Business Plan

Arco Norte Tourism Development Company

September 2010

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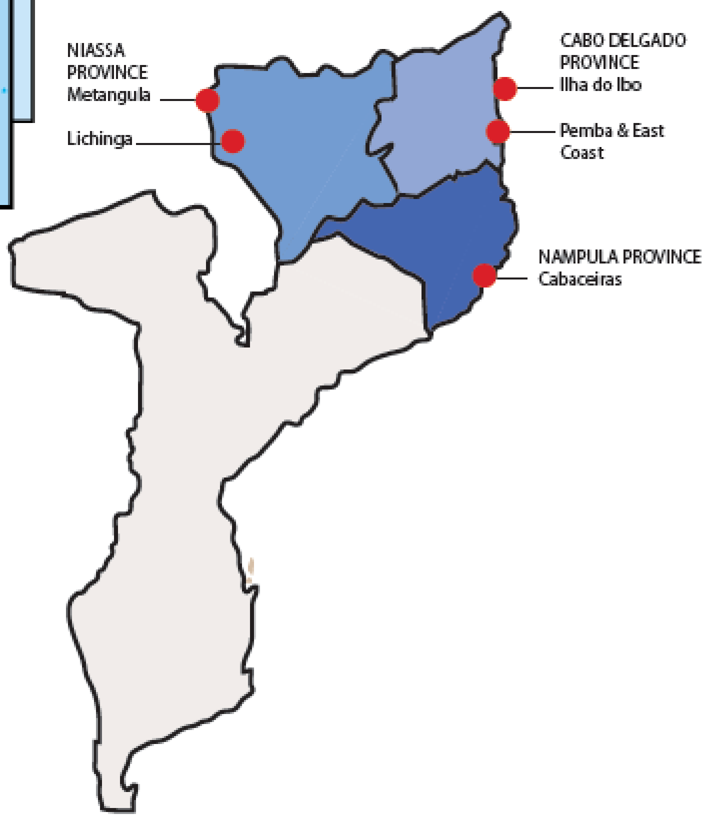
This business plan was developed by Nathan Associates Inc as part of a technical assistance and funding programme sponsored by the United States Agency for International Development for implementation of the Government of Mozambique’s Projecto Arco Norte.

Mozambique and its Arco Norte



Northern Mozambiqe PIAs

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Executive Summary

Mozambique is keen on developing its vast tourism potential in a region known as the Arco Norte, comprising the three Northern Provinces of Cabo Delgado, Nampula and Niassa. In a strategic policy and paradigm shift, Government in 2009, approved and adopted the "Integrated Resort System" (IRS) as the framework for attracting investments and developing the tourism sector. This policy marks a shift away from the current strategy of attracting ad hoc investments into individual (stand alone) tourism facilities and attractions, to planned and integrated destination development, in which private sector plays the lead role.

Projecto Arco Norte

To this end, and with technical assistance and funding from the United States Agency for International Development, the Ministry of Tourism has since 2006, has been implementing a special project designated Projecto Arco Norte. The Project aims to create a world class and sustainable tourism industry and to position the North of Mozambique as a destination for the discerning traveler. Within this framework, six stunning sites were identified and a masterplan has been developed to guide and kick start major resort destination development in the three Northern Provinces of Cabo Delgado, Nampula and Niassa (Arco Norte).

Arco Norte Tourism Development Company

Within the framework of a public/private partnership (PPP) and to assure private sector leadership of the tourism development process, Government has conceived the need of a special purpose company to promote the development of tourism infrastructure, attract developers, operate the special tourism zones, and ultimately promote these destinations to tourists worldwide. Consequently, a public-private company (Sociedade Anónima) under Mozambican commercial law, to be named the Arco Norte Tourism Development Company (ANTDC), is being created. The company will provide a clear structure, which will allow the market to identify development opportunities as they arise, and for attracting investments, implementing and responding to opportunities as they arise.

ANTDC will offer shovel-ready infrastructure sites for establishment of quality tourism businesses, such as hotels, lodges, resorts and casinos, shopping malls, golf courses, marinas and similar value-added projects in choice locations in Northern Mozambique. It will serve as a pilot venture that will demonstrate the viability of this type of regional development vehicle, a model proven successful in places like Bali, Cape Verde, Dominican Republic, Mauritius, Tunisia and others.

Promoters

The initial promoters will be two public shareholders: Mozaico do Indigo, S.A., a Mozambican public company and Instituto de Gestão das Participações do Estado (IGEPE), another wholly owned state financial holding entity. Discussions are underway to have other key public sector enterprises, particularly those in telecom, utilities and infrastructure, which also happen to have major landuse rights in the proposed resort zones, to also be founding members.

After its initial startup, efforts will be made to attract private sector investors, both foreign and domestic, to take a majority stake in ANTDC to ensure that management and control is placed firmly in the hands of the private sector. Majority private sector shareholding ensures the pursuit of steadfast profitability goals and the company's credibility before private investors and the international financial market.

This Business Plan was commissioned to chart the course for the establishment of the company and project its initial viability and profitability. Considered a preliminary document, the plan was developed by an outside team of consultants with inputs from those close to the proposed business venture. It is expected that this plan will be closely reviewed and fine tuned by the ANTDC management once the company is established in order to ensure management ownership of the business plan and commitment to its implementation.

The consultants considered three scenarios for company establishment: a public sector-driven scenario, a private sector scenario, and a hybrid scenario. While each has its advantages and disadvantages, the scenario selected is the hybrid scenario characterized by a public-private-partnership (PPP) approach. This scenario is favored, in part, because it is able to incorporate the positive elements of both the public and private sector scenarios and also because land, a basic asset for this type of business, cannot be legally sold in Mozambique.

The development of this business plan applied the analytical rigor required of the private sector scenario. This was done on the premise that if the business model is profitable from a private sector perspective during the first decade of its existence then it should be no less profitable under the less stringent terms and conditions of credit access available through public sector financing. Additionally, the private sector financing scenario has the added benefit of simulating a build-operate-transfer (BOT) business undertaking in the event a decision is made to opt for a BOT operation rather than a direct contract approach.

This business plan is for a Greenfield startup company. As is the case with startups, there is no historical data upon which to base future projections. Thus, projections are based on comparable cases and best estimates considering similar scenarios and contexts. For the development of this business plan, the team looked closely at the tourism development models of Bali, Cape Verde and Mauritius. While land tenure regimes are different from that of Mozambique in the three examples, and Bali and Mauritius have long been developing their well established tourism industry, the case of Cape Verde offers the best comparison for Mozambique. A shared historical past and Cape Verde's recent tourism development successes based on the principle of "built it and they will come", which has not only seen a rapid increase of European developers building resorts up to 1,000 beds in size, but has seen the poor derive 15% of their household income from tourism revenues, offer encouraging lessons for Mozambique.

For leasehold land issues, the team looked to Australia for important lessons due to the well developed theoretical and applied research in the country related to Crown land leaseholds.

Investment Cost & Financing Plan

An estimated $94.36m in both debt and equity financing will be needed to develop the infrastructure requirement in the proposed special tourism zones. To ensure, a balanced debt/equity ratio required by the international capital market, some $26m must be raised in the form of equity contributions from investors' paid-in capital, as increased from time to time as required, as well as from the company's retained earnings. The plan calls for the Company to be created with $10m in equity as initial capitalization while the balance of $16m will be spread over the next four years of the plan. Thus, a large amount of the Company's activities, particularly the development of basic tourism infrastructure, must be financed with debt through the construction and debt service period.

The plan assumes a capital structure based on a 72:28 debt/equity ratio. Debt financing is projected to be four tranches of 10-year debt, each tranche with a 2-year principal payment grace period to accommodate the slow start-up. Interest payment on the long term debt is calculated during the 2-year grace period. To meet and complement the financial needs, short term loans in the amount of on average $1.0M per year will be borrowed through a short term line of credit to be established with a local bank. Payment periods for short debt are expected to be at most three years.

Target Audience

The intended audiences of this business plan are high-level Government of Mozambique decision makers, key stakeholders of the Arco Norte tourism zones, but especially the potential equity investors in the ANTDC. Likely private equity investors are ultimately the true target audience of this plan as they will be the ones to decide if ANTDC offers an attractive investment opportunity or not. The actual investments to be made in the development of the almost $68.0 million dollar basic tourism infrastructure in the special tourism zones is a separate project finance matter which will require specific studies to demonstrate its economic and financial feasibility.

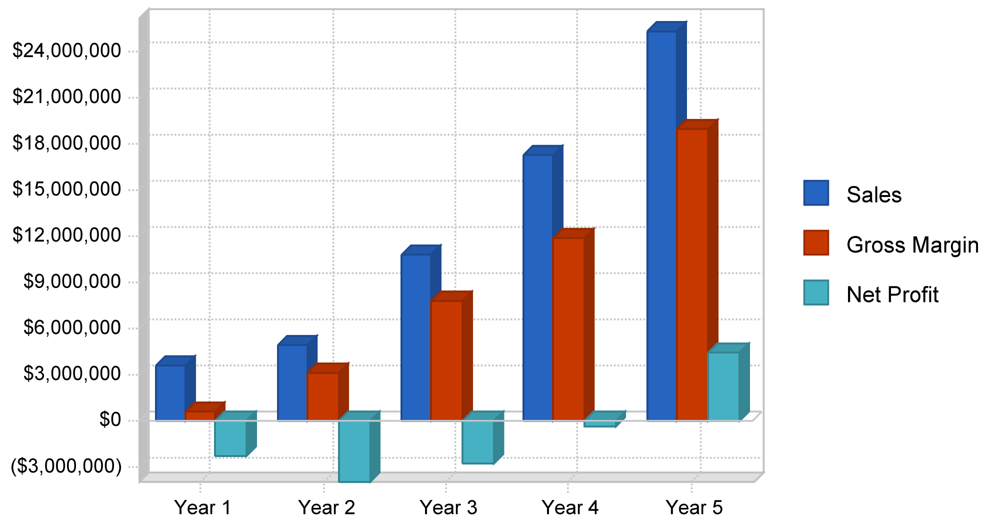
Financial Analysis

This business plan was developed from a stringent and costly perspective of a direct contract approach. Under this approach, it is assumed that ANTDC will directly develop the proposed tourism infrastructure. Its profitability for the first five years is demonstrated in the figure below. If a BOT approach is opted for in the development and management of the tourism zones, corporate operation costs would be significantly below those projected here, especially expenses associated with personnel, marketing and promotion. However, as projected in the model, while starting out with a negative net profit, as can be expected of a company in this line of business, the figure shows a progressive evolution reaching positive net profit by Year 5.

