CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATION

A2.1: STRATEGIC CORPORATE FINANCE

DATE: WEDNESDAY 28, MAY 2025

INSTRUCTIONS:

1. Time Allowed: **3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections**; A & B.**
3. Section **A** has **one** Compulsory Question while Section B has **three optional questions** to choose any **two.**
4. In summary attempt **three questions.**
5. Marks allocated to each question are shown at the end of the question.
6. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

It is currently believed that there is a shift in investment paradigm due to COVID -19 and the Russia and Ukraine war. There is a lot of uncertainties in market, the post COVID -19 projects require a lot of research and vigorous investment analysis.

Rebero Investment Co. (RI Co) is a private equity company working in Rwanda since 2012. Recently, it has been registered under the Kigali International Finance Center (KIFC). The company invests in different sectors including manufacturing, energy, Fintech and Heath care. Akariza Dorothy is a Chief Investment Officer (CIO) and her investment team is evaluating a new investment in a pharmaceutical company called "AMIZERO Ltd".

AMIZERO Ltd is a developing Malaria Vaccine in collaboration with the Government of Rwanda, with different partners including: USAID, UK Aid and World Health Organization (WHO). You are a Senior investment associate at RI Co and you have been assigned to lead investment analysts for doing research and drawing market recommendations on whether RI Co should invest in AMIZERO Ltd using the Adjusted Present Value (APV).

You have been provided with the five years financial data from 2017-2021 as extracted from AMIZERO Ltd.'s books of accounts. AMIZERO Ltd is considering the raise funds for its future expansion strategy in research and development of a Malaria vaccine.

Table 1. AMIZERO Ltd Income Statement Evolution (2017-2021)

FRW "000"					
Particulars	**2017**	**2018**	**2019**	**2020**	**2021**
Sales	300,000	320,000	350,000	390,000	440,000
Cost of Sales	210,000	224,000	245,000	273,000	308,000
Gross profit	**90,000**	**96,000**	**105,000**	**117,000**	**132,000**
Depreciation	30,000	30,000	30,000	30,000	30,000
Operating income	**60,000**	**66,000**	**75,000**	**87,000**	**102,000**
Interest expense	13,500	10,800	8,100	5,400	2,700
Taxable income	**46,500**	**55,200**	**66,900**	**81,600**	**99,300**
Tax expense (30%)	13,950	16,560	20,070	24,480	29,790
Net income	**32,550**	**38,640**	**46,830**	**57,120**	**69,510**

The following assumptions were presented by analysts before making any investment appraisals:

1. The revenue income will increase at the rate of inflation expectation of 6% above risk free rate in the first three years of forecasting before it grows at the rate of 4% above risk free rate in the remaining years.

2. Gross profit margin is expected to be 55% in the first three years of forecasting and become 60% afterward.

3. The capital expenditure in research and development was expected to be FRW 375,000,000 in 2021 which is subject to capital depreciation allowance of 25% starting in 2023 using straight line basis with no scrap value.

4. Working capital will be 12% of the respective annual sales and it should be adjusted to the imported inflation of 3% per annum that is expected to be on the international market where AMIZERO Ltd gets inputs.

5. The following Table 2 shows industry comparable beta that was from data providers showing comparable data in the same sector:

Table 2 Industry comparable Beta

Comparable	**Ungeared Beta**	**Geared Beta**
UMWETE	1.2	1.6
UBUZIMA	1.3	1.7
SHISHIKARA	1.4	1.9
NDAHIRO	1.1	1.2

6. After consulting the Chief Investment Officer, the analysts have agreed to use the beta average of the comparable companies to calculate Adjusted Present Value (APV)

7. Risk-free rate is 11% and considering how the sector is performing since the Covid-19 crisis, the risk premium is 3% which is less than other sectors.

8. The Institute of Certified Public Accountants of Rwanda (ICPAR) has organized a workshop for CEOs (CEOs dinner) with the central theme: *How to use debt financing to improve the value of firms in post COVID Era*. The CEO and Co-founder of AMIZERO Ltd were attendees on that date. After the workshop, the CEO took a decision to use debt to improve the value of AMIZERO Ltd. He has proposed to the Board of Directors the new capital structure of 80:20 Equity to debt and the Board has approved it. The approval of the new capital structure helps AMIZERO Ltd to raise FRW75,000,000 in debt to help them to optimize capital structure and the value of the firm in general. The loan was obtained from the Cooperative Bank at 13% per year and the debt will be paid in four years with effect from 2022. AMIZERO Ltd could also alternatively finance this loan by using irredeemable preference debt of 6% paid annually.

