MINISTRY OF FINANCE

ANNUAL FINANCIAL REVIEW FY 2017

PUBLIC ENTERPRISE MONITORING DIVISION

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Annual Financial Review of

State Trading Organization Public Limited

State Trading Organization Public Limited

1. Executive Summary

The concept of this report is to evaluate financial status of State Trading Organization (STO) and to check whether they are performing well or lacking in performance. The performance is evaluated by doing financial analysis of financial statement. The main objective is to find various factors which affected financial performance of the company as well as to find out areas for improvement.

This report consist of financial analysis and evaluation of past 5 years' financial results to find out how performance of the company has altered over the period. In the analysis, financial ratios were used to gain a critical review of company performance and scrutinized in depth the company performance.

2. Introduction

STO is a public listed company with limited liability. Incorporated as a government company, Athirimaafannu Trading Account (ATA) on December 1964. The main role at that time was to purchase and import essential food items in bulk to distribute to local traders. With the proven success, ATA matured to become state trading organization (STO) on 9th June 1979 and registered as a public company on 14th August 2001. At present, the Government of Maldives is holding 81.63% of shares and remaining 18.37% are held by public.

STO group with its subsidiaries, joint venture and associates is a national leader in business. STO is a diversified company and their main purpose is to provide products and services for economic development and better life. The organization is geographically diversified throughout Maldives and operates in Singapore.

#	Company Name	Shareholding by STO
1	Allied Insurance Company of the Maldives Pvt Ltd	99.90%
2	STO Maldives (Singapore) Pvt Ltd	100%
3	Maldives Gas Pvt Ltd	90%
4	Fuel Supplies Maldives Pvt Ltd	99.90%
5	Maldives National Oil company Ltd	99.90%
6	STO Hotels & Resorts Pvt Ltd	99.90%
7	Maldives Industrial Fisheries Company Limited	99.90%
8	Maldives Structural Products Pvt Ltd*	50%
9	Lafarge Maldives Cement Pvt Ltd*	25%

*Joint venture

Table 1: Subsidiaries and joint ventures

3.1 Revenue

In recent past a huge variation in revenue and profitability of the company has been seen. From FY2013 to FY2016 revenue of STO has declined, nevertheless profitability of the company improved till 2015.

In FY2017 STO has implemented a successful strategy to improve revenue, however this strategy does not work in favor of profitability. Compared with previous years revenue of STO has improved by 2,161 million, however profitability of STO falls year on year from FY2014 onwards. It seems that in, FY2017, STO has been focusing on increasing their market share on fuel as key business segment. As such investment were initiated to expand the oil storage facilities of the company along with the purchase of an oil tankers to further expand the company operations in fuel. This initiative has resulted in an increase in sales volume by approximately 17 million liters from FY2016 to FY2017.

A number of private sector operators have consolidated their position in the market both in distribution and import of fuel to the Maldives. STO was faced with the challenge of winning back the market share which it lost to more flexible private sector competitors.

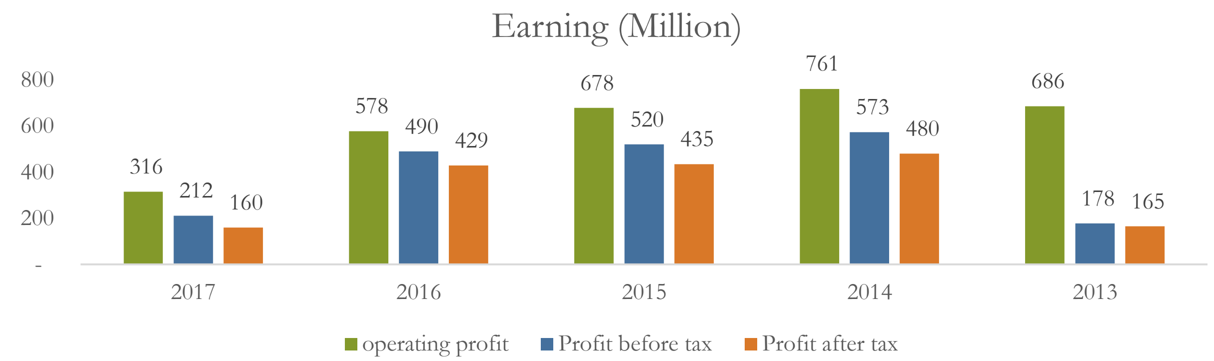
There are five revenue generating segments and from which, fuel represents around 52.4% of the total revenue. As majority of revenue is generated from fuel, the lucrativeness level of fuel will affect the entire company. In FY2017 profitability's were adversely affected as a result of lower fuel prices STO had to maintain.

Revenue category	2017	2016	Increasing %
Retails and wholesale	2,566,769,580	2,344,401,060	9%
Insurance	237,431,949	231,695,628	2%
Gas	209,814,364	171,032,688	23%
Fuel and lubricants	4,768,693,340	3,920,958,890	22%
Fishery	1,303,400,772	260,510,506	400%
Other services	13,737,267	10,450,780	31%
	9,099,847,272	**6,939,049,552**	**31%**

In addition with fuel, STO group has always had its focus on enriching the lives of the common citizens and contributing to the economy. STO was incorporated with the mission of strengthening national food security and providing essential goods and services. The Group's top priority has been focused on adding value for customers by providing better quality products at reasonable prices and, at the same time, maximizing the value for their shareholders. In the short term it is challenging to maximize shareholder wealth at the same time by selling quality products at reasonable price. Therefore, this may affect profitability of the company at an early stage but in the long run which may add value to shareholder's equity.

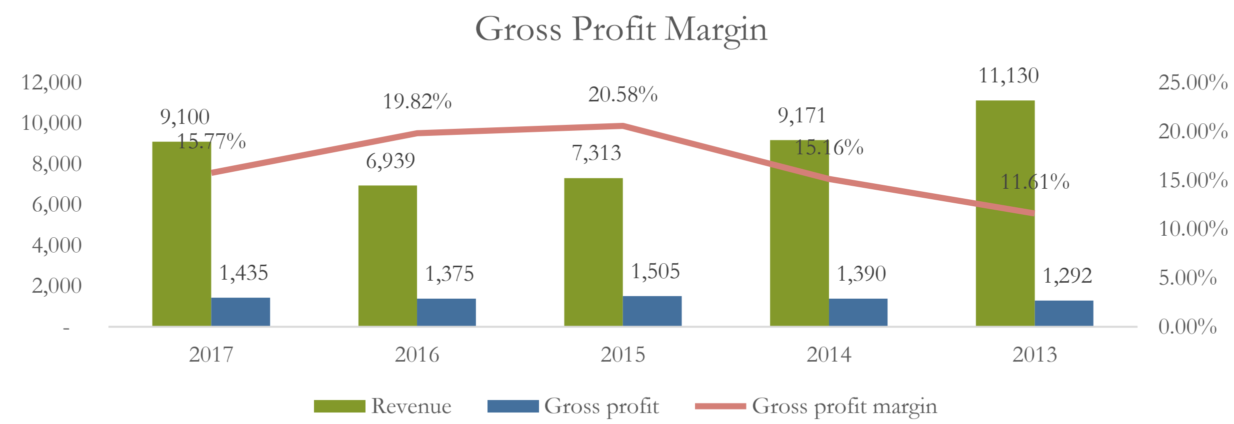
In FY2017 subsidiaries contributed around 18% of the total group sales but it contributed only 9% of operating profit. Thus, overall profitability of the subsidiaries are quite low compared with parent company.