As shown in the table below, key ratios presented in the plan go from negative to positive, reaching profitability by Year 5. The gross margin ratio is positive throughout the plan period. On the other hand, profit before interest and taxes start off negative but turn positive by Year 3 and maintain an increasing positive trend thereafter. Net profit is negative until Year 5 when it turns positive and maintains that trend henceforth. Likewise for return on equity which starts off negative but with an improving trend until turning positive in Year 5. Finally, the financial model demonstrates that the internal rate of return is a reasonable 13%, based on a 30-year calculation period.

The plan also presents a healthy positive cash flow model that ensures ANTDC's liquidity and financial soundness during the critical first five years of operations. An added measure of profitability is revealed in Year 5, when the first payment of dividends in the amount of $1.5 million is projected. This reflects an 8% payment on the book value of net worth (owner's equity) and a 6% dividend return on the initially paid-in values of $26,300,000 in Year 5.

Key drivers of this preliminary business plan that aim to ensure success of the venture are stated below: objectives, mission, and "keys to success."



	Year 1	Year 2	Year 3	Year 4	Year 5
Gross margin	17.92%	62.39%	72.39%	68.97%	74.85%
Profit before interest and taxes	-38.57%	-19.30%	19.31%	29.79%	46.09%
Pre-tax return on assets	-10.19%	-7.15%	-4.09%	-0.50%	8.77%
Net profit margin	-63.08%	-79.14%	-25.85%	-2.18%	17.41%
Return on equity	-43.09%	-41.18%	-21.78%	-2.21%	22.24%
Internal rate of return					13.0%

OBJECTIVES - CLEAR AND MEASURABLE

- Attract public and private sector investment, promote development of essential tourism infrastructure, ensure provision of utilities, and manage six world-class tourism zones in three provinces of Northern Mozambique.
- Promote destinations on the international tourism market and increase tourist annual arrivals from the current 35,000 to 500,000 by Year 5.
- Develop a sound business venture that can reach positive net profit by Year 5.
- Achieve a financial internal rate of return on investment of at least 12% over the first 20-year life of the project.

MISSION STATEMENT - QUALITY BUSINESS, CUSTOMER SATISFACTION, EMPLOYEE PERFORMANCE, AND SHAREHOLDERS REWARD

Develop quality basic tourism infrastructure, ensure provision of reliable utilities services, manage the special tourism zones with a highly motivated team to support the development of a profitable tourism industry in the Arco Norte region and, ultimately ensuring a sustainable and profitable business venture for shareholders.

KEYS TO SUCCESS - PURSUIT OF EXCELLENCE AND REQUIRED CONDITIONS

- Well positioned brand of a newly emerging tourism destination rich in natural beauty, cultural heritage and varied biodiversity.
- Safe, quality tourism infrastructure, well maintained and managed, ensuring world-class infrastructure amenities at competitive prices.
- Professional communication between ANTDC and developers and customers to ensure customer satisfaction and a solid and enduring reputation in the international tourism community.
- Attractive, well maintained and managed tourism infrastructure at special tourism zones to ensure developer satisfaction, support sound business practices, and leverage the generation of healthy profits for ANTDC, developers, and investors.
- A significantly improved business enabling environment in Mozambique.
- Development of appropriate tourism policy and regulatory environment that will offer a competitive incentives regime and investment predictability for developers and investors.

Five-Year Plan

1. Introduction

In a strategic policy and paradigm shift, the Government of Mozambique in 2009, approved and adopted the "Integrated Resort System" (IRS) as the framework for attracting investments and developing the tourism sector. This policy marks a shift away from the current strategy of attracting ad hoc investments into individual (stand alone) tourism facilities and attractions, to planned and integrated destination development, in which private sector plays the lead role. This decision follows earlier approval in 2008, of the "Conceptual Landuse Plan and Framework for Tourism Development in Northern Mozambique" developed by the Ministry of Tourism with technical assistance and funding from the United States Agency for International Development.

Designed to assist the Ministry of Tourism implement its Arco Norte Project (Projecto Arco Norte) and attain national tourism policy goals, the concept plan and framework document proffered a vision of tourism development over a 20 year time frame. It further created a framework that allows the market to identify and implement development opportunities, as well as a clear structure for attracting investments and responding to opportunities as they arise. Within this framework, six stunning sites were identified to kick start major resort destination development in the three Northern Provinces of Cabo Delgado, Nampula and Niassa (Arco Norte).

To implement the resort development programme, assure continuity and sustainability, Government approved the establishment of a Special Purpose Vehicle (SPV) i.e. a limited liability, for-profit, joint venture company involving the public and private sector. This company will drive the tourism development process; assure focused and effective leadership, and carry through the complex and high degree of coordination required for attracting investments and transforming the sites into world class tourism destinations.

This business plan is for the proposed SPV, which is referred to as the Arco Norte Tourism Development Company (ANTDC). It aims to set out the company's strategic direction, its main operating and financial targets, investments planned and the actions it will take to achieve those objectives. Specifically, this business plan addresses the following: a start up plan; descriptions of the company; its capital structure; product and services; market; forecasts; management team; and financial analysis. Ultimately, the plan must assure commercial viability of the ANTDC; present to the global tourism market an exotic and unique value proposition that attracts investors and tourists; create a basis for investors and developers to generate profit and excellent returns on investments; and create sustained wealth through responsible custodial management of tourism resource endowments, for the benefit of the surrounding communities.

The ANTDC will help transform the natural comparative advantage of Northern Mozambique, based on its location, fauna, flora and culture into competitive advantage. It is a part of the larger effort to transform the region's rich tourism assets into a profitable business model. It needs to be noted however, that the plan was not developed under normal conditions that include certain analytical and scenario planning instruments. Usually, and in some models, for a company whose core functions include infrastructure development in the resort or tourism development zones, the business plan is preceded by feasibility studies of investments to be carried out.

Lacking the benefit of feasibility studies, the present plan has been based on opportunities, needs and cost estimates identified in the masterplanning process, which was carried out by a Consortium of 6 reputable South African firms. These are: Pattichides & Partners (Architecture); Holm Jordaan Group (Urban Design & Town Planning); Aurecon Engineers (Engineering Disciplines); Strategic Environmental Focus (Environmental Specialists); Demacon (Urban Economics); and Davis Langdon (Quantity Surveyors). In addition, the plan has been informed by valuable inputs from other industry experts. Nonetheless, the plan clearly presents the soundness of the business model and the profitability of the proposed business venture.

The model applied responds to the peculiar situation and the stage of tourism development in Mozambique. As clearly noted in the masterplan report, there is the need to create a dedicated investment promotion and destination management institution that can coordinate and drive the tourism development process even at the very early stage, including organizing the full range of studies that need to be carried out. Without this, tourism development will continue in an ad hoc manner, destroying the immense potential of the Arco Norte.

Consequently, the ANTDC must be viewed as a business incubator. This business plan has therefore been developed within that context. It should thus, be regarded as a dynamic tool that will require review as the development process unfolds, and in response to market conditions.

Three scenarios were considered in plan development: a public sector-driven scenario, a private sector scenario, and a hybrid scenario. Each has its advantages and disadvantages. The public sector scenario, while usually characterized by bureaucratic lethargy is balanced by lower debt financing costs made possible through long-term soft loans and government guarantees that give comfort to lenders. On the other hand, the private sector scenario is much more dynamic but also costly for investors, who must bear the full cost of raising and financing debt in the domestic and international financial markets.

The scenario chosen for the Arco Norte Tourism Development Company (ANTDC) business venture is that of a public-private-partnership (PPP). This scenario is favored, in part, because it is able to incorporate the positive elements of both the public and private sector scenarios and also because land, a basic asset for this type of business, is not sold in Mozambique. The plan applies the analytical rigor required of the private sector scenario on the following premise: if the business model is viable and profitable from a private sector perspective regarding infrastructure development and loan repayment during the first decade then it should be even more profitable under the less stringent financial terms and conditions available through public sector financing. The private sector financing scenario has the added benefit of simulating a build-operate-transfer (BOT) business undertaking in the event a decision is made to opt for a BOT operation rather than a direct contract approach.

This business plan is for a greenfield startup company. As is the case with startups, there is no historical data upon which to base future projections. Thus, projections are based on comparable cases and best estimates considering similar scenarios and contexts. For the development of this business plan, the team looked especially close at the tourism development models of Bali, Cape Verde and Mauritius. While land tenure regimes are different in the three examples and Bali and Mauritius have long been developing their well established tourism industries, the case of Cape Verde offers the best comparison for Mozambique.

The Cape Verde example is particularly relevant because the two countries shared similar colonial past and inherited their commercial and legal framework from Portugal. Additionally, Cape Verde only recently graduated from an LDC to a lower middle income country status, which is still relatively close to the Mozambique's status as an LDC country. Particularly telling also is the fact that Cape Verde used the principle of "build it and they will come" which has proven successful for the country. While the tourism industry was in its infancy a decade ago, today it has emerged as the driver of economic growth in Cape Verde, with major European developers building resorts of 500, 600 and even 1,000 bed units. Finally, a study funded by the Overseas Development Institute in the U.K.[1] shows that the poor in Cape Verde derive 18% of benefits from tourism expenditures. Considering the rich arts and craft traditions in the country, which should find ready buyers and enhance the tourism offer, tourism's contribution to poverty alleviation in Mozambique, should be no less than South Africa's 20%, if not higher,

[1] Jonathan Mitchell and Caroline Ashley, Tourism and Poverty Reduction: Pathways to Prosperity, Earthscan, U.K. , 2010.

