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City of Joburg Property Company SOC Ltd.

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33 Hoofd Street  
Braamfontein  
2017

PO Box 31565  
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2017

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www.jhbproperty.co.za

20 January 2016

**MESSRS NEO SOLUTIONS (PTY) LTD  
OAKHURST 2<sup>ND</sup> FLOOR, NORTH WING  
11-13 ST ANDREWS ROAD  
PARKTOWN  
JOHANNESBURG  
2193**

Your Ref:  
Our Ref: RFP 34/2015.NS

**ATTENTION: VIVIEN NATASEN**

Tel: 011 484 2833  
Fax: 011 484 2899  
E-mail: vivien.natasen@neoafrica.com / info@neoafrica.com

**BY HAND**

**RFP 34/2015: APPOINTMENT OF SUITABLY QUALIFIED AND EXPERIENCED COMPANIES/JOINT VENTURES/CO-OPERATIVES AND /OR INDIVIDUALS FOR THE DEVELOPMENT AND PROVISION OF A FACILITY MANAGEMENT STRATEGY, FACILITIES MANAGEMENT FRAMEWORK AND FACILITIES MANAGEMENT MASTERPLAN SUPPORTED BY AN ADVANCED FACILITIES MANAGEMENT SYSTEM**

Dear Sir

City of Joburg Property Company (SOC) Limited ("JPC"), acting on behalf of the City of Johannesburg ("COJ"), have pleasure in confirming your appointment for the development and provision of a Facility Management Strategy, Facilities Management Framework and Facilities Management Masterplan supported by an advanced Facilities Management system on behalf of the City of Joburg Property Company SOC Limited (JPC).

## **1. GENERAL CONDITIONS OF APPOINTMENT**

This award is made in terms of JPC's standard general conditions of appointment. All previous correspondence, which has taken place between the two parties in connection with this award, shall be deemed to be of no force and effect and to be replaced by this appointment letter.

The award is subject to the following:

- 1.1 City of Joburg Property Company SOC Limited (JPC) and yourselves entering into an appropriate service level agreement which will be formulated in due course.



Non-Executive Directors: A. Mabizela (Chairperson), N. Rau, Prof A. Nevhutanda, T. Hickman, J. Mabaso, D. Ntombela, P. Msweli, M. Rabodila, M. Morojele.  
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Company Secretary: V. Morgan  
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## 1.2 Submission of the outstanding one year's financial statements.

## 2. SCOPE OF WORK

### 2.1 Facilities Management Framework and Master Plan

#### 2.1.1 Introduction

Facilities Management encompasses resource management at strategic and operational levels of support. It should be considered from the strategic view instead of an operational view where the integration and alignment of non-core services required to operate and maintain a business fully support its core objectives. Neo Solutions (Pty) Ltd must develop a Strategic Facilities Management (FM) Framework, taking into account the organisation's business plan together with its accommodation or facilities strategies. This is to promote the role of FM in delivering a high level of operation support to the core business as there is an absence of processes to link core business and FM strategies.

Neo Solutions (Pty) Ltd must look into the FM requirements of the City's portfolio of properties, where FM is still immature and practiced in a decentralised manner and provide a strategic approach in managing facilities. The Strategic FM Framework is anticipated to serve as an essential tool for JPC to enhance its strategic FM service delivery agenda.

#### 2.1.2 Purpose of the Framework and Master Plan

To develop a Strategic Facilities Management Framework supported with an appropriate Facilities Management System for JPC and the City to use to implement and enhance Service Delivery.

#### 2.1.3 Main goals for provision of facilities

- To provide appropriate and sustainable infrastructure in order to enable and advance the activities undertaken within the facilities.
- To ensure that tenants have access to safe, secure and fully operative facilities.
- To ensure that appropriate facilities suitable to advance the objectives of the organization are planned and constructed taking into consideration issues such as accessibility (location and access for the disabled), sustainability, safety and user friendliness



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- To maximize utilization by improving the quality of facilities through effective facilities management and maintenance.

