

# NEWMAN ACCOUNTING AND TAX SERVICES

BUSINESS ACCOUNTANT AND TAX PRACTITIONER

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**and**

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31 December 2013

Dear Sirs

**REPORT ON THE REVIEW OF THE**  
***“Final Draft Business Plan for the Development of a Drakensberg Cable Car”***

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## Introduction

I have been engaged by the African Conservation Trust [ACT] and the Wilderness Action Group [WAG] to review the “Final Draft Business Plan for the Development of a Drakensberg Cable Car” issued by Graham Muller Associates dated 14 October 2013 (hereinafter referred to as the Business Plan).

## Background

In terms of the KwaZulu-Natal Tourism Master Plan, the consideration of whether or not a Drakensberg cable car is viable is currently underway. The Department of Economic Development and Tourism has appointed Graham Muller Associates to perform a feasibility study and business plan on the proposed cableway.

A Technical Description and Prefeasibility Study has also been conducted by Kuka Mining Logistics (Pty) Ltd.

## Scope

This engagement is limited to a review of the Business Plan as mentioned above. The following documents have also been considered, however they do not form part of this engagement, their content has merely been read in order to provide background and certain information necessary for the preparation of this report:

1. *Final Feasibility Study for the Development of a Drakensberg Cable Car* issued by Graham Muller Associates dated 29 July 2013 (hereinafter referred to as the “Feasibility Study”)
2. *Updated Technical Description And Prefeasibility Study* issued by Kuka Mining Logistics (Pty) Ltd dated 20 September 2013 (hereinafter referred to as the “Engineer Report”)

The objective of this engagement is to identify material concerns regarding the financial viability of the proposed Drakensberg Cable Car. This engagement does not constitute a business plan.

The timeframe in which this engagement has been conducted has limited the scope of what can reasonably be performed. While there are various matters that may be of concern regarding the business plan, only certain matters of material concern will be discussed.

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This review does not constitute an audit in terms of the International Standards on Auditing [ISA], International Standards on Review Engagements [ISRE] or an engagement in terms of the International Standards on Related Services [ISRS] and accordingly no assurance is expressed or implied on the documents mentioned in this report or the amounts and information as disclosed in this report.

## Approach

A brief review of the various documents as listed above highlights numerous matters that may be misleading or may contradict other aspects of the associated reports. However, the primary purpose of this engagement is to assess whether or not the financial viability of the proposed project has been adequately documented and appropriate conclusions have been reached in the Business Plan.

The fundamental aspects of any project under consideration require special attention to the following significant matters:

1. The capital outlay of the proposed project
2. The funding of the proposed project
3. Timing of cash flows within the proposed project period
4. The lifecycle of the proposed project
5. The volume, amount and growth in revenue
6. The amounts and increases in operating and administrative expenditure
7. The required rate of return expected by the investor in addition to the determined Weighted Average Cost of Capital [WACC]

Despite there being additional matters that may be material to the viability of the project, matters such as a review of environmental and legal matters should be conducted by an expert in the fields relevant to the area of concern. This report is solely a consideration of financial aspects regarding the proposed project.

## Summary of findings

While there have been various significant findings, the two key findings are as follows:

1. The projected volume of 300 000 users is not supported by statistics, market research or detailed and supported calculations. To achieve 300 000 visitors per annum, assuming 35.5% of visitors to the Northern Drakensberg were to use the cableway, the required

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growth in visitors to this region would be 526% - whether or not such a level of growth can reasonably be achieved is not supported by any reference to any precedent, market research or statistics.

2. The ticket prices of R350 per adult and R200 per ticket indicate that the proposed tariffs would be in excess of the majority of cableways around the world. No market research or statistics have been presented to indicate that the target market will be willing to spend this on the use of the cableway.

While various other concerns in addition to the above are presented, with the substantial capital outlay, the success or failure of the proposed cableway lies primarily with the ticket price and number of tickets sold. The Business Plan does not adequately address these key aspects.

