

STRATEGIC REPORT



Nicolas Vaudin
Executive Director &
Managing Director

MANAGING DIRECTOR'S INTERVIEW

Tell us more about Lavastone Ltd.

Lavastone Ltd was born in 2018, from the rebranding and restructuring of Cim's property cluster under the brand name "Lavastone Properties". We diversify our activities across three main poles, namely investment and development, property management and portfolio management.

In 2017, we had developed a clear strategy for yield improvement and expansion of our investment properties portfolio, which also involved the restructuring, rebranding and listing of Lavastone Properties on the DEM, in view of creating a more focused business. Following the DEM listing in December 2018 and the dividend in specie distributed by Cim Financial Services Ltd ("CFSL") in January 2019, Lavastone no longer forms part of the Cim Group. The idea was that, with a dedicated Board and management team, Lavastone Properties could access alternative sources of capital to fund its activities at targeted optimum gearing levels, and provide shareholders and other stakeholders with more comprehensive reporting and thus keep them more informed on the Group's operational and financial performances.

The restructuring of all land holding and investment properties under one roof allowed us to create sufficient scale, while the rebranding gave us more visibility and clarity on our activities and growth plans to current and potential investors.

Today, at Lavastone Properties, our central management team takes care of asset/portfolio management and oversees the Group's performances on a daily basis. The Facilities and Property Management functions are outsourced to a specialist, Lochiel Property Management Ltd (Lochiel), whereas development projects are managed by carefully selected consulting teams, who follow our rigorous approach to cost control and change management across all projects.

How would you rate your business's performances for the financial year 2019?

The communication campaign around our rebranding and listing at the end of 2018 brought about new opportunities for Lavastone Properties. We are now regularly called upon to consider development projects or acquisitions of investment properties. As for current and future shareholders, this independence is expected to provide them with an opportunity to tap into growth prospects in the local real estate sector.

Embarking on this new journey has made the year 2019 the continuance and implementation of the strategy we had laid in our listing documents. Throughout this period, we have:

- Converted non yielding assets at Edith Cavell into a yielding investment with exciting prospects;
- Started work on two morcellements at Case Noyale and La Gaulette for South West Safari Group Ltd (SWSG);
- Started several development projects, including Victoria Urban Terminal (VUT) and the hotel at Belle Mare for Attitude Hotels;
- Acquired the Mourouk Ebony Hotel in Rodrigues, which will soon be renovated.

We also obtained building permits for the development of a new retail warehouse at Riche Terre, which will be developed once road access from the new third lane is finalised by the relevant authorities.

"OVERALL, I AM SATISFIED WITH LAVASTONE PROPERTIES' PERFORMANCES DURING THE PERIOD UNDER REVIEW AND AM OPTIMISTIC ABOUT THE GROUP'S GROWTH PROSPECTS FOR THE NEXT FINANCIAL YEAR"

Overall, I am satisfied with Lavastone Properties' performances during the period under review and am optimistic about the Group's growth prospects for the next financial year. We are lucky to have a strong, dedicated team of experts, who share Lavastone Properties' vision and are ready to work together to achieve our goals.

Give us some insight into the redevelopment of the Edith Cavell site in Port Louis. Do you believe it will contribute to the regeneration of the capital, as hoped by the Mauritian government and other regional stakeholders?

We firmly believe the redevelopment of the Edith Cavell site in Port Louis will be a key ingredient to the regeneration of the capital, along with the Victoria Urban Terminal, the Metro Express, the Aquarium, the Supreme Court, the Caudan Arts Centre and the new Port Louis Waterfront.

With the exception of the Caudan, and now the new Port Louis Waterfront, Port Louis lacks what shopping malls like Bagatelle, Phoenix and Cascavelle provide to Mauritians of all walks of life: a clean, safe, well maintained and easily accessible shopping, dining and entertainment experience. Good news is, the 246 Edith Cavell Court project will be offering all of this in what was largely a neglected part of our capital. Furthermore, we are adding a key ingredient to the mix by doing everything within what is primarily an office environment. 246 Edith Cavell Court is an engaging place to work and spend time, offering a wonderful blend of retail surfaces, leisure and dining facilities, to help our tenants as well as surrounding businesses attract and retain the best talents within their company.