#### 2.1.4 COMMON CHALLENGES

- Facilities Management is perceived by some authorities, particularly at Local Government Level, as the lowest priority in the hierarchy of needs. Consequently limited financial resources are allocated for provision as well as management of facilities.
- In some areas, particularly in disadvantaged communities there are no facilities at all.
- In some areas they are not properly maintained and managed.
- In some areas there is over utilization of facilities leading to complete degeneration.
- In some areas there is underutilization of facilities leading to neglect, dilapidation and vandalism.
- In many areas facilities are vandalized.
- Lack of project management skills to ensure proper implementation of projects.
- Use of sub-standard construction material resulting in poor quality and therefore high maintenance costs.
- No provision for / or of long term maintenance plans, cost projections and commitment of budgets to assist in ensuring sustainability of the facilities.
- Lack of properly skilled personnel to manage and maintain facilities.
- Facilities that are not disability friendly.
- Absence of a Facilities Management System that integrates information on facilities for planning.

#### 2.1.5 Framework Outcomes

The following are some of the outcomes expected from the Facilities Management Framework:

The Facilities Management framework must provide high level roles or functions required in order for JPC to provide, regulate, manage, maintain and operate well managed facilities and properties. Each of these high level roles and functions must contain a number of best practices and measures. In support of these roles, a software platform is required to enable JPC to perform all the activities and best practices of the framework in a cost efficient and effective manner, as well as provide the reporting means to report on all the related measures.



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The framework should include and cover, but not limited to, the following areas.

**(a) Assessment & Improvements**

The assessment of JPC FM processes and practices to benchmark them against best practice in the industry, review, update and supplement.

**(b) Strategy Development and Implementation**

Based on the outcomes of the Assessment listed above, the best practices gaps of JPC to be analysed and a formal strategy formulated to close them. The JPC Strategy will also have to be consulted and aligned to the FM Strategy.

**(c) Master Data Management & Information Management**

- The collation and capturing of all master data requirements of JPC in the FM System, including but not limited to:
  - The JPC asset register integration with JPC FM software
  - Attributes and classification of all facilities and assets according to assessment rating
  - Facility and building drawings and design incorporated into FM Software

Also, the management of all transactional information in support of governance and improvement being;

2.1.5.1.1 Maintenance history

2.1.5.1.2 Service Delivery Performance

**2.1.6 Facility & Asset Condition Assessments**

The Assessment of the physical condition of all the facilities and assets. Capturing of approximately 800 completed assessments onto the FM System, analysis of the data for reparation of a FM master plan for these facilities. Costing to be including in the FM system for completion of this exercise?

**2.1.7 Refurbishment, Replacement, Alterations & Upgrades**

The planning, budgeting, implementation and reporting of all upgrades. The results of the Condition Assessments, the classification of the facility & asset, the replacement standards and the overall facilities management strategy are the drivers for the planning and budgeting of refurbishments and upgrades.



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## 2.1.8 Contact Centre / Mobile and Web Application

The provision of a module in the FM software to accommodate receipt of request related to service issues or requests. The FM Software should be further enhanced through the provision of mobile and web application to ensure all end users of JPC facilities and assets can easily and effortlessly report issues or request assistance. It should further enable end-users to track progress on request on-line without phoning the contact centre.

## 2.1.9 Maintenance and Repairs

The establishment and management of the Work Order (WO) process to control all maintenance and repair work on facilities and assets. This role includes:

- The identification (via the Contact Centre and On Key Maintenance Plan) of all service and maintenance requirements
- The preparation and planning of all significant maintenance work
- The scheduling of the work within the SLA requirement
- The quality assurance of completed work
- The analysis of WO feedback as part of continuous improvement
- The analysis of the gathered maintenance history

## 2.1.10 Management of Soft and Hard (Technical) service providers

Bidders are required to perform an analysis of all services, operational and maintenance requirements to identify what services should be provided internally and what can be outsourced.