Because of its importance as an asset and a major source of capitalization in the business plan model, the team had to look at the issue of land to be used in the designated special interest tourism zones. For tourism development, land is a basic asset and is much more than a commodity due to the value of its location and, more specifically, the site, which determines what can be put there and adds the greatest value for the enjoyment of the tourist. However, per the Constitution and the country's Land Law, land cannot be sold in Mozambique. Individuals or corporate persons (be they national or foreign) and local communities do have rights of landuse and benefits. However, a right of land use and benefit can be transferred only in two ways: (a) *inter vivos*, by the sale and purchase of infrastructures, structures and improvements on the authorized land or plot; and (b) by inheritance. Thus the commercial option for land tenure with transferability rights is leasehold which is possible up to 50 years and may be renewed once.

For leasehold land issues, the team looked to various examples including Hawaii and Australia where up to 99-year land leaseholds are current practices. Although there are specific instances where Crown land can be acquired by the lessee, typically this form of land tenure, particularly in the area of New South Wales, is through leaseholds. Australia has a well developed theoretical and applied research on leasehold valuation, which served as important lessons for the business plan team's consideration.

The intended audiences of this business plan consist of high-level Government of Mozambique decision makers, key stakeholders of the Arco Norte tourism zones and potential equity investors in the ANTDC. Ultimately, potential equity investors are truly the key target audience of this plan. In the final analysis, they will have to decide whether or not, the ANTDC is a sufficiently attractive investment opportunity to participate in as an equity shareholder.

The actual investments to be made in the development of the almost $68 million dollar basic tourism infrastructure will be a matter of project finance. Whether a direct contract approach, on which this as this business plan model is based, or by a BOT mechanism, lenders will require specific feasibility studies of each tourism zone in the Arco Norte region before deciding to provide any kind of project or credit financing.

2. Context and Opportunity

Mozambique is noted for its cultural, historic, and natural attractions, especially in the northern provinces of Cabo Delgado, Nampula, and Niassa. These assets provide a basis for the development of a world class tourism industry. In fact, tourism is probably the one tradable sector in which, Mozambique could develop an international competitive advantage, and one of the best options for exports and economic growth. In pursuit of this objective, the government adopted a National Tourism Policy and Implementation Strategy (2003) to position Mozambique as a major tourism destination. It then identified 18 priority areas for tourism investments (PATIs) across the country. In 2006, the Ministry of Tourism began implementing Projecto Arco Norte (Northern Arc Project) with funding and technical assistance from the United States Agency for International Development (USAID) and with Nathan Associates Incorporated, as project managers.

Projecto Arco Norte focuses on the tourism potential of three Northern Mozambican Provinces: Cabo Delgado, Nampula, and Niassa. The goal is to position Northern Mozambique as a world class, sustainable tourism destination based on the region's unique historic, cultural and natural resources. The project seeks to transform tourism into a major sector that:

- Attracts large private investments and partnerships;
- Stimulates tourism related businesses and agricultural transformation;
- Creates increased opportunities for employment;
- Contributes significantly to enrichment and empowerment of destination communities; and
- Preserves the environment.

From 2006-2007, a destination assessment was carried out by George Washington University (USA). This was followed with a site assessment by John Robinson Planning & Design (a UK-based company). The latter identified the following as developable sites for major intergraded resort development.

- **Cabo Delgado Province.** The Pemba Bay and 14 km stretch of coastline to the east covering Chuiba (Municipality of Pemba) and Murrebue (Mecufi District); and Ibo Island in the Quirimbas Archipelago (Ibo District).
- **Nampula Province.** 5km of beachfront stretching from the old town of Lumbo with substantial stock of abandoned buildings to Sancul in the District of Ilha de Moçambique; and
- **Niassa Province.** 2km of pristine Lakeshore between Metangula and Chiuanga (Lago District) and the provincial capital of Lichinga (Municipality of Lichinga).

These sites offer interesting potential and opportunities for investments in a range of facilities, including:

- Infrastructure development (roads, airports, marinas and utilities) both in and outside designated tourism resort zones;
- Waterfront development;
- Real estates and tourist accommodation – hotels, holiday homes, timeshares etc;
- Ancillary and supporting services and related business.

As a sequel, in 2009, the Government of Mozambique adopted the "Integrated Resort System" as a framework for tourism investment. Consequently, detailed tourism zone master plans have been developed for 11 sites in six zones in the three Northern Provinces. These were completed in June 2010. Government has since officially declared the sites special tourism development zones (Zonas de Interesse Turístico – ZIT). The master plan identifies in great detail and quantifies costs for the development of key tourism infrastructure, including roads, water and sewerage, electricity distribution grid and landscaping within the sites in the six zones. Projected costs for each site are as follows:

Infrastructure	Costs ($)
CABO DELGADO	
Roads	19,000,000
Water	4,000,000
Sanitation	14,000,000
Electricity (Ibo)	2,000,000
Environment	300,000
Total	**39,300,000**
NAMPULA PROVINCE	
Roads	5,200,000
Water	4,000,000
Sanitation	7,500,000
Total	**16,700,000**
NIASSA PROVINCE	
Roads	5,100,000
Water	7,500,000
Sanitation	2,300,000
Environment	1,300,000
Total	**16,200,000**

The business of ANTDC therefore will be to ensure quality development of the basic infrastructure above, management of tourism facilities and promotion of the new tourism destination to attract developers and, after resorts are developed, attract visitors to the special tourism zones. ANTDC may carry out its mandate either directly or indirectly through a BOT modality.

3. Company Summary

ANTDC will be joint venture (public-private partnership) limited liability Company. It will be registered under Mozambican law, with private sector holding majority shares. The company will focus mainly on the development of tourism infrastructure in six sites in the three provinces of Northern Mozambique and attracting private sector investments into the construction of requisite tourism superstructure. As the first of its kind in Mozambique, ANTDC will demonstrate the viability of this model of destination and regional tourism development, which has proven highly successful in places like Bali, Mauritius, and Cape Verde. Highly qualified and experienced professionals and managers will be hired to set up and manage the ANTDC. The company will be committed to the development and operation of quality, basic tourism infrastructure and services, as well as the management of specialized tourism zones to the highest international standards.

COMPANY OWNERSHIP

ANTDC will be created as a public-private company (Sociedade Anónima) under Mozambican law. It will have its head offices in Pemba, Mozambique. Initially, it will be chartered with a US$10 million authorized share capital available for subscription, using private placement, to start with. This will be increased to a total of $26 million by Year 4. The initial promoter will be Mozaico do Indigo, S.A. (a Mozambican Public Company), which has been set up as a Holding Company for all state enterprises with assets in the proposed resort zones. It is envisaged that 35% of the stocks will be taken up by the Mozaico and its members. The remaining 65% will be offered primarily to private investors, both domestic and foreign. After the initial setup period, the majority shareholders will be from the private sector. This is to ensure that ANTDC management and control are firmly in the hands of private investors, thereby assure the pursuit of steadfast profitability goals as well as enhance the Company's credibility and attractiveness to private investors and the international financial market.

START-UP SUMMARY

Table 1 below presents estimated startup costs and assets for the initial balance sheet. ANTDC startup expenses include legal, stationery, brochures, consultants, insurance, expensed equipment, and nonexpendable property and topographical maps received from a previous project, etc. Additionally, it is estimated that one year equivalent in initial working capital will be required as part of startup assets.

Table 1
Start-up Requirements

Requirements	Amount
START-UP EXPENSES	
Legal Fees	$2,000
Stationery etc.	$1,000
Brochures	$5,000
Consultants	$25,000
Insurance	$1,500
Office Rent	$3,000
Expensed Equipment	$1,000
Other	$4,000
Total Start-up Expenses	**$42,500**
START-UP ASSETS	
Cash Required	$1,500,000
Other Current Assets	$25,000
Long-term Assets	$600,000
Total Assets	$2,125,000
Total Requirements	**$2,167,500**

4. Services

Destination and resort development involves issues of land acquisition and preparation, financing for supporting infrastructure and superstructures within the resort and surrounding districts. A resort destination must offer a variety of accommodation types, levels of quality, food, shopping, entertainment, golf, leisure and recreation, transportation, marinas, commercial, health and banking facilities. It involves planning for large numbers of visitors seeking an experience and catering to their needs. It requires marketing to attract investors and tourists and providing them with the necessary support.

Housing and community services for employees and their families, training the manpower that will deliver a wide range of quality professional industry services are major issues that must be addressed. Also, there is the need for effective balance between economic, environment and social objectives and to integrate resort development with regional and national development planning. Consequently, resort development is a complex activity requiring special organizational structures, focused and effective leadership and competent technical staff, to undertake and manage. It is a long term and continuing activity. It also entails a high degree of coordination among various public agencies, between the public and private sector as well as with local communities.

ANTDC's core business will therefore involve the following: (i) provision of shovel-ready infrastructure sites for a variety of high-quality tourism businesses; (ii) investment promotion; and (iii) destination management. Specifically, these include:

- Acquisition and ownership of landuse rights, which will be a major source of capitalization for the Company;
- Development of major infrastructure such as internal roads, drainage, water supply, sewerage systems, common area landscaping and common-use facilities in the resort zone including golf courses, marinas etc;
- Promoting and attracting investments into hotel, real estate and commercial developments, other tourism businesses and services as well as negotiating with interested developers and management groups; and
- Leasing of sites and commercial space.

Other functions include the management of:

- Sewerage, garbage collection and treatment within the resort areas;
- Maintenance of common area landscaping, internal roads and pathways;
- Operation of internal transportation;
- Beach maintenance, street lighting and security;
- Fire protection as well as overall safety and security in the resort zone; and
- Emergency medical services.