## **The Business Plan as issued: a resort and a cableway**

It has been noted that the Business Plan is for that of a resort in the Busingata Valley in addition to the proposed cableway. While the subject of whether or not a resort would be required in the presence of a cableway may be subject to debate, the construction of an additional Northern Drakensberg resort would not necessarily require the construction of a cableway and therefore the aspect of the resort has not been considered as part of this report.

The degree of detail on the proposed cable car is *thin* in places. Numerous aspects of the marketing and target markets of the resort are discussed in detail, however substantially less information with regards to the proposed cableway is presented. This may be of concern as the proposed capital expenditure on the cableway is substantially greater than any aspect of anticipated costs regarding other aspects of the proposed project.

It is relevant that the document in question is a draft and is therefore subject to change. A review such as this would normally be conducted on a final business plan. It is important to be aware that this report may raise concerns that will be addressed in the final report. Additionally, further concerns may arise on the final document.

## **Absence of market research**

No market research is quoted in the Business Plan under review. A survey is quoted in the Feasibility Study, however it is not detailed and does not include various material aspects. The most notable omission is research regarding the ticket price.

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In the absence of market research it would appear that the Business Plan at hand would better be described as a pre-feasibility study.

**The initial feasibility study**

While the scope of this report does not include comment on the Feasibility Study performed by Graham Muller Associates – it is noted that the Feasibility Study concluded on page 75 that the proposed cable car is feasible without, at a minimum, a summary of the financial considerations supported by calculations regarding this conclusion.

It is suggested in the Feasibility Study that there is a precedent of successful cableways in South Africa and therefore construction of an additional one “*would*” be profitable. However this is an unsupported claim. To compare a cableway such as the Table Mountain Aerial Cableway which is within a relatively close proximity to an international airport, to a proposed cableway requiring a substantial drive from the nearest highway is not necessarily appropriate.

To the best of my knowledge, very little financial information regarding the Table Mountain Aerial Cableway is publically available. Further, the Managing Director of the Table Mountain Aerial Cableway Company has publically stated her doubt of the profitability of the proposed Drakensberg cableway:

*Sabine Lehmann, MD at the Table Mountain Aerial Cableway Company, said while any new attraction would be a lift for tourism, “you have got to be careful that the attraction is appropriately sized and priced for its area”.*

*“All cableways are dependent on two things: the capital investment — which is major, and the number of feet you can get through your doors,” Ms Lehmann said.*

*She said cableways required continual and substantial maintenance investments running into tens of millions of rand, “so it is really important that you have a good understanding of how many visitors will come through the door”.*

*“I think the visitor numbers (in the Drakensberg) ... are too small” for the project to cover its costs, Ms Lehmann said. She said an attraction such as a boardwalk or treetop walkway “could be just as attractive for a fraction of the cost”.<sup>1</sup>*

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## Assertions regarding inflation

On page 72 of the Business Plan the following is stated:

*“The financial model excludes inflation and all growth/returns are therefore real.”*

While in some projections it may be fair to make such an assumption, it may not be appropriate in this context. The reasons for concern in this regard are as follows:

1. The assumption taken would imply that ticket prices, maintenance costs, electricity costs and labour costs would all increase at the same rates.
2. The impact of fluctuating exchange rates may further influence the maintenance costs of materials that will be imported. Consideration of historical exchange rate patterns should be considered in determining these amounts.

## 1. Capital outlay

### *Accuracy:*

It is relevant to be aware that the Engineers Report (page 4) makes reference to the amounts quoted being at 60% accuracy. I have been informed that this is normal for a Prefeasibility Study and therefore is not irregular at this stage. However it is important to be aware that the numbers quoted may materially differ from the actual construction costs.