3.2 Profitability

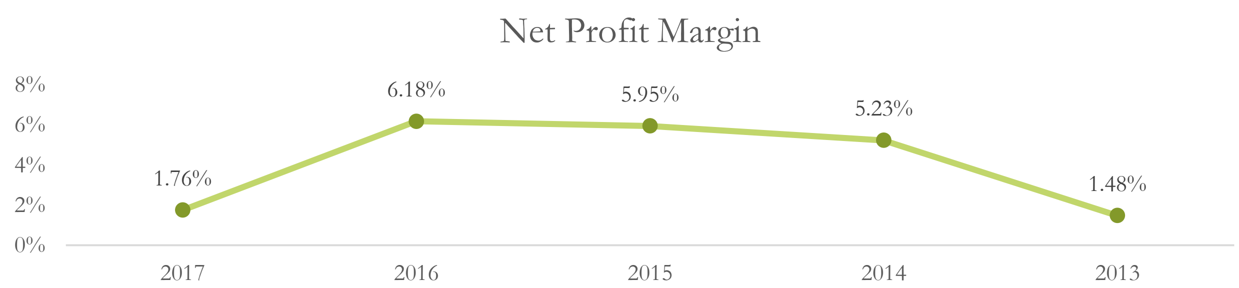


In FY2017, STO Group implemented a new provisioning model for the entire Group, which resulted in additional group-wide bad debt provision of about MVR50 million. The major part of which arising from Fuel Supplies Maldives and MIFCO. From FY2014 onward profitability of the company has started to fall.

Gross Profit Margin & Net Profit Margin



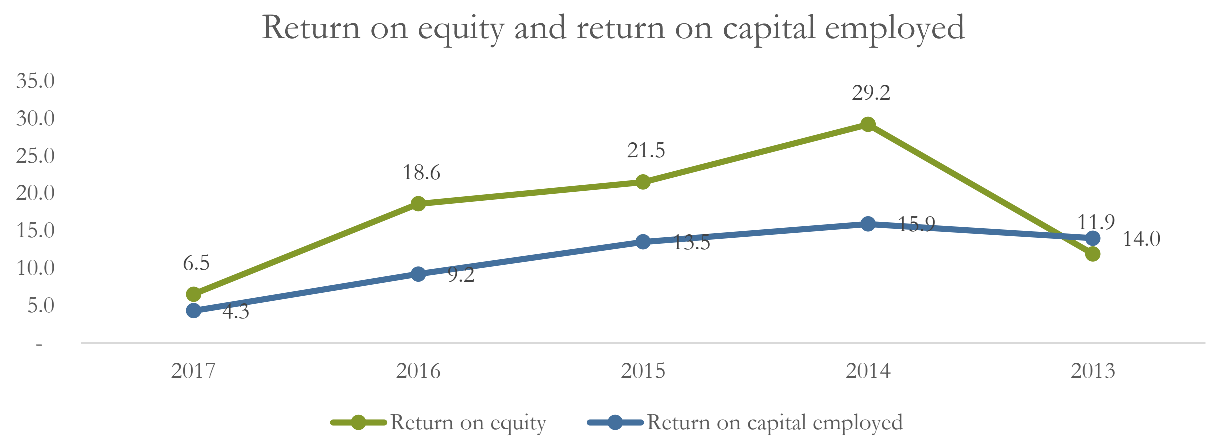
In FY2015 revenue of company has declined by 20.3%, however, gross profit margin improved to 20.6%. In FY2015 STO was able to manage their direct cost more efficiently thus the falling revenue did not reflect on gross profit. In FY2017 implementation of successful strategy resulted in an improvement in turnover after 4 years of gradual decline in revenue. Nevertheless, low margin charged on goods and services resulted in a decline in profitability level of the company.



From FY2013 to FY2016 it illustrates a growth in net profit margin. This shows a growth in converting revenue into profit and effectiveness in creating value. Net profit margin of STO has declined drastically from FY2016 to FY2017. Compared with previous accounting period aggregate, non-cash expenses has increased by almost 131 million. The major individual expenses which increased are personnel cost and it has increased by almost 155 million within just one year.

The pattern on gross profit margin and net profit margin of STO are different due to the level of changing cost of goods sold and overheads. There is a fairly remarkable growth in gross profit margin from FY2014 to FY2015 but it shows a slight increase in net profit margin as a result of increasing overhead. In FY2016 STO maintained their progress in net profit margin but due to high cost of goods sold their gross profit margin has decreased.

3.3 Return on equity (ROE) and return on capital employed (ROCE)



From FY2014 onwards there was a downward movement in both return on equity and return on capital employed.

Return on equity fell as profit for the year decreased from FY2014 to FY2017 and at the same time capital employed and equity of the company increased. Reason for increasing equity is that percentage retained from profit are quite high and level of reserve improved over the period. Further, capital employed increased year on year as STO invested heavy on capital projects and assets base of the company.

In FY2014 STO has used their resources or capital more effectively to generate profit. In terms of investor's perspective STO was not able to create additional value to shareholders from FY2015 onwards. Recent results demonstrate a low performance as with extra resources, STO were not able earn additional profit. Nevertheless it is important to note that in FY2015 STO earns a high gross profit margin.

3.4 Market structure

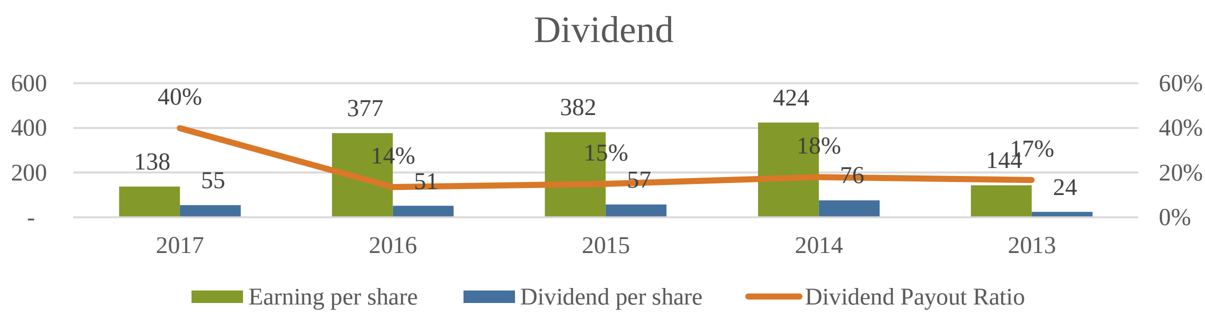
In the market where STO operates, there are a few number of large firms therefore prevailing market is more like oligopolistic market. STO is the largest supplier of oil and sole supplier of necessities food item. STO faces some level of competition from other competitors in the markets and which may affect operation of the company.

Since STO imports majority of items, there is a huge demand on foreign currency. Availability of foreign currency and exchange value of foreign currency will have a strong impact of operation of business. Further financial crisis in other countries will affect STO since they depend heavily on imported products.