## 2.1.11 Facility & Asset Classification

Not all facilities and assets can be controlled and managed in the same fashion - certain facilities and assets require more attention due to its function, location or possible risk profile. For the efficient and effective operation of the FM department, all facilities and assets are to be classified according to a classification model to be provided by the bidder in the facility management system proposed. These classifications are essential input in the business rules and processes of JPC.

## 2.1.12 Risk Management & Business Continuity

Owning facilities and assets introduce risks for JPC. A full risk assessment matrix is to be incorporated in the FM System that will assist to identify and evaluate all risk for JPC. The outcomes to be used to identify risk mitigation actions and all high level risk recorded in the Risk Register for JPC Management review and control.



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### 2.1.13 Skills Transfer

It is envisaged that a team of JPC officials will be working with Neo Solutions (Pty) Ltd's team so as to ensure transfer of skills. Neo Solutions (Pty) Ltd must indicate in detail their skills transfer and training programme plan from commencement of the project to hand over and beyond. A 10% provision must also be included in the tendered amount for skills development.

### 2.1.14 Space Demand & Utilisation

The FM System to have a module that would speak to space utilisation. In this module the application must be able to work with/access CAD files and able to update other modules within the FM System automatically therefrom. This would include but limited to layout design change, asset movement tracking and updating and costing of rented space through to generation of rental bills.

### 2.1.2 Enabling Software Platform

The following main modules are to be included in the FM System software platform that will support the Framework and Masterplan. The Software has to have the capabilities to show all facilities, show the state of all facilities, what the cost of managing the facilities will be, how to manage the facilities and might include some components of a call centre functionality. The software application must have the ability to drill down into various applications utilised by the organisation such as NICOR, CAD, Asset Register, SAP.

Module	Functionality
Asset Register	Records of all facilities and assets, as well as all attributes including asset type, location, description, valuation, etc.
Asset Care Plan Developer	Central development of maintenance or asset care plans per facility or asset type. All facilities or assets related to the facility or asset type will inherit these plans as they are improved or reviewed.
Maintenance Manager	The planning and scheduling of all facility and asset related work. Maintenance scheduling, monitoring and programming capabilities. Life Cycle maintenance monitoring from concept-development-implementation - operations & maintenance - renewal or termination. Main Contact Centre tool to create new Work Orders and control work execution and service delivery.
Material Manager	Control of all material and maintenance spares. Full integration with Maintenance Manager. SCM processes to be incorporated into



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	software linked to supplier database.
Performance Manager	Measuring of downtime or out-of-service situations of facilities and assets.
Analysis and Reporting	Dashboard as well as reporting platform to extract, evaluate and report on all facility and asset activities.
Service Manager	The control of service providers to perform work within the set SLAs.
Space Demand & Utilisation Lease Management	Captures all space use and costing data for generation of billing. Captures all assets and movements and interactive and updating capabilities with all other modules.
Management review	Ability of client and management to view and track maintenance requests
Risk Management	Captures all risks and alerts Management on mitigation
Project Management tool	Captures all Projects and alerts management of milestones
Measuring Points	The recording of consumption values (water, electricity, diesel, km travelled, hour worked, e.g.) against facilities and assets to enable scheduling of maintenance activities, usage evaluation, rate payment and evaluation of performance and service delivery.
Mobility	Web-based access and mobile applications to request new work or report issues. The system must be accessible on mobile phones and tablets etc.
Budget & Expense Control	Creation of facility and asset budgets as well as control all expenses against facilities and assets to enable responsibility as well as facility/asset costing.
Reports	Various reports are required to be generated by the FM System such as : Technical reports, Financial reports, Occupational Health and Safety reports, project management reports etc.

3. Compile and Submit Complete and comprehensive Asset management plans for all properties in the portfolio, and train a JPC resource /s on the development and customization of the Asset Management Plans for individuals properties in accordance with an agreed prioritization of properties in accordance with an agreed prioritisation of properties.
4. Integrate GIS requirements with the existing GIS functionality used by COJ and JPC.
5. Assist JPC in enhancing revenue via accurate measurement of property rentable areas in terms of SAPOA methodology.
6. Web Based APP for reporting and monitoring for various internal and external Users.
7. Submit Project Plan and cash flow programme for the project.



