

I Financial And Business

1 Business Structure

- 1.1 What is the structure of Tranz Rail and how does Tranz Metro (“the business”) fit in the structure? Is it a business unit or a subsidiary company?
- 1.2 How is Tranz Metro structured? Does it have business units or divisions?
- 1.3 Provide details of any special trade agreements including ownership and use of any intellectual property such as trade marks, know-how etc.
- 1.4 What is the business relationship with Tranz Rail? Provide details of significant transactions with related businesses.
- 1.5 If any subsidiaries are not wholly owned, obtain details of outside ownership. Consider completing a separate checklist for any major subsidiaries with significant minority interests.
- 1.6 Does Tranz Metro have any significant investments in any other companies?

2 Objectives and Strategy

- 2.1 What are the prospects for the business?
- 2.2 What arrangements are there to ensure the continued availability of the resources required to operate the business?
- 2.3 Are there environmental and regulatory factors which are likely to affect the business in the future?
- 2.4 To what extent does the business sets strategic objectives and monitor its performance against them.
- 2.5 Provide details of marketing, service provision and personnel strategies. How are these are integrated into the business’ overall strategy.
- 2.6 Provide an analysis of the business’ strengths and weaknesses.
- 2.7 What is the business’ critical success factors?

3 Markets

- 3.1 Provide a definition and analysis of markets served, potential new markets, and any declining markets.
- 3.2 Provide details of sources of market research information and reliability of projected market data.
- 3.3 Is the market seasonal or cyclical?
- 3.4 Detail the pricing policy. What factors are taken into account when setting prices?
- 3.5 Detail past and anticipated pricing trends.
- 3.6 Detail quality control procedures.
- 3.7 Does Tranz Metro consider it has any competitors? If so, provide details on principal competitors, comparative details of their products, services and organisational structure.
- 3.8 Provide an analysis of market segments.
- 3.9 Provide details of relationships with government and government agencies.
- 3.10 What are the effects on the business of any relevant legislation.
- 3.11 Are there any new marketing opportunities available to the business?

DRAFT DUE DILIGENCE CHECKLIST

4 Management

- 4.1 Provide a management organisation chart
- 4.2 Identify key personnel.
- 4.3 Provide name, age, years of service, qualifications and position held of senior management and key personnel.
- 4.4 What are the training requirements, union involvement, staff turnover levels and general morale of the workforce.
- 4.5 Provide details of performance and productivity measurement and incentive schemes.
- 4.6 Salaries and other forms of remuneration, benefits in kind and share options.
- 4.7 Policy adopted for training successors or obtaining new staff to succeed the present executives; whether suitable replacements would be readily available.
- 4.8 Is management centralised or decentralised?
- 4.9 The strategies that management is using to increase market share and profitability.
- 4.10 Do people work well together and complement the work of others.

5 Purchasing

- 5.1 Nature and amount of work subcontracted to outside firms; the reasons for this policy; risks to the company from failure of subcontractors; scope for further subcontracting.
- 5.2 List:
 - o Raw materials used
 - o principal suppliers
 - o Terms of purchase
 - o any significant forward purchase commitments
- 5.3 Are prices comparatively stable or volatile
- 5.4 The supply position of raw materials generally; any difficulties experienced in the past in obtaining requirements either from its regular suppliers or from alternative sources.
- 5.5 If purchasers are made from overseas, what is the rate of import duty, time taken for delivery and any special settlement terms.
- 5.6 Any control of prices/supply of raw materials by Government agencies or others.

6 Revenue recognition accounting policies.

- 6.1 A brief overall commentary on sales promotion methods
- 6.2 Broad analysis of sales by services
- 6.3 Identify the relative importance of the key variables in customers' purchasing decision:
 - o Price
 - o Service features
 - o Reputation
 - o Other
- 6.4 Identification of steps taken to influence the purchasing decision, eg advertising, sales promotion. Identification of brand loyalty.

DRAFT DUE DILIGENCE CHECKLIST

- 6.5 Nature of relationship between the business and its selling agents, including terms of appointment and remuneration, system for remitting proceeds, financial backing, training commitments to agents, and sale or return of reservation of title arrangements.
- 6.6 Examination of potential and proposed new product developments.
- 6.7 Size, experience and budget of the marketing department.