9. The following balance sheet of the last two years (2020 and 2021) were extracted from AMIZERO Ltd.'s annual reports.

Table 3: AMIZERO Balance Sheet as 2020-2021

FINANCIAL POSITION AMIZERO LTD FRW "000"		
	2021	**2020**
Cash and marketable securities	280,000	200,000
Accounts receivable	65,000	30,000
Inventory	80,000	50,000
Total current assets	**425,000**	**280,000**
Property, plant, and equipment	417,500	435,000
Intangible assets	500000	500000
Total assets	**1,342,500**	**1,215,000**
Current liabilities	594,750	450,000
Long-term debt	460,000	470,000
Share capital	200,000	200,000
Retained earnings	87,750	95,000
Total liabilities and equity	**1,342,500**	**1,215,000**

10. Since the incorporation of the company, AMIZERO Ltd has been consistently rated well in term of Corporate Social responsibility (CSR) and it has been complying with the quality control laboratory standard requirement of Rwanda Food and Drugs Authority (FDA). The last consumer survey has noted that there are a lot of complaints from customers that, quality of the drugs has deteriorated and have more side effects that results the death of some patients and the case has be filled to the related authorities. In addition, the current CEO has proposed that, the budget allocated to the supporting genocide survivors should be reduced from next years to improve the profitability. There is an allegation from employees, saying that, the last employment restructuring led to the cutting of employees, but AMIZERO Ltd has trained them with proper training so they have the skills that will help them to start business. The annual report of AMIZERO Ltd have disclosed the issue of destruction of wastes, but no tangible solutions for this issue has been highlighted by management, even though quantification of the penalties is still uncertain but it has high probability of being fined by FDA. After consulting the drugs and vaccine consultants, AMIZERO Ltd has found that there a potential competitor who is coming on the Rwandan market from Germany, and the CEO has started lobbying the licensing agencies to refuse to license the potential competitors.
The last board meeting has approved investment of FRW 20 million in renewable energy and FRW 15 million in climate projects that will significantly reduce the non-renewable energy that is used for both the company and the surrounding society.

11. AMIZERO Ltd profits are taxed at an annual rate of 30%

12. The Analyst will forecast from 2022-2026.

Required:

a) **Evaluate the viability of AMIZERO Ltd using Adjusted Present Value (APV) taking into consideration of the methods of debt financing proposed in note 8.** (25 Marks)

b) **Discuss the appropriateness of the APV method in appraising AMIZERO Ltd.** (3 Marks)

c) **Ratio Analysis**

i) Using ratio analysis (Profitability, liquidity, solvency), **assess the financial sustainability of AMIZERO Ltd.** (6 Marks)

Note: Use a maximum of two ratios per category and use data for 2020 and 2021 only.

ii) **Interpret ratios in (i) above and draw conclusions on the financial sustainability of AMIZERO Ltd.** (5 Marks)

d) **What are the other non-financial information about AMIZERO Ltd should you consider before investing in the company?** (5Marks)

e) **Examine AMIZERO Ltd's Corporate Social Responsibility (CSR) initiatives and their impact on stakeholders.** (6 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

a) The Chief Finance Officer (CFO) of Kabuga Trading Company Ltd has reviewed a 6 × 9 Forward Rate Agreement (FRA) that the company entered 90 days ago as the pay-fixed/receive-floating party. selected data for the FRA are presented below and current National Bank of Rwanda (BNR) rates are presented in the table below. Based on the CFO's interest rate forecast, CFO considers whether the company should enter new positions in 2 × 5 FRA.

Table 1: Forward rate agreement information:

FRA term	6 × 9
FRA rate per annum	0.70%
FRA notional amount	FRW 200,000,000
FRA settlement terms	Advanced set, advanced settle

Table 2: Central bank reference rate per maturity

Duration	Reference Rate per annum
30-day Reference rate	0.75%
60-day Reference rate	0.82%
90-day Reference rate	0.90%
120-day Reference rate	0.92%
150-day Reference rate	0.94%
180-day Reference rate	0.95%
210-day Reference rate	0.97%
270-day Reference rate	1.00%

Three months later, the 6 × 9 FRA presented above reaches expiration, at which time the three-month National Bank of Rwanda (BNR) Reference rate is 1.1% per annum and the six-month BNR Reference rate is 1.2% per annum. The CFO determines that the appropriate discount rate for the FRA settlement cash flows is 1.1% per annum. Consider 360 days per year.

