MANAGING DIRECTOR'S STATEMENT

Dear Shareholder

Your company's net asset value per share (NAV) stood at MRs147 at June 30th 2015, compared to MRs139 at the start of the financial year, an increase of 6 per cent. This compares with a decrease of 5 per cent in the SEMDEX. Your company's share price rose by 6 per cent during the same period, and the shares were trading at a 35 per cent discount to NAV at the end of the financial year, but a 49 per cent discount to intrinsic value (group NAV). At the time of writing the shares are still trading at a 32 per cent discount to NAV.

In December 2014 Mauritians voted in a new government. After a settling-in period, in August this year the Prime Minister presented his economic mission statement, entitled 'Achieving the Second Economic Miracle and Vision 2030'. The 'second' comes from the fact that his then government in the 1980s pulled Mauritius out of a period of economic stagnation, high inflation, high unemployment, and high taxation to achieve what was considered the first post-independence economic miracle. Politics aside, it was indeed a time of great optimism, which saw the creation of your company by The Mauritius Commercial Bank, the then management (rightly) believing that a new non-bank company could benefit from the rising tide. In Moody's May 2015 Credit Analysis of the Government of Mauritius, the rating agency reflects that the outlook is stable, but that a 'substantial deterioration of government debt metrics... would exert downward pressure on the rating'. In my statement last year I mentioned the excess liquidity in the banking system, which came about as a result of a protracted period of private sector under-investment. The optimism during the few years which preceded the start of the financial crisis in 2008 led to a building boom in the country, which resulted in overcapacity in just about every property sub-group of the economy. When the wheels fell off, everyone stopped investing. While overcapacity is still with us, we are seeing a stabilisation in pricing power, and I believe that we are now heading for a number of years of private sector investment, albeit in a more controlled environment, with government, given their debt constraints, acting as a partner and facilitator.

Caudan Development

Your company's 63 per cent owned subsidiary, Caudan Development (CDL) saw a 92 per cent collapse in profit before tax – adjusted for fair value and loss from associate – to MRs 2 million. This includes a contribution of MRs 5.2 million from Caudan Security Services (CSS) (2014: MRs 1.7 million).

CDL currently has less than 9 per cent vacancies in its offices (2014: 29 per cent), which will be reduced to nil shortly with the sale of the remaining offices. There are also a few line shops which are vacant on a rotating basis. Overcapacity in retail has not gone away, and this means pressure on rates, which will unfortunately still be with us for at least 2 more years. Financially, I believe that we have now finally reached the bottom, and it should be uphill from now on. But the story does not stop here, because CDL still has undeveloped land. We are currently working with government on an urban re-generation programme for Port Louis under the Smart City Scheme (which is the theme of this annual report, given that we also have a Smart City project at Medine). Government is planning to move a number of administrative departments from Port Louis to Highlands. There is a tremendous opportunity here to convert the newly-vacated offices into affordable (not social) housing in order to bring more life to the capital. With the master plan of the port currently being prepared by the Mauritius

Ports Authority, the focus will be laid on developing Port Louis as a dynamic live, work and play environment which will have as its drivers financial and legal services, the parliament, arts and culture, and, naturally, the port. In December 2017 the last remnants of the old Landlord and Tenant Act will fall away, making way, from 2018 onwards, for a spate of urban re-generation projects. We are working closely with the major land owners of the city, encouraging them to re-group in order to develop Port Louis in an orderly manner, with well thought through multi-purpose complexes. The beggar thy neighbour developments which have characterised the Mauritian property landscape over the last decade have not been an efficient use of valuable resources, and it is vital that a more demand-driven process be established.

principal investments

company's principal investments

	market value MRsm	portfolio %
Medine group*	2,768	44.5
MCB Group	1,422	22.9
Caudan Development	660	10.6
MFD Group	499	8.0
New Mauritius Hotels	323	5.2

**Medine and its related companies*

The only transaction of any significance during the year was the purchase of 1.9 million shares of MCB Group for a net amount of MRs394 million. MCB Group shares are very liquid, and the Mauritius Commercial Bank is a great franchise. We consider the shares to be better than cash at the current yield, and we have seized the opportunity of the negative sentiment of international funds towards emerging markets in general to obtain a volume which is not usually easy to get.

