



FINANCIAL ADVISORY SERVICES

# 4 Stars Hotel, Grande Comoro

Feasibility Study

August 2009

ADVISORY

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26 August 2009

Dear Sirs,

**Establishment of the 4 Stars Hotel, Grande Comoro.**

In accordance with the terms of reference set out in our engagement letter dated 9 July 2009, we enclose our report on the feasibility study of the establishment of the 4 Stars Hotel, Grande Comoro.

Our report is for information of the addressees only and should not be quoted or referred to, in whole or in part, without our prior written consent, except as specifically provided in our engagement letter. The terms of reference for this report have been agreed by the addressees and we will not accept responsibility to any other party to whom the report may be shown or who may acquire a copy of the report.

Our report does not constitute investment advice. Any decision regarding whether or not to proceed with the proposed Hotel shall rest solely with the Client.

Yours faithfully



KPMG

# Important notice

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## Notice to the reader

- KPMG has been appointed to act as financial advisor to SCAS Inc ("The Company"). for a feasibility study exercise on the establishment of the 4 Stars Hotel, Grande Comoro.
- This report has been prepared in accordance with KPMG's terms of reference as set out in our engagement letter dated 9 July 2009. This report is prepared on the basis that it is for the Company's internal use only and that it will not otherwise be quoted or referred to, in whole or in part, without KPMG's prior written consent.
- Our work commenced on 10 July 2009, and was completed on 26 August 2009. We have not undertaken to update our report for events or circumstances arising after that date.
- The contents of the report may not be used for any other purpose without the prior written consent of KPMG.
- If this report is received by anyone other than our client, the recipient is placed on notice that the attached report has been prepared solely for our client for its own use and its contents are not to be shared with or disclosed to anyone by the recipient without the express written consent of the Company and KPMG.
- KPMG shall have no liability and shall pursue all available legal and equitable remedies against the recipient for the unauthorized use or distribution of this report.
- The financial forecasts and calculations are based on estimates provided to us by the Management, and the same has not been independently verified by us. In preparing this report, we have relied upon and assumed, without independent verification, the accuracy and completeness of any information available from public sources.
- KPMG, nor affiliated partnerships or bodies corporate, nor the directors, shareholders, managers, partners, employees or agents of any of them, makes any representation or warranty, expressed or implied, as to the accuracy, reasonableness or completeness of the information contained in the report. All such parties and entities expressly disclaim any and all liability for or based on or relating to any such information contained herein, or errors or omissions from this report or based on or relating to the use of this report.

# Important notice (cont'd)

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## Scope and limitations

- KPMG has carried out a desktop review of the information provided by Management in relation to the feasibility study exercise on the establishment of the Hotel. If there were any omissions, inaccuracies or misrepresentations of the information provided by Management, this may have a material effect on our findings.
- This report sets forth our analysis based on the facts and assumptions provided to KPMG. If any of the above foregoing is not entirely complete or accurate, it is imperative that we are informed immediately, as the inaccuracy or incompleteness could have a material effect on our conclusions.
- Our work did not constitute an audit of the information submitted by Management and accordingly we do not express any opinion on the same.
- Our report makes reference to “KPMG Analysis”; this indicates that we have (where specified) only undertaken certain analytical activities on the underlying data to arrive at the information presented; we do not accept responsibility for the underlying data.
- We must emphasize that the realization of the projections/forecasts set out within our report is dependent on the continuing validity of the assumptions on which they are based. The assumptions will need to be reviewed and revised to reflect such changes in trading patterns and cost structures as they emerge.
- Since the forecast relate to the future, actual results are likely to be different from the forecast results because events and circumstances frequently do not occur as expected, and the difference may be material.
- We have performed sensitivity analysis in order to measure the impact of variation in some key assumptions on financial indicators.

## Basis of information

In the preparation of this report, we have relied on the following information:

- Information provided by Management
- Meetings and discussions with Management
- Other publicly available information on Comoros Islands economy and the Hospitality sector in Comoros Islands

# Glossary of terms

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<b>Capex</b>	Capital Expenditure
<b>COGS</b>	Cost Of Goods Sold
<b>DCF</b>	Discounted Cash Flow
<b>EBIT</b>	Earnings Before Interest and Taxation
<b>EBITDA</b>	Earnings Before Interest, Taxation, Depreciation and Amortisation
<b>F&amp;B</b>	Food and Beverage
<b>FOB</b>	Freight On Board
<b>GDP</b>	Gross Domestic Product
<b>IMF</b>	International Monetary Fund
<b>IRR</b>	Internal Rate of Return
<b>Ke</b>	Cost of equity
<b>UAE</b>	United Arab Emirates
<b>UNDP</b>	United Nations Development Program

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	<b>Page</b>
<b>Executive summary</b>	7
<b>The Comoros Islands at a glance</b>	
● Country profile	11
● Market assessment	17
● Competition analysis	22
● Untapped potential	27
<b>Business plan</b>	
● Concept and strategy	29
● Revenues forecast	32
● Costs projection	35
<b>Investment analysis</b>	
● Financial projections	39
● Financial statements	40
● Risk assessment	42
<b>Appendices</b>	
1. Sensitivities	44
2. Sources of information	45

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# Executive Summary

# The opportunity

## Opportunity overview

- 4 Stars hotel located in Male focusing on leisure tourism, with a total of 50 rooms
- The selected site enjoys a private postcard-like sand beach
- The location presents a unique eco-tourism potential: hiking to the Karthala, visits of mangroves preserves, scuba-diving in the reef, as well as cultural attractions (e.g. Foumbouni)
- Attractive conditions and terms will be granted: land lease, taxation, facilitation, personal incentives...
- Required financing: USD 10.25 million
- Unlevered IRR = 24.3% (no debt assumption)
- Levered IRR = 34.8% (50% debt assumption)
- Expected payback period = 5.7 years (50% debt assumption)

## Opportunity highlight

### Favourable environment

- Continued economic growth, fuelled notably by the surge in foreign investments
- Strong and pro-active government support

### Unleveraged natural assets

- Strong touristic potential, stemming from the islands luxurious nature, magnificent landscapes, unique beaches and sea life, and historical attractions
- Significant gap in offering, currently far from leveraging the islands assets

### Attractive markets dynamics

- Historical issues resolved, notably with regard to airline connections
- Significant infrastructure improvements and sustained political stability
- In progress landmark projects (e.g. Dubai World, Lac Sale), to serve as anchors for tourism development

### Very limited competition

- Only 6 hotels, mostly 1-star to lower 2-stars. Almost-inexistent leisure offering



## Headlines

### Hospitality market environment

- The main drivers for a Comorian 4 Stars hotel demand is:
  - Significant population growth, averaging 2.1% per annum since 2002
  - Increase in real GDP at 2.9% per annum since 2002
  - Growing expatriate population due to the surge of business opportunities and foreign direct investments
  - Increase in tourist arrivals due to the ongoing improvement of the country's infrastructure and the establishment of Comoros Airlines and Etihad Airways new flights between UAE and Moroni
  - Political stability
  - Strong Government support and engagement in a set of initiatives aiming at strengthening the hospitality industry
  - Very limited competition: Only 6 hotels, mostly 1 Star to lower 2 Stars with almost-inexistent leisure offering
  - Strong touristic potential, stemming for the islands luxurious nature, magnificent landscapes, unique beaches and sea life, and historical attractions
- All in all, there is a strong case for investing in the Comoros hotel market and reap identified opportunities, with promising financial prospects and a reassuring low expected complexity.

### Project summary

- The project consists of a 4 Stars luxury hotel located in Male, with a total of 50 rooms and offering full leisure and business services.
- The main revenue drivers are:
  - Room revenues: from guests occupying rooms at a given daily rate.
  - Food & Beverage revenues: from both hotel guests (min-bar, room service...) and all customers (guests or external) of the hotel F&B outlets (bar, snack, restaurant...).
  - Service revenues: from other services provided to both guests (from Telecom communications to activities organization, and including laundry, valet...) as well as others (e.g. conference rooms rental).
- The total CAPEX is USD 10.25 million, with a payback period of 5.8 years.
- A Discounted Cash Flow analysis was used over a period of 20 Years, assuming no terminal value. Using this approach we obtained an Unleveraged IRR of 24.3% (100% Equity financing) and a Leveraged IRR of 34.8% (50% Equity financing and 50% Debt financing).

## Business plan essentials

Free cash flows are forecasted to reach USD 3.5 million

- Particular emphasis on:
  - Adequate offering and packages
  - Efficient promotion and referencing
  - Capabilities and costs management

Financial summary							
Activity USD, million	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
<b>Total revenues</b>	-	-	1.1	3.7	4.6	5.6	5.9
<b>EBITDA</b>	-	(0.1)	0.5	2.3	2.8	3.4	3.6
EBITDA margin	-	-	0.5	0.6	0.6	0.6	0.6
<b>Net income</b>	-	(0.1)	0.1	1.8	2.2	2.8	3.0
Cash flows USD, million	Year 0	Year 1	Year 2				
Capital expenditure	(1.8)	(5.0)	(3.5)	-	-	-	-
<b>Free cash flows</b>	<b>(1.8)</b>	<b>(5.1)</b>	<b>(3.3)</b>	<b>1.7</b>	<b>2.6</b>	<b>3.1</b>	<b>3.5</b>

Sources: Union of the Comoros Chamber of Commerce

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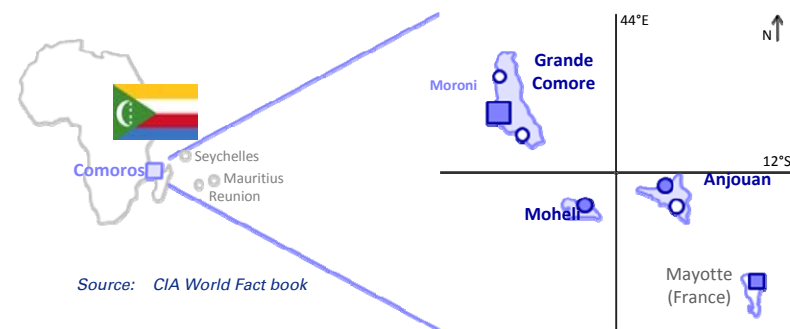
# The Comoros Islands at a glance

## Country profile

**Comoros Islands is comprised of 3 main islands with a total area of 2,170 km<sup>2</sup>**

- The Comoros Islands are an independent federal republic of islands located in south-eastern Africa, at the north of the Mozambique Channel, about two-thirds of the way between northern Madagascar and northern Mozambique, and constitute a major and historical cross-road between Africa, Indonesia and the Middle-East.
- The Union of the Comoros comprises three main islands, with a dispute pending over the fourth island, Mayotte, currently under French administration:
  - Grande Comore (locally known as Njazidja), the largest island, where Moroni, the capital and largest city, is located.
  - Anjouan (Nzwani), the second largest, with Mutsamudu the largest city in the island.
  - Moheli (Mwali), the third and least populated island, with Fomboni as main city.
- The country total area amounts to 2,170 km<sup>2</sup>, with over 340 km of coastline, and an important maritime domain.
- The islands feature a varied landscape, from reefs to low hills and steep mountains, with the main volcano, the Karthala, culminating at 2,360 m above sea level.
- The Comoros have a tropical climate, with 25°C to 30°C in the summer (January to April) and 20°C to 25°C in the winter (August to October). Although, the first four months of the year qualify as a rainy seasons, the Comoros are significantly protected by the natural barrier of Madagascar mainland from the tropical hurricanes plaguing the Seychelles, Mauritius and the Reunion.