### *Costs associated with the cableway construction:*

There are numerous costs associated with such a development in addition to the cost of the actual cableway. Such costs include road upgrades and operating assets. It is assumed that the municipality to whom the responsibility for the R74 repairs fall would cover the costs of rebuilding this road. However, the section of road between the end of the existing tar and the proposed cableway site may be the burden of the developer. It is imperative that these costs are considered if they are to be covered by the developer.

### *Additional construction costs:*

Paragraph 3.5 of the Engineer Report refers to the fact that the cableway can be designed to withstand higher winds than the standard 40-60km/h that these systems are designed to operate under. Page 48 of the Feasibility Study refers to the fact that the cableway would be designed to withstand stronger winds and it is therefore assumed that such an option will be taken. The amounts quoted in the Engineer Report may therefore be materially lower than the actual construction costs.

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There is also reference in the Feasibility Study (under Environmental Assessment – page 52) to sewage needing to be transported down the cableway for proper disposal. This is not mentioned in the Engineer Report and therefore has most likely not been accounted for in the calculation of the cableway cost. This would presumably require facilities in addition to those specified and thus additional costs may be incurred.

*Fluctuating exchange rates:*

It is also relevant to be aware that the import element as proposed could result in a substantial fluctuation on the final cost of construction. If a graph of the Rand (ZAR) to the Euro (EUR) is viewed for the past three years (December 2010 to November 2013) it is clear that there has been a sustained weakening of the Rand. Further weakening of the Rand could further increase construction costs.

In the Engineer Report a rate of R13.50 to the Euro has been used for the purpose of the calculations. At the close of business on 24 December 2013 the exchange rate was R14.14<sup>2</sup> - this would result in an increase in the price of imported material of approximately R11 million assuming the material was purchased on 24 December 2013. If historical patterns are repeated this increase could result in a substantial increase in construction costs.

**2. Proposed funding model**

It has been suggested in the Business Plan on page 72 that the project should be funded as follows:

1. 60% through an Industrial Development Corporation [IDC] loan
2. 40% through shareholders' funds

*IDC loan element:*

Extract from the IDC website:

*We support projects that will eventually contribute to the development of the economy through:*

1. *Job creation;*
2. *Developing small and medium enterprises;*
3. *Developing rural areas and underdeveloped provinces and regions; and*
4. *Boosting Broad-based Black Economic Empowerment and empowering people who were previously excluded from participating in the economy.*<sup>3</sup>

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Page 32 of the Business Plan refers to employing 54 individuals for the operation of the cable car. 60% of the estimated R375 249 965 (assuming *option 3* is taken) to be spent on construction of the cable car amounts to R225 149 979. Relative to 54 employees that loan amounts to R4 169 444 per job created.

It is important to consider the fact that a low-interest loan includes an effective grant element for the amount saved by a lower interest rate. Assuming an interest rate of 5% is given by the IDC on the anticipated loan, and assuming a fair market rate of 8.5% for the 10 year period, the grant element of the loan amounts to R22 687 678. This amounts to R420 142 per job created. Based on this, it does not appear that the number of jobs created will be sufficient to justify the IDC providing a low interest loan to fund the project.

Further to the above, a project with an expected gross asset value in excess of R350 million is unlikely to constitute a loan to developing a small to medium enterprise.

Based on the above facts it is doubtful that the project does in fact qualify for an IDC loan.

*Shareholders funding:*

Whether shareholder funding is contributed by means of a long term loan or by means of share capital, it does not materially impact on the return that shareholders would reasonably expect on their investment. However, in determining a fair rate of return on the project it is relevant that shareholders will usually require a certain rate of return on their overall funds invested, not merely on the share capital component.

**3. Cash flow timing**

The timing of cash flows is relevant as it will influence the Net Present Value and Internal Rate of Return of the proposed project. Very little information is provided in this regard.

**4. Project lifecycle**

A project lifecycle of 20 years has been utilised for the Business Plan. No explanation or references are provided to explain how this number of years was calculated.

