effect on employment, fiscal revenues, foreign reserves and growth.

Exposed to world surplus product at marginal realisations many facilities would close.

Relly proposes a phased and co-ordinated approach to tax and tariff policy adjustment with alignment to international norms as the aim.

He says priority should be given to allowing the cost of expenditure on plant and equipment to be offset in real terms against taxable income, and the replacement of complex tariff structures by a straightforward mechanism such as specific duties denominated in foreign currency.

AECI's PVC business did not enjoy effective protection against low-cost imports, which affected local sales volumes and prices. Export volumes increased but margins remained under pressure in most markets.

Polyethylene sales volumes increased although at lower prices.

The decline in demand for explosives from gold mines moderated during the year, but there was decreased demand from other mining sectors such as platinum and diamonds.

Market share was lost in the explosives and accessories markets but this was more than offset by a successful drive to improve operating efficiencies and reduce fixed and overhead costs.

Demand for fertiliser dropped six percent from the previous year.

# Business wants more political clout

810A7 3/3/93.

TIM COHEN

CAPE TOWN — Organised business, increasingly uneasy about whether government adequately represents its interests in negotiations, has made a bid for a more direct role in the political process. (180)

Sacob director-general Raymond Parsons said yesterday although his organisation accepted that political groups should be the principal parties at negotiations, a method for other bodies to make contributions ought to be structured into the process.

He said a possible way to achieve this would be to have hearings on topics discussed by the new negotiating forum and for the forum to call for contributions by interest groups.

Sacob was particularly interested in what fiscal constraints should be written into a constitution and the role regional government could play in imposing fiscal discipline.

Sacob would also favour the strengthening of the powers of the auditor-general.

Organised business is understood to be concerned about the influence Cosatu has on the negotiations process through ANC "surrogates".

There was concern business interests were not adequately represented by government's delegation, whose understanding of economic issues business believed to be inadequate.

## NEWS IN BRIEF

B/DAY 1/4/93.

### Miners resume work

NORMAL underground work has resumed at Genmin's Beatrix Gold Mine. All workers, except for 400 Zulu speakers whom management moved to the St Helena Hostel after they clashed with Pondos, reported for duty on Tuesday.

Gengold spokesman Albert de Beer said a peacekeeping committee of workers and management would monitor the hostels and mine main entrance..

### Film subsidies returned

B/DAY 1/4/93

THE Home Affairs Department said in Pretoria yesterday film companies which misappropriated government subsidies had paid back more than R1m. Some companies, however, still faced criminal charges.

### 'Last post' sounds

B/DAY 1/4/93

THE SA Defence Force's first retrenchment parade took place at Cape Town Castle yesterday when about 400 Western Province Command members were bid farewell to the strains of Auld Lang Syne.

Nearly 6 000 SADF personnel have been retrenched recently. The SADF budget has been slashed by more than a third in the past five years..

### 'Call up jobless only'

B/DAY 1/4/93

THE unemployed should be called up for national service to combat crime and violence and unionists who instigated labour unrest should be held criminally responsible, SA Iron and Steel Union manager Nic Celliers said yesterday. The suggestions are part of a security and commerce plan the AWB and the union want to discuss with President F W de Klerk.

### Employment Act

B/DAY 1/4/93

WE REPORTED incorrectly yesterday that: "As legislation now stands, the Basic Conditions of Employment Act will grant to farmworkers the right to strike." The Act does not deal with strikes. Business Day regrets the error.

REPORTS: Business Day Reporters, Own Correspondent, Sapa.

# AHI wants ceiling on wages, prices

B/DAY 1/4/93

TIM MARSLAND

THE Afrikaanse Handelsinstituut (AHI) has asked its members to hold wage and price increases to 5% or lower for the next two years in line with the declining trend in money supply growth and inflation.

AHI chief economist Nick Barnardt said yesterday his organisation had taken the decision in line with its support of Reserve Bank policies to combat inflation.

The decision was also aimed at trying to prevent further declines in business volumes.

"The AHI general management accepted a motion at its six-monthly meeting to encourage members to hold price and wage increases to below 5%. The message of discipline should be communicated to members and the broader business sector," he said.

Inflation would peak close to 11% as a result of the VAT, fuel price and other increases included in the Budget, Barnardt said.

However, he saw it falling sharply after that, possibly to 5% in 1994.

He said any temptation to raise interest rates to protect the balance of payments should be resisted in light of the decline in inflation and money supply growth as well as the deepening recession.

The pressure on the balance of payments should rather be managed by mainly continuing the fluid exchange rate policy and the "overall laudable monetary policy flexibility" of the past six months.

In the current recession, a moderate real depreciation of the rand would have a minimal negative effect on inflation, but would actively encourage exports.

He said the AHI continued to support the Reserve Bank's focus on disciplined monetary expansion, which implied that interest and exchange rates were largely determined by the markets.

Once the balance of payments stabilised, he expected a further cut in interest rates in response to low credit demand.

This would partially offset negative effects the hike in VAT and other taxes would have on the business cycle and could help prevent a deepening of the recession, he said.

# Talk of VW layoffs 'premature'

B/DAY 1/4/93

ERICA JANKOWITZ and EDWARD WEST

VW SA said yesterday it was too early to say it would be retrenching more than 2 000 workers this year.

But up to 1 000 workers were in danger of being laid off in the near future. VW human resources director Brian Smith said 500-1 000 jobs at the Uitenhage plant were "currently under review" because of a sharp drop in exports and a declining local market.

Numsa national organiser Gavin Hartford said on Tuesday the car manufacturer had proposed rationalising 2 270 of its workforce this year.

VW said talks of staff reduction was "premature" and dependent "on the impact of the recent Budget on the local market, the outcome of various export orders currently under discussion and the success of the new Golf and Jetta range".

Smith stressed the company would try to "achieve reductions through voluntary packages offered to all employees, early retirements, outsourcing and natural attrition".

He said VW SA was renegotiating a contract to supply Jettas to China. The future of workers involved with exports to China would depend on the outcome of the negotiations and on local market conditions.

# Putco, Sabta pledge not to raise fares

B/DAY 1/4/93

THEO RAWANA

PUTCO and the SA Black Taxi Association (Sabta) fares will not increase when fuel prices go up tomorrow.

Putco MD Jack Visser said yesterday the bus company would absorb the increase of 16c/l on diesel for three months. Sabta also said it would not increase its fares and was negotiating with the Mineral and Energy Affairs Department for a "special consideration" for taxis.

Visser refused to say how much it would cost Putco to absorb the increase. "We are so close to our annual increase on July 1 that we did not feel it necessary to raise fares now."

Sabta public affairs manager Cyprian Lebese said the organisation had given Mineral and Energy Affairs "a few options". The taxi organisation expected a reply today.

Postal tariffs and suburban train fares went up at midnight last night and petrol will cost 15c/l more at the coast, and 16c/l more in the interior.

Postal tariffs will cost an average of 30% more. A stamp for a standard letter will cost 45c from today.

Suburban train fares will cost an average of 9,75% more, but the SA Rail Commuter Corporation has assured its customers that there will be no further fare increases this year.

Sapa reports that cheaper dialling times for overseas telephone calls will be introduced today.

Telkom said the standard rate to more than 100 countries would drop by about 7% and the new off-peak rate would be up to 20% cheaper than the standard rate. But VAT on calls would increase to 14% on April 7.

# Double vision needed to lift SA from fog

Star 1/4/93

(180)

**The new president of the South Africa Foundation believes this country must face blunt reappraisal from both the inside looking out and the outside looking in when it seeks a new status in the international business world, reports MICHAEL CHESTER.**

Sharpen focus ... SA Foundation's Meyer Kahn.

DOUBLE vision at first sounds like an enormous drawback for anyone selected by the South African private sector to act as its special ambassador in the international business world.

Yet that was precisely what the South Africa Foundation was seeking when it elected Meyer Kahn (53), chairman of SA Breweries, as its new president in Johannesburg last week.

It means the ability to view South Africa not only from the inside looking out — but also to view South Africa from the outside looking in. In absolute frankness, without fanciful gloss, warts and all.

Ideally, both visions should at least be in sharp focus, if not a precise match. Instead, at the moment, the view from each angle is fog-bound and in dire need of improvement:

- From the inside, South Africa glares with resentment at an outside world that it blames for not coming forward with rich rewards for its struggle to bring down apartheid and build a new democracy from the debris — new investments, development aid programmes, closer trade ties.
- From the outside, businessmen seem to be turning a cold shoulder on South Africa, or looking ultra-cautious about engagement, as images of politi cal oppression are replaced by images of political rows, violence and economic malaise.

The objective of the SA Foundation is to improve the view from both sides and put South Africa firmly back into the international business arena.

The post that Meyer Kahn takes over from Barlow Rand chairman Warren Clewlow has long been regarded as supremo of a private diplomatic corps at work behind the scenes at home and abroad, nurturing global business links.

To associate Meyer Kahn with double vision would cause waves of derision among peers who credit him with an uncanny 20-20 sharpness of perception in any boardroom.

There seemed to be little evidence of double vision as Kahn, the affable "Boykie from Brits", was rocketed by sheer business acumen from management trainee at OK Bazaars to managing director and now executive chairman of one of the largest conglomerates on the African continent.

Nor was it suspected as he was awarded accolades such as Marketing Man of the Year in 1987, Business Achiever of the Year in 1990, Professor Extraordinaire at the Graduate School of Management at the University of Pretoria, a seat at the State President's Economic Advisory Council....

Kahn himself, however, now puts the ability to "see double" as a crucial asset in his new role.

"Unless the focus is sharpened," he says, "South Africa will slip lower and lower down the list of international priorities. As overseas countries strike apartheid and sanctions and boycotts off their agendas, there are real dangers that South Africa will slip off the agenda entirely.

"It has become crucial to improve the image we project — from the present negative image to a positive image."

The first objective must be firm evidence of political and socio-economic stability.

The reluctance of foreign donors and investors to plough funds into South Africa at the moment is understandable, says Kahn, in view of their sad experiences elsewhere in Africa.

"Investors like winners, or at least potential winners," he adds. "We shall only capture their serious attention when we stop whining about the shortage of outside help and start laying the foundations of dynamic new democracy ourselves."

Rather than concentrate on its handicaps, South Africa should start counting its assets — from a sound infrastructure to a vibrant private business sector, and now the first flicker of optimism about good economic management.

Next, South Africa needs to make a frank reassessment of its prospects on world export markets, to earn the income to finance its socio-economic programmes. Exporters had to re-evaluate the products they were trying to sell.

"We should concentrate on products we know best — simple consumer products in high demand in low-income markets," says Khan.

He argues: "The first essential is real evidence that South Africa is prepared to press on with shaping its own new future — alone if necessary.

"That is the image, from the outside looking in, that will draw the earnest attention of the World Bank and the International Monetary Fund and investors who can press the buttons to accelerate the motors." □

# Corporate treasury growth 'slow'

BDM 1/4/93. (180)

TIM MARSLAND

SA corporate treasuries have not developed as fast as their foreign counterparts and as a result are less sophisticated, according to a survey released yesterday.

The survey, conducted by Deloitte & Touche in conjunction with the Association of Corporate Treasuries of Southern Africa, showed local treasuries would have to improve controls and risk management techniques.

Corporates had acknowledged the need for a specialist treasury function.

Deloitte & Touche partner Abigail Gammie said foreign interest and development of local markets might be a source of future competition, but there were few treasuries with well developed operations that had contributed substantially to company performance.

"The banking sector in particular should heed the threat of foreign competition and ensure that they are effectively meeting the needs of corporates."

Corporate treasuries controlled "enormous turnover" and would be a lucrative target for potential foreign banks establishing operations in SA.

The survey showed that many services provided by the banking industry were only adequately meeting the needs of corporate treasuries. Of the 66 registered banks in SA, only 12 were dealt with by the survey's participants.

BUSINESS

# Time for tough cop

WMail 2/4-7/4/93.

(180)

*The world's toughest financial cop has shown controlled capitalism pays off.* **REG RUMNEY** *reports on what South Africa could learn from the US Securities and Exchange Commission*

THE widespread use in South Africa of nominees to conceal ownership would not be allowed if this country followed the US Securities and Exchange Commission (SEC) rules.

The SEC, known as the world's toughest and most effective financial cop, requires that the true identity of any shareholder with more than five percent of a company be known.

This emerged at a Worldnet briefing at the US embassy last week, where through a satellite link-up SEC staffer Ann Wallace and corporate lawyer and ex-SEC member Joseph Connolly spoke to a small gathering about the SEC.

They were quizzed about the SEC's operations by the South African Institute of Chartered Accountants (SAICA) technical director Monica Singer and Johannesburg Stock Exchange general manager Neil Carter.

Asked about the SEC's power of enforcement, Wallace said the SEC can impose fines on companies that do not comply with its regulations, but she stressed that the main thrust is disclosure. The agency, set up in the depression years to protect small investors, requires companies to disclose reliable information to make it possible for investors to judge risk.

The disclosure requirements are broad: any stock offered to the public must comply with the SEC rules but the commission does not try to protect potential stockholders against all risk.

Wallace stressed the SEC aimed to force companies to provide a minimum of information. The regulations cannot, practically, embrace all companies. However, the board of any company will have to make decisions about how much more should be disclosed to attract public money.

"If you elect to go to the market the cost is to

provide disclosure."

Asked about self-regulation, Connolly emphasised that a healthy alliance existed between self-regulatory groups and law.

An illustration of the difference in regulatory approach is demonstrated by the JSE's handling of companies which refuse to comply with internal regulations and the SEC's method.

Carter said the JSE would suspend or delist companies which did not comply with its internal regulations. Wallace remarked that disclosure is better than suspension, which may be detrimental to the market. And, indeed, the JSE thinks long and hard before suspending a company, which could hurt the minority shareholders more than the company itself.

The accounting profession is regulated by the SEC as well. Wallace said financial statements must comply with the US Generally Accepted Accounting Practices. No alternative methods, such as the treatment of goodwill, are allowed. "Our system provides across-the-board accountability. Financial statements are fundamental for the integrity of markets," she noted.

Connolly added that accounting firms were keen to comply with the SEC's requirements. Not only company directors can be sued for issuing misleading financial statements. Shareholders have been known to go after a "deep pocket" — the accounting firm that vetted the financial statement.

Asked about the costs of regulation, Wallace noted the sound base of small shareholders in the US and the reputation for integrity the markets enjoy. Against this, she said, the costs were infinitesimal. However, the SEC by law has to undertake a cost-benefit analysis before issuing any new regulations.

The SEC's regulations are seen as onerous elsewhere. German firms, for instance, have not been able to enter US markets because their accounting practices don't measure up to SEC requirements. The SEC is flexible, though.

Industrial giant Daimler-Benz AG said this week it would comply with US regulations and publish more financial information so it could become the first German firm to get a listing on Wall Street.

The deal rests on a compromise agreed with the SEC on what should be disclosed.

Naturally, SEC-style regulation would run into some resistance in South Africa. "Regulation is flavour of the month," says Carter, who cautions against over-regulation for our much smaller markets.

Important questions are, he says: How far should regulation go, who should do it, and will it solve our problems. Moreover, he adds, regulations costs money.

It would be better to handle regulatory problems through a beefed-up Companies Act or expanded JSE listing requirements.

Disclosure shouldn't be for disclosure sake. And self-regulation should be given a chance to work, Carter adds.

Singer, on the other hand, finds it most admirable that the SEC has legislative teeth. The South African Companies Act, even when improved in line with SAICA suggestions, will probably not be backed up by enforcement.

In theory, directors of companies have strict responsibilities but disciplinary action against those who act against the interests of the company and shareholders are not easily enforceable.

BUSINESS

# Time for tough cop

WMail 2/4-7/4/93.

(180)

*The world's toughest financial cop has shown controlled capitalism pays off.*

**REG RUMNEY** *reports on what South Africa could learn from the US Securities and Exchange Commission*

THE widespread use in South Africa of nominees to conceal ownership would not be allowed if this country followed the US Securities and Exchange Commission (SEC) rules.

The SEC, known as the world's toughest and most effective financial cop, requires that the true identity of any shareholder with more than five percent of a company be known.

This emerged at a Worldnet briefing at the US embassy last week, where through a satellite link-up SEC staffer Ann Wallace and corporate lawyer and ex-SEC member Joseph Connolly spoke to a small gathering about the SEC.

They were quizzed about the SEC's operations by the South African Institute of Chartered Accountants (SAICA) technical director Monica Singer and Johannesburg Stock Exchange general manager Neil Carter.

Asked about the SEC's power of enforcement, Wallace said the SEC can impose fines on companies that do not comply with its regulations, but she stressed that the main thrust is disclosure. The agency, set up in the depression years to protect small investors, requires companies to disclose reliable information to make it possible for investors to judge risk.

The disclosure requirements are broad: any stock offered to the public must comply with the SEC rules but the commission does not try to protect potential stockholders against all risk.

Wallace stressed the SEC aimed to force companies to provide a minimum of information. The regulations cannot, practically, embrace all companies. However, the board of any company will have to make decisions about how much more should be disclosed to attract public money.

"If you elect to go to the market the cost is to provide disclosure."

Asked about self-regulation, Connolly emphasised that a healthy alliance existed between self-regulatory groups and law.

An illustration of the difference in regulatory approach is demonstrated by the JSE's handling of companies which refuse to comply with internal regulations and the SEC's method.

Carter said the JSE would suspend or delist companies which did not comply with its internal regulations. Wallace remarked that disclosure is better than suspension, which may be detrimental to the market. And, indeed, the JSE thinks long and hard before suspending a company, which could hurt the minority shareholders more than the company itself.

The accounting profession is regulated by the SEC as well. Wallace said financial statements must comply with the US Generally Accepted Accounting Practices. No alternative methods, such as the treatment of goodwill, are allowed. "Our system provides across-the-board accountability. Financial statements are fundamental for the integrity of markets," she noted.

Connolly added that accounting firms were keen to comply with the SEC's requirements. Not only company directors can be sued for issuing misleading financial statements. Shareholders have been known to go after a "deep pocket" — the accounting firm that vetted the financial statement.

Asked about the costs of regulation, Wallace noted the sound base of small shareholders in the US and the reputation for integrity the markets enjoy. Against this, she said, the costs were infinitesimal. However, the SEC by law has to undertake a cost-benefit analysis before issuing any new regulations.

The SEC's regulations are seen as onerous elsewhere. German firms, for instance, have not been able to enter US markets because their accounting practices don't measure up to SEC requirements. The SEC is flexible, though.

Industrial giant Daimler-Benz AG said this week it would comply with US regulations and publish more financial information so it could become the first German firm to get a listing on Wall Street.

The deal rests on a compromise agreed with the SEC on what should be disclosed.

Naturally, SEC-style regulation would run into some resistance in South Africa. "Regulation is flavour of the month," says Carter, who cautions against over-regulation for our much smaller markets.

Important questions are, he says: How far should regulation go, who should do it, and will it solve our problems. Moreover, he adds, regulations costs money.

It would be better to handle regulatory problems through a beefed-up Companies Act or expanded JSE listing requirements.

Disclosure shouldn't be for disclosure sake. And self-regulation should be given a chance to work, Carter adds.

Singer, on the other hand, finds it most admirable that the SEC has legislative teeth. The South African Companies Act, even when improved in line with SAICA suggestions, will probably not be backed up by enforcement.

In theory, directors of companies have strict responsibilities but disciplinary action against those who act against the interests of the company and shareholders are not easily enforceable.

Star 3/3/93

# Don't up VAT (180)

# says big business

Organised business opposes a rise in the VAT rate. The SA Chamber of Business said in Cape Town yesterday it would be unwise to increase VAT when the economy was still slowing down.

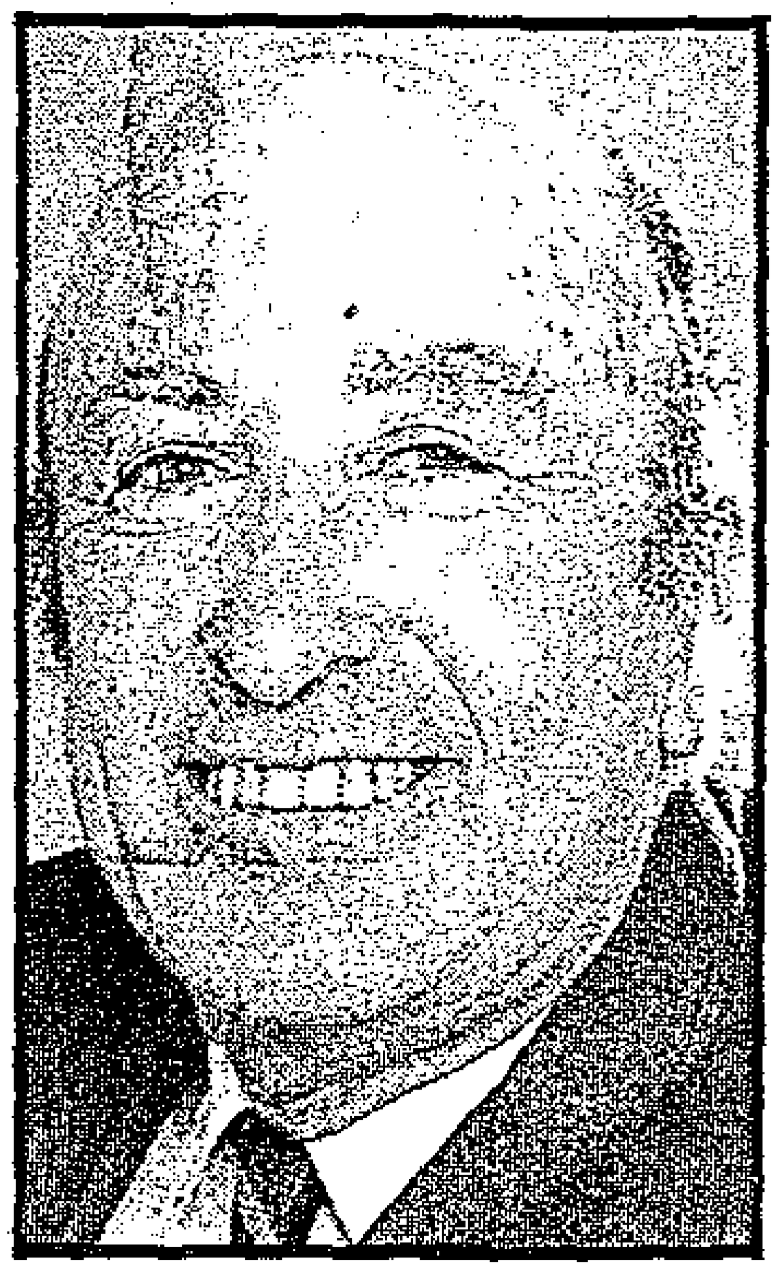
Finance Minister Derek Keys is expected to raise VAT from 10 to 13 percent in this month's Budget.

● Report — Page 14

# Picking at those perks

S/Times (8455) (180) 4/4/93

By ZILLA EFRAT



ISSY GOLDBERG

SOME company directors appear to be sitting pretty while the rest of their company comes under the cost-cutting axe.

They benefit from South Africa's inadequate standards of disclosing directors' emoluments — a factor which will come under the spotlight in a new Institute of Directors' investigation, which will follow the lines of the Cadbury Report in Britain.

Minority shareholders and staff are given very little opportunity to determine what their directors are earning and whether increases reflect company performance.

Figures provided in most annual reports are not considered a reliable indication of pay movements.

They usually group non-executive and executive directors together and most do not highlight the full extent of packages. Packages are also defined in different ways.

A small change in a board structure, such as the addition of one new member, could affect the figures dramatically, says Institute of Directors' executive director Richard Wilkinson.

Shareholders' Association of SA chairman Issy Goldberg says many shareholders would be aghast if they were given full disclosure of the benefits that some directors of listed companies enjoy.

## Outstripped

He says the problem is that perks and benefits are not fully reflected separately in annual reports. And sometimes these are not even disclosed as constituents of directors' emoluments.

Nonetheless, despite the limitations, a Business Day survey this week into directors' emoluments — examining the annual reports of 60 major companies — gives food for thought.

It found that nearly half had given their boards of directors pay increases last year that outstripped company performance and the rate of inflation.

In addition, 28 companies gave their boards wage increases well above earnings, dividend growth and the inflation rate for the period.

The boards of 18 companies were awarded salary increases of more than 30%, and seven of these companies made awards of 50% or more.

## Slow

The findings, however, are not in line with those of PE Corporate Services and FSA-Contact, who conduct regular salary surveys on a broader basis.

PE Corporate Services managing director Martin Westcott says the average salary increases of directors is running a few percentage points below the inflation rate.

Nonetheless, SA directors have been slow in following trends in countries, such as the UK, where their counterparts at some recession-hit companies have voluantarily cut their own salaries.

Mr Goldberg is known to have made several submissions at company AGMs for directors' fees to be increased or decreased in relation to company results.

Cutting or freezing directors' salaries, however, appears to be the exception rather than the rule when it comes to listed SA companies.

Mr Goldberg says that it adds salt to the wounds of shareholders that some companies in a serious loss position still have the effrontery to pay increasing emoluments to both non-executive and executive directors.

"This displays a complete lack of sensitivity so often apparent in some companies."

However, Mr Westcott points out that companies in SA are short of good talent and are prepared to pay to get and retain competent skills.

# A mad March for many

S/Times 4/4/93 [BUSS] (180)

By JULIE WALKER

THE last week of March produced a shocking set of financial results from SA's listed companies.

Of the 17 companies reporting preliminary figures, only four increased profits over the previous comparable period.

They were Uniserv, which recovered from a poor showing at Sun Couriers last year to improve sevenfold; Engen, up 10%; Grove Properties, up 6%; and Congella, which raised earnings 22%.

Among the 22 reporting interims, SA Druggists raised earnings 70% after good recovery under new management, and sister company Holdains raised profit a share by 6%. Their holding company, Malbak, edged up 1%.

Harwill improved, Presto continued its rally on much reduced turnover and a flattering, but unexplained, abnormal item making profit higher than turnover, and Witwatersrand Gold Mine pushed earnings up 14%.

## Losses

There were several loss-makers. Office furniture company Mathieson & Ashley lost another R2,2-million in the six months to December 1992, although this was less than previous losses.

Sanlic continued its depressing run, down another R1-million.

Interlinked property shares Fenix, Abbey and Propcor all scored big losses — Abbey was minus R13,7-million in 1992.

Towel company Glodina lost R3,6-million, clothing manufacturer Towles Edgar Jacobs R2,3-million and clothing retailer Bergers almost R6-million. Bergers announced a R17-million rights issue to recapitalise.

Publisher Penrose lost R700 000 in the 18 months to December 1992. Diamond company CDC was R1,4-million in the red at the interim and saddler IB Joffe was down R400 000.

Investment in loss-maker Flitestar led to a loss of 315c a share by the diversified Pretoria company Rentmeester Beleggings in the six months to December 1992.