### Geographic location of the Comoros Islands



Source: CIA World Fact book

## History and overview

**Comoros Islands entered a maturity phase since 2006 after witnessing a French colonization and political turmoil**

### Early history

- Numerous evidences of early settlements from varied origins have been found, from Phoenician to African Bantu, as well as Melanesian and Polynesian.
- Over the centuries, the islands were invaded by a succession of diverse groups from the coast of Africa, the Persian Gulf, Indonesia, and Madagascar, with a notable period spent as part of the Oman Sultanate, albeit with changing levels of control.

### French colonization (19<sup>th</sup> century to 1975)

- The Comoros were eventually claimed as a colony by France towards the end of the 19th century.
- After World War II, the islands became a French overseas territory and were represented in France's National Assembly and internal political autonomy was granted in 1961.
- An agreement was reached with France in 1973 for the Comoros to become independent in 1978. On July 6, 1975, however, the Comorian parliament passed a resolution declaring unilateral independence. The deputies of Mayotte abstained.
- Subsequently, in two referendums, in December 1974 and February 1976, the population of Mayotte voted against independence from France (by 63.8% and 99.4% respectively).
- Mayotte has since remained under French administration.

### Political turmoil (1975 to 2001)

- Thereafter, and until 2001, the country witnessed a period of political turmoil, with 18 coups or attempted coups, orchestrated notably by French mercenary Bob Denard, leading to Anjouan and Moheli seceding in 1997.
- Eventually, a peaceful coup in 1999 by military chief Azali, who pledged to resolve the crisis through a federal arrangement (the Fomboni Accord) led to the adoption of a new constitution in December 2001, overwhelmingly approved (75%) by voters, with presidential elections following in spring 2002.

### Stabilization (2002 to 2006)

- Between 2002 and 2006, the country went through a stabilization of its political landscape, with the newly elected Assoumani's union government acting as an umbrella authority for the islands administrations and achieving the rationalization of finances and of the security apparatus, as well as the establishment of a Constitutional Court.
- The National Assembly was inaugurated with parliamentary elections held in 2004.

### Maturity (since 2006)

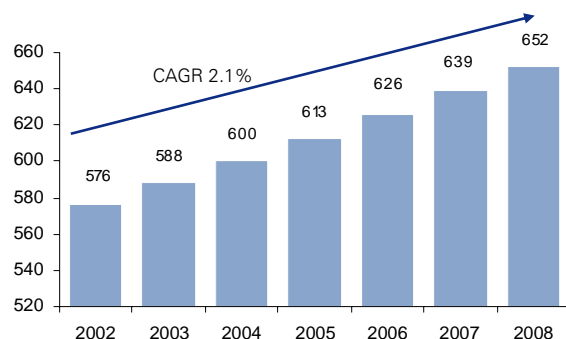
- With the election of president Ahmed Abdallah Mohamed Sambi in 2006, in a two stages electoral process deemed free and fair by international observers, the country entered a maturity phase, illustrated by the handling of the minor political gridlock in May 2007, with the Anjouan President refusing to give up his post for a successor – a situation eventually solved thanks to the intervention of the African Union.
- The Union of the Comoros islands is a member of numerous African and International institutions, notably the Arab League, joined in 1993.

# Demography overview

**Comorian population growth rate averages 2.1% per annum since 2002**

- With little over 650,000 habitants in 2008, the Comoros are one of the least populous countries in the world, despite a significant growth, averaging 2.1% per annum since 2002.

## Comorian population



Source: IMF

- The population is representative of that of African countries, notably the shape of the age pyramid highlighting a high share of habitants aged 14 years or less:

Comorian population profile (2008e)			
Females	50.30%		
Males	49.70%		
	<b>Total</b>	<b>Females</b>	<b>Males</b>
0 to 14 years	42%	42%	43%
15 to 64 years	55%	55%	54%
65 years and a	3%	3%	3%

Source: UNDP, CIA World Fact Book

- Moving forward, strong fundamentals should support a sustained growth, if not a mechanical acceleration, given the shape of the age pyramid, as today's youth ages and enters the fertile population pool:
  - High birth rate: 36.9 births per 1,000 habitants.
  - Important fertility: 5.0 births per fertile woman.
  - Low death rate: 8.2 deaths per 1,000 habitants.

- Limited prevalence of endemic diseases, notably HIV, with a prevalence estimated by the World Health Organization to represent less than 0.1% of the total population.
- As such, population growth is expected to average 2.5% per year in the next 10 to 15 years, reaching 800,000 habitants by 2015 and exceeding the 900,000 habitants before 2020.
- Despite the small size of the population, the Comoros are one of the most densely populated countries in the world, with an average of 335 people per km<sup>2</sup>.
- Urban population amounts to circa. 40% of total and has been steadily growing since 2001. Major urban centres: include Moroni, Mutsamudu, Domoni, Fomboni, and Tsembehou.
- Additionally, the Comoros have an important Diaspora, principally in France, with the largest community concentrated in Marseilles.
- The islands of the Comoros share mostly African-Arab origins: Antalote, Oimatsaha, Cafre, Makoa, Sakalava... inherited from historical settlements and relations with Africa and the Middle-East. There is also a very small minority of Asian descents, notably Indian and Chinese.
- Sunni Islam is the dominant religion, representing over 98% of the population. Numerous mosques are available in the country, many of which finely crafted, particularly the Vendredi Mosque in Moroni.
- While French and Arabic are the two official languages, the most common language is Comorian, or Shikomor, a descendant of Swahili with Arabic influences, with dialects spoken in each of the islands.
- Arabic is widely known as a second language, being the language of Quranic teaching, and French is the language of all other formal education. More so, Arab culture is firmly established throughout the archipelago and is recognized as a sign of higher culture and education.
- Comorian has no native script, but both Arabic and Latin scripts have been used. Latest estimates [2003] evaluate total literacy at 62.5%, with men at 69.6% and women at 55.3%. Literacy in the Latin alphabet is estimated at 57%.

# Economy overview

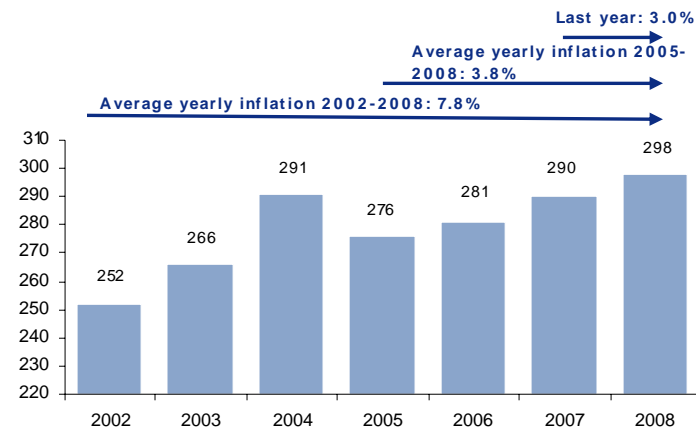
**Comorian economic growth is 2.9% per annum since 2002**

## Historical evolution

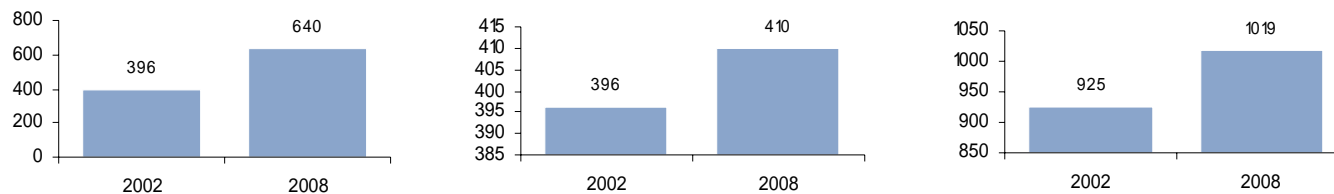
- The Comorian economy has been growing at 2.9% per annum since 2002, translating to a real GDP of close to USD 298 million in 2008E.
- The high inflation witnessed by the Comoros (7.8% per year on average since 2002) reflects the global inflation in commodity prices, notably in oil prices, a major import for the country.
- Fortunately, inflation has been slowing down lately (3.0% between 2007 and 2008 vs. 3.8% p.a. since 2005 and 7.8% on average since 2002).
- The aforementioned estimations of the Comoros GDP feature a potential underestimation of the important size of the grey and black economy, as bartering is still used in remote areas.
- Similarly, there is very limited if any available data and visibility on the remittances from the Comorian Diaspora, likely to be significant.

- In that context, and given the strong growth of population, wealth evolution has remained limited to a 1.6% average yearly increase of the country GDP per capita at Purchasing Power Parity, reaching 1,020 International Dollars per capita in 2008, amongst the lowest in the world:

**Comorian real GDP and inflation (USD million, 2002 prices)**



Source: IMF, CIA World Fact Book



Source: UNDP, IMF, CIA World Fact Book

**Services and agriculture represent respectively 50% and 46% of GDP**

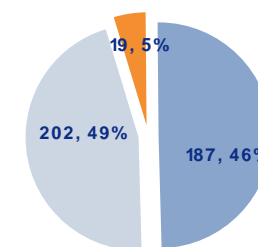
### Activity breakdown

- The Comorian economy is dominated by Services and Agriculture, representing respectively 50% and 46% of total GDP, and has a negligible industrial activity.
- Services include: tourism, trading, telecom, banking, and others
- Agriculture includes: Vanilla, Ylang-ylang, clover and spices, fishing, banana, coconut etc,...

### Trade balance

- The country trade balance is strongly negative, with importations (USD 170 million in 2008E at FOB prices, i.e. 36% of GDP) exceeding exports (USD 52 million, 11% of GDP) by close to 25% of GDP.
- Main import items include:
  - Oil for electrical production and cars, representing 709 barrels per day
  - Foodstuff (32% of imports), notably rice and meat
  - Commodities , e.g. cement
- Main import partners: France, UAE, South Africa, Pakistan, China
- Main export items include:
  - Ylang-ylang (by far world largest producer)
  - Vanilla (world 2nd producer / exporter – good quality)
  - Clover, copra and other exotic spices...
- Main export partners: Turkey, France, Singapore, Saudi Arabia
- All in all, the high reliance on imports is a structural weight on the Comorian economy, notably with regard to primary products.
- Concomitantly, the agricultural activity is geared towards exports, mainly at the expense of local foodstuff production, mostly imported, and representing 46% of trade balance.