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# JPC FM Strategy Framework, Masterplan & Software

## Task

### Project Mobilisation

#### Project Management - Overall

Develop Project Charter

Develop Communication Plan

Project Steering Meetings

Project Reports & Presentations

Internal Team PM Meetings

Stakeholder Communication

Project Risk Management

Oversight & Compliance Monitoring

Software Implementation Oversight & Compliance Monitoring

Review of Relevant Project Documentation & Information

### Stakeholder Management

Develop Stakeholder Management Plan (formalise Governance Structures)

Develop Stakeholder Communication Plan

Determine Stakeholder Roles, Rights & Responsibilities

Document Stakeholder Interaction and Decisions

### Develop Project Inception Reports

Develop Updated Detailed Project Scoping & Revise Project Plan

Obtain Approval of Updated Detailed Scoping & Project Plan (with Costs)

Develop final scoping of each project, prepare and package projects to maximize on financial returns.

Design detailed Project Plan, taking into account all work already done so far.

### FM Strategy Management

Review Project Preliminary Information available

Conduct Workshops with Stakeholders to firm up the information and improve the quality

Establish Baseline FM Activities currently performed by JPC and external Service Providers

Document Current FM Business Processes

Mapping JPC's current FM Functionality & FM Maturity Level

Comparing JPC's levels with best practice FM models

Performing a gap analysis

Review Current FM Staffing Plan

Develop Best Practice FM Business Processes to be adopted in the future

Develop a Future Staffing Plan that correlates with Best Practice FM Business Processes

Identifying Cost & Funding drivers to FM strategy & practice

Review JPC's Budget Forecasting and Financial Planning for FM

Perform a GAP Analysis

Identify Project Challenges and Risks

Develop a SWOT Analysis

Develop a Facilities Management Strategy

Develop a Facilities Management Framework

Develop a Facilities Management Masterplan

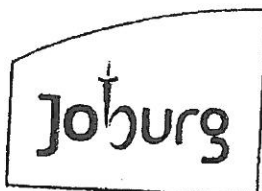
Develop Output FM Parameters and Software User Requirements Specifications for configuring the Facilities Management Software System

Present Output Documents and Workshop Stakeholders to obtain Approvals

Finalise Approved Documents as Reference Works for SMT training and publish the document internally in accordance with JPC's approved protocol on strategic document circulation within its SMT and Stakeholders.

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## JPC FM Strategy, Framework, Masterplan & Software

Task
<b>FM Software Implementation</b>
Develop Software User Requirements
Configure Software in line with SRS
Capture Pilot Site Data
Test Software functionality
Install and Configure Software onto Server Environment and devices
Test Software functionality in working environment
Training for JPC SMT
Training for JPC Field Staff on MyClocker & RAOM
Configure Software for Condition Assessment & Data Gathering
Train Data Gatherers & Condition Assessors
Manage Data Capturing and uploading of data from mobile devices
Training for CAD Team compiling Building Plans
Training for SAPOA Method of Measurement
Project Close Out report
Financial Closure

### 3. TIME FRAMES

The award is effective for a period of Eighteen (18) months commencing from 25 January 2016 until 26 July 2017, subject to certain terms and conditions which will be communicated to you in due course. Notice will be given thirty (30) days before termination of the contract. On termination by effluxion of time or otherwise Neo Solutions (Pty) Ltd will hand over all work in progress to JPC and will have no claim for cost other than stipulated in the Service Level agreement.

### 4. PAYMENTS TO NEO SOLUTIONS (PTY) LTD

As compensation to Neo Solutions (Pty) Ltd for the full and complete performance of the work and in compliance with all terms and condition of this AGREEMENT, JPC shall pay R 19 978 709.21



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(Nineteen Million Nine Hundred and Seventy Eight Thousand Seven Hundred and Nine Rand and Twenty One Cents), including VAT and Disbursements.