# PROFITING FROM CHANGE

S/Times 4 4 93 (180)

**Andy Andrews ON BUSINESS**

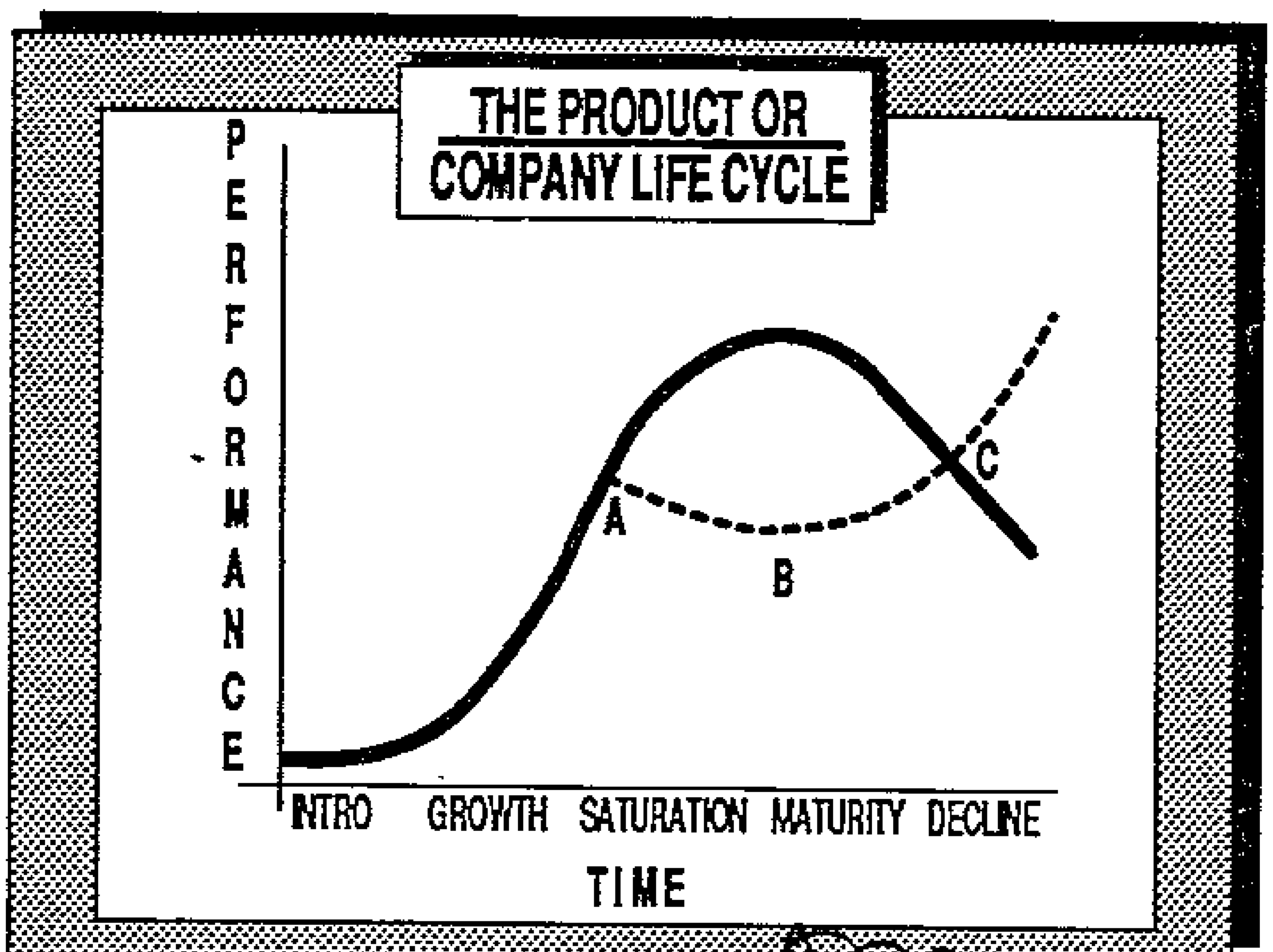
OUTSTANDING performance is very difficult to maintain. It seems that corporate success is a relatively fleeting experience.

A decade ago, Tom Peters and Bob Waterman published their marvellous book *In Search of Excellence* and reported on 43 of "the best run" companies in America.

Only two years later, Business Week, a leading business publication, reported that 14 of the 43 — almost one out of every three — was in financial trouble. The reason? "Failure to react and respond to change."

Almost every industry has found that its market leaders have been devastated by changes that they failed to notice, failed to understand and failed to respond creatively to.

- IBM has seen the world change from a hardware driven world to a software driven world.
- General Motors has seen its market shift to smaller, higher quality cars.
- Southern Sun has seen the market downscale towards the City Lodge concept and is belatedly trying to respond by downgrading its hotels to cheaper "Garden Court" hotels.
- NEI has noted that its major divisions have shifted their emphasis from installing new equipment to servicing existing machinery.
- The telex business has been wiped out by the fax machine, and the courier business has had to adapt dramatically in order to survive.




## Misjudged

All of these industries and firms have one thing in common: they all misjudged the impact of structural changes in their industries that are transforming the way customers want their needs satisfied.

The sad part is that many of these firms would have survived and would have continued to prosper if they had been prepared for change and had reacted more appropriately.

In fact, the new market leaders are often the companies that initiated change and did not merely react.

We are all familiar with the "product life cycle" curve, which argues that products grow slowly at first, then accelerate as market acceptance is obtained and finally growth slows as the market becomes saturated and matures and then may even decline as new products are introduced and begin their own growth phase.

Companies should be aware that unless a product or service is continually improved in the eyes of the customers, then it may be under threat.

Every company should be continually asking its customers about their needs and how they want those needs satisfied — what technologies could do the job? What additional services could be provided? What mechanisms are there to make it more convenient to buy the product?

This means paying attention to change of all types — legal, social, political, technological, demographic, lifestyle and cultural. And then each company should study these changes and carefully assess their combined impact on the company's offering.

It is vitally important to look for the patterns and trends with changes.

Clearly, one of the most important changes and patterns to monitor is that of competitor activity. It is vital to identify the competitor, since the competition typically emerges from an area you least expected.

Telephone companies thought competition could only come from firms that had copier wire connecting customers, but today radio and satellite have made their entry barriers obsolete.

Sometimes the time to start changing your product or service is the day you introduce it. Today's markets are characterised by "instant information" and your competitors can and often do respond instantly.

## Mistake

The latest "time to change" is at point A in the graph. At this point you are still growing but at a slower and slower rate. You are probably very profitable and are pretty complacent. You felt you have earned the opportunity to enjoy your success.

That is the big mistake.

This attitude, bred from success, is the cause of decline.

The change driven company will start changing at point A in the graph at the very latest. They will accept the decline to point B, because they see this as an investment and believe that at point C they will have a new product that is entering its own growth phase.

If they had stayed with their first product they would be like many of the ageing giants who were yesterday's success stories.

Yesterday's heroes have yesterday's products and concentrate on yesterday's performance. They are managing in the past, but are often the last to know it.

What we know about change has already changed and unless you are working very hard to make your existing business obsolete you won't be around to enjoy anything.

■ *Dr Andrews is Director of the Graduate Institute of Management and Technology and co-founder of Laird-Andrews, strategic financial consultants.*

Keys blames bureaucratic logjam

# Millions for job creation go unused

BDay 5/4/93.

CAPE TOWN — A total of R685m earmarked two years ago by government for job creation projects is lying idle, despite the desperate situation of millions of unemployed.

LINDA ENSOR

Finance Minister Derek Keys disclosed in Parliament that the R685m was the unspent part of the R1bn allocated in 1991 to government departments for labour-intensive projects.

Speaking during the first reading on the Budget on on Friday, Keys blamed bureaucratic logjams and lack of community involvement for the lack of success so far in creating jobs.

While the R685m had been committed, spending had been slow because spending targets were outside normal departmental operations, and because it had been difficult to get community co-operation, he said.

Keys conceded that the impact of the R1bn allocated had been "slow and small". For this reason an additional R60m had been allocated in this year's Budget to the National Economic Forum for job creation in the hope that it would use the funds more effectively.

He emphasised the importance of non-governmental organisations integrating with government departments to ensure effective delivery of finance to address socioeconomic backlogs.

Regarding the introduction of the secondary tax on companies (STC), Keys insisted that no relief would be forthcoming for companies whose year-ends fell shortly before or on March 31 despite their complaints that they would be prejudiced by the implementation of the tax.

These companies had claimed that they were obliged to pay the tax on dividends out of profits taxed at the old tax rate.

Keys said this view ignored the cash flow effect of the amendment, as the earliest date for payment of STC would be July 31, 1993 —after or shortly before the first payment of provisional tax for the next year.

"The provisional tax will be calculated at the new company rate which is eight percentage points less than the old rate and which will provide an immediate benefit to the company," Keys said.

A concession to backdate the first dividend cycle to September 1 1992 had already been made.

Applications by companies to have their financial year-ends changed to take advantage of the lower rate of company tax would be approved in such a way that the change would not provide any tax benefit for income which would otherwise have been subject to the old rate of tax.

Corporate gold-mine shareholders electing to retain the present tax formula rather than adopt STC would be credited for dividends declared by these mines to keep their tax position the same.

Keys said the treatment of foreign dividends had been changed from the original proposal to allow all foreign dividends as a credit against dividends declared in order to remove them from the STC base. This was necessary, he said, as they did not

□ To Page 2

## Logjam

BDay 5/4/93.

From Page 1

benefit from the lower normal tax rate.

Scrip dividends would not be subject to STC, but if a cash option was taken up the cash would be taxed.

Calculation of the net amount subject to STC would be based on the date of dividends declared and the date on which dividends to be received were declared.

Keys announced a moratorium on penalties for the late submission of tax returns due by August 31 1993.

An Inland Revenue spokesman said at the weekend that the measure would encourage people who failed to register as taxpayers out of fear of heavy penalties to come forward.

The measure would also encompass late submissions of returns, but the spokesman said most outstanding returns were covered by exemptions.

● See Page 3

B/Day 7/4/93

## Zimbabwe trade fair

MORE than 10 SA companies will exhibit at the Zimbabwe International Trade Fair in Bulawayo this month. BMW and Dorbyl will be among the expected 1 200 exhibitors at the fair.

Safto and the SA Trade and Industry Department also support the fair.

180

# Secondary tax proposal fails to stimulate industry

Star 8/4/93

(180)

By Sven Lünsche

The government's plan to stimulate investment spending by imposing a secondary tax on companies (STC) has not got the response that was hoped for.

The STC was announced by Finance Minister Derek Keys last month and consists of a 15 percent tax on distributed income.

In conjunction with a lower company tax rate of 40 percent, the STC is aimed at encouraging companies to spend more on capital outlays.

However, presenting Sacob's latest survey of confidence in the manufacturing industry, economist Keith Lockwood says that only a small percentage of manufacturers — four percent of those surveyed — envisage new investment expenditure over the next 12 months.

In areas like the Transvaal, the majority of respondents expect to invest less in new capacity than they did last year, Lockwood says.

Such a decline in capital outlay will have a detrimental effect on employment levels — 62 percent of manufacturers surveyed expect to reduce the number of their unskilled workers.

While Lockwood admits that many businesses have not yet had the time to assess the STC, the poor outlook for investment spending shows that political and economic aspects appear to be the more important determinants of investor confidence.

It is political instability that seems to be the critical factor in preventing a more robust recovery of business confidence.

While Sacob's Business Confidence Index (BCI) reached its highest level in almost two years in March, chief economist Ben van Rensburg warns that the uncertainty surrounding constitutional talks and the impact of last month's Budget mean business confidence is still vulnerable.

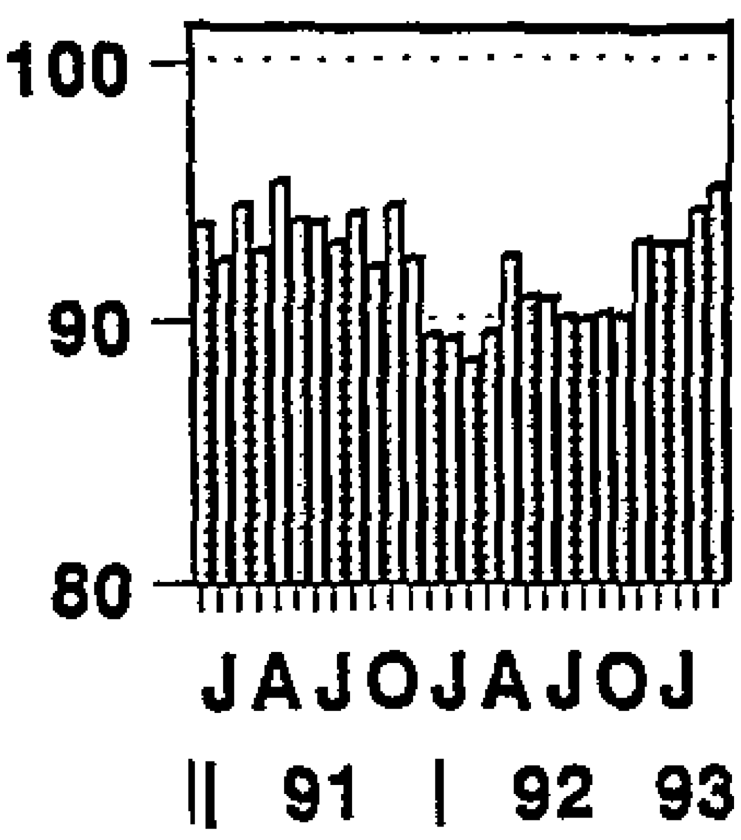
"Failure to make progress on the political front and bringing down the level of violence has negated the positive impact of a lower corporate tax rate on investment levels.

"Economic prospects could be significantly improved in the months and years ahead if a political solution is found to support the relatively sound economic base that is being created," Van Rensburg says.

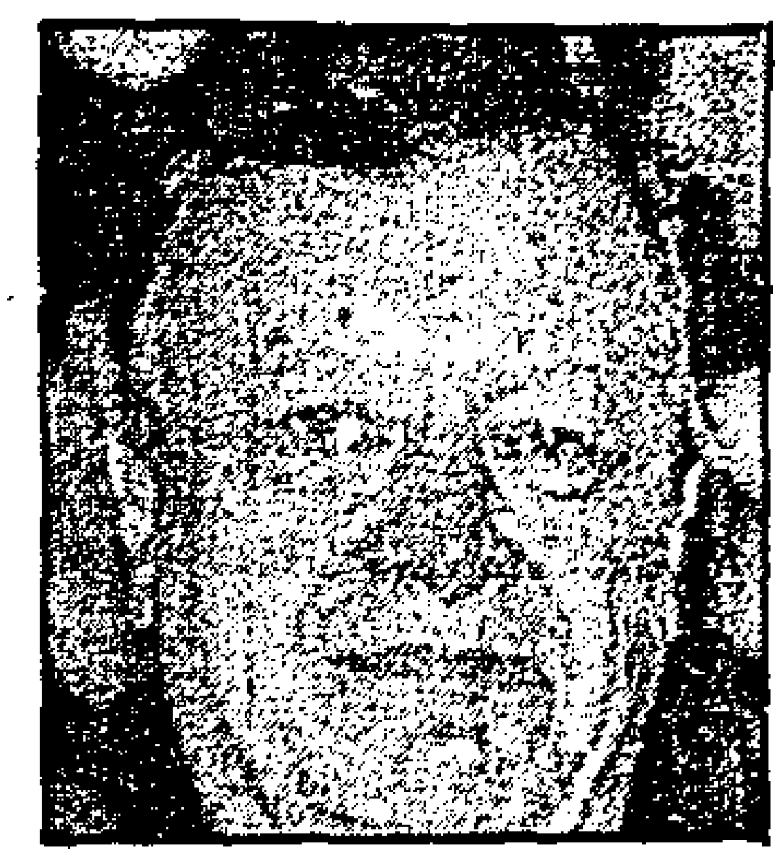
He adds that the impact of the Budget proposals on discretionary spending by consumers and thus on sales by companies will, in the short term, have an adverse impact on business confidence.

"But businesses are more concerned about long-term economic and financial stability, and in this sense the Budget and the Normative Economic Model provide the first signs of a more coherent economic policy," Van Rensburg says.

Sacob has also scaled back its economic growth forecast for this year to a "best-possible" scenario of between zero and 0,5 percent.



Business Confidence Index (1990=100)


Finance Minister Derek Keys

# Business confidence rises

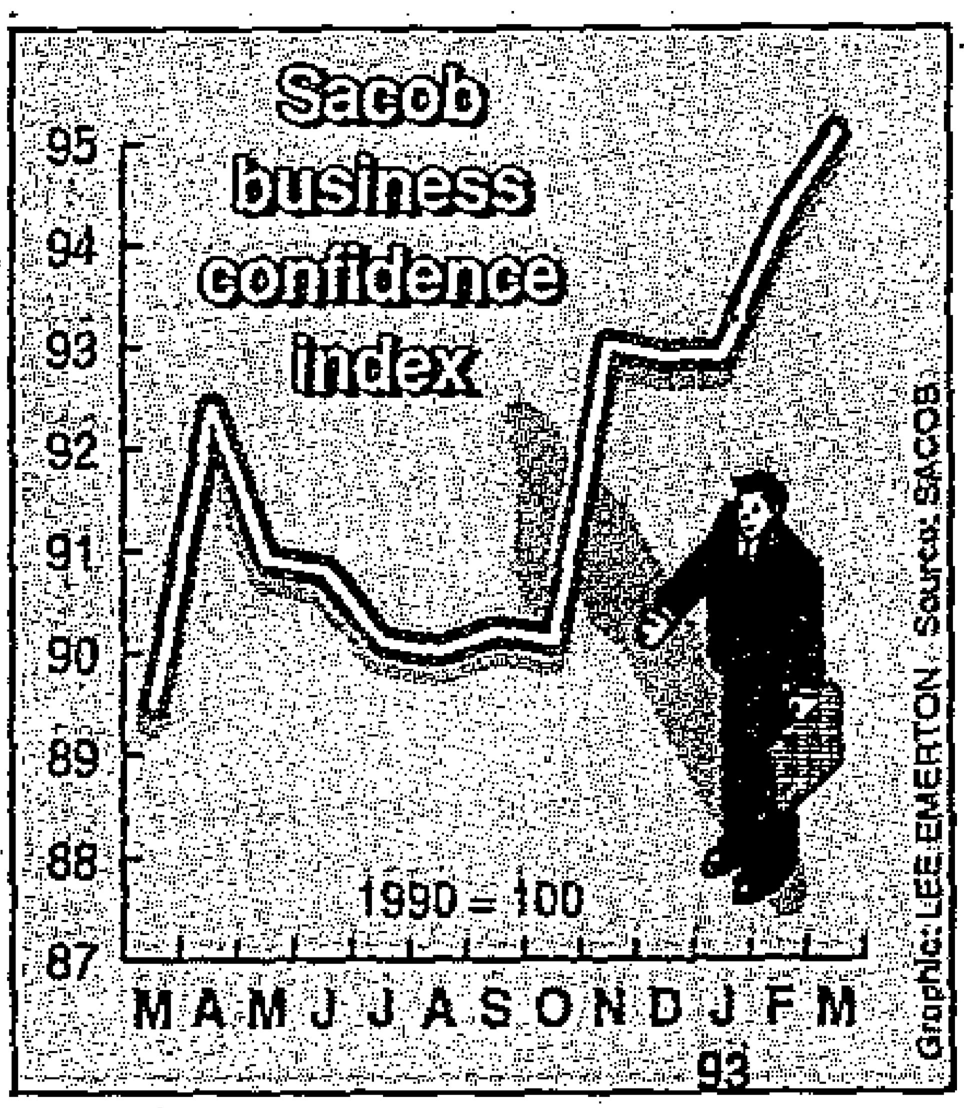
(180)

**TIM MARSLAND**

SACOB said yesterday its business confidence index rose in March to its highest level in nearly two years but warned that optimism remained fragile.

The full effects of the Budget had yet to be felt, and there was uncertainty surrounding political talks and violence.

The index rose 0,9 of a percentage point to 95,1%.




BDay 8/4/93

Sacob chief economist Ben van Rensburg said recent tax hikes would result in a significant deterioration in consumers' purchasing power, which would have a negative effect on business.

It could be premature to forecast a turnaround in the retail sector. However, he saw the economy growing at about 0,5% for the year.

"Failure to make progress on the political front and in bringing down the level of violence would certainly tend to negate the positive impact of a lower corporate tax rate on investment levels."

There was also a danger that the continued high fiscal deficit and net capital outflows would give rise to a credit squeeze which would put upward pressure on interest rates. He said the better gold price and the improved prospects for the agricultural sector could offset this.

The mood among manufacturers remained relatively optimistic with most of those polled expecting sales volumes to be higher in the next 12 months.

TAX & DIVIDENDS (180) FM 9/4/93.

# Dual tax: Confounded by uncertainty

**Ripples of** approval have greeted the dual system of tax announced in the Budget. Not unnaturally, big market-capitalisation companies say they favour the drop in corporate tax from 48% to 40%. But the introduction of a 15% tax computed on dividends — the secondary tax on companies (STC) — has had a mixed reception. Most company officials stress, however, that not all the information is available yet.

The tax changes have wide ranging consequences. According to the SA Institute of Chartered Accountants, depending on the nature of the business and structure of the group, "effects of the dual tax system may amount to only a minor rate change or could have an effect that is considered fundamental." In other words, the accountants haven't made up their minds yet.

The effect of the new tax is so unpredictable that a simple tabulation reveals its diverse outcome on 46 of the JSE's most significant companies. But the estimates are based on incomplete information: for example, dual tax applies to mining companies but gold mines have a choice between the new system and the old. The table gives an indication of the direction and scale of the effect of EPS.

Most companies are reluctant to give their estimates of the earnings effect of the dual tax system; some purport not to have made the calculation. The beneficiaries of the changes are companies, like Anglovaal Industries (AVI), whose historical earnings would have increased by an eighth, according to stockbroker estimates.

As a rule of thumb, those companies with high existing tax rates and a high dividend cover will benefit; the higher the cover the smaller the distributed profits and the lower the STC. AVI director Richard Savage says: "We appreciate the reduction in company tax and the concept of encouraging investment." Most managers feel that the lower tax charge will be good for investment and employment.

Premier Group's earnings will also benefit from the tax changes by about 5%, according to deputy CE Gordon Utian. He adds: "It will give us access to more cash to increase production facilities and job opportunities." However, as a group driven by consumer spending, the increase in Vat is unlikely to provide the right environment for increased investment at present.

In the short-to-medium term, some companies will lose out. For Sappi, the combination of a low effective tax rate (only 1%) and a low dividend cover indicates that earnings will be stung by STC. The board is reviewing the implications of the tax. Sappi finance director Bill Hewitt says: "It's not a shortage of money that's stopping people spending — it's the climate of uncertainty." Lower taxes will encourage companies to hold cash or pay off debt, rather than promote investment.

Anglo American Industrial Corp (Amic), with a low tax rate and low dividend cover, is also likely to be hit by STC. Amic finance director Brian Bullett was hesitant to comment about the tax changes: "It's not final yet and some issues are under representation." But in general, Bullett is in favour of the tax despite some reservations. The most significant are the inequities arising in the transition period. First, the method of charging STC on dividends from wholly owned unlisted companies and, second, STC applies to preference dividends which are largely debt instruments rather than a form of distribution. Bullett doesn't believe the changes will affect Amic's dividend cover.

### TAXING TIMES

| Company | Earnings* change (%) | Company | Earnings* change (%) |
|---|---|---|---|
| Amcoal | −6 | Barlows | +6 |
| Trans-Natal | +9 | HLH | +6 |
| Anamint | −7 | Malbak | +5 |
| Palamin | +1 | M & R | +5 |
| Samancor | +2 | Richemont | nil |
| Implats | +7 | Safren | +5 |
| Rusplats | +7 | SAB | +6 |
| Anglo | nil | Engen | −6 |
| Anglovaal | nil | Sasol | −1 |
| GFSA | −4 | Sentrachem | +6 |
| Gencor | nil | Afrox | +5 |
| JCI | nil | Premier | +10 |
| Amgold | −12 | Tiger | +5 |
| Absa | −4 | Nampak | +6 |
| FNB | +7 | Sappi | −12 |
| NBS | −3 | Edgars | +6 |
| Nedcor | +10 | Foschini | −3 |
| Standard | +10 | Pepkor | +6 |
| Mut & Fed | +4 | Pick 'n Pay | +1 |
| Santam | +7 | Wooltru | +3 |
| SA Eagle | +2 | Tongaat | −4 |
| Amic | −9 | Rembrandt | +9 |
| AVI | +12 | *Mean* | +2 |

* Estimated percentage change in historical EPS following the new 40% company tax rate and 15% tax on dividends.

Source: Martin & Co

Another cause for complaint could be that companies with March year-ends will pay STC on their final dividend but won't benefit from the lower corporate tax rate until the next financial year. SA Breweries is one. Group financial director Selwyn MacFarlane says the overall effect is to improve earnings but he concedes the "transition details are still in the process of clarification." CNA Gallo is in a similar situation: technicalities over the transfer of dividends from wholly owned unlisted subsidiaries are under review. Finance director Alan Cherry says the dividends may be used to offset CNA Gallo's STC charge; if not, the effective tax rate will rise from 48% to about 53% and that will produce a one-off detrimental effect on earnings.

What STC will do to dividend policies is also uncertain. Most companies are reticent and prefer to wait and see the fine print of the legislation before introducing changes. The lack of urgency to make changes suggests that, in most cases, the effect of STC isn't going to be dramatic. There may be a tension between companies which want to retain a greater part of profits and their shareholders who want a steady income stream from investments. That might cause majority shareholders to put increased pressure on subsidiaries. Dividend income (that's already had STC paid on it) can be offset against dividends paid out for the purposes of calculating STC.

One commentator says: "It would be less than politic of us not to discuss the issue with our major shareholders — in any case, it makes sense to debate the possible benefits that can accrue both to them and the company from any change in dividend policy." But the majority view is that dividend policy depends on what is affordable within the constraints of promoting earnings and asset growth; most claimed that their cover would remain unchanged.

The dual tax system will include STC as part of the taxation charge on the face of the income statement (this will have an impact on EPS). However, it certainly seems the new scheme takes as much away with one hand as it gives with the other. Responses vary. One official says: "It's an immensely positive move in the context of SA in terms of encouraging investment." Another decries it as "a charge against distribution," despite careful proclamations to the contrary by Finance Minister Derek Keys.

The dual tax system will bring SA corporate tax rates in line with other international tax regimes and provide an incentive for local and overseas companies to invest.

It may be a step forward but it's unlikely to be more than symbolic while violence and political uncertainty continue. *Louise Randell*

OHIO/SPL. FM 9/4/93

## Facing Caesar's fate

**Beware, the** soothsayer told Caesar, the Ides of March. The record date of the deal in terms of which former electronics-listed Ohio sold its trading assets to JSE-listed SPL was, coincidentally, the same March

cont

# The dividends credited to loan account can escape tax

Star 10/4/93

LEIGH HASSALL

SHAREHOLDERS of smaller companies will be relieved to learn that dividends previously credited to their loan accounts could escape the new 15 percent tax on dividends.

Speaking at a breakfast meeting last week, hosted by accountants Anderson Rochussen Crisp, Professor Dennis Davis of Wits University said there was tremendous confusion over whether such dividend transfers would attract the new tax.

The debate has been raging as to the nature of such transfers since the announcement of the new tax in Minister Keys's Budget speech on March 17 1993.

A classification as "paid" would free the accumulated amounts from the tax. On the other hand, because the amounts were never physically paid, but merely transferred to the loan accounts, this could render them as unpaid and subject to the tax.

Davis has now clarified the situation, saying that Inland Revenue has conceded that in terms of the law these amounts would be regarded as tax-free distributed dividends — but only provided certain criteria had been met.

## Common practice

180

Firstly, a resolution must have been passed by the company before March 17 1993 declaring the dividend and the amount of the dividend.

Secondly, the dividend must have been credited to the loan account prior to March 17 1993.

It is common practice among private companies to leave the dividends in the business by transferring the amount to the shareholder's loan account.

Davis also clarified the situation concerning scrip dividends. He noted that Revenue had accepted that scrip dividends fall out of the definition of dividends and therefore will not attract the 15 percent tax.

Harry Rubin of accountants Ernst & Young highlighted some other issues concerning the new tax. He noted that there was a misconception that close corporations (CCs) escape the tax. This is not the case as CCs are taxed as companies and therefore will bear the extra tax.

## Deferral advantage

Rubin pointed out that if a company or CC pays out all the after-tax profit as a dividend, the effective tax rate is 47,8 percent — not much of a saving from the previous company rate of 48 percent.

The recent reduction in the company tax rate to 40 percent, while the maximum marginal rate remains at 43 percent for married taxpayers, provides for some tax planning. Rubin said directors of private companies and members of CCs could benefit by the timing advantage of a deferral of income tax.

He noted that a director or member could pay himself a salary to the extent at which he reaches his maximum marginal tax rate of 40 percent. The remaining business profits would be taxed at the company rate of 40 percent instead of the maximum marginal rate of 43 percent. The 3 percent is a saving now; however, when the business profits are withdrawn at some future stage, they will be subject to the 15 percent dividends tax.

April 10 to April 14 1993

# Ready cash essential for business success

South 10/4–14/4/93

The Small Business Development Corporation gives advice on managing working capital:

(150)

WORKING capital is the life blood of any business. Without it, any enterprise would fail quickly. It therefore needs to be managed carefully to ensure dreams do not become nightmares.