**Breakdown of nominal GDP (2008E) in million USD**



Source: IMF



## Economy overview (cont'd)

Comorian economy is expected to achieve significant growth supported by government efforts

### Economic outlook

- While real growth has remained limited since 2002, some acceleration has been witnessed in the last few years, materializing notably by a slowdown of inflation and the launch of numerous projects in various key sectors.
- Moving forward, the Comorian economy is expected to achieve a significant stepping up in growth, favoured by the current conjuncture, supported by major government efforts, notably with regard to infrastructure overhaul, and fuelled by surging Foreign Direct Investments (FDI).
- As such, the Comorian economic outlook should benefit from:
  - *Positive Impact of Global Crisis:* The Comorian economy should benefit overall from the current economic conjuncture. The Comoros trade activity is very limitedly exposed to the sectors most impacted by the global downturn. More so, exports are related to 'feel-good' products (vanilla for candy, pastry and ice-cream, ylang-ylang for perfume), that typically benefit from negative environments. Finally, the sharp decrease in commodities prices, principally oil, translates to direct savings for the Comorian economy.
  - *Political Stability and Government Commitment:* The Comoros are now able to reap the benefits of the political progress achieved since 2002, notably thanks to a very pro-active approach of the government, eager to support economic development. The now sustained reliability of institutions provides a level of confidence for business operators to engage in developing their activity. The government is showing significant flexibility in setting-up legislations and regulations attractive to foreign investors and in providing them with numerous facilities and incentives.
  - *Infrastructure Overhaul:* A major upgrading of the country infrastructure has been initiated by the government and is expected to continue with a strong and efficient pace. With regard to transportation, the old Moroni airport has been completely renovated, and should very soon welcome direct flights from the Gulf. The land network is under rehabilitation with the help of the international community (Kuwait and the European Union notably). A network of rapid ship lines connecting the three islands is expected to start operations by the end of 2009. Additionally, the envisaged development of the Moroni port should provide the country with a second major harbour releasing the current pressure on the Anjouan International Port. Telecommunication services have been opened to competition, with a second mobile operator (Groupe Com) due to go live in the next 6 months. A banking license has been granted, with the Banque Federale du Commerce expected to open for business in the second quarter of 2009.
  - *Strong FDI Momentum:* Numerous projects have been announced and started by landmark players, creating a cluster bound to attract additional investors. AWI, one of the largest press groups in the Middle-East, is already in operation, publishing a newspaper and a magazine, running a printing press, and planning to roll-out an outdoor advertising network. Comoro Gulf Holding, a Kuwaiti company, has secured a significant area around the Lac Sale, and is currently developing a major real estate project, expected to represent over 3,000 villas and major touristic features (marina, golf, sports...). Ernst & Young, the internationally renowned audit firm, has already established a local office in Moroni, and is in the process of deploying a permanent team.

## Market assessment – Market fundamentals

Comoros Islands are endowed with many amazing natural sites, beaches and shores, landscaping and vegetation...

### Touristic Potential of The Comoros Islands

- The Comoros islands are endowed with many amazing natural sites, a luxurious landscape and vegetation, bristling with a unique distinctive fauna. The three main attractions on the Grande Comore are the town of Fombouni, Le Khartala mount and the Lac Sale site:
  - *The Town of Fombouni*, located on the east coast of Grande Comore (not to be confused with Moheli's Fomboni), has amazing bright white buildings. The town is well known for its pottery and woodworking artists and is home to several interesting tombs of Portuguese navigators discovered right outside the town.
  - *Le Khartala Mount* is an active volcano and the Union's highest point (2,360 m). The mountain is covered by evergreen forests and is home to many unique species of birds native of Comoros. Four bird species seen here are native only to the slopes Karthala. The four bird species that are native only to Comoros are the Comoro Drongo, Comoro Scops Owl, Comoro White-eye, and the Humbolt's Flycatcher. This is a must do hike for bird watcher and naturalists alike.
  - *The Lac Sale Site* is an extinct crater flooded by sea water through an underground cave network. The peaceful sight of the lake waters encompassed in the steep frame of the crater is a unique destination incomparable to any other. A landmark touristic project is under development for the location.
- The naturally beauty of the Comoros is best experienced in Moheli, probably the most attractive destination, notably for hikers.
  - *The Island of Moheli*, the smallest of the Union (10 km x 25 km) is covered with a plethora of trails winding all over a wild landscape. The trails take hikers to jungle-highlands, uninhabited beaches, and to the crater lake of Dziani Boundouni. While hiking on the island, visitors will see many local plants and wildlife. One of the most common animals to see on Moheli is the Mongoose lemur. This is the most common species of lemur on Comoros. Also, the marine natural reserve of Nioumachoua is a must-see destination for nature lovers, with an exceptional fauna and flora.
- Additionally, all three islands have magnificent shores and beaches, and offer unique opportunities for sea-related activities:
  - *Beaches* are scattered along the sea shore, as patches of white soft sand framed by the black volcanic basalt that constitute most the islands ground. The waters are warm and inviting. All in all, the Comoros beaches rank amongst the most acclaimed 'postcard' topical paradises.
  - *Scuba diving* off the coast of the islands is quite a treat. The marine life is abundant with giant whales, sailfish, sunfish, manta rays, and many species of sharks. One of the most famous fish found in the waters of the Comoros is the Coelacanth. It was thought extinct until 1938, with no other sighting until 1952. The first time this fish was ever seen in its natural habitat was off the coast of Comoros and was documented by the National Geographic Society in 1988. Scuba diving here is a must just to catch a glimpse of this rare creature.
- All in all, the islands diving, hiking, and beaches are first class. There are many things to do and enjoy on every island in the Comoros, making them a hidden utopia in the Indian Ocean.



## Market assessment – Market fundamentals (cont'd)

Poor infrastructure was the main reason for limited tourism

### Touristic Infrastructure of The Comoros Islands

- Until today, the current touristic infrastructure is far from living up to the country's potential. However, this image is changing with massive FDI into this sector being channelled to the Islands.
- Lodging options are limited. Once hosting world-class hotels, the Comoros suffered from the progressive disaffection of major hotel groups in the 1990's, driven by political instability, and has not recovered since:
  - *Old Outdated Hotels*: Most hotels have not been renovated since the 1980's, and many are currently abandoned, e.g. Le Galawa Beach Hotel, a world renowned luxury hotel when operated by Sun, and now in complete ruins.
  - *Very Limited Referencing*: The presence of most hotels in the Comoros in major international databases is very limited, with consequent difficulties for potential tourists to plan their trip an important hindrance to visiting the country.
- Furthermore, transportation to and from Comoros has substantially improved: In the past, atop Air Comores, the islands are currently serviced only by 5 airlines (Yemenia, Air Austral, Air Tanzania, Kenya Airways and Air Madagascar) operating 14 flights per week. As such, access from countries with an important potential to 'provide' tourists (e.g. Europe, notably France, South Africa, GCC) entails long stop-overs, and is rather expensive (coach prices typically between 800 € and 1,200 €). However a new airline, Comoros Airlines, was recently established and flights started on the 15 May 2009. Comoros Airlines has 3 planes and serves currently 3 destinations: Jeddah, Dubai and Paris.
- Transportation within the Comoros is also improving with Comoro Gulf Holding investing over USD 5 million in inter-islands travel.
- So far, the country has failed to build an attractive value proposition around its natural assets, further limiting its attractiveness as touristic destination:
  - *Inadequate Offering*: The strong potential of the Comoros for eco-tourism, a solidly anchored perception in Western Europe is not leveraged, nor is its low-budget positioning.
  - *Poor Range of Activities*: Despite the wide and rich opportunities offered by the country landscape, the development of touristic activities (tours, hikes, diving...) remains limited to basic, low quality offers.
- All considered, the poor infrastructure has been over the last years a major hindrance for the development of 'mass' tourism in the Comoros.

# Market assessment – Market dynamics

The decrease in the number of international arrivals will be offset by the establishment of new airline connections

Currently, the interest of GCC investors helped increase traffic to the Comoros

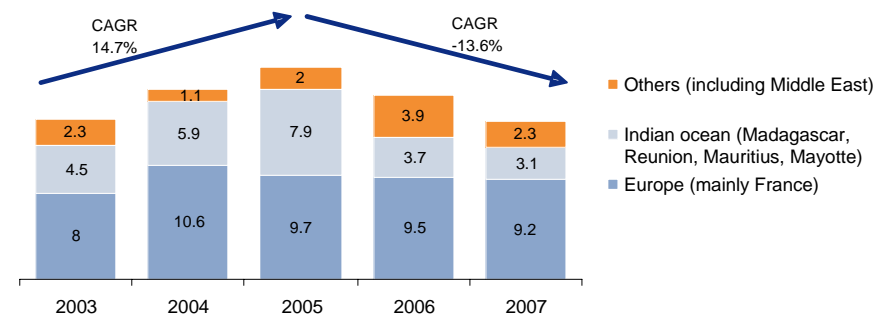
## Historical Development

- After a strong growth between 2003 and 2005 (circa. 15% p.a.), the number of international arrivals in the Comoros dropped sharply by 2007 to 14,600.
- The main driver behind the decrease is the reduction of visitors from Mayotte (accounting for over 50% of lost volumes) reflecting political evolution (notably, French legislative changes).
- The termination of some airline connections, notably with South Africa and Dubai, has also been an important driver of the drop, de facto isolating the island.
- 2008 brought an end to the decrease, with estimated arrivals higher than in 2007 and in 2009 tourist arrivals are expected to pick up significantly with the establishment of Comoros Airlines and Etihad Airways establishing flights between UAE and Moroni.

## Current Situation

- Europe and notably France remains the major source of visitors to the Comoros, representing close to two thirds of the total. Visits from neighbouring Indian Ocean countries are also significant, notably the two French territories of Reunion and Mayotte.
- Traffic from the Middle-East has witnessed significant growth of 47% p.a. since 2004, notably driven by the increasing interest of GCC investors for the Comoros.

## International arrivals in the Comoros



Sources: Union of the Comoros Chamber of Commerce

Origin	Europe	Indian Ocean	Others
France	8,845	Madagascar 518	Middle-East 826
United Kingdom	65	Reunion 1,286	South Africa 183
Germany	53	Mauritius 186	Others Africa 400
Others	187	Mayotte 1,142	Others World 891
<b>Total</b>	<b>9150</b>	<b>3132</b>	<b>2300</b>

Sources: Union of the Comoros Chamber of Commerce

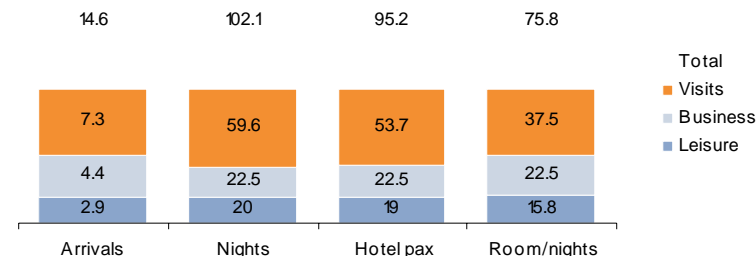
# Market assessment – Market dynamics (cont'd)

**The Comorian market amounted to 76,000 room nights in 2008**

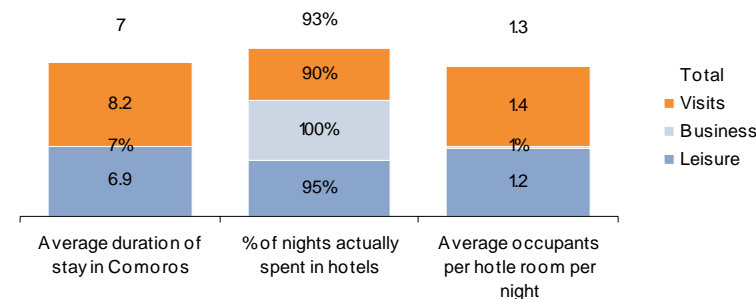
## Current Situation (cont'd)