- 7 Premises**
- 7.1 Description of main premises; freehold or leasehold; if leased particulars of leases (including dilapidation clauses, options to renew, rent reviews); general condition and deferred repairs.
- 7.2 The location of administrative and selling offices.
- 7.3 Site areas and floor space
- 7.4 Any planning restrictions or approvals for developing the present site.
- 7.5 Details of any professional valuations (including date, name and qualifications of valuer and basis of valuation) and the frequency of valuations.
- 7.6 Provide zoning details.
- 7.7 Potential for realisation or cost savings through rationalisation of space or energy savings.

- 8 Plant (including Rolling Stock)**
- 8.1 Description of the main categories of plant used.
- 8.2 Age and condition of the plant.
- 8.3 Any plant not used or obsolete.
- 8.4 Details of any recent revaluation.
- 8.5 Major plant on order, where from, expected delivery dates.
- 8.6 Details of future requirements.

- 9 Employees and Staff**
- 9.1 Number of employees analysed by departments, full-time/part-time, male/female.
- 9.2 Brief particulars of labour relations, strike experience and other disturbances.
- 9.3 Approximate present salaries/rates of pay (time and piece work), analysed by function. Details of any recent pay awards or wage agreements which would affect future costs; particulars of incentive schemes and share options. Competitiveness of employment terms.
- 9.4 Holiday pay and long service leave arrangements, welfare services (canteens, sports facilities, etc).
- 9.5 Recruitment policy; general availability of labour; training facilities; industrial training levy.
- 9.6 Staff turnover and employee morale.

- 10 Overall Financial Control**
- 10.1 Quality and experience of the finance department staff.
- 10.2 Outline of budget preparation and any longer term financial planning.

DRAFT DUE DILIGENCE CHECKLIST

- 10.3 Procedures for monitoring actual performance against budget and plans; responsibility for variances and revisions to forecasts; management reporting of financial results.
- 10.4 Controls in place to ensure effective cash management.
- 10.5 Procedures for reporting, controlling and forecasting working capital levels and cash flows.
- 10.6 How does the budgeting process work?
- 10.7 Long term plans are integrated with capital budgeting and financial planning.
- 10.8 Do plans include alternative strategies?
- 10.9 Independent review:
- 10.9.1 Does the company have an audit committee or equivalent that takes an active interest in the business' internal control system?
- 10.9.2 Does the audit committee adequately review the scope of audit of financial statements?
- 10.9.3 Is the audit committee independent of management?
- 10.9.4 Does the committee effectively respond to findings of internal and external audit?
- 10.9.5 Are there frequent changes or, or undue number of, independent legal or other professional advisers?
- 10.9.6 Are the directors, as far as possible, independent of management and controlling shareholders?
- 10.10 What is the business' attitude toward strong controls.

10.11 Trading Results**Past Performance**

- 10.12 Detail accounting policies - appropriateness, compliance with accounting standards and the law and consistency of application. Effect of expected changes in standards or the law on reported profits or their trend.
- 10.13 Sales - levels, trends, order book, long term contracts, appropriate analyses by product and market, if not already given, commissions deducted, special discounts.
- 10.14 Other income - details of royalties, management
- 10.15 Cost of sales - analysis of material, labour and production overhead costs. Review of standard or other costing procedures, accuracy of management accounts and integration of variances.
- 10.16 Gross profits - analysis by product, division, branch, percentage margin on sales, explanations for variances in marginal method of spreading profit on long term contracts. Sensitivity analysis of gross profit to selling price changes (including currency effects) and to price changes of major material and other input costs.
- 10.17 Overheads - analyses by main categories, trends.
- 10.18 The business breakeven point
- 10.19 Depreciation and amortisation - bases, rates, treatment of grants, effect of any revaluations.
- 10.20 Treatment of intercompany profits and charges.
- 10.21 Transactions with any businesses in which shareholders or management have an interest.
- 10.22 Segmental, divisional and/or product group analyses of profitability including basis of allocation of central overheads.

DRAFT DUE DILIGENCE CHECKLIST

- 10.23 Interest and other costs of borrowing.
- 10.24 Taxation - reasons for high/low rates of charge, analysis between current and deferred taxation, impact of overseas taxation.
- 10.25 Extraordinary and abnormal items - details of past items, review of appropriateness of treatment.
- 10.26 Summary of cash flows.