As indicated in the Feasibility Study and Business plan, the cableway will be subject to strong winds, mist, rain and snow. Consideration as to whether or not this may shorten the lifecycle of the cableway, or result in increased maintenance costs may be necessary to address this.

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**5. Revenue**

Various factors impact on the number of people that could reasonably be expected to make use of the proposed cableway. Of all the variables in the financial model, the volume of tickets sold and the price per ticket are the most important factors. Due to the relevance of these factors, each will be considered separately.

It is important to be aware that the economic principal known as “price elasticity of demand” indicates that the price of a ticket will have an impact on the volumes of users of the proposed cableway.

**Volumes**

*The expected 300 000 visitors and growth:*

On page 8 of the Business Plan the following is stated:

*“The business plan assumes a baseline number of visitors of 300 000 per annum growing at 10% per annum for domestic tourists (base of 240,720) for the first 2 years. Foreign visitors will start at 59,280 and grow at 1% per annum for the life of the project. Growth will ultimately be limited by the capacity of the cableway.”*

Very little is stated on how these numbers have been derived, aside from a reference to 1.5% of passing vehicles, 25% of Northern Berg tourists and a “new tourists” number of 85 575<sup>4</sup>. It is important to be aware that 25% of existing Northern Berg tourists accounts for only 33 750 tourists. Therefore 266 250 of the expected visitors to the cableway would in fact be “new visitors”. I am not aware of any evidence in support of this number.

Further to this, of the 33 750 people expected to use the cableway out of existing Northern Berg visitors, it is possible that many of those included in this number may be families that visit the Drakensberg each year. Such individuals may be unlikely to use the cableway with sufficient frequency to retain the 300 000 users per year, never mind achieving a growth rate of 10% p.a.

It would be apparent from the documents at hand that the objective of the proposal is to boost tourism in KwaZulu-Natal. The following quote was included in *The Witness* on 31 July 2013 (quoting KwaZulu-Natal Economic Development and Tourism MEC Michael Mabuyakhulu):

*“It will change the tourism landscape not only for KwaZulu-Natal, but for our neighbours in the Free State and in Lesotho.”<sup>5</sup>*

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This may indicate an expectation that tourist numbers will increase due to the proposed development. However it is vital that sufficient studies are conducted in order to determine the level of growth in visitors to the region. Page 33 of the Feasibility Study indicates that 750 individuals were interviewed, however, no mention is made of discussion of the ticket price as would normally be discussed in such research.

*N3 traffic:*

Paragraph 4 on page 8 of the Business Plan makes reference to the number of people travelling on the N3 relative to the number of expected local volumes of cableway users.

The assumptions mentioned regarding volumes of N3 traffic are covered under each heading below. There may be additional factors to consider, however these are the ones I have identified which may be material.

*International tourist numbers:*

As very little information has been provided on the makeup of the expected 59 280 foreign tourists, it is difficult to identify whether or not this is a reasonable assumption.

It is important to be aware that page 5 of the Business Plan refers to 51% of tourists visiting KwaZulu-Natal being from Swaziland, Lesotho and Zimbabwe. The market review on page 17 of the Business Plan refers to foreign tourists being less concerned about cost, however I cannot see how this comment would apply to the countries making up 51% of the foreign tourist market. While the GDP per capita of various nations such as the United Kingdom and Germany is substantially higher than that of South Africa – Lesotho, Swaziland and Zimbabwe each have a lower GDP per capita<sup>6</sup> than South Africa.

Based on the above, and the proposed pricing structure, I am uncertain that a substantial number of the existing international tourist market in KwaZulu-Natal would make use of the proposed Drakensberg cableway.