What were the main challenges the company experienced during this period? How did you overcome them?

One of the main challenges we faced during the year under review was the listing of the Group on the DEM and ensuring compliance with the listing rules and regulations.

- We worked in close collaboration with all stakeholders to meet the deadlines set by the Board of Cim Financial Services Limited, our parent company at the time.
- From a compliance perspective, we had a seasoned CFO working with our experienced Corporate Secretary and Risk Management and Audit Committee, to ensure adherence to the DEM's requirements.
- To improve reporting, the accounting function outsourced to Lochiel now sits within our offices. This ensures quicker completion of management and statutory accounts, which in turn helps us enhance decision-making at management level.
- We have also upgraded our IT platform to support the property management and accounting functions of each company within the Group, which also contributes to improving productivity, speed and report accuracy.

“WE HAVE ALSO UPGRADED OUR IT PLATFORM TO SUPPORT THE PROPERTY MANAGEMENT AND ACCOUNTING FUNCTIONS OF EACH COMPANY WITHIN THE GROUP, WHICH ALSO CONTRIBUTES TO IMPROVING PRODUCTIVITY, SPEED AND REPORT ACCURACY”

Another important challenge we were confronted with, was the management of human resources during a growth period.

- As we grow so must our team – both in its capacity and skill set. It is to this end that we hired new members to join our accounting and property management divisions. Our CFO, Doreen Lam, joined us in October 2018.
- Additionally, we made a strategic decision to have our Property and Facilities Managers (Lochiel) move into our offices, thereby fostering greater collaboration and improving the speed and efficacy of our decision-making and management processes.
- Since this merge, we have had three strategic sessions facilitated by third party strategy specialists, to ensure the complete alignment of both teams towards better collaboration, in view of achieving a shared vision of success.

“IN ORDER TO REDUCE THE RISKS OF DELAYS AND BUILD QUALITY ASSOCIATED WITH PROJECT DEVELOPMENT, WE HAVE A RIGOROUS PROCESS IN PLACE TO SELECT REPUTABLE BUILDING CONTRACTORS AND PROFESSIONAL CONSULTANTS WHO HAVE A PROVEN TRACK RECORD”

In order to reduce the risks of delays and build quality associated with project development, we have a rigorous process in place to select reputable building contractors and professional consultants who have a proven track record for timely and quality delivery. We adopt the same rigorous approach to tendering, cost control and change management, which we put through a process of internal audit to ensure compliance with best practices.

We must always do our best to see things from our tenants' perspectives, in order to create value for them and their business. In this view, the challenge is also to be innovative in creating/ redesigning living spaces and workplaces that align with their vision and principles for modern, spacious, more eco-friendly buildings from which they conduct their activities.

Something we also must deal with involves the obtention of permits and clearances from the authorities. Navigating the complexities of getting the required permits and clearances for specific development projects is both time-consuming and energy sapping. It requires deep knowledge of the processes and requirements of the different authorities issuing the permit/ clearance and, above all, consistent follow up. As the authorities impose stricter criteria, so our application process must follow rigorous verification to ensure nothing is missing.

Last but not least, funding. While very adequately capitalised, we still require debt funding for our development projects. To this end, we have met with various banks and financial institutions during the financial year 2019, in order to unlock some capital for our projects. Prior experience of project financing, understanding of the funding capacity and risk appetite of individual banks, allowed management to negotiate a mix of attractive debts with terms that are aligned with Lavastone Properties' repayment capacity to pursue our development projects, at the same time giving us the agility to tackle opportunistic acquisitions that meet our investment criteria. I am pleased to report that the Board has approved the issuance of up to Rs 1.5 billion of secured medium-term notes (“Bond Programme”). The issue and terms will be subject to the approval of shareholders.