Future Prospects

- 10.27 Accuracy of past forecasting.
- 10.28 Comment on the assumptions and bases used.
- 10.29 Comment on factors which might affect the forecasts, and the extent to which the forecasts are in line with the business' strategic planning.
- 10.30 Performance of sensitivity analysis to identify the critical assumptions and critical factors.
- 10.31 Comment on future prospects and on any recent changes to them.
- 10.32 Current order book and compare to forecasts.
- 10.33 Comment on cash flows including adequacy of working capital, bank facilities and availability of other external finance.

11 Balance Sheet

Property, Plant and Equipment

- 11.1 Reconciliation of fixed asset register to general ledger to financial statements.
- 11.2 Summary of cost and depreciation of main categories (including any assets on finance leases).
- 11.3 Particulars of any recent professional valuations, if not already given, comparison of depreciated historical cost amounts and revalued amounts.
- 11.4 Basis adopted of providing for depreciation/amortisation of each main category.
- 11.5 Review of adequacy of depreciation rates used.
- 11.6 Any recent changes in the bases of rates used for providing depreciation.
- 11.7 Apparent state of maintenance.
- 11.8 Comparison of net book values and tax written down values of assets eligible for capital allowances.
- 11.9 Capital commitments at the balance sheet date and details of any significant individual orders placed since.
- 11.10 Basis for capitalising own labour and materials.

Intangible Assets

- 11.11 Particulars of important patents, trade marks, designs, secret processes.
- 11.12 Details of registration and life.
- 11.13 Basis adopted for writing off the capital cost.
- 11.14 Details of goodwill; how acquired, whether arising on consolidation, cost, amounts written off.

Investments

- 11.15 Date purchased; cost and particulars of holding; percentage of equity held.
- 11.16 General review of income earned.
- 11.17 General review of underlying assets and attributable profits obtained from latest accounts.
- 11.18 type of business; names of directors and major shareholders if relevant.
- 11.19 Nature of business relationships; details of any guarantees to, or other arrangements with, investees or related parties.
- 11.20 Details of any restrictions on realisation of overseas interests and profits.

Inventor and Work in Progress

- 11.21 Review reconciliation from subsidiary records to general ledger to financial statements.
- 11.22 Details of the basis adopted for valuing inventory, especially the inclusion of overheads.
- 11.23 If standard costs are used:
- How are standards determined?
 - How frequently are the standards revised?
 - To what extent are variances separately identified and quantified?
 - What is the treatment of variances for both interim and annual accounting purposes (ie, the basis of apportionment between inventory and cost of sales).
Note that variances representing inefficiencies or abnormalities should not normally be allocated to inventory.
- 11.24 In ascertaining the lower of cost or market, how is market determined (ie, on a unit basis, by class or product, or on the inventory as a whole).
- 11.25 What is the treatment of intercompany profit in inventory?
- 11.26 Methods used in arriving at inventory quantities; adequacy of cut-off procedures.
- 11.27 How inventory quantities have been verified and particulars of procedures in force.
- 11.28 Methods adopted for providing for slow-moving and obsolete inventory; adequacy and consistency of provisions.
- 11.29 Rate of turnover of constituent categories.

Debtors

- 11.30 Reconciliation from debtors trial balance to general ledger to financial statements.
- 11.31 Review the aged analysis of trade debtors.
- 11.32 Approximate number of accounts; details of any major balances.
- 11.33 Usual terms of credit given; details of discount policy; average debtor days.
- 11.34 Details of the monitoring of delinquent accounts and follow up procedures.
- 11.35 Details of the bad debt provision and bad debt experience.
- 11.36 Credit control methods; create insurance and debt factoring arrangements.
- 11.37 Details of other main debtors and prepayments.

Creditors

- 11.38 Reconciliation from creditors ledger to general ledger to financial statements.

DRAFT DUE DILIGENCE CHECKLIST

- 11.39 Approximate number of trade accounts; details of larger balances.
- 11.40 Names of main creditors.
- 11.41 Usual period credit allowed/taken; whether this has been normally adhered to over the period covered in the report;
- 11.42 Analysis of other major creditors and accruals.
- 11.43 Details of supplier selection criteria and of any security given.
- 11.44 Lease and hire purchase agreements.
- 11.45 Guarantees, contingent liabilities, discounted bills, litigation pending.
- 11.46 Amount of longer term borrowings, dates of repayment currencies, interest rates, security, and details of any conversion options.
- 11.47 Analysis and basis of provision for future costs, eg warranties and guarantee costs. Past experience of warranty and guarantee costs.