FRA Terms:

- 6×9 FRA = 3-month loan starting in 6 months.
- 2×5 FRA = 3-month loan starting in 2 months.

Required:

i) What is the rationale for the company engaging in FRA transaction. (2 Marks)

ii) Determine the fixed rate on the new suggested 2 x 5 FRA. (4 Marks)

iii) Based on Table 2 above and the three-month BNR reference rate at expiration, **determine the payment amount that the company will receive to settle the 6 × 9 FRA.** (6 Marks)

b) Kigali Electronics Ltd has received a shipment of 2,450,000 electronic devices from an American supplier company, with each unit priced at USD 4. The company has been offered a three-month credit term to settle the payment. Although Kigali Electronics Ltd currently has its funds tied up in operations, it can borrow or deposit at an interest rate of 3% per quarter in both countries.

The following information is available with respect to USD/FRW

The spot rate	0.0130
Three months forward	0.0154
Strike price	0.0154

The US$ 9,800,000 three-month dollar call option is available with a premium worth USD $75,000.

Required:

i) **Evaluate whether the money market hedge or the option hedge would be preferred to Kigali Electronics Ltd.** (7 Marks)

ii) **Discuss SIX potential financial risks that Kigali Electronics Ltd will face.** (6 Marks)

(Total: 25 Marks)

QUESTION THREE

a) ABC Holdings, a large private equity firm, is considering the acquisition of XYZ Retail Ltd., a regional retail chain specializing in home goods and electronics. XYZ Retail Ltd. has been in operation for 15 years and has a solid market presence in the region. However, ABC Holdings wants to ensure that the company is worth the asking price and that there are no hidden risks that could affect the value of the acquisition. As the appointed due diligence examiner, you are tasked with reviewing all financial, operational, and strategic information about XYZ Retail Ltd. provided by its management. Below is the documentation provided to you for the due diligence process.

XYZ Retail Ltd has provided the following information:

1. The audited financial statements for XYZ Retail Ltd. over the past three years show consistent profitability, with a steady revenue stream and positive net profits. The following table outlines the key financial figures:

Year	Revenue	Net Profit
2022	FRW50 million	FRW5 million
2021	FRW45 million	FRW4 million
2020	FRW48 million	FRW3.5 million

2. The company reported a one-off gain in 2022 of FRW 2 million from the sale of a distribution center. A significant decrease in revenue occurred in 2023 due to the loss of three key customers, resulting in a 10% drop in annual revenue. XYZ Retail has recently discontinued several underperforming product lines that have been eating into profit margins.

The company's management team has been in place for the last 5 years, with the CEO being the founder. There have been no major issues with corporate governance, though some employees have raised concerns about the risk management practices, particularly regarding data security and customer privacy.

3. The upside potential of acquiring XYZ Retail Ltd includes the synergies from integrating XYZ Retail into ABC Holdings' broader retail network, particularly in shared procurement and logistics. It also includes the access to new regional markets, particularly in the South and West, where XYZ Retail is planning to expand and the potential to bring in a new management team to address operational inefficiencies and improve performance. However, these opportunities must be weighed against the risks identified, particularly around the company's weak internal controls, potential tax liabilities, and declining earnings due to customer loss.

4. XYZ Retail Ltd. has not provided sufficient clarity on its tax planning strategies. The company's tax structure includes the use of offshore subsidiaries in tax-efficient jurisdictions for certain operations. Some uncertain tax positions related to the treatment of cross-border payments and transfer pricing. The lack of clear tax planning or strategy raises concerns about potential tax inefficiencies post-acquisition. Further investigation is needed to assess whether the company's tax structure can be optimized for ABC Holdings.

5. XYZ Retail Ltd has not disclosed any specific tax liabilities or legal penalties. However, the following potential risks have been flagged: The company operates across several jurisdictions, and there is a possibility of tax exposure due to complex cross-border transactions and transfer pricing issues with its international suppliers. The company is currently involved in a tax dispute with local authorities over the classification of certain expenses in 2021 and 2022, which may result in penalties or tax re-assessments. Additionally, the company has not provided a clear view of any pending lawsuits or claims related to product defects, although there have been informal reports of some customer complaints.