- Comoros visitors are characterized as long-stayers with an average duration of 7 nights per stay.
- Business travellers (at least self-stated) represent 30% of total and self-stated tourists 20% - remaining 50% stating visit as purpose of travel. The number of business travellers is expected to pick up in the near future due to the significant increase in FDI and projects in the Comoros. The hotel will be fully equipped to accommodate all business needs as well as provide leisure activities and services for all business travellers.
- The average stay in the Comoros lasts 7 days, with 93% of corresponding nights spent in hotels or other lodging accommodations.
- All in all, the Comorian market amounted to 76,000 room nights in 2008.
- The Grande Comore hosts close to 65% of total nights. Anjouan (16% of total nights) is underweighted when considering the relative islands sizes. Moheli (20% of total nights) is clearly a more touristic destination, attracting relatively less business travellers than the other two islands

## Tourists behavior by stated purpose of visit (2008E, thousand)

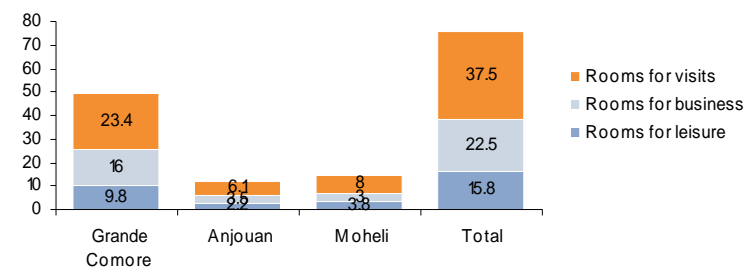


## Tourists behavior by stated purpose of visit (2008E)



Sources: Union of the Comoros Chamber of Commerce

## Breakdown of rooms by Islands & purpose of visits (2008E)



Sources: Union of the Comoros Chamber of Commerce

## Market assessment – Market dynamics (cont'd)

### Comorian tourism and hotel market have a flourishing business outlook

#### Expected Evolution

- Despite the difficulties it has faced historically, the Comorian tourism and hotel market contemplates a promising outlook, as many important issues are progressively resolved.
- Political stability and sustained, if not accelerating, economic growth lay a favourable context for the development of tourism, a major asset for the country yet to be leveraged.
- Ongoing improvement of the country's infrastructure will also enhance the attractiveness of the Comoros as a touristic destination, notably when related to transportation (imminent establishment of connections with GCC countries, inter-islands shipping lines...).
- The heightened interest of foreign investors is also translating into tourism and real estate investments, like the already opened hotel Itsandra, or the ongoing projects for the Corniche, the Lac Sale project, etc...
- Nevertheless, materializing the improvement of the environment will require the development of an appropriate value proposition, a major opportunity to be grabbed.

## Competitive analysis – Competitive landscape

As at January 2009, there were 6 hotels and 31 boarding houses

### Overview of Hotels In The Comoros

- The national tourism directorate has categorized hotels in the Comoros in three categories, a temporary classification, until the Tourism Law currently discussed in parliament is adopted:
- International type category, defined by the number of rooms, as well as by the amenities and services offered.
- Intermediary type category, equivalent to international 1 or 2 stars hotels, targeting low-budget tourists.
- Others, comprising principally of small boarding houses with 6 to 10 rooms, typically managed by the family or with very limited staff.
- At the end of January 2009, there were 37 establishments in the Comoros, 6 hotels per se and 31 boarding houses, distributed over the three islands

Grande Comore Establishments	
<b>Le Moroni</b>	<ul style="list-style-type: none"> <li>• Located 5 minutes from downtown Moroni and 35 minutes from the airport</li> <li>• Built in 1984 by Accor, government owned – 50 years lease granted to Sodeco in 2000</li> <li>• 60 rooms, of which 4 suites and 2 apartments</li> </ul>
<b>Les Arcades</b>	<ul style="list-style-type: none"> <li>• Built in 1998 by Les Alleles – privately owned and operated</li> <li>• 25 rooms (10 standard and 15 deluxe)</li> </ul>
<b>Itsandra</b>	<ul style="list-style-type: none"> <li>• Located between the airport and Moroni (2 km from downtown)</li> <li>• Renovated in 1984, government owned, originally operated by Comotel and then by Sun International – 40 years lease granted to Comoro Gulf Holding in 2007 with a partial start of operations in the second half of 2008</li> <li>• 22 rooms and 12 bungalows (under construction), of which 6 suites</li> </ul>
<b>Boarding houses</b>	<ul style="list-style-type: none"> <li>• An estimated 20 boarding houses</li> <li>• Scattered over the island, with a higher concentration in and around Moroni</li> <li>• Representing circa. 160 rooms</li> </ul>

Anjouan Establishments	
<b>Al Amal</b>	<ul style="list-style-type: none"> <li>• Renovated in 1984, government owned, originally operated by Comotel – 50 years lease granted to Sodeco in 2004</li> <li>• 23 rooms</li> </ul>
<b>Boarding houses</b>	<ul style="list-style-type: none"> <li>• An estimated 5 boarding houses</li> <li>• Principally in Mutsamudu, with some in Domoni</li> <li>• Representing circa. 40 rooms</li> </ul>

## Competitive analysis – Competitive landscape (cont’d)

Supply in 2007 amounted to 389 units excluding Itsandra

Moheli Establishments	
<b>Laka Lodge</b>	<ul style="list-style-type: none"> <li>• Located on the islands facing the Nioumachoua marine park and reserve</li> <li>• Built in 1997 – privately owned and operated</li> <li>• 13 rooms, of which 1 apartment and 5 bungalows</li> </ul>
<b>Singani</b>	<ul style="list-style-type: none"> <li>• Located in Moheli capital, Fomboni</li> <li>• Built in 1984, government owned until 1995 – since privately owned and operated</li> <li>• 20 rooms</li> </ul>
<b>Boarding houses</b>	<ul style="list-style-type: none"> <li>• An estimated 6 boarding houses</li> <li>• Principally in and around Fomboni</li> <li>• Representing circa. 50 rooms</li> </ul>

- As such, the supply in 2007 amounted to 389 units (Itsandra not yet in operation), of which close to 250 in boarding houses (64% of total), and featured a higher concentration of capacity in Grande Comore:

### Breakdown of Lodging Units [2007]

<b>Boarding houses</b> 160 units	<b>Boarding houses</b> 40 units	<b>Boarding houses</b> 48 units
<b>Les Arcades</b> 25 units	<b>Al Amal</b> 24 units	<b>Singani</b> 20 units
<b>Le Moroni</b> 60 units		<b>Laka Lodge</b> 13 units
<b>Grande Comore</b> 245 units 63%	<b>Anjouan</b> 64 units 16%	<b>Moheli</b> 81 units 21%

Sources: Union of the Comoros Chamber of Commerce, hotels

- With the exception of Sodeco, managing Le Moroni and Al Amal, competitors are very small and local, with no other exposure to the hotel business.



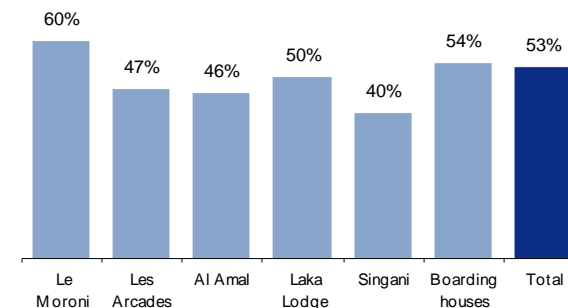
# Competitive analysis – Competitive landscape (cont'd)

**The average occupancy rate in 2007 was 53.4%**

## Occupancy Analysis

- The previously identified 389 units supply corresponds to a total capacity of 142,000 rooms in the Comorian market.
- Compared with the 75,800 rooms sold, it translates to an average occupancy of 53.4% in 2007, with individual hotels occupancy ranging between 40% and 60%:

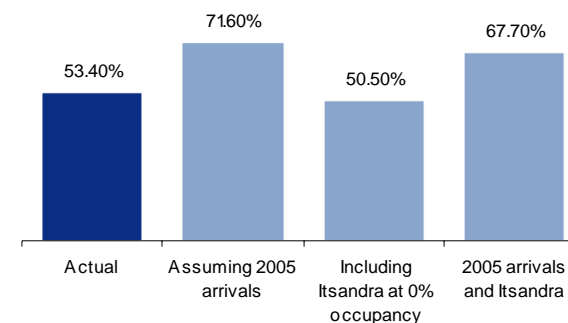
## Average occupancy over 2007



Sources: Union of the Comoros Chamber of Commerce, hotels

- The low occupancy level reflects the discussed decrease in arrivals, and should grow to higher levels with the increasing accessibility of the Islands.
- Pro-forma analysis, with or without the additional supply from Itsandra reveals that the available capacity is well dimensioned for the current market, at least from a volume perspective (i.e. not considering mismatch between demand and offering segments):

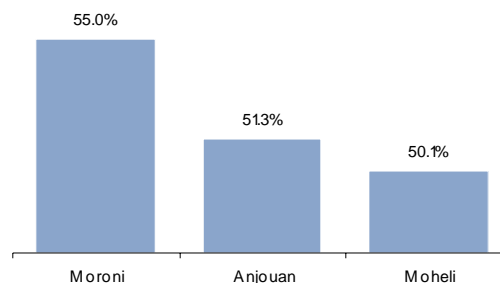
## Occupancy analysis pro-forma



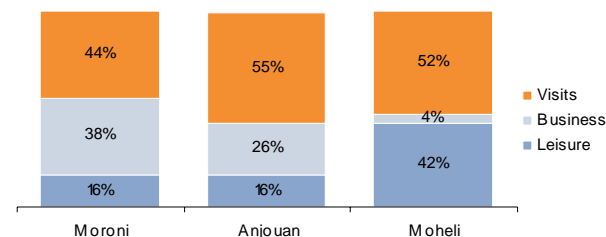
Sources: Union of the Comoros Chamber of Commerce, hotels

- The analysis of occupancy by region reveals a broad segmentation in the market, with Moroni (featuring above par occupancy levels) and Mutsamudu relying mostly on business travellers, and Moheli being more dependent on leisure tourists.