## 5. PAYMENTS

5.1 Payments shall be effected against Neo Solutions (Pty) Ltd for invoice within 30 days (Thirty) after invoice and statements.

5.2 The tax invoice shall contain at least the following information:

- Contract Number
- Invoice Number
- VAT numbers for both parties
- Description of the Project
- Contract address where the services were rendered

5.3 Invoices must be submitted to:

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JPC will not be liable for any additional costs incurred by Neo Solutions (Pty) Ltd through whatever cause, unless JPC has specifically instructed Neo Solutions (Pty) Ltd to incur such costs due to a substantial and material change to the services rendered which has been caused by an act of omission on JPC's part.

## GENERAL CONDITIONS OF APPOINTMENT

1. **Appointment in Force and Authorized Signatories:** This appointment is considered to have come into force immediately after all the necessary signatures have been appended.
2. **Independent Contractor:** The consultant is appointed as an independent contractor and no contract of agency and/or employment is created. Save as may be expressly authorized by JPC from time to time in writing, the consultant shall not hold itself out to be the agent of JPC and/or commit JPC to any contract or obligation of whatever nature.
3. **Alterations:** Should circumstances arise which call for modifications of the appointment, these may be made by mutual consent given in writing. Proposals in this respect from one party shall be given due consideration by the other party.
4. **Assignment:** The Consultant shall not without the prior written consent of JPC, cede or assign any of the benefits and obligations under this appointment.
5. **Sub-Contracts:** Any sub-contracts or modifications or termination thereof relating to the performance of the services by the Consultant shall be made only with the prior written consent of JPC.
6. **Compliance with Laws, By-laws and Ordinance:** The consultant shall comply strictly with every applicable law, by-law and ordinance including every regulation, code of conduct or other directive to which the consultant may be subject in its professional capacity. In this regard, the consultant's



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- particular attention is drawn to the requirements of the Occupational Health and Safety Act (OHSA) and its regulations as well as to the Financial Intelligence Centre Act (FICA).
7. **Insurance:** The consultant shall at its own cost and expense maintain professional indemnity insurance and public liability insurance with an insurer approved of by JPC in an amount and for duration as specified in the letter of appointment to which these general conditions of appointment relate.
  8. **Postponement and Termination:** JPC may give written notice to the Consultant at any time of its intention to abandon the services, in whole or in part, or to terminate this appointment. The effective termination date of this appointment shall not be less than fourteen (14) days after receipt of such notice, or such other shorter or longer periods as may be agreed between the parties. Upon receipt of such notice, the Consultant shall take immediate steps to bring the services to a close and to reduce expenditure to a minimum. Upon termination of the appointment the consultant shall deliver to JPC the originals of all documents in the possession of the consultant relating to and/or in connection with the appointment in both hard copy and (insofar applicable) electronic format.
  9. **Force Majeure:** The Consultant shall promptly notify JPC, in writing, of any situation or event arising from circumstances beyond its control and which he could not reasonably foresee, which makes it impossible for the Consultant to carry out in whole or in part, his obligations under this appointment. Upon the occurrence of such a situation or event, the services shall be deemed to be postponed for a period of time equal to the delay caused by the Force Majeure and a reasonable period not exceeding two weeks.
  10. **Claims for Default:** Any claims for damages arising out of default and termination, shall be agreed between JPC and the Consultant, or failing agreement, shall be referred to arbitration in accordance with clause 20.
  11. **Rights and Liabilities of Parties:** Termination of this appointment for whatever reason shall not prejudice or affect the accrued rights or claims and liabilities of either party to this appointment.
  12. **Confidentiality:** The consultant shall maintain all information relating to the appointment in the strictest confidence.
  13. **Indemnity:** The consultant indemnifies JPC and holds JPC harmless against any loss or damage that may be suffered by JPC (including and without limiting the generality of the foregoing any claim that may be brought or threatened against JPC by any third party) arising from or by reason of the failure by the consultant to comply with its obligation in terms hereof.
  14. **Skill, Care and Diligence:** The Consultant shall exercise all reasonable skill, care and diligence in the performance of the services under the appointment and shall carry out all his responsibilities in accordance with recognised professional standards. If any documentation prepared or submitted by the consultant to JPC is approved by JPC such approval shall not limit the professional liability of the consultant in respect thereof. The consultant shall remain professionally liable in respect of such documentation notwithstanding the approval thereof by JPC.
  15. **Faithful Advisor:** The Consultant shall, in all professional matters, act as a faithful advisor to JPC and, in so far as his duties are discretionary, act fairly as between JPC and third parties.
  16. **Indirect Payments:** The remuneration of the Consultant charged to JPC, shall constitute his only remuneration in connection with the appointment and neither he nor his personnel shall accept any trade commission, discount, allowance or indirect payment or other consideration with or in relation to the appointment or to the discharge of his obligations thereunder.