Further they have seriously depended on short term as well as long term debt therefore altering interest will affect their business operations and may worsen profitability.

3.5 Shareholders return

Dividend policies of STO



Dividend policy of a company is the strategy a company uses to decide on how much earning they will pay out to shareholders in the form of dividends. From FY2002 to FY2013 STO has paid a consecutive dividend of MVR 24 per share each year. In FY2014 and FY2015 board has proposed MVR 76 and MVR 57 respectively as dividend per share. Dividend pay-out ratio for 2014 and 2015 are 18% and 15% respectively. The profit for FY2015 has dropped by 8.3% and proposed dividend decreased by 25% compared with FY2014.

In 2016, pay-out ratio fell by 14% due to decline in dividend declared compared to the declining earning. However in 2017 STO has made a radical decision regarding dividend pay-out because STO declared MVR 55 as dividend per share that is 7.8% of an increment compared with previous year. Further profitability of the company fell by 63% thus dividend payout ratio of the company increased to 40%. This demonstrates that STO does not have a specified dividend policy nevertheless pattern of dividend payout is more similar to hybrid dividend policy.

Some investors are concerned with dividend only and others take in to account performance since they expect a high capital gain in the long run. Thus for investors who are worried with divided will be happy about FY2017 performance because dividend per share was high compared with previous year.

If the dividend is too low investor has every right to sell some of the shares to stimulate cash flow they expected. Further it is important to note that STO can reduce level of dependency on outside finance, if dividends are paid from leftover after funding for all capital necessities.

Usually businesses try to maintain a balance of their debt to equity ratio in advance of declaring dividend and which is a long-term goal rather than short term. Thus STO will also declare dividend after consideration of this objective.

Dividend yield

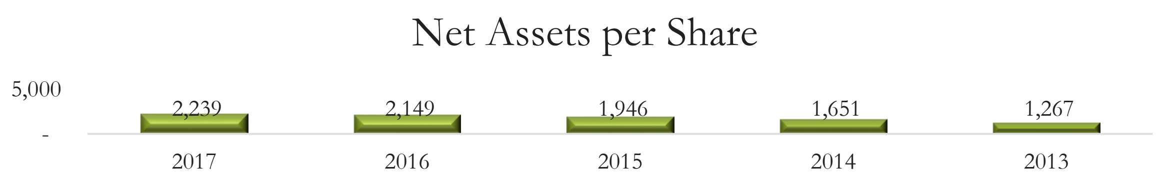
	2017	2016	2015	2014	2013
Share price	350	500	500	400	380
Dividend per share	55	51	57	76	24
Dividend yield	15.71%	10.20%	11.40%	19.00%	6.32%

Table 2: Dividend yield

High dividend yield are attractive to investors but in case where there is a growth in both dividend as well share price. STO share price has fallen from 500 to 350 and on the hand dividend per share increased from 51 to 55 therefore as a result of this dividend yield of the company improved in FY2017. Actually every rufiyaa STO is paying in dividends to its shareholder is a rufiyaa that company is not reinvesting in itself in an effort to make capital gains. Normally investors are very cautious to check valuation as well as dividend paying track records of the company before making investment decisions.

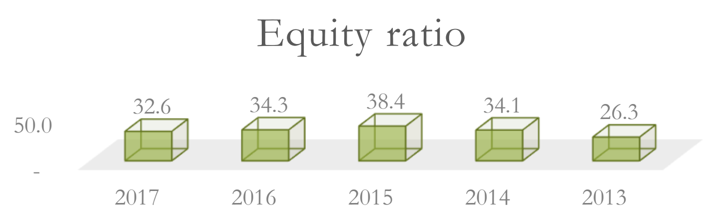
When companies pay high dividends to their shareholders, it can indicate a variety of things about the company, such as that the company might currently be undervalued or that it is attempting to attract investors. On the other hand, if a company pays little or no dividends, it may indicate that the company is overvalued or that the company is attempting to grow its capital. Before devoting, potential Investors, often view companies that have paid out significant dividends for an extended period of time as "safer" investment.

3.6 Net assets per share



The total asset base of the company has enlarged year on year. Both fixed and current assets of the company has increased over the period since each year STO has invested a huge amount to expand their operation and increase market share. Further number of share remain constant over the period therefore there is a growth in net assets per share.

3.7 Equity ratio

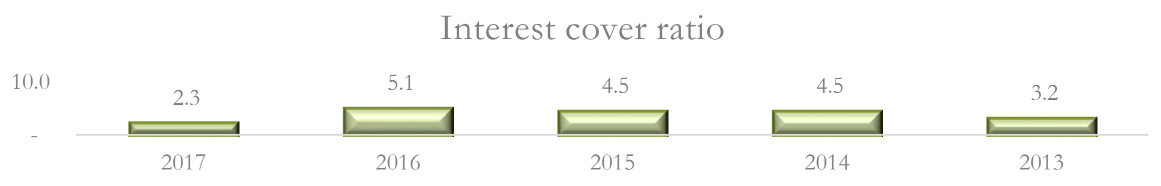


The total assets finance through equity has altered over the period as result of changing both reserves and total assets. Existing financing structure illustrate that STO is heavily depending short term as well as long term debts. The debt level of the company is almost equal to two-third of total assets.

As above graph shows STO has been aggressive in financing as they have depended more on debt even though it is risky. However, through low cost of capital on debt they may able to obtain economic benefits. Generally, companies decide method of finance after consideration of costs and benefits. STO have advantages to finance through debt, as it allows benefit of tax shields although financial distress including bankruptcy cost are reflected.

STO face difficulty in collecting receivables from creditors therefore in some instances they face challenges to finance internally hence they have to go for different type of debt in order to solve cash flow problems. Raising finance through equity will be the last resort since generally cost of capital is high in equity.

3.8 Interest Cover



	2017	2016	2015	2014	2013
Long term liabilities	710,670,920	988,618,350	825,176,916	403,751,710	224,048,883
Short term liabilities	4,503,675,488	3,717,902,497	2,676,598,355	3,171,418,473	3,777,935,379
SL excluding payables	1,961,048,415	1,529,441,898	1,089,831,910	1,563,993,883	1,317,172,372

Tables 3: Liabilities

Even though total debt of the company increases over the period there is a downward movement in finance cost from FY2013 to FY2016. This may be for the reason that STO was able to access finance at low rate. On the other hand profit before finance cost also decrease year on year from FY2014 to FY2017.

Further profitability of the company has reduced considerably in FY2017 and their finance cost increase from 124 million to 138 million. Therefore, interest cover rate has fallen from 5.1 to 2.3 times. This shows that in FY2017 STO has less capacity in covering their finance cost.

In fact, this an important measure for company because financial institution and creditors will measure margin of safety after reflection on this ratio. From finance provider's point of view current results is a bad sign hence which will increase risk of recovering their fund. Further in the long run which may affect company since after consideration of risk factors finance provider may not be willing to issue finance at reasonable rates.

3.9 Working capital management and efficiencies

Working capital management is the strategy intended to monitor and utilize current assets and liabilities, to ensure operational effectiveness and financial efficiency. One of the main aim of proper working capital management is to maintain sufficient cash flow to meet short term obligation.

