PORT LOUIS FUND LTD

REPORT OF THE DIRECTORS

The Directors have the pleasure to submit the third Annual Report together with the audited accounts of Port Louis Fund Ltd for the year ended June 30, 2000.

Incorporation, Objects and Status

Port Louis Fund Ltd was incorporated on June 9, 1997 as a public company. Its authorised share capital is Rs 1,200m. The company holds the status of an Authorised Mutual Fund under Section 35 of the Companies Act 1984. The main objects of the company are:

1. To carry on business as an investment holding company
2. To deal in securities and properties of all kinds
3. To manage and advise on investment funds

FUND REVIEW

Financial Results

Total income for the year ending June 30, 2000 amounted to Rs 43.6m (Rs 42.0m - 1999) comprising dividends Rs 26.3m, interest Rs 15.0m and other income Rs 2.3m. Net profit after tax has been rising over the years and amounted to Rs 35.2m for the year ending June 30, 2000 (Rs 34.2m - 1999). Earnings Per Share was 58 cents as at June 30, 2000 (56 cents - 1999). The expense ratio that is all expenses (including taxes) over average total net assets was a low figure of 1.27%.

Dividend

The board of directors had declared a dividend of 44 cents per share (40 cents - 1999) for shareholders registered at the close of business on May 31, 2000. Total dividend paid in June 2000 amounted to Rs 26.2m for the year under review.

Share Capital

Purchase of share of Port Louis Fund by investors has been increasing over the years because of the credibility established among investors due to the good performance. The share capital of the Fund was Rs 645m as at June 30, 2000 (Rs 628m – 1999). Purchases and redemptions amounted to Rs 90m and Rs 73m shares respectively, representing a cash inflow of Rs 17m.

Liquidity contract

The State Investment Corporation Ltd bought Rs 17m shares under the liquidity contract to enable the Fund to finance the purchase of unquoted shares.

Performance

The Net Asset Value (NAV) of the Fund rose by 8.5% from Rs 10.42 on July 1, 1999 to Rs 11.31 on June 30, 2000. In addition, a dividend of Rs 0.44 was paid to shareholders during the year under review. SEMDEX, the all shares index, fell by 1% during the year under review. The Fund outperformed a lacklustre market renewing investors' confidence in the fund over the period under review as shown in chart 1 (base July 2000):

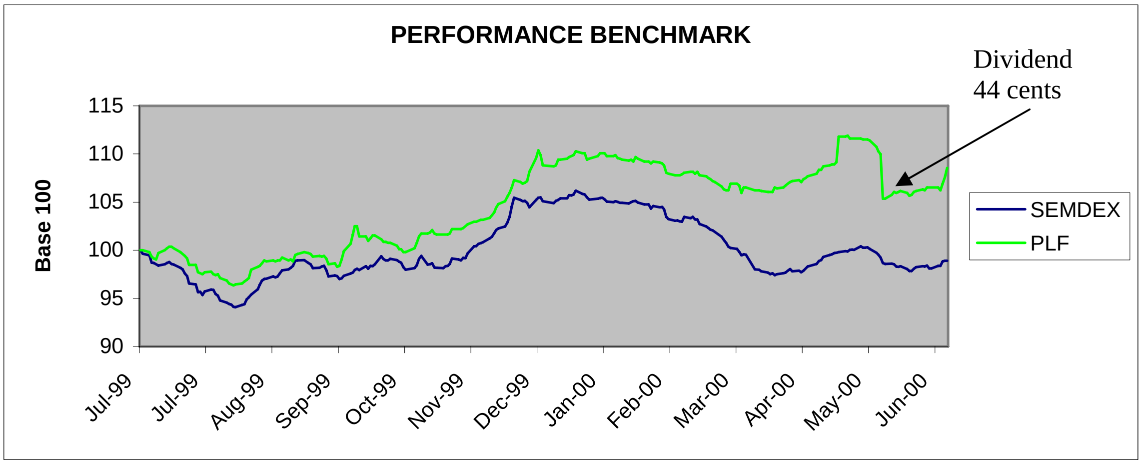


Chart 1

The risk-adjusted return of Port Louis Fund relative to the benchmark index (Semdex) is even better. The beta of the Fund was 0.78 measured on the basis of monthly return over the period July 1997 to June 2000. This classifies the Fund as a low risk asset. The annual return of the Fund including dividend was 12.8% compared to a market return of 4.9% as measured by the change in Semdex and market dividend. The Fund has therefore delivered higher return for a lower risk as compared to the market.

Management Fee

For the last two accounting years, the Fund Manager decided to waive one half of the normal management fees of 1.25% and charged 0.625%. The Fund Manager agreed to a graduated fee structure based on the performance of Port Louis Fund applicable as from the third year. The fee structure is as shown in table 1:

Annual Fund Return	*Management Fee*
up to 22%	0.625%
22% - 27%	0.750%
27% - 35%	1.000%
above 35%	1.250%

Table 1

Website

A new website was launched during the year in line with the policy of disclosure of information adopted by the Fund. The latest information on Port Louis Fund can be found on the website concerning the portfolio, performance, daily price, benefits of investing, how to invest, memorandum and articles of association and financial and market information among others. The new website address is: http://www.portlouisfund.com

ASSET MANAGEMENT

Asset Allocation

The Fund re-balanced its portfolio of listed securities to acquire unquoted shares. The share of unquoted companies increased from 9.6% of the portfolio on June 30, 1999 to 21.9% June 30, 2000. Listed securities accounted for 56.3% of the portfolio June 30, 2000 as compared to 69.3% on June 30, 1999. The valuation of listed securities also reflects the depressed price level in the local stock market.

Shares worth Rs 60m and Rs 17m were acquired in Le Grand Casino Du Domaine Limitée and Maurinet Investment Ltd respectively. The Fund has fulfilled the commitments stated in the Offer Document relating to the share of unquoted investment in the portfolio. The Fund provides exposure to the technology sector with the holding in Maurinet Investment Ltd.

Overseas Investment

Additional investment was not undertaken in the foreign portfolio during the financial year. The value of foreign investment appreciated by 19.4% during the year from Rs 12.7m to Rs 15.1m as at June 30, 2000. Foreign investment accounted for 2.1% of the portfolio as at June 30, 2000. The cautious approach adopted regarding investment in international markets proved right in view of the deteriorating conditions. The major world markets suffered from concerns over rate hike initially and subsequently from slowdown in corporate profits in the US economy.

Portfolio

The total value of the portfolio of the Fund was Rs 732m as at June 30, 2000 (Rs 670m - 1999). Purchase of investment amounted to Rs 210m while proceeds from sale of investment were Rs 152m. Capital appreciation of investment totaled Rs 37m; unquoted shares contributed Rs 21m, listed equity Rs14 and fixed income securities Rs 2m. The portfolio benefited from the quality of unquoted investment. The value of investment in State Insurance Company of Mauritius Ltd appreciated by 33% from valuation done as at June 30, 1997. The portfolio mix as at June 30, 2000 is shown in chart 2 and table 2:

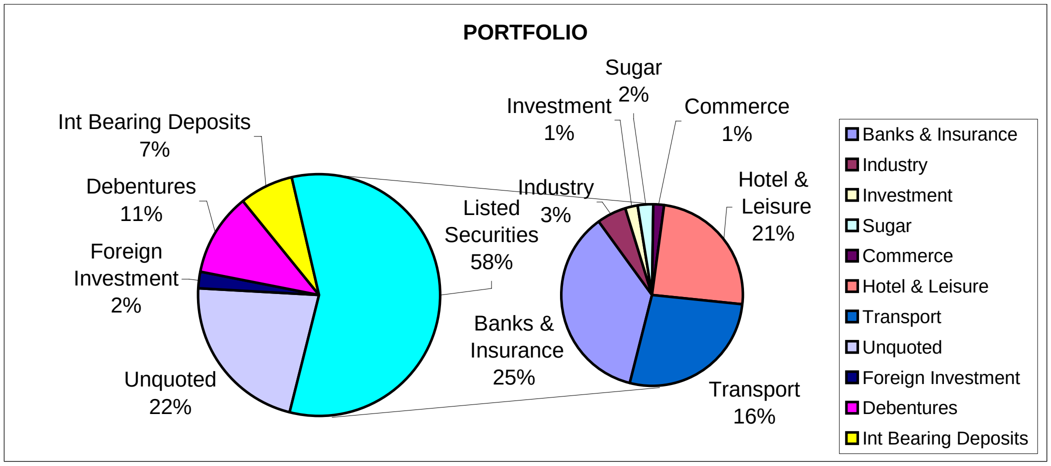


Chart 2

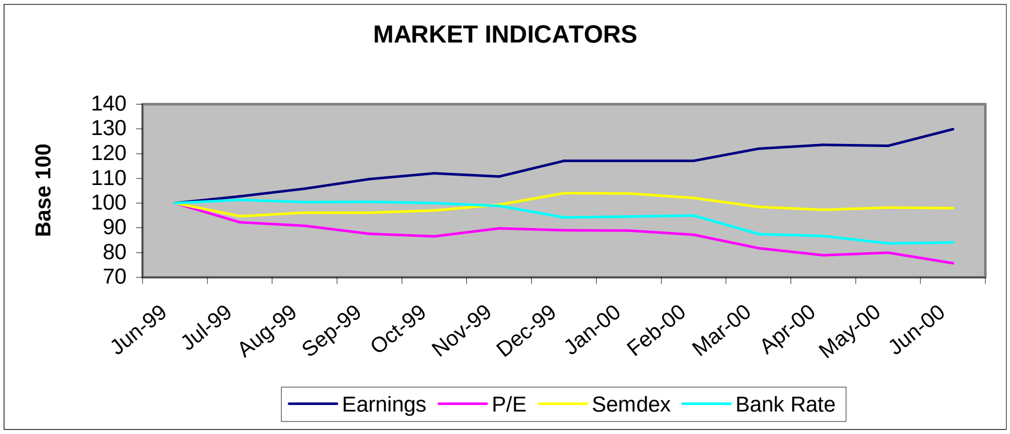
Asset class	Rs m	%
Listed Securities	412.0	56.3
Banks & Insurance	144.3	19.7
Industry	22.4	3.1
Investment	8.5	1.2
Sugar	12.1	1.7
Commerce	7.8	1.1
Hotels & Leisure	102.3	14.0
Transport	114.5	15.6
Unquoted Shares	160.4	21.9
Total Equities	**572.3**	**78.2**
Foreign Investment	**15.1**	**2.1**
Fixed Income Securities	**144.7**	**19.8**
Total Portfolio	**732.1**	**100.0**

Table 2

LOCAL STOCK MARKET

The market weakened during the second half despite showing some initial strength in the first half. The market did not recover from the correction of last year. Tax driven demand lifted the market to 436 points in December 30, 1999 up by 5.1% but the latter retreated thereafter in negative territory. SEMDEX fell by 1% from 415 points on July 1, 1999 to 410 points on June 30, 2000.

The stock market is undervalued with a historical market P/E of 7.2x (9.5x - 1999). The earnings index grew by a healthy 29.9% over the year under review. Corporate earnings momentum reflects profit reversal from some large cap companies. The broad market



was dull but only companies reporting good results benefited. Concerns over the effect of weakness of the Euro on corporate earnings are plaguing the broad market. Stock prices did not react to the fall in Lombard rate of 100 basis points and 150 basis points during the month of March and June 2000 respectively. The evolution of market indicators is shown in chart 3:

Chart 3

Selling pressure on equities eased but did not reverse. Foreign net sale continued for the second successive year. Foreigners' purchase and sale amounted to Rs 595m and Rs 823m respectively representing a net sale of Rs 227m for the year. The buy-on-the-rallies mentality of individual investors has not made room for buy-on-the-dips mentality. The few local institutional investors may not be enough to provide support to the market.

Banks & Insurance stocks suffered from tightening of monetary policy. Hotel & Leisure stocks were affected by the slowdown of growth in tourist arrivals registered in 1999. Commerce and Transport stocks performed as profit reversal of stocks were priced in. Chart 4 and Table 3 shows the evolution of the sectoral indices:

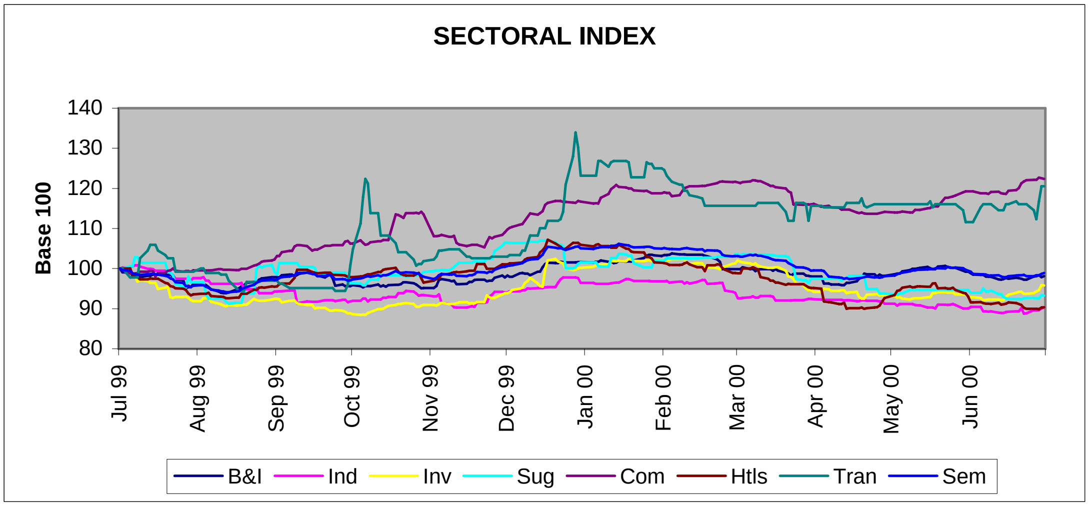


Chart 4

Sector	Year 1999/2000
Banks & Insurance	-4.5%
Industry	-9.7%
Investment	-5.3%
Sugar	-6.8%
Commerce	22.0%
Hotels & Leisure	-9.7%
Transport	20.5%
Semdex	-2.1%

Table 3

INTERNATIONAL STOCK MARKET

Equity markets throughout the world were volatile on conflicting signals from the US economy. Economic data release till June 2000 showed strength of the US economy fueling fears that the Fed will raise rates after six increases to 6.5 % aimed to curb inflationary pressures. There were concerns over technology stock valuations. Capital accumulation and accelerating productivity in the United States have also been attracting Merger & Acquisition and equity related flows from the Eurozone. Dow Jones Industrial Average and NASDAQ peaked at 11,723 points on January 14, 2000 and 5,048 points on March 10, 2000 respectively. The second quarter was one of record gains and falls on the main US stock market indices.

European economic growth is robust, interest rates have been rising and the euro is weak. Economic indicators have been mixed. European markets are undergoing four megatrends: globalisation and EMU, technology shifts, an ageing population and the global move to a market economy. Expectations of a slowdown in the UK economy have allowed the Bank of England to keep interest rates on hold at 6.0%. UK economic expansion is under control. Inflation remains close to target. Industrial output remains sluggish.

Japan's recent economic indicators have been mixed but consumer spending must revive for a sustained recovery. The Japanese economy is experiencing a narrow export-based recovery. Asia's fundamentals are increasingly positive. The wider macro picture for the region is healthy. Currencies are stable, GDP growth and exports are strong and current accounts are in surplus.

ECONOMIC REVIEW

National Income

The economy has been estimated to grow by 2.6% in 1999 (5.8% - 1998). The growth rate was affected by drought, which dampened activities in the Agricultural and Public Utilities sector. The main sectoral growth rate estimates are shown in table 4:

Sector	1999 (%)	1998 (%)
Agricultural	-28.1	-2.0
Sugar	-45.0	2.5
Manufacturing	3.0	6.7
EPZ	6.0	6.9
Construction	8.0	6.0
Wholesale and Retail Trade	4.6	4.5
Restaurants and Hotels	6.0	6.0
Financial Institutions	8.5	8.0

Table 4

Consumption expenditure increased by 4.7% in real terms to Rs 82,167m in 1999. The saving rate was 22.8% (24.8% - 1998) while the investment rate was 27.9% (23.6% - 1998) during the year under review. There has been an increase of 27.8% of the stock of buildings during the 90’s. The average Mauritian is better housed and there is a marked improvement in the living conditions of the population during the 90’s.

The number of EPZ enterprises stood at 512 in 1999 (495 - 1998). EPZ exports amounted to Rs 28,952m (Rs 26,075m - 1998) while EPZ imports was Rs 15,735m in 1999 (Rs 16,179m - 1998). Sugar production declined to 373,294 tonnes in 1999 by 40.6% (628,588 tonnes - 1998). The harvest was adversely affected by the prolonged drought, reduction in total area harvested, lower yield per hectare and lower sugar extraction rate. Tourist arrivals increased to 578,085 in 1999 by 3.6%, the second lowest growth rate of the 90’s. The opening of new hotels increased total room capacity to 8,255 (7,267 rooms - 1998). The room occupancy rate averaged 71% during the year (72% - 1998). The average receipt per tourist was Rs 23,600 during the year (Rs 21,300 - 1998).

Trade

The Balance of Payment is expected to record a surplus of Rs 2,141m as at June 30, 2000 (Rs 690m - 1999). The current account is in deficit due to the drought-induced fall in sugar export. Reinsurance claim partly offset shortfall in sugar export proceeds. Total exports for the year reached Rs 40,025m (Rs 40,051m - 1998) while imports amounted to Rs 56,629m (Rs 49,742m - 1998). This resulted in a trade deficit of Rs 16,604m (Rs 9,691m - 1998). Nonfactor services generated a surplus of Rs 8,596m in 1999 (Rs 4,773 m - 1998) as inflows exceeded outflows. Foreign Direct Investment in Mauritius amounted to Rs 1,243m during 1999 (Rs 292m - 1998).

Net International Reserves reached Rs 26,051m in December 1999 (Rs 19,895m - 1998) representing an import cover of 24.8 weeks (20.1 weeks - 1998). The Terms of Trade for the year 1999 fell to 101 from 108 for the previous year. Export prices fell by 1% while import prices rose by 6% during the same period.

Growth differential between the US and Europe is building pressure on Euro/Dollar parity in the international market. The same tendency was noted on the local currency market. The rupee weakened against the US Dollar (3.4%) and Yen (18.3%) as at June 30, 2000. The rupee appreciated against the Euro (4.6%), French Franc (4.6%), Deutsche Mark (4.5%) and Pound Sterling (0.3%). Net outward remittances of foreign currencies amounted to Rs 9,736m as at June 30, 2000 (Rs 7,721m - 1999).

Monetary Policy

The Bank of Mauritius introduced the Lombard Rate, which will act as a signaling mechanism on its monetary policy. Monetary Policy was eased in light of the effect of the weakness of the Euro on corporate activity and cooling domestic inflation during the second half of the year. The Lombard Rate was brought down from 14% in December 2000 to 13% March 2000 and finally to 11.5% in June 2000. The Bank Rate followed the same trend and fell by 201 basis points to 10.65% on June 30, 2000 (12.66%-June 30, 1999).

Growth in monetary aggregates has softened. Money Supply (M2) increased by 10.9% to Rs 88,935m as at June 30, 2000 (Rs 80,204m - 1999). Total credit of commercial Banks to the private sector rose to Rs 67,271m as at June 30, 2000 (Rs 60,106m - 1999) by 11.9%, the lowest rate during the last four years.

Inflation

The rate of inflation was 6.9% during 1999 (6.8% - 1998). The main cause of inflation was higher prices of educational items and fresh vegetables due to drought, cost of transport and excise duties on cigarettes and alcohol.

Employment

The total labour force increased by 2.6% while total employment rose by 2.0% in 1999. Consequently, the unemployment rate was estimated at 6.4% in 1999 (5.9% - 1998). The corresponding unemployment rates by sex stood at 4.0% for male and 11.3% for female.

Public Finance

Total revenue and grants are estimated to be Rs 23.7 bn in 1999/2000. Revenue and capital expenditure is expected to be around Rs 27.3 bn. The overall budget deficit would be Rs 3.6 bn, representing 3.2% of GDP. There has been an increase in central government indebtedness. Total debt reached Rs 56,810m as at June 30, 2000 (Rs 51,011m 1999). Total debt to GDP ratio was 48%.

PROSPECTS

The economy is expected to grow by 8.3% in 2000 on the back of normal agricultural production, higher tourist arrivals and growth in public utilities sector. Falling inventories indicate that economic activities are expected to rise. The growth rate is above average trend when sugar is excluded. The investment rate, including purchase of aircraft, is expected to fall to 25.1% while the saving rate is estimated to rise to 24.3% in 2000. The growth in investment rate, excluding the purchase of aircraft, is positive but small reflecting falling investment in Agriculture and flat investment in the Manufacturing, Public Utilities and Restaurant and Hotel sector.

The overall budget deficit for next year is expected to be Rs 3.7 bn and it will decline to 2.9% of GDP. The high price of oil means that the import bill of energy will rise. The rate of inflation may pick up. The policy of the new government is to follow sound macro-economic policies, ensure a better balance between public revenue and expenditure and adopt a monetary policy that favour low inflation, investments and job creation. The new government intends to finalise the choice of the strategic partner of Mauritius Telecom. These should change the outlook of the stock market.

The Stock Exchange of Mauritius Ltd is planning to implement new Listing Rules by February 2001 and to set up an Automated Trading System to replace the current open outcry system of trading. The Listing Rules will facilitate the listing of securities of issuers and will provide with an orderly market place for the trading of securities and better regulation. The computerised trading system will improve efficiency and will ensure higher degree of fairness, transparency, improved liquidity and cost-effectiveness. These developments should improve the interest and confidence of players in the market. However, investors need to be cautious on the effect of the proposed adoption of the Pension Cost Accounting on corporate results especially with companies having a liability position in their pension fund.

The stock market is undervalued with a historical market P/E of 7.2x, dividend yield of 6.3% and price/book value of 0.85x on June 30, 2000. This undervaluation reflects the effect of the weakness of the Euro and high energy price on corporate earnings. The price level on the market is attractive going forward as the macro events have been priced in.

Indicators are showing that global growth rate is expected to slow. In such a benign environment, companies reporting good earnings will be rewarded while those reporting profit below expectations will be punished. Inflation rates, oil prices and interest rates will be other closely watched figures. The US and the UK are expected to report soft data. Inflation outlook is stronger in the US than the UK. The picture for Eurozone and Japan appears to be optimistic. The Euro is fundamentally undervalued. European markets will benefit from reform and Merger & Acquisition activities brought to Eurozone. Japan remains dependent on an end to deflation and stronger liquidity conditions. The East Asian NICs have the greatest exposure to world trade and will be affected by slowing economic growth worldwide.

Overall, the portfolio of the Fund is constituted of companies with growth potential. The Fund is well positioned to capture any pick up in the Semdex. The strength of unquoted shares will be fully felt on the NAV in the future. The unquoted investments are expected to perform well. The foreign portfolio will be constructed to provide adequate exposure to assets available on other markets. The Fund intends to undertake additional foreign investment depending on opportunities available on international markets.

ACKNOWLEDGEMENT

The Board noted with regret the demise of Mr J.H. Nagdan who served as member of the Board since the launch of the Fund. Mr R.K. Beeharry resigned as Chairman in October 2000. The Directors wish to express their appreciation for their valued contributions and to welcome Mr V. Bhuguth who joined the Board during the year and Mr S. Gokhool who joined as Chairman of the Board in October 2000.

The Board wishes to thank the shareholders for their loyalty and support during the year. With the dedication and hard work showed by management and staff, we look forward to delivering even better return in the future.

Seilendra Gokhool
Chairman
PORT LOUIS FUND LTD

October 17, 2000