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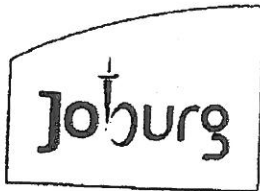
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17. **Royalties:** The Consultant shall not have the benefit, whether directly or indirectly, of any royalty on or of any gratuity or commission in respect of any patented article or process used on or for the purposes of the appointment, unless it is agreed to by JPC in writing that he may.
18. **Ownership of Equipment, Materials, Supplies and Facilities:** Equipment, materials, supplies and facilities furnished to the Consultant by JPC or purchased by the Consultant with funds wholly supplied or reimbursed by JPC shall be the property of JPC and shall be so marked. Upon completion or termination of the services under this appointment, the Consultant shall furnish to JPC, inventories of the equipment and materials referred to above as it then remains and dispose of same as directed by JPC
19. **Copyright:** All copyright in and to all documents, plans, designs and other material of whatever nature prepared or produced by the consultant in the course and scope of its appointment shall be and remain vested in JPC for which purpose the consultant cedes to JPC all such copyright.
20. **Settlement of Disputes:**
  - a. Any dispute or difference arising out of this appointment, including those considered as such by only one of the parties, shall be finally settled by Arbitration.
  - b. Such arbitration shall be conducted in accordance with the provisions of the Arbitration Act (Act No. 42 of 1965, as amended from time to time), provided that:
    - i. The arbitration proceedings shall take place at Johannesburg.
    - ii. It shall not be compulsory to strictly apply the requirements of the law of procedure or procedure of the usual rules of evidence.
    - iii. The arbitrator shall be a practicing senior advocate as appointed by the chairman of the Johannesburg Bar Council.
    - iv. The arbitrator shall be entitled to call for the evidence of specialists as required by the nature of the dispute.
    - v. The decision of the arbitrator shall be final and binding on both parties and may be made an order of a competent court.
  - c. Unless otherwise requested by JPC, the implementation of the project shall, despite the submissions of a dispute to arbitration, in no manner be suspended or in any way delayed by the consultant.



Non-Executive Directors: A. Mabizela (Chairperson), N. Rau, Prof A Nevhutanda, T Hickman, J Mabaso, D Ntombela, P Mswele, M Rabodile, M Morojele.  
Executive Directors: Helen Botes (Managing Director),  
Imraan Bhamjee (Financial Director),  
Company Secretary: V. Morgan  
City of Joburg Property Company SOC Ltd.  
Registration Number: 2000/017147/07



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City of Joburg Property Company SOC Ltd.

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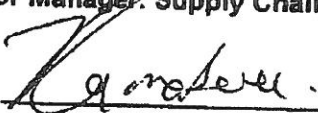
Please signify your acceptance of appointment by signing the endorsement at the foot of this letter and returning same to us.

Signed for and on behalf of City of Joburg Property Company SOC Ltd.