*Distances quoted regarding N3 traffic:*

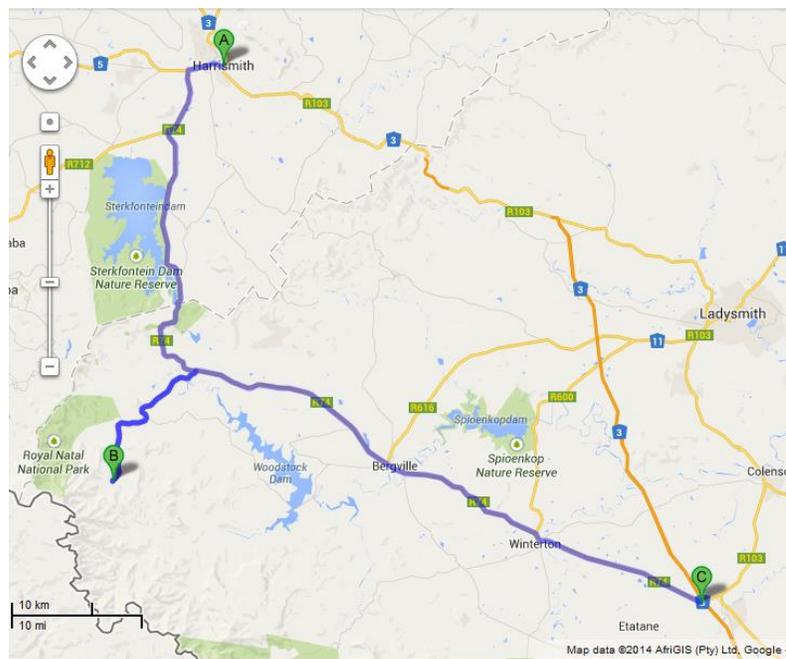
Page 4 of the Business Plan suggests that the cableway could be reached by a 60km drive from the N3 highway. Page 13 suggests a 40km distance. It is unclear whether this is a typing error or reference to distances from the north compared to the south.

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In order to identify the approximate distances I utilised Google Maps. With the request for directions from Harrismith to 28°44'52.22"S 28°59'38.31"E (the proposed base station coordinates as per the Engineer Report) – a distance of 70.8km was identified, including the use of the section of the R74 which is currently in a state of disrepair. The distance from the proposed site back to the N3 in the direction of Durban via the R74 is a further 93.2km (see the map below for the route). When compared to the 107km distance from Harrismith to the southern intersection of the R74 and the N3 without leaving the N3, use of the cable car would add 57km to the total distance travelled.



*Above: Map of the route from Harrismith to the proposed cableway site and back to the N3 as referred to above.*

*Source: Google Maps.*

It is further relevant to be aware that this route would require driving on roads with substantially lower speed limits. While Van Reenen's Pass on the N3 is an 80km/h zone, driving through Bergville and Winterton requires reduced speed limits of 60km/h. Further to this, the section between the R74 and the base station requires driving through communities with risks such as cattle and children in the road, and thus there is likely to be a speed limit of 60km/h. This section accounts for approximately 22km in each direction – 44km total at reduced speeds.

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Regarding the time required for the detour necessary in order to use the cableway en route between Gauteng and Durban, Google Maps estimates that it would take 1h16 to travel from Bergville to the site, 1h22 from the site back to the N3. That is 2h38 when compared to an estimated 1h04 to travel this stretch of road via the non-detoured N3 route. This combined with 30 minutes for purchasing tickets and waiting for the next departure, 30 minutes of travel up and 30 minutes back down in addition to, say, one hour on top. This accounts for a minimum of 3 additional hours. Page 6 of the Feasibility Study suggests that time pressured tourists are part of the target market, however, assuming that such tourists would in fact travel between Durban and Johannesburg via road, to assume that they would add three hours to their commute merely to observe a sight for one hour may be inappropriate. Market research should be conducted to determine whether or not this assumption is appropriate.

By contrast, according to Google Maps the distance from Cape Town International Airport to the base station of the Table Mountain Aerial Cableway is approximately 25km at 24 minutes. The cableway takes roughly 10 to 15 minutes to reach the top station<sup>7</sup>.