Working capital consists of cash on hand, cash in the bank, debtors and stock (less any bank overdraft), trade creditors, and short-term liabilities such as tax and lease or hire purchase instalments.

*Everybody's* **BUSINESS**

These should always be remembered if control is to be exercised properly. However, this requires certain controls.

Cash flow can be controlled by:

- Ensuring debtors comply with payment terms;
- Tightening debtors' terms of payment;
- Taking full advantage of credit terms available from suppliers and negotiating more favourable terms with them;
- Monitoring capital expenditure;
- Having additional short-term finance available for crises, such as extra overdraft facilities;
- Not distributing after-tax profits in the form of dividends or drawings unless the working capital needs of the business can bear the outflow of funds;
- Investing excess short-term funds in short-term investments and
- Preparing short-term cash flow forecasts and monitoring these against actual performance.

Debtors control can be exercised by:

- Insisting on trade references for new customers and doing credit checks;
- Allocating credit limits to your debtors;
- Invoicing promptly and specifying the terms of payment;
- Having documented proof of delivery on hand;
- Re-evaluating credit terms once a debtor starts paying late;
- Sending out statements as soon as possible after the month-end;
- Making sure invoices and statements are accurate and easy to understand;
- Giving discounts for prompt payment and
- Charging interest on overdue accounts.

Stock control is necessary. It is important that stock levels be kept to a minimum, for excess stock can tie up much-needed cash in non-interest-earned investments and cause unnecessary interest payments to be made.

Also stocks cost money in the form of warehousing, insurance and obsolescence.

Essential factors to be considered when reviewing stock levels include:

- Forecast sales;
- Delivery or lead times from suppliers;
- The risk of shortages or "stock-outs";
- Seasonal fluctuations in demand or supply and
- Changing sales patterns.

Movement of stock should also be controlled and accurately recorded to ensure:

- Stock records accurately reflect the stock on hand and its movements, thus enabling management to set appropriate re-order levels and selling priorities.
- All movements of stock leaving the premises are invoiced at correct prices and
- Obsolete and redundant stocks are identified.

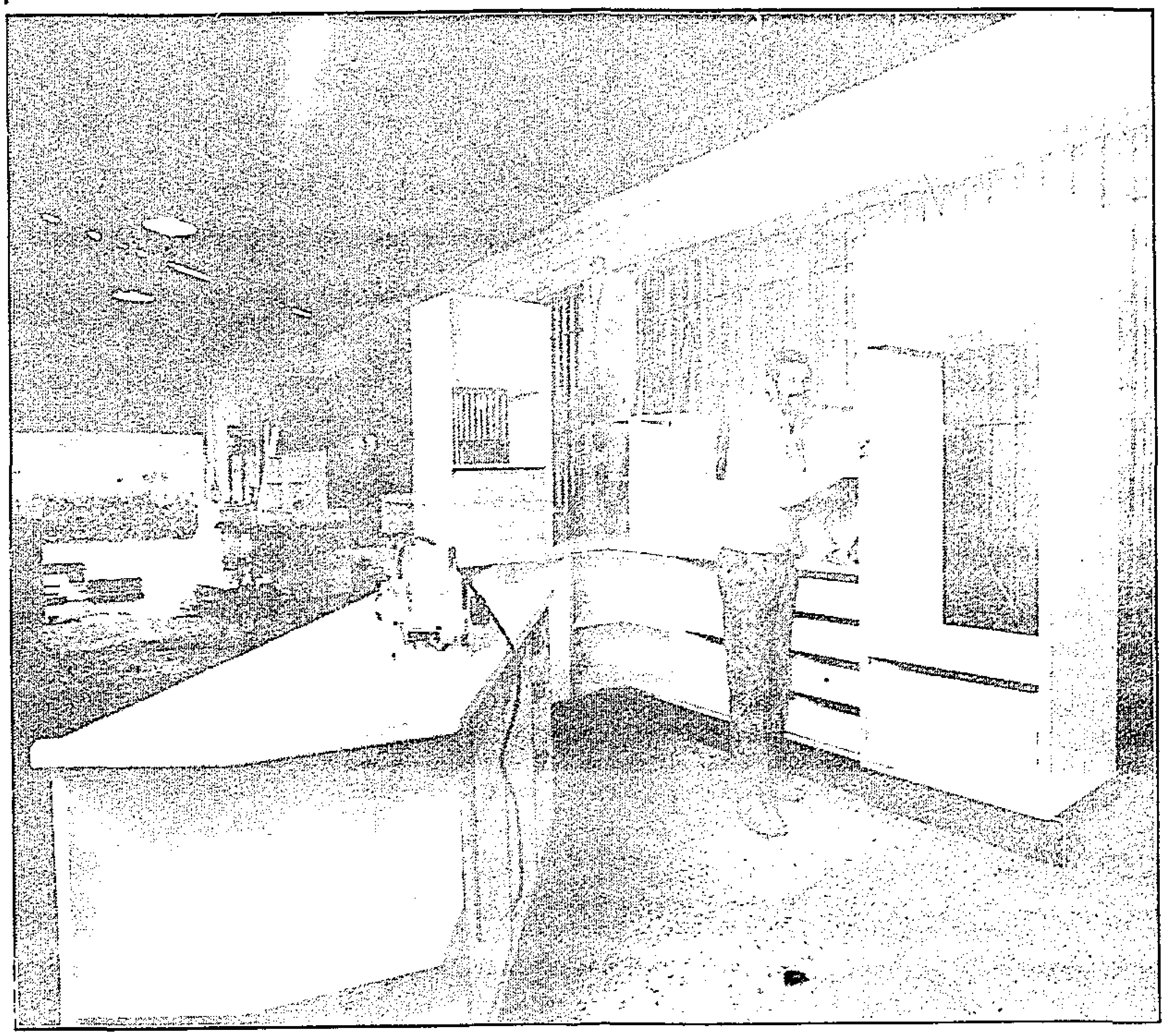
Make use of creditors. Creditors can help by:

- Establishing favourable terms of payment, including better discounts for early payment and
- Paying strictly in accordance with these terms.

Professional tax help is recommended to ensure:

- All claims for expenses and maximum allowances are properly identified to reduce the tax liability as much as is legally possible;
- Your business pays the lowest amount of provisional tax legally possible, and
- Your business claims the present amounts of VAT.

For more information contact the SBDC at tel. 462-1910 or fax: 461-8720.



**THRIVING BUSINESS: For a business to succeed it is vital that it's working capital is properly managed**

April 10 to April 14 1993

# Ready cash essential for business success

South 10/4–14/4/93

The Small Business Development Corporation gives advice on managing working capital:

180

WORKING capital is the life blood of any business. Without it, any enterprise would fail quickly. It therefore needs to be managed carefully to ensure dreams do not become nightmares.

Working capital consists of cash on hand, cash in the bank, debtors and stock (less any bank overdraft), trade creditors, and short-term liabilities such as tax and lease or hire purchase instalments.

These should always be remembered if control is to be exercised properly. However, this requires certain controls.

*Everybody's* **BUSINESS**

Cash flow can be controlled by:

- Ensuring debtors comply with payment terms;
- Tightening debtors' terms of payment;
- Taking full advantage of credit terms available from suppliers and negotiating more favourable terms with them;
- Monitoring capital expenditure;
- Having additional short-term finance available for crises, such as extra overdraft facilities;
- Not distributing after-tax profits in the form of dividends or drawings unless the working capital needs of the business can bear the outflow of funds;
- Investing excess short-term funds in short-term investments and
- Preparing short-term cash flow forecasts and monitoring these against actual performance.

Debtors control can be exercised by:

- Insisting on trade references for new customers and doing credit checks;
- Allocating credit limits to your debtors;
- Invoicing promptly and specifying the terms of payment;
- Having documented proof of delivery on hand;
- Re-evaluating credit terms once a debtor starts paying late;
- Sending out statements as soon as possible after the month-end;
- Making sure invoices and statements are accurate and easy to understand;
- Giving discounts for prompt payment and
- Charging interest on overdue accounts.

Stock control is necessary. It is important that stock levels be kept to a minimum, for excess stock can tie up much-needed cash in non-interest-earned investments and cause unnecessary interest payments to be made.

Also stocks cost money in the form of warehousing, insurance and obsolescence.

Essential factors to be considered when reviewing stock levels include:

- Forecast sales;
- Delivery or lead times from suppliers;
- The risk of shortages or "stock-outs";
- Seasonal fluctuations in demand or supply and
- Changing sales patterns.

Movement of stock should also be controlled and accurately recorded to ensure:

- Stock records accurately reflect the stock on hand and its movements, thus enabling management to set appropriate re-order levels and selling priorities.
- All movements of stock leaving the premises are invoiced at correct prices and
- Obsolete and redundant stocks are identified.

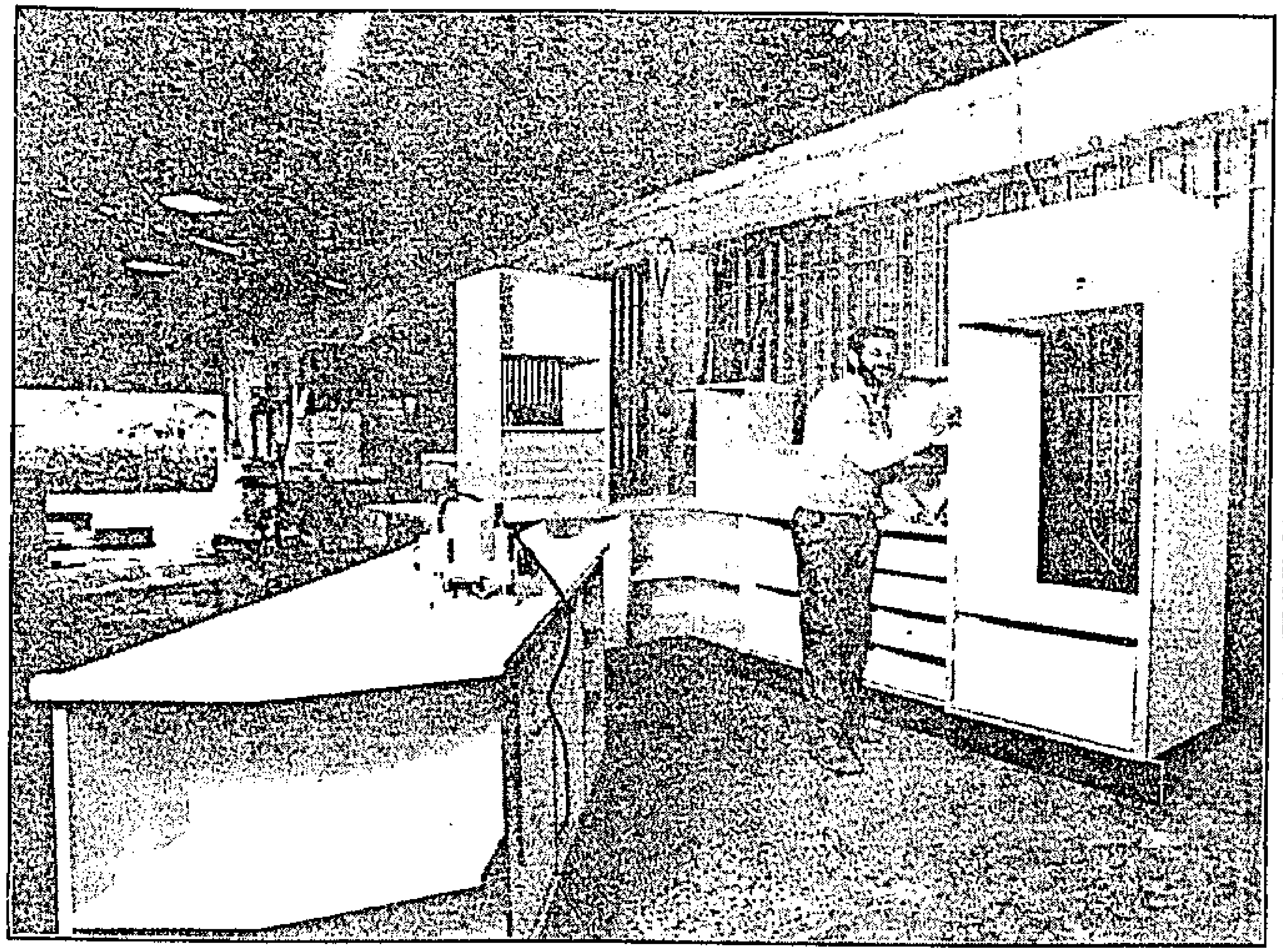
Make use of creditors. Creditors can help by:

- Establishing favourable terms of payment, including better discounts for early payment and
- Paying strictly in accordance with these terms.

Professional tax help is recommended to ensure:

- All claims for expenses and maximum allowances are properly identified to reduce the tax liability as much as is legally possible;
- Your business pays the lowest amount of provisional tax legally possible, and
- Your business claims the present amounts of VAT.

For more information contact the SBDC at tel. 462-1910 or fax: 461-8720.



THRIVING BUSINESS: For a business to succeed it is vital that it's working capital is properly managed

# Top businessmen remain optimistic about future

BDAY 13/4/93

(180)

SUSAN RUSSELL

SA's business leaders are optimistic about the future in spite of the current climate of uncertainty, according to market research conducted among more than 250 of the country's top executives.

Strategic Associates, which conducted the survey, said the findings were in sharp contrast to the mood reflected in the business confidence indices earlier this year, but were confirmed by the latest Sacob business confidence index released on April 7.

The researchers found that executives saw SA's present economic plight as a temporary barrier. And the businessmen believed their organisations had a significant degree of control over their own destiny, as well as some influence over the country's future.

A report on the research project, which contains a detailed analysis of leading executives' views on strategic planning and the planning environment, will be published this week.

Strategic Associates said the executives whose views were reflected in the report were mainly directors or executive chairmen of major companies, and their counterparts in parastatals, universities, research institutions and large professional partnerships.

In general, the mood among business leaders was that change was inevitable, and they had an urgent desire to "just get on with it", the survey found.

Top executives were committed to strategic planning, although success levels had been mixed, the study found.

The report identified 15 critical factors for successful strategic planning.

These covered participative versus top-down planning, organisational responsibility for planning, strategising tools and techniques.

Mood, climate and concerns were particularly topical, researchers found.

The report also contained chapters by businessman Colin Adcock, who acted as special adviser to the project; Dr Andy Andrews and Dr Patrick Ncube.

# Upbeat outlook from SA's manufacturers

CT 13/4/93 (180)

By AUDREY D'ANGELO
Business Editor

MANUFACTURERS all over the country expect sales and use of productive capacity to improve in the coming months.

Replies to the SA Chamber of Business (Sacob) manufacturing survey for March indicate that the recession has bottomed out — although the improvement is greater in some sectors than others, says Sacob economist Keith Lockwood.

And a Steel and Engineering Industries Federation of SA (Seifsa) survey shows that a majority in this sector are more optimistic than they have been for the past four years.

But the Sacob survey shows that manufacturers in the Western Cape, most of whom are making consumer goods, are still less optimistic than those in other parts of the country.

Lockwood reports that only 55% of Western Cape manufacturers expect sales to rise in the next 12 months compared with 69% in the Durban region.

And, he says: "The relatively optimistic outlook for sales and production has not yet served to improve prospects for employment. A large majority of respondents still expect to employ fewer people in the next 12 months.

Lockwood warns: "There is no indication that the reduction in the corporate tax rate on undistributed profits has led to an increase in investment prospects.

"Given the fact that capacity utilisation is at very low levels the tax reduction is unlikely to compensate for the poor economic conditions."

He says the index reflecting the volume of new orders received continued to improve in March. "This means that for the seventh month in succession a majority of respondents — 58% in *March* — *expected* the volume of new orders to be higher than in the previous month.

"The performance of this indicator of activity levels in the sector provides a clear indication that the recession is bottoming out in the manufacturing sector.

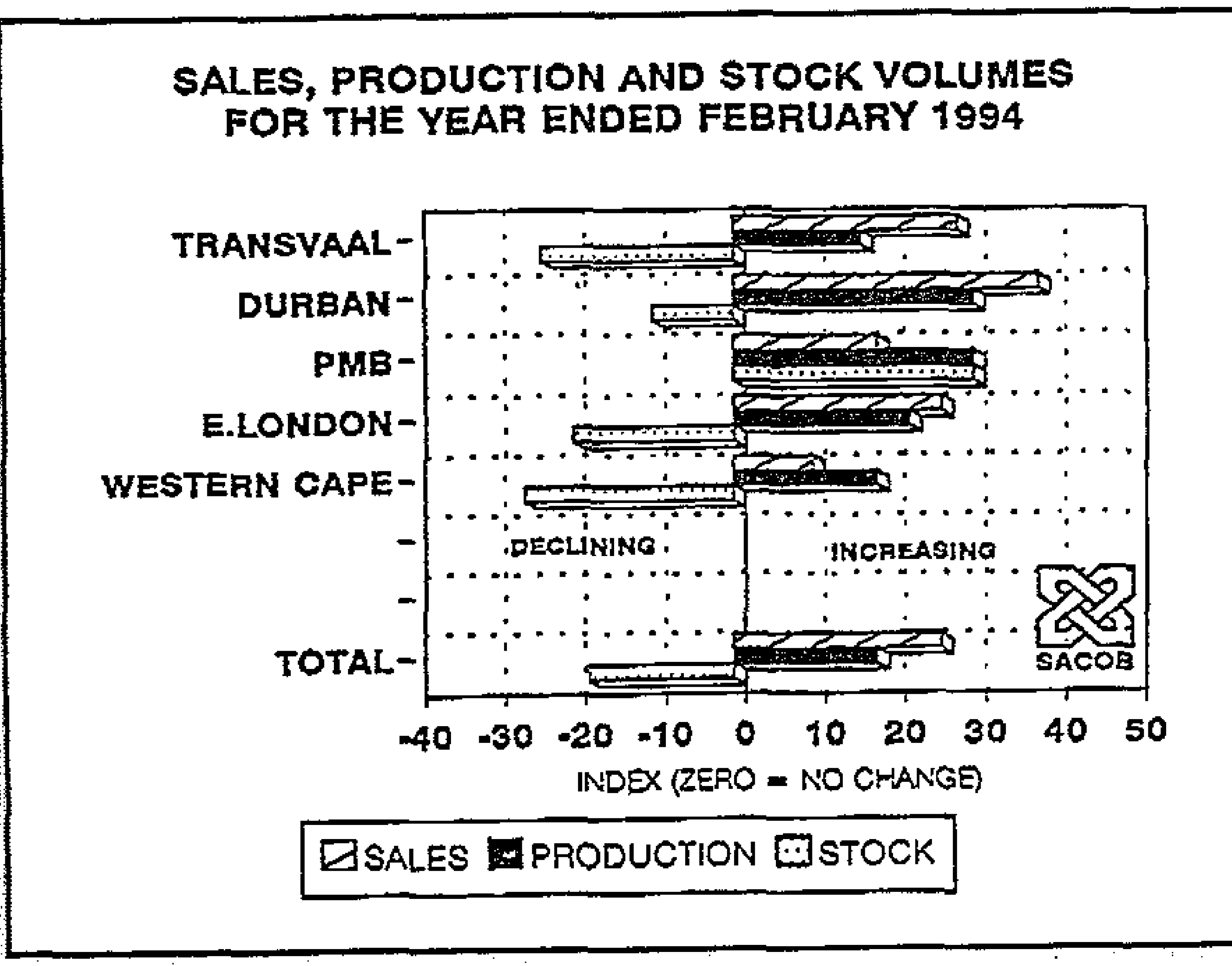
"However there are wide divergences between the performances of different subsectors of manufacturing industry. A more general improvement will therefore be necessary before it can be claimed that the sector has entered a phase of expansion."

After dropping slightly in February, the outlook for sales volumes rose again in March with 63% of industrialists expecting them to be higher than in the previous 12 months.

"It is clear that the majority of industrialists surveyed expect the economy to turn around during 1993 and the demand for manufactured goods to rise as a result.

"However, the fact that the extent of the majority has thus far been limited to around 60% suggests that there are still a large number of manufacturers who are cautious about anticipating an upturn.

"They recognise that, despite reasonable economic fundamentals, there are still many factors which could prevent a new upturn from becoming a reality."



# Investment practices on verge of revolution

Star 13/4/93

(180)

By Derek Tommey

As the full implications begin to emerge of the dual tax system announced by Finance Minister Derek Keys, it is becoming evident that the investment scene in South Africa is on the verge of a revolution.

It means changes in the way companies are valued; it means the value of dividends will have to be re-assessed; traditional investment yardsticks such as dividend yields could become irrelevant; and small and large investors, including unit trusts, could have to look again at their investment policies.

Because there was some confusion over exactly what Keys intended, many people have been slow to grasp the full effects of the tax system unveiled in his Budget speech.

But a statement by Keys a few days ago has clarified the situation.

The guts of the dual system is that companies, after they have paid the new 40 percent company tax, will be liable for the 15 percent tax on dividends only if they pay dividends in cash.

But if instead they pay scrip dividends — the issue of shares to the value of the dividend — no tax is payable.

Roy Andersen . . . investors might probably have to switch

The implication is that many companies are likely drastically to reduce their cash dividend payments.

Moreover, a substantial number might even decide to pay no cash dividends at all, paying only scrip dividends instead. They could easily justify such a policy.

They could point out that paying cash dividends will put up their tax bill and leave with them less to invest.

Paying out scrip dividends only would not increase their tax burden, but would leave them with 60 percent of their profits to invest, against 35 percent previously.

Investing this higher percentage would greatly accelerate their profit growth and boost the share price.

Therefore, they can argue, it would be in the best interest of shareholders to get scrip dividends rather than cash.

Large institutional investors are likely to favour such a policy.

They frequently complain that companies pay them dividends which they have a problem investing. Then every four or five years the same companies come to them for new capital.

Large investors say it makes more sense to let companies keep the cash and pay out scrip only.

Small investors who need cash may not like receiving scrip dividends or small cash payments. They could, of course, sell the shares they receive.

However, with brokers imposing a minimum charge of R30, and with odd lots usually changing hands at a discount to the market price, they are unlikely to get the full cash value of scrip dividends.

Roy Andersen, executive president of the Johannesburg Stock Exchange, says investors seeking income rather than capital growth might probably have to switch part of their investments from shares to corporate bonds such as the SAB 12 percent 2000, now yielding 14,6 percent.

It is likely to take some time before companies decide on their new dividend policies.

They will first need to assess investment policies and relations with shareholders.

There are, in fact, many aspects of the dual tax system needing careful investigation.

Nonetheless, companies opting for scrip dividends only and reinvesting 60 percent of their profits are, if they make the right investments, clearly going to shine.

Altogether, it seems that listed companies, the share market and the economy are about to enter a period of exciting growth.

# Sacob urges government to rethink 'double tax'

(180) (380)

BDAY 14/4/93.

MATTHEW CURTIN

BUSINESS is lobbying government to amend planned legislation introducing the new secondary tax on companies (STC), to prevent companies with a March 31 year-end being taxed twice.

It is understood Sacob has made representations to government on the new tax structure — a lower 40% company tax and a 15% tax on distributable profit announced in this year's Budget. It came into effect from April 1, a day after a large number of SA companies had their financial year-end.

Such companies include Anglo American and other companies in the Anglo fold such as Amcoal and Anamint, as well as the Argus Group, Datakor, Edgars, OK Bazaars, Remgro, Sentrachem, SA Breweries and Times Media Limited.

Finance Minister Derek Keys, in recent comments clarifying the new tax regime, said companies declaring dividends after March 17 would be subject to the STC.

While the total tax payable for the earlier year would exceed the nominal 48% rate for those companies, their cash flow would benefit immediately from having to calculate provisional tax at the new reduced company tax rate in the current year.

However, Anglo American tax consultant Marius van Blerck said yesterday that as the planned legislation stood at the moment, companies with a March year-end were significantly worse off than companies with February and April year-ends.

Business was convinced that given government's constructive approach so far to representations made on STC anomalies, if the anomaly of the new tax rate was clearly shown, government could well take steps to remedy the situation.

There were two ways of ensuring these companies avoided the misfortune of falling under two tax systems simultaneously. One was to backdate the change in tax rates to March 31 — an unlikely move given that April 1 was traditionally the date when new rates came into effect — while the other was to exempt these companies from the STC.

Van Blerck said as long as provisions were made so that companies were not able to declare "abnormal dividends" to take unfair advantage of the exemption, such a move would represent a simple solution to the March year-end anomaly.

# Bringing total quality to corporate SA

(180)

**Mike Robson is the MD of MRA International, the UK's largest quality consultancy. He is the author of *The Journey to Excellence* and other books on total quality, and has produced TV programmes on the topic. He plans to open an office in SA soon.**

FM 16/4/93.

**SA industry faces** many problems, including cultural diversity, political questions, paternalistic management attitudes and dismal productivity. Total quality programmes could help on shop and sales floors and SA might be well suited to implementing them.

The West formed the building blocks of the strategy but Japan applied them enthusiastically to all levels of business management. The dominant influence of the group is basic to Japanese values, just as the African concept of ubuntu, or "groupness," is integral to the culture. Thus it might be possible to harness ubuntu to get South African workers as involved in production as Japanese workers are.

It has been argued that Western individualism rules out applying any group-value methodology in Europe and the US. But this has been disproved. Total quality applied in Britain has achieved among the most effective results in the world, counting among its successes the Nissan car plant in north-eastern England. Western individualism actually enhanced the group technique, whereas in Japan, too much deference to the group limited benefits.

SA is a combination of ubuntu and Western individualism. So total quality techniques could yield excellent results. But what is total quality? For the concept to succeed, total quality must be a complete, coherent way of running the entire organisation.

The first step is to frame a corporate philosophy, setting out a clear, practical statement of beliefs that guides employees' behaviour. The second is to define the core mission — surprisingly difficult to do in a usable way but important because a mission statement provides a basis for breaking deadlocks and making decisions. Shaky assumptions about an organisation's purpose often cause problems.

Then evaluate the organisation's underlying health. This has five dimensions, with the first being structure. Most organisations are set up in a way that impedes progress and promotes win/lose conflicts.

The second thing to look at is management, which is responsible for 80% of all decisions. Managers must be selected carefully and must be clear about their short-term aims. Their training and development must be monitored.

The third dimension is the organisation's internal communication channels. These must be effective, not only downwards but upwards and laterally too.

The fourth is customer orientation: employees must feel close to the customer and that goes for the internal customer for goods and services in the organisation.

Finally, there is the crucial matter of ownership. Everyone must feel that he has a stake. Equity ownership, perhaps through share option schemes, is one possibility; another is profit-sharing. It is vital that employees develop a high level of "psychological ownership."

The goal of all this is to provide defect-free products and services, along Japanese lines. Total quality does not allow for a certain low number of defects that can be fixed later. It mandates that workers get it right the first time. This approach can achieve savings equal to 10% of sales.

But changes of this magnitude require organisation, strong staff involvement and, in particular, long-term commitment.

# Producer price index bounces up

CT 16/4/93 (180)

By AUDREY D'ANGELO
Business Editor

THE weakening of the rand against the dollar helped to push the producer price index (PPI) for February up to an unexpectedly high 8,3% year on year compared with 7,4% in January and 6,7% in February last year.

It rose by 1,2% between January and February compared with an unusually low rise of 0,2% between December and January.

The rise in the index for locally produced commodities was 9% year on year compared with 8,3% in January and 8,5% in February last year.

The rise in the index for imported commodities was 5,4% compared with 3,9% in January and a drop of 0,9% in February last year.

Most economists pointed out yesterday that the rise was still below the level of the consumer price index (CPI).

Old Mutual chief economist David Mohr commented: "This is quite a big monthly increase.

"But the rise in the imported component is not surprising given the weakness of the rand against the dollar, although we are still better off against the British pound than we were a year ago."

He expected "bigger rises in the imported component than we have been used to in the last few months."

Mohr said he was "not too perturbed" by the rise in the locally produced component because the domestic market was volatile. But, with the economy in its present weak state, producers were not in a position to pass on large price rises to their customers.