What are your objectives for the financial year 2020?

Our main objective for the financial year 2020 involves establishing our new offices at 246 Edith Cavell Court. In parallel, we are considering and hope to conclude a few investment opportunities, although our focus remains on the development projects we are already engaged in, as well as the improvement of our profit margins. We have also at heart to launch the final design and development process for our properties in the South West of Mauritius.

From a non-financial perspective, our main objective is to improve our commitment to sustainability by adopting the Green by Design principles across all our new development projects. To this end, we shall:

- Continue to replace air conditioners with inverters and/or invest in VRV;
- Opt for natural lighting and LED lights;
- Focus on excellent user experience;
- Move towards a WELL certification, a tool for advancing health and well-being in buildings on a global scale, when and where appropriate (www.wellcertified.com).

These will all contribute to improving the quality of life of both our employees and tenants.

Acknowledgements

I would like to thank the Board, more specifically our Chairman, for their guidance, advice and support, during what was a watershed year for our Group.

I would also like to thank our team members, without whose commitment, dedication and continued efforts, we would not be where we are today.

Finally, I would like to thank our shareholders, suppliers, customers and tenants, who remained faithful throughout this year of change and transition.

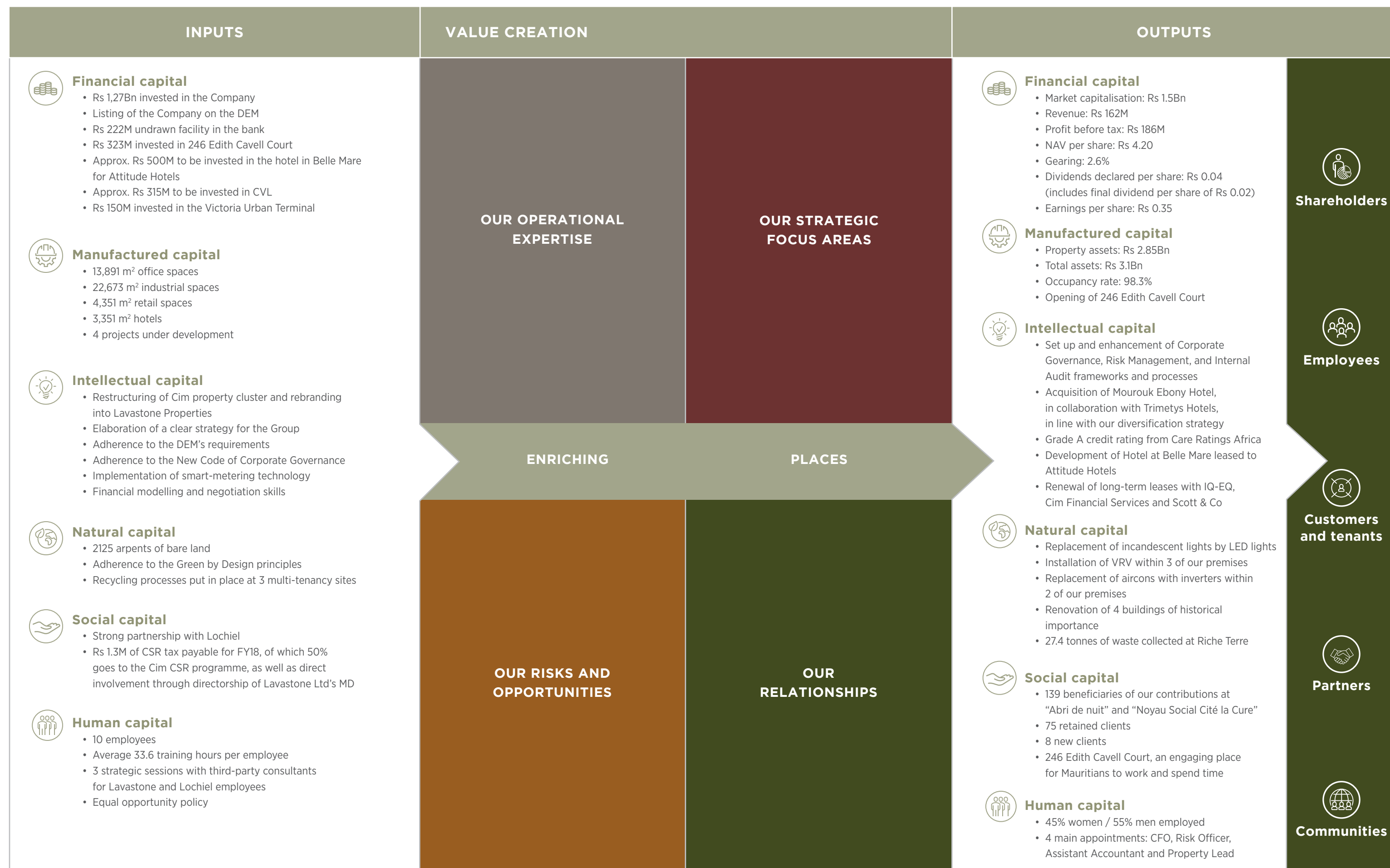


Nicolas Vaudin
Executive Director & Managing Director

OUR BUSINESS MODEL



OUR BUSINESS MODEL



PERFORMANCE REVIEW

FOCUS AREA	2019 PERFORMANCE	PERFORMANCE KPIS	RISK INDICATORS	PRIORITIES FOR THE NEXT FINANCIAL YEAR
Customer service	<ul style="list-style-type: none"> We have renewed and extended leases with Cim, Scott, IQ-EQ and Galaxy (The BrandHouse) across several properties. We renovated the St Georges building to create more space for the expanding Cim team, allowing them to vacate the 8th Floor of the Cascades Building after we had substantially renovated the Manhattan building, which now provides Cim with an exciting and engaging workplace. This also allows them to retain and attract the best talents. By understanding IQ-EQ's business needs, we assisted and worked with them to renovate each floor of the Cascades Building, thereby improving space efficiency in view of their planned growth. We have developed a comprehensive website and make use of social media to communicate achievements and upcoming events. 	