*Makeup of vehicles using the N3:*

It is important to be aware that 35% of the traffic on the N3 toll route is made up of trucks<sup>8</sup>. The remaining 65% of vehicles includes taxis, businessmen and other vehicles unlikely to add three hours to their trip in order to visit the cableway.

At this point in time I am not aware of any evidence that indicates that the assumption that current traffic on the N3 will translate to traffic on the proposed cableway. I further see no logical reason why this assumption is appropriate.

*KwaZulu-Natal tourist numbers:*

During the 2013 financial year a record 855 595<sup>9</sup> visitors made use of the Table Mountain Aerial Cableway facilities. The total number of visitors to Cape Town for the 2012 calendar year was 2 412 391<sup>10</sup>. This means that roughly 35.5% of visitors to Cape Town visited the Table Mountain Aerial Cableway during this period. It is important to remember that Table Mountain is an international icon recognised as one of the seven natural wonder of the world<sup>11</sup> and in close proximity to an international airport.

According to the Business Plan (page 4), approximately 135 000 individuals visit the Northern Drakensberg each year. For the required 300 000 cableway users to be achieved, assuming 35.5% of the visitors to the Northern Drakensberg would make use of the proposed cableway, approximately 845 070 people would have to visit the Northern Drakensberg in a

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calendar year. This would require growth of 526% in visitors to the Northern Drakensberg, based on the 135 000 quoted in the Feasibility Study.

Further to this the fact that the quoted ticket price for the proposed Drakensberg cableway is substantially higher than that of the Table Mountain Aerial Cableway may further reduce the ratio of people visiting the Northern Drakensberg that would make use of the cableway under the economic concept of price elasticity of demand.

**Ticket price**

The Business Plan suggests an adult ticket price of R350 and a child ticket price of R200 (page 27). This equates to R1 100 for a family of four with two children for a return trip.

Comparison to other cableways around the world (all exchange rates used as at 24 December 2013). It is relevant to note that the definition of a “child” on each cableway differs, and without statistics on the average age of the expected users it is not possible to adjust for this:

<b>Cableway</b>	<b>Adult return price (R)</b>	<b>Child return price (R)</b>	<b>Total for a family of four including two children</b>
Emirates Airline, London (UK)	R54	R27 <sup>12</sup>	R216
Hartebeespoort Aerial Cableway (South Africa)	R160	R90 <sup>13</sup>	R500
Table Mountain Aerial Cableway (South Africa)	R215	R105 <sup>14</sup>	R640
Skyline Gondola Queenstown (New Zealand)	Cableway offers a family ticket for 2 adults and 3 children <sup>15</sup>		R644
Sugarloaf Mountain Aerial Tram (Brazil)	R230	R113 <sup>16</sup>	R686
Palm Springs Aerial Tramway, California (USA)	R247	R175 <sup>17</sup>	R844
Grouse Mountain Skyride (Canada)	Cableway offers a family ticket for 2 adults and 2 children <sup>18</sup>		R1 030
Grindelwald-Männlichen Gondola Cableway (Switzerland)	R358	R179 <sup>19</sup>	R1 074

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Aiguille du midi cable car - Chamonix (France) – average of winter and summer prices	R456	R388 <sup>20</sup>	R 1 688
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The cableways selected above were obtained at random from a google search.

As the above table indicates, aside from the Aiguille du midi Cable Car in Chamonix, it is less expensive for a family of four to make use of any of these international cableways by comparison to the proposed cableway in the Drakensberg.

A comparison between Chamonix and the Drakensberg may not be fair due to the history and reputation associated with Chamonix. To assume that the Drakensberg and Chamonix can compete on even terms is an assumption that I am yet to see justification for.

The purpose of the above comparison is to demonstrate that pricing of the cableway tickets between a Swiss and French cableway is unlikely to draw tourists to use the cableway over any existing cableways around the world.