## Islands Occupancy 2007



## Islands split of rooms by purpose of visits 2007



Sources: Union of the Comoros Chamber of Commerce, hotels

## Competitive analysis – Competitive positioning

### Offering And Rates

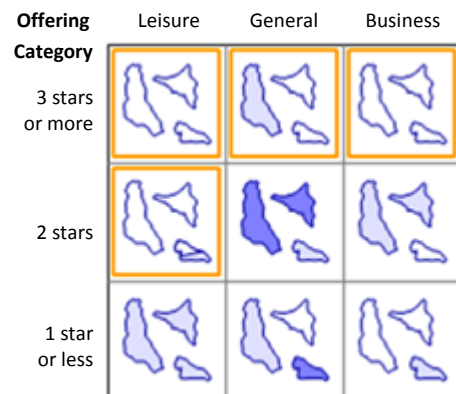
- The range of hotel categories available in the Comoros is very limited, with numerous boarding houses and only 6 regular hotels.
- Boarding houses, for all practical purposes, do not constitute a relevant competition to hotels. Primarily a residential facility transformed in semi-independent units, they are typically run by their owner with a very limited staff. While featuring varied levels of hygiene and comfort, they all provide the same basic services, principally, those of a bed & breakfast. Informal evidence suggests that they strongly benefit from the lack of a wider hotel offering, capturing the demand not addressed by regular hotels (mainly for geographical, occupancy or price reasons).
- Although the six regular hotels all claim a 3 stars equivalent positioning, most of them are far from matching the required levels of quality, comfort and amenities required by international standards for similar ratings.
- A closer comparison of the 6 hotels reveals very different profiles:
  - Itsandra: Since it opened in the second half of 2008, Itsandra has established itself as the uncontested reference hotels in the Comoros, with quality and service levels exceeding competition by very large margins. The upcoming opening of a private beach and a casino should further strengthen its position. Nonetheless, it remains fundamentally a 3 stars hotel by international standards, albeit probably positioned in the higher-end of the market.
  - Le Moroni: Historically the leading hotel in the Comoros, Le Moroni puts forward a wide range of amenities (pool, casino, beach...) and standard 3 stars hotel services, notably for tourists (rentals, tours...). It openly positions itself as a high-end hotel, and has benefited from a quasi-monopoly situation to capture the corresponding demand. Nevertheless, the hotel is in a very poor condition, with old rooms, significantly below par service levels and questionable hygiene standards.
  - Laka Lodge and Al Amal: Both Laka Lodge and Al Amal enjoy a clear positioning, albeit at opposite ends of the spectrum. Laka Lodge, located in a natural reserve, leverages the eco-tourism card, notably through specific activities offerings. Meanwhile, Al Amal builds on its de facto monopoly in Anjouan to align with its predominant demand segment, namely business travellers.
  - Les Arcades and Singani: Both with only a basic lower-end offering, the two hotels operate a commodity-like business, with very limited value-added. Their 3 stars claim seems by all means farfetched, notably when considering their significantly poor performance, be it with regard to facilities, amenities or service.
- The rack rates applied by the hotels reflect to some extent the previous highlighted positioning, and vary accordingly within a wide range (from as low as 22 € per night to as high as 165 € per night for a standard room):
- Consequently, RevPAR (revenues per available room) is estimated to vary between 10 € per night to 35 € per night, all in all a very low level.
- While some hotels differentiate rates between the high season (May to November) and the low season (December to April), pricing remains very simple and does not leverage the potential from bundles or packages in any way, even at basic levels like tours, activities...

<b>Le Moroni</b>	• Rooms from 51 € to 96 € per night, suites from 92 € to 111 €
<b>Laka Lodge</b>	• Rooms from 40 € to 60 € per night, suites from 70 € to 85 €
<b>Al Amal</b>	• Simple room at 60 € per night, double at 73 €
<b>Les Arcades</b>	• Standard rooms from 23 € to 33 € per night, deluxe from 40 € to 70 €
<b>Singani</b>	• Simple room at 22 € per night, with air conditioning at 30 €, double at 36 €
<b>Itsandra</b>	• Standard rooms at 165 € per night, suites at 274 €

## Competitive analysis – Competitive positioning (cont'd)

### Competitive Map

- The competitive map of the Comoros hotel market is structured by three dimensions:
  - Geography, given the uneven distribution of competitors between and within the islands, and the concomitant existence of some de facto monopolies.
  - Category, given the fairly poor segmentation of the competition, and overly enthusiastic rating claims of otherwise below standard players.
  - Offering, given the limited availability of options presented to typical customers profiles, e.g. business, eco-tourism, and the associated waste of potential.
- As such, the competitive map of the Comoros hotel market unfolds as follows:



Market areas defined as the cross of a category, an offering and a geography, and analysed from a competitive perspective

#### Classification of market areas:

- Poor or very limited competitive activity
- Some competitive coverage of area
- Fairly addressed area, with active competitors present

Identification of attractive spots

- Areas featuring spots attractive from a competitive perspective

- All considered, two areas emerge as most attractive from a competitive standpoint:
  - Mid-market hotels focused on leisure / touristic offering.
  - Higher-end hotels, irrespective of offering focus.
- With regard to the latter, the clearly higher occupancy enjoyed by Le Moroni (60%, versus average of 52% for the hotels), and the immediate success of Itsandra are strong indicators of the receptiveness of the market to a higher positioning / better quality offer, and suggest the existence of a corresponding solid and unrealised demand.

## Untapped potential

### Rationale

- All things considered, the Comoros hotel market shows important gaps translating to an under-exploited potential:
  - Unleveraged natural resources, notably in terms of eco-tourism appeal, given the unique scenery and features, and the world-class quality of the islands landscape and nature.
  - Mismatched supply and demand, notably when considering the poor lodging offering, as connectivity is to be imminently solved, and the direct proofs of the existence of a higher-end demand (cf. Itsandra's success), as well as strong evidence for a latent demand (cf. historical situation and the current absence of marketing).
  - Unoccupied competitive spots, notably in the +3-stars range, and valid in all the islands and across the various segments of the market (tourism, business...).
- Hence, there are solid opportunities to address Comoros hotel market, notably with regard to the development of a mid-market leisurely / touristic offering and in any of the three islands.

### Attractiveness

- More so, the attractiveness of such opportunities, whether from a financial perspective or from an accessibility standpoint, benefits from several characteristics pertaining to both the industry and the Comorian market:
  - Structurally Attractive Activity: The hotel business is globally growing, boosted by both global wealth growth and an inherent evolution of consumers demand, in particular, eco-tourism is one of the fastest growing segments of the industry. More so, the activity is structurally a cash-generating one, with room for flexibility and optimization in managing P&L evolutions, and benefits from the presence of a real estate component, providing balance sheet solidity and strengthening financial profile.
  - Empowering Market Fundamentals: The strong improvement of the market background, notably with regard to infrastructure, the growth of business related traffic (typically a trigger for leisure travel), the presence of numerous low-hanging assets to leverage combine to bode a strong boost for the hotel market. Additionally, solid opportunities and limited competitive intensity shape an attractive environment for an easy successful market entry, notably in the current conjuncture.
  - Facilitating Business Environment: The Comoros investment code of the Comoros shapes a friendly framework for foreign businessmen and entrepreneurs. Also, the government has demonstrated a strong willingness to accommodate and back foreign investments, notably through the facilitation of formalities, potential exoneration from taxes and duties and the provision of supportive grants (e.g. land). Furthermore, local stakeholders, municipalities and local communities alike, are expressing similar commitment levels, and strong enthusiasm in facilitating investments (from offering real estate to support in project development, hiring....)
- All in all, there is a strong case for investing in the Comoros hotel market and reap identified opportunities, with promising financial prospects and a reassuring low expected complexity.

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# Business Plan

# Concept and strategy – Project concept

## Value proposition

- As previously discussed, there is an attractive potential for a leisure hotel to be established in the Grande Comore, notably in the southern part of the island: very attractive sites, notably Chindrini and Male, no competition as all hotels in the island are located in the capital Moroni. In particular, the site of Male Mvouni, located 45 km away from Moroni, is a perfect candidate for such a hotel, with its attractive natural landscape, rich cultural landmarks and attractions and incomparable beach front.
- Male is located on the south side of the Karthala, and a few km away from the mangroves of Uroveni. Its temperate climate, rich surrounding nature and the numerous tracks to the volcano, make it a key hiking destination. Uroveni. More so, its many traditional and archaeological sites, notably a landmark 18th century mosque, and its proximity to the historical town of Foubouni make it definitely of cultural interest.
- The beach, 350 m of yellow sand on a substratum of rocks, is surrounded by a diadem of coconut trees and gardens. Discovered at low tide, it offers a magnificent view of the island of Moheli, and hosts warm, calm, swimmers-welcoming waters expanding as far as 1,500 into the sea, as well as a rich low-depth marine fauna for divers. Laying at less than 2 km away from the island's main road, it is the only beach on the southern side of Grande Comore, making it a preferred spot for tourists and visitors.

## Description

- In that context, the site would be an ideal location to establish a 4 Stars hotel, focusing on leisure tourists, particularly those seeking eco-tourism and beach / water activities:
  - 4 Stars hotel, with a leisure focus.
  - 50 rooms, of which 2 suites and 5 bungalows.
  - Beach facilities, including water sports and diving activities.
  - Eco-tourism offering, leveraging natural assets.
- The Comorian government is willing to provide a long-term lease on the land, at a cost assumed to be negligible, with attractive terms and conditions (to be discussed and agreed upon with potential investors).
- Additionally, local communities, conscious of the beneficial fall-outs of the project for the local economy, are prepared to participate by potentially granting donations (to be discussed and agreed upon with potential investors).



## Concept and strategy – Recommended strategy

### Key success factors

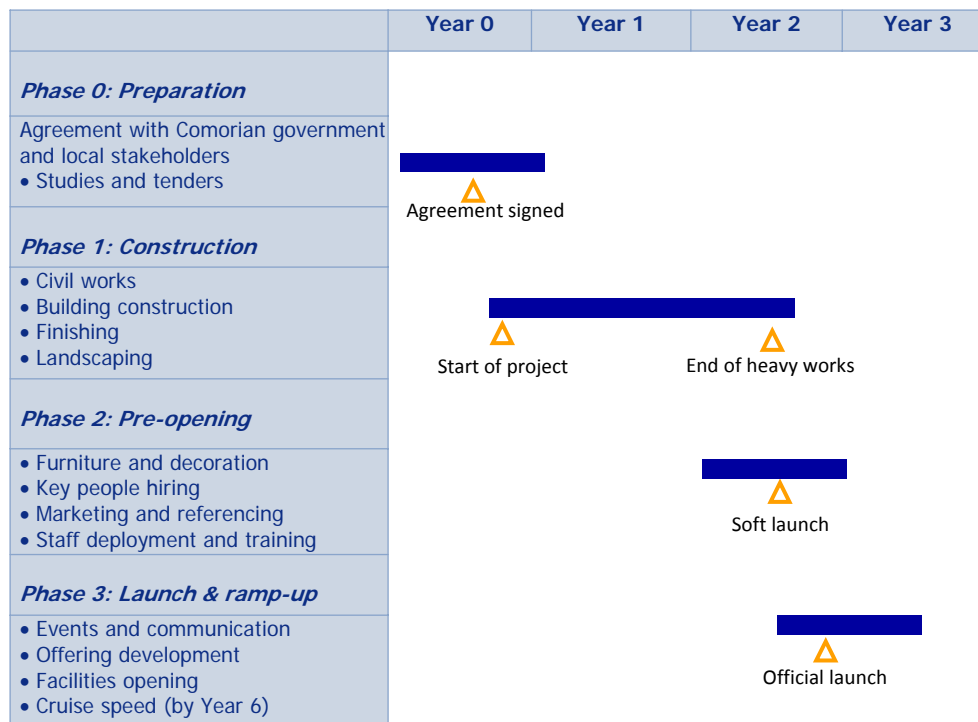
- Avoiding pitfalls faced by most hotels currently in operation (albeit on different geographies and segments) and overcoming the market gaps and weaknesses will require the project to:
  - Articulate a clear value proposition
  - Develop an attractive offering
  - Promote the hotel efficiently
  - Deliver on operations
- Only then can the project reap the full potential of the presented opportunity, and achieve maximal returns to the investor.