#### SUPPLY CHAIN MANAGEMENT UNIT

Name: Fitzgerald Ramaboea

Title: Senior Manager: Supply Chain Management Unit

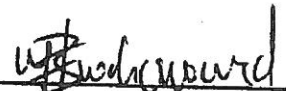
Signature: 

Date: 20/1/16

#### FINANCE

Name: Imraan Bhamjee

Title: CFO

Signature: 

Date: 21/1/16

#### CHIEF EXECUTIVE OFFICER

Name: Helen Botes:

Signature: 

Date: 21/1/2016



Non-Executive Directors: A. Mabizela (Chairperson), N. Rau, Prof A Nevhutanda, T Hickman, J Mabaso, D Ntombela, P Msweli, M Rabodila, M Morojele.  
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
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**Signature on behalf of Neo Solutions (Pty) Ltd**

Name: VIVIAN NATAJEN

Capacity: CEO

Signature: 

Date: 25/1/2016



Non-Executive Directors: A. Mabizela (Chairperson), N. Rau, Prof A Nevhutanda,  
T Hickman, J Mabaso, D Ntombela, P Msweli, M Rabodila, M Morojele.  
Executive Directors: Helen Botes (Managing Director),  
Imraan Bhamjee (Financial Director).  
Company Secretary: V. Morgan  
City of Joburg Property Company SOC Ltd.  
Registration Number: 2000/017147/07

# **FINANCIAL ANALYSIS REPORT**

**RFP 34/2015**

This is Neo Solutions (PTY) Ltd's financial analysis. The aim of this report is to evaluate the entity's financial stability and financial ability to execute Project No. RFP 34/2015

# FINANCIAL ANALYSIS REPORT

RFP 34/2015

## 1. FINANCIAL RATIO ANALYSIS:

The ratios below are units of measurement used to measure the financial position and performance of NEO Solutions (PTY) Ltd using a comparative of three years to observe the trends.

Financial Ratios	2014	2013	2012
Debt to Asset Ratio	0.15:1	0.18:1	0.01:1
Cash Ratio	0:1	0:1	19.63:1
Asset Turnover Rate	0.67:1	0.91:1	1.01:1
Gearing Ratio	17%	21%	75%
Interest Cover Ratio	7.05:1	19.62:1	No interest payable
Cash Coverage Ratio	15.57:1	24.40:1	No interest payable

### 1.1 DEBT TO ASSET RATIO:

**Definition:** This is a financial ratio that measures the extent of a company's leverage. The debt to asset ratio indicates the proportion of a company's assets that are being financed with debt, rather than equity. The ratio is used to determine the financial risk of a business. A ratio greater than 1 shows that a considerable proportion of assets are being funded with debt, while a low

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ratio indicates that the bulk of assets are being funded by equity. A ratio greater than 1 also indicates that a company may be putting itself at risk of not being able to pay back its debt.

Neo solutions recorded a total liability of R50 595 970.00, R50 433 326.00 and R116 477 485.00 for the 2014, 2013, 2012 financial year respectively. Their total assets as shown in their statement of financial position amount to R50 595 970.00, R50 433 326.00 and R116 477 485.00 respectively. This indicates a ratio below 1 with 0.15:1 for 2014 FY, 0.15:1 for 2013 FY and 0.01:1 for 2012 FY.

The above mentioned ratio means that Neo Solution's considerable proportions of assets are not funded with debt.

## 1.2 CASH RATIO:

**Definition:** The cash ratio compares a company's most liquid assets to its liabilities. It is most commonly used to measure a company's liquidity. The cash ratio measures the immediate amount of cash available to satisfy short term debts. A ratio above 1 means that all the current liabilities can be paid with cash & cash equivalent.

Neo solutions' cash & cash equivalents drastically declined from a recorded amount of R17 098 716.00 in 2012 financial year to R20 000.00 in 2013 and R12 500.00 in 2014 financial year. This is recorded against Current liabilities which increased from R871 258.00 in 2012 financial year to R5 560 014.00 in 2013 and R4 009 360.00 in 2014 Financial year.

A cash ratio of 0.1:1, 0.1:1 and 19.63:1 for 2014, 2013 and 2012 financial year is observed. Neo Solutions' cash ratio is unfavourable in that there will be not enough cash and cash equivalent to pay for its short term obligations as they become due. The statement of comprehensive income indicates 41% and 53% in 2014, 2013 FY respectively of its expenditure being spend

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on salaries and directors remuneration instead of other income generating expenditures. A reduction on salaries and directors remunerations may increase the entity's cash ratio.