## 'Well within range'

"The PPI is still well within the range it has been in the last 12 months."

Personal Trust director Glenn Moore pointed out that the rand had depreciated over the past year by 10,5% against the dollar, by 17,2% against the yen and by 10,3% against the DM. "This has clearly had an impact on the PPI."

The higher imported component would probably feed through to the consumer price index (CPI), although if the Reserve Bank continued to keep a tight control over the money supply "we can hope prices can be kept low."

With the reserves at their present low level, Reserve Bank Governor Chris Stals could take no action to strengthen the rand to avoid imported inflation.

It was unfortunate that SA was hitting this problem at a time when Stals had "all the building blocks in place for lower inflation".

But raising interest rates, which was the only action he could take to push inflation down further, would clearly be inappropriate in the present weak state of the economy.

Sanlam chief economist Johan Louw said the rise in the PPI was bigger than he had expected and was "not good news".

The rise in the locally produced component was worrying, although there could be technical factors in this. It was off a low base.

Boland Bank chief economist Louis Fourie said the weaker exchange rate was the most important influence on the PPI. But a 5% rise in the imported component was "still relatively low."

He thought the rise in the locally produced component could be due to protection of margins, because of a drop in the volumes manufacturers were producing.

FM 16/4/93. (180) (282)

MINORITIES (180) (282)

## When in doubt, regulate

**Starkly outlined** by the concentrated attention of angry minorities, it's hardly surprising that cynical manipulation of the Companies Act should attract the authorities' attention. Now the horse has bolted, they've arrived to repair the stable door with a standard bureaucratic response: more regulation.

The Standing Advisory Committee on Company Law has told Trade & Industry Minister Derek Keys it believes the Securities Regulation Panel should be empowered to supervise and control any transactions which involve the disposal or purchase of the underlying assets of a business. Committee member Michael Katz says such a change will enhance the protection available to minority shareholders. FM 16/4/93.

There have certainly been many examples in recent months in which the underlying assets of businesses have been disposed of through S228 of the Companies Act, which requires only a simple majority of shares voted at a general meeting, rather than a takeover offer or scheme of arrangement.

Of course, those are regulated by the panel's code of practice and also require the approval of the courts, so it's little wonder businessmen should take advantage of a route which isn't constricted by controls.

Unfortunately, it means that, on occasion, minorities can be faced with majority shareholders arranging to sell the underlying assets of their businesses to buyers which may include themselves. That certainly happened in the recent cases of Micor and Racy. The situation is often traumatised when minorities question the valuations applied to their assets — that's usually when sides are drawn and accusations, accompanied by unflatteringly virulent epithets, are flung into battle.

Katz says the committee thinks it important to introduce "neutrality of form" into the process of how businessmen decide which course of action to follow.

There are three methods of acquiring the assets of a business: by purchasing control, which means getting hold of 30% or more of issued shares — which triggers the attention and regulations of the panel; deal through a scheme of arrangement, which automatically invokes rule 29 of the panel's Takeover Code and requires the final assent of the courts; or by buying the underlying assets.

The first two courses invite the close attention of the regulatory authorities; the third uses S228 of the Companies Act. Katz calls it "the soft underbelly of company regulation." He says that, because the code has a statutory framework, relevant portions of the Act need to be amended — and that's unlikely to be concluded before the end of 1994's parliamentary session.

Of course, all this presupposes the committee's opinion to be inviolate. That's not so, says attorney John Jarvis, senior partner in a major Johannesburg law firm, who takes strong exception to the committee's proposals.

Jarvis argues that protection of minority shareholders is already carefully written into the law. "Any oppressed shareholder," he says, "has recourse under S252 of the Act, which gives the court wide powers where there is oppression or unfairness." An argument often advanced against S252 is the huge cost of litigation, but Jarvis says there's no reason to change the law to give minority shareholders the status of royal game.

Jarvis believes including the sale of assets as an "affected transaction" in terms of the panel's Takeover Code will pose it with an almost insuperable conflict unless the rules of the Code are changed. At present, the panel is precluded from judging "the commercial advantages and disadvantages of an affected transaction." But arguments about the purchase price of underlying assets are what this is all about: if it's not careful, the panel will find itself creeping around in a minefield.

The *FM* has taken the view *(Leaders* January 22) that it is not persuaded the answer to protecting minorities lies in further regulation. We already have too many rules and too much red tape. Minorities must learn to protect themselves and the machinery to enable them to do so is powerful and in place.

Nothing will ever replace the determination of involved shareholders to secure treatment which is fair and reasonable. Unfortunately, it seems the authorities intend to move progressively down the US path of increasing regulatory involvement and interference. These are issues of corporate governance which need the widest debate before they are implemented. *David Gleason*

FM 16|4|93

COMPANY TAX

# Keys clarifies

(180)

**When is a** dividend not a dividend (for tax purposes)? The answer is more complex than it seems, in relation to the new secondary tax on companies announced by Finance Minister Derek Keys in his Budget speech.

Keys recently put some flesh on to the bones of the original statement in the Budget debate. He explained that the present definition of *dividend*, in the Income Tax Act, excludes from its scope capitalisation shares which are awarded to shareholders. If, however, the share capital is subsequently reduced, any amount which has been paid to shareholders (out of profits which have been capitalised) is to be regarded as a dividend and taxed accordingly. So, in these circumstances, the company would have to pay tax on the amount involved.

The amending Act will clarify the position of the company which gives its shareholders the option of taking capitalisation shares or a cash dividend. The capitalisation shares will, in that case, not be regarded as dividends, unlike the cash alternative. In the past, says Deloitte & Touche tax partner Willem Cronje, this point was obscure and its clarification is most welcome.

All of this has no bearing on the situation where a company, which owns shares in other companies, distributes its holdings to its own shareholders as a dividend in kind (that is, specie). Such a distribution falls within the definition of dividend in the Act and would attract secondary tax on companies.

But how do you value a distribution in kind? In the case of a share-dealing company which distributes shares which comprise its trading stock, a proviso to section 22(8) of the Act requires the company to treat the distribution as a realisation in its own hands. This would oblige the company itself to pay income tax on any profit. Moreover, the dividend in kind would have to be valued at market value at the date of the declaration.

In the case of shares held as investments by a company, the question of income tax in the company's hands would not arise. But the Act is ambiguous on the question of how to value a dividend in kind other than trading stock. This should be clarified for broader reasons.

Lastly, Keys in his speech promised legislation to support the unbundling — initially — of quoted companies. This can only mean, says Cronje, exemption of companies and

FM 16/4/93

shareholders alike from the tax consequences (set out above) of distribution of the company's shareholdings. It might also mean exemption from other taxes to facilitate capital reconstructions where appropriate in the course of unbundling. ■

# Small business conference to formulate strategy

SOUTH 17/4-21/4/93.

THE second international conference on small business will be held in Durban from May 2 to May 4.

The event is being held jointly by the Small Business Development Corporation (SBDC) and the International Council for Small Business.

The theme of the conference is "Prosperity for Africa" and will focus on formulating a national strategy for small business and medium enterprises (SME's) in Southern Africa.

About 20 experts on SME development will address the conference.

Among the speakers are Zubalrul Haque, deputy general of the Grameen Bank in Bangladesh; Dr Yoon-BaeOuh of the Soongsil University in Seoul, South Korea and Mr Raj Makoond, deputy secretary of the Mauritius Chamber of Commerce and Industry.

SBDC managing director Mr Ben Vosloo will open the conference on Sunday May 2. Dr Anton Rupert will be the keynote speaker on Monday May 3.

Conference registration forms can be obtained from Mrs Rita Vrits at the ICSB-SA Secretariat, PO Box 7780, Johannesburg, 2000.

For more details telephone: (011) 643-7351 or fax 642-2791.

# Still dearth of blacks in manufacturing sector

THEO RAWANA

APARTHEID legislation, that up to 14 years ago barred blacks from playing a significant role in manufacturing industries in SA, was still the main reason there were very few black entrepreneurs in the sector, industry experts said last week.

SBDC central region GM Jo Schwenke said the corporation had black entry into manufacturing as its priority for 1993 and had set aside R10m for a few projects for which suitable entrepreneurs would be selected and assisted through funding, training and marketing.

"We will identify suitable entrepreneurs, lure them from their jobs and put them up in business. Proper technology will be put at their disposal and we will liaise with our overseas partners on expertise to be used," he said.

Job Creation director Ian Hetherington estimated that less than 10% of the 700 000 black businesses in SA were in the manufacturing and related service industries.

But, he said, considering that up to 14 years ago it was illegal for blacks to manufacture outside the homelands, it was commendable that they had advanced so far.

Hetherington said the entrepreneurs were mostly engaged in cement and block-making, the manufacture of protective clothing and dressmaking.

Schwenke said manufacturing was a "very tough and competitive" field. He added that most of the ventures operating as black businesses were actually owned by whites.

"Even in the homelands the businesses are owned by whites," he said.

Self Employment Institute director Theo Rudman said his institute was going to pay special attention to manufacturing.

"The manufacturing sector is more vital to the economy than retailing. We need more manufacturers for the economy to grow," he said.

The institute would instil into entrepreneurs the importance of entering into contracts with the established suppliers.

BUSINESS DAY, Monday, April 19 1993



# Govt 'unlikely' to extend relief from secondary tax

PETER DELMAR

IT WAS unlikely that government would extend relief from the provisions of the new secondary tax on companies (STC) to firms reporting results on March 31, a senior Finance Department official said at the weekend.

He was responding to Anglo American's postponement of year-end results of three of its investment companies because of uncertainty surrounding the STC.

Asked about discussions between government and Anglo and other companies, Finance Department director of legal drafting Ian Meiklejohn said he "didn't think there was any relief in the offing".

Meiklejohn confirmed there were discussions between the department and Sacob on the position of companies which believed they had been disadvantaged by the STC.

Finance Minister Derek Keys said recently companies paying dividends after March 17 would be liable for the 15% STC levy on distributable profits. They would also qualify for the new tax rate of 40%.

Anglo American and others have complained that they would be prejudiced because they would be subject to both STC and the old 48% company tax.

Meiklejohn said it was the Finance Ministry's view that these companies would still enjoy immediate cash flow benefits arising from the lower company tax rate.

# Board to probe directorships

BDay 20/4/93. (180)

ANDY DUFFY

THE Competition Board is to investigate the practice of businessmen sitting on the boards of competing companies.

Competition Board chairman Pierre Brooks said yesterday "interlocking directorships" raised serious concerns, and he called into question whether directors risked breaching their duties under the Companies Act. The board would discuss proposals with major companies and industry groups over the next five months to curb the practice.

Brooks said the board was unlikely to recommend a ban, given the close links long forged between SA companies. But a form of "qualified prohibition" was an option, with cases judged on company size or whether a director held an executive or "downstream" position.

"It would be better if there weren't any interlocking directorships between competing companies. It is a question of marrying that to what is practical," Brooks said.

The board's findings would go to government early next year. If business chose to ignore the recommendations, the board would push government to legislate.

Limitations on interlocking directorships could hit groups such as Anglo American and De Beers.

Anglo American said it was waiting for the term "interlocking" to be defined, but welcomed the investigation.

"Much of the debate until now has been uninformed," a spokesman said.

Whether government will act is moot. It has already backtracked on a proposal in the summary of Finance Minister Derek Keys's normative economic model. The complete version of the model released immediately before the Budget excluded the proposal.

The main author of the model, central economic advisory services chief Jan Dreyer, said the model was not meant to be prescriptive but to prompt debate — a view backed by Keys's office. Dreyer added that banning interlocking directorships could damage SA industry. "SA is very short of entrepreneurs. We should be careful not to chase people away."

The investigation drew a cautious welcome from the Institute of Directors, which counts directors from 90% of SA's 300 largest companies among its 1 600 members. Executive director Richard Wilkinson said the institute opposed interlocking directorships and the concentration of SA's board positions among a handful of directors. But the "incestuous" situation of shareholdings in SA meant such practices were inevitable.

According to McGregors Online, 21 of SA's business leaders held 528 executive positions. The busiest, Online said, were Anglo American directors Michael King and Clem Sunter, who held 24 directorships.

# Consumers switch from loyalty to value for money

BPM 20/4/93.

(180)

SINCE the late '80s, brands have acquired cult status in Western business, where faith in their earning power has prompted high-priced corporate takeovers.

However, Philip Morris's recent decision to slash the price of Marlboro cigarettes in an effort to reverse its declining share of the US market suggests that this faith needs to be re-examined.

Marlboro is one of the few genuinely global brands. Like Coca-Cola, McDonalds and Sony, it commands instant recognition almost everywhere. In many poorer parts of the world, its American imagery also makes it a powerful aspirational symbol, promising status, stylishness and a better standard of living.

These are just the sorts of qualities which make strong brands desirable assets — their firm grip on consumer loyalty is supposed to enable them to ride above the competitive fray, piling up profits while lesser rivals scrabble in the dust. Only last year, a US business magazine pronounced Marlboro the world's most valuable brand, worth $31bn.

So what has gone wrong? Conventional wisdom holds that brands usually lose their effectiveness when starved of advertising and marketing support. But Philip Morris cannot be faulted on that score. It has regularly backed Marlboro with an annual marketing budget of more than $100m in the US alone — four times the spending of its closest rival.

The most plausible explanation for Marlboro's falling sales lies not with the brand but with the product. Faced with a growing choice of cheaper alternatives, many US smokers seem to have concluded that Marlboro cigarettes do not offer anything special enough to justify a premium price. If so, that leaves Philip Morris with a problem — though far from a unique one.

Many products which once traded heavily on marketing imagery have recently encountered growing consumer resistance. Grocery manufacturers' brands face increasing pressure from supermarkets' cheaper own-label lines. German luxury cars have been successfully challenged by less expensive Japanese rivals. American Express business credit cards — synonymous with the executive expense account — have fallen on leaner times, partly as a result of new entrants to the market.

Recessionary belt-tightening is partly to blame. But it is not just that consumers are spending less; they have also become more discriminating about getting genuine value.

Threatened brand leaders cannot regain supremacy simply by cutting prices or increasing advertising if the products and services they offer are no longer competitive. Consumers need to be convinced that, by paying more, they are getting something demonstrably different or better.

A problem for branded cigarette manufacturers is that there is little they can usefully do to improve on or differentiate the basic product. RJR's disastrous project to develop a smoke-less cigarette a few years ago proves the point. If advertising imagery fails to keep consumers loyal, competition in the industry may increasingly be based on price. The central lesson is that a brand's value is determined ultimately by the quality of the product or service to which it is attached and of the business producing it. A strong brand is not a guarantee of success. It is the reward earned — often over a long period — by a company adding value by consistently satisfying customers and staying ahead of the competition. — Financial Times.

# Market slump sees rental levels falling

180 LINDA ENSOR 429

CAPE TOWN — The slump in the property market in the last quarter of 1992 saw office rentals in retreat, industrial rentals negative and a slide in flat rental growth rates, the latest Rode Report on the SA Property Market said.

Editor Erwin Rode said office rentals for most nodes and grades were down in the fourth quarter compared with the third quarter, with the exception of Johannesburg and Pretoria where rentals edged up marginally and the Sandton CBD where there was a sharp rise.

"Vacancies again tended to decline in the decentralised office nodes and to climb in the CBDs as takeup in decentralised nodes was better than CBDs," Rode said.

Industrial rentals for 1 000m² units showed negative nominal growth in most areas last year except in Durban and the Cape Peninsula. This trend continued in the fourth quarter except on the East Rand and the Far East Rand where rental levels increased slightly.

No large increases in the vacancy grade were reported, though the trend was upwards.

Regional shopping centre capitalisation rates held firm during 1992, but prime CBD office capitalisation rates had risen. There was little movement in industrial leaseback capitalisation rates.

Rode noted that lower priced houses were outperforming the middle and upper class indices. During the year to end-June 1992, the all-price class index grew 13,5%, with regional differentiation. Strong growth off a very low base was recorded in Pretoria while upper price houses in Johannesburg and medium price houses in Cape Town fared worst. BDay 21/4/93

flat rentals in the fourth quarter were up for all unit sizes in Durban and Cape Town in the previous quarter. However, small unit rentals in Johannesburg dropped whilst large unit rentals moved upwards. The opposite was the case in Pretoria.

Rode said there were tentative signs that home building activity might have bottomed out in August last year. The construction of townhouses was continuing upward.

"Non-residential building activity is still diminishing and building starts are back to 1987 levels," Rode said.

Star 21/4/93

180

# SA productivity losses soaring

By Shirley Woodgate

The cost of lost productivity due to two stayaways in less than a week could soar to R2,4 billion — but even worse is the long-term effect, which could be felt as far as 1996, say experts from the Econometrix think-tank.

Claiming that events triggered by the assassination of SA Communist Party leader Chris Hani had set back "timid but growing" business confidence, spokesman Tony Twine warned that while the country could ill afford to lose even one of its 250 annual production days, the result of shelved future investments was critical.

With the economy now held hostage by political developments, Twine doubted whether the country could recover financially within five to 10 years if threats of further rolling mass action materialised.

"Unfortunately, every renewal after a crisis is left with a residual from the past and it will not take much of a shove to force the economy to its lowest point," he said.

As the country counts the cost of what the South African Chamber of Commerce (Sacob) has dubbed "a disaster month", the SA Labour Bulletin claimed Monday's stayaway figure in the PWV area — which accounts for 40 percent of the country's gross domestic product — was at an all-time high of 92 percent.

Bulletin editor Karl von Holdt said on Monday that he saw the first significant participation by miners since the defeat of the mineworkers' strike in 1987, with 8,5 percent of those who stayed away acting without prior arrangements with mine bosses.

But Johannesburg Chamber of Commerce and Industry industrial relations general manager Adrian du Plessis said 8 percent out of 400 000 employees was relatively insignificant compared with the size of the stayaway in the rest of the country.

A national survey by two of the country's largest organisations representing the formal business sector — the Afrikaanse Handelsinstituut and Sacob — showed varying figures for the number of workers who heeded the stayaway call, with the PWV the worst affected, Sapa reports.

In the western Cape, the scene of a serious outbreak of violence last Wednesday, only 25 percent of the usual workforce was on the job.

In Durban, Pinetown and Maritzburg, the turnout reflected Wednesday's absenteeism with only about 12 percent of employees at work, but in northern Natal there was good work attendance.

The eastern Cape experienced a 70 to 100 percent stayaway and in the southern Cape, half the workforce was absent.

Towns in the northern and western Transvaal reported varying attendance figures of between 10 and 30 percent.

# New scheme to help black entrepreneurs

Sowetan 23/4/93

(58) (MSBW)

■ Proposed venture could guarantee R400 000 loan

(180) (tbbW)

**By Mzimkulu Malunga**

A new scheme to be launched jointly by Business Challenge and two banks will provide loans to the tune of R400 000 to black entrepreneurs wishing to start business ventures.

Business Challenge's chief executive, Mr Phil Khumalo, says a deal has been struck with a commercial bank and a development orientated financial institution to launch a credit facility for the provision of loans to prospective black entrepreneurs.

The programme is due to be launched in the next few weeks and it will be operational by mid-May.

Unlike the previous scheme with Allied Bank - now part of the Absa group - the new scheme will place emphasis on the viability of the proposed venture as opposed to the ability of the applicant to provide security for the loan.

The commercial bank concerned will administer the programme and contribute some of the loan finance, while the developmental institution will guarantee the loans from the commercial bank.

The institution will also make available additional finance on loan applications exceeding R100 000.

Business Challenge's major role will be to screen applications, make decisions on loans of R100 000 and less and assist the commercial bank with administrative work.

According to Khumalo, major areas of focus when issuing the loans will be franchises, wholesale and fast foods ventures, subcontracting, refrigeration services for taverns, bridging finance, as well as filling station business.

The loan amounts vary between R20 000 and R400 000 and interest on repayment of instalments will be determined by the prevalent rate.

There will also be a three percent tax on all loans which will be used to cover Business Challenge's administrative costs.

Khumalo says deposits totalling over a R1 million are still safe with Allied Bank and members can contact the office regarding the names of financial institutions involved in the new scheme.

MELAMET COMMISSION FM 23/4/93 180

# There is no profit in protection

## No amount of regulation can remove risk

**Every individual** has the inalienable right to invest foolishly. Many do — then complain bitterly when the investment is less than satisfactory. Those caught in the Masterbond and Supreme debenture fiascos have been loud in condemnation of the authorities.

The truth, of course, is that as long as the two groups offered much higher returns than were available from other investments, nobody complained. On the contrary, there was a whispered admiration for whizz-kids who were able so brilliantly to defy the laws of economic gravity. The high-income returns they provided rapidly became a staple diet for pensioners.

The crashes, when they came, were predictable and traumatic. Angry and bewildered investors accused every organisation and individual associated with company, corporate and institutional regulation of a variety of sins, nearly all of omission and all relating to perceived dereliction of duty.

Melamet

What duty? Well, clearly, the responsibility for protecting individuals against the consequences of their investment decisions.

The tendency of the State to interfere in citizens' private decisions should be resisted. However, two developments in recent weeks indicate that a growing body of opinion is driving SA towards increased regulation in these areas.

The first is the Standing Advisory Committee on Company Law's proposal that certain sale and purchase transactions, relating to the underlying assets of public companies, should be brought within the surveillance of the Securities Regulation Panel (SRP). The second is the Melamet Commission of Inquiry's proposed establishment of a national super-regulatory body to control all aspects of the financial services industry.

Judge David Melamet and his four-member commission unanimously recommend the establishment of a "super-regulatory" body, which they propose should be called the Financial & Investment Services Commission (Fisc). They say it should be responsible for guarding against systemic risk (any risk which challenges the financial system) and providing reasonable investor protection.

Around the world in recent years there has been increasing acceptance that the financial services business must be seen as a single industry. The Melamet report spends some time examining the need for a comprehensive approach to regulation.

In the past, institutional business was easy to define: for example, a building society operated within clearly defined parameters. However, increasingly there is a conglomeration of financial services within a single group. For example, it is common to find a bank which markets insurance policies and unit trusts as well as home loans.

In circumstances such as these it is clearly

P.T.O. cont-d

# Signals that warn of dirty work in a firm

(180)

By CHERILYN IRETON

STimes
[Buss 7
25/4/93.

SPOTTING fraud in your company could be crucial to its survival.

Stuart Morris, forensic accounting specialist and deputy chief executive of chartered accountants KPMG Aiken & Peat, has identitified 10 tell-tale symptoms which could point to fraud in an organisation.

Mr Morris warns that if key employees are over-protective of their work, put in excessive overtime instead of delegating tasks and are reluctant to take leave, problems could lie ahead.

Suspect, too, could be an autocratic chief executive.

He says managers or executives who ride roughshod over disciplines and controls are a danger.

"Sometimes a personality is so dominant that even fellow board members are subdued into making significant financial adjustments without question, even when these adjustments are fairly unorthodox."

## Sudden

The problem in these situations is that the career paths of the subservient directors and management are often seen to be controlled exclusively by the dominant patriarch.

Although living beyond their apparent means, employees may not necessarily be supplementing their income with company money. But managers should watch out for any sudden changes in an employee's lifestyle.

Likewise, they should be alert to poor segregation of duties between employees.

"Individuals are often seen to be loyal and are therefore entrusted with control of significant assets and record-keeping for the very reason that they are perceived to be loyal, trustworthy and faithful — the ideal seeding ground for potential fraudsters."

Loose accounting, out-of-date records and a large number of adjusting journal entries at the yearend should arouse suspicion.

Mr Morris says complex controls where one person has the power and knowledge to direct operations may be dangerous because the individual can hide behind his or her specialist knowledge and avoid interference.

Companies that are involved in dubious market practices, such as secret commissions, backhanders and bribes, are sure targets for abuse. So are companies which give employees large buying power.

Mr Morris has found that performance-driven companies are prime candidates for fraudulent manipulation of figures.

Complex joint ventures can obscure or confuse performance and viability of individual companies.

"Frauds thrive in complex environments because it is difficult to identify the boundaries of the organisation. Non-routine transactions are less easy to identify."

## Pressure

Fraud festers in an environment where morale and motivation are low, accounting departments are understaffed and employees are poorly managed or badly paid. A low level of ethics — for example, interdepartmental love affairs — provides an ideal climate for fraud.

The typical perpetrators of fraud are compulsive individuals and those unable to cope with pressure.

Mr Morris says ways of preventing fraud include:

- Establishing a disciplined corporate culture where management leads by example. A code of conduct with a measurable ethical and procedural standard should be introduced.
- Effective internal control systems.
- Reference checks on new employees, even when the person has been referred by an agency or executive placement organisation.
- Increased vigilance by management.
- Internal audits whether through a formal process or exchanges of personnel among group companies to carry out checks.
- Use of audit committees, ideally headed by members independent of management to review risk areas.

A study in Canada showed that 60% of frauds were perpetrated by employees and 24% by managers. But the cost of management fraud was much greater than that by employees.

MALCOLM MACDONALD: Capital raised for new ventures

# IDC bails out of its mature investments

(180) S Times (Buss. Times)
25/4/93

By CIARAN RYAN

THE Industrial Development Corporation plans to unlock billions of rands for industrial development by selling its listed investments. It will begin with the unbundling of investment trust companies, Natsel and Indsel, which will raise more than R900-million.

IDC announced the sale of its effective 16,7% interest in Richards Bay Minerals to Gencor this week for about R450-million and its decision to equity fund 50% of Sappi's R1-billion Saiccor mill expansion. IDC senior general manager Malcolm Macdonald says the group plans to sell its effective 20% in Sasol, worth about R2-billion, "when market conditions are right". IDC sold a third of its holding in Sasol for R1-billion and a minority stake in Sentrachem for R103-million in 1992.

"This is in line with our commitment to mobilise capital for new industrial ventures," says Mr Macdonald. "To take part in the projects we have identified, we will have to liquidate most of our mature investments."

IDC has come under attack for sitting on billions of rands in mature investments instead of releasing the money for development.

## Pension

"This is no longer applicable," says Mr Macdonald. "We will sell these investments when conditions are right."

Mr Macdonald says the unbundling of Natsel and Indsel should be completed by July. Shares in the underlying companies will be distributed to Natsel and Indsel shareholders. IDC holds slightly more than 50% of both companies.

It will sell its equity stakes in both to the Public Investment Commissioner, which manages the State pension funds. IDC is awaiting legislation for tax exemption on profits arising from unbundling.

IDC will buy back minority-held stakes in unlisted companies when Natsel and Indsel are unbundled.

IDC owns 16% of Iscor, worth R283-million, and all of unlisted phosphate producer Foskor. Market conditions are unsuitable for a sale of these assets, says Mr Macdonald. Demand for phosphate remains depressed and Iscor is trading at less than a third of its net asset value.

IDC has committed R3,5-billion in the past six months to three projects in which it has acquired equity stakes: the R7,2-billion Alusaf aluminium smelter expansion, the R3,5-billion Columbus Stainless Steel project and Sappi's mill expansion at Saiccor.

A further R100-million has been committed for a pilot plant to recover alumina, magnesia and potash from phlogopite at Foskor. A total of R1-billion is allocated each year to fund small and medium enterprises.

## Rim

Mr Macdonald defends IDC's role in financing capital-intensive projects such as Alusaf and Columbus in spite of IMF and World Bank criticism that they do little to ease unemployment. Fewer than 2 000 jobs will be provided by these two projects — at a cost of more than R10-billion.

"There are no viable alternatives," he says. "If we had a labour-intensive project which was viable we would fund it. Our labour-intensive industries cannot compete with the Pacific Rim countries.