	2017	2016	2015	2014	2013
Current ratio	1.03 Times	1.25 Times	1.39 Times	1.1 Times	0.92 Times
Quick ratio	0.81 Times	0.97 Times	1.13 Times	0.87 Times	0.71 Times
Receivable day	113 Days	116 Days	97 Days	95 Days	64 Days
Payable day	127 Days	147 Days	106 Days	82 Days	93 Days

Table 4: Working capital and efficiency ratios

Current ratio

STO has ability to meet short term liabilities using their current assets. In FY2017 STO has MVR 1.03 current asset for every MVR 1 worth of short term liability and performance of FY2014 shows MVR 1.25 for every MVR 1. Therefore, this results shows a stagnation in managing there working capital. Current ratio of STO is poorer and risky since it's lower than ideal level similar industry.

Before choosing a method of finance such short term or long term sources, companies has to consider risk and rewards. In general, short term sources have lower interest rate compared to long term sources thus, it will be profitable to choose short term sources to devote on short term assignment.

Acid test ratio

Acid test is similar to current ratio and it is superior compared with current ratio since it ignores illiquid assets such as inventory. If a company has less than 1 means that they do not have liquid asset to meet short term obligation thus should treat with caution. In FY2017 acid test ratio was 0.81 and in FY2016 it was 9.7. In both years STO was unable to possess ideal level of 1:1, although acceptable range may differ from industry to industry. As in FY2015 it has more than 1, it indicates that there are idle resources within the company which can be reinvested to acquire additional return to shareholders.

Receivable day

Accounts receivables are considered valuable because they represent money that is contractually owed to STO by its customers. In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible. Above table shows that receivable day of STO has been increased year on year. That indicates inefficiency in collecting receivables. But it is important to note that majority of receivables are from related parties such as government and other state owned enterprises. In order to manage working capital efficiently STO has to make financially viable arrangements with related party to improve cash position and expand their operation.

Ideally, when a company has high levels of receivables, it signifies that it will be flush with cash at a defined date in the future. But it is important to note that account receivables are not guaranteed to turn in cash because in some instances customer neglect to pay the money owed at times. Therefore, Accounts receivable alone does not tell the whole story about a company's account collections.

Just because receivables are an asset doesn't mean that high levels of them should uniformly be considered good. In case of STO they are struggling to collect their receivables from related parties. On the other hand, low levels of receivables are another cause for a concern, as this sometimes means that the company's finance department isn't competitive with its terms.

Payable day

It measures how long it takes to pay trade creditors or suppliers. The longer it takes to pay suppliers which is good for working capital and cash position. If the company takes long time to pay their creditor business relation may get affected. In FY2016 STO takes 147 days on average to pay creditors and it has shortened to 127 days in FY2017. Even though it supports the company's cash position, STO has to consider risk associated in this management technique. A further extension may take company into more challenging condition such as it may affect growth of business and since may need to drive cash from other sources to pay credit bills. It seems that STO face difficulty in repaying trade payables as result of challenge they face in collecting their receivables.

4. External Audit

Upon auditing the company, Auditor General has issued a qualified opinion on the financial statements for FY2017. The basis for the qualified opinion is stated below.

“The property, plant and equipment of the company were revalued by an independent external valuer during the year 2011. Accordingly, the assets having net book value of MVR 434,455,893 as at 31 December 201 1 were revalued for MVR 847 ,932,997 and a revaluation surplus of MVR 413,477,104 was recognized in the books of account. However, the revaluation report excluded assets having net book value of MVR 26,661,392 as at 31 December 201 1 and the Company accounted these assets at their respective net book values based on historical cost. International Accounting Standard - 16 Property, Plant and Equipment require valuation of the entire class of property, plant and equipment, when a particular item of property, plant and equipment within that class is revalued. Therefore, in the absence of valuation of these assets, we are unable to conclude whether the sum of MVR 11,346,422 included in the property, plant and equipment of MVR 1,652,557,551 and revaluation reserve of MVR 230,024,580 at the year-end are fairly stated. Our audit report for the year ended 31 December 2016 was qualified in this regard.”

5. Conclusion & recommendation

STO is one of the well performing and money making state owned enterprises in the Maldives. They earned nearly 1.7 billion as profit in preceding 5 years and they have built a huge reserve over the period which could be used for further expansion of the business. However due to drastic decline in net profit from FY2016 to FY2017 resulted to worsen almost all key measures. Therefore, in order to improve public image STO need to improve their profit margin in future through cost reduction and elimination of waste. Measures need to take in managing cost and expenses. Identify value adding activities and invest more on value adding activities and eliminate or minimize all out non value adding activities. Further efficiency has to be improved in all process of business activities. Moreover, prominence has to be given to remove expensive exchange losses as it will certainly influence financial results of entire company.

Investors of the company get a good return as dividend for their investment however variation in dividend and falling divided may seems unfavorable in their perspective. Therefore, to keep steady as well as gradual growth in dividend could be psychological techniques, can be used to attract prospective investors and keep existing investors soothed. Further STO needs to focus superficially to the matter of share value reduction in order to improve public image.

Definitely inefficiency in working capital management will affect smooth running of business operation thus to eliminate disruption it is important to maintain current asset and current liabilities at appropriate level. Thus to improve cash position first and foremost, a strict receivable collection steps need to be implemented within the company. Further STO can offer early payment discount and fees for late payment in order to reduce receivables balance. It is very important to perform a credit check on customer and ensure legally sound agreements are made for significant transactions.

Annual Financial Review of

Male’ Water and Sewerage Company Private Limited

Male' Water and Sewerage Company Private Limited

1. Executive summary

The intention of this report is to analyze the financial status of Male' Water and Sewerage Company Private limited (MWSC) for the year ended 2017 and check whether they are performing well or lacking performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

Male' Water and Sewerage Company Pvt Ltd (MWSC) is a limited liability company incorporated and domiciled in Republic of Maldives since 1st April 1995. The company is engaged in the treatment and distribution of water and providing sewage facilities in the Maldives and supplying electricity facility in Dhuvaafaru Island.

The Group consists of the company's interest in a subsidiary under Island Beverage Maldives Pvt Ltd which produces supplies and sells bottled mineral water in the Republic of Maldives. The company owns 51% of authorized and issued share capital of subsidiary.

3. Financial Analysis and interpretation

3.1 Revenue

At present there are seven revenue generating segments and from which water sales is the main revenue generating segment. In FY2017 total revenue of the company has increased by 13%. However revenue generated from sewerage and revenue from waste management has decreased by 51% and 4% respectively. MWSC generates around 55% of their revenue from water sales and it grows by 7%. Revenue generated from external projects have increased by 25% and which represents around 31% of the total revenue. Another main revenue generating category is income from manufacturing and it has increased by 20%.

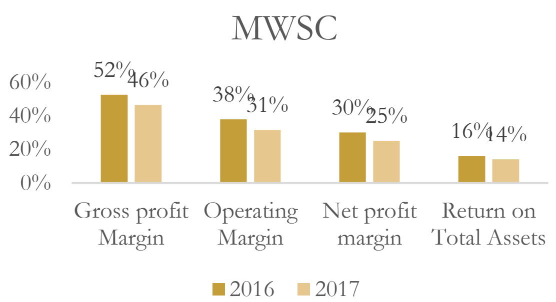
	2016	**2017**	**Change**	**Percentage change**
Water sales	551,947,370	589,007,965	37,060,595	7%
External project	260,551,568	325,447,153	64,895,585	25%
Sewerage income	9,151,881	4,509,312	(4,642,569)	-51%
Income from trading	4,923,493	5,372,201	448,708	9%
Income from manufacturing	99,905,244	119,550,871	19,645,627	20%
Revenue from waste management	672,600	647,000	(25,600)	-4%
Income from power	8,630,289	8,737,257	106,968	1%
TOTAL	**935,782,445**	**1,053,271,759**	**117,489,314**	**13%**

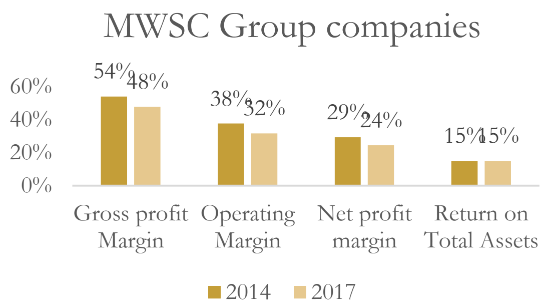
MWSC's primarily responsibility is to provide a water distribution and sewerage service. Government set standard rates to be charged for these essential services. Thus MWSC is constraint in formulating their own tariff for this service. Therefore revenue from water sales could be upsurge with increasing demand or consumption level. For that reason, it is not anticipated an enormous growth in main revenue generating segment unless they could enter into new market.

3.2 Profitability

When compared with the performance of FY2016, gross profit of company has decreased by 1% and net profit of the company has decreased by 6%. However there is a growth in group gross profit, since subsidiary companies has controlled their cost of sales, which compensated the loss of parent company.

	Company			Group		
	2016	2017	Difference	2016	2017	Difference
Revenue	935,782,445	1,053,271,759	117,489,314	968,428,733	1,097,135,271	128,706,538
Gross profit	490,723,885	487,974,746	(2,749,139)	523,767,865	524,934,554	1,166,689
Net profit	280,240,263	264,766,792	(15,473,471)	283,407,885	267,525,332	(15,882,553)





As a result of increase in cost of goods sold, gross profit margin of the company has declined from 52% to 46%. In general, if a company is not able to manage their overhead at same level then most certainly it will deteriorate absolute profit of the company. The total overhead expenses of the company has increased by almost 25% however the revenue growth is just 13% therefore operating profit margin of the company has declined by 7%.

The administrative expenses has increased by 36% and which represents nearly 92% of the total overheads. Therefore operating profit margin of the company declined from 38% to 31%. Further in 2017 there is positive move in finance cost of the company since it dropped by 16%. Therefore the level of falling net profit margin is less compared with falling operating profit margin.

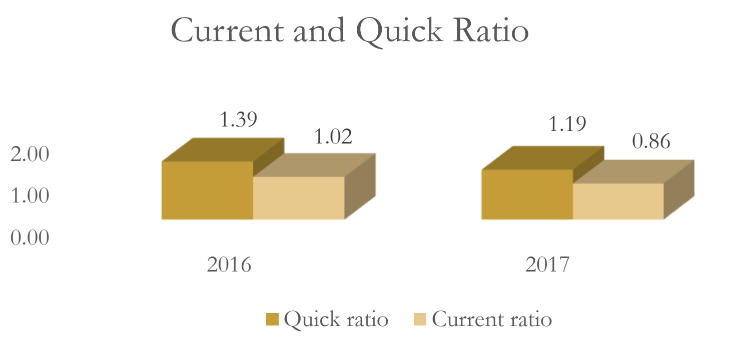
Staff related costs has increased from MVR 83,175,297 to MVR 99,730,240 therefore it illustrates a 20% growth compared with previous accounting period. The main reasons for rise in staff related expenses is due to increase in number of staffs and increase in employee remuneration packages. The percentage increase in staff related expenses is much higher compared with increase in revenue. Thus this move will affect overall profitability of the company.

Since MWSC is a capital intensive company it has a significant amount as depreciation. During the year depreciation of the company has increased from MVR 57 million to MVR 68 million as a result of accumulation to property plant and equipment (PPE). The depreciation of the company has increased by 19.3% and total PPE has increased by 20.6%. Therefore it seems that growth in depreciation expenses is reasonable since the growth are relatively identical.

3.3 Working capital management and efficiency

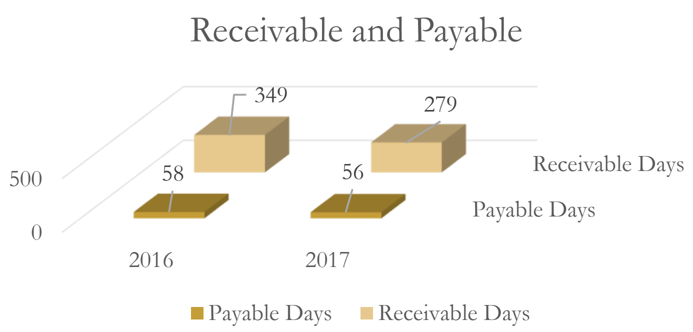
Liquidity and efficiency are equally important for smooth running of the business. Current ratio has decreased from 1.39 to 1.19. The current ratio of the company has deteriorated as a result of declining total current assets from MVR 766 million to MVR 753 million and on the other hand current liability has increased by MVR 81 million.

In addition quick ratio of the company has fallen from 1.19 to 0.86. This shows that after exclusion of inventories MWSC does not have sufficient current assets to cover their short term obligations. Thus in order to support smooth running of the business MWSC has to improve their liquidity position.



Receivable day of the company has increased from 183 days to 187 days. Thus compared with previous accounting period, MWSC now takes more time to collect payment from customers. Thus MWSC needs to formulate suitable and practical procedures to improve efficiency in this area. Further it is important to note that amount due from related parties denotes major portion of receivables.

Payable days of the company is quite high and major portion of trade payables is dividend payable to shareholders. After exclusion of dividend payables from total trade payable the payables days will be 58 days in FY2016 and 56 days in FY2017.



3.4 Inventory level

	2017	2016
Raw material	20,880,094	24,043,695
Consumables stock	184,341,102	177,063,336
Finished goods	8,164,341	10,374,330
	213,385,537	**211,481,361**
Impairment	5,479,038	7,772,051
Closing inventory	**207,906,499**	**203,709,310**

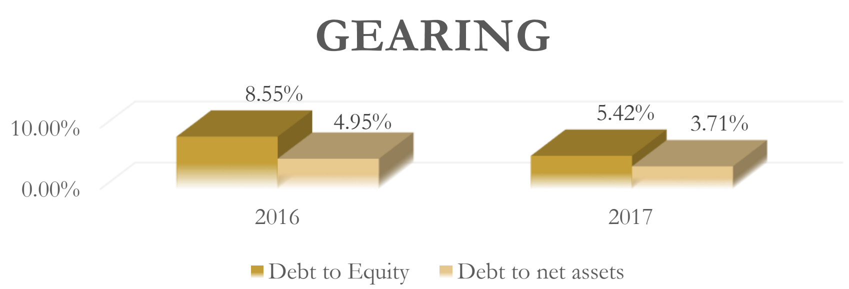
MWSC maintains relatively high level of inventory and closing inventory for FY2017 is equivalent to 37% of cost of goods sold. Therefore inventory turnover of the company will be almost 2.75. In order to endure operation MWSC maintains quite high inventory level.

Consumables stock and raw material represents 89% and 9% of closing inventory correspondingly. These two major category of inventory represents almost 98% of closing inventory. However several indirect cost which will incur as a result of maintaining high inventory level. Thus MWSC has to perform a cost benefit analysis of maintaining high inventory and make necessary changes for the betterment of the company.

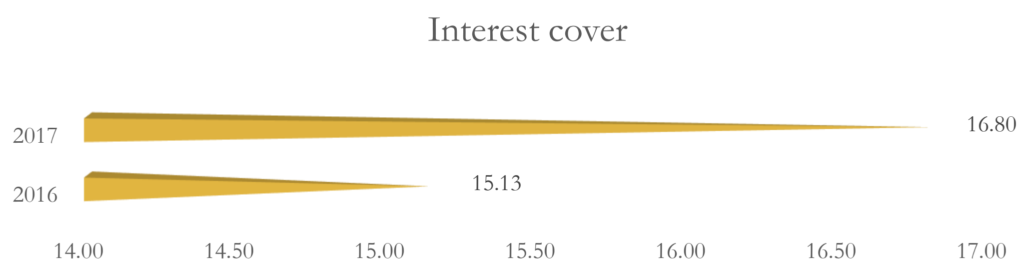
A quite high amount is recognized as impairment cost for slow moving and non-moving items. MWSC has written off MVR 7.7 million and MVR 5.5 million as impairment for 2016 and 2017 respectively. The impairment cost for 2017 is around 2.6% of closing inventory. Thus in order to minimize impairment loss, MWSC has to acquire required goods and require quantity.

Therefore MWSC needs to reduce their impairment expense to an acceptable level. Further to improve inventory management, MWSC could identify economic order quantity and modify current method of inventory management. In addition to endure smooth running of operation, MWSC needs to identify safety inventory level which will be required to continue operation.

3.5 Financing



Financial risk of the company is fairly low since MWSC maintains a very low gearing level. When compared with previous year, noncurrent liability of the company has decreased from MVR 93.4 million to 64.4 million whereas equity and reserve of the company has increased from MVR 1,092 million to MVR 1,188 million. Therefore debt to equity ratio of the company reduced from 8.55% to 5.42%. Based on current financial position MWSC has a high prospect to raise finance through borrowing from financial institutions.

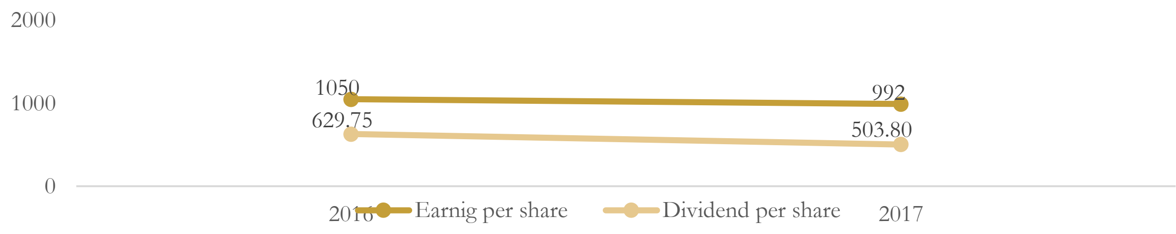


Interest cover ratio of the company has improved from 15.13 times to 16.8 times, since total finance cost of the company has dropped by MVR 3.6 million. The current financial status of the company is very pleasing to finance providers since it demonstrates a quite low financial risk. Therefore MWSC has a high chance of obtaining additional finance to devote development projects.

3.6 Shareholder return

Compared with previous accounting period, net profit of the company has decreased by 6%. Thus earnings per share of the company has dropped from 1050 to 992. From investors or shareholders point of view current performance is undesirable since they expect a growth in earning per share each year.

In FY2017 MWSC has declared MVR 503.8 as dividend per share, it is 20% less compare with previous accounting period. Being a shareholder of the company, government expect a steady progress in dividend.



The total equity and reserve of the company has increased from MVR 1092 million to MVR 1188 million. Reserve of the company upsurges as a result of increasing general reserve and assets replacement reserve. However in fact, a total of MVR 112 million has been transferred from retained earnings to general reserve and asset replacement reserve. Thus, in financial statement it illustrates an additional MVR 14 million in assets replacement reserve and MVR 98 million in general reserve. As a result of increasing reserves the net asset per share of the company has increased from MVR 4,090 to MVR 4,452. Thus, it ultimately indicates a growth in shareholder fortune.

4. Other matters

At present MWSC did not possess a proper disaster recovery plan (DRP) and business continuity plan (BCP). Without formally documented DRP in place which addresses all aspects of the related risks it may be difficult for the entity to face the challenges of recovering from disasters. This would have a serious consequence on the business and operational continuity of the entity not to mention the loss of reputation during the down time.

Company may not be in a position to recover and restore its critical business operation and related resources within an acceptable period of time and commence business operations.

5. Auditor Opinion

The External Audit of the Group for the FY2017 was performed by Auditor Generals' office, and they have expressed an unqualified opinion on the financial statements of the Group and the company. As per their opinion financial statement gives a true and fair view of the financial position of the company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with international financial reporting standards.

MWSC is a large company therefore their materiality level will be fairly high. Thus if the existing issues are below materiality level then it will not affect audit opinion. However that does not mean financial statement are 100% free from material misstatement.

6. Conclusion

MWSC is one of the well performing and money making state owned enterprises in the Maldives. However due to decline in net profit from FY2016 to FY2017 resulted to worsen almost all key financial measures. Therefore in order to improve financial performance, additional measures should be taken in managing cost and expenses. Further it is important to identify value adding activities, in order to invest more on value adding activities and eliminate or minimize all non-value adding activities. Further efficiency of the company needs to be improved through close monitoring and appraisal techniques.

Inefficiency in working capital management will affect smooth running of business operation, thus to eliminate disruption it is important to maintain current asset and current liabilities at appropriate level. Thus to improve cash position first and foremost a strict receivable collection steps need to be executed. Nevertheless higher percentage of receivables is from related parties hence they may find it difficult to take necessary action autonomously.

Investors of the company got a reasonable return as dividend however dividend per share has declined compared with previous year. The deviation in dividend and decreasing divided may seems unfavorable in investor's perspective since they expect a progress each year. However it is important to note that net assets per share of the company has increased over the period thus, which will positively influence value of the share. Overall performance of MWSC is pleasing, since MWSC is one of the few SOE's who are able to pay decent dividend to their shareholders.

Annual Financial Review of

Maldives Hajj Corporation Limited

Maldives Hajj Corporation Limited

1. Executive summary

The intention of this report is to analyze the financial status of Maldives Hajj Corporation Limited (MHCL) for the year ended 2017 and check whether they are performing well or lacking in performance. The performance will be evaluated by doing financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas for improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

Maldives Hajj Corporation Limited (MHCL) was registered on 7 of November 2013 in the Republic of Maldives formed by virtue of President Decree No: 05/82013 on 17th Day of June 2013. The mandate of the corporation is to facilitate pilgrim travelling to Saudi Arabia to perform Hajj and Umrah services. The intention of MHCL is to provide a better service to pilgrims at an affordable price. Further facilitating citizens to save money through a convenient contribution mechanism.

3. Financial Analysis and interpretation

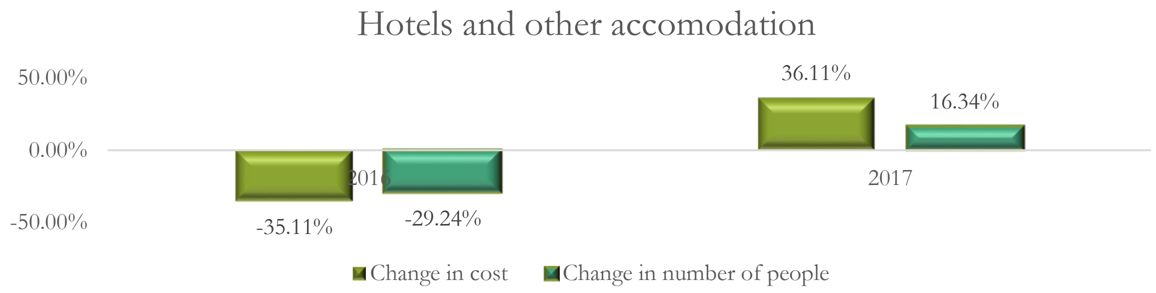
The main emphasis of this section is to analyze major cost through trends analysis and identify reasons for the movement.

Hotels and other accommodation

Hotels and other accommodation represents major share of total cost of goods sold. In 2017 expense incurred on hotels and other expenses represents 50% of total cost of goods sold. Therefore is the major cost MHCL has to manage in order to turn into a profit making business operation.

In 2016 hotels and other accommodation expenses were less compared with 2015. This a 35.11% reduction in hotels and other accommodation charges as total of pilgrims and helpers also decreased by 29.24%. Thus reduction in cost is lower than reduction in number therefore cost per cost driver has declined over the period.

However in 2017 number of pilgrims and helpers increased by 16.34% nevertheless the expenses incurred for hotels and other accommodation has increase by 36.11%. The total accommodation expenses increased from MVR 33,252.78 to MVR 38,903.39 therefore, there is a huge increase in cost per cost driver.

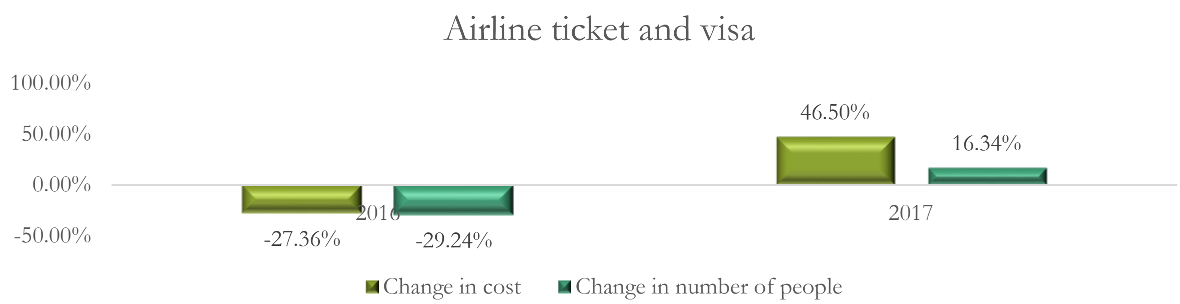


Airline ticket and visas

Generally total expenses incurred on airline ticket and visa fee will depend on number of travelers. However as a result of any change in market rate the total cost incurred will change though number of traveler remain same. In 2017 it represents 26% of total cost of goods sold therefore it has to be managed in order to reduce overall cost of goods sold.

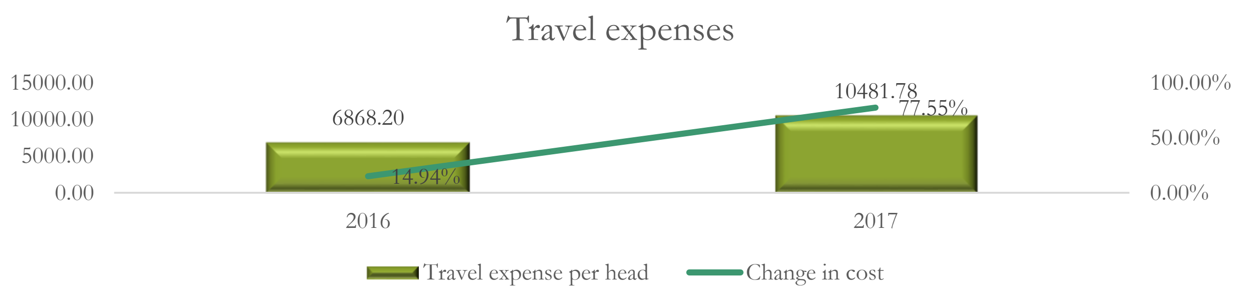
In 2016, airline and visa fee was 18,626,997 which was a 27.36% decline compared with 2015. However this cost has not dropped in line with number of pilgrims as number of people travelled has decreased by 29.24%.

On other hand in 2017, number of pilgrims and helpers travelled has increased by 16.34% but then again airline ticket and visa fee has increased by 46.50% which is much higher compared with cost driver. This shows that MHCL has spent significantly high amount per person.



Travel expenses

In 2017 there is a huge increase in travel expenses as MHCL has spent a massive amount on agents. As a result overall travel expenses has increased by 77.55% and travel expenses per head has increased by MVR 3,613.58.



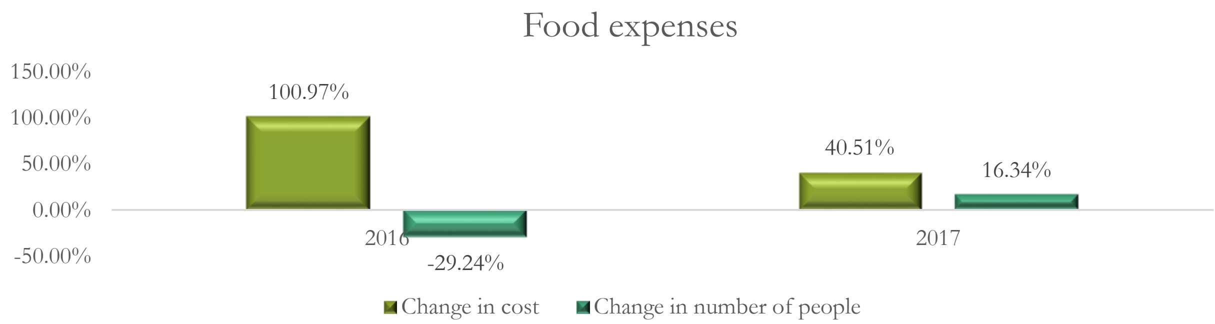
Airport tax expenses

In 2017 airport tax expenses has increased by 28.81% which is much higher compared with increase in number of travelers. Thus, almost certainly travelers has carried more goods compared with earlier times.

Food expenses

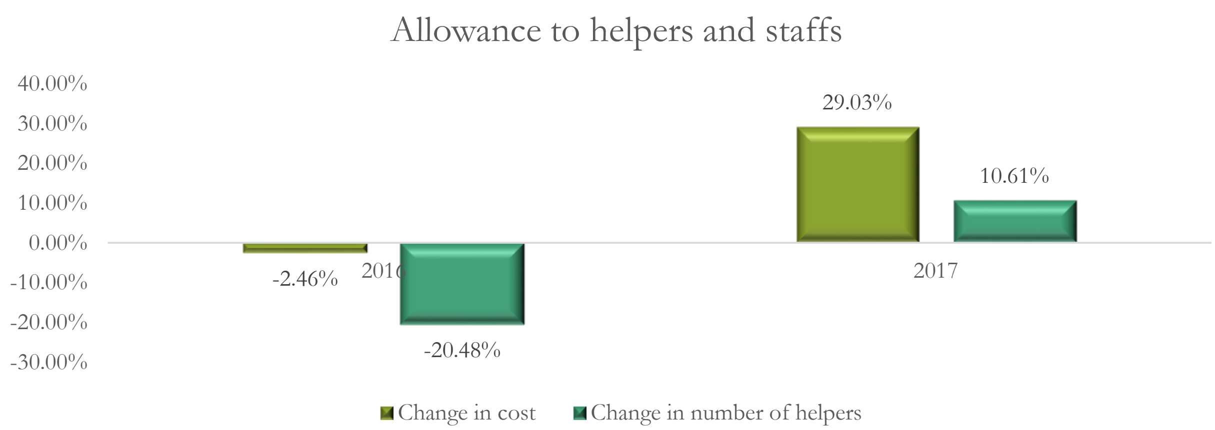
In 2016 there is a 100.97% increment in food expenses though number of travelers has decreased compare with 2015. This may be because the duration spent on the trips has extended or rates charged on food has increased.

Same as 2016 there is an increment in food expenses by 40.51% which is in the same way much higher compared with increased number of pilgrims as number of pilgrims and helper has increased by 16.34%. Therefore total food expense per head has increased from MVR 1,685.19 to MVR 2035.59.



Allowance to helpers and staffs

In 2016 there is a 20.48% decline in number of helpers though allowance paid to helpers has decreased by 2.46%. But then again total allowance paid to helper has upturn by 29.03% in 2017 which is also not in line with increase in number of helpers, as helpers has increased only by 10.61%. The reason could be because allowance per day has increased or number of days spent in a trip has extended.



4. Ratio analysis

Pilgrims per helpers

Number of pilgrims per helpers could be used to assess the efficiency but definitely there will be other factors which has to be considered before deciding whether the result is satisfactory or not. Helpers are needed to take care of pilgrims and assist when they need any assistance. Therefore, quality of the services will be one of the prime factors which has to be take into account before deciding whether it is efficient or not.

In 2015, approximately one helpers is responsible to take care of 19 pilgrims. But then again in 2016 it shows a declined in number as in one helper is responsible for just 18 pilgrims. Again in 2017 it show an improvement in efficiency as one helpers take care of 19 pilgrims. It was observed that in general, number of helpers are quite high in Umrah trips compared with pilgrims.

When comparing total allowance with number of helper it shows a year on year growth. In 2015 it shows that MVR 4,222 has been paid per helper and it has increased to MVR 5,179 in 2016. Then again in 2017 it has increased to MVR 6,041 thus rate per day may have changed or duration has extended.

Gross profit margin

The financial statements of MHCL shows that in past three years MHCL is having a negative margin. This means that MHCL has not generated enough revenue to cover their cost. The negative margin for 2017 is 14.24% which is quite high to scale of business operation. Therefore MHCL has to manage their costs in order to reduce overall cost of the operation.

5. Conclusion and recommendation

The main aim of MHCL is to give opportunity for citizens of Maldives to perform Hajj and Umrah at affordable rates and offer advance services. Even though MHCL wants to give an enhanced service at affordable price, the rate charged from customers should be excessive to cover all direct as well as indirect cost. Current performance indicates company failure in managing cost. Therefore, services quality has to be improved but at the same time economic factors has to be taken into account.

The rates charged on Hajj and Umrah are lower than existing cost and overheads. Thus MHCL has to stress on cost reduction specifically on agents fee. Therefore in order to offer sustainable services

MHCL has to reduce their direct and operational costs. If not in long term MHCL may not be able to withstand in forthcoming years. Further it is important to make MHCL a self-sufficient company in order to obtain trust from general public. If this continue for long term this may affect the reputation of MHCL. Without a good reputation and trust, MHCL may face challenges in increasing contribution as well as number of contributors.

The potential contributors as well as existing contributors will be very attentive to the financial performance of MHCL as they want to safe guards their funds. Therefore, if this continues for forthcoming years there will be a point that no one will be willing to contribute into the fund. As MHCL was not able to generate a profit in previous years, there equity and reserve has deteriorated. Therefore focus has to be given on profitability and sustainability of the business operation. In order to improve performance MHCL can set key performance indicators for each category of cost in order to control and manage cost.

Management has to assess the year on year fluctuations in agent fee and take necessary measures to keep agent fee at a satisfactory level. Further emphasis needs to be given in reducing agent fee rates year on year since this could be one of the major cost that can be reduced, if proper measures are taken by management. Therefore, in order to reduce cost MHCL has to negotiate with agents and service providers and make formal agreements with them.

Further cost can be reduced to certain level if proper trainings are provided to helper. Improving efficiency and motivation of helper could assist MHCL to reduce cost as well as improve service quality. MHCL has to set procedures regarding helper and volunteers in order to improve competency and set a standard numbers of volunteers and helpers required for a trip. This may help to improve quality and reduce cost to a certain level.

It was observed that some unpredicted costs are incurred as a result of Hajj quota they received at the last minute. Therefore MHCL needs to communicate with responsible authorities prior to ensure total number of quota they will get to manage.

In addition with cost management it is important to note that there is huge fund under their trusteeship which has not been invested effectively. If those funds had been invested effectively MHCL would have been able to reduce accumulated loss through the income generated from investment. Therefore MHCL needs to utilize fund effectively after proper research and investment appraisal. MHCL needs to find and establish a commercially viable and financially feasible business model in order to become a self-sustaining business operation.

Annual Financial Review of

Maldives Airports Company Limited

Maldives Airports Company Limited

1. Executive Summary

The concept of this report is to evaluate financial status of Maldives Airports Company Limited (MACL) and check whether they are performing well or lacking in performance. The performance is evaluated by doing financial analysis of financial statement. The main objective is to find various factors which affected financial performance of the company as well as find out areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

MACL is a limited liability company incorporated in Maldives which is fully owned by government of the Maldives. The principal activities of the company are maintaining and operating airports and all related activities.

The company owns 65% issued share capital of Maldives In-flight Catering Private Limited, a limited liability company operating a flight kitchen and a transit hotel in Maldives.

3. Financial Analysis and Interpretation

3.1 Revenue

Compared to the previous year almost all sources of revenue has increased, resulting to a 16% increase in overall revenue.

There are two main revenue generating segments and from which fuel represents around 47% of the total revenue. As majority of revenue is generated from fuel, the lucrativeness level of fuel will affect entire company.