6. XYZ Retail Ltd has entered into several related party transactions with its parent company, XYZ Holdings. These transactions include the business support services (such as IT infrastructure and logistics management) that are provided at no charge from the parent company. Goods and services purchased from the parent at discounted rates, with no markup applied, making the company's cost of goods sold artificially low. The company has provided special pricing terms for certain customers that are subsidiaries of the parent company, which are not in line with market pricing. Given the change in ownership, ABC Holdings needs to evaluate the potential impact on the business of restructuring these transactions at market rates.

7. XYZ Retail Ltd. has provided financial forecasts for the next five years. A projected annual revenue growth rate of 8-10% is driven by the expansion into two new regional markets. An expectation of increased gross margins from 30% to 35% in the next two years due to cost-cutting measures and more efficient supply chain management. The assumptions underlying these projections include a continued increase in consumer demand, successful market entry in new regions, and a stable cost structure. The forecasts appear overly optimistic, with little to no justification for the high growth rates and margin improvements.

8. XYZ Retail Ltd has an inventory of FRW 8 million, which includes several obsolete items totaling FRW 1 million. The company has not taken any write-offs for obsolete inventory in the past three years. XYZ Retail Ltd has the fixed assets worth FRW10 million, but the majority of these are underutilized or in need of significant repairs. The company has not made provisions for depreciation on some older assets. The company has recently capitalized FRW 500,000 in costs related to a failed technology project, which has not yet generated any revenue. In addition, XYZ Retail Ltd. has stated that it intends to transfer all tangible assets, including inventory and fixed assets, as part of the sale. However, there is no clarity on the status of intangible assets like trademarks and customer relationships.

9. XYZ Retail Ltd.'s internal controls are limited. The company uses a basic accounting system that lacks real-time reporting capabilities, making it difficult to monitor financial performance accurately. There is limited documentation regarding internal risk management procedures, particularly in the areas of inventory management and customer data protection. The company does not have an established audit committee, and only one individual is responsible for both financial reporting and internal controls. ABC Holdings should consider whether additional investments in reporting systems and internal controls are needed to ensure proper monitoring post-acquisition.

Required:

Prepare a Report on Due Diligence for the acquisition of XYZ Retail Ltd. (9 Marks)

b) Mr. RUKUNDO, a director of Kigali Industries Limited, met Mr. Penzi, a director of Nyungwe Limited, during a business conference in Kigali. After returning to Kigali, Mr. RUKUNDO proposed to his board of directors the acquisition of Nyungwe Limited. During his presentation, he stated: "As a result of this acquisition, we will diversify our operations, and our earnings per share will rise by 15%, benefiting our shareholders greatly." No bid has yet been made, and Kigali Industries Limited currently owns 5% of Nyungwe Limited.

A bid would be based on an exchange of shares between the two companies: one Kigali Industries share for every seven Nyungwe shares.

The financial data for both companies are as follows:

Financial Data	**Kigali Industries Limited (FRW)**	**Nyungwe Limited (FRW)**
Turnover	72.0 million	55.0 million
Profit Before Tax	15.0 million	12.0 million
Profit Available to Ordinary Shareholders	9.5 million	8.0 million
Dividend	4.0 million	4.5 million
Retained Earnings	5.0 million	4.0 million
Issued Ordinary Shares	25.0 million	18.0 million
Market Price per Share	4	0.6
Par Value per Share	1	0.1
Cash Flow from Operations	6.0 million	4.5 million

Financial Data	Kigali Industries Limited (FRW)	Nyungwe Limited (FRW)
Total Liabilities	20.0 million	15.0 million
Total Assets	120.0 million	90.0 million
Interest Expense	1.5 million	1.0 million
Return on Assets (ROA)	5%	6%
Return on Equity (ROE)	8%	7%
Debt-to-Equity Ratio	0.4	0.3
Inventory Turnover	4.5 times	3.8 times
Receivables Turnover	5.0 times	4.2 times
Gross Profit Margin	40%	38%
Operating Expenses	8.0 million	7.0 million
Capital Expenditure	3.5 million	2.0 million

Kigali Industries Limited is a leading manufacturing company in Rwanda, primarily engaged in the production of construction materials and consumer goods. The company has a strong market presence and is known for its high-quality products, as well as its commitment to sustainability and community development. Kigali Industries has been looking to expand its operations and diversify its portfolio in order to achieve better economies of scale and increase shareholder value.