Taxation

- 11.48 Is taxation relevant?

12 Other Matters

Accounting Records and Management Information

- 12.1 Nature of accounting records and equipment used to maintain them; whether kept up to date, general reliability and efficiency; extent of computerisation; manual of accounting instructions/account codes.
- 12.2 Nature of management information, budgets, interim accounts, etc.
- 12.3 Summary of reporting guidelines.
- 12.4 Number of staff engaged in accounting functions.
- 12.5 Details of use of computers or computer bureaux and annual costs.

Superannuation

- 12.6 Details of retirement benefit schemes or other pension schemes or arrangements, including levels of unfunded or contingent obligations.
- 12.7 Details of all super schemes to which the business contributes, is obliged to contribute to or is a nominated employer thereto, whether by award or agreement, on behalf of any employee engaged in the business.
- 12.8 Copies of any employment contracts or arrangements under which the business is obliged to make a retirement, redundancy or other termination payment separate from those contained above including details of any "key man" type insurance arrangements.
- 12.9 Copies of details of all relevant awards or contracts which apply to employees.
- 12.10 In respect of the funds detailed above, provide details of:
 - o The trust deed and any management agreements for each super fund and copies of any reports or correspondence from the manager or trustee.
 - o The latest audited financial accounts drafted since the end of the last reporting period.

DRAFT DUE DILIGENCE CHECKLIST

- The last actuarial report on the funds as well as any other correspondence with actuaries, auditors or other consultants, including any reviews or costings on the granting and or maintenance of life or disability cover.
 - The last income tax and ISC annual returns lodged including copies of ISC/OSSA compliance notices and any other correspondence with the ISC and detail any outstanding objections or requests for rulings from the Tax Office or the ISC.
 - The trustee minutes and management reports of the funds.
- 12.11 Details and copies of correspondence concerning outstanding litigation with employees affecting group companies.

Environment

- 12.12 Where applicable, make inquiries of national, state and local environmental regulatory agencies concerning compliance by the company and its facilities.
- 12.13 Determine whether it is necessary to consult with environmental legal counsel concerning the application of laws and regulations to the company.
- 12.14 Evaluate the impact on operational costs and efficiencies of:
- Non-compliance with applicable regulations.
 - Ensuring compliance.
 - The use of by-products and recyclable materials in the production process.
 - Recycling by-products and other materials for sale to third parties.

II Legal

1 Financial

- 1.1 Copies of all outstanding mortgages, charges (whether registered or not) credit arrangements and loan agreements to which the business is a party and which might affect the business's right to transfer the assets or the business.
- 1.2 Details and copies of all guarantees and indemnities given by any person in connection with the business.

2 Employment Matters

- 2.1 Copies of all service agreements with employees of the business.
- 2.2 Complete list of employees and their terms of employment including:
 - o salary/wages
 - o fringe benefits
 - o commissions
 - o long service leave
 - o annual leave entitlement
 - o other entitlements and bonuses
- 2.3 Details of awards to which any employees are subject and details of any relevant trade unions.
- 2.4 Copies of any agreements with trade unions and details of any labour disputes for the last five years.
- 2.5 Details of superannuation, pension, life assurance and other similar schemes operated by the business for employees of the business.
- 2.6 Copies of all Consultancy Agreements entered into in relation to the business.
- 2.7 Details of employment controls in relation to the Health and Safety in Employment Act.

3 Title to Assets

- 3.1 Provide documents of title for principal assets.
- 3.2 Confirm that the business has good and marketable title to all of its property and assets free from any security or third party interests.
- 3.3 Provide details of any agreements to give or create any security or third party interest in any property or assets and any claims that have been made by any person to be entitled to an interest of that kind.
- 3.4 Provide details and copies of all mortgages, charges and other securities registered with the Land Titles Office, and any other regulatory authority which registers such documents.
- 3.5 Copies of any other mortgages, charges or other securities giving any person any security or third party interest in any assets. Identify the nature and extent of any such security or third party interest.
- 3.6 Determine the means by which the business may transfer marketable title to the assets. In particular, advise whether the consent of any mortgagee or other third party is required before transferring such assets.