<ul style="list-style-type: none"> WALE improved from 5.41 (as at September 2018) to 7.39 (as at 30 September 2019) Occupancy increased from 97.4% (as at 30 September 2018) to 98.3% (as at 30 September 2019) 84% client retention* 15% of new clients* 1.8% churn* <p>* Measured by GLA</p>	<ul style="list-style-type: none"> Fall of the rental income of the property portfolio. Non-renewal of key tenants' rental contracts and inability of the company to find suitable replacement. Competition in the local real estate market. Changes in rental rates and/or occupancy due to competition. Less favourable terms of the renewal of rental contracts. Accidents impacting both people and property. Delays in project delivery and/or poor delivery from service providers. 	<ul style="list-style-type: none"> Sending out customer satisfaction surveys. Implementing a client intimacy programme. <p><i>These two initiatives will allow Lavastone to get closer to its customers and better understand their business needs and strategy, as well as help us provide them with strategy-aligned real estate solutions.</i></p> <ul style="list-style-type: none"> Improving our digital presence and online communication.
Creation of value for shareholders	<p>Efficient Facilities and Property Management</p> <ul style="list-style-type: none"> We have upgraded our IT infrastructure, and revisited and aligned all our operating procedures with those of Lochiel. We have developed medium and long-term preventative maintenance schedules, which we update digitally, thereby allowing real-time and improved tracking of repairs, that in turn help reduce long-term maintenance and repair costs and downtime of critical infrastructures. Purchase orders are now approved online, thereby improving efficacy. <p>Portfolio diversification through acquisitions/sale and development projects</p> <ul style="list-style-type: none"> We have acquired the Mourouk Ebony Hotel in Rodrigues, leased to Trimetys, and launched the construction of a new hotel for Attitude Hotels. We have completed the redevelopment of 246 Edith Cavell Court, our property at the corners of La Chaussée and Edith Cavell streets in Port Louis. We have invested in and spearheaded the development and launch of the Victoria Urban Terminal in collaboration with Bloomage, RHT, Innodis and PAD, with General Construction and Transinvest as building contractors, substantially involved in the design and development of the project. We have launched the construction of the hotel at Belle Mare and agreed a long term lease with Attitude Hotels <p>Financial structuring and discipline</p> <ul style="list-style-type: none"> In listing Lavastone Properties on the DEM, we restructured the Group, its assets and finances. This has allowed us to leverage our balance sheet to raise new debt to finance our exciting development plans. We have set clear parameters for all new development projects and acquisitions, and will maintain a healthy level of gearing (at 40% and below) so as to ensure that we can comfortably meet our financing obligations and pay dividends to our shareholders. Immediately after Lavastone was listed on the DEM, we published our first Annual Report for the year ending 30 September 2018, allowing investors and stakeholders to better understand the Group's performances and upcoming projects. We are presenting our first Integrated Report for the year ended 30 September 2019. Our quarterly results are regularly published. 	