5. Market Analysis Summary

ANTDC's main clients will be major hotel, resort, entertainment and leisure industry property developers; real estate developers; property asset management and services companies; and BOT contractors. Premium clients are likely to be experienced and successful performers in the sub regional and global hotel, leisure property and real estate markets, wishing to diversify their products and portfolios, taking advantage of the novel and unique sites offered by the Arco Norte destinations. Global investors are expected to come from Europe, Asia, Middle East, Australia, and North America. Regional investors will be largely from Southern and East Africa, with South Africans expected to lead in this effort.

Mozambican will be important investors in the ANTDC, as well. National investors are expected to be private institutions and individuals who may invest either individually or through joint ventures with foreign investors to leverage national business ownerships in select tourism growth areas. After resort facilities begin operation beginning Year 3, ANTDC will focus its destination promotion on visitors to drive tourism arrivals to target zones. While developers will be primary beneficiaries of end-customer promotion, ANTDC will benefit through bed and visitors fees to be collected.

MARKET SEGMENTATION

Regional tourism developers, primarily from South Africa are expected to be the largest market segment during the first few years. This segment comprises

- Hotel and hospitality property developers;
- Hotel, hospitality, and property franchisors and operators teaming up with developers;
- Hotel, hospitality, and property financiers, including property and investment fund managers; and
- Infrastructure financiers and contractors

The novelty and quality of the destination, airport upgrades in Pemba and Nacala, implementation of open skies and the introduction of low cost carriers, one of which is already flying the Johannesburg and Maputo route, will serve as major drivers to this segment especially as more economic tour package to be offered. In addition, the prospect of oil and gas drilling in Northern Mozambique, coupled with major new mining exploration activity provide opportunities for office and commercial space to both upstream and downstream businesses, which will be looking to establish operations in the Arco Norte, thus creating demand in the real estate sector. For many of the expatriates who will work in these industries, quality of life is a major issue that can be addressed by the resort destinations to be created.

While Mozambique has a long tradition of receiving South African investors, it is projected that the perceived lucrative tourism market for those who position themselves early in the development stage will give rise to an aggressive group of investors looking for first mover advantage to secure the choicest locations for prime development. Consequently, it is estimated that this market segment will grow at about 50% per annum for the first five years based on current demand estimates. This estimate is based on current estimated baseline demands of at least five developers waiting to invest as soon as approvals are given.

ANTDC's largest market segment in investment size is expected to come from major international tourism developers. These are expected to be major corporations with vast experience in the management of diverse international tourism destinations. Thus, ANTDC will target major developers from Europe, Asia, North America, and the Middle East. Because of their financial prowess and managerial knowhow, they will readily see the investment opportunity offered by the pristine sites in Northern Mozambique. While they will be few in number at first –and our baseline assumes only two serious potential investors at this time—we anticipate that this market segment will also grow at a rate of about 50% per year for the first five years based on current demand estimates.

The third market segment consists of domestic investors. National investors/ developers, individual and institutional, are eager to establish an early foothold in prime tourism real estate locations. Because of a lack of experience in major league tourism development, national investors are more likely to join forces with regional and international developers through joint ventures and other arrangements to leverage their investment positions. We estimate their growth rates to be about 50% per year, similar to the other two market segments, although estimated investment volume is expected to be significantly lower than the other two. It is estimated that some 10 credible domestic investor/developers are ready to submit their applications as soon as conditions permit. Hence, we use a baseline of 10 domestic investors for year one of ANTDC operation.

The fourth market segment is that made up of actual visitors. It is anticipated that a sizeable revenue stream will be derived from bed and visitor fees once ANTDC developers open doors and begin operation. This revenue side is projected to begin during the third year into the life of the business plan. Using the current number of 35,000 visitors per year visiting the Arco Norte region as baseline, when none of the new capacity and greatly improved conditions exists, it is estimated that this market segment will grow the fastest of the other three, at about 125% per annum. Their numbers are projected to rise quickly from 100,000 when new facilities are ready for occupancy at Year 3, increasing rapidly to over 500,000 by end of Year 5.

Table 2 below indicates the estimated number of developers per each market segment and their respective growth rates for the first five years. However, these numbers should not be confused with the volume of investments coming from each market segment. Obviously, even though in numerical terms, domestic developers/investors are estimated to be more numerous, their investments are expected to be much smaller in size than either the regional or the international developer/investors. Additionally, many will likely form joint ventures partnerships with foreign investors where they are likely to take minority shares in the business ventures. Thus, in terms of overall investment volume, it is expected that regional developers will be the more significant during the first two to three years while the major international developers should emerge as the most significant group of investors by Year 5.

Visitors are the fourth market segment that will contribute to ANTDC's revenue stream. However, they will not emerge until the first tourism facilities in the special zones begin operation, which is projected to begin in Year 3. Once started, the number of visitors, both tourists and national visitors, are expected to rise quickly as more tourism facilities enter operation and aggressive marketing and promotion efforts are made by ANTDC and the developers themselves to drive visitors to the new destination.

Table 2
Market Analysis

Potential Customers	Growth	Year 1	Year 2	Year 3	Year 4	Year 5	CAGR
Int'l developers	50%	2	3	5	8	12	56.51%
Regional developers	50%	5	8	12	18	27	52.44%
Domestic developers	50%	10	15	23	35	53	51.73%
Visitors	125%	0	0	100,000	225,000	506,250	n/a

TARGET MARKET SEGMENT STRATEGY

In a highly competitive global marketplace, a targeted approach and effective follow up with potential investors are key to success. To some degree all four of ANTDC's target markets are geographically segmented. The Southern Africa market is regionally segmented while the international market represents a more global market segment. The domestic market, on the other hand, is national in scope. The fourth market segment, represented by visitors is similarly segmented into all three of the above that is, regional, global and domestic.

However, despite their geographic dispersion, these market segments constitute a relatively homogeneous target audience, comprising the more highly educated elites, cosmopolitan in their world view and deriving their information from similar digital and mass media sources. Consequently, a range of tools will be employed in reaching these segments. These include investment forums, the development of a Website with adequate information; participation in major hotel, infrastructure, real estate and construction sector meetings and exhibitions; mass media communication channels including global television networks such as CNN, BBC, Al Jazeera, et cetera. International newspapers and magazines such as *The Financial Times, The Wall Street Journal, International Herald Tribune, The Economist*, constitute other media.

In addition, marketing and publicity can also be channeled through trade and consumer publications. International investors, for example, can be reached through magazines such as *Institutional Investor*, and through trade publications that target members and stakeholders. Trade publications that abound in the hotel and hospitality industry, tourism real estate development, construction, and the like, are effective venues for presenting investment opportunities to the developers and investors audience. Coupled with this, a major investment promotion road show will be mounted, mainly targeting capital markets in South Africa, Middle East and Asia. Senior Government Officials such as the President, Prime Minister and the Minister of Tourism will be used as influential sales persons.

If anything, the international, regional, and domestic visitors are no less showered with travel information and advertisements from the myriad of existing publications promising adventure, leisure and excitement offered by new lands and newly discovered locations. Additionally, the almost universal broadband accessibility of this target group makes the Internet an ever increasing marketing and advertisement medium to reach this burgeoning market segment.

In sum, the four market segments which should constitute the principal marketing focus of ANTDC are all easily reachable through direct contacts, investment forums and missions, trade publications, major international and regional media, newspapers and magazine publications, and the web. A further option for targeting potential investors will be hiring the services of specialist consulting firms familiar with investors and developers in Africa, Middle East and Asia and to a lesser extent, Europe and the United States. Additionally, ANTDC also has the opportunity to reach the professional tourism target market regular appearances in major tourism events, such as fairs and forums held worldwide which will ensure strong outreach to the target market segments.

SERVICE BUSINESS ANALYSIS

ANTDC will be entering a highly competitive industry with many well developed and firmly established exotic tourism destinations like Bali, Mauritius, Malaysia, Caribbean, and others. However, none of these destinations offers such a diverse variety in relatively close proximity, ranging from pristine beaches in Cabo Delgado and Nampula coastline, to rich wildlife around Lake Niassa and the reserves in Gorongoza Park, as that offered by ANTDC. This rich and diverse natural endowment creates a unique and strong comparative advantage for ANTDC which, combined with a well conceived plan of action, is capable of creating value and competitiveness and attracting new as well as repeat business from the same consumer base. Naturally, a strong brand management and consistent level of high quality services are paramount requirements to ensure sustained customer satisfaction and repeated same location business.

COMPETITION AND BUYING PATTERNS

ANTDC will face competitors offering similar facilities and services and going after similar customer base. The most obvious are the Caribbean, Indonesia, especially Bali, Malaysia, Kenya, Maldives, Mauritius, and neighboring Tanzania and South Africa. While Arco Norte may have a natural advantage over its competitor by virtue of the rich and diverse natural tourism endowment, it must strive to attract and hold on to a steady customer base.

The ultimate customer of the ANTDC is the tourist who will be attracted to these dedicated special tourism zones. Whether a national, regional or international visitor, the tourist has many choices offered by the myriad of locations touting their uniqueness and high level of customer satisfaction. While the novelty of adventure may play a key role in attracting the first time visitor to a tourism location, it is the quality of service that will inspire loyalty and drive repeat business. Consequently, while quality infrastructure and attractive setting is a necessary, it is not a sufficient condition to ensure tourist loyalty.

Service is the key. Predictable and sustained quality level of customer service is the hook that will drive and retain customer loyalty as well as serve to promote the expansion of the market through word of mouth. Thus, complementing the high standard of basic tourism infrastructure to be built and maintained, ANTDC must strive to have the developers provide an equality high level of service aimed at customer satisfaction. This will be done either through strict condominium agreements to be signed by developers or through BOT contracts, if the latter is chosen as the preferred zone development option.