DRAFT DUE DILIGENCE CHECKLIST

3.7 Confirm that the business is not unable, deemed by law to be unable or has otherwise admitted its inability to pay its debts as and when they fall due for payment.

4 Property

4.1 Details of all property owned, occupied or used by the business in connection with the business including address, approximately area, term, rent, rent review provisions, user, title number, copies of leases and any headleases and details of any service or management charges paid by the relevant company.

4.2 Details of any leases, tenancies or licences to occupancy granted by the business including name of tenant or licensee, address of property, approximate area, term, rent, rent review provisions, user, or other terms, and including copies of such documents.

4.3 Details of any restrictions on use (including rights granted to third parties, related companies of the business or outside entities), charges, easements, covenants, caveats including any encumbrances and details of any notices served in respect of properties.

5 Business

5.1 Copies of any contracts with any customers; copies of any standard terms of business used by the business.

5.2 Copies of contracts with any suppliers

5.3 Full list of all plant, equipment and motor vehicles owned or hired by the business in relation to the business. Consider intellectual property rights.

5.4 Details and copies of all contracts or agreements relating to the acquisition of fixed assets by the business in connection with the business.

5.5 Details and copies of all hire purchase, credit sale, leasing, rental and maintenance agreements to which the business is a party in connection with the business.

5.6 Details of any documentation relating to any supply arrangements binding the business.

6 Computer Systems and Technology

6.1 Details of hardware and software owned or proposed to be acquired by the business forming part of the business together with proof of ownership.

6.2 Details of hardware and software leased/licensed or proposed to be leased/licensed by the business forming part of the business together with proof of licence right.

7 Service Liability

7.1 Identify and provide details of any areas of major potential liability that may arise against the business.

7.2 Details of any past material liability claims against the business.

8 Permits and Licences

DRAFT DUE DILIGENCE CHECKLIST

- 8.1 Details of all permits, registrations, consents, licenses and authorities (collectively “Permits”) held or previously held by the business and details of the term and any restrictions imposed by those Permits.
- 8.2 Details of compliance by the business with the requirements of the Permits including the payment of all fees.
- 8.3 Confirm that all Permits held by the business are still in force and details of whether any such Permits:
- have been cancelled or revoked;
 - are the subject of any investigation or allegations made by any public authority in relation to non-compliance with the requirements of those Permits; or
 - have been the subject of threats to revoke or withdraw any such Permits.
- 8.4 Determine whether any of the Permits can be amended, varied, revoked or cancelled as a result of the sale of the assets by the business.
- 8.5 Identify the means by which all Permits may be transferred or acquired on the sale of the assets by the business.
- 8.6 Provide details of any factors of which the business is aware, which might prejudice the continuance or renewal of any consent, permit, authority or licence.

9 Insurance

- 9.1 Details of all insurance policies of the business relating to the business including:
- product liability;
 - public indemnity;
 - comprehensive general liability;
 - employer’s liability/worker’s compensation;
 - property damage/business interruption;
 - insurances supplied by suppliers;
 - environmental liability.

10 Other Contracts

- 10.1 Details of any material contracts the business is a party to, that relate to the business not already covered above, for example:
- Joint Ventures, partnerships and licensing agreements’
 - Franchise agreements (including relevant policies);
 - Contracts with Government departments;
 - Distribution, agency, marketing, commission and dealer agreements;
 - Alliances with other companies;
 - Consultancy agreements;
 - Financial accommodation agreements (loans, debt facilities etc);
 - Guarantees and indemnities;
 - Mortgage, charges etc;

DRAFT DUE DILIGENCE CHECKLIST

- Leases (real estate, financing, operating) and hire purchase or similar agreements;
- Construction contracts;
- Sale and purchase contracts;
- Computer software and hardware;
- Insurance;
- Technical assistance licenses and agreements;
- Industrial agreements; and
- Non-compete and confidentiality agreements.

11 Other Documents

- 11.1 Any other documents and information which is significant with respect to the business of the business or which should be considered and reviewed in making disclosures regarding the business and financial position.