### 1.3 ASSET TURNOVER RATIO:

**Definition:** It is a measure of a company's ability to use its assets to generate revenue. If a company can generate more sales with fewer assets it has a higher turnover ratio which tells it is a good company because it is using its assets efficiently.

A net revenue of R33 717 979.00, R75 790 364.00 and R102 845 630.00 was recorded in the 2014, 2013, 2012 financial year respectively, with an average net assets of R50 514 648.00, R83 455 405.00, R102 072 200.50 for 2014, 2013, 2012 fy respectively. The asset turnover ratio for 2014 financial year is 0.67. For every rand invested Neo solutions is generating R0.67.

However this ratio is based on industry standards and comparison with entities of same industry still needs to be made in order to give a more exact answer. In this case there is no other entity information at our disposal that can be used.

### 1.4 CASH COVERAGE RATIO:

**Definition:** This ratio is used to determine the amount of cash available to pay for a borrower's interest expense and it is expressed as ratio of the cash available to the amount of interest paid. To show a sufficient ability to pay, the ratio should be substantially greater than 1:1

Neo solution's cash coverage ratio is favourably above 1 with 15.57:1 and 24.40:1 for 2014 and 2013 financial year respectively. There was no interest bearing liability recorded in the books of Neo for 2012 financial year, therefore cash coverage ratio could not be determined for



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2012 FY. This above observation indicates Neo solutions' sufficient ability to pay the borrower's interest expense.

#### 1.5 GEARING RATIO:

**Definition:** Gearing ratio measures the proportion of a company's borrowed funds to its equity. The ratio indicates the financial risks to which a business is subjected, since excessive debt can lead to financial difficulties. A lower gearing ratio means greater financial stability. A high gearing ratio indicates that a company is using debt to pay for its continuing operations. Companies with high ratios above 50% is traditionally said to be high and represent a greater risk. A business with a gearing of less than 25% is traditionally described as low gearing whilst gearing between 25 -50% would be considered as normal for a well-established business which is comfortable financing its operations with debt.

Neo Solutions recorded total equity of R43 166 289.00, R41 555 269.00 and R115 606 227 for 2014, 2013 and 2012 financial year respectively. A decline in the gearing ratio starting from 2012 to 2014 financial year is observed. This indicates a favourable gearing ratio of 17% in 2014 financial year.

Gearing ratio is what lenders are concerned about when it comes to issuing finance. An excessively high gearing ratio may put a lender's loans at risk of not being repaid. Should Neo solutions decides to seek finance to execute a project, lenders may not decline it given the above gearing ratio. With the above observation it is safe to say Neo Solutions has a good gearing ratio.

#### 1.6 INTEREST COVER RATIO:

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**Definition:** The interest cover ratio measures the ability of a company to pay its interest on debt. This is used by lenders, investors etc. to determine the risk of lending funds to a company. A high ratio indicates that a company can pay for its interest expense several times over.

A favourable Interest cover ratio of 7.05:1, 19.62:1 for 2014 and 2013 financial year respectively. There was no interest payable recorded in the books of Neo Solutions. An interest cover ratio of 7.05:1 means that Neo can pay of its interest 7 times over.

#### **1.7 CONCLUSION:**

Given the above ratios, Neo Solutions (PTY) Ltd seems to be in a secured financial position. In case initial capital injection is needed to kick start a project, given a low gearing ratio, a favorable cash cover ratio and interest cover ratio, struggles to access finance from lenders is not foreseen for Neo Solutions. Seeing that this project is not a construction project that will require a huge injection of funds in the beginning of the project, applying for finance may not be necessary for Neo Solutions. It should be noted that financial ratios cannot be used in isolation to determine if a bidder will or will not succeed in executing a specific project but should form part of the resources to be considered for decision making. Other resources such as in-house skill, experience in the field etc. should also be considered.