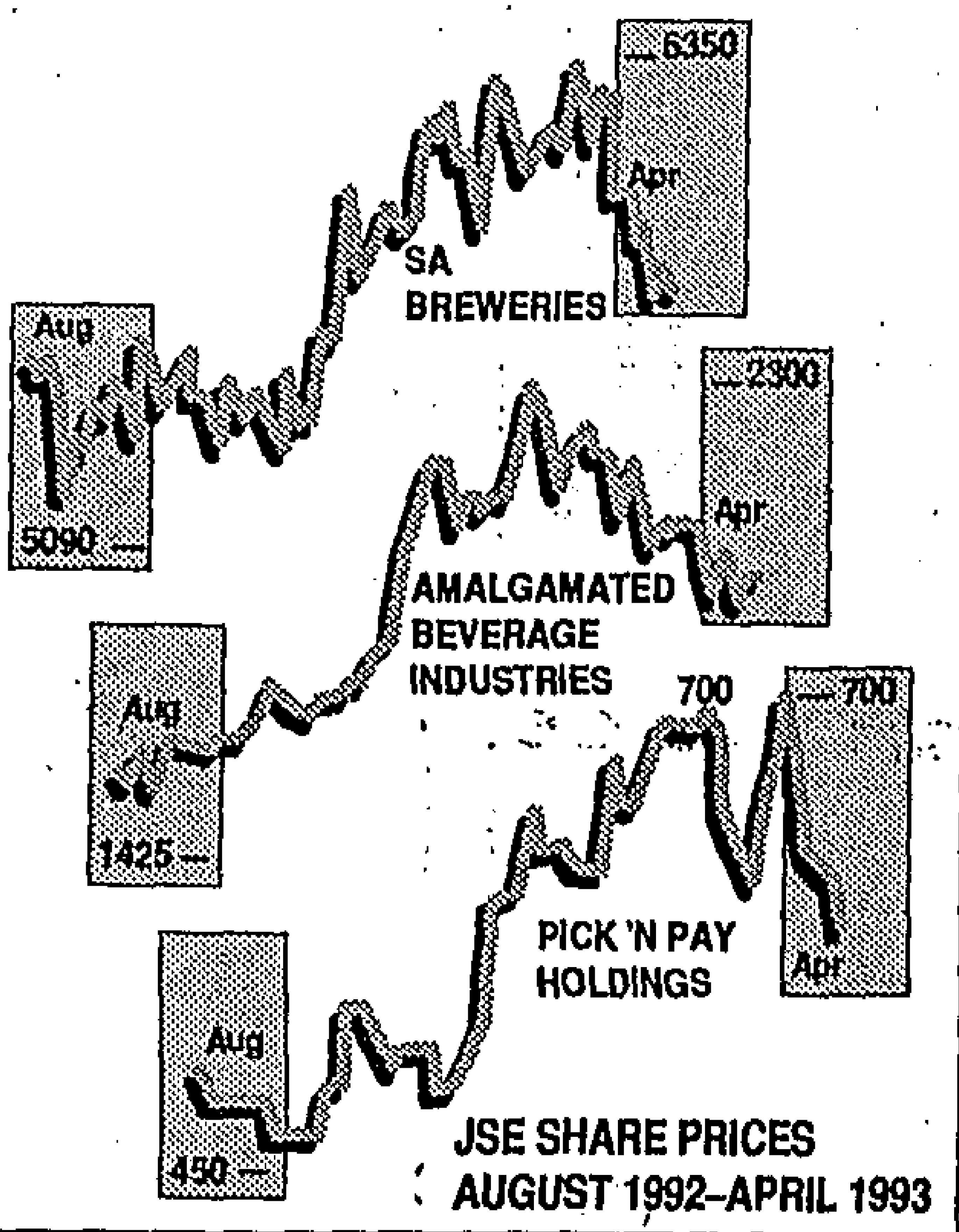
"SA has a high propensity to import and once the economy turns, we will start to run into balance-of-payments problems which constrain economic growth.

"We have to create the conditions which will allow the economy to grow and that requires a healthy balance of payments. These projects will earn foreign exchange which will help to pay for economic growth."

ST Times (Buss: Times) 25/4/93

# Buyers' blues hit industrials

CONSUMER STAYAWAY?



JSE SHARE PRICES AUGUST 1992–APRIL 1993

SOME blue-chip consumer companies are feeling a double pinch — from their customers and from investors.

Counters such as SA Breweries, Amalgamated Beverage Industries, Pick 'n Pay and Suncrush have come off fairly sharply after reaching highs earlier this year.

They appear to have peaked ahead of their time on expectations of a recovery which is now looking further away.

These price corrections seem to highlight confusion about when trading conditions and the economy will start to pick up.

The uncertain time perspectives of a turnaround are discouraging. South African investors often climb into highly rated shares a year, or even two years, ahead of an improvement. This is the result of steadily rising decision making lead times because of the JSE's poor liquidity.

Analysts say these highly rated consumer stocks, many of them tightly held, now offer little room for upside movement.

Given the gloomy news coming from their trading environments, they are not expected to produce the earnings growth demanded by their high price:earnings ratios.

Their previous ratings were discounting better earnings prospects which are now looking dimmer. The horizon is littered with factors which could further dampen disposable income and consumer spending.

They include costlier petrol and the higher-than-expected VAT rise announced in the Budget. The increased costs are expected to add to the inflation rate in the near term.

180

A threat to confidence and markets is the proposed rolling mass action campaign which could last until the end of May.

In general, any major improvements in the consumer market is not expected until a political settlement is in place.

Not all highly rated consumer-related counters have come off lately. The share prices of companies like Utico, Wooltru and Foschini are holding up well.

Analysts say blue-chip industrials, including the consumer stocks, have for some time been regarded as the only places to be invested in.

Unlike mining and commodity shares, they were showing reasonable earnings growth in spite of the recession. Industrials are now being seen as fully rated, even expensive and possibly vulnerable.

Many investors are switching to mining counters, some of which look inexpensive and many of which should benefit from the weakening rand-dollar exchange rate.

Many consumer shares have traditionally traded at a premium to the market. A major reason is that they are expected to benefit from rising population growth rates, increasing urbanisation and the emerging black market in the long term.

Some, especially the beer and beverage companies, trade in markets which usually show continuing real growth.

ABI's market for carbonated soft drinks has grown 9% annually for the past 30 years. On the other hand, SA Brews last year suffered a drop in per capital beer consumption for the first time in decades — a reflection of unrelenting recession.

SA Brews is not forecast to produce any meaningful real earnings growth in its 1993 and 1994 years. These expectations can be seen in its share price. It bottomed at 5 050c a share last August, hit a high of 6 350c in March and is now trading about 5 775c.

A similar trend can be seen in other companies that serve the consumer market.

ABI reached its yearly low of 1 450c last July, edged up to 2 300c in January, only to fall to its current 1 900c.

Pick 'n Pay Holdings moved from its August low of 463c to peak at 700c in March before falling back to 560c. After a sustained rise, Suncrush peaked at 50 000c in January and is now trading at about 43 500c.

Cadbury Schweppes has followed a similar trend, but its share price has not fallen so steeply in recent months. Some analysts, however, do not expect it to deliver the same rate of earnings growth as in the past.

Although these shares are coming off a premature rise, most analysts believe they will not lose their high status in the long run. They offer management strength, strong brands and markets with growing long-term potential.

1993

# DIAGONAL STREET

# Mostly winners under dual tax

St Times (Buss. Times)

25/4/93

By Zilla Efrat

DEREK KEYS's new dual tax system has brightened the boardrooms of some major companies and added to the gloom in others.

As with most things in life, there will be winners and losers from the system which entails a drop in company tax from 48% to 40% and introduces a secondary tax on companies (STC) of 15% on dividend payouts.

But analysts believe the winners could be in the majority — a factor which may not augur well for the fiscus.

No doubt the changes are keeping many an accountant up late at night. At this stage, most companies are reluctant to estimate how the changes will affect their earnings.

Generally speaking, those smiling are companies with high tax rates and high dividend cover. The lower their profit distribution, the less STC they will pay. Some may even see their earnings rise by between 5% and 10%.

On the other hand, those companies with lower tax rates — possibly capital-intensive producers with large exports — and lower dividend cover are likely to suffer. They may find up to 10% shaved off their profits.

Companies that should score from the changes include First National Bank, Trans-Natal, Rusplats, Santam, Premier, Murray & Roberts, Safren, Afrox, Tiger, Nampak and Edgars.

Among those which may suffer are Engen, Amgold, Amcoal, Anamint, Gold Fields of SA, NBS, Tongaat and Sasol.

Much will depend on how companies structure their dividend payouts. Some may choose to pass their dividends or pay in scrip which is not subject to STC.

Dividend cover, which has traditionally ranged between ~~two and~~ three times in SA, is expected to shoot up.

~~320~~ 180

In deciding their options some companies will have to take note of the different needs of their major shareholders. Many institutions may be prepared to live with scrip dividends, but some parent companies may need the cash to fund other projects.

Another factor is the effect on the company's share price.

An exercise by Frankel Pollak Vinderine (FPV) suggests the dual tax system would not have had much effect on overall industrial company share prices had it been in place for the last financial year.

The broking firm took the latest company yearend results and, maintaining historical dividend cover, adjusted them to show the effects of the lower tax rate and STC.

It found that on pre-Budget ratings for industrial shares, as reflected in dividend yields, about as many shares would have risen as fallen. In most cases, the changes in price would have been marginal.

On the other hand, if industrial companies increased their dividend cover as the STC is designed to encourage them to do — by 10% in FPV's exercise — this would have been bearish for the price of almost all their shares.

Recent results are starting to reflect the winners and losers of the new system.

Of note is Gencor's mining financial company Beatrix which said when it announced its results this week that it had received a R1,7-million windfall in the six months to February.

According to Gengold chairman Gary Maude, it reverted to a 40% tax rate, but had declared a dividend before the tax change came into effect.

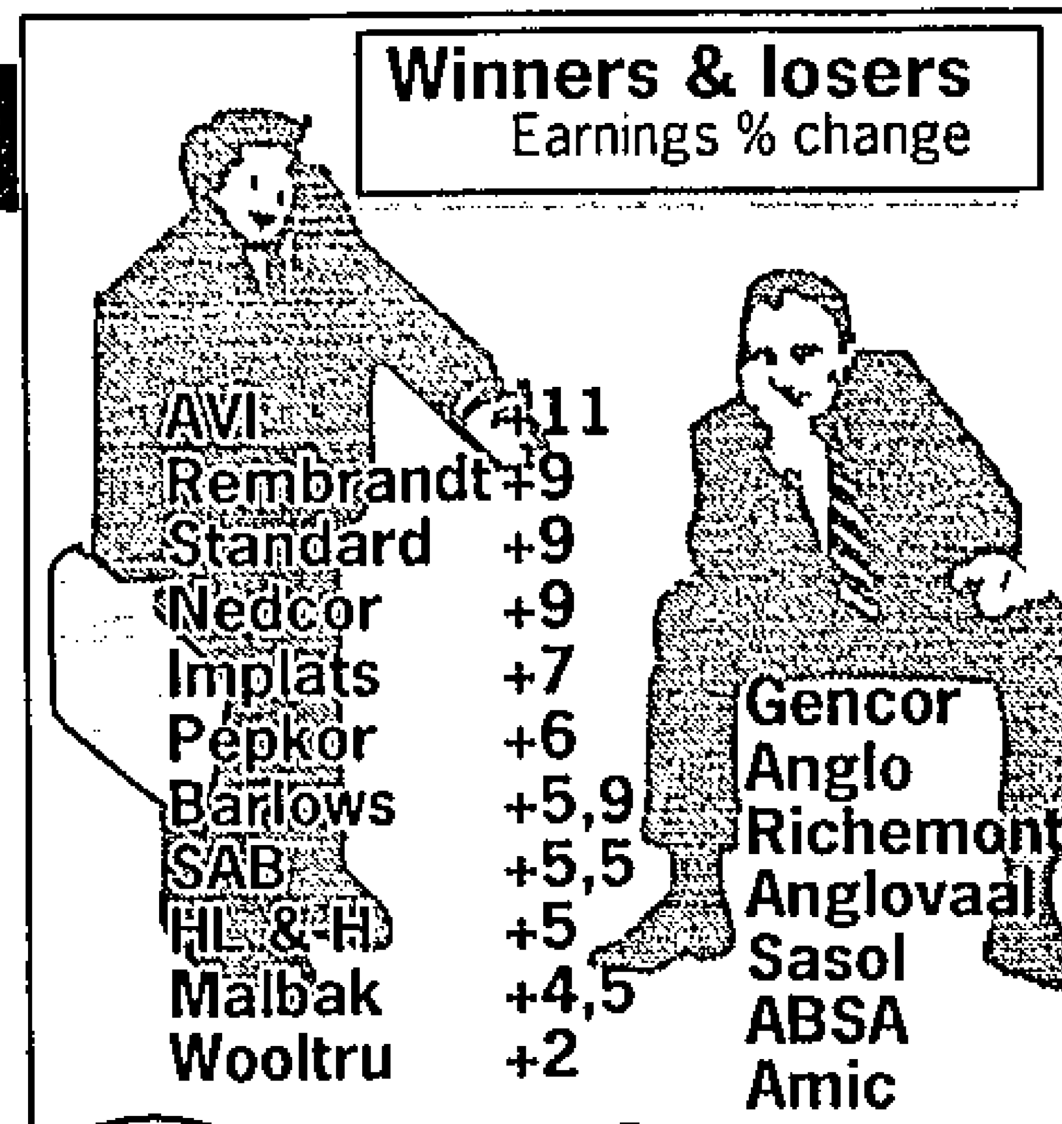
In addition, chemical group Sentrachem had its earnings boosted by more than seven percentage points. With the new system profits are up 25,6% for the six months to February. Without it, the rise would have been 18%.

On the losing side is Sappi which had to fork out R18-million in STC to cover its final dividend — reduced by a third — for the year to February.

The paper and pulp giant enjoyed a tax rate of 0,6% (3,2%). It did not include STC in its tax charge, but provided for it with the dividend in the income statement even though this does not conform with the latest guide from the Institute of Chartered Accountants.

Although uncertainty about the new tax system abounds, it is expected to boost domestic and foreign investment and, over time, the JSE and employment levels. The hope is that in the long run, SA will be the winner.

**Winners & losers**
Earnings % change

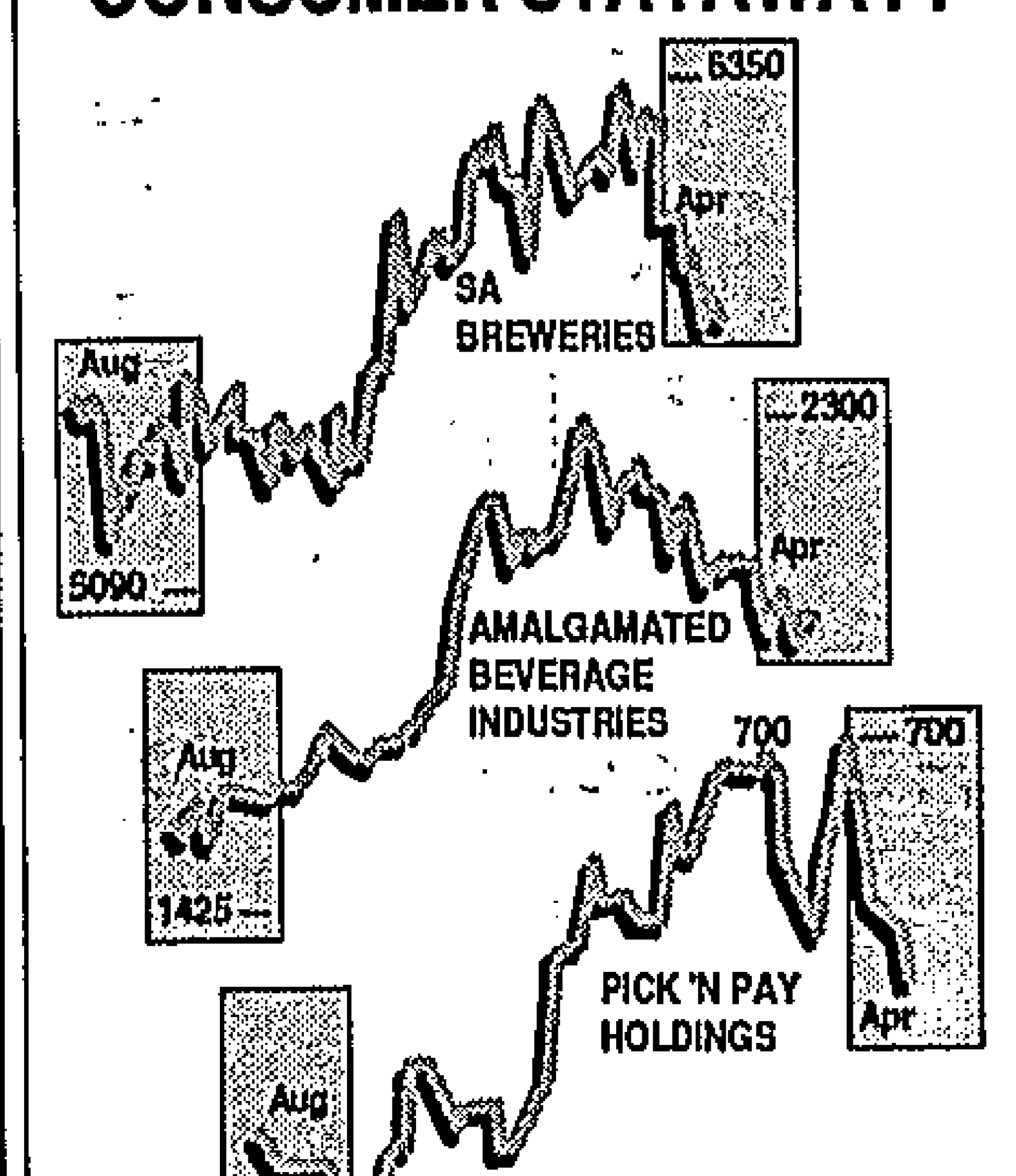


| | | | |
|---|---|---|---|
| AVI | +11 | Gencor | 0 |
| Rembrandt | +9 | Anglo | 0 |
| Standard | +9 | Richemont | 0 |
| Nedcor | +9 | Anglovaal | 0 |
| Implats | +7 | Sasol | -1 |
| Pepkor | +6 | ABSA | -3 |
| Barlows | +5,9 | Amic | -9 |
| SAB | +5,5 | | |
| HL & H | +5 | | |
| Malbak | +4,5 | | |
| Wooltru | +2 | | |

An average of rough estimates made by some top broking firms of the change in historical earnings a share, using the 40% company tax rate & 15% tax on dividends

Graphic: LEE EMERTON

## CONSUMER STAYAWAY?




JSE SHARE PRICES
AUGUST 1992–APRIL 1993

# Buyers' blues hit industrials

St Times (Buss: Times)

25/4/93

SOME blue-chip consumer companies are feeling a double pinch — from their customers and from investors.

Counters such as SA Breweries, Amalgamated Beverage Industries, Pick 'n Pay and Suncrush have come off fairly sharply after reaching highs earlier this year.

They appear to have peaked ahead of their time on expectations of a recovery which is now looking further away.

These price corrections seem to highlight confusion about when trading conditions and the economy will start to pick up.

The uncertain time perspectives of a turnaround are discouraging. South African investors often climb into highly rated shares a year, or even two years, ahead of an improvement. This is the result of steadily rising decision making lead times because of the JSE's poor liquidity.

Analysts say these highly rated consumer stocks, many of them tightly held, now offer little room for upside movement.

Given the gloomy news coming from their trading environments, they are not expected to produce the earnings growth demanded by their high price:earnings ratios.

Their previous ratings were discounting better earnings prospects which are now looking dimmer. The horizon is littered with factors which could further dampen disposable income and consumer spending.

They include costlier petrol and the higher-than-expected VAT rise announced in the Budget. The increased costs are expected to add to the inflation rate in the near term.

A threat to confidence and markets is the proposed rolling mass action campaign which could last until the end of May.

In general, any ~~major~~ improvements in the consumer market is not expected until a political settlement is in place.

Not all highly rated consumer-related counters have come off lately. The share prices of companies like Utico, Wooltru and Foschini are holding up well.

Analysts say blue-chip industrials, including the consumer stocks, have for some time been regarded as the only places to be invested in.

Unlike mining and commodity shares, they were showing reasonable earnings growth in spite of the recession. Industrials are now being seen as fully rated, even expensive and possibly vulnerable.

Many investors are switching to mining counters, some of which look inexpensive and many of which should benefit from the weakening rand-dollar exchange rate.

Many consumer shares have traditionally traded at a premium to the market. A major reason is that they are expected to benefit from rising population growth rates, increasing urbanisation and the emerging black market in the long term.

Some, especially the beer and beverage companies, trade in markets which usually show continuing real growth.

ABI's market for carbonated soft drinks has grown 9% annually for the past 30 years. On the other hand, SA Brews last year suffered a drop in per capital beer consumption for the first time in decades — a reflection of unrelenting recession.

SA Brews is not forecast to produce any meaningful real earnings growth in its 1993 and 1994 years. These expectations can be seen in its share price. It bottomed at 5 050c a share last August, hit a high of 6 350c in March and is now trading about 5 775c.

A similar trend can be seen in other companies that serve the consumer market.

ABI reached its yearly low of 1 450c last July, edged up to 2 300c in January, only to fall to its current 1 900c.

Pick 'n Pay Holdings moved from its August low of 463c to peak at 700c in March before falling back to 560c. After a sustained rise, Suncrush peaked at 50 000c in January and is now trading at about 43 500c.

Cadbury Schweppes has followed a similar trend, but its share price has not fallen so steeply in recent months. Some analysts, however, do not expect it to deliver the same rate of earnings growth as in the past.

Although these shares are coming off a premature rise, most analysts believe they will not lose their high status in the long run. They offer management strength, strong brands and markets with growing long-term potential.

Star 26/4/93

# Conference for entrepreneurs

Staff Reporter

South African entrepreneurs will be exposed to the workings of the World Bank and the opportunities it offers investors at a conference to be held in Johannesburg next month.

The conference, organised by the SA Institution of Civil Engineers, will help provide information that South African businessmen lack because of the years of sanctions. This lack of information has placed them at a distinct disadvantage as regards development in this country and in the rest of Africa.

180

Other development agencies will also be discussed at the conference, including the African Project Development Facility (APDF) which provides advice to entrepreneurs on viable projects.

While the APDF does not itself provide financing for projects, it helps entrepreneurs to secure financing as well as the managerial and technical assistance they need.

The project aims to accelerate the development of productive enterprises — primarily in agriculture-related businesses — to generate self-sustaining economic growth and productive employment.

Most projects are in the R1,5 million to R15 million range, although smaller projects are also considered.

# ANC dismisses fears of talent flight

B/DAY 28/4/93

ANDY DUFFY

THE ANC has rejected claims that barring directors from sitting on the boards of competing companies could lead to a flight of SA's entrepreneurial talent.

Deputy economics department head Tito Mboweni said yesterday that banning "interlocking directorships" should lead to an increase in opportunities for SA executives.

He was responding to the decision by government economic advisers to remove a proposal to ban the practice from Finance Minister Derek Key's normative economic model, because it could unsettle SA's already fragile business community.

The Competition Board, which launched an investigation into the issue last week, is also proceeding cautiously to avoid disrupting SA business.

Mboweni said such an excuse was "a lie".

"SA is not short of entrepreneurs," he said.

The ANC has already set its face against the practice.

In its US-style anti-trust legislation proposals, it would outlaw interlocking directorships, unless these could be proved to be in the public interest.

Mboweni said he would like to see the proposals brought in on the "first day" of the interim government.

Such a move would have a great effect on some of SA's major corporate players.

"Where is the public interest in terms of interlocking directorships between Anglo American and JCI," he asked.

"It would be very difficult to prove public interest."

The ANC had a clear idea of those companies targeted, though Mboweni declined to name them: "I'm sure some of them know themselves."

Discussions on the issue between the ANC and several SA companies had so far failed to find any common ground.

The attitude among some companies was, "We're alright, Jack," Mboweni said.

"Business people represent the conservative system. They would rather have the status quo."

The Competition Board investigation showed there was a policy conflict within government over resolving the issue, and that the board was just "muddling along".

"As far as the ANC is concerned," he said, "this (the investigation) is a bit late in the day."

(180)

indication of whether they are in fact going to play a role. [Time expired.]

*The MINISTER OF HOME AFFAIRS: Mr Chairman, I believe the hon member for Groote Schuur made a positive contribution, and this also applies to the advantages she mentioned.

I merely want to mention the fact that up to 60 000 ID documents are being issued by this department at this stage, and that soon this figure will increase to 90 000. This is proof that this department is doing everything it possibly can at the moment.

*An HON MEMBER: Per month?

*The MINISTER: I am talking about per week. [Interjections.] As a result, 85% of possible voters already have those identity documents.

I want to suggest that in the context of Africa, in which it is calculated that 60% is a very high percentage, this percentage is already a very good indication at this early stage of the thorough work that is being done by this department.

As far as the election is concerned, detailed planning is already being done in regard to the number of ballot boxes that will be needed. The number is 7 700. I can tell hon members that thousands of ballot boxes have been and are being manufactured in preparation for this. [Interjections.]

I nevertheless believe that the hon member for Durban Central did have a point. It think it is important that we should reach a decision on the structure of these issues as soon as possible, and this should take place at the multiparty conference as soon as possible. If it does not take place at that conference, the Government will have to take the initiative.

Debate concluded.

## QUESTIONS

†Indicates translated version.

*For oral reply:*

*General Affairs:*

### Knysna forest: elephants

*1. Mr J CHIOLÉ asked the Minister of Water Affairs:†

(1) Whether his Department has made a survey to determine how many elephants there are left in the Knysna forest at present; if not, why not; if so, what is the relevant figure in respect of the latest specified date for which information is available:

(2) whether any research has been done on the potential rate of increase of these elephants; if not, why not; if so, what are the findings;

(3) whether promises have been made by the authorities that the number of elephants will be supplemented; if so, (a) when and (b) in what manner is it intended to carry out such promises;

(4) whether he will make a statement on the matter? B591E

†The MINISTER OF WATER AFFAIRS:

(1) No, as the elephants do not move around in a herd and are only sighted by chance in the Knysna forest. Continual monitoring has revealed that there are currently four elephants, including a cow and a calf, an old bull and a young animal—probably a bull—present in the forest.

(2) No, as it is of no use to do research on the potential rate of increase of such a small group of elephants. The present number of elephants is too small to be a viable breeding group.

(3) Yes.

(a) 26 April 1991.

(b) The relocation will commence once the conditions set as a prerequisite for the relocation of the group of elephants has been met.

(4) Yes. The Department of Water Affairs and Forestry and the State Attorney are at present negotiating with the Rhino and Elephant Foundation for a guarantee that will exempt the State from any claims which may arise from the relocation of the elephants in the forest. Although the sentiment surrounding the continued existence of the elephants in the forest is understood and supported, the State must also look to the interest of the public, especially where the forest





is a popular place of call and is traversed by walking and hiking trails. The events in the recent past when the actions of elephants resulted in loss of life have again drawn attention to this important aspect. Once the State has been exempted to its satisfaction from claims, the relocation programme can commence.

### Factory production

*2. Mr J CHIOLÉ asked the Minister of Home Affairs:† 180

(1) Whether the 6 to 9 period moving average of the physical volume of factory production is showing a downward trend; if so, (a) since what date and (b) what was the percentage decrease during the period 1 May 1989 up to and including 31 December 1992;

(2) whether he will make a statement on the matter? B592E

†The MINISTER OF HOME AFFAIRS:

(1) (a) The 6 to 9 period moving averages of the physical volume of manufacturing production show a downward trend since approximately the end of 1988.

With the official publication of the monthly physical volume of manufacturing production a 13 period weighted moving average, after the effect of seasonal variation has been eliminated, is calculated (the so-called Henderson curve). According to this data the volume of manufacturing production showed a decrease of 9,7% from October 1988 through to July 1992, after which it increased by 1,8%. Over the period October 1988 to December 1992 the decrease was 8,0%.

(b) 7,8% (according to the aforementioned 13 period weighted moving average).

(2) No.

### Criminal proceedings: open court

*3. Mr A J LEON asked the Minister of Justice:

(1) Whether he or his Department has received proposals from the South African Law Commission on draft legislation relating to circumstances in which criminal proceedings may not take place in open court; if so,

(2) whether he intends introducing legislation to amend section 153 of the Criminal Procedure Act, 1977 (Act No 51 of 1977), with a view to giving effect to these proposals; if not, why not; if so, when;

(3) whether provision will be made in such legislation for an intermediary to act as a shield between court processes and child witnesses in respect of crimes relating to child abuse; if not, why not; if so, what provision;

(4) whether he will make a statement on the matter? B643E

†The MINISTER OF CORRECTIONAL SERVICES (for the Minister of Justice):

*(Reply partially laid upon the Table with leave of House):*

(1) Yes. In its *Report on the Protection of Child Witnesses* the South African Law Commission proposed that a new section (section 153A) be inserted in the Criminal Procedure Act, 1977 (Act 51 of 1977), to *inter alia* provide that—

(a) a child under the age of 18 years who testifies be assisted by an intermediary; and

(b) a child under the age of 18 years may give evidence elsewhere other than in an open court.