6. Strategy and Implementation Summary

ANTDC will focus on the four previously mentioned market segments: major foreign developers, regional developers, and domestic developers/investors. At a later phase ANTDC will focus its attention more to destination promotion that targets potential visitors. The target developers will typically be those investors who already are major players in the medium to high end tourism market and therefore have a relatively well established customer base. Their interest in ANTDC is to be the first to offer a newly discovered tourism destination to their customers while making a handsome return on their investments by taking advantage as first movers. Other investors will look at ANTDC as a sound and attractive business where they will be able to make a good return on their investments in a novel and emerging tourism growth market. Thus, ANTDC promoters are well aware of the value proposition that Arco Norte brings to the growing international tourism market and will therefore pursue its target market segments vigorously and persistently. Targeted marketing and investment promotion will be a key driver to ensure early and continued flow of potential developers and investors.

COMPETITIVE EDGE

A competitive edge can serve as an important asset to further enhance comparative advantage. ANTDC is fortunate to be so richly endowed by nature with a plethora of natural beauty and diverse variety of biodiversity in relatively close proximity. Additionally, its favorable global positioning between the Americas, Europe, Middle East and Asia, gives ANTDC an added element of comparative advantage that should be readily apparent to investors/developers. Combined, the layered comparative advantage and a well conceived action plan can be effectively leveraged to create a formidable competitive advantage, thereby giving ANTDC a unique competitive edge among competing tourism destinations.

MARKETING STRATEGY

Successful marketing in a highly competitive industry such as tourism requires properly positioning a high-quality product in the right international market segments. Thus, ANTDC will identify niches where marketing and promotion can be sharply focused, thereby minimizing marketing costs. ANTDC will endeavor to build its image and reputation as a premier international tourism destination. A sub brand for the Arco Norte will be developed, launched, and sustained to create a distinct market presence and differentiate ANTDC from its competitors. However, there is no substitute for the high-quality service that will not only serve to attract developers/investors but will ensure attraction and of the ultimate customer – the tourist.

SALES STRATEGY

ANTDC is in the business of selling services. Specifically, as shown in the sales table below, the main services to be sold to developers include long term transferable leasehold rights, building-related support services and sites management services for which the company will charge leases and fees. Additionally, merchandise licenses and vendor concessions will also contribute to ANTDC's revenue stream but at a much more modest level. Promoting and facilitating investment in the very competitive tourism business requires a fully loaded environment—one with all infrastructure that investors, developers, and operators need to begin building and promoting.

Ultimately developer clients must be able to provide end-user customers/visitors with quality service, leisure and adventure experience that meets and preferably exceeds expectations. It is imperative that ANTDC and the developers create an environment that meets the needs and desires of tourists and that guests are catered to attentively to cultivate loyalty, repeat business, and drive new arrivals. As projected in our figures below, it is estimated that the number of beds per year will increase from 100,000 in Year 3 when the first new facilities are complete and begin operation to just over 500,000 in Year 5 when most other facilities would have come online. The occupancy capacity is projected to be about 70% by Year 5.

A key tool in the sales strategy is to attract quality developers and Operators with brand recognition in the marketplace. In addition, an innovative and sustained international advertising and promotional campaign designed to position the Arco Norte brand in the international tourism investment and travel market and targeting our key market segments will be mounted.

SALES FORECAST

Table 3 and Figure 1 present forecasts of sales (revenue) and projections of direct cost of sales for the first 5 years of operations. As projects are developed and implemented and the total 2,180 hectare area is fully leased, the following sources of revenues for ANTDC will decrease, as there will be no more acreage to lease and build upon:

- Applications and plan approval fees projected at $5,000 per application
- Topographical data based on $1,000 per hectare
- Building permits based on 1.0% of construction cost

Other revenue, sometimes more significant revenue, from other sources will increase over time until touristic developments reach full capacity:

- Annual long-term lease revenues projected at $5,000 per hectare
- Management condo fees based on 2.0% per annum of capital expenditure?
- Visitor & bed fees estimated at 2% per night stay
- Concessions.

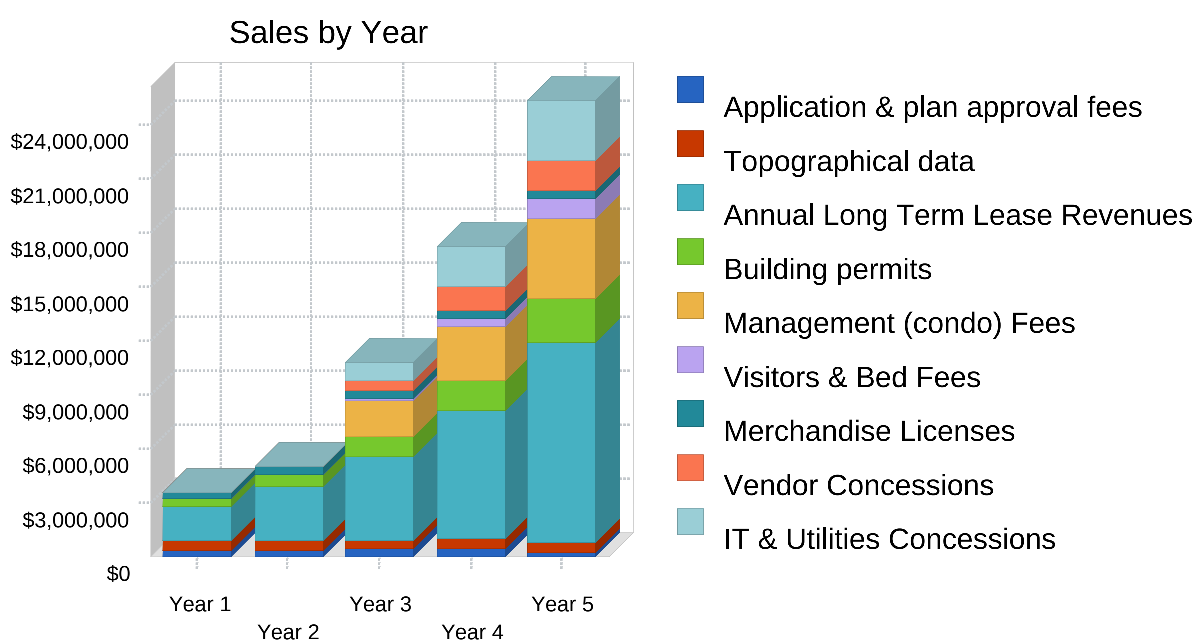
Direct costs, in general, are expected to increase as more land is leased and as the number of visitors and guests increase.

Table 3
Sales Forecast ($)

Sales	Year 1	Year 2	Year 3	Year 4	Year 5
Application & plan approval fees	360,000	380,000	400,000	$420,000	$220,000
Topographical data	480,000	504,000	530,000	$560,000	$590,000
Annual long term lease revenues	1,920,000	2,976,000	4,612,800	7,149,840	11,082,252
Building permits	480,000	720,000	1,080,000	1,620,000	2,430,000
Management (condo) Fees	0	0	2,000,010	3,000,015	4,500,023
Visitors & bed fees	0	0	200,000	450,000	1,012,500
Merchandise licenses	320,000	400,000	450,000	500,000	550,000
Vendor concessions	0	0	500,000	1,250,000	1,560,000
IT & utilities concessions	0	0	1,000,000	2,250,000	3,375,000
Total sales	3,560,000	4,980,000	10,772,810	17,199,855	25,319,775

Sales	Year 1	Year 2	Year 3	Year 4	Year 5
DIRECT COST OF SALES					
Long term lease payment to Mozaico	270,000	270,000	270,000	270,000	270,000
Topo data, planning & engineering services	480,000	400,000	300,000	300,000	300,000
Infrastructure O&M	0	0	300,000	200,000	200,000
Utilities and street lighting	12,000	13,200	500,000	750,000	1,125,000
Parks and pathways maintenance	0	0	100,000	250,000	250,000
Security and fire protection	60,000	120,000	240,000	480,000	720,000
Consultancy	600,000	720,000	864,000	1,036,800	1,244,160
Other Opex	300,000	350,000	400,000	450,000	500,000
Subtotal direct cost of sales	1,722,000	1,873,200	2,974,000	3,736,800	4,609,160

Figure 1
Sales by Year



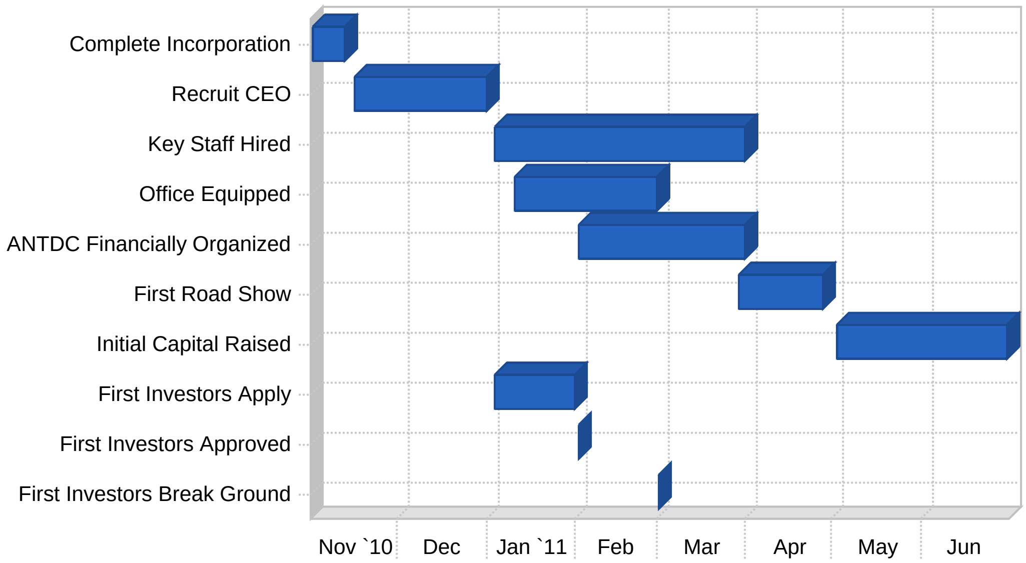
MILESTONES

Table 4, which lists the company's short-term milestones, including dates, management responsibility, and budgets, indicates company expectations and outlines the plan for startup. ANTDC must continually adjust this initial assessment to reflect implementation progress.