*Conclusion on ticket prices and volumes:*

While R350 per adult and R200 per child may be necessary for the project to be feasible, I am yet to see market research or an explanation of how it has been determined that the target market will be able and willing to spend this amount on a trip up the cableway.

Further to the above, in the event that the cableway does initially draw the required 300 000 individuals, I am uncertain that it has been adequately shown that there will be repeat visits, especially in light of the asking price per ticket.

Seeing as the ticket price and volume is essential to determining whether or not the project will succeed, I am yet to see sufficient evidence and market research for the numbers quoted.

## 6. Operating and administrative expenditure

Operating and administrative expenditure is provided in a brief summary. The numbers are not substantiated in detail. Further detail should be provided in order for comment on this aspect.

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**7. Required rate of return expected by the investor and Weighted Average Cost of Capital**

A business is only viable if it will achieve the necessary rate of return required by the investors.

It is the norm for a project return to be evaluated in terms of the projected future cash flows when compared the rate of return required by the relevant providers of capital. The return can then be evaluated in terms of the net present value [NPV] of such cash flows or in terms of the internal rate of return on the project [IRR].

The conditions for such an evaluation would state that a project should only be accepted in the event that the NPV is greater than zero or the IRR is greater than WACC (essentially both are an indication of the same rate of return).

The determination of WACC requires an analysis of the proposed funding model (discussed above) and the required rate of return on equity.

Determination of a fair rate of return to an investor is a subjective matter and will differ from person to person. For a project such as the one being proposed, a required rate of return of 25% (after tax) would generally be expected for such an equity investment. The following table illustrates how this number has been derived:

<b>Factor</b>	<b>Impact on factor</b>
Average rate of return on a low risk equity instrument <sup>21</sup>	15%
Large capital outlay required	+4%
High gearing ratio	+2%
Project risk of sabotage by communities at the base station and top station	+3%
The project will be difficult to sell or transfer due to its scale – therefore the investor will most likely be unable to sell or trade with the investment	+4%
Low fixed cost once the project is established	-3%
Estimated pre-tax rate of return to be expected by the investor	25%

As 15% of dividend tax will be deducted from the return taken by means of a dividend, the after tax rate of return expected to be required on the investor funds amounts to 29% p.a. –

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however, in the interest of not expecting an unrealistic return on investment, the analysis has been conducted with a required rate of return of 25%

The required rate of return by shareholders could also be reduced by in the event that the proposed project is operated through a listed public company, however this would increase associated costs such as compliance fees, and accordingly the net result is unlikely to differ materially from the above.

WACC:

Page 80 indicates an intention to fund the business by the following means:

1. Equity: 50%
2. Loan funding: 50%

With a 25% cost of equity and a 6.12% (8.5% less tax) cost of loan funding, the WACC for the proposed project is estimated at approximately 15.6% - which after deducting 5.5% for inflation (as per the Statistics SA CPI figures recently released for November 2013) indicates a required real return of approximately 10.1% for the project to be viable.

On numerous occasions in the Business Plan a NPV factor of 3% is quoted. Working backward from an after tax cost of 6.12% cost of loan funding and 50 : 50 debt equity, this would indicate that the after tax, excluding inflation required return for equity investors was assessed to be 5.4%. This amounts to 10.9% with inflation - less than the average return on relatively low risk investments such as SATRIX Top 40 over the past 5 years.

Based on the above it may be necessary to recalculate the NPV and IRR on the project in order for the output figures to be more meaningful.

## Other matters

While there are other matters which may be material and of concern regarding the Business Plan, with the required time frame it is not possible to comment further at this stage.

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## Conclusion

With reference to the review that has been conducted, given the various material aspects of the Final Draft Business Plan there does not appear to be sufficient documentation and market research to justify the conclusion that the cableway is financially feasible or can reasonably be expected to draw the required numbers to the region to justify the development.