(2) No. It is not intended to amend section 153 of the Criminal Procedure Act, 1977. The proposals of the South African Law Commission have already been effected in sections 1 to 3 of the Criminal Law Amendment Act, 1991 (Act 135 of 1991) which on account of technical reasons have not yet been put into operation.

(3) Yes. Above-mentioned legislation already provides for this. Section 3 of the Criminal Law Amendment Act, 1991, inserts section 170A in the criminal Procedure Act, 1977, whereof the relevant part determines as follows:

cont

Star 29/4/93

# Jo'burg and Randburg slipping

By Jo-Anne Collinge

The Central Witwatersrand has shown a "precipitous" decline in the production of manufactured goods and in employment in that sector over the past 20 years according to a preliminary study commissioned by the Central Wits Metropolitan Chamber.

The Central Witwatersrand — comprising Johannesburg and Randburg — "declined more rapidly than other major urban centres" in relation to manufacturing, the report states.

Between 1980 and 1991, the loss of manufacturing jobs ran to 39,5 percent in the Central Wits, as against 27,5 percent for the entire PWV.

Overall, there has been a steady decline in the importance of the Central Witwatersrand as a contributor to national employment and production.

Authors, Dr Richard Tomlinson of the Development Bank of Southern Africa and Roland Hunter of the consulting group Planact, acknowledge that their findings sharply contradict widely held perceptions.

"It appears true that migrants from all over Southern Africa view the PWV as a preferred location. Politicians still see the Central Wits and the PWV as the 'golden goose' from which resources can be extracted for development elsewhere," they comment.

# Just another form of working capital — Standard Bank

STEVE PADGETT

BECAUSE factoring divisions of big commercial banks source their business mainly through the branches, factoring is often considered to be in competition with their other forms of finance, particularly the overdraft. But Standard Bank Factoring(SBF) sees factoring rather as another form of working capital.

SBF marketing manager Steve Padgett says most of his clients are often only referred to the factoring division when others are unable to provide the necessary additional collateral to increase their overdraft limits.

But this does not mean SBF accepts everyone. There are certain criteria that must be met:

- The business must be involved in manufacturing, distribution, wholesale or service industry;
- It must generate a minimum credit turnover of R100 000 a month;
- It should receive a high incidence of repeat orders;
- It must sell on normal trade terms, ie 30, 60, 90 or 120 days;
- It must sell to other businesses, not individuals;
- It must be profitable or have the potential to be profitable and;
- It must sell a product or provide a service that has been accepted by the customer. Undisputed evidence of satisfactory delivery of goods or services must exist.

## Checking

The primary services offered are checking, approving, administering and reconciling sales ledgers, debt collection, general credit decision-making and the provision of management information.

"This implies at the outset that we become our clients' credit manager and adviser. To the smaller business, which does not want the headaches of debtor administration, this aspect is vital," says Padgett.

For companies that are fully computerised with elaborate debtors departments, full factoring is not necessary.

Agency factoring and confidential factoring are two of the options available for such clients. In both cases the client remains responsible for collecting the debts, although the extent of disclosure of SBF's involvement differs. Companies using agency or confidential factoring must have monthly credit sales in excess of R300 000.

Where a business does not see a need to factor its entire debtors ledger, it can decide to select certain debtors which, when factored, would provide the necessary cash to satisfy working capital needs.

The charges for these services are competitive and Padgett says the benefits justify the cost. Interest charges range between 0,25% and 4%, while service fees fall between 0,25% and 3% of turnover.

"If we feel it would be too expensive, we would either offer a different type of factoring or suggest the client tries another form of finance," says Padgett.

Only one in six companies SBF investigates is put on the books.

Padgett admits the division has a high turnover of clients, but says this is because factoring is bridging finance used to help a client through a specific situation. When it is over, the client normally returns to using an overdraft facility.

# Confidential, flexible and cost-effective

THE advantages of invoice discounting over factoring are that it is confidential, flexible and clients do not have to pay for services they do not want, says Sasfin MD Roland Sassoon.

Sasfin does not involve itself in the day to day administration of its clients' debtors, but rather concentrates on providing finance. The reason for this is threefold:

First, with computer technology becoming increasingly accessible and affordable, most companies are able to administer their own debtors ledgers at costs lower than the fees charged by professional administrators.

Second, Sassoon says confidentiality is a vital part of Sasfin's business, as most companies do not want to disclose how they finance their business. "The relationship between a client and his customer is very delicate and most companies do not want a finance house interfering," says Sassoon.

Third, it can be used on and off, as required. With factoring, because a customer cannot be expected to pay the factoring house one month and the company another, factoring cannot be switched on and off depending on a company's cash flow. The company is locked into factoring its entire debtors ledger for the duration of the contract, even in times when it is not needed.

## Role

Marketing director Maurice van Bergen says although the bulk of factoring business is done by big organisations, smaller houses do have a role to play.

Sasfin can offer much more flexibility in terms of the types of clients it will do business with. For example, it will look at clients that larger institutions might consider an excessive risk.

To reduce the risk element of some customers, Sasfin is prepared to accept certain forms of collateral, such as premises, equipment and private property — as well as personal surety from major shareholders, which is required by most factoring houses.

As a rule of thumb, Sasfin operates on a minimum annual turnover of R1m.

# Ned Cor Services an attrac

THE dictionary definition of "factor" is "a business that makes loans in return for, or on security of, trade debts" — but for Ned Commercial Services it means cash-flow financing.

The Nedcor Bank operation includes a range of products that can be amended to suit clients.

Its core business is invoice discounting, partially or totally insured, with or without recourse (guarantees). However, it also offers stock financing and a full warehouse facility — each option providing working capital that allows the company to work its way out of trouble.

Ned Commercial Services MD Derek Schultz says: "Companies hit by the recession or a sudden reverse, like the business failure of a big customer, will look for support from their bankers — especially if the relationship is a long one.

"New loans might be requested; but that is a tough request if the company is fully geared and its ability to make further repayments is in doubt.

"Another option is for the

# Metropol

WHILE businesses that approach Metropolitan Industrial Corporation for trade finance facilities usually do so on the basis of wanting an invoice discounting facility, many change their minds when the advantages of full book factoring are explained, says Metropolitan MD Bryan Scarrott.

"A debtors book that is meticulously and professionally managed can result in a reduction of day debtors by more than 15%, which can go a long way towards covering factoring costs.

Whole page.

voice discounting

# mercial
# offers
# ive range

bank to take a stake in the equity. This does not always suit the bank or the entrepreneurs, who see a portion of their lives' work signed away. This is where Ned Commercial Services comes in."

However, not every company qualifies for assistance. On the debtor financing side, certain minimum volumes are required. In the past, the cut-off point was considered to be turnover of R400 000 a year. Now the firm is looking at R250 000, as long as there are not too many transactions in the chain.

### New wave

Schultz says by lowering the "entry fee" Ned Commercial Services will be positioning itself to assist the new wave of largely black businesses expected to emerge in the mid-1990s.

One of the innovations for companies needing working capital but wishing to avoid debt and not wanting to sign away their equity, is the firm's warehouse facility.

It is a logical extension of its stock financing service, where certain companies can obtain cash from Ned Commercial Services by pledging stock and providing firm orders showing that the customers are there and payment is just a matter of time.

DEREK SCHULTZ

Under the warehouse plan, finance is provided both locally and overseas to businesses that qualify, for which an administration fee is charged.

In the late '80s it became the first factor to introduce computer interfacing with clients. This has since progressed to day-by-day access to general ledger and debtors ledger information through computer links, which allow a new approach to business controls.

# Playing a role in promoting development of businesses

FACTORING houses have a definite role to play in promoting developing businesses in the new SA, says First Factors senior manager Michael Maudsley.

Although factors prefer to deal with companies that have a track record, they may be able to help emerging businesses.

"Because we stay in much closer contact with our clients, we see warning signs quicker, so we can afford to help where the banks are reluctant," Maudsley says.

First Factors chief manager Vernon Binks says: "Before we offer a company a facility, we must satisfy ourselves it will be of benefit to the company. For example, if finance costs become too high this could inhibit the company's trading performance."

Many factoring companies are experiencing an increase in invoice discounting business. This is confidential factoring, where the company continues to do its own administration.

The trend is an indication of how many larger companies are taking advantage of the benefits offered by factoring houses. For a company to qualify for invoice discounting, it must have a turnover of about R1m a month, share equity of at least R1m, a good track record and sound debtor control and systems.

Maudsley says First Factors' biggest clients are manufacturers — especially in the clothing, shoe and furniture sectors — where the lead time from creating the product to selling the finished item is long.

Another growth point in business has emerged with the recession. Many companies (such as chain stores) have changed their terms from 45 days to 120 days. Suppliers need added capital to bridge those changing terms and many have approached factorin houses for the financ.

Binks says the reessio has brought with i man inquiries for finace b fewer investigatins a translated into buiness belying the percetion th factors are lendrs of la resort.

"We have strct lendin criteria becausof the risk involved in ung only company's detors book a security," say Binks.

He says first Facto business is witten with r course. The lause, howe er, is not s much of a issue as in he past. By i suring ones debts, a con pany is potected again debts that turn sour.

# Credit control often worst managed asset

POOR debtor management is the cause of many liquidations, says Cutfin opeations director Richard Smith.

"Debtors can be the most neglected and worst managed asset in a company's balance sheet and that negligence is one of the main reasons why so many businesses go to the wall," he says.

If any business activity is to function properly it is essential that it is provided with adequate resources. Good debtor management involves having high calibre people who understand the importance of asset management to the business's cash flow.

"It is amazing how many companies, large and small, can still regard the job of collecting money as one for junior or non-performing staff. Staff in credit control functions must have status within the business and enjoy the support of top management to enable them to communicate with debtors from a position of strength."

Companies should constantly update debtor transactions, rather than treat them as a month-end task. Regular contact should also be made with each customer so that the debtor becomes accustomed to the manner in which he will be handled and the payment pattern he will be expected to follow.

"It is important that a company monitors its debtor business so that informed credit decisions can be made proactively rather than reactively," Smith adds.

Credit control departments should operate within a set of laid down standards and targets, including monthly targets for collections.

The cost of debtors in terms of cash flow, interest charges, bad debts and business opportunities are often not fully realised, Smith says.

# tan clients like what they hear

"And when discounts and additional profit from improved operating efficiencies in an adequately funded business are taken into account, substantial profits can be made from factoring," he says.

Metropolitan is a medium sized factoring house that has provided trade finance facilities for more than 30 years.

Its factoring facilities include invoice discounting, full book factoring, and the purchase of bills and post-dated cheques.

Scarrott says invoice discounting is of particular benefit to a business that requires intermittent funding for short periods.

"As and when working capital is needed, individual invoices can be sold to generate cash," he says.

By contrast, full book factoring involves the sale of all present and future receivables to the factor which will process the invoices, run the debtors ledger and send out statements.

The advantages to the client are that their entire debtors ledger is managed by a highly skilled specialist firm.

During the past year, criteria for assessing new business has been updated to take into account the higher potential risk resulting from the recession.

This has meant a proportional increase in the ratio of investigations to accepted business.

"Of major consideration in evaluating the viability of a business is the experience, expertise and proven history of management. Of course it goes without saying that debtor quality and factoring economics are important," he adds.

WOR

## Joy for some exiles, not for others

AMMAN — Palestinians deported by Israel celebrated into the early hours yesterday at the prospect of returning home after years in exile.

But Israel's move to allow back 30 of the more than 1 500 Palestinians expelled since 1967 left a bitter-sweet taste for those left behind.

"I was deported handcuffed in 1986 and I am returning with my hands free and raised," said a jubilant Azmi Shuaibi, expelled from his West Bank home of Bira six years ago, at an emotional celebration in his Amman home.

"I'm yearning for my mother's coffee," said the 44-year-old dentist.

He had not told his 70-year-old mother he was returning and planned to surprise her when he walked in the door. He will pray at the grave of his father, whose funeral the Israeli authorities barred him from attending three years ago.

But the Israeli announcement brought disappointment for others, like Amin Macbool, who spoke sadly in his flat in Amman.

"I think now I may have mistakenly been overly optimistic ... but we were told it applied to us," he said. — Sapa-Reuter.

# Yeltsin offers cash incentives for allies

B|OBY 30/4/93

MOSCOW — Announcing plans to convene a constituent assembly, President Boris Yeltsin yesterday stepped up his drive to pull regional leaders into federal government.

He called on leaders of Russia's 88 regions and republics to delegate representatives to a conference called to adopt his proposed draft constitution. The move was intended to bypass a parliament opposed to his plans for establishing a presidential republic in Russia.

Regional leaders were promised a greater role in decision-making and told they would become privileged patrons of reform after decades of rigid central rule from the Kremlin and general disregard for their plight.

Yeltsin told the Council of Republics: "Firm central rule is no longer suitable as a form of Russian statehood. It is clear the centre can no longer synchronise from above the development of reforms."

Wooing the regions — many of which have attempted to strengthen their autonomy by withholding taxes from the federal government — has been a top priority on Yeltsin's agenda. He said yesterday he planned to step up his courtship by promising money to regional leaders who toed the government line on reforms.

He promised tax breaks for industry to boost production and said he would take measures to cushion unemployment and support small private business. He reiterated that his government would abide by tight monetary policies and said the central bank would support the plummeting rouble, which yesterday dropped to a new low of 823 to the dollar.

Reaffirming that he would legalise private ownership of land and that private farmers would receive government credits, Yeltsin said: "Preference will be given to those regions that will take major steps in promoting reforms." He lauded the achievements of young reformist leaders such as Boris Nemtsov, governor of the Russian central city of Nizhni-Novogorod.

Better known as the closed city to which human rights defender Andrei Sakharov was banished when it was called Gorki, Nizhni-Novgorod has made giant steps in the area of defence conversion and privatisation.

If regional leaders dragged their feet on privatisation, "it would be a clear indication that those regions are actively opposing reforms", Yeltsin warned. His chief of staff Sergei Filatov earlier this month said 64% of regional councils were pursuing antireform policies.

Yeltsin's carrot-and-stick approach came after months of hesitation from regional leaders who at times sided with parliament in their drive for more autonomy and at others with the government to push for implementation of the federative treaty. Many regions are also split along the same legislative-executive fault line as the federal government.

The treaty, signed by leaders of all Russian republics and regions except Chechenia and Tatarstan, was hailed by Yeltsin as the basis for his proposed constitution and for greater regional autonomy. Regional leaders complain that many aspects of the document, dealing with shared revenues and control over local resources, have not been implemented. — Sapa-AFP.

## NEWS IN

### Traders unfazed

LONDON — The London Sto ters was evacuated for two h bomb alert. Activity returne proved to be a false alarm,

Trading in computer dealin City had continued uninterru

### German metal w

BIO

FRANKFURT — Eastern G steelworkers will go on strike west German counterparts w protest on May 12, the union yesterday. Workers in Saxony pommern and across forme voted massively in favour of th stoppage in the region in 60

### Clinton appointte

WASHINGTON — US Presid Wednesday he would nomi Stock Exchange chairman Art of the Securities and Exchan 62, headed the exchange from succeed Republican Richard

### Guards storm Uni

MOGADISHU — Twenty fo guards stormed the Unicef bu Wednesday and detained offic claiming the organisation ow said yesterday. Pakistani troo one was hurt. The guards wer decision to move to another

### Tipping for next

DUBLIN — Ireland's former er Peter Sutherland, under Foreign Minister Dick Spring Sion President Jacques Delor Ireland yesterday to replace next GATT director-general.

REPORTS: Sapa-AF

.D

BRIEF

y bomb alert

k Exchange headquar-
ours yesterday after a
to normal after what
xchange officials said.
rooms throughout the
ted.

30/4/93

rkers' strike

man engineering and
rom Monday, and their
ill launch a solidarity
IG Metall announced
and Mecklenburg-Vor-
East Germany have
e first major industrial
ears.

nt Bill Clinton said on
te former American
ur Levitt as chairman
e Commission. Levitt,
1978 to 1990. He would
Breeden.

ef building

mer Somali security
lding in Mogadishu on
als for several hours,
d them cash, the UN
s restored calm and no
provoked by a Unicef
uilding.

ATT chief

European Commission-
pressure from Irish
nd European Commis-
was widely tipped in
Arthur Dunkel as the

-Reuter.

# Bubbly seals pact of former enemies

SINGAPORE — China and Taiwan signed four landmark agreements yesterday at the end of their first high-level talks in four decades, laying the foundation for rapprochement between the two long-time enemies.

Wang Daohan, chairman of China's Association for Relations Across the Taiwan Straits and his Taiwanese counterpart, Koo Chen-fu of the Straits Economic Foundation, signed the agreements after two days of sometimes contentious negotiations.

At separate news conferences afterwards they described the talks and pacts as an "historic step" and opening a "new chapter" in relations.

Koo said: "The bridges we have built mark a very important milestone for orderly exchanges and future relations between the two organisation."

Wang said: "The talks this time pave the way for continued talks and development of relations of our two sides in the future, and so it is very important."

The leaders of the two nominally private but government-funded organisations capped the occasion with a toast of champagne.

The signing was made possible after both parties decided to set aside thorny issues of legalised investment protection for Taiwan investors in China and economic exchanges to be discussed at follow-up meetings.

Differences over Taiwan's demand and China's call on Taipei to allow its businessmen to invest directly in China, open its market to Chinese goods and allow Chinese businessmen to visit the island, caused the signing ceremony to be postponed to yesterday.

Despite failure to narrow the differences, both sides expressed satisfaction with the outcome of their meeting.

"I think both sides achieve the 'double-win' goal in the meeting this time," Wang said.

Koo said: "No one can say we have not achieved any results.

"We have achieved the foundation for future talks. I think we can say that in this meeting both sides have won." — Sapa-AFP.

# China, UK agree to more talks

BEIJING — China and Britain ended a second round of talks about Hong Kong yesterday with no indication of progress, but agreed to meet again from May 21-23 in Beijing.

Both sides firmly deflected reporters' queries on negotiations, saying the closed-door meetings had been agreed on "to avoid disturbance".

"If you ask me to describe it, I would say the talks went fairly normally," Foreign Ministry spokesman Wu Jianmin told a weekly news conference yesterday.

The announcement of another round of discussions indicated both sides were digging in for a long wrangle over what course Hong Kong should take before China resumed control in 1997.

British ambassador Sir Robin McLaren and Chinese Vice-Foreign Minister Jiang Enzhu held their first round of talks in Beijing from April 22-24, producing no statement other than an agreement to meet again.

The row over Hong Kong began when colonial governor Chris Patten proposed reforms that would let people elect a majority of their legislature for the first time in 1995.

Beijing reacted furiously to what it called a violation of previous agreements with London, and has heaped insults on Patten.

Britain rejected the Chinese charge, saying the planned reforms did not contravene anything previously agreed.

The joint statement issued yesterday said the talks were being held on the basis of the previous declarations and understandings. But it gave no hint as to whether the two sides had come to a common interpretation of the pacts. — Sapa-Reuter.

# Italian govt off to a rocky start

ROME — Italy's new government got off to a shaky start yesterday when a blazing row between two ministers, one coveting the other's position, delayed its swearing-in.

After frantic bargaining, in which the two agreed to share responsibility, President Oscar Luigi Scalfaro administered oaths of office to Carlo Azeglio Ciampi and his cabinet.

The government formed by Italy's central bank governor will be entrusted with carrying out reforms mandated by a referendum, in which Italians overwhelmingly rejected the scandal-tainted past.

Ciampi, the first non-parliamentarian to head the government, chose his ministers directly, bypassing party chiefs who sometimes took months to form governments in order to divide power. — Sapa-Reuter.

whole page, (180)



# Business Day SURVEY

*Factoring and invoice discounting are ways of obtaining finance through the sale of a company's debtors book. By assigning their invoices to a factoring house, companies receive their cash now — not at some point in the future. As an alternative form of financing, factoring houses can provide finance where banks have declined to help.* **GILLIAN HAYNE** *reports.*

## Global industry grows dramatically

MODERN factoring started in the US in the '20s as a form of trade finance, but was not introduced in its present form outside north America until the early '60s

Since then it has grown dramatically and in 1990 Factors Chain International, an international association of factoring houses, calculated there were more than 500 factoring companies operating in about 40 countries.

Most factors are separately incorporated companies, usually owned by well known international banks or other major financial or industrial organisations.

On a worldwide scale, during 1990 more than 88 000 businesses used factoring to settle trade transactions with about 6-million corporate customers. Total factoring volume in 1990 exceeded \$244bn, almost triple the amount five years earlier.

Standard Bank factoring division marketing manager Steve Padgett says the SA factoring industry has definite leanings towards its UK counterpart.

In the UK total turnover of the Association of British Factors and Discounters' 12 members reached £14,2bn in 1991 against £13,8bn in 1990.

"The growth in British factoring over the past four years is recorded at being 61%.

"Unfortunately, in SA we do not as yet have an association of factoring companies and therefore industry figures are not easily obtained," Padgett says.

However, looking at Standard Bank Factors alone, turnover has risen from R544m in 1987 to R2bn in 1992, an increase of 267%.

If this increase is mirrored in SA's other major players, Padgett believes SA would have one of the fastest growing factoring industries in the world.

## Lifeline for companies with cash flow problems

IT IS startling to hear of companies with full order books folding. All too often they are felled by cash flow problems, having been unable to find bridging or revolving finance through traditional methods.

In many instances, factoring houses are able to provide the finance where banks have declined to help. It is an alternative form of financing which does not demand the strict collateral requirements of an overdraft facility.

In addition, because factoring is linked to turnover (unlike loans or overdrafts which are pre-determined fixed sums), it gives growing companies immediate access to increasing amounts of finance.

Factoring and invoice discounting are ways of obtaining finance through the sale of a company's debtors book. By assigning their invoices to a factoring house, companies receive their cash now — not at some point in the future when the customer chooses to pay.

As Commercial Union Trade Finance (Cutfin) marketing director Peter Edmonds says, by receiving the cash up front, businesses are able to take advantage of early settlement discounts from creditors, negotiate preferential prices on bulk cash purchases with their suppliers, increase sales and improve their management of working capital.

How does it work?

Factoring is a facility whereby a factoring house buys a company's debtors book and advances up to 80% of the total value, with the rest made available on receipt of payment. The factoring house then takes over the task of managing the debtors and collecting the money.

The cost of this service is twofold. Clients pay an interest charge on the portion of the advance that is drawn, as well as a service fee for the administrative functions undertaken by the factoring house.

By contrast, invoice discounting is where the company's relationship with the factoring house is kept confidential. The company continues to do its own administration and invoicing, using the factoring house only as a source of funds.

Invoice discounting is ideal for companies which have their own administrative structures in place. However, most factoring houses would still provide credit information on existing and potential customers, thereby limiting bad debt potential. They charge a fixed management fee.

### Right

A further condition of lending with most factoring houses is that they supply their services "with recourse" — meaning the factor has the right to return uncollected debts to the respective client.

The factoring industry in SA is worth about R5bn a year, with a few companies holding 80% of the market.

There is no industry body or association of factors in SA (unlike in many other countries) so turnover figures and other information is not readily available. However, it is generally accepted that the four main players in the SA market are Standard Bank Factoring division, Cutfin, First Factors and Ned Commercial Services. There are a further 8-10 companies in SA offering factoring and related services.

For many years the industry has suffered from the perception that they are lenders of last resort — working from dusty offices and buying debts at hugely discounted prices from desperate companies.

Cutfin MD Colin Warner denies the allegations, saying reputable factoring houses only target growing, profitable businesses. Many small and medium size businesses would be unable to expand and could have to turn away potentially profitable new contracts without factoring.

## Helping businesses in planning

WHEN a company factors its debtors book it is given an immediate cash injection of up to 80% of its current unpaid invoices. From then on, within 48 hours of raising each new sales invoice, it can receive up to 80% of the value. The balance of each invoice is made available when the customer pays.

Merchant Factors director Johnny Philippou says: "To be successful these days, a growing business has to plan carefully and manage its working capital skilfully. Factoring is one way of achieving this."

The company calls its product "flexible finance". It is a comprehensive full factoring service which includes upfront finance, maintaining a company's sales ledger, keeping comprehensive accounts of all transactions, and chasing and collecting customer payments.

Through close communication, however, the client has full control of its relationship with its customers.

"From the wording of the reminder letter, to deciding how to handle a slow paying account, we believe that only you should control something as vital as your customer relationships."

Each account is handled by a credit controller and client liaison executive.

Merchant Factors is a division of Merchant Trade Finance, which in turn is a subsidiary of Merhold. It is one of SA's larger independent factoring houses.

Clients originate from a cross-section of industry including textile, wholesale distribution companies and service companies such as printers, labour brokers, light engineers, electronics and publishers.

In addition to full factoring, it will be offering invoice discounting in the future.

The interest charge will probably remain unchanged, but the service fee will be replaced by a nominal set monthly administrative fee.

## Some auditors are sceptical of benefits

FACTORING houses linked to banks source their business mainly through the branches, but the independents need to look elsewhere.

Although much of their business is generated by word of mouth, accountants and auditors have a role to play. However, many auditors view factoring with scepticism.

Aiken and Peat banking and finance partner John Louw says if there is an opportunity for a company to benefit from factoring its debtors, the audit firm will suggest it. But the conditions must be right for factoring house and client. The type of debtors book is critical.

Ernst & Young national director of auditing Garth Coppin says factoring might be put forward as an option when companies experience short-term financial problems or if they have weak credit control departments.

But it is not right for everyone. "If the benefits of factoring were greater, many more companies would take advantage of it. In reality, there are often cheaper financing options available," he says.

### Improve ratio

One advantage, however, is that factoring, if sold without recourse, can improve the financial ratio of a company. Factoring means selling a company's debtors book to a factoring house. From an accounting perspective, this is then shown as cash in the bank — the debtors are taken off the balance sheet.

However, many accountants appear reluctant to promote factoring because it is costly. If they suggest it as a form of financing, it is often only a last resort.

BDO Spencer Steward partner Peter Stroobach says the main problem is returning the credit control function in-house once the cash-flow problem has been solved.

"Many companies lose the capability of running their own credit control administration systems once their debtors have been factored, as the administrative function moves to the factoring house. To re-establish the department in-house is often a difficult affair," he says.

A further problem is the amount of cash required to escape the factoring cycle. Most factors would insist that a company take back its entire book, which is costly.

## Companies tightening up in granting credit

DURING 1992 there was a substantial increase in the demand for corporate credit information, says KreditInform MD Ivor Jones.

"Most companies are now extremely cautious when granting credit to customers or even when supplying repeat orders. In addition, companies extending credit are investigating their book of existing debtors in more detail to expedite payment and reduce bad debt exposure."