Nyungwe Limited, on the other hand, is a medium-sized company that operates in the food processing industry in Rwanda. The company specializes in producing packaged food products for both local and regional markets. While Nyungwe has experienced steady growth, it has faced challenges in terms of distribution networks and market penetration, which has limited its expansion potential. However, its strong brand and customer loyalty present opportunities for growth if it gains access to better resources and larger markets.

Both companies are now considering a merger that would see Kigali Industries acquire Nyungwe Limited. This acquisition is viewed as an opportunity for Kigali Industries to diversify its operations and improve its profitability, while also providing Nyungwe with the necessary resources to expand and increase its market share.

Required:

i) Using the relevant calculations (Earning per share), **evaluate whether the takeover of Nyungwe Limited by Kigali Industries Limited is worthwhile for Kigali Industries' shareholders.** (10 Marks)

ii) Based on the provided information, **calculate the expected post-acquisition share price of Kigali Industries Limited, assuming the takeover bid is successful.** (6 Marks)

(Total: 25 Marks)

QUESTION FOUR

Kigali Hospitality Ltd (KHL) is a listed hotel company specializing in providing high-quality accommodation, food, and conference services for both local and international guests. Below are the key considerations for Kigali Hospitality Ltd (KHL):

Kigali Hospitality Ltd (KHL) Environmental, Social and Governance (ESG) principles:
Kigali Hospitality Ltd (KHL) aims to embed Environmental, Social, and Governance (ESG) principles into its operations from the start. Its sustainable business model targets high-income individuals, corporate clients, and international tourists, while benefiting the local economy and environment. Environmentally, KHL will adopt green practices such as energy-efficient technologies, waste reduction, water conservation, and sustainable certifications. Socially, it will support local communities through job creation, fair wages, training, and local sourcing, enhancing guest experiences with local culture. In terms of governance, KHL commits to strong ethical standards, transparency, and compliance, guided by an experienced leadership team and regular audits.

Government policies and regulations:
Rwanda is known for its strong government commitment to sustainable development and environmental conservation. Policies like the National Strategy for Transformation (NST1), the Green Growth and Climate Resilience Strategy, and the Rwanda Environmental Management Policy are critical frameworks that promote responsible business practices. KHL should adhere to local regulations that govern waste management, water conservation, emissions, and the use of renewable energy. These regulations are becoming increasingly important as Rwanda pushes toward becoming a middle-income economy by 2035, with a focus on green growth. The Rwandan government offers incentives for businesses that adopt sustainable practices, such as tax exemptions or subsidies for renewable energy investments. KHL can leverage these opportunities to reduce operational costs while contributing to Rwanda's environmental goals.

Tourism development and cultural sensitivity:
Tourism is one of Rwanda's most important economic sectors, contributing significantly to the country's GDP. However, it's crucial for hotels to operate in a way that aligns with the principles of sustainable tourism. Rwanda has a rich cultural heritage that is a significant draw for tourists. KHL should ensure that their operations respect local traditions and incorporate local culture into the guest experience. This includes using local arts, crafts, and cultural performances in their marketing and guest experiences. In doing so, the hotels will foster a sense of pride and involvement within the community, which could enhance their brand image and appeal. KHL can attract eco-conscious travelers by promoting eco-tourism initiatives, such as Gorilla Trekking in Volcanoes National Park, as part of their offerings. Eco-tourism is growing in popularity, and aligning their services with eco-friendly tourism practices will not only improve profitability but also promote Rwanda's tourism sector as a sustainable destination.

Local employment and skills development:
Given that Rwanda's labor market is evolving, both hotels should prioritize local employment and contribute to skills development in the hospitality sector, which is an essential area of Rwanda's economic growth. KHL can collaborate with local vocational training centers to provide hospitality training programs for young Rwandans. This will help address the skills gap in the industry and create job opportunities for locals, particularly in a country where youth unemployment is a challenge. Rwanda has made significant progress in promoting gender equality, with women holding a substantial proportion of political and business leadership positions. KHL should continue to foster gender diversity and empowerment by promoting equal employment opportunities, offering leadership programs for women, and ensuring inclusive work environments.