<ul style="list-style-type: none"> Earnings per share of Rs 0.35 NAV per share: Rs 4.20 Split of portfolio: <ul style="list-style-type: none"> - Yielding 46% - Non yielding 35% - Under development properties 19% Balanced split across portfolio between industries: <ul style="list-style-type: none"> - Office: 19% - Industrial: 17% - Parking: 11% - Retail: 9% - Hospitality: 9% Land for development: 3.78% Loan to value ratio: 4% Cost of debt: 5.94% Dividends per share: Rs 0.02 16% growth in revenues 	<ul style="list-style-type: none"> Changes in economic conditions. Illiquidity due to properties' location, age, quality and specification. Accurate valuation of property assets. Failure of related and third-party contractors to fulfil their contractual responsibilities and obligations. Competition in the local real estate market. Changes in rental rates and/or occupancy due to competition. Unexpected events resulting in damage or injury to individuals or property. Accidents impacting both people and property. Delays in project delivery and/or poor delivery from service providers. Slow obtention of permit approvals from local authority, leading to increases in construction costs and possible loss of tenants. 	<ul style="list-style-type: none"> Investing in major repairs and maintenance to ensure longevity of our assets. Investing into the digitalisation of security systems to reduce rising operating costs associated with guarding. Investing in energy saving devices. Rolling out digital metering across multiple tenant properties, to help reduce our tenants' energy consumption. Completing the construction of the hotel in Belle Mare for Attitude Hotels, which opening is scheduled for November 2020. Kick starting planning for renovation works at Mourouk and increasing capacity with an additional 30 rooms by March 2020. Launching the construction of a retail/ industrial building at Riche Terre, in line with the new criteria issued by local authorities regarding access to and from the highway. Completing land parceling projects of 11 and 81 lots at Case Noyale for SWSG. Completing bulk sale or development of 7 arpents of land at Case Noyale. Completing debt raising through secured notes programme and reducing cost of debt to 5% at Group level. Maximum loan to value ratios target: 45% Maintaining growth in operating profit to at least 5%. Improving our Integrated Report's content to give stakeholder better insight into our business and achievements. Conducting a 6-month review and presenting our Group's half year results to shareholders, institutional investors and financial press.