Table 4
Milestones

Milestone	Start Date	End Date	Budget	Manager	Department
Complete incorporation	11/1/2010	11/12/2010	$10,000	Mozaico CEO	Management
Recruit CEO	11/15/2010	12/31/2010	$100,000	Mozaico CEO	Management
Key staff hired	1/3/2011	3/31/2011	$50,000	ANTDC CEO	Management
Office equipped	1/10/2011	2/28/2011	$200,000	ANTDC CEO	Management
ANTDC financially organized	2/1/2011	3/31/2011	$0	CFO	Finance
First road show	3/29/2011	4/27/2011	$100,000	CEO & DIP	Invest Promo
Initial capital raised	5/2/2011	6/30/2011	$50,000	CEO	Management
First investors apply	1/3/2011	1/31/2011	$0	DID	Infra Develop
First investors approved	2/1/2011	2/1/2011	$0	CEO	Management
First investors break ground	3/1/2011	3/1/2011	$50,000	DID	Infra Develop
Totals			$560,000		

Figure 2
Milestones



7. Management Summary

Having the right management team requires recruiting highly competent managers, most likely from Southern Africa. However, certain positions, such as the Director of Community Relations, must be recruited locally, preferably from the Arco Norte region to ensure credibility among stakeholders, to secure stakeholder goodwill, and to help ensure cooperation with surrounding communities. Similarly, nonexecutive line level personnel will be recruited nationally. Personnel from the Arco Norte region will be preferred, but the main criteria should be solid professional background and demonstrated track record.

PERSONNEL PLAN

Table 5 summarizes personnel expenditures for the life of the plan under the scenario of contract management approach. However, if a BOT modality is chosen as the preferred infrastructure development approach, the number of personnel can be reduced by at least one third.

As presented in the business plan model, the base salary starts at about $740K for Year 1 and increases to $1.22M by Year 5. A detailed monthly personnel plan for Year 1 is provided in the appendix. To attract and retain high caliber personnel, an attractive compensation package must be offered to stay competitive in recruiting top management and technical talent. And, because key management and technical positions will more than likely be filled by people from outside the Arco Norte region, housing and utilities must also be provided.

Table 5
Personnel Expenditures, Years 1-5

Position	Year 1	Year 2	Year 3	Year 4	Year 5
CEO	$120,000	$126,000	$133,000	$140,000	$147,000
CFO	$99,996	$105,000	$110,000	$115,000	$122,000
Director Infrastructure Development	$99,996	$105,000	$110,000	$115,000	$122,000
Director Investment Promotion	$99,996	$105,000	$110,000	$115,000	$122,000
Director Operations	$0	$0	$105,000	$110,000	$115,000
Director Community Relations	$75,000	$79,000	$83,000	$87,000	$92,000
Manager Planning & Engineering	$60,000	$63,000	$66,000	$70,000	$73,500
Manager Marketing	$0	$60,000	$63,000	$66,000	$70,000
Manager Investor Relations	$0	$60,000	$63,000	$66,000	$70,000
Coordinator Community Relations	$0	$50,000	$52,500	$55,000	$58,000
IT Specialist	$48,000	$50,000	$53,000	$56,000	$59,000
Accountant	$36,000	$38,000	$40,000	$42,000	$44,500
Exec Assist/Office Mgr	$24,000	$25,500	$27,000	$28,500	$30,000
Admin Assistants (3)	$54,000	$56,500	$595,00	$62,500	$66,000
Receptionist	$12,000	$12,600	$13,250	$14,000	$15,000
Drivers (2)	$12,000	$12,600	$13,250	$14,000	$15,000
Total People	15	18	19	19	19
Total Payroll	$740,988	$948,200	$1,042,000	$1,156,000	$1,221,000

8. Financial Plan

As indicated above, it is projected that $94.36m in both debt and equity financing will be required to create the basic infrastructure to support tourism development in the target sites. Because the ANTDC will need to raise a large amount of debt in the international capital market, to be creditworthy, the Company will need to have an adequate debt/equity ratio. Thus, the capital structure is therefore projected slightly above the 70:30 international norm and results in actual projection of 72:28 debt/equity ratio in the plan financial model. Debt financing is projected to be four tranches of 10-year debt, each tranche with a 2-year principal payment grace period to accommodate the slow start-up. Interest payment on the long term debt is calculated during the 2-year grace period. To meet and complement the financial needs, short term loans in the amount of on average $1.0M per year will be borrowed through a short term line of credit to be established with a local bank. Payment periods for short debt are expected to be at most three years.

START-UP FUNDING

Start-up assets and funding are expected to come from several sources, including public sector equity investors, lenders, and related projects. Mozaico do Indigo will convert a portion ($2.0M equivalent) of long-term land leasehold rights into initial paid-in capital to facilitate creation of ANTDC. The other founding investor, IGEPE, is expected to provide paid-in cash in the amount of US$1.5M. The company also anticipates borrowing $1 million in short-term loans. Private sector equity investors will be invited to invest in the company as soon as practicable. The two main assets at start up will be $1.5 cash to cover one year of expected operating expenses and $2 million of leases to be transferred from Mozaico do Indigo to the company in return for an equity position. Table 6 below presents a picture of the start-up funding in balance sheet format.

ASSUMPTIONS

Key financial assumptions are necessary to make appropriate calculations in the financial plan. These include the general interest rate and tax rate assumptions shown in Table 6 which are based on existing market and tax conditions. Short-term debt rate on US$ loans is assumed to be 6% and long-term rates also in US$ are assumed to be 10 percent. The current Mozambican corporate tax rate is 30% on gross income. The annual and monthly assumptions show a consistent company growth pattern. Because ANTDC operates on the basis of annual up-front collection, we assume that most the collections will be timely and in full. It is also assumed that:

- There will be healthy growth in the local and regional tourism development market and an improved international economy, especially among emerging economies.
- ANTDC keeps abreast of advances in tourism real estate development.

BREAK-EVEN ANALYSIS

The break-even analysis is an important metric of business venture viability within a reasonable expected timeframe. Table 7 and Figure 3 below summarize our break-even analysis, which indicates a healthy position in which fixed costs account for less than 50% of anticipated revenue. As a result of this healthy financial condition and the fact that the company plans to manage its investment in infrastructure based on demand for leases on land, the company is in a position to better manage its demand risk and therefore attract investment.

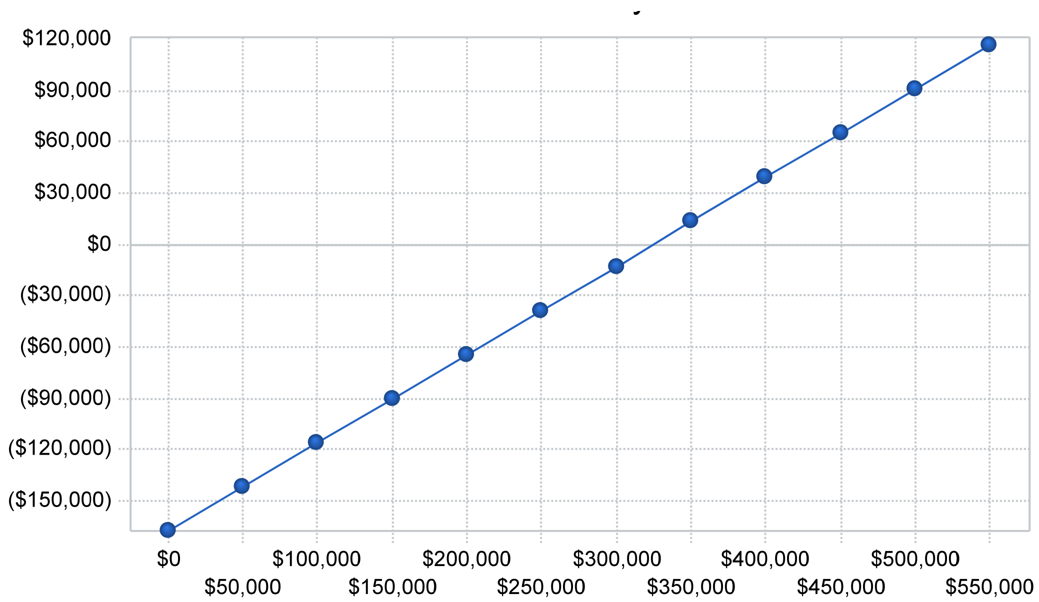
Table 6
Start-up Funding

Item	Amount
Start-up expenses to fund	$42,500
Start-up assets to fund	$2,125,000
Total funding required	$2,167,500
ASSETS	
Non-cash assets from start-up	$2,625,000
Cash requirements from start-up	$1,500,000
Additional cash raised	$332,500
Cash balance on starting date	$1,832,500
Total assets	$4,457,500
LIABILITIES AND CAPITAL	
Liabilities	
Current borrowing	$1,000,000
Long-term liabilities	$0
Accounts payable (outstanding bills)	$0
Other current liabilities (interest-free)	$0
Total liabilities	$1,000,000
Capital	
Planned investment	
Mozaico do Indigo	$2,000,000
IGEPE	$1,500,000
Private investors	$0
Additional investment requirement	$0
Total planned investment	$3,500,000
Loss at start-up (start-up expenses)	($42,500)
Total capital	$3,457,500
Total capital and liabilities	$4,457,500
Total Funding	$4,500,000

Table 7
Break-even Analysis

Item	Amount
Monthly revenue break-even	$324,621
Assumptions:	
Average percent variable cost	48%
Estimated monthly fixed cost	$167,599

Figure 3
Break-even Analysis



PROJECTED PROFIT AND LOSS

The projected profit and loss for ANTDC is shown in Table 8. Because of the heavy up-front investment required for infrastructure development in the early years, it is natural that ANTDC incur significant losses, primarily attributable to interest expense, in the first four years of operations. Interest expense is projected to peak in Year 4 at $5.9 million and taper off to a much lower figure in the 14th year when the four long term loan tranches will have been paid off. From this point onward, it is anticipated that interest expense will be primarily accrued to cover short term and line of credit loans, with exception of periodic medium term loans taken to cover infrastructure maintenance expenses.