### Strategic considerations

- In that context, the recommended strategy should focus on delivering against the aforementioned Key Success Factors:
  - *Value Proposition:* The identity of the site and its assets will be fully leveraged in a coherent positioning aligned with targeted demand. The unique eco-tourism potential and cultural attractiveness of the destination will be particularly emphasized. Additionally, the beach and seaside features offered will also be highlighted.
  - *Offering:* Meeting demand needs and fulfilling anticipations will govern the development of the hotel offering of activities and services. An appropriately rich range of activities will be built notably focusing on eco-tourism (e.g. hikes to the Khartala, nature discovery excursions), as well as on cultural aspects (e.g. tour of historical landmarks), and seaside activities (e.g. scuba diving, fish spotting). This effort should highly leverage the local community. Bundled packages aligned to value proposition will also be designed to provide targeted segments with 'no-worry', one-stop-shop products, covering key highlights in the Comoros articulated around their stay at the hotel.
  - *Promotion:* Materializing the hotel value proposition and offering will require pro-actively making sure that it reaches the targeted segments. The first priority with regard to promotion will entail insuring the referencing of the hotel by relevant databases / websites. Marketing efforts will also cover the development of potential partnerships with tour operators, airlines and / or market players (e.g. hotels in other islands).
  - *Operations:* Delivering quality and efficient service will be a key focus for the hotel management to satisfy clientele and maximize profitability. Staff competencies will be developed through intense training and transfer of required skills to local employees.
- Finally, attention will be put on managing costs, notably with regard to the expected seasonality of the hotel activity.
- As such, challenges or difficulties associated with implementing the recommended strategy are fairly basic and should not present any major difficulties.
- More so, the low, if not inexistent, level of competitive intensity should allow a stronger management focus on inherent considerations and further facilitate implementation.

# Concept and strategy – Approach and timeline

The proposed timeline assumes construction to start once the project has been finalized, i.e. by end of Year 0, for a delivery scheduled mid Year 2:



Operations should launch during Mid Year 2 and ramp-up to cruise speed by beginning of Year 6.

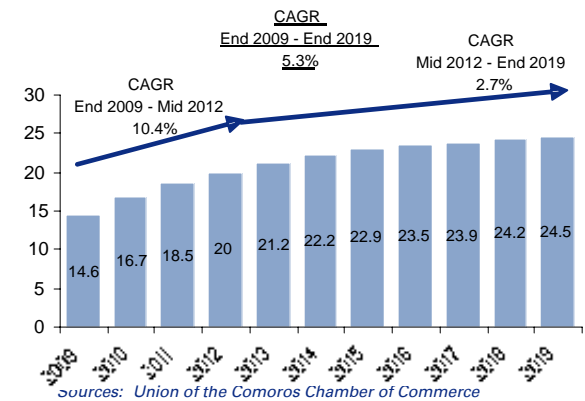


- Revenues generated by the hotel can be split between:
  - Room revenues: from guests occupying rooms at a given daily rate.
  - Food & Beverage revenues: from both hotel guests (min-bar, room service...) and all customers (guests or external) of the hotel F&B outlets (bar, snack, restaurant...).
  - Service revenues: from other services provided to both guests (from Telecom communications to activities organization, and including laundry, valet...) as well as others (e.g. conference rooms rental).

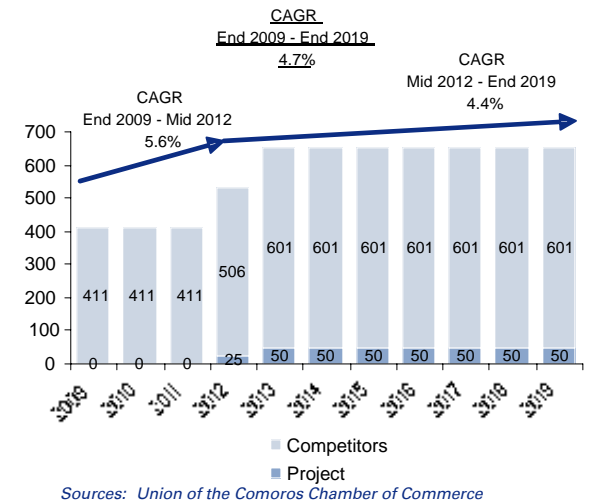
**Room revenues**

- Room revenues are derived from forecasted volumes (i.e. the number of room/nights) and prices (i.e. the average realized rate).
- Volumes were projected by forecasting the evolution of market occupancy rates and applying it to the project, thus discarding the likely premium derived from the previously defined value proposition.
- Market occupancy is the direct result of the combined evolutions of demand, materialized by the number of international arrivals (assuming current behaviour patterns maintained) and supply, equal to the total number of units available in the market. As previously discussed, the number of international arrivals witnessed a sharp decrease from 20,000 in 2005 to stabilize from 2007 to date around 15,000.
- Given the imminent establishment of at least 2 new direct air connections with the Middle-East, and the pick-up of economic activity, international arrivals are expected to return to 2005 levels in the next 3 to 4 years, i.e. by 2012 – 2013 and around the start of the project operations. Annual growth is then assumed to slowdown to 2.5% - 3.0%. As such, international arrivals should go back to circa. 20,000 by 2012 - 2103, and slowly grow towards 25,000 per annum by 2019 - 2020, averaging 5.3% growth per annum over the period
- Concomitantly, supply should grow from the current 411 units at a slower rate than demand (i.e. international arrivals) in the next 3 to 4 years to restore healthier occupancy levels (5.6% p.a. vs. 10.4% p.a.)
- Afterwards, supply should roughly follow demand, and grow by an average of 4.5% per year, i.e. to around 650 units, including the project planned 50 units:

**International arrivals forecast**



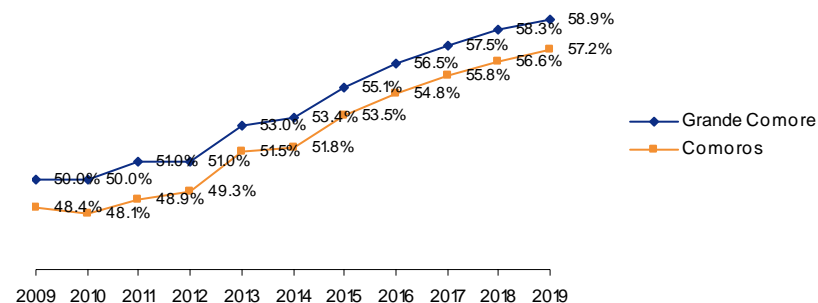
**Assumed evolution of lodging supply**



# Revenues forecast (cont'd)

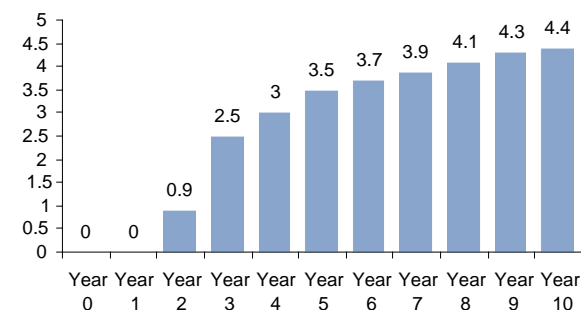
- All in all, market occupancy should grow in the next few years and eventually stabilize between 55% and 60% of available capacity:
- As previously indicated, market occupancy rates have been applied to the project, thus discarding any premium versus the market.
- The average realized rate per room/night has been forecasted by applying a 40% premium on the USD 220 rate of Itsandra's 4 Stars Hotel. Furthermore a 20% discount was applied for the first year of operation.
- Furthermore, a 3% yearly inflation has been applied to derive future rates evolution. For all practical reasons, Year 0 is assumed to be 2009.
- We assumed ramp up rates for the hotel of 70% for Year 2, 80% for Year 3, 90% for Year 4, 100% for Year 5 and onwards on the Grande Comore market occupancy.
- All in all, the project room revenues should reach USD 4.4 million in Year 10, and grow by an average of 3% per annum afterwards:

## Market occupancy forecast



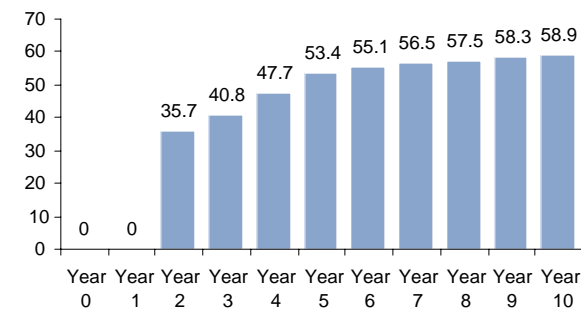
Sources: Union of the Comoros Chamber of Commerce

## Room revenues



Sources: Union of the Comoros Chamber of Commerce

## Hotel rooms occupancy rate



Sources: Union of the Comoros Chamber of Commerce

# Revenues forecast (cont'd)

## Food and beverage revenues

- Food and beverage revenues have been derived by applying a benchmark ratio of 40% of room revenues, while accounting for some ramp-up through a 50% discount in Year 2, a 20% discount in Year 3 and 10% discount in Year 4.

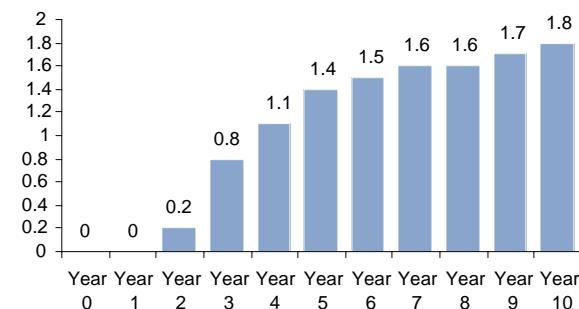
## Service Revenues

- Similarly, service revenues reflect a benchmark ratio of 20% of room revenues, with a slower ramp-up: discount of 50% in Year 2, 20% in Year 3 and 10% in Year 4.

## Total revenues

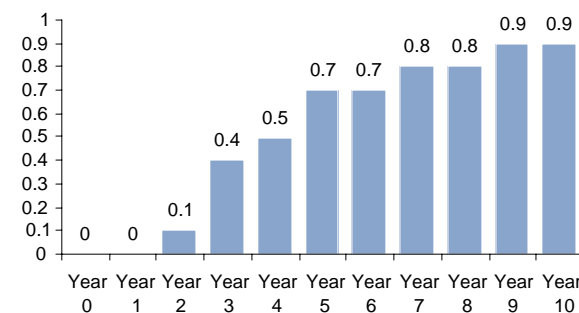
- All in all, the project revenues should amount to USD 7.1M by Year 10, and subsequently grow by a yearly average of 3.0%.

## Food and beverage revenues



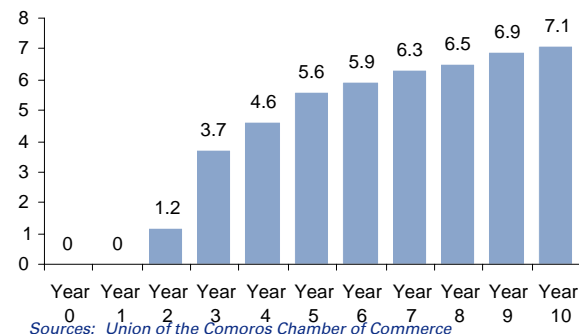
Sources: Union of the Comoros Chamber of Commerce

## Service revenues



Sources: Union of the Comoros Chamber of Commerce

## Total revenues



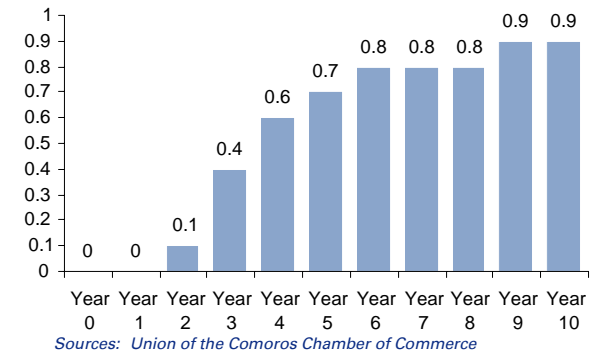
Sources: Union of the Comoros Chamber of Commerce

- The project costs streams can be split between:
  - Costs of goods sold (COGS): Notably related to F&B revenues streams, as well as costs directly related to the activity like Telecom, events...
  - Payroll costs: All expenditures related to personnel, including wages, associated taxes, training, benefits and other items.
  - SG&A: Which includes payroll costs and other costs streams related to operations, e.g. sales & marketing, maintenance CAPEX and others.
  - Capital expenditures: Costs dedicated to the acquisition / development / heavy maintenance of tangible and intangible assets and capitalized as such by.
  - Other items: e.g. working capital, taxes – excluding financing structure considerations..

