PORT LOUIS FUND

ANNUAL REPORT 2004

Please note that this is the web version of the Directors` Report 2004. The official version is the one which has been filed with the Registrar of Companies.

REPORT OF THE DIRECTORS

The Directors have the pleasure to submit the seventh Annual Report together with the audited accounts of Port Louis Fund Ltd for the year ended June 30, 2004.

PRINCIPAL ACTIVITY

The Company is an open-ended mutual fund incorporated on 9 June 1997 as a Public Company with limited liability. The Company has obtained approval from the Ministry of Finance to be an Authorised Mutual Fund under Section 35 of the Companies Act 1984, now replaced by the Companies Act 2001.

The main objects of the Company are:

(i) To carry on business as an investment holding company;
(ii) To deal in securities and properties of all kinds; and
(iii) To manage and advise on investment funds.

RESULTS FOR THE YEAR

The income statement for the year ended 30 June 2004 is shown on page 19.

DIVIDENDS

A dividend of Rs42, 223,809.75 (representing Rs0.75 per share) was paid for the year ended 30 June 2004.

DIRECTORS' SERVICE CONTRACTS

There were no service contracts between the Company and directors.

DIRECTORS' REMUNERATION AND BENEFITS

Remuneration and benefits received and receivable from the Company and related Companies were as follows:

	Company		**Subsidiaries**		**Other related companies**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
	Rs000	Rs000	Rs000	Rs000	Rs000	Rs000
Executive Directors	-	-	-	-	-	-
Non-Executive Directors	237	216	-	-	-	-

DIRECTORS' SHARE INTEREST

DIRECTORS	**DIRECT SHAREHOLDING**	**INDIRECT SHAREHOLDING**
Mr. Seilendra GOKHOOL	NIL	NIL
Mr. Yusuf Hassam ABOOBAKER	NIL	NIL
Mr. Rohit AUKLE	NIL	NIL
Mr. Vijay BHUGUTH	NIL	NIL
Mr. Georges Yves Herve LASSEMILLANTE	NIL	NIL
Mr. Dawood Kassam SALEHMOHAMED	750 Shares	500 Shares

DONATIONS

No donation was made during the financial year ended 30 June 2004.

AUDITORS

The auditor's remuneration were as follows:

	2004	**2003**
	Rs000	Rs000
Audit services	86	86
Other services	87	87
	173	**173**

PERFORMANCE REVIEW

Financial Results

Total income for the year ended 30 June 2004 calculated in compliance with International Accounting Standards (IASs) amounted to Rs 167.4m (2003: Rs 92.8m). This constituted of dividend income of Rs 35.0m (2003: Rs 49.6m), interest income of Rs 10.0m (2003: Rs 8.0m), other incomes of Rs 6.2m (2003: Rs 1.5m), gain on disposal of investments Rs 24.4m (2003: Rs 0.35m) and fair value change amounting to Rs 91.8m (2003: Rs 33.3m).

The lower dividend income is mainly due to the fact that for the year ending June 30, 2003 one major investee company had paid dividend twice in that year since it had not paid dividend in the preceding year. This resulted in last year's dividend income being relatively high. In addition, the dividend received from listed companies has not experienced substantial growth.

The interest income has gone up due to the sizeable amount held in short term deposits. The amount held as long term fixed income securities has gone down marginally.

Gain on disposal of investment has gone up significantly to Rs 24.4m (2003: Rs 0.36m). This occurred mainly due to trading by way of disposal of listed securities with a view to capitalise the gain from the growth in the market.

The fair value change of held-for-trading investments amounted to Rs91.8m (2003:Rs33.3m). This has mainly resulted from the rise in the market value of listed securities.

The combined effect of the above has led to an improvement in Earnings per Share (EPS) to Rs 2.70 for the year ended June 30, 2004 (2003: Rs 1.42). However, when the fair value change is excluded net profit is Rs 64.6m (2003:Rs 50.9m) and the EPS turns out to Rs 1.11 (2003: Rs 0.86) equivalent to an increase of nearly 29% over the last year.

Total Expense Ratio

The total expense ratio (TER) gives an indication of the expenses being incurred in running a fund. The TER of PLF which has been calculated in line with international standards, stood at 1.11% (2003: 1.18%) for the year ended 30 June 2004. The TER represents the drag of fund performance caused by all annual operating costs (including administration, directors and audit fees). The TER of PLF can be favourably compared to the industry average of 1.54% for open-ended investment companies in Mauritius.

Dividends

The Fund declared a dividend of 75 cents per share (2003: 70 cents) for the year ended 30 June 2004. This represents an increase in dividend of 7.1% over last year. Total dividends amounting to Rs 42.2m was paid in June 2004 to all shareholders registered at the close of business on 31 May 2004. It is noteworthy that dividend payment is based on net profit and realised gain excluding the fair value change which cannot be distributed as dividend since it is not a realised gain.