In addition to the significant interest expense, the revenue streams from operations such as management (condo) fees, vendor concessions, and mark-up on utilities and IT, etc have not yet come on stream during the first few years of operation. However, starting with Year 5, ANTDC begins to generate profits and is able to consider paying dividend for the first time. Profitability and the payment of dividends are expected to continue throughout the life of the company.

Additional information on the sales (revenues) is set forth above in the discussion of the sales strategy, Section 6. While quite positive, profit margins will be moderate for this volume of business through the first 13 years, during which time the four 10-year loans issued consecutively in each of the first four years to develop infrastructure are being paid off. In Years 11 through 14 (not projected in the plan), profit margins will increase significantly as all four tranches of long-term loans retire over the period. Following Year 14, profits continue to increase but at a slower rate as all land available will have been leased out, most facilities will have been developed to receive visitors and increase in revenues will be primarily incremental increase in service fees. It should be noted that the company has a natural maximum revenue constraint in that property available for lease is limited to 2,180 hectares. The profit and loss projections for the first five years are included in Table 8.

Based on the profit and loss projections above, it is estimated that ANTDC will have generated sufficient net income by Year 5 to consider making its first dividend to payment to shareholders in the amount of $1.5 million. This reflects an 8% payment on the book value of net worth (owner's equity) and a 6% dividend return on the initially paid-in values of $26,300,000, as shown in Table 10, Pro Forma Balance Sheet, below.

Table 8

Pro-forma Profit and Loss

Item	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	$3,560,000	$4,980,000	$10,772,810	$17,199,855	$25,319,775
Direct cost of sales	$1,722,000	$1,873,200	$2,974,000	$3,736,800	$4,609,160
Other costs of sales	$1,200,000	$13,200,00	$14,52,000	$1,600,000	$1,760,000
Total cost of sales	$2,922,000	$1,873,200	$2,974,000	$5,336,800	$6,369,160
Gross margin	$638,000	$3,106,800	$7,798,810	$11,863,055	$18,950,615
Gross margin %	17.92%	62.39%	72.39%	68.97%	74.85%
Expenses					
Payroll	$740,988	$948,200	$1,042,000	$1,156,000	$1,221,000
Marketing/promotion	$475,000	$600,000	$650,000	$700,000	$750,000
Depreciation	$450,000	$1,807,500	$3,125,000	$3,822,500	$4,110,000
Leased equipment	$3,000	$5,000	$10,000	$15,000	$20,000
Utilities	$7,200	$8,000	$8,500	$9,000	$10,000
Insurance	$2,400	$5,000	$50,000	$55,000	$60,000
O & M	$1,800	$2,500	$3,000	$4,000	$5,000
Rent	$3,000	$3,150	$3,310	$3,500	$3,650
Payroll social charges	$192,657	$246,532	$270,920	$300,560	$317,460
Employee incentives	$111,148	$142,230	$156,300	$173,400	$183,150
Other expenses	$24,000	$300,000	$400,000	$500,000	$600,000
Total Opex	$2,011,193	$4,068,112	$5,719,030	$6,738,960	$7,280,260
Profit before interest and taxes	($1,373,193)	($961,312)	$2,079,780	$5,124,095	$11,670,355
EBITDA	($923,193)	$846,188	$5,204,780	$8,946,595	$15,780,355
Interest expense	$872,500	$2,980,000	$4,864,040	$5,498,403	$5,372,410
Taxes incurred	$0	$0	$0	$0	$1,889,383
Net profit	($2,245,693)	($3,941,312)	($2,784,260)	($374,308)	$4,408,561
Net profit/sales	-63.08%	-79.14%	-25.85%	-2.18%	17.41%

Figure 4
Profit Yearly

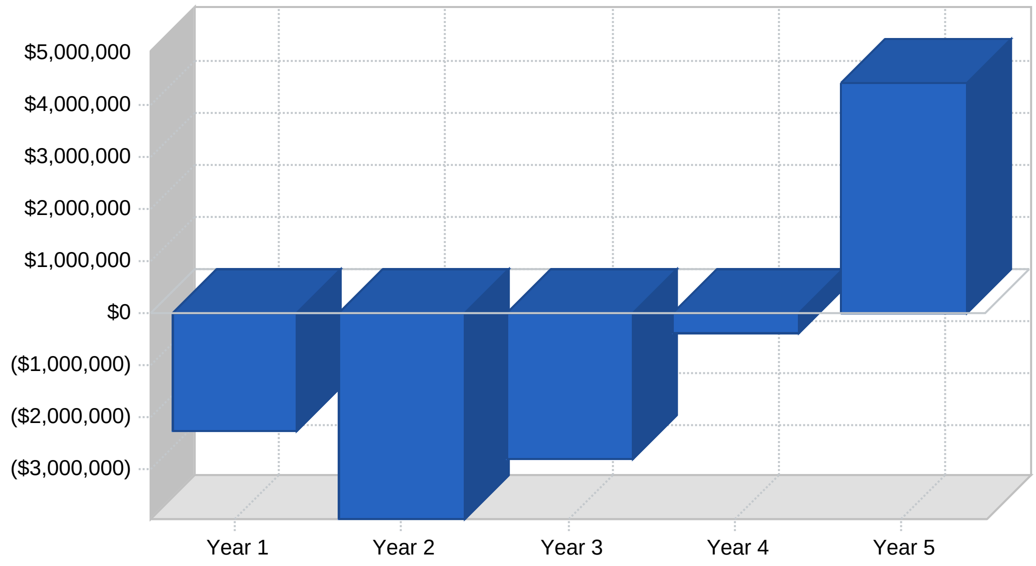
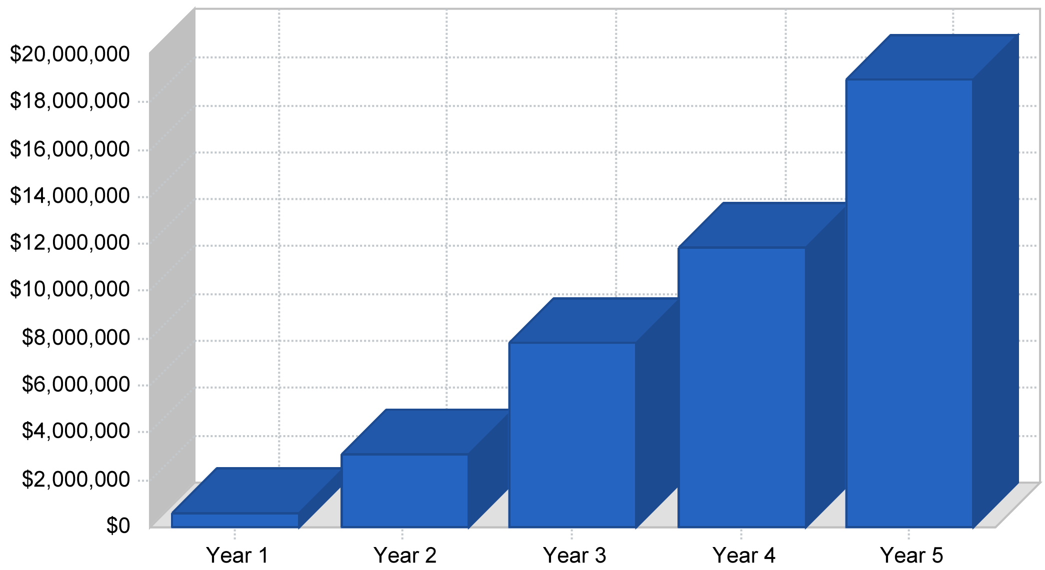


Figure 5
Gross Margin Yearly



PROJECTED CASH FLOW

Cash flow management is critical to ANTDC's success. Table 9 below demonstrates a healthy positive cash flow projection that ensures liquidity and financial soundness of ANTDC during its most critical first five years of operations. To maintain the soundness of the cash flow for the 4-year period, ANTDC needs to borrow on average $1.0M (between $0.9 million in Year 3 and and $1.4 million in Year 4). These amounts will support the required cash flow. As can be seen in the Cash Flow model, in addition to cash generated from operations the principal source of funding in the first four years will be the four tranches of long-term debt, equity and the issuance of short-term debt.

As set forth in Table 9, the cash from operations is expected to grow from $3.6 million in Year 1 to $25.3 million in Year 5. On the other hand, the four tranches of long-term debt issued in each of the first four years are forecast to be $14.4 million, $28.0 million, $10.4 million and $7.0 million, respectively, and the short-term debt borrowed to meet cash flow requirements will peak at $3.4 million in year four. The model does not anticipate that the company will require any short-term debt after Year 5.

The cash balance peaks in year one at $2.4 million and levels off in year three through five at between $0.6 million and $0.9 million. From year one to year four, by far the largest outlay of cash will be for the construction of infrastructure. The forecasted CAPEX is expected to be $18 million in year one, $36.3 million in year two, $16.4 million in year 3 and $11.5 million in Year 4.