### COGS

- Most of the COGS incurred are related to Food & Beverage, with the rest including Telco, laundry, room consumables (notably for the bathroom, small repairs...), as well as recreational activities and events.
- COGS are costs directly related to revenues, and as such have been modelled as a percentage of the latter, based on industry benchmark and information from other local hotels:
  - COGS F&B: assumed to represent 30% of F&B revenues
  - COGS Rooms: assumed to represent 7% of room revenues
  - COGS Services: assumed to represent 7% of service revenues

### Total COGS



## Costs projection (cont'd)

### Payroll costs

- Management have identified the staff required to run the described setup based on comparison with local hotels, benchmarks and interviews.
- At cruise speed (Year 6), total staff should amount to close to 60 employees, about half of which dedicated to the room department and a third to F&B:

Number of staff			
Department			Total
Rooms department	Desk: 1 manager + 8 staff	1 manager + 16 staff	26
F&B department	Restaurant: 12 staff Bar: 4 staff	1 chef + 3 staff	20
Operations department	Technical: 1 staff	Support: 4 staff	5
General & administration	1 General Manager 1 Assistant General Manager	1 Sales Manager G&A: 4 staff	7
<b>Total staff</b>			<b>58</b>

Sources: Union of the Comoros Chamber of Commerce

Payroll costs				
Staff	Count	Cost / staff (year 6, USD)	Total (year 6, USD '000)	Total (year 10, USD '000)
Desk manager	1	25,504	25.5	28.7
Desk staff	8	5,796	46.4	52.2
Service manager	1	17,389	17.4	19.6
Service staff	16	5,796	92.7	104.4
Rooms department	26	7,000	182.0	204.8
Kitchen chef	1	25,504	25.5	28.7
Kitchen staff	3	5,796	17.4	19.6
Restaurant staff	12	5,796	69.6	78.3
Bar staff	4	5,796	23.2	26.1
F&B department	20	6,781	135.6	152.7
Technical staff	1	12,752	12.8	14.4
Support staff	4	5,796	23.2	26.1
Operations department	5	7,187	35.9	40.4
General Manager	1	173,891	173.9	195.7
Assisatnt General Manager	1	57,963	58.0	65.2
Sales Manager	1	57,963	58.0	65.2
G&A staff	4	12,752	51.0	57.4
General & Administration	7	48,689	340.8	383.6
<b>Total staff</b>	<b>58</b>	<b>11,972</b>	<b>694.4</b>	<b>781.5</b>

Sources: Union of the Comoros Chamber of Commerce

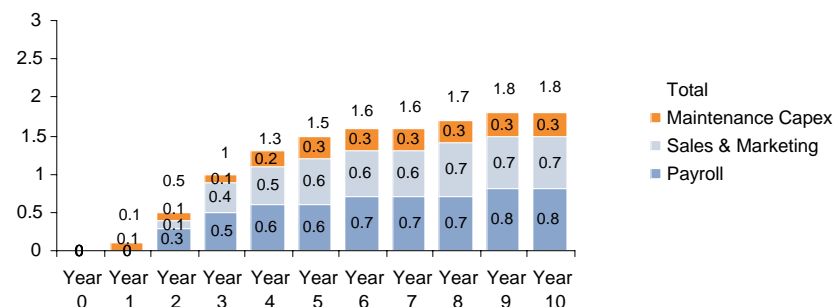
- Fully loaded costs per staff (i.e. including wages, taxes, benefits, and other staff costs) were similarly estimated.
- Accounting for the required mix of locals and expats employees, they translate to a total payroll of USD 0.7 million at Year 6.
- A yearly inflation of 3.0% has been assumed in future years, leading to a close to USD 0.8 million payroll in Year 10. For practical reasons, Year 0 is assumed to be 2009.

# Costs projection (cont'd)

## SG&A

- Non-payroll costs related to operations (sales & marketing) have been forecasted to represent 10% of revenues.
- Accounting for pre-opening expenses operating costs (other SG&A) are expected to amount to USD 50 thousand in Year 1 and USD 50 thousand in Year 2.
- Maintenance CAPEX was calculated as 3% of initial CAPEX.
- Land is assumed to be offered by the government and/or local communities provided the project hires Comorian employees.

## Total SG&A

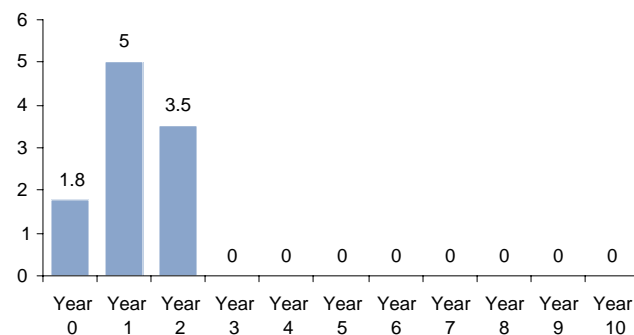


Sources: Union of the Comoros Chamber of Commerce

## Capital expenditures

- Initial CAPEX covers the full cost of the hotel construction and finishing, as well as expenditures for furnishing the rooms and facilities:

### Capex



Sources: Union of the Comoros Chamber of Commerce

## Other items

- A linear depreciation has been adopted over 20 years for Construction and Finishing CAPEX and 10 years for Room and Facilities CAPEX.
- Working capital includes receivables worth 90 days of revenues, inventories worth 90 days of COGS, and payables estimated to represent 90 days of COGS. Finally, after the initial tax exemption period (assumed to last 10 years), earnings will be subject to a 35% corporate tax rate.

Capex		
USD	Description	Costs
	Construction & finishing	All building costs, including studies, materials, works, utilities, external and internal finishing, landscaping, etc...
	Rooms & facilities	All equipment costs, including rooms & lobbies furniture, kitchen, bar, laundry, and office equipment...
	Working capital	Assumed to be 4 months of total salaries
	<b>Initial capital expenditures</b>	<b>10,250,000</b>

Sources: Union of the Comoros Chamber of Commerce

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# Investment analysis

# Financial projections

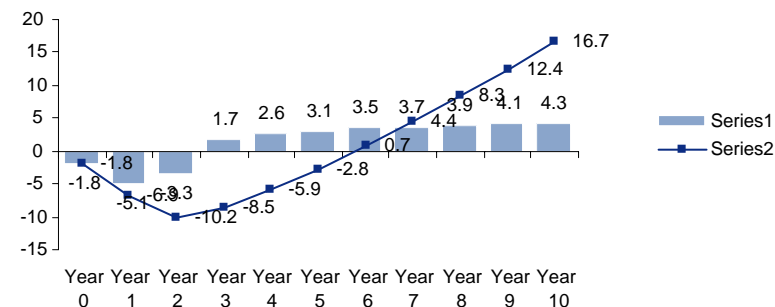
**Considering a DCF analysis over a 20 years period with no terminal value, unleveraged IRR is forecasted at 24.3%**

- The analysis of the forecasted project cash flows reveals a cumulative need for financing USD 10.25 million of CAPEX, spread over the first three years (15%, 50% and 35%) and USD 250,000 of working capital. The following cash flow is assuming 100% Equity.
- Afterwards, the project should generate healthy cash flows in the range of USD 5 million per annum, with breakeven expected during Year 6 (after 5 years and 9 months). The other scenario is assuming the project financed by 50% Equity and 50% Debt. The interest rate on debt is assumed to be 9.0% and the loan term is 10 years.

## Performance

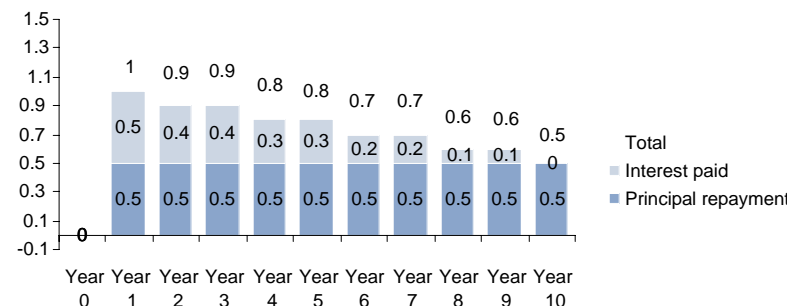
- A Discounted Cash Flow analysis was used over a period of 20 Years, assuming no terminal value. Using this approach we obtained an Unleveraged IRR of 24.3% and a Leveraged IRR of 34.8%.

## Unleveraged free cash flow



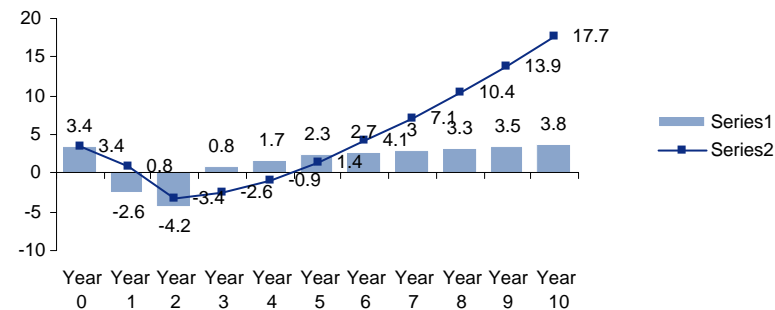
Sources: Union of the Comoros Chamber of Commerce

## Principal repayment and interest flows



Sources: Union of the Comoros Chamber of Commerce

## Leveraged free cash flow



Sources: Union of the Comoros Chamber of Commerce



# Financial statements

In Year 10, net income and total assets are expected to reach USD 3.9 million and USD 34.6 million respectively

