

CHAIRPERSON'S REVIEW

Dear shareholders,

It is my pleasure to submit on behalf of the board of directors, the audited financial statements of the company and its subsidiaries together with a summary of the main events for the year ended June 30, 2023.

OVERVIEW

The world economies are gradually recovering from the effects of the COVID-19 crisis and the lasting war between Russia and Ukraine. The turmoil created by these events on the commodity and freight markets during the past two years are slowly stabilising to new levels.

The structural changes taking place, at global level, over the recent past have, as such, forced us to adopt new strategies and operational practices which are as follows:

- Shorter procurement cycles in the supply chains;
- Higher stocks of ingredients;
- Lower dependency on imported fossil energy; and
- Higher utilisation of local raw materials in countries where we operate.

With the improving economic outlook, I am pleased to report that for the year under review our group has generally performed well with a turnover of Rs 5.4 billion and profit after tax of Rs 209 million. These results are mainly due to an effective purchase of raw materials, the good performance of our overseas operations and the dedication of our people.

LOCAL OPERATIONS

LFL Pailles

In line with the present local economic context, sales of feed remained bearish due to rising costs of production. The egg sector was negatively impacted with the retail price of eggs falling below its cost of production for several months during the year. To recover from this slump, farmers had to voluntarily reduce their flock size, impacting the volume of feed sold. On the meat side, feed sales to broiler farmers were good while the chicken meat kept its competitive edge compared to imported substitutes.

The increase in the local costs of production, related mainly to fossil energy prices on the world market and to higher forex costs, prompted a strategic reflection at the group level. The company is thus committed to supporting an Eclasia group initiative to invest in a photovoltaic farm in the coming year under the CNIS Scheme put into place by the Central Electricity Board.

LFL Riche Terre

On the local market, our sales of pet food continued to grow steadily, with our brands Pongo, Waggo and Vital maintaining their leadership position as the preferred dog feed. On the export front, our sales of fish feed were encouraging with our proximity to east Africa guaranteeing fresh products to the expanding market for tilapia feed in eastern Africa.

Our investment in a new state-of-the-art extrusion production line is at its final stage of commissioning. With more capacity, flexibility and better quality of our products, we are confident that we will be able to develop sales and increase demand in the coming years for this growing export market.



INTERNATIONAL OPERATIONS

LFL Madagascar

Our development in Madagascar relies on the capacity for the local farmers to produce enough maize to satisfy the growing demand of the feed industry.

For the year under review, climatic conditions affected the crop and consequently, procurement on the local market was subject to high price increase affecting the development of chicken producers.

Our division LFL Agri, which was specifically set up to encourage maize production throughout the country, continued to develop its network. Additional stores and field agents were deployed to reach distant maize production areas to provide assistance to farmers with the best maize production techniques. This integrated development mode is, we believe the best option for sustainable development in Madagascar. However, it is a long-term action and we are looking at other possibilities to increase maize production.

There are also fiscal and operational constraints in Madagascar affecting the development of the sector. Our actions through the Professional Association of Feed Producers, of which LFL is a founder, are very active in discussions with Authorities to remove these concerns.

On the commercial side, our operations continued to develop in an integrated manner to offer quality feed and day-old chicks to the Malagasy farmers. Feed sales were encouraging with a growth of 18% compared to that of last year. Farmshop has now more than 125 points of sales run by local entrepreneurs.

On a similar model, a new franchise 'Akoufre' was established to offer quality chicken products in hygienic conditions to the local population. More than 20 franchise stores in and around Antananarivo were opened very successfully during the year. The local entrepreneurs who run these shops receive regular training to ensure that chicken products sold in the shops are of the highest level of hygiene.

LFL Rwanda

We are continuing our development in Rwanda though conditions remain challenging. Over the last two years, our operation was successively affected by a drought in eastern Africa, the war in the Kivu region and restriction on importation of day-old chick due to the bird flu pandemic. LFL operations are gradually recovering from these hurdles and we are confident that the slow start of our integration in the Rwandan economy will develop rapidly to meet the potential of the country.

LFL Seychelles

The animal farming industry in the Seychelles was heavily subsidised during the pandemic and the price of animal feed was maintained at its pre-COVID levels. This strategy helped the country to combat the high COVID inflation and maintain access for the population to farmed products at reasonable prices.

The government has however decided that the subsidy will now be gradually withdrawn. Furthermore, importation of meat and meat products without levies is now allowed, putting the local production in a difficult situation. Local farmers have to simultaneously adapt to rising feed costs and compete with duty-free imported products. Our sales volumes are expected to be affected. LFL will, however, remain present in the new economic environment to support the farmers during this challenging transition.

HUMAN RESOURCES

During the year, the organisational structure was realigned under three clusters. LFL has now regional managers specifically attached in areas where we operate namely, Mauritius, Madagascar and Rwanda.

All three managers together with the cross-functional services (procurement, finance, and human resources) report to the Managing Director. This decentralised structure will support the organisation to be more proactive and efficient in the coming years.

With regard to LFL Mauritius, a group reflection was put in place to review the organisational structure in order to modernise and adapt the working environment, focusing particularly on young talents. I am happy to report that the company scored 80% in the engagement survey performed in 2023.

Our teams understand the group objectives and are fully engaged toward improving performance.

SUSTAINABILITY AND INCLUSIVENESS

The company continues to put emphasis on its corporate social responsibility. As such the sustainability department was reinforced and was highly active during the year to contribute to the awareness of its employees and neighbouring communities.

The company launched a pilot-project to locally produce an insect protein meal from waste. This bio conversion project is very encouraging and a final decision whether to produce insect meal commercially will be taken soon.

The company is also participating in a group project to determine its carbon footprint. A French company was outsourced to determine the carbon footprint of LFL and its subsidiaries. An action plan to mitigate the impact of LFL on the environment will be set up.

PROSPECTS

With the gradual global economic recovery, we expect the volatility on the commodities and other costs of production to be more stable. The crop for 2023 appears to be good and better prices are expected for the summer crop in the USA. A further loosening up of commodity prices on the market will create better conditions to give a boost to the agro-industrial sector in the countries where we operate.

ACKNOWLEDGEMENT

I would like to pay heartfelt tribute to Mr Jean Ribet who passed away on the April 5, 2023. Mr Ribet was elected as a board member on September 9, 2015 and was highly appreciated on the board for his sharp financial acumen.

I would also like to express my appreciation to my fellow directors, the management and staff for their dedication and commitment.

Gérard Boullé
Chairperson