Table 9
Pro -forma Cash Flow

Item	Year 1	Year 2	Year 3	Year 4	Year 5
CASH RECEIVED FROM OPERATIONS					
Cash sales	$3,560,000	$4,980,000	$10,772,810	$17,199,855	$25,319,775
Subtotal cash from operations	$3,560,000	$4,980,000	$10,772,810	$17,199,855	$25,319,775
ADDITIONAL CASH RECEIVED					
Sales tax, VAT received	$605,200	$846,600	$1,831,378	$2,923,975	$4,304,362
New current borrowing	$1,000,000	$1,000,000	$900,000	$1,400,000	$0
New other liabilities (interest-free)	$0	$0	$0	$0	$0
New long-term liabilities	$18,600,000	$36,300,000	$16,400,000	$11,500,000	$0
Sales of other current assets	$0	$0	$0	$0	$0
Sales of long-term assets	$0	$0	$0	$0	$0
New investment received	$4,000,000	$8,300,000	$6,000,000	$4,500,000	$0
Subtotal cash received	$23,565,200	$43,126,600	$29,904,188	$33,023,830	$29,624,136
EXPENDITURES FROM OPERATIONS					
Cash spending	$740,988	$948,200	$1,042,000	$1,156,000	$1,221,000
Bill payments	$4,177,513	$6,096,041	$9,125,046	$12,332,190	$15,334,908
Subtotal spent on operations	$4,918,501	$7,044,241	$10,167,046	$13,488,190	$16,555,908
ADDITIONAL CASH SPENT					
Sales tax, VAT paid out	$605,200	$846,600	$1,831,378	$2,923,975	$4,304,362
Principal repayment of current borrowing	$0	$333,334	$666,667	$1,000,000	$1,333,334
Other liabilities principal repayment	$0	$0	$0	$400,000	$400,000
Long-term liabilities principal repayment	$0	$0	$1,259,194	$3,833,546	$5,126,318
Purchase other current assets	$0	$0	$0	$0	$0
Purchase long-term assets	$18,600,000	$36,300,000	$16,400,000	$11,500,000	$0
Dividends	$0	$0	$0	$0	$1,500,000
Subtotal cash spent	$23,523,701	$44,524,175	$30,324,285	$33,145,711	$29,219,922
NET CASH FLOW	**$41,499**	**($1,397,575)**	**($420,097)**	**($121,881)**	**$404,215**
CASH BALANCE	**$2,428,999**	**$1,031,424**	**$611,326**	**$489,446**	**$893,660**

PROJECTED BALANCE SHEET

The balance sheet is a snapshot of the financial condition of the company at year end from Year 1 through Year 5. Considering the upfront nature of payments due (revenues), the company will not carry significant current assets (including accounts receivable) other than cash. As described in the Cash Flow section above, the company will manage its liquidity through the use of a line of credit (short term debt).

The long-term assets, which consist overwhelmingly of infrastructure, will peak in Year 4 at $75.5 million. It should be noted that the balance sheet does not include any assets or obligations related to long-term leases. These contracts are passed through the revenues or expenses for the period incurred. The short term liabilities consist primarily of short-term borrowing.

Although the net worth of the company is less that the paid-in capital throughout the five-year period due to losses incurred in Years 1 through 4, it will be maintained at a level equal to a minimum of 18% of total assets throughout the life of the start-up. This is critical considering the need to continue to borrow funds to meet the capital investment schedule. A negative net worth for the plan period is normal for capital-intensive business ventures of this type. However, once the financial liabilities of the long-term loans are retired, net worth is expected to turn strongly positive. Therefore reading of the projected figures in the balance sheet must take into consideration the nature of ANTDC's business model.

BUSINESS RATIOS

The business ratios for Years 1-5 shown in Table 11 indicate ANTDC's liquidity, debt, performance and some other important aspects. It is expected that acceptable profitability and return ratios will be generated under this plan. Industry profile ratios based on the NAICS code 531110, Lessors of Other Real Estate Properties, are shown for comparison.

Key ratios presented in the plan go from negative to positive, reaching profitability by Year 5. The gross margin ratio is positive throughout the plan period. On the other hand, profit before interest and taxes start off negative but turn positive by Year 3 and maintain an increasing positive trend onwards. Similarly, net profit margin is negative until Year 5 when it turns positive and maintains that trend henceforth. Likewise for return on equity return on equity which starts off negative but with an improving trend until turning positive in Year 5. Finally, the financial model, however, demonstrates that the internal rate of return is a reasonable 13%, based on a 30 year calculation scenario.

Table 10
Pro -Forma Balance Sheet

	Year 1	Year 2	Year 3	Year 4	Year 5
CURRENT ASSETS					
Cash	$3,873,999	$2,476,424	$2,056,326	$1,934,446	$2,338,660
Other current assets	$25,000	$25,000	$25,000	$25,000	$25,000
Total current assets	$3,898,999	$2,501,424	$2,081,326	$1,959,446	$2,363,660
Long-term assets					
Long-term assets	$18,600,000	$54,900,000	$71,300,000	$82,800,000	$82,800,000
Accumulated depreciation	$450,000	$2,257,500	$5,382,500	$9,205,000	$13,315,000
Total long-term assets	$18,150,000	$52,642,500	$65,917,500	$73,595,000	$69,485,000
Total assets	$22,048,999	$55,143,924	$67,998,826	$75,554,446	$71,848,660
LIABILITIES AND CAPITAL					
Current Liabilities					
Accounts payable	$437,192	$506,763	$771,787	$1,035,260	$1,280,565
Current borrowing	$2,000,000	$2,666,666	$2,899,999	$3,299,999	$1,966,665
Other current liabilities	$0	$0	$0	($400,000)	($800,000)
Subtotal current liabilities	$2,437,192	$3,173,429	$3,671,786	$3,935,259	$2,447,230
Long-term liabilities	$14,400,000	$42,400,000	$51,540,806	$54,707,260	$49,580,942
Total liabilities	$16,837,192	$45,573,429	$55,212,592	$58,642,519	$52,028,172
Capital					
Paid-in capital	$7,500,000	$15,800,000	$21,800,000	$26,300,000	$26,300,000
Retained earnings	($42,500)	($2,288,193)	($6,229,505)	($9,013,765)	($10,888,073)
Earnings	($2,245,693)	($3,941,312)	($2,784,260)	($374,308)	$4,408,561
Total capital	$5,211,807	$9,570,495	$12,786,235	$16,911,927	$19,820,488
Total liabilities and capital	$22,048,999	$55,143,924	$67,998,826	$75,554,446	$71,848,660
Net worth	$5,211,807	$9,570,495	$12,786,235	$16,911,927	$19,820,488

BUSINESS RATIOS

The business ratios for Years 1-5 shown in Table 11 indicate ANTDC's liquidity, debt, performance and some other important aspects. It is expected that acceptable profitability and return ratios will be generated under this plan. Industry profile ratios based on the NAICS code 531110, Lessors of Other Real Estate Properties, are shown for comparison.

Table 11
Ratios

	Year 1	Year 2	Year 3	Year 4	Year 5	Industry Profile
Sales growth	n.a.	39.89%	116.32%	59.66%	47.21%	-1.23%
PERCENT OF TOTAL ASSETS						
Total current assets	17.68%	4.54%	3.06%	2.59%	3.29%	55.33%
Long-term assets	82.32%	95.46%	96.94%	97.41%	96.71%	44.67%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Current liabilities	11.05%	5.75%	5.40%	5.21%	3.41%	15.47%
Long-term liabilities	65.31%	76.89%	75.80%	72.41%	69.01%	50.66%
Total liabilities	76.36%	82.64%	81.20%	77.62%	72.41%	66.12%
Net worth	23.64%	17.36%	18.80%	22.38%	27.59%	33.88%
PERCENT OF SALES						
Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Gross margin	17.92%	62.39%	72.39%	68.97%	74.85%	82.98%
Profit before interest and taxes	-38.57%	-19.30%	19.31%	29.79%	46.09%	14.45%
DEBT AND NET WORTH RATIOS						
Total debt to total assets	76.36%	82.64%	81.20%	77.62%	72.41%	66.12%
Pre-tax return on assets	-10.19%	-7.15%	-4.09%	-0.50%	8.77%	3.22%
Pre-tax return on net worth	-43.09%	-41.18%	-21.78%	-2.21%	31.77%	9.51%
Debt to net worth	3.23	4.76	4.32	3.47	2.62	n.a
ACTIVITY RATIOS						
Total asset turnover	0.16	0.09	0.16	0.23	0.35	n.a
ADDITIONAL RATIOS						
Assets to sales	6.19	11.07	6.31	4.39	2.84	n.a
Sales/net worth	0.68	0.52	0.84	1.02	1.28	n.a
Net profit margin	-63.08%	-79.14%	-25.85%	-2.18%	17.41%	n.a
Dividend payout	0.00	0.00	0.00	0.00	0.34	n.a
Return on equity	-43.09%	-41.18%	-21.78%	-2.21%	22.24%	n.a
Internal rate of return					13%	

Key ratios presented in the plan go from negative to positive, reaching profitability by Year 5. The gross margin ratio is positive throughout the plan period. On the other hand, profit before interest and taxes start off negative but turn positive by Year 3 and maintain an increasing positive trend onwards. Similarly, net profit margin is negative until Year 5 when it turns positive and maintains that trend henceforth. Likewise for return on equity return on equity which starts off negative but with an improving trend until turning positive in Year 5. Finally, the financial model, however, demonstrates that the internal rate of return is a reasonable 13%, based on a 30 year calculation scenario.

CONCLUSIONS

This business plan sets out the strategic direction of the Arco Norte Tourism Development Corporation (ANTDC), its main operating and financial targets, investments planned and the actions it will take to achieve those objectives. It provides a realistic and a start up plan; capital structure; product and services; and market segments to be targeted. The forecasts and financial analysis confirm the commercial profitability and viability of the ANTDC.

The carry through its core functions, ANTDC must focus and operate as a dedicated destination management organization, combining this with the role of an investment promotion agency for the resort zones. Its success requires a world class, professional and excellent management team, rigorous enforcement of landuse plans and building guidelines within the ZITs. In addition to the need for enhanced business environment, a key success factor will be determined by its ability to attract equity and project financing and the quality of incentives that will be available to developers and investors in the zones.

ANTDC will bring positive socio-economic impacts to the Mozambican economy at both national, provincial and levels. While ultimately providing direct employment for some two dozen persons, it will be a key driver capable of stimulating an estimated $1.2 billion in new investments in the tourism and real estate sectors and provide some 140,000 direct and indirect jobs in the Arco Norte economy. As a result of its work, vital hotel, road, airports, water transport and other infrastructure, critical to the economic and industrial growth of the Arco Norte will be built. The capacity of Mozambique to compete in the international tourism market will be greatly enhanced. The international image and profile of Mozambique will be greatly improved, assuring the country’s position as an economic success case in the sub region.