PROMOTION AND DEVELOPMENT

MANAGER'S STATEMENT – 1999 ANNUAL REPORT

Dear Shareholder,

Your company's net asset value per share (NAV) stood at MRs21.38 at June 30th 1999 compared to MRs21.79 at the start of the financial year, a decrease of 1.9 per cent. This compares with a fall of 10.3 per cent in the SEMDEX. Your company's share price fell by 30.2 per cent during the same period and was trading at a 51.4 per cent discount to NAV at the end of the financial year. The non-Caudan portfolio saw a decrease of 0.1 per cent for the year.

This year Mauritius has suffered its worst drought on record, and the resultant liquidity squeeze is currently being felt. The stock market has been flat and trading conditions for the shops have been difficult. A gradual but continuous net dis-investment by foreign institutions, with no real take-up by local investors, has only worsened an already bad situation. Social unrest in February and May has meant that 1999 is a year that we would wish to forget. Approximately 16 per cent of your company's share portfolio is invested in sugar companies, making it the second largest investment after Caudan Development. For a country which is no longer entirely dependent on the sugar sector, the effects of a bad drought are still felt in everyday life, not only because of the added value of sugar production, but also because of the number of families who live from it. The price of sugar is determined by bilateral agreements with the European Union for most of the country's production. That price in 1998 was approximately US$520 per tonne, compared to a world market price of approximately US$140 per tonne. The latter, it must be said, is a price for marginal production because most of the world's sugar is under some form of contractual pricing. Liberalisation of world trade, however, is now putting pressure on these agreements, and the result in time will probably mean a sugar price based, as is the case for all commodities, on the production cost of the marginal producer. Low cost producers can produce sugar for as little as US$200 per tonne. However, many of these are in countries with high political risk and therefore the price in a totally liberalized market would probably be higher than that. Let us assume that the theoretical free market price is somewhere in the region of US$350 per tonne. This is far short of the current guaranteed price of US$520 per tonne and at the new price, even with full centralisation of milling activities and mechanisation of the fields, only part, if any, of Mauritian production will be competitive. Certainly, power generation will help the industry's survival in the short to medium term, but it is vital that the companies operating in the sugar sector plan, together with government, the industry's future. The time horizon is anyone's guess at this stage. Whether it is 5, 10 or 20 years, strategies must be developed now to cope with the loss of employment and to make alternative use of the land.

Your company's investment in the sugar industry is principally by way of the Flacq United Estates (FUEL) group, which also includes Médine Sugar Estates. The group's high production costs, as for all the companies in the sector, means that it cannot produce the cash flows which would enable it to borrow against its strong asset base to finance future developments in the region or in other sectors related to their core businesses of agriculture and power generation. The group could also undertake to finance and manage, with strategic partners, some of the big infrastructure projects which the government intends to contract out via Build Operate Transfer (BOT) agreements. This can only happen if the government relaxes the labour laws, encourages mill closures by easing up the procedures required to implement them, and facilitates the realisation of property assets.

Your company's 60 per cent owned subsidiary, Caudan Development, made its first, albeit modest, profit for the year since the opening of the Waterfront. The offices are now almost entirely let and the rent reviews have been favourable, which means that there should be a significant improvement in profits in the coming financial year. Hopefully this will result in a re-rating of Caudan Development's shares, which will in turn lead to an improvement in your company's share price. The investment represents 30 per cent of your company's share portfolio, which makes it by far the largest investment, and one in which we have great confidence.

Tourism too, has had a good year, despite the social unrest in February. Your company's investments in New Mauritius Hotels and Naïade Resorts are performing well, with both groups confidently expanding their activities on the island.

PROSPECTS

GDP growth this year will be adversely affected by the drought, and so will liquidity. The stock market should, however, be bottoming out and any improvement in prices will lead to a re-establishment of optimism. Sadly, local financial institutions, of which the National Pension Fund is the largest, are still conservatively managed, and are thus grossly underweight in shares. Until these institutions take the lead by investing into the market, foreign investors will be reluctant to return. If Mauritians themselves do not demonstrate confidence in the future of their country, then who will?

Yours sincerely,

René Leclézio

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October 4th 1999, Port Louis, Mauritius