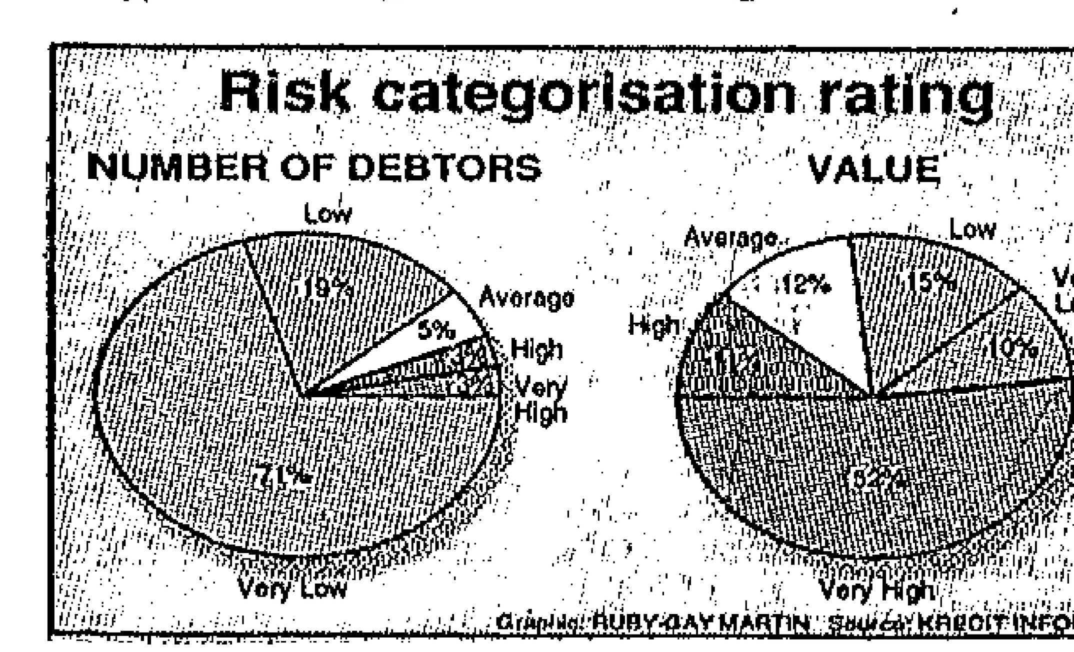
There was a 21% increase last year in the use of the KreditInform online credit information network, which gives credit granters direct access to KreditInform's database.

Another of the company's expanding services is its risk categorisation service, launched in 1990.

The risk categorisation concept establishes an exposure factor for each debtor in the debtors ledger, taking the amount of credit extended to the customer and expressing it as a percentage of the full ledger.

Jones says the objective is to establish whether the ledger has adequate balance between the large and smaller debtors and in this way provide a view of the vulnerability of the company to its large debtors.

The second aspect of the risk categorisation rating is establishing the risk factor for each debtor. It is derived from a credit report and is expressed in a numeric form by way of a scoring system. This is done in order to establish a third-party view of which debtors need attention and which debtors are sound.




The insight the rating gives credit managers into their debtors ledger has led many users to make dramatic changes in credit management policy and sales and marketing strategies, says Jones.

"The concept places debtors into five high, medium and low risk categories. This shows users where they are heavily exposed, could extend credit limits or where bad debt or the change of a customer to another supplier could sink a company," he says.

WORLD

# Yeltsin offers cash incentives for allies

30/4/93

IOSCOW — Announcing plans to convene a constituent assembly, President Boris Yeltsin yesterday stepped up his drive to pull regional leaders into federal government.

He called on leaders of Russia's 88 regions and republics to delegate representatives to a conference called to adopt his proposed draft constitution. The move was intended to bypass a parliament opposed to his plans for establishing a presidential republic in Russia.

Regional leaders were promised a greater role in decision-making and told they would become privileged patrons of reform after decades of rigid central rule from the Kremlin and general disregard for their plight.

Yeltsin told the Council of Republics: Firm central rule is no longer suitable as a form of Russian statehood. It is clear the centre can no longer synchronise from above the development of reforms."

Wooing the regions — many of which have attempted to strengthen their autonomy by withholding taxes from the federal government — has been a top priority on Yeltsin's' agenda. He said yesterday he planned to step up his courtship by promising money to regional leaders who toed the government line on reforms.

He promised tax breaks for industry to boost production and said he would take measures to cushion unemployment and support small private business. He reiterated that his government would abide by tight monetary policies and said the central bank would support the plummeting rouble, which yesterday dropped to a new low of 823 to the dollar.

Reaffirming that he would legalise private ownership of land and that private farmers would receive government credits, Yeltsin said: "Preference will be given to those regions that will take major steps in promoting reforms." He lauded the achievements of young reformist leaders such as Boris Nemtsov, governor of the Russian central city of Nizhni-Novogorod.

Better known as the closed city to which human rights defender Andrei Sakharov was banished when it was called Gorki, Nizhni-Novgorod has made giant steps in the area of defence conversion and privatisation.

If regional leaders dragged their feet on privatisation, "it would be a clear indication that those regions are actively opposing reforms", Yeltsin warned. His chief of staff Sergei Filatov earlier this month said 64% of regional councils were pursuing antireform policies.

Yeltsin's carrot-and-stick approach came after months of hesitation from regional leaders who at times sided with parliament in their drive for more autonomy and at others with the government to push for implementation of the federative treaty. Many regions are also split along the same legislative-executive fault line as the federal government.

The treaty, signed by leaders of all Russian republics and regions except Chechenia and Tatarstan, was hailed by Yeltsin as the basis for his proposed constitution and for greater regional autonomy. Regional leaders complain that many aspects of the document, dealing with shared revenues and control over local resources, have not been implemented. — Sapa-AFP.

## NEWS IN BRIEF

### Traders unfazed by bomb alert

LONDON — The London Stock Exchange headquarters was evacuated for two hours yesterday after a bomb alert. Activity returned to normal after what proved to be a false alarm, exchange officials said.

Trading in computer dealing rooms throughout the City had continued uninterrupted.

### German metal workers' strike

30/4/93

FRANKFURT — Eastern German engineering and steelworkers will go on strike from Monday, and their west German counterparts will launch a solidarity protest on May 12, the union IG Metall announced yesterday. Workers in Saxony and Mecklenburg-Vorpommern and across former East Germany have voted massively in favour of the first major industrial stoppage in the region in 60 years.

### Clinton appointtee

WASHINGTON — US President Bill Clinton said on Wednesday he would nominate former American Stock Exchange chairman Arthur Levitt as chairman of the Securities and Exchange Commission. Levitt, 62, headed the exchange from 1978 to 1990. He would succeed Republican Richard Breeden.

### Guards storm Unicef building

MOGADISHU — Twenty former Somali security guards stormed the Unicef building in Mogadishu on Wednesday and detained officials for several hours, claiming the organisation owed them cash, the UN said yesterday. Pakistani troops restored calm and no one was hurt. The guards were provoked by a Unicef decision to move to another building.

### Tipping for next GATT chief

DUBLIN — Ireland's former European Commissioner Peter Sutherland, under pressure from Irish Foreign Minister Dick Spring and European Commission President Jacques Delors, was widely tipped in Ireland yesterday to replace Arthur Dunkel as the next GATT director-general.

REPORTS: Sapa-AFP-Reuter.

# Bubbly seals pact of former enemies

SINGAPORE — China and Taiwan signed four landmark agreements yesterday at the end of their first high-level talks in four decades, laying the foundation for rapprochement between the two long-time enemies.

Wang Daohan, chairman of China's Association for Relations Across the Taiwan Straits and his Taiwanese counterpart, Koo Chen-fu of the Straits Economic Foundation, signed the agreements after two days of sometimes contentious negotiations.

At separate news conferences afterwards they described the talks and pacts as an "historic step" and opening a "new chapter" in relations.

Koo said: "The bridges we have built mark a very important milestone for orderly exchanges and future relations between the two organisation."

Wang said: "The talks this time pave the way for continued talks and development of relations of our two sides in the future, and so it is very important."

The leaders of the two nominally private but government-funded organisations capped the occasion with a toast of champagne.

The signing was made possible after both parties decided to set aside thorny issues of legalised investment protection for Taiwan investors in China and economic exchanges to be discussed at follow-up meetings.

Differences over Taiwan's demand and China's call on Taipei to allow its businessmen to invest directly in China, open its market to Chinese goods and allow Chinese businessmen to visit the island, caused the signing ceremony to be postponed to yesterday.

Despite failure to narrow the differences, both sides expressed satisfaction with the outcome of their meeting.

"I think both sides achieve the 'double-win' goal in the meeting this time," Wang said.

Koo said: "No one can say we have not achieved any results.

"We have achieved the foundation for future talks. I think we can say that in this meeting both sides have won." — Sapa-AFP.

# China, UK agree to more talks

BEIJING — China and Britain ended a second round of talks about Hong Kong yesterday with no indication of progress, but agreed to meet again from May 21-23 in Beijing.

Both sides firmly deflected reporters' queries on negotiations, saying the closed-door meetings had been agreed on "to avoid disturbance".

"If you ask me to describe it, I would say the talks went fairly normally," Foreign Ministry spokesman Wu Jianmin told a weekly news conference yesterday.

The announcement of another round of discussions indicated both sides were digging in for a long wrangle over what course Hong Kong should take before China resumed control in 1997.

British ambassador Sir Robin McLaren and Chinese Vice-Foreign Minister Jiang Enzhu held their first round of talks in Beijing from April 22-24, producing no statement other than an agreement to meet again.

The row over Hong Kong began when colonial governor Chris Patten proposed reforms that would let people elect a majority of their legislature for the first time in 1995.

Beijing reacted furiously to what it called a violation of previous agreements with London, and has heaped insults on Patten.

Britain rejected the Chinese charge, saying the planned reforms did not contravene anything previously agreed.

The joint statement issued yesterday said the talks were being held on the basis of the previous declarations and understandings. But it gave no hint as to whether the two sides had come to a common interpretation of the pacts. — Sapa-Reuter.

### Italian govt off to a rocky start

ROME — Italy's new government got off to a shaky start yesterday when a blazing row between two ministers, one coveting the other's position, delayed its swearing-in.

After frantic bargaining, in which the two agreed to share responsibility, President Oscar Luigi Scalfaro administered oaths of office to Carlo Azeglio Ciampi and his cabinet.

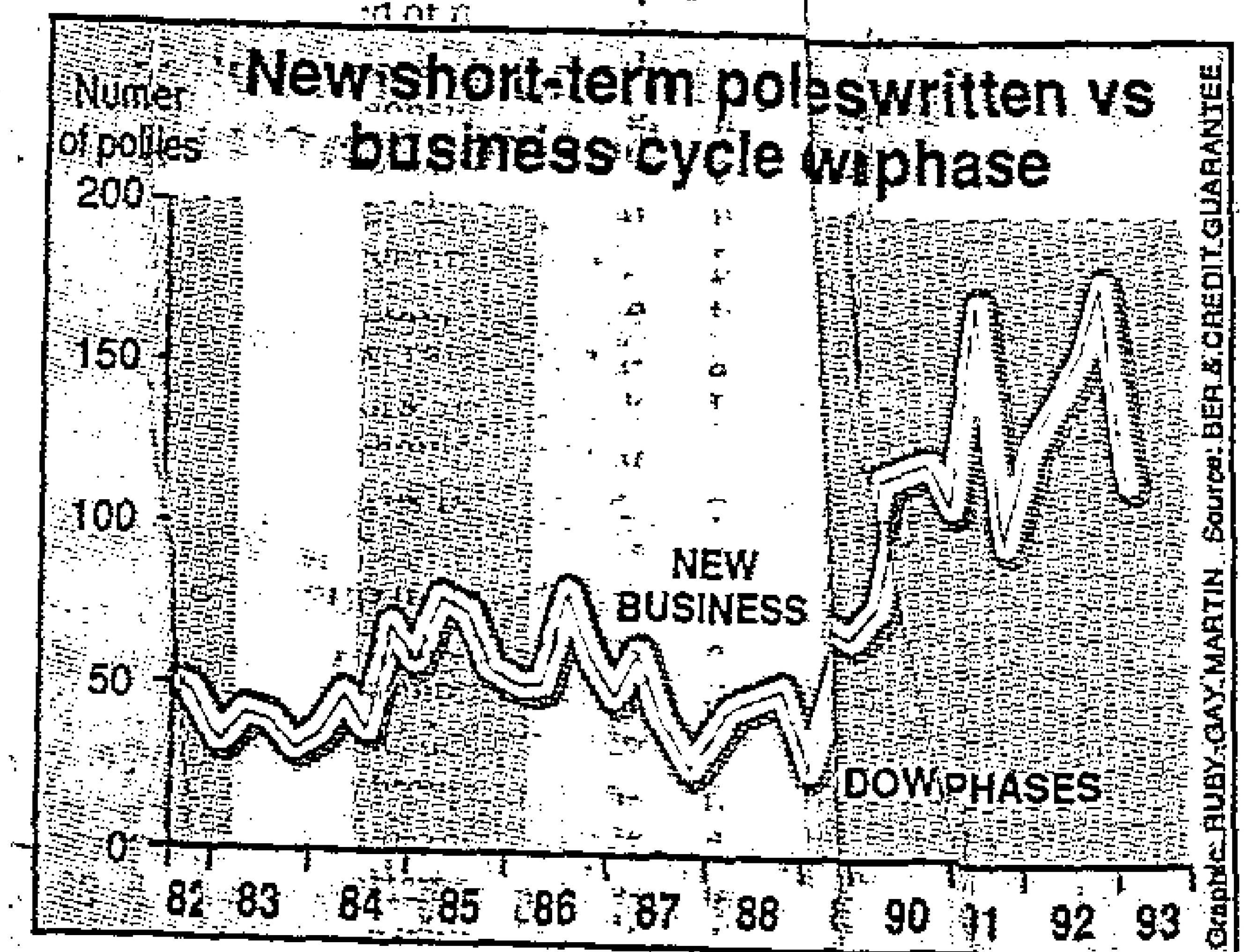
The government formed by Italy's central bank governor will be entrusted with carrying out reforms mandated by a referendum, in which Italians overwhelmingly rejected the scandal-tainted past.

Ciampi, the first non-parliamentarian to head the government, chose his ministers directly, bypassing party chiefs who sometimes took months to form governments in order to divide power. — Sapa-Reuter.

whole page.

## Factoring and invoice discounting

(180)




# Newcomer Cutfin is now one of the majo players

IT IS only three years since Commercial Union Trade Finance (Cutfin) started trading, but it is now one of the largest factoring houses in SA with a current debtors book of more than R300m, and purchased debt over the past 12 months in excess of R1bn.

MD Colin Warner says Cutfin's success stems from its ability to offer a professional service to a select number of clients. He calls it "relationship banking".

"We have no desire to have hun-eds of companies on our books. ve look to create a unique value-dded relationship with the com-anies we finance," he says.

Most of the company's clients ome through "word of mouth" and ersonal references are essential efore Cutfin will consider putting company on its books.

Cutfin examines the financial ase of a business, verifies the cre-entials of the owners, checks the atus of its debtors, rates the busi-ess and its debtors from a risk ewpoint and overhauls credit and llecting procedures before open-g a new facility.

"In any financial transaction ere is a degree of risk and factor- and invoice discounting are not empt from bad debts. Cutfin nages its risk through the qual- and the spread of the debtors it ances and by attempting to be-ne involved with companies that only have good products and vices but also have manage-nt with definite integrity," rner says.

ompanies funded are generally he manufacturing or distribut-ing industries, such as pharmaceuticals, clothing, footwear, steel, light engineering paint, paper and food. Most of the companies have turnovers of about R50m a year, although the range is between R10m and R250m.

Although funding is approved with recourse, this is not seen as a disadvantage.

Warner stresses that the recourse clause does not mean Cutfin throws back the uncollected debt after 60 days. "We try every option first; holding the debt for up to 180 days. The main reasons for uncollected debts, where we hand the debt back to the client, include insolvency; disputes which involve litigation; material disputes (such as incorrect or non-delivery of goods) which cannot be resolved; or if a client and debtor decide to offset a debt."

COLIN WARNER

# CGIC business grows as bad debt mounts

THE recession has brought a dramatic increase in insolvencies, liquidations and other bad debt and many companies are turning to Credit Guarantee Insurance Corporation (CGIC) to provide protection against such risks.

CGIC senior GM Mike Truter says there has been a significant increase in new business.

Because most companies factor their debtors' books "with recourse", which means they are still liable for the debt if it turns sour, many also insure debtors against this possibility.

"We play a complementary role with factoring houses, although neither service is reliant on the other," says Truter.

It can be dealt with in two ways. The company can take out a credit insurance policy to protect itself if a debt turns sour and is returned by the factoring house. Alternatively, it can cede its CGIC policy to the factoring house, so that if the debt turns sour the policy pays the factor.

On the other side of the coin, many factoring houses take out credit insurance — either so they can offer "without recourse" factoring, or to protect themselves in the event of their "with recourse" client not being able to buy back a debt in the event of non-payment.

"An insured debtors book is much more attractive to a factoring house," says Truter. It could sway a factor in favour of taking on a business which has high risk debtors. It could also influence a factor's retention level.

CGIC domestic policies cover almost all credit risk situations involving local corporate debtors, and are relatively flexible. For example, the insured party may choose to exclude smaller amounts of outstanding debtors below R2 000, or perhaps R5 000.

It is most common, however, to insure the entire debtors' book. Another variation of the domestic credit insurance policy is to exclude low-risk debtors, such as JSE-listed companies or those nominated by the insured party.

"We do not typically insure 100% of the debtors book. More commonly we cover 80% of it, as this imposes a certain onus of commercial common sense and responsibility on the company since they are liable for a portion of any debtor default. Therefore, they are more likely to treat credit risks with a personal vested interest," says Truter.

Insuring the debtors' book also allows companies to break into new markets where customers whose credit standing is unknown can be contracted in with relative safety.

As with any insurance policy, premiums are charged in accordance with the risk exposure of the policy.

For local risks, CGIC uses a number of criteria before deciding on a premium charge. These include:

- ☐ The industry in question — for example, the chemical industry has a lower risk profile, so enjoys a beneficial rate;
- ☐ Trade level — the further removed the company is from the man in the street, the better the risk;
- ☐ The type and terms of payment — normally, the longer the term, the higher the risk;
- ☐ The specific type of policy — for example, full cover of a debtors' book, will attract a lower premium; partial cover, a progressively higher one;
- ☐ The bad debt history of the business;
- ☐ CGIC's qualitative assessment of the debtors' book — "We get the debtors schedule, analyse each debtor and then rate them. If the prospective policyholder deals with high-risk groups, the premium is higher. If he is selective in who he grants credit to, the premium is lower," says Truter.

# Reichmans offers a range of trade finance

TRADE finance includes a range of services, of which factoring is only a part.

If a financier wants to give a client the best advice then it needs to offer the whole range, says Reichmans operations director Frank Boner.

In broad categories trade finance can be divided into up-front or confirming finance and follow-up finance or factoring. Reichmans offers it all.

"Some companies which approach us to factor their debtors are better off with upfront financing. For example, if the days outstanding for debtors and stock exceeds credit terms from suppliers, and they are not receiving favourable terms from their suppliers, we would arrange confirming finance to help with the latter, thus shortening the gap in the trade cycle."

Services such as issuing of guarantees and letters of credit for payment to suppliers or negotiating with suppliers on behalf of clients to facilitate favourable trading terms and providing specialised buying services, would be more beneficial to such a client than factoring.

The role of a trade finance line, in addition to a company's normal credit lines, is to allow the client to fund additional profitable turnover.

"In many instances the line will be used to fund special situations over and above the normal day-to-day business and also to assist in funding seasonal or peak requirements in a business where existing lines would be put under strain," says Boner.

On the factoring side, Reichman's offers disclosed and undisclosed factoring, as well as selective invoice discounting and export finance.

Its client base is composed of emerging businesses which have higher than average demands for working capital. In the main they are manufacturers and wholesalers.

"Reichmans is run by capable, entrepreneurial personnel, many of whom have had experience in running their own businesses," Boner says.

The company was established in 1974 as what was traditionally known as a confirming house, but over time is expanded to include the whole range of trade financing services.

In 1991 it became a fully owned subsidiary of Investec Bank.

## Debtors in hands of specialists

THE two main advantages of factoring debtors is that it gives a company daily access to working capital, and peace of mind that its debtors' book is in the hands of specialists, says Meltz Success joint-MD Jackie Meltz.

Meltz Success is a wholesale distribution company which has been factoring its debtors for close on 10 years. It became Cutfin's first client three years ago.

Meltz Success distributes imported and locally manufactured ladies clothing. The knitwear section has been operating for many years, with Effeci its best known brand name. In 1986 the company expanded into jeans and tops — with "No don't go" jeans their biggest seller.

Meltz explains that the company does business with large groups and with boutiques.

"By factoring our debtors, we have continuous access to working capital as we submit our invoices to Cutfin on a daily basis. It also releases us from the trauma of having to administer our debtors' book," says Meltz.

Cutfin is responsible for sending out statements and collecting the money. "They are specialists at it and are therefore much more efficient than we could be. It leaves us free to get on with managing our business," he adds.

Although Meltz admits it would be very difficult to get out of the factoring cycle, he says this is not what keeps him in it. It suits his company to leave the responsibility of debtor administration with the experts.

DURBAN INDUSTRIAL (180)

# A new mahogany row?

**Pinetown's newest** industrial township, Mahogany Ridge, on the western fringes of the town, did not have an auspicious beginning — it was a squatter settlement.

One of the first tasks of the developer, Afroprop, when it bought the site from Mariannhill Mission Institute, was to facilitate the relocation of 60 squatter families to a specially created, low-cost, housing development. FM 30/4/93

A year and several million rand later the R400m township is finally taking shape — as the third and final phase of the Westmead industrial complex, proclaimed in 1990. The 52 ha township, close to the first toll plaza on the N3 just below the Kloof escarpment, comprises about 174 sites ranging in size from 900 m² to 3 500 m².

Doug Littler of Afroprop, formed in June as part of the Pinetown-based Afro building, civil engineering, and plant hire group, concedes he had some misgivings about the development coming on stream in a depressed and uncertain market. However, he has been encouraged by the fact that though the township was only launched last week, a site has been sold.

Furniture group Joshua Doore has bought a site for a central warehousing facility which will be used to service the new Pavilion regional shopping centre currently under construction on the outskirts of Durban. The deal negotiated by J H Isaacs.

Though land prices — at R85/m² to R145/m² — may seem high compared with other parts of Westmead, brokers argue they are competitive because they include pre-levelling and site consolidation costs.

Littler says the roadworks, services and site levelling, being done by group companies, will cost more than R25/m² and will involve moving more than 1m cubic metres of earthworks. "The total capital value of the township, to be completed in four years, will exceed R400m.

It will also result in the creation of 10 000 jobs. "Among those who should benefit from the employment opportunities created are the squatters who once lived on the land," he says.

Other factors which could influence the choice of Mahogany Ridge as an industrial location are rate rebates of up to 80% which Pinetown offers to attract investment and employment to the town. ■

standard interest rate applicable from 1 May 1993 and until further notice, to loans granted by the State out of the State Revenue Fund, at fifteen comma five nil per cent (15,50%) per annum.

The above-mentioned standard interest rate is applicable from 1 May 1993 and until further notice to all drawings of loans from State moneys, except loans in respect of which other rates of interest are specifically authorised by legislation of the Minister of Finance and of Trade and Industry.

---

**No. 707** **30 April 1993**

REPUBLIC OF SOUTH AFRICA

**DEPARTMENT OF FINANCE: INLAND REVENUE**

**OFFICE OF THE COMMISSIONER FOR INLAND REVENUE**

***PRACTICE NOTE: No. 19***

**Date: 30 April 1993**

**INCOME TAX: DEDUCTION IN RESPECT OF WEAR AND TEAR OR DEPRECIATION IN TERMS OF SECTION 11 (e) OF THE INCOME TAX ACT: MACHINERY, PLANT, IMPLEMENTS, UTENSILS AND ARTICLES (INCLUDING VEHICLES AND EQUIPMENT) (EXCLUDING LEASED ITEMS AS CONTEMPLATED IN PRACTICE NOTE No. 15 DATED 16 MARCH 1992)** 180

1. In terms of the provisions of section 11 (e) of the Income Tax Act (the Act), such amount [hereinafter referred to as "the section 11(e) deduction"] as the Commissioner may think just and reasonable as representing the amount by which the value of any machinery, plant, implements, utensils and articles (excluding machinery, plant, implements, utensils and articles in respect of which a deduction may be granted in terms of section 12B or 12C of the Act) used by the taxpayer for the purpose of his trade, has been diminished by reason of wear and tear or depreciation during the tax year, will be allowed as a deduction.

2. The section 11(e) deduction is normally calculated on the diminishing value of an asset, i.e. on the value remaining after the deduction of wear and tear or depreciation in respect of previous tax years. However, subject to the satisfaction of the requirements set out in paragraph 3 below, a taxpayer could be allowed to calculate the section 11(e) deduction on the straight-line basis on the cost of the asset to the taxpayer. [*Note:* Cost in relation to an asset for the purposes of the wear and tear allowance is deemed to be the cost price which, at the discretion of the Commissioner, would have been incurred had such asset been acquired in terms of a **cash transaction** negotiated at arm's length, including the direct cost of installation or erection, but taking into account

1975), die standaardrentekoers van toepassing vanaf 1 Mei 1993 en tot nadere kennisgewing, op lenings deur die Staat toegestaan uit die Staatsinkomstefonds, op vyftien komma vyf nul persent (15,50%) per jaar vasgestel het.

Bogenoemde standaardrentekoers is van toepassing vanaf 1 Mei 1993 en tot nadere kennisgewing op alle trekkings van lenings uit staatsgelde, uitgesonderd lenings ten opsigte waarvan ander rentekoerse spesifiek deur wetgewing of die Minister van Finansies en van Handel en Nywerheid gemagtig is.

---

**No. 707** **30 April 1993**

REPUBLIEK VAN SUID-AFRIKA

**DEPARTEMENT VAN FINANSIES: BINNELANDSE INKOMSTE**

**KANTOOR VAN DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE**

***PRAKTYKNOTA: No. 19***

**Datum: 30 April 1993**

**INKOMSTEBELASTING: AFTREKKING TEN OPSIGTE VAN SLYTASIE OF WAARDEVERMINDERING INGEVOLGE ARTIKEL 11 (e) VAN DIE INKOMSTEBELASTINGWET: MASJINERIE, INSTALLASIE, GEREEDSKAP, WERKTUIE EN ARTIKELS (INSLUITEND VOERTUIE EN TOERUSTING) (UITSLUITEND VERHUURDE ITEMS SOOS BEOOG IN PRAKTYKNOTA No. 15 GEDATEER 16 MAART 1992)**

1. Ingevolge die bepalings van artikel 11 (e) van die Inkomstebelastingwet (die Wet) word 'n bedrag [hierna verwys as "die artikel 11(e)-aftrekking"] wat volgens die Kommissaris se oordeel billikerwys en redelikerwys die bedrag voorstel waarmee die waarde van masjinerie, installasie, gereedskap, werktuie en artikels (behalwe masjinerie, installasie, gereedskap, werktuie en artikels ten opsigte waarvan 'n aftrekking ingevolge artikel 12B of 12C van die Wet toegestaan mag word), deur die belastingpligtige vir doeleindes van sy bedryf gebruik, verminder is ten gevolge van slytasie of waardevermindering gedurende die jaar van aanslag, as 'n aftrekking toegelaat.

2. Die artikel 11 (e) aftrekking word normaalweg op die verminderende waarde van 'n bate bereken, dit is op die waarde wat oorbly nadat die aftrekking vir slytasie of waardevermindering daarop ten opsigte van vorige jare van aanslag afgetrek is. 'n Belastingpligtige kon egter, onderworpe aan bepaalde vereistes, soos in paragraaf 3 hieronder uiteengesit, toestemming verleen word om die artikel 11 (e) aftrekking op die vaste paaiement-metode op die koste vir die belastingpligtige van die bate, te bereken. [*Nota:* Koste met betrekking tot 'n bate vir doeleindes van die slytasietoelae word geag die kosprys te wees wat na oordeel van die Kommissaris aangegaan sou word indien sodanige bate verkry is ingevolge 'n **kontanttransaksie** waarin die uiterste

any recoupment in terms of section 8 (4) (e) of the Act. In this regard, see proviso (vii) to section 11 (e) of the Act. Where an asset has been acquired by the taxpayer by way of a donation or bequest, the value (cost) shall be deemed to be its retail value at the time of such donation or bequest.] It has always been the practice that, where a taxpayer preferred that the value of an asset be reduced on the straight-line basis, he had to submit such a request to his Receiver of Revenue. Each request was then considered on its merits. 180

3. It has now been decided that where a taxpayer elects to depreciate the cost of an asset acquired by him on the straight-line basis, it will not be necessary for him to obtain the Receiver of Revenue's permission. He will, however, be required to comply with the following requirements in respect of the assets to which such method will be applied:

3.1 Adequate records must be maintained.

3.2 The straight-line method must be applied to all assets of the same class.

3.3 The annual tax return must include a schedule disclosing the following information in respect of **each** asset disposed of during the year:

3.3.1 The date of acquisition as well as the original cost.

3.3.2 The income tax value at the end of the immediately preceding tax year.

3.3.3 The price realised on disposal or scrapping as well as the tax value of any profit or loss.

3.4 An asset written off in full must be brought into account at a residual value of R1 for record purposes.

3.5 The records to be maintained must be such that it will be possible for the afore-mentioned details of an asset to be established at any point in time.

