**COMMENTARY**

**MARKET ENVIRONMENT**
Tourist arrivals in Mauritius for the financial year ended 30 June 2019 increased by 3% to reach 1.4m. Arrivals from Europe, our main market, increased by a similar percentage to reach 794k. Germany and France improved by 8% and 3% respectively whilst the UK was at par with last year. Arrivals from China and India for the year under review were down on last year by 20% and 10% respectively. In the Maldives, arrivals for the financial year increased by 11% to 1.6m and the Chinese market, which remains the main market for the Maldives, grew by 1% to 25%. With regards to Reunion Island, destination, tourist arrivals for this financial year is not yet available but for the nine months to 31st March 2019, it was similar to last year at 419k.

**ADOPTION OF IFRS 9 AND IFRS 15.**
The Group adopted the new IFRS 9 and IFRS 15, which became effective for accounting period beginning on or after 1st January 2018. The impact of those standards on the accounts of the Group is as follows:

(i) IFRS 9 requires the Group to record expected credit losses on all its debt securities, loans and trade receivables, either on a 12 month or lifetime basis.

(ii) IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. The impact for the Group is the presentation of its revenue which should be net of tour operator commission. In prior years, revenue was accounted gross and the commission paid by tour operators was shown as an expense. Revenue for the financial year ended 30th June 2019 is therefore being presented net of commission and the comparative figures have been adjusted accordingly.

**GROUP RESULTS**
Following the structure of its activities involving the separation of its management company, The Lux Collective (TLC), from its real estate and hotel operations, the accounts of TLC were deconsolidated on 1st December 2018. Its results for the five months ended 30th November 2018 and for the full financial year ended 30th June 2018 have been classified as discontinued operations. The profit resulting from the separation amounting to Rs 189m is shown as gain on deemed disposal of the subsidiary under discontinued operations.

All our hotels were operational during the financial year under review. Last year, LUX* Grand Baie was closed for the first six months for renovation and operated with a reduced inventory during the second semester.

Against the above background, the Group delivered commendable results with revenue increasing by 8% to reach Rs 6.2bn and EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) amounted to Rs 1.4bn, an improvement of 20% on last year. Depreciation and amortisation for the year decreased by Rs 15m on the prior year mainly due to lower depreciation charge on LUX* South Ari Atoll (LSAA) Rs 90 m as a result of the extension of its lease by 50 years. However, the reduction in the charge of LSAA was offset by higher depreciation charge (Rs 35m) on LUX* Grand Baie following its renovation and accelerated depreciation (Rs 40m) on LUX* Saint Gilles in Reunion Island to match the remaining terms of its lease. The net finance costs for the year amounted to Rs 273m up by Rs 42m on last year due to the loan contracted for the renovation of LUX* Grand Baie. The interest on the said loan was capitalised during the construction period last year. The interest cover is similar as last year at around 5 times. The Group operating profit increased by Rs 246m to Rs 896m.

Repayment of the said loan was then followed by increased competition from new resorts.

However, we are encouraged by the increase in arrivals to the destination (+ 21% in June 2019) which somehow explained above and also with respect to a prior year adjustment where reserves wrongly credited to retained earnings upon disposal of subsidiaries and properties have been re-instated as at 1st July 2017.

**OUTLOOK**
Indications are that the next financial year will be more challenging. The International Monetary Fund is forecasting a global economic slowdown amid rising world trade tensions, Brexit and weakness in European economies. Business currently held for the first quarter ending September 2019 for our Mauritius and Reunion hotels that are in operations is satisfactory while for Maldives, it is behind last year due to increased competition from new resorts. However, we are encouraged by the increase in arrivals to the destination (+ 21% in June 2019) which somehow should mitigate the impact of oversupply.

By order of the Board

I.B.L Management Ltd
Company Secretary

22nd August 2019.

*Prior year figures have been re-stated following adoption of IFRS 9 and IFRS 15 as explained above and also with respect to a prior year adjustment where reserves wrongly credited to retained earnings upon disposal of subsidiaries and properties have been re-instated as at 1st July 2017.