

### Question 2.

Hastings Group focuses on the development, production, installation and support of electrical, electronic, and mechanical components for aircraft, helicopters, missiles and targeting systems. The company has a leading position in the field of aircraft and helicopter services, customisation and modification. Hastings' employees are engineers and skilled workers. In 2007 the directors identified three investment projects that would benefit the company:

- R & D project;
- Marketing campaign;
- Some new CNC machinery.

The capital cost and expected cash flows for the investment projects are shown in Table 9.

- (a)
  - (i) Calculate the average rate of return for each project.
  - (ii) Explain which project should be selected.
- (b) Explain the advantages to Hastings Group of using this method of appraisal.

Table 9: Capital cost and expected cash flows for three investment projects

[illegible]