Share Capital

The issued share capital of the Fund as at 30 June 2004 was 58,191,400 shares compared to 57,753,500 shares last year. A net increase of 437,900 shares equivalent to 0.8% of the issued share capital was noted. During the year, the Fund issued 3,527,400 shares and 3,089,500 shares were redeemed.

Fund Performance

The Fund realised an impressive performance during the year under review. A total return of 25.4% was achieved on a year to year basis. The NAV increased from Rs 12.14 to Rs 14.47 as at 30 June 2004 and a dividend of 75 cents per share was paid during the year.

The Fund has been structured as a low risk fund in accordance with its stated investment objectives of ensuring capital growth and an income stream. The risk of return of the Fund has been measured on the basis of monthly return since its inception in June 1997 compared with that of the market, as represented by Semdex.

The beta, which measures the market risk of the Fund, is at 0.70. This means that the Fund is less risky than the market, that is when the market is falling or rising rapidly, the Fund has a certain degree of resilience.

The market has experienced a substantial growth of 35.4% as measured by Semdex. In view of its low risk, the Fund achieved a total return of 25.4%. On a risk-adjusted basis, the return achieved by the Fund is comparable to the market return.

Fund Performance analysis by Asset Class

The estimated decomposition of the total return of 25.4% is as shown below:

Asset Class	**Total Return of Asset Class %**	**Average portfolio %**	**Weighted Return %**
Listed equities	36.3	51.0	18.5
Unquoted equities	16.9	22.4	3.8
Fixed Income Securities and Others	11.1	21.5	2.4
Foreign Investment	13.0	5.1	0.7
PLF Portfolio			**25.4%**

Table 1

When analysing the portfolio of the Fund by asset class breakdown, it is noted that the total return on listed securities of the portfolio (which represented 51% on average) was 36.3% and this is comparable to the stock market index.

The other asset components such as unquoted shares and fixed income securities did perform in line with the performance of similar assets, around 11% to 17% and this because the performance of these assets are not linked to the performance of the stock market. The foreign investment component of the portfolio which represented 5.1% on average, gained 13% in Rupee terms and 18% in USD terms, which is slightly below the MSCI World index performance of 20% for the same period.

ASSET ALLOCATION & PORTFOLIO COMPOSITION

The asset allocation has been done with a view to meet the objective of the Fund, which remains long term capital growth with a reasonable income yield. Over the year under review, the portfolio asset allocation has changed. Substantial amount of listed equities has been disposed and the proceeds have been earmarked for foreign investment.

The portfolio’s size stood at Rs 842.0m as at 30 June 2004 (2003: Rs 701.2m). Table 2 illustrates the breakdown of the total portfolio of the Fund.

Listed and quoted equities

Listed and quoted equities have decreased in percentage terms from 57.3% in 2003 to 45.4% in 2004. In terms of value, these investments amounted to Rs 382.6m as at 30 June 2004 (2003: Rs 401.7m). During the year, the Fund disposed listed investments worth Rs 174.8m and acquired shares worth Rs 12.0m on the local market. Regarding asset allocation to different sectors, the Fund reduced its exposure in the Bank and Insurance sector from 22.3% to 16.3% and Hotels from 13.1% to 9.6%. On the other hand, exposure to the Commerce sector was increased from 1.6% to 2.2%.

Unquoted equities

The proportion of unquoted equities fell from 25.5% to 19.9% in 2004. In terms of value, the unquoted equities decreased in absolute terms from Rs 178.6m to Rs 167.6m, representing a fall of 6.6%. This happened mainly due to the fact that Mauritius Leasing Company Ltd which was previously classified as unquoted share is now in the listed share category. The value of other unquoted investment as a whole has gone up by Rs 12.0m.

Fixed Income Securities & Cash

The fixed income securities and cash component represented nearly 30% of the portfolio of the Fund in 2004 and 12.7% in 2003. In terms of value, it amounted to Rs 248.8m on 30 June 2004 (2003: Rs 88.6m). It included foreign currencies deposits worth Rs 112m earmarked for foreign investments.

Foreign Investment

Foreign investment constituted 5.1% of the total portfolio of the Fund, (2003:4.6%). During the year under review, the Fund increased its foreign investment by Rs 5.8m. This component of the portfolio is expected to rise substantially by the end of next financial year.