Medine group *

There are currently 1,500 arpents in Medine's property development pipeline. Of those, 500 arpents have been earmarked for Smart City Scheme status, which has education as its main theme. The extension of the primary school, a new secondary school, a new pre-primary school, a university campus, student accommodation – the first phase of which is already operational – an arts centre, a sports complex, medical facilities and a number of residential projects will all form part of the Smart City. Medine's projects are only one part, albeit an important one, of the total number which has been presented to government. On the surface, it feels like a return of the optimism which was running high a decade ago and which saw the start of a number of developments by overly optimistic promoters. However, I will utter some famous last words: 'this time it's different'. Why? Banks have an important role to play in property development in Mauritius, as most of the developers are asset-rich but cash poor. Lenders have become a lot more demanding in recent years, and projects without demonstrable demand will simply not get off the ground. Medine's unique selling proposition as an education hub, and the sought-after land in the west, means that we will have the demand.

The Casela World of Adventures, Medine's star performer, has performed exceptionally well since its re-launch in December. Admissions and profits up to the end of August are beyond our wildest expectations. The park has established itself as the country's leading leisure destination, not only for Mauritians, but also for visitors to the island. The two rums produced by Medine and distributed by our partners, Berry Bros & Rudd, are also making steady progress, although sales are below our expectations. The latest offering, the Penny Blue Single Cask, was launched in Mauritius last month, has been well received by rum aficionados, and will be launched internationally by the end of the year.

Many divisions of Medine are still operating below par, agriculture and the Tamarina Beach Club and Golf being the most disappointing. The sugar price is a victim of the world's general oversupply in commodities, and the hotel/golf are suffering from continued overcapacity in the tourism sector. Management is well aware of this and the issues are being addressed.

Mauritius Freeport Development Company

MFD's financial year end is December, and its accounts therefore do not match your company's. Management accounts to the end of August show gross operating profit (the most important number in MFD) up 4 per cent on the previous year, in line with the budget. The company would have done better had it not been for protracted and difficult negotiations with the unions. Agreement was finally reached, fixing increases over a 3-year time frame. Management's mission is now to extract efficiency gains, which can be done through strict control of overtime and a more disciplined approach to work. 'Productivity' has traditionally never figured in port workers' dictionary, but with the ambitious port master plan under preparation, this will have to be the order of the day going forward. Port Louis cannot become the leading regional port without improving its key performance indicators. Having said that, capacity constraints have become an issue at MFD, and we are working with government to expand our activities in the new Jin Fei economic zone at Riche Terre, and at the airport.

prospects

There are US$2 trillion sitting on US corporate balance sheets, despite massive spending in such non-productive ways as share buy-backs. Meanwhile, US government debt stands at over 100 per cent of GDP, greatly restricting their ability to invest in much needed infrastructure projects in order to keep the economy growing and unemployment down. It is little wonder that the US government produced legislation called the Foreign Account Tax Compliance Act (FATCA), a law which helps them track the assets of US citizens abroad, and which adds a tiresome layer of administration on banks worldwide. Now, inspired by the Americans, the rest of the developed world has got in on the act, believing that a coordinated hunt for seemingly untaxed offshore money is a sure way of filling their empty coffers. As at June 5th 2015, 61 countries, including Mauritius, had signed the Multilateral Competent Authority Agreement, which paves the way for an automatic exchange of financial account information between the signatory countries. Soon, individuals and corporations in OECD countries will have no place to hide.

This could be perceived as a threat for Mauritius, which has a vibrant and growing financial services sector, but it can also be a huge opportunity. The country's low tax regime could become a magnet to attract high net worth individuals, and a host of professionals from the finance industry, like analysts, administrators and fund managers, who are seeking proximity to the next frontier emerging market, Africa, while having a lifestyle second to none in the region. Mauritius is a country of immigrants, and so we should welcome, and not fear, immigration, provided that the door is opened in a responsible manner.

Yours sincerely

René Leclézio

Managing Director

October 7th 2015, Port Louis, Mauritius