PERFORMANCE REVIEW

FOCUS AREA	2019 PERFORMANCE	PERFORMANCE KPIS	RISK INDICATORS	PRIORITIES FOR THE NEXT FINANCIAL YEAR
<p>Sustainability</p>	<p>Energy efficiency</p> <ul style="list-style-type: none"> Our buildings are traditionally let on a shell and core basis, which means elements such as lighting, air conditioning and plumbing, fall under the remit of our tenants, on whom we have little control. When we renovated the St Georges and Manhattan buildings, we worked in close collaboration with Cim to replace old (but functional) air conditioners with inverters and replaced all lights with LED panels. At Montebello, we are experimenting with solar lights outdoor and are looking to roll these out across all our properties. <p>Building techniques</p> <ul style="list-style-type: none"> At 246 Edith Cavell Court, we have broken the mold of a typical shell and core letting, installing VRV air conditioners with individual smart meters, which will allow tenants to monitor their consumption. We have used “Paradial S” waterproofing and insulated all corrugated aluminium sheeting (which were coated with “Thermatech” paint to improve solar reflectance) to reduce the heat generated from the roofs. Thermatech aluminium sheeting and insulation was also used in the 1500m² expansion of Scott and Co’s warehouse at Riche Terre. 246 Edith Cavell Court has been designed with a strong element of cross ventilation and natural lighting, two Green by Design features which will contribute to reducing energy consumption. Additionally, 18th Century stone buildings present on site, which were in a state of decrepitude, have been preserved and renovated, giving these buildings a new lease on life and preserving the architectural aspects of this area of Port Louis. All stones used on this project came from the site itself, from disused, partially demolished buildings. <p>Recycling</p> <ul style="list-style-type: none"> Most of our buildings have single tenants and, as such, we have little involvement in terms of daily operations. However, where we have multiple tenants, we work with Green Ltd to provide a “collect, compact and recycle” service. 	<ul style="list-style-type: none"> 28 aircons replaced with inverters 360 LED spotlights 556 LED panels replacing neon panels 265 VRV aircons acquired for 246 Edith Cavell Court Recycling of a total 27.4 tonnes of waste items, including 65% of cardboard, 28% of plastic and 7% of other waste items 	<ul style="list-style-type: none"> Unexpected events resulting in damage or injury to individuals or property. Accidents impacting both people and property. Impact of Group activities on the environment and communities within which the Group operates. 	<p>Energy Efficiency</p> <ul style="list-style-type: none"> Reducing water consumption by 5%. Reducing electricity across the portfolio by 5%. Refurbishing electrical infrastructure network at Riche Terre Park. Rolling out online billing via digital meters at 246 Edith Cavell Court, allowing for real-time monitoring of energy, water and air conditioning consumption. Implementing similar systems across multiple tenant properties once trial is completed. <p>Building Techniques</p> <ul style="list-style-type: none"> Carrying on exploring new techniques, equipment and products which reduce construction timelines, wastage on site and energy usage of buildings. <p>Recycling</p> <ul style="list-style-type: none"> Through our client intimacy programme, supporting our clients in implementing recycling programmes to substantially reduce waste generated by their activities. Increasing the amount of materials collected for recycling by 40%.
<p>Engagement of our Human Capital</p>	<ul style="list-style-type: none"> Our people strategy focuses on creating a team that can deliver on our promise of providing real estate solutions that add value to our tenants’ businesses. To this end, we have attracted a broad range of skills and expertise from members with diverse backgrounds, and have fostered a collaborative environment where people can grow. 	<ul style="list-style-type: none"> 3 training sessions for Lavastone and Lochiel team members, facilitated by an expert A total of 269 training hours (average of 33.6 hours per employee) 	<ul style="list-style-type: none"> Changes in economic conditions. Competition in the local real estate market. Unexpected events resulting in damage or injury to individuals or property. Accidents impacting both people and property. Impact of Group activities on the environment and communities within which the Group operates. 	<ul style="list-style-type: none"> Reviewing job tasks for all members to ensure focus and reduce duplication between team members. Implementing the Stretch programme, in collaboration with Taylor Smith, to improve the existing management team’s and aspiring managers’ managerial skills.
<p>Operational excellence</p>	<ul style="list-style-type: none"> We have reviewed and aligned all the standard operating procedures between Lochiel and Lavastone. We now have a shared vision of success and alignment of all team members. We attend and participate in all site and project meetings to ensure timely and proper coordination of works on our development projects. We ensure the construction contracts include financial penalties for late delivery. We track and monitor the process for all permits and clearances, and regularly liaise with the relevant authorities to ensure permits and clearances are obtained in a timely fashion. 	<ul style="list-style-type: none"> 44 Standard Operating Procedures (SOPs) have been reviewed and agreed with Lochiel 246 Edith Cavell Court opened as planned in December 2019 Hotel under construction in Belle Mare is on schedule to open in November 2020 latest The exception is the retail warehouse at Riche Terre, which is held up pending the construction of the slip lane, a critical feature for commercial success 	<ul style="list-style-type: none"> Failure of related and third-party contractors to fulfil their contractual responsibilities and obligations. Competition in the local real estate market. Unexpected events resulting in damage or injury to individuals or property. Accidents impacting both people and property. Delays in project delivery and/or poor delivery from service providers. Slow obtention of permit approvals from local authority, leading to increases in construction costs and possible loss of tenants. 	<ul style="list-style-type: none"> Further improving Lochiel’s newly implemented digitalised method of tracking repairs and maintenance, to ensure improved efficiency, reduced downtime and maintenance and repairs costs over time.