Yours sincerely,



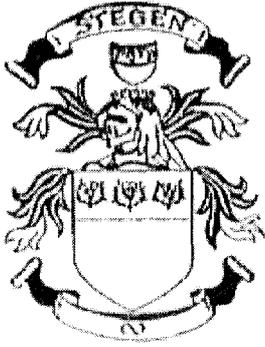
J O NEWMAN  
BCompt (Hons) APT SAIBR GTP (SA)

## References:

- <sup>1</sup> Quote from <http://www.bdlive.co.za/business/transport/2013/08/01/not-enough-feet-for-drakensberg-cableway>
- <sup>2</sup> Source: <http://www.oanda.com/currency/converter/> exchange rate for EUR to ZAR on 24 December 2013
- <sup>3</sup> Source: <http://www.idc.co.za/development-funds>
- <sup>4</sup> Business Plan page 4
- <sup>5</sup> Source: [http://www.witness.co.za/index.php?showcontent&global\[\\_id\]=104017](http://www.witness.co.za/index.php?showcontent&global[_id]=104017)
- <sup>6</sup> Source: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html>
- <sup>7</sup> Source: [http://www.tablemountain.net/visitor\\_info/faqs/](http://www.tablemountain.net/visitor_info/faqs/)
- <sup>8</sup> Source: National Roads Update: The South African National Roads Agency SOC Limited
- <sup>9</sup> Table Mountain Aerial Cableway Co (Pty) Ltd 2013 ANNUAL REPORT
- <sup>10</sup> Research on the Economic Value of Tourism in the City of Cape Town, Issued by the City of Cape Town dated August 2013. Page 10 (sum of 1 273 072 foreign and 1 139 319 local)
- <sup>11</sup> Source: <http://www.timeslive.co.za/travel/2012/12/03/table-mountain-becomes-one-of-the-world-s-new-seven-wonders-of-nature>
- <sup>12</sup> Source: <http://www.visitlondon.com/traveller-information/place/25549367-emirates-air-line>
- <sup>13</sup> Source: <http://www.hartiescableway.co.za/>
- <sup>14</sup> Source: [http://www.tablemountain.net/buy\\_tickets/](http://www.tablemountain.net/buy_tickets/)
- <sup>15</sup> Source: <https://www.skyline.co.nz/queenstown/pricing/>
- <sup>16</sup> Source: <http://www.bondinho.com.br/en/prices-and-hours/>
- <sup>17</sup> Source: <http://www.pstramway.com/tickets.html>
- <sup>18</sup> Source: <http://www.grousemountain.com/skyride>
- <sup>19</sup> Source: <http://www.maennlichen.ch/en/grindelwaldmaennlichen-gondola-cableway.html>
- <sup>20</sup> Source: <http://www.chamonix.com/aiguille-du-midi,80,en.html#tarifs>
- <sup>21</sup> Average compound rate of return on SATRIX TOP40 between December 2008 and November 2013. Source: [www.satrix.co.za](http://www.satrix.co.za)

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To Whom It May Concern:

**REVIEW OF THE "REPORT ON THE REVIEW OF THE  
Final Draft Business Plan for the Development of a Drakensberg Cable Car" by Jonathan Newman of  
Newman Accounting and Tax Services**

I have reviewed the 18 page report referred to above prepared by Jonathan Newman of Newman Accounting and Tax Services dated 31 December 2013 and which is attached.

The report refers to certain financial information relevant to the feasibility and sustainability of a proposed Drakensberg Cable Car as contained in the "Final Draft Business Plan for the Development of a Drakensberg Cable Car" prepared by Graham Muller Associates and dated October 2013.

Based on my review, nothing has come to my attention that causes me to believe that the Report by Jonathan Newman, is not logical and does not address some of the financial concerns with the original Draft Business Plan of Graham Muller Associates.

*P K Stegen*

P K STEGEN

Chartered Accountant (SA)

31 December 2013

Pietermaritzburg