	2003		2004	
	Rsm	%	Rsm	%
Listed and Quoted Securities	401.7	57.3	382.6	45.4
Banks and Insurance	156.2	22.3	137	16.3
Industry	30.8	4.4	36.9	4.4
Investments	12.5	1.8	10.3	1.2
Sugar	4.1	0.6	6	0.7
Commerce	11.3	1.6	18.7	2.2
Hotels	91.9	13.1	80.9	9.6
Transport	94.9	13.5	92.8	11
Unquoted equities	178.6	25.5	167.6	19.9
Total Equities	580.3	82.8	550.2	65.3
Fixed Income & Cash	88.6	12.6	248.8	29.5
Foreign Investment	32.3	4.6	43	5.1
Total Portfolio	**701.2**	**100.0**	**842.0**	**100.0**

Table 2

TOP 10 HOLDINGS OF LOCAL EQUITIES

The top 10 equity holdings of the Fund consist mainly of banking, insurance, transport and hotels stocks. Shareholders also have exposure to the leisure and technology sectors through the unquoted equities.

The top 10 equity holdings of the Fund as at 30 June 2004 are detailed below:

	Local Securities	Rs m	% of Net Assets	Sector
1	SICOM Ltd	120.1	14.3	Insurance
2	Air Mauritius Ltd	92.7	11.0	Transport
3	State Bank of Mauritius Ltd	70.0	8.3	Banking
4	New Mauritius Hotels Ltd	54.3	6.4	Hotels
5	The Mauritius Leasing Co. Ltd	45.4	5.4	Leasing
6	Sun Resorts Ltd	26.7	3.2	Hotels
7	Le Grand Casino Du Domaine Ltee	25.0	3.0	Leisure
8	The Mauritius Commercial Bank Ltd	21.3	2.5	Banking
9	Maurinet Investment Ltd	16.8	2.0	Technology
10	Mauritius Breweries Limited	15.7	1.9	Industry
	Total	**487.9**	**57.9**	

Table 3

SICOM Ltd

SICOM was incorporated as a public company on June 30, 1988 to take over the business of the State Insurance Corporation of Mauritius. The company is mainly engaged in long term and general insurance business whilst its subsidiaries carry out depository, investment and investment management business activities. SICOM is presently one of the key players in the insurance sector in Mauritius.

Air Mauritius Limited (AML)

AML operates international air services for the carriage of passengers, cargo and ancillary services. It has two subsidiary companies Pointe Coton Resort Hotel Ltd and Mauritius Estate Development Corporation Ltd (MEDCOR), which are in the hotel and restaurant business and property business respectively. The vision of the company is to be a world class airline.

State Bank of Mauritius Ltd (SBM)

SBM is one of the two major commercial banks in Mauritius in terms of domestic market share. It has the lowest cost to income ratio among Mauritian banks. SBM also provides a range of other financial services like security broking, leasing, asset management and offshore banking. SBM has furthermore entered into a strategic alliance with Nedcor Bank of South Africa. SBM was awarded ‘The Banker Global Award’ during 2001, 2002 and 2004 for Mauritius.

New Mauritius Hotels Ltd (NMH)

NMH is one of the leading hotel operators in Mauritius. It operates several luxury hotels, including the prestigious Royal Palm. The Group initiated a restructuring project whereby it acquired the remaining interests in associate and subsidiary companies by the issue of NMH shares. NMH is at present the largest hotel operator in Mauritius. The Group also operates the St Anne resort in the Seychelles.

The Mauritius Leasing Co. Ltd (MLC)

MLC was incorporated in 1987. It carries on the business of providing leases in respect of movable assets, equipment, machinery, plant, motor vehicles, tools, materials and other articles to industrial, agricultural, commercial and service sectors and to self-employed persons. The Company is also licensed by the Bank of Mauritius to carry on Deposit Taking Business and accepts Term Deposits for periods of 3 months and more. MLC has been listed on the stock market in 2004.

Sun Resorts Limited (SRL)

SRL is one of the two largest hotel operators in Mauritius. It operates several luxury hotels in Mauritius, a number of which have world recognition. It has a management contract with One & Only (Indian Ocean) Management Limited. The Group successfully relaunched the One & Only Le Touessrok in December 2002 and opened an international championship golf course at Ile aux Cerfs.

Le Grand Casino Du Domaine Ltée (GCD)

GCD was incorporated in 1992. Its main activity is the operation of a casino at Domaine Les Pailles. GCD is the largest and one of the most profitable casinos in Mauritius. It provides a large range of top of the line amenities and popular games.

The Mauritius Commercial Bank Limited (MCB)

MCB is the oldest commercial bank in Mauritius. It is also, one of the largest, in terms of market share. Through its majority stake in the Banque Française Commerciale (Océan Indien), MCB is present in Europe (Paris), Réunion, Seychelles and Mayotte. MCB is also represented in Madagascar via its local subsidiary, the Union Commercial Bank. The Group has furthermore recently set up a subsidiary in Mozambique. Locally, MCB, via its subsidiaries, provides a wide range of financial services including stockbroking, fund management, leasing and the provision of administrative services to fund managers and registrar services to companies.

Maurinet Investment Ltd (MIL)

MIL, via its subsidiary Mauritius Network Services Ltd (MNS), operates in the technology sector in Mauritius. MNS was incorporated in 1994 to provide an electronic network that facilitates existing trade documentation processes. MNS presently has more than 300 users from over 250 local companies linked to its TradeNet Network.