Income Statement											
In millions of USD	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Revenues	-	-	1.1	3.7	4.6	5.6	5.9	6.2	6.6	6.8	7.1
Cost of Sales	-	-	0.1	0.4	0.6	0.7	0.8	0.8	0.8	0.9	0.9
<b>Gross Profit</b>	-	-	<b>1.0</b>	<b>3.3</b>	<b>4.1</b>	<b>4.9</b>	<b>5.2</b>	<b>5.5</b>	<b>5.7</b>	<b>6.0</b>	<b>6.2</b>
SG&A	-	0.1	0.5	0.9	1.3	1.5	1.6	1.6	1.7	1.8	1.8
<b>EBITDA</b>	-	<b>(0.1)</b>	<b>0.5</b>	<b>2.3</b>	<b>2.8</b>	<b>3.4</b>	<b>3.6</b>	<b>3.8</b>	<b>4.0</b>	<b>4.2</b>	<b>4.4</b>
Depreciation	-	0.1	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Amortisation	-	-	-	-	-	-	-	-	-	-	-
<b>EBIT</b>	-	<b>(0.1)</b>	<b>0.1</b>	<b>1.8</b>	<b>2.2</b>	<b>2.8</b>	<b>3.0</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>
Management Fees	-	-	-	-	-	-	-	-	-	-	-
Net Cash Interest	-	-	-	-	-	-	-	-	-	-	-
<b>EBT</b>	-	<b>(0.1)</b>	<b>0.1</b>	<b>1.8</b>	<b>2.2</b>	<b>2.8</b>	<b>3.0</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>
Tax	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income</b>	-	<b>(0.1)</b>	<b>0.1</b>	<b>1.8</b>	<b>2.2</b>	<b>2.8</b>	<b>3.0</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>

Sources: Union of the Comoros Chamber of Commerce

Balance Sheet											
In millions of USD	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>Assets</b>											
Cash	8.5	3.5	0.2	1.9	4.4	7.6	11.1	14.8	18.7	22.9	27.2
Other Current Assets	0.3	0.3	0.6	1.3	1.5	1.8	1.9	2.0	2.1	2.2	2.2
PP&E	1.5	6.4	9.6	9.0	8.5	7.9	7.4	6.8	6.3	5.7	5.2
<b>Total Assets</b>	<b>10.3</b>	<b>10.1</b>	<b>10.3</b>	<b>12.2</b>	<b>14.4</b>	<b>17.3</b>	<b>20.3</b>	<b>23.6</b>	<b>27.1</b>	<b>30.7</b>	<b>34.6</b>
<b>Liabilities &amp; Equity</b>											
Current Liabilities	-	-	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Long Term Debt	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	-	-	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Equity	10.3	10.1	10.3	12.1	14.3	17.1	20.1	23.4	26.8	30.5	34.4
<b>Total Liabilities &amp; Equity</b>	<b>10.3</b>	<b>10.1</b>	<b>10.3</b>	<b>12.2</b>	<b>14.4</b>	<b>17.3</b>	<b>20.3</b>	<b>23.6</b>	<b>27.1</b>	<b>30.7</b>	<b>34.6</b>

Sources: Union of the Comoros Chamber of Commerce

## Financial statements (cont'd)

In Year 10, net cash flows are expected to reach USD 4.3 million






Cash Flow (USD)											
In millions of USD	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Income	-	(0.1)	0.1	1.8	2.2	2.8	3.0	3.3	3.5	3.7	3.9
Depreciation	-	0.1	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Amortization	-	-	-	-	-	-	-	-	-	-	-
Change in Working Capital	-	-	(0.3)	(0.6)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Change in Other Long Term A&L	-	-	-	-	-	-	-	-	-	-	-
<b>Cash from Operating Activities</b>	<b>-</b>	<b>(0.1)</b>	<b>0.2</b>	<b>1.7</b>	<b>2.6</b>	<b>3.1</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>	<b>4.3</b>
Capex	(1.8)	(5.0)	(3.5)	-	-	-	-	-	-	-	-
<b>Cash from Investing Activities</b>	<b>(1.8)</b>	<b>(5.0)</b>	<b>(3.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Change in injected capital / Equity	10.3	-	-	-	-	-	-	-	-	-	-
<b>Cash from Financing Activities</b>	<b>10.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Cash Flow</b>	<b>8.5</b>	<b>(5.1)</b>	<b>(3.3)</b>	<b>1.7</b>	<b>2.6</b>	<b>3.1</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>	<b>4.3</b>

Sources: Union of the Comoros Chamber of Commerce

Ratios											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
<b>Liquidity Ratios</b>											
Current Ratio	NA	25.3x	28.8x	42.2x	53.5x	69.6x	85.3x	101.0x	116.3x	131.5x	141.4x
Quick Ratio	NA	24.3x	27.8x	41.2x	52.5x	68.6x	84.3x	100.0x	115.3x	130.5x	140.4x
Working Capital	3.7	0.7	3.0	5.8	9.2	12.8	16.6	20.6	24.8	29.2	32.4
Inventory to Working Capital	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
<b>Profitability Ratios</b>											
Gross Profit Margin	NA	89.5%	88.0%	87.6%	87.3%	87.3%	87.3%	87.3%	87.3%	87.3%	87.3%
Operating Income Margin	NA	45.2%	63.3%	60.0%	60.3%	60.3%	60.9%	61.3%	61.7%	62.0%	62.1%
Net Income Margin	NA	12.9%	48.5%	48.2%	50.4%	51.0%	52.1%	52.9%	53.6%	54.2%	35.6%
<b>Financial Strength</b>											
Debt to Equity Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Management Effectiveness</b>											
Return on Assets (ROA)	(1.3%)	1.4%	14.8%	15.5%	16.3%	14.9%	13.8%	12.8%	11.9%	11.2%	7.0%
Return on Equity (ROE)	(1.3%)	1.4%	14.9%	15.7%	16.4%	15.0%	13.9%	12.9%	12.0%	11.2%	7.1%
<b>Asset Management</b>											
Total Assets Turnover	0.0x	0.1x	0.3x	0.3x	0.3x	0.3x	0.3x	0.2x	0.2x	0.2x	0.2x
Total Debt to Total Assets	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
<b>Working Capital Cycle</b>											
Days Receivables	NA	90	90	90	90	90	90	90	90	90	90
Days of Inventory	NA	90	90	90	90	90	90	90	90	90	90
Days of Payables	NA	90	90	90	90	90	90	90	90	90	90
Turnover	0.0x	1.6x	1.2x	0.8x	0.6x	0.5x	0.4x	0.3x	0.3x	0.2x	0.2x

Sources: Union of the Comoros Chamber of Commerce

- The forecasted performance is mostly exposed to potential variations in five key drivers: arrivals (growth of international arrivals), occupancy (performance versus competition), rates (average realized rate per room/night), costs (control of operating costs) and capex (level of initial capital expenditures).
- The pertaining risks are limited by strong mitigating factors, be it for inherently exogenous drivers (i.e. arrivals, occupancy and rates) or endogenous ones (costs, capex):

<b>Arrivals</b>	<ul style="list-style-type: none"> <li>• With the imminent resolution of the issues that led to last years' drop, principally air connectivity, arrivals growth is expected to catch-up lost ground and realign with historical patterns afterwards.</li> <li>• Additionally, the booming economic activity, the efforts to develop tourism (notably eco-tourism) and the improvement of the offering are most likely to fuel additional growth in arrivals.</li> </ul>	
<b>Occupancy</b>	<ul style="list-style-type: none"> <li>• The Base Case assumes that the project will grab its fair share of the Comoros (and Grande Comore) hotel market.</li> <li>• The hotel nevertheless has a strong case to outperform competition, given notably its value proposition and positioning, and its more aggressive marketing strategy.</li> </ul>	
<b>Rates</b>	<ul style="list-style-type: none"> <li>• Although rack rates are aligned below competition, the discount level assumed is high when compared to both Istandra's performance and international benchmarks.</li> <li>• More so, with a somewhat selective clientele, characterized by a lower price sensitivity in the 4 stars price range, the hotel is unlikely to face any notable pressure on prices.</li> </ul>	
<b>Costs</b>	<ul style="list-style-type: none"> <li>• Variable and operating costs assumptions are both in line with estimated local levels and higher international benchmark.</li> <li>• Payroll costs feed both on an inflated roster (about 20% more staff than benchmarks), and very generous packages, notably for local employees ( typical wage for low-skill staff of 175 €).</li> </ul>	
<b>Capex</b>	<ul style="list-style-type: none"> <li>• The assumptions adopted are based on estimates provided by a potential contractor.</li> </ul>	

### Potential upsides

- Finally, some upsides have not been accounted for in the Base Case and could potentially materialize into important performance boosts:
  - Surge In Activity Levels: No particular acceleration of the Comoros economy, and consequent international traffic, was accounted for in the Base Case. Nevertheless, it is probable that the boom in foreign investments will fuel arrivals, first of business travellers and then of tourists, and fairly likely that the Comoros succeeds in developing an attractive eco-tourism value proposition.
  - Lower Capital Expenditures: As previously discussed, the initial capex is very likely to remain below the forecasted level, notably thanks to some intelligent purchasing.
- All in all, higher performance could be achieved as potentially significant upsides materialize.

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# Appendices

- The drivers underlying the modelled forecast have been tested to assess the sensitivity of the investment performance were they to deviate from the assumptions retained in the Base Case.
- IRR returns appear to be robust to changes in revenues, costs and balance sheet drivers.

Revenues	
Average Room Rate Discount	
	IRR
35%	24.1%
30%	24.1%
25%	24.2%
20%	24.3%
15%	24.4%
10%	24.5%
5%	24.6%

COGS	
COGS Rooms	
	IRR
10%	23.6%
9%	23.8%
8%	24.1%
7%	24.3%
6%	24.5%
5%	24.8%
4%	25.0%

SG&A and CAPEX	
Sales & Marketing	
	IRR
13%	23.2%
12%	23.6%
11%	23.9%
10%	24.3%
9%	24.7%
8%	25.0%
7%	25.4%

Balance Sheet	
Accounts Receivable	
	IRR
120	23.7%
110	23.9%
100	24.1%
90	24.3%
80	24.5%
70	24.7%
60	24.9%

Revenues	
F&B Revenues	
	IRR
55%	26.0%
50%	25.4%
45%	24.9%
40%	24.3%
35%	23.7%
30%	23.1%
25%	22.5%

COGS	
COGS F&B	
	IRR
39%	23.5%
36%	23.8%
33%	24.0%
30%	24.3%
27%	24.6%
24%	24.8%
21%	25.1%

SG&A and CAPEX	
Maintenance CAPEX	
	IRR
5%	23.6%
4%	23.8%
4%	24.1%
3%	24.3%
3%	24.5%
2%	24.8%
2%	25.0%

Balance Sheet	
Inventories	
	IRR
120	24.2%
110	24.2%
100	24.3%
90	24.3%
80	24.3%
70	24.4%
60	24.4%

Revenues	
Service Revenues	
	IRR
35%	26.7%
30%	25.9%
25%	25.1%
20%	24.3%
15%	23.5%
10%	22.6%
5%	21.7%

COGS	
COGS Services	
	IRR
10%	24.2%
9%	24.2%
8%	24.3%
7%	24.3%
6%	24.3%
5%	24.4%
4%	24.4%

SG&A and CAPEX	
CAPEX	
	IRR
115%	37.7%
110%	39.0%
105%	40.3%
100%	41.8%
95%	43.3%
90%	45.0%
85%	46.8%

Balance Sheet	
Accounts Payable	
	IRR
105	24.3%
100	24.3%
95	24.3%
90	24.3%
85	24.3%
80	24.3%
75	24.3%

## Sources of information

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### Source of information

- We held discussions with the Client, mainly:
  - Mr. Patrick V. Jabre (Vice President)
  
- Information relating to the Client were mainly taken from:
  - Business plan prepared by SCAS Inc.
  - Union of the Comoros Chamber of Commerce
  - CIA World Factbook
  - IMF (International Monetary Fund)
  - UNDP (United Nations Development Program)
  - Other publicly available information on Comoros Islands' economy