4. Where a taxpayer applies the straight-line basis, the asset must be written off in equal annual instalments over its estimated useful life. **The section 11 (e) deduction must be reduced proportionately if the asset was acquired and commissioned during the year.**

5. The attached schedule contains examples of write-off periods acceptable to Inland Revenue. Where a taxpayer is of the opinion that another period should apply to an asset mentioned in the Schedule, prior consent wil have to be obtained in writing from the relevant Receiver of Revenue. In

voorwaardes beding is, met inbegrip van die regstreekse koste van die installering of oprigting daarvan, maar met inagneming van enige verhaling kragtens artikel 8 (4) (e) van die Wet. In dié verband, kyk na voorbehoudsbepaling (vii) by artikel 11 (e) van die Wet. Waar 'n bate by wyse van 'n skenking of erflating deur 'n belastingpligtige verkry is, word die waarde (koste) geag die kleinhandelsmarkwaarde daarvan ten tye van sodanige skenking of erflating, te wees.] Dit was nog altyd die praktyk dat waar 'n belastingpligtige verkies dat die waarde van 'n bate op die vaste paaiement-metode verminder moet word, hy so 'n versoek tot sy betrokke Ontvanger van Inkomste rig. Elke versoek is dan op eie meriete beoordeel.

3. Daar is nou besluit dat waar 'n belastingpligtige verkies om die koste van 'n bate deur hom verkry, op die vaste paaiement-metode te verminder, dit nie meer vir hom nodig sal wees om by die betrokke Ontvanger van Inkomste daarvoor aansoek te doen nie. Daar sal egter van hom verwag word om aan die volgende vereistes ten opsigte van die betrokke bates te voldoen:

3.1 Volledige rekords moet bygehou word.

3.2 Die vaste paaiement-metode van toepassing sal wees op alle bates van dieselfde klas.

3.3 Die jaarlikse belastingopgawe 'n bylae bevat wat, ten opsigte van **elke** bate gedurende die jaar van die hand gesit, die volgende inligting sal openbaar:

3.3.1 Die datum van verkryging sowel as die oorspronklike koste.

3.3.2 Die inkomstebelastingwaarde daarvan aan die einde van die onmiddellike voorafgaande jaar van aanslag.

3.3.3 Die prys gerealiseer tydens die van die handsetting of skrapping van die bate, asook die belastingwaarde van enige wins of verlies daarvan.

3.4 'n Bate wat ten volle afgeskryf is, moet teen 'n oorblywende waarde van R1 vir rekorddoeleindes in berekening gebring word.

3.5 Die rekords wat bygehou moet word, moet sodanig wees dat dit moontlik is om gemelde besonderhede van 'n bate op enige tydstip te kan bepaal.

4. Waar 'n belastingpligtige die vaste paaiement-metode toepas, moet die bate in gelyke jaarlikse paaiemente oor die beraamde nuttige lewensduur van sodanige bate afgeskryf word. **Die artikel 11 (e) aftrekking moet proporsioneel verminder word indien die bate gedurende die jaar verkry en in gebruik geneem is.**

5. Die meegaande bylae bevat voorbeelde van afskrywingstydperke wat vir Binnelandse Inkomste aanvaarbaar is. Waar 'n belastingpligtige van oordeel is dat 'n ander tydperk vir 'n bate in die bylae genoem, moet geld, moet skriftelike goedkeuring daarvoor by die betrokke Ontvanger

respect of any asset not included in the schedule the proposed write-off period must be motivated in writing upon submission of the tax return for the relevant tax year to enable the Receiver of Revenue to decide whether or not the period is justified. It is, however, recommended that taxpayers obtain approval for such other period or, if the asset does not appear in the schedule, for the proposed write-off period, from the Receiver of Revenue concerned before submitting their tax returns.

6. Where a taxpayer acquires "small" items (loose tools etc.) at a cost of less than R250 per item he may write such assets off in full during the year of acquisition. For this purpose a "small" item is regarded as an item which normally functions in its own right and is not an individual item that forms part of a set. For example, a table and six chairs which plainly form part of a set cannot be divided into individual independent items costing less than the specified amount. Where the cost of such a set amounts to more than R250, it cannot be written off in full in the year in which it is acquired.

7. Where an asset is used for more than one shift, resulting in the life thereof eventually being less than the periods mentioned in the schedule, a fully motivated application for a shorter write-off period may be made to the Receiver of Revenue concerned.

8. Where a taxpayer has claimed a deduction on **existing** assets in terms of the diminishing balance method, but has elected that the balance of such assets be written off on the straight-line basis in future, such assets will have to be written off over the remaining period (as laid down in the schedule). In other words, where in terms of the schedule an asset may be written off over a period of five years on the straight-line basis, but R360 (R200 + R160) has already been written off against an original cost of R1 000 on the diminishing balance method, the balance of the cost (R640) must be written off in equal annual instalments over the remaining three years. Where the original cost of an asset amounted to less than R250, the balance on change-over to the straight-line basis may be written off in full in the year of change-over (subject to the provisions of paragraph 6 above).

9. The write-off periods will apply in respect of all tax returns submitted on or after the date of issue of this practice note. It is, however, not the intention to reopen assessments already issued and in which some other write-off period was used.

van Inkomste verkry word. Ten opsigte van enige bate wat nie in die bylae verskyn nie moet die beoogde afskrywingstydperk met die indiening van die opgawe van inkomste vir die betrokke jaar van aanslag skriftelik gemotiveer word ten einde die Ontvanger van Inkomste in staat te stel om te bepaal of die tydperk geregverdig is, al dan nie. Dit word egter aanbeveel dat belastingpligtiges goedkeuring vir sodanige ander tydperk, of indien die bate nie in die bylae verskyn nie die beoogde afskrywingstydperk, van die betrokke Ontvanger van Inkomste sal verkry voordat 'n belastingopgawe ingedien word.

6. Waar 'n belastingpligtige "klein" items (los gereedskap ens.) teen 'n koste van minder as R250 per item verkry, sal hy toegelaat word om sodanige bates ten volle gedurende die jaar van aankoop af te skryf. Vir hierdie doel word 'n "klein" item beskou om 'n item te wees wat normaalweg in sy eie reg funksioneer en is dit derhalwe nie 'n individuele item wat deel van 'n stel uitmaak nie. Byvoorbeeld, 'n tafel en ses stoele wat duidelik deel van 'n stel uitmaak, kan nie in afsonderlike onafhanklike items met 'n koste van minder as die voorgeskrewe bedrag verdeel word nie. Waar so 'n stel se koste meer as R250 beloop, kan dit nie ten volle in die jaar van verkryging afgeskryf word nie.

7. Waar 'n bate vir meer as een skof gebruik word, wat tot gevolg sal hê dat die lewensduur van sodanige bate korter sal wees as die tydperke in die bylae genoem, kan aansoek met volle motivering vir 'n korter afskrywingstydperk aan die betrokke Ontvanger van Inkomste gerig word.

8. Waar 'n belastingpligtige 'n aftrekking kragtens die verminderende saldo-metode op **bestaande** bates geëis het, maar hy verkies dat die saldo van sodanige bates voortaan op die vaste paaiement-metode afgeskryf word, sal dié bates oor die oorblywende tydperk (soos in die bylae vervat) afgeskryf moet word. Met ander woorde, waar 'n bate volgens die bylae oor 'n tydperk van vyf jaar op die vaste paaiement-metode afgeskryf kan word, maar daar reeds R360 (R200 + R160) op 'n oorspronklike koste van R1 000 op die verminderende saldo-metode afgeskryf is, moet die restant van die koste (R640) in gelyke jaarlikse paaiemente oor die oorblywende drie jaar afgeskryf word. Waar die oorspronklike koste van 'n bate minder as R250 bedra het, mag die saldo in die jaar waarin daar na die reguitlyn-metode oorgeskakel word, ten volle afgeskryf word (onderworpe aan die bepalings van paragraaf 6 hierbo).

9. Die afskrywingstydperke sal van toepassing wees ten opsigte van alle belastingopgawes ingedien op of na die datum van uitreiking van die praktyknota. Dit is egter nie die bedoeling om aanslae wat reeds uitgereik is en waarin 'n ander afskrywingstydperk gebruik is, te heropen nie.

180

10. Where used assets are acquired by a taxpayer, such assets may be written off over the expected life of those assets taking into account the condition thereof. Such assets must be detailed clearly in a separate schedule and submitted with the tax return to the Receiver of Revenue concerned.

11. When a taxpayer changes the calculation of the section 11 (e) deduction in respect of any such asset from the diminishing balance method to the straight-line basis, he must notify the Receiver of Revenue in writing to that effect upon the submission of his return of income for the relevant year.

COMMISSIONER FOR INLAND REVENUE, PRETORIA.

## SCHEDULE TO PRACTICE NOTE No. 19

### WRITE-OFF PERIODS ACCEPTABLE TO INLAND REVENUE

| *Item* | *Period of write-off (number of years)* |
|---|---|
| Adding machines | 6 |
| Air conditioners (window type, moving parts only) | 6 |
| Aircraft: Light passenger/commercial/helicopters | 4 |
| Arc welding equipment | 6 |
| Balers | 6 |
| Battery chargers | 5 |
| Bicycles | 4 |
| Bulldozers | 3 |
| Burglar alarms (removable) | 10 |
| Calculators | 3 |
| Cash registers | 5 |
| Cheque writing machines | 6 |
| Cinema equipment | 5 |
| Cold drink dispensers | 6 |
| Compressors | 4 |
| Computers (main frame) | 5 |
| Computers (personal computers) | 3 |
| Computers software (main frames): | |
| Purchased | 3 |
| Self-developed | 1 |
| Computers software (personal computers) | 2 |
| Concrete transit mixers | 3 |
| Crop sprayers | 6 |
| Curtains | 5 |
| Debarking equipment | 4 |
| Delivery vehicles | 4 |
| Demountable partitions | 6 |
| Dental and doctors equipment | 5 |
| Dictaphones | 3 |
| Drilling equipment (water) | 5 |
| Drills | 6 |
| Electric saws | 6 |
| Electrostatic copiers | 6 |
| Engraving equipment | 5 |
| Excavators | 4 |
| Fax machines | 3 |
| Fertiliser spreaders | 6 |
| Fire extinguishers (loose units) | 5 |
| Fishing vessels | 12 |
| Fitted carpets | 6 |

10. Waar gebruikte bates deur 'n belastingpligtige aangeskaf word, kan sodanige bates, met inagneming van die toestand daarvan, oor die verwagte lewensduur van daardie bates afgeskryf word. Sodanige bates moet duidelik in 'n aparte skedule saam met die belastingopgawe aan die betrokke Ontvanger van Inkomste verstrek word.

11. Wanneer 'n belastingpligtige die berekening van die artikel 11 (e) aftrekking ten opsigte van enige sodanige bate vir die eerste keer vanaf die verminderende saldo-metode na die vaste paaiement-metode omskakel, moet hy, met die indiening van sy opgawe van inkomste vir die betrokke jaar van aanslag, die Ontvanger van Inkomste skriftelik daaromtrent inlig.

KOMMISSARIS VAN BINNELANDSE INKOMSTE, PRETORIA.

## BYLAE TOT PRAKTYKNOTA No. 19

### AFSKRYWINGSTYDPERKE AANVAARBAAR VIR BINNELANDSE INKOMSTE

| *Item* | *Tydperk van afskrywing (aantal jare)* |
|---|---|
| Afkondigingstelsels | 5 |
| Afleweringsvoertuie | 4 |
| Baalpersers | 6 |
| Bandspelers | 5 |
| Batterylaaiers | 5 |
| Betonmengervragmotor | 3 |
| Bioskooptoerusting | 5 |
| Bokkrane | 6 |
| Boogswystoerusting | 6 |
| Boortoerusting (water) | 5 |
| Bore | 6 |
| Brandblussers (los eenhede) | 5 |
| Brandkluise (draagbaar) | 25 |
| Breimasjiene | 6 |
| Broeikaste | 6 |
| Diefalarms (verwyderbaar) | 10 |
| Diktafone | 3 |
| Draaibanke | 6 |
| Elektriese sae | 6 |
| Elektrostatiese kopieerders | 6 |
| Faksmasjiene | 3 |
| Fotokopieertoerusting | 5 |
| Fotografiesetoerusting | 6 |
| Freesmasjiene | 6 |
| Gassnytoerusting | 6 |
| Gasverhitters en kooktoestelle | 6 |
| Geïnstalleerde matte | 6 |
| Gemotoriseerde betonmengers | 3 |
| Gemotoriseerde grassnyers | 5 |
| Gemotoriseerde kettingsae | 4 |
| Gimnasiumtoerusting | 10 |
| Gordyne | 5 |
| Graafmasjiene | 4 |
| Graveertoerusting | 5 |
| Guillotines | 6 |
| Haarkapperstoerusting | 5 |
| Handboeke | 3 |
| Hengelvaartuie | 12 |
| Hittedroërs | 6 |
| Hyserinstallasies (goedere) | 12 |
| Hyserinstallasies (passasiers) | 12 |
| Kasregisters | 5 |
| Kitswasserytoerusting | 5 |

180

| *Item* | *Period of write-off (number of years)* |
|---|---|
| Fork-lift trucks | 4 |
| Front-end loaders | 4 |
| Furniture and fittings | 6 |
| Gantry cranes | 6 |
| Garden irrigation equipment (movable) | 5 |
| Gas cutting equipment | 6 |
| Gas heaters and cookers | 6 |
| Gear shapers | 6 |
| Graders | 4 |
| Grinding machines | 6 |
| Guillotines | 6 |
| Gymnasium equipment | 10 |
| Hairdressers equipment | 5 |
| Harvesters | 6 |
| Heat dryers | 6 |
| Heating equipment | 6 |
| Incubators | 6 |
| Ironing and pressing equipment | 6 |
| Kitchen equipment | 6 |
| Knitting machines | 6 |
| Laboratory research equipment | 5 |
| Lathes | 6 |
| Laundromat equipment | 5 |
| Lift installations (goods) | 12 |
| Lift installations (passengers) | 12 |
| Medical theatre equipment | 6 |
| Milling machines | 6 |
| Mobile caravans | 5 |
| Mobile cranes | 4 |
| Mobile refrigeration units | 4 |
| Motorcycles | 4 |
| Motorised chain saws | 4 |
| Motorised concrete mixers | 3 |
| Motor mowers | 5 |
| Musical instruments | 5 |
| Neon signs and advertising boards | 10 |
| Ovens and heating devices | 6 |
| Ovens for heating food | 6 |
| Paintings (valuable) | 25 |
| Pallets | 4 |
| Passenger cars | 5 |
| Patterns, tooling and dies | 3 |
| Perforating equipment | 6 |
| Photocopying equipment | 5 |
| Photographic equipment | 6 |
| Planers | 6 |
| Pleasure craft etc. | 12 |
| Ploughs | 6 |
| Portable concrete mixers | 4 |
| Portable generators | 5 |
| Portable safes | 25 |
| Power tools (hand operated) | 5 |
| Public address systems | 5 |
| Radio communication equipment | 5 |
| Refrigerated milk tankers | 4 |
| Refrigeration equipment | 6 |
| Refrigerators | 6 |
| Sanders | 6 |
| Scales | 5 |
| Seed separators | 6 |
| Sewing machines | 6 |
| Shop fittings | 6 |
| Solar energy units | 5 |
| Special patterns and tooling | 2 |
| Spin dryers | 6 |
| Spot welding equipment | 6 |
| Staff training equipment | 5 |

| *Item* | *Tydperk van afskrywing (aantal jare)* |
|---|---|
| Koeldrankuitmeters | 6 |
| Kombuistoerusting | 6 |
| Kompressors | 4 |
| Kraggereedskap (handbediening) | 5 |
| Kragopwekkers (draagbaar) | 5 |
| Kunsmisstrooiers | 6 |
| Laaiborde | 4 |
| Laaigrawe | 4 |
| Laboratoriumnavorsingstoerusting | 5 |
| Lugversorgers (vensterraam tipe, slegs bewegende dele) | 6 |
| Mediese teatertoerusting | 6 |
| Meubels en toebehore | 6 |
| Mobiele hyskrane | 4 |
| Mobiele karavane | 5 |
| Mobiele verkoelingseenhede | 4 |
| Motorfietse | 4 |
| Muntoutomate (insluitende videospeletjie-toestelle) | 6 |
| Musiekinstrumente | 5 |
| Naaimasjiene | 6 |
| Neonreklame en advertensieborde | 10 |
| Oesbespuiters | 6 |
| Oesmasjiene | 6 |
| Ontbassingstoerusting | 4 |
| Oonde en verhittingstoerusting | 6 |
| Oonde vir verhitting van kos | 6 |
| Opmeters: | |
| Instrumente | 10 |
| Terreintoerusting | 5 |
| Optelmasjiene | 6 |
| Padskrapers | 4 |
| Passasiersvoertuie | 5 |
| Patrone, werktuie en stempels | 3 |
| Personeelopleidingstoerusting | 5 |
| Plesierjagte ensovoorts | 12 |
| Ploeë | 6 |
| Ponstoerusting | 6 |
| Puntsweistoerusting | 6 |
| Radiokommunikasietoerusting | 5 |
| Ratarmskaafmasjiene | 6 |
| Rekenaars (hoofraam) | 5 |
| Rekenaars (persoonlike rekenaar) | 3 |
| Rekenaarsagteware (hoofraam): | |
| Aangekoop | 3 |
| Self ontwikkel | 1 |
| Rekenaarsagteware (persoonlike rekenaar) | 2 |
| Rekenmasjiene | 3 |
| Ruspergraafmasjiene | 4 |
| Saadverdelers | 6 |
| Skale | 5 |
| Skawe | 6 |
| Skilderye (waardevol) | 25 |
| Skuurmasjiene | 6 |
| Sleepwaens | 5 |
| Slypmasjiene | 6 |
| Sonenergie-eenhede | 5 |
| Spesiale patrone en werktuie | 2 |
| Stootskrapers | 3 |
| Stryktoerusting | 6 |
| Tandheelkundige en geneeskundigetoerusting | 5 |
| Telefoontoerusting | 5 |
| Televisie- en advertensiefilms | 4 |
| Televisiestelle, videomasjiene en dekodeerders | 6 |

180

| Item | Period of write-off (number of years) |
|---|---|
| Surveyors: | |
| Instruments | 10 |
| Field equipment | 5 |
| Tape-recorders | 5 |
| Telephone equipment | 5 |
| Television and advertising films | 4 |
| Television sets, video machines and decoders | 6 |
| Textbooks | 3 |
| Tractors | 4 |
| Trailers | 5 |
| Traxcavators | 4 |
| Trucks (heavy duty) | 3 |
| Trucks (other) | 4 |
| Truck mounted cranes | 4 |
| Typewriters | 6 |
| Vending machines (including video game machines) | 6 |
| Video cassettes | 2 |
| Washing machines | 5 |
| Water distillation and purification plant | 12 |
| Water tankers | 4 |
| Water tanks | 6 |
| Weighbridges (movable parts) | 10 |
| Workshop equipment | 5 |
| X-ray equipment | 5 |

**No. 717** **30 April 1993**

TRANS-CALEDON TUNNEL AUTHORITY

CERTIFICATES NOS. C3 AND C4 EACH FOR R100 000 ISSUED IN FAVOUR OF SENBANK (ABSA BANK) DATED 17 DECEMBER 1991

The above-mentioned certificates have been lost or mislaid by the beneficiary, notice is hereby given that these certificates are now cancelled and both the Trans-Caledon Tunnel Authority and ABSA Bank do not accept any liability in respect of Certificates Nos. C3 and C4 each for R100 000 issued in favour of Senbank dated 17 December 1991.

## DEPARTMENT OF JUSTICE

**No. 692** **30 April 1993**

MAGISTRATES' COURTS ACT, 1944

APPOINTMENT OF A PLACE IN THE DISTRICT OF NEWCASTLE AS A PLACE FOR THE HOLDING OF A COURT

Under section 2 (1) (h) of the Magistrates' Courts Act, 1944 (Act No. 32 of 1944), I, Hendrik Jacobus Coetsee, Minister of Justice, hereby, in respect of the District of Newcastle, appoint Dormie House in the above-mentioned district as a place for the holding of a court for that district.

**H. J. COETSEE,**

Minister of Justice.

| Item | Tydperk van afskrywing (aantal jare) |
|---|---|
| Tikmasjiene | 6 |
| Tjekskryfmasjiene | 6 |
| Trapfietse | 4 |
| Trekkers | 4 |
| Tuimeldroërs | 6 |
| Tuinbesproeiingstoerusting (roerend) | 5 |
| Verhittingstoerusting | 6 |
| Verkoelde melktenkwa | 4 |
| Verkoelingstoerusting | 6 |
| Vervoerbare betonmengers | 4 |
| Verwyderbare afskortings | 6 |
| Videokassette | 2 |
| Vliegtuie (ligte passasiers/kommersiële/helikopters) | 4 |
| Vragmotorgemonteerde krane | 4 |
| Vragmotors (swaardiens) | 3 |
| Vragmotors (ander) | 4 |
| Vurkhysers | 4 |
| Wasmasjiene | 5 |
| Waterdistillering- en -suiweringstoerusting | 12 |
| Watertenks | 6 |
| Watertenkwaens | 4 |
| Weegbrûe (bewegende dele) | 10 |
| Werkswinkeltoerusting | 5 |
| Winkeltoebehore | 6 |
| X-straaltoerusting | 5 |
| Yskaste | 6 |

**No. 717** **30 April 1993**

TRANS-CALEDON TONNELOWERHEID

SERTIFIKATE NOS. C3 EN C4 ELK VIR R100 000, UITGEREIK TEN GUNSTE VAN SENBANK (ABSA BANK) GEDATEER 17 DESEMBER 1991

Aangesien die bovermelde sertifikaat verloor of verlê is, deur die begunstigde, word hiermee bekendgemaak dat die betrokke sertifikate hiervolgens gekanselleer word en dat beide die Trans-Caledon Tonnelowerheid en ABSA Bank geen aanspreeklikheid aanvaar ten opsigte van Sertifikate Nos. C3 en C4 elk vir R100 000 uitgereik ten gunste van Senbank gedateer 17 Desember 1991.

## DEPARTEMENT VAN JUSTISIE

**No. 692** **30 April 1993**

WET OP LANDDROSHOWE, 1944

BEPALING VAN 'N PLEK IN DIE DISTRIK NEWCASTLE AS 'N PLEK VIR DIE HOU VAN HOFSITTINGS

Kragtens artikel 2 (1) (h) van die Wet op Landdroshowe, 1944 (Wet No. 32 van 1944), bepaal ek, Hendrik Jacobus Coetsee, Minister van Justisie, hierby ten opsigte van die distrik Newcastle, Dormiehuis in gemelde distrik as 'n plek vir die hou van hofsittings vir daardie distrik.

**H. J. COETSEE,**

Minister van Justisie.

# guessing, please

investments have shown an appreciable improvement. If anything, therefore, the balance sheet is now considerably stronger.

What is clear is that no-one, least of all the analysts assembled to listen to Ogilvie Thompson's words of wisdom on an open line from London, is prepared to say how 1993 will turn out for De Beers. Wisely, to a man, they say they'll have to consider matters. Yes, well, of course. *David Gleason*

GENCOR (180)

## Even tougher times

**Chairman Brian** Gilbertson predicted a tough ride for Gencor in the year to August with no significant upturn in revenues before 1994. The 10% drop in first-half earnings bears out his forecasts. But times are even tougher than he expected. He is reconsidering the verbal forecast made last October that shareholders might receive an increase of about 2c a share in this year's total dividend in spite of lower earnings.

The maintained interim indicates caution.

FM 30/4/93 -

**MAINTAINED INTERIM**

| Six months to | Feb 28 '92 | Aug 31 '92 | Feb 28 '93 |
|---|---|---|---|
| Attributable income (Rm) | 562 | 699 | 593 |
| Earnings (c) | 47,8 | 55,5 | 43,1 |
| Dividends (c) | 16,0 | 29,0 | 16,0 |
| Net asset value (c) | 1 435 | 1 341 | 1 336 |

Gilbertson comments: "I would be surprised if we don't at least maintain the final but I'm losing my nerve a little over intentions to increase the payout."

The reason is the grim business conditions facing each of Gencor's diverse mining and industrial operations. Though there have recently been more favourable signs, with the decline in ferrochrome prices halting and gold starting to perform, Gilbertson remains cautious.

"The gold price has only started to move in the last four days. I'll get excited about it when the price is up another \$50," he says.

Gencor is heavily committed to new projects in the pursuit of real growth. They include the R7bn Alusaf expansion, the R3bn Columbus stainless steel expansion, the R1bn expansion of Sappi's dissolving pulp mill at Saiccor and the R800m upgrading of Engen's refinery in Durban.

Latest development (*Fox* April 23) was the raising of Gencor's stake in Richards Bay Minerals from 25% to 50%, at a cost of R671,2m, paid mainly through the sale of some equity ~~stakes in Engen and Malbak.~~ (180)

Those sales again raised the issue of Gencor's possible unbundling of its nonmining interests which Gilbertson says will be put shortly to the Gencor board for a decision.

He says: "At the meeting three questions will be put to the directors — whether we unbundle, if so to what extent we unbundle and how fast we do it. I cannot be more specific and there are powerful arguments both for and against unbundling."

If the group goes all the way with unbundling proposals, Gencor would pass all its stakes in the various industrial subsidiaries to its shareholders and be left only with its mining interests. FM 30/4/93

Despite the bad times, Gencor continues to spend heavily on exploration which absorbed R50m in the six months to February (previous comparable six months: R39m).

The search for a suitable vehicle outside SA to expand the group's international mining and exploration business remains the priority following the failures to do a deal with Lonrho over its international mining interests and get control of Australian coal mining group Oakbridge.

Lonrho spurned Gencor's overtures. The Oakbridge deal was killed by the tighter exchange controls imposed by the SA Reserve Bank on the use of the financial rand for such investments. Gilbertson notes that a US company, Cyprus Minerals, now appears to have made a successful bid for Oakbridge.

"This lack of an international mining arm continues to be our single biggest failure. It's a critical area and we are continuing to work on it, which is why Hans Smith has been moved from Samancor to work with Bernard Smith in the new business division."

Gilbertson concedes the Reserve Bank restrictions are a serious hindrance. "To meet them you have to find a very good project overseas and there are not that many of them to be found at the bottom of the commodity business cycle."

The share has recovered from its 12-month low of 895c last November to current levels around 1 150c but has underperformed the general recovery in the mining house sector.

A maintained final would put Gencor on a forward yield of 3,9%, which is by far the highest of the major mining houses and compares with a sector average of 2,7%.

Though the short-term forecast is for another drop in earnings in the second half, Gencor remains an attractive investment through its exposure to real growth from new projects across the industrial and mining sectors and the prospect of resurgent income from investments such as Samancor and Gengold. *Brendan Ryan*

# Amic considers TV tube joint venture

BDM 30/4/93

180

ANDY DUFFY

ANGLO American Industrial Corporation is considering teaming up with South Korean conglomerate Daewoo to invest R600m in setting up a plant to produce colour television tubes.

Amic, which has sought to reduce its exposure to commodities markets, confirmed yesterday that it was considering building such plant in SA in partnership with Daewoo.

Amic chairman Leslie Boyd said the plan, mooted nine months ago, was being dealt with by Amic's business development unit. Funding had yet to be finalised.

Boyd stressed that the project had not been finalised and was only one of several being considered. "This is not a done deal. Is it financially viable; does it give a good return? That's what we're working on."

According to a report in Engineering News, Daewoo is to carry out a feasibility study in October. If cleared, the project would be fully operational in two years, producing about 800 000 tubes a year.

Analysts yesterday reacted sceptically to news of the venture.

They doubted the market was sufficiently large to support such a venture.