246 EDITH CAVELL COURT

Strategically located in the central business district, close to key business areas and transportation hubs, the 1.1 Arpents of land now housing 246 Edith Cavell Court, and its historical building – one of the oldest in the capital – has the hallmark of a unique development.



With 3 years to materialise, every part of the project was carefully thought through, from the choice of the design team to the concept and user experience. From the start, the whole concept revolved around safeguarding and integrating historical buildings that dated back to the late 18th century. At that time, the site housed l’Hôtel du Génie, which is where all the plans and charts of the island as well as its fortifications for the French Army Corps of Engineers were prepared and safeguarded. L’Hôtel du Génie was under the commandment of Captain Lislet Geoffroy,

who was tasked to ensure the surrender and transfer of all the French military’s inventory to the British under Robert Townsend Farquhar.

Valentin Lagesse Associes (VLA) were the architects selected to work on this project, both because of their extensive experience in retail and mixed used buildings, as well as for their passion for the Mauritian historical heritage and its preservation and incorporation into the country’s more modern fabric.

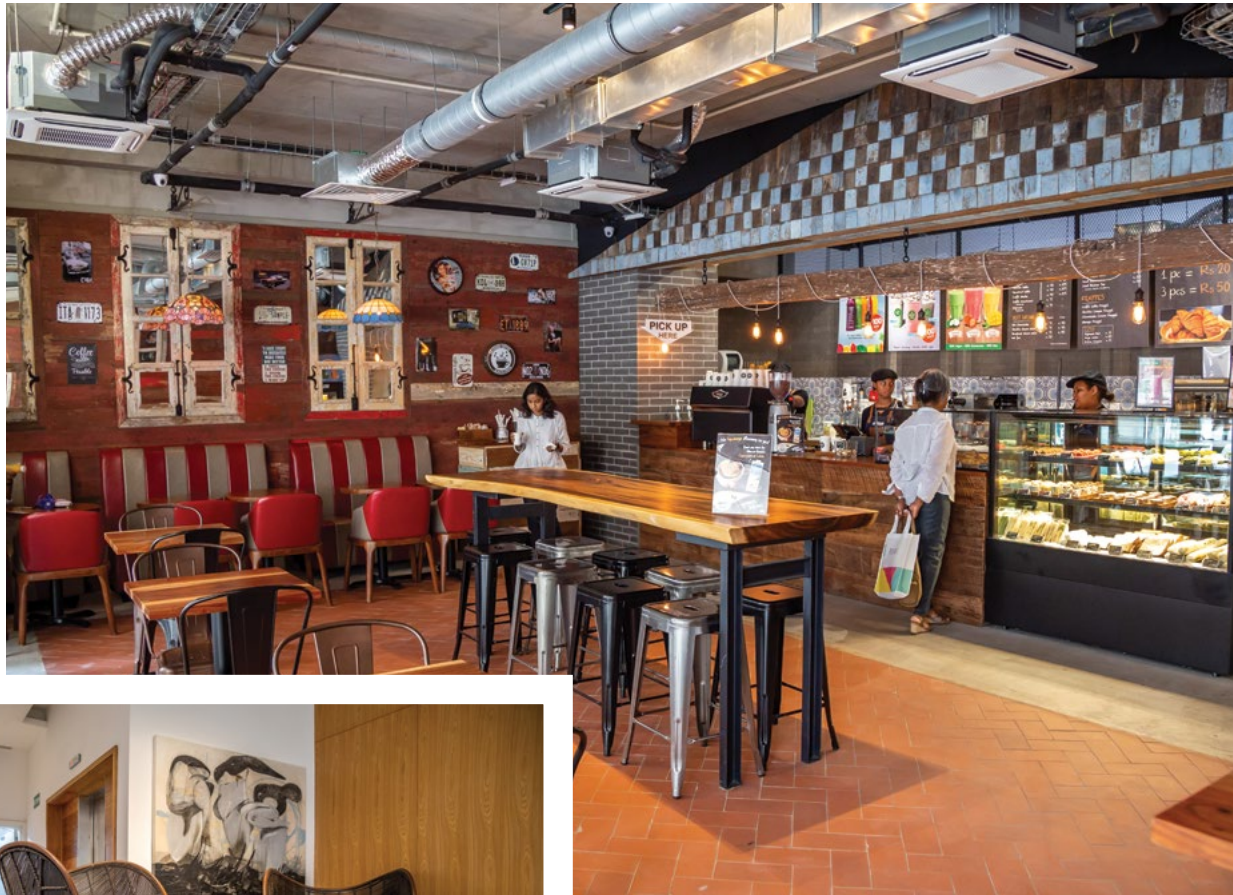


The positioning of the project was clear from the very beginning: an office building marked by history, with a clever mix of retail and dining facilities set around a central courtyard. Unique to this courtyard, a 600 m² stone hangar has been renovated into a multipurpose building, capable of hosting formal dinner functions and conferences, or being used as an art gallery or place to promote local artistry.

From a branding perspective, the project was named 246 Edith Cavell Court, which was inspired from the property’s physical address, i.e. number 2 and 4 of Barracks street and number 6 of Edith Cavell Street.