Climate change and resilience:
Rwanda is one of the most vulnerable countries to climate change in East Africa, with significant risks from flooding, droughts, and landslides. Hotels in Rwanda must focus on climate change resilience as part of their sustainability practices. KHL should implement climate-resilient infrastructure, including designing buildings that can withstand extreme weather conditions such as flooding or heavy rainfall. This could include rainwater harvesting systems, flood-resistant landscaping, and the use of energy-efficient, locally sourced construction materials. In alignment with Rwanda's goal to reduce its carbon emissions, both hotels can adopt practices such as energy-efficient lighting, solar-powered heating and cooling systems, and the use of low-emission vehicles for transportation services. They could also partner with the government and NGOs to plant trees as part of a larger reforestation effort to offset their carbon footprints.

Health and safety standards:
Given the potential for future health crises, health and safety standards are vital to the hospitality sector in Rwanda. KHL should integrate public health and safety practices into their operations. KHL should comply with the highest hygiene and sanitation standards to provide guests with a safe and comfortable stay. This includes frequent cleaning and disinfecting of high-touch areas, temperature checks for staff and guests, and ensuring that employees are trained in health and safety protocols. In the context of Rwanda's post-pandemic recovery, focusing on mental health and wellness tourism could become an important selling point for both hotels. Wellness programs, including meditation, spa treatments, and yoga sessions, can attract health-conscious travelers while promoting mental well-being in a peaceful environment like Rwanda's scenic landscapes.

Technological innovation and digitalization:
Rwanda is a leader in East Africa in terms of digital transformation and is striving to become a knowledge-based economy. Hotels in Rwanda should leverage digital technology to enhance operations and guest experiences. KHL can incorporate smart hotel technology to enhance customer satisfaction and operational efficiency. This includes adopting online booking platforms, keyless room entry, energy-saving technologies, and personalized guest experiences using digital tools. Leveraging Rwanda's growing internet penetration, both hotels should focus on digital marketing to reach international tourists. Social media campaigns, website optimization, and online reviews can be effective tools for building a strong online presence and attracting guests from around the world.

Corporate Social Responsibility (CSR):
Kigali Hospitality Ltd (KHL) integrates Corporate Social Responsibility (CSR) into its core strategy, focusing on community empowerment, employee welfare, and environmental sustainability. The company provides scholarships to underprivileged students, supports local small businesses, and ensures staff well-being through fair pay, safe working conditions, health insurance, and career development. KHL also promotes eco-friendly practices like energy conservation, recycling, and waste management to reduce its environmental impact. In response to criticisms about pricing and labor practices, KHL is enhancing transparency and ethical standards. Overall, CSR is central to KHL's mission to positively impact the community and build lasting stakeholder relationships.

Despite these efforts, local communities have raised concerns and threatened to boycott the company's services due to several reasons: the company has been accused of contributing to the rising cost of living by inflating prices of essential goods around the hotel; there have been reports of employees working under poor conditions, including long hours and low pay; the hotel's waste disposal practices are alleged to have polluted the surrounding environment; and some local businesses claim that KHL is monopolizing the local market by offering unfairly low wages and unfavorable contracts to local suppliers. The local community believes that the company's growth has come at their expense, leading to growing resentment. KHL has an annual turnover of FRW 15 billion and a market capitalization of FRW 90 billion. The company operates in Kigali City and caters to tourists, business travelers, and local customers.

KHL, a new hotel chain led by Ms. Kayitesi, an entrepreneur with an MBA in Hospitality Management and significant experience in the tourism and hospitality sector, plans to enter the market. She intends to establish a boutique hotel in Kigali, with a focus on providing luxury accommodations, fine dining, and event services. Ms. Kayitesi will collaborate with investors who will own 35% of the company. The company will be named Kigali Hospitality Ltd (KHL) with the flagship property being named "Luxe Kigali." The hotel will be located in downtown Kigali, and the mission of KHL is to provide world-class hospitality services while offering unique cultural experiences to its guests. KHL anticipates strong competition from well-established hotels such as Kigali Marriot Hotel, Radisson Blu, and Serena Hotel, which have been operating in the region for over a decade.

KHL 's competitive edge will be its focus on luxury, local cultural immersion, and personalized guest experiences. The hotel will target high-income individuals, corporate clients, and international tourists.

Sales projections and the Operational costs for the hotel are forecasted as follows:

Year	2026	2027	2028	2029	2030
	Amount in FRW" Million"				
Sales revenues:					
Room revenues	120,000	138,000	165,000	195,000	225,000
Food & beverage revenue	35,000	40,000	45,000	50,000	55,000
Conference & event revenues	20,000	23,000	27,000	30,000	35,000
Other services revenues	10,000	11,500	13,000	15,000	17,000
Retail & merchandise Revenues	5,00	5,500	6,000	7,000	8,000
Operational costs:					
Labor costs	25,000	28,000	32,000	36,000	40,000
Water and electricity	7,000	8,000	9,000	10,000	11,000
Maintenance & repairs	5,000	5,500	6,000	7,000	8,000
Food & beverage costs	4,000	5,000	6,000	7,000	8,000
Marketing & advertising	3,000	3,500	4,000	5,000	6,000
Admin & general costs	2,000	2,500	3,000	3,500	4,000
Technology & software	1,500	1,700	2,000	2,500	3,000
Depreciation	500	600	700	800	1,000
CSR Costs	80	100	120	150	200

KHL plans to employ 35 staff members, with leadership provided by a Managing Director, a Finance Director, an operations Director, and a Marketing Director. The company's board of directors will consist of 12 individuals with extensive experience in hospitality, marketing, and finance.

The hotel expects to reach its break-even point by the end of the third year. The total initial funding requirement for the hotel project is FRW 987 billion. The investors will contribute 35% of the capital, 40% of the government grant while the remaining 25% will be borrowed from the bank.

Ms. Kayitesi has been asked to present a business plan to the BPR Bank Plc, outlining the company's strategic vision and financial projections over the next five years to secure the necessary funding. MS. Kayitesi has been asked by the bank to present a comprehensive business plan for Kigali Hospitality Ltd (KHL) in order to provide the BPR Bank Plc for them to use the provided information to evaluate the feasibility of providing the necessary funding for the hotel's establishment and future expansion.

Required:

Prepare a business plan for Kigali Hospitality Ltd (KHL), highlighting the key features that the bank would consider relevant for funding. **(25 Marks)**

Note: clearly show financial projection

End of Question Paper

Present value interest factor of Frw1 per period at i% for n periods, PVIF(i,n).

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038	0.030	0.024	0.020	0.016	0.013	0.010
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020	0.015	0.012	0.009	0.007	0.005	0.004
35	0.706	0.500	0.355	0.253	0.181	0.130	0.094	0.068	0.049	0.036	0.026	0.019	0.014	0.010	0.008	0.006	0.004	0.003	0.002	0.002
40	0.672	0.453	0.307	0.208	0.142	0.097	0.067	0.046	0.032	0.022	0.015	0.011	0.008	0.005	0.004	0.003	0.002	0.001	0.001	0.001
50	0.608	0.372	0.228	0.141	0.087	0.054	0.034	0.021	0.013	0.009	0.005	0.003	0.002	0.001	0.001	0.001	0.000	0.000	0.000	0.000

Present value interest factor of an (ordinary) annuity of Frw1 per period at i% for n periods, PVIFA(i,n).

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	17.226	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870
25	22.023	19.523	17.413	15.622	14.094	12.783	11.654	10.675	9.823	9.077	8.422	7.843	7.330	6.873	6.464	6.097	5.766	5.467	5.195	4.948
30	25.808	22.396	19.600	17.292	15.372	13.765	12.409	11.258	10.274	9.427	8.694	8.055	7.496	7.003	6.566	6.177	5.829	5.517	5.235	4.979
35	29.409	24.999	21.487	18.665	16.374	14.498	12.948	11.655	10.567	9.644	8.855	8.176	7.586	7.070	6.617	6.215	5.858	5.539	5.251	4.992
40	32.835	27.355	23.115	19.793	17.159	15.046	13.332	11.925	10.757	9.779	8.951	8.244	7.634	7.105	6.642	6.233	5.871	5.548	5.258	4.997
50	39.196	31.424	25.730	21.482	18.256	15.762	13.801	12.233	10.962	9.915	9.042	8.304	7.675	7.133	6.661	6.246	5.880	5.554	5.262	4.999