Mauritius Breweries Ltd (MBL)

MBL is involved in the brewing, bottling and distribution of beer and soft drinks. The company launched the first Mauritian beer in 1963. The Company has witnessed significant growth and expansion. Recently, through a scheme of arrangement with Phoenix Camp Minerals Limited (PCM) was been completed. The latter has become a wholly owned subsidiary of MBL. The main activity of PCM is the bottling and distribution of Coca-Cola products. The arrangement scheme has created a synergy in the production and distribution of the products of both companies.

LOCAL STOCK MARKET REVIEW

The local bourse saw another year of remarkable growth on a year to year basis. The Semdex attained its all time high level of 664.4 points by mid June this year. The index registered a gain of 171.4 points from 1July 2003 to 30 June 2004 representing a growth of 35.4%. The SEM-7 which comprise the 7 largest eligible shares of the official list, measured in terms of market capitalisation, liquidity and investibility criteria, achieved a slightly lower growth of 29.6%, this indicates that smaller capitalised companies achieved more important growth. The market was driven mainly by banking and hotels stocks.

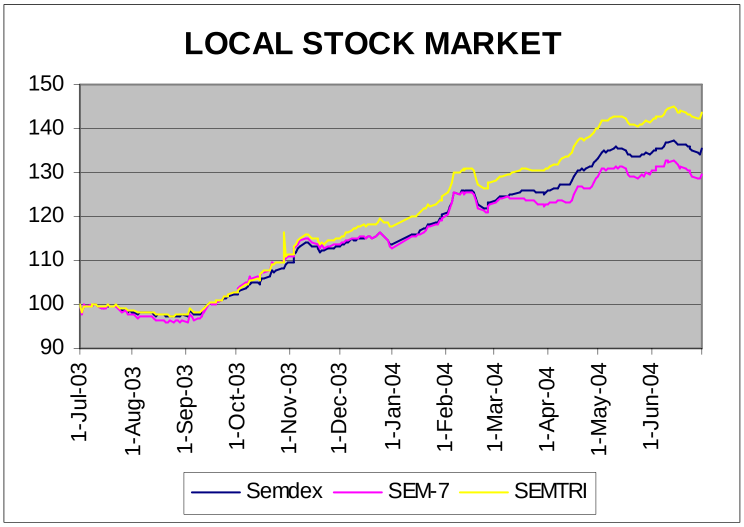
Among the major events in the market included the listing of Mauritius Leasing Company Ltd (MLC), bonus issue of United Basalt Products Ltd, dividend in specie paid by Belle Mare Holdings Ltd. Both MCB and SBM continued their respective buy back programmes but they were not very active in the market.

All the local market indices have been growing smoothly all throughout the period except for some very slight and brief occasional drops. The market indices maintained an upward moving trend. The low interest environment coupled with a relatively high average market dividend yield has helped the market.

The chart below depicts the movement of the local market indices for the period under review.

Mauritian Stock Market

Chart 1



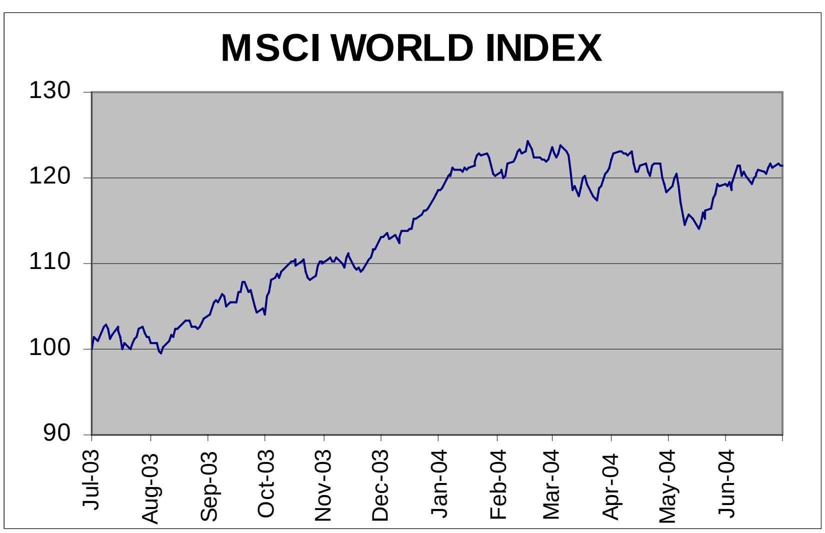
Foreign investors were net buyers to the tune of Rs 463.9m. Total purchases and sales during the period amounted to Rs 741.5m and Rs 277.6m respectively. The corresponding figure for the last period was Rs 265.1m for purchases and Rs 358.9m for sales, resulting in net sales of Rs 93.8m. A renewed interest from foreign investors for local equities was noted.

On the fundamental side, for the year ended 30 June 2004, the price Earnings (PE) ratio was 9.41 X compared to 8.21X last year. The dividend yield was 4.94 % compared to 6.38 % last year.

FOREIGN MARKET REVIEW

Global equity market

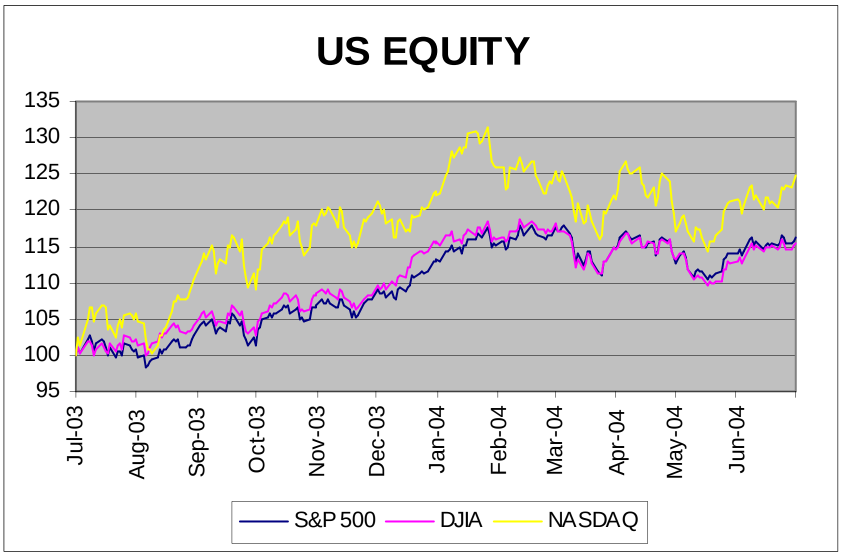
Chart 2



The MSCI World Index taken as a proxy for global equity market has gained more than 21% on a year to year basis. Global economy continues to grow. Equity markets have been significantly influenced by earnings, monetary policy tightening and geopolitical threats. Global markets have been somewhat encouraged by the improving prospects for the world economy. Looking ahead the rise in oil and other commodities prices will ultimately have a slowing effect on the world economy. Slowdown in China will also exert worldwide influence.

US equity market

Chart 3



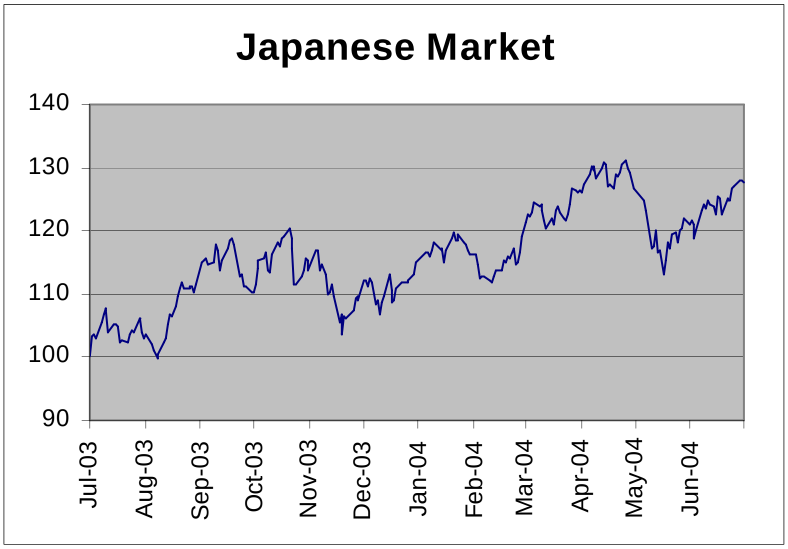
The US Stock Market as represented by S & P 500 gained 16 % on a year-to-year basis. The other main market indices, namely Dow Jones Industrial Average (DJIA) gained 15.4% and the technology laden Nasdaq Composite gained nearly 25%.

Economic data and corporate earnings in the US were largely supportive for stocks. The period was also marked by changes in the monetary policy stance of the Fed. With a view to contain inflationary pressure in the economy, the Fed warned of a series of gradual rate hikes, the first of which was effected on 30 June 2004.

Strong industrial activity and consumer willingness to spend helped to keep the economy going. On the other hand, the slowdown in employment growth, the widening of trade deficit continued to be areas of concern. The substantial rise in the price of oil and steel could also hinder growth.

Japanese equity market

Chart 4



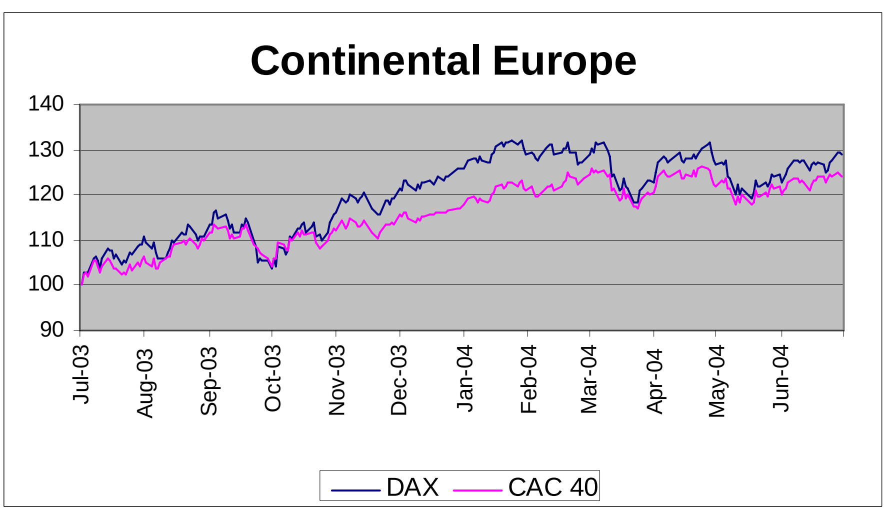
The Nikkei-225, the mostly widely watched index of the Japanese stock market shot up by around 28% on a year to year basis. The market was very volatile sometimes going to as low as 15% from a point-to-point basis. The Japanese macro economic picture has significantly improved. There are a number of positive signs in the Japanese economy. After years of corporate restructuring and government reforms, firms are now managing to raise meaningful profits.

Some price indices are indicating an imminent end to deflation. However, Japanese land prices are still falling at rates of 8% - 10% per annum. The general weakness of domestic demand continues to be an area of concern. Japan exporters have continued to take advantage of the global recovery.

The current valuation is attractive, as it is backed by solid earnings. From a P/E perspective the market is trading at approximately 22x.

Euroland equity market

Chart 5

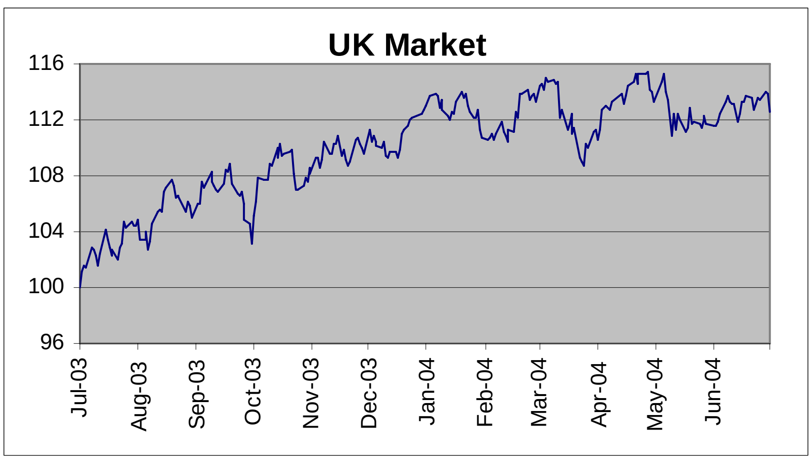


France and Germany, the two main markets of Euroland, have been moving along the same pattern, but the German index (DAX) has outperformed the French index (CAC - 40) almost throughout the year. On a year to year basis, the CAC- 40 and DAX gained 24% and 29% respectively.

European economics have not shown any great strength. The global expansion has benefited European industries but there is little sign that domestic demand may be improving. Unemployment in Europe is significantly higher and any sizeable improvement seems remote. Governments in Europe have been expanding their fiscal deficits and the Stability and Growth Pact seems dead. The strengthening of the Euro would be detrimental to the European economies. European equities have still managed to gain on account of attractive valuation, positive news from US, and improved earnings. In addition, the relative valuation of equities versus bonds is in the favour of equities.

UK equity market

Chart 6



The FTSE-100 posted a 12.6% increase on a year to year basis. The UK economy has been performing reasonably well. House prices have been rising dramatically, mortgage lending is very high, making the housing market highly vulnerable to rate rises. However, despite the mild rise in interest rates the UK economy is likely to continue on its growth path. Consumer spending as well as significant upturn in business sector investment has led the recovery.

Unemployment figures have been falling, inflation is below Bank of England target of 2% and the budget had moved to surplus. The near term outlook for the UK economy is stronger than its primary trading partners in the Euro zone. UK companies are continuing to produce strong earnings with pick. On valuation ground, UK equities still look attractive.

ECONOMIC REVIEW

Mauritian Economy in 2003 -2004

The Mauritian Economy grew by 4.3 % in 2003. For 2004, growth is expected to be around 4.6 %. Excluding sugar, the growth rate should stand at 4.4 %. Most economic sectors are expected to improve. However, the EPZ Sector is continuing to face difficulties. On the final consumption side, expenditure is expected to grow by 4.6% (2003: 4.2%). Diligent use of fiscal and monetary policies mix have led to lower interest rates. This helped to boost private investments and employment creation. The Net International Reserves as at end of June 2004 amounted to Rs 50,021m equivalent to 37.5 weeks of import coverage (2003: Rs 48,414 m, 38.5 weeks import coverage) representing a growth of 3.3 %. Inflation remains within permissible band. However, the rate of unemployment remains an area of concern.

Investment

Investment in 2004 is expected to reach Rs 38,925m compared to Rs 35,559m in 2003 representing a growth of 9.5%. In real terms, investment is expected to grow by 5.8% compared to 9.7% in 2003. Exclusive of aircraft acquisition in 2004 (Rs 225m) and Rs 1,070m in 2003, growth works out to be 8.4% compared to 7.6% in 2003.

Investment rate, as measured by the ratio of Gross Domestic Fixed Capital Formation (GDFCF) to Gross Domestic Product (GDP) at market prices is expected to be 22.4% (2003: 22.6%).

Public sector investment is forecasted to be at Rs 13,690m representing 35.2% of GDFCF. The major investment items include education sector, cybercity related projects, sewerage works and acquisition of aircraft. On the other hand, investment by the private sector is estimated at Rs 25,235m representing 64.8% of GDFCF.

Sugar Sector

Sugar production for calendar year 2003 was 537,155 tonnes, with an average extraction rate of 10.34%. Due to unfavorable climatic conditions prevailing, the estimates of sugar production for 2004 have been lowered to 575,000 tonnes. This will result in a growth of around 7% over the year 2003. The continued mechanization and centralization of milling operations are contributing towards greater efficiency and higher productivity. Product diversification through further development of special sugar and sugar co-products like electricity from bagasse and ethanol could lead to value addition to the sugar sector.

Export Processing Zone (EPZ)

The EPZ sector continued to face difficulties. The total number of enterprises in the EPZ, by the end of March 2004 stood at 497(March 2003:508). During the first quarter of 2004, 13 enterprises ceased operations while 4 additional units became operational.

Employment in the EPZ sector, as at end of March 2004 stood at 76,496 including 15,144 expatriates (March 2003: 84,638, out of which 16,952 expatriates). The ratio of male to female employment in the EPZ workforce is approximately 1 to 2.

EPZ exports for the year 2003 amounted to Rs 32,059m. (2002: Rs 32,683m), decreasing by Rs 624m or nearly 2%. On the import side, the figure for 2003 amounted to Rs 15,559m (2002: Rs16,909m). A decrease of Rs 1,350 m (8.0%) was noted. Net exports for 2003 amounted to Rs 16,500m (2002: Rs 15,774m). On the whole, the EPZ sector is expected to experience negative growth of 1%. Mauritius has been able to obtain the third country fabric exemption under AGOA in October 2004. This development should give a boost to EPZ exports towards the US market.

Tourism

Tourist arrivals for the financial year ended 30 June 2004 increased by 0.74% from 694,247 to 699,389 (2003: 4.0%). Growth in the number of tourist arrival was marginal. However, tourist earnings for the period increased by 24.4% compared with a negative growth of 5.5% for the preceding period. Earnings for the fiscal year 2004 was Rs 22,394m, compared to Rs 17,998m for 2003.Based on information gathered from stakeholders of the tourism industry, the initial tourist arrival target of 740,000 for 2004 has been revised downward to 725,000. Direct employment in travel and tourism establishments grew by 1.5% as at March 2004 compared to the corresponding period last year.

Trade Deficit

Provisional figures for the first semester of 2004 show that total exports amounted to Rs 24,893m (2003: Rs 23,416m). Import reached Rs 35,060m for the first 2 quarters of 2004 (2003: Rs 31,337m). The trade deficit for this period has widened to Rs 10,167m (2003: Rs 7,921m). The trade deficit is not expected to improve given the high price of oil in the international market and falling exports of the EPZ sector.

Government Finance

The budget deficit for the financial year 2003-2004 is estimated to be 5.6 % of GDP (2002-2003:6.2%). The budget deficit is expected to go down by 0.6 % of GDP. Total income of Government would amount to Rs 34, 058m (2003: Rs 29,985.1m) and total expenditure would amount to Rs 42,962m (2003: Rs 38,552.6m). The budget deficit would amount to Rs 8,904m (2003: Rs 8,567.5m). Factors that would weigh heavily on Government budget include the implementation of the second phase of the PRB Report and the rising cost of social welfare programmes.

Total Government debt for the financial year ended 30 June 2004 has been estimated at Rs 93,457 m (2003: Rs 95,487 m), split into Rs 85,002m (2003: Rs 86,413m) of internal cost and Rs 8,455m (2003: Rs9, 074 m) of external borrowing. Internal borrowing of Government is expected to go down by 1.6 % whereas external borrowing will fall by 6.8 %. On the whole, Government debt is expected to drop by 2.1 % over last year.

Employment and Unemployment

The rate of employment turned out to be 10.2 % in 2003. The estimated figure for 2004 is 9.2% which represents some 49,500 people unemployed. It should be noted that CSO has modified the methodology to estimate employment and unemployment as from 2004. Thus, comparing the figures for 2003 with the estimate for 2004 might not be comparing like with like. Between March 2003 and March 2004, employment in primary sector decreased by 300. In the secondary sector, a net fall of 6,500 was recorded. The EPZ sector continues to register significant job losses mainly because the international competition in the manufacturing sector is becoming stiffer.

However, employment in the tertiary sector kept an upward trend, with an increase of 3,700 jobs. The authorities are adopting a focused approach towards employment creation. Among other measures being taken, training is being dispensed at all levels to take care of the mismatch problem in the labour market.

Inflation

Inflation for the financial year 2003-04 was 3.9% compared to 5.1% for corresponding period last year. The improvement in inflation rate was achieved on account of a relatively stable Mauritian rupee vis a vis trading partners' currencies and the appropriate monetary and fiscal policy mix adopted by the authorities. On the basis of recent price changes, it is expected that the inflation rate for the calendar year 2004 would be around 4.8%. On a point-to-point basis, the Consumer Price Index (CPI) increased by 4.4 points during the year.

Monetary Policy

The Lombard Rate as at 30 June, 2004 was 9.5% (2003: 10.25%). It was lowered 3 times during the period by 25 basis points each time in September 2003, November 2003 and January 2004. These rates cut were effected with a view to reducing borrowing cost in the economy which would boost up investments.

The expansionary monetary policy adopted by the Central Bank was further evidenced by the increase in money supply as measured by both the M1 and M2. The money supply consisting of currency in circulation and demand deposits (M1) at the end of June 2004 amounted to Rs 21,322 m (2003: Rs 17,439m) representing a 22.3% increase. The corresponding figures for the aggregate monetary resources (M2) were Rs 141,132m (2003: Rs 123,405m), increasing by 14.4%.

Prospects

The Mauritian Economy is expected to grow by 4.3 % for the year 2004. A number of measures are being taken in all sectors with a view to further boosting the economy. On average, we expect some improvement in corporate earnings of listed companies. The local stock market index attained a new high during the period starting early July 2004 to mid October 2004, registering a gain of around 1.5%.

The surge in oil and other commodity prices in the international market would contribute towards increasing the inflationary pressure in the economy. In this regard, the Central Bank has taken an avant-gardist measure by raising the Lombard Rate by 25 basis points in mid October 2004. This was the first rise in the interest rate since September 2000.

The enactment of the proposed Securities Bill is expected to give a new impetus to the operational framework of collective investment schemes in Mauritius. It would further define and regulate the role of each stakeholder involved in the promotion and operation of a collective investment scheme.

On the international front, we expect the global economy would continue to grow, in spite of oil prices being at a stunning level. We can expect international stock markets to be volatile but profit opportunities still exist. The Fund has positioned itself to benefit from any rise in overseas market. An additional sum equivalent to Rs 63m has already been invested since 1 July 2004 to different markets through well known and reputed international fund management groups. A further amount of Rs64m would be invested shortly.

The restructuring of Port Louis Fund into an umbrella structure has been rescheduled in view of the proposed Securities Bill which covers extensively Collective Investment Schemes (CIS). Discussions have been held with the consultants and various parties concerned. The new structure will lay the foundation for PLF to set up different Sub-Funds with different investment objectives and risk/return characteristics. Initially, three sub-funds will be created. The existing portfolio of PLF will be renamed as PLF Balanced Fund. This Sub-Fund will retain all the existing characteristics. The two other Sub-Funds will specialise in foreign investments and fixed income securities, respectively.

It is expected that the initial three Sub-Funds will provide the appropriate vehicle for investors, whether corporate or individuals, large or small, to constitute their respective individual portfolios as regards investment objectives, risk and return. The existence of the three Sub-Funds will enable easy switching between Sub-Funds at no costs to the investors, subject to appropriate clause on abusive trades and market timing.

Consideration is being given to waive all entry and exit fees in return for a significantly reduced fixed basis charge on the Sub-Funds to cater for registry, administration and distribution costs. This new structure is expected to be operational by June 2005, after approval by the authorities.

Acknowledgement

The Board wishes to thank the shareholders for their loyalty and support during the year. The Board also appreciated the dedication and hard work of the management team and staff towards enhancing the value of the Company.

Seilendra Gokhool	Rohit Aukle
Chairman	Director
Port Louis Fund Ltd	Port Louis Fund Ltd

19 October, 2004