The architecture of 246 Edith Cavell Court reminds us of the French colonial era, with a modern touch. With its modest elevation of Ground +2 floors, the building preserves its historical aesthetic in contrast to the more modern buildings populating today’s busy streets of Edith Cavell, La Chaussée and Barracks.

“The architecture of 246 Edith Cavell Court reminds us of the French colonial era, with a modern touch.”



“We believe 246 Edith Cavell Court will be a key ingredient to the regeneration of our capital”

246 Edith Cavell Court is composed of a 6,480 m² Gross Leasable Area (GLA), comprising primarily office spaces on the upper floor, retail outlets at the high street level and restaurants in the courtyard that frames the multipurpose hangar, now named “La Galerie du Génie” in honour of L’Hôtel du Génie. The mix of tenants has been carefully selected to cater for both office users and residents of the Port Louis region, the restaurants provide a comfortable dining experience for a wide range of budgets and the integration of 2,911 m² of office space to the retail and events activities provides a captive market to retail tenants.

The office spaces located on the first and second floors are designed with a good degree of flexibility, thereby meeting the market’s current and future needs. We favoured this approach to be able to cater to different business sizes, from large corporations to SMEs’ or individual practices.

We believe 246 Edith Cavell Court will be a key ingredient to the regeneration of our capital, along with the Victoria Urban Terminal, recent improvements to the Port Louis Waterfront, the Caudan Arts Centre, the new Supreme Court and the soon to come Aquarium. This project highlights our willingness to add value to our tenants’ businesses, offering them real estate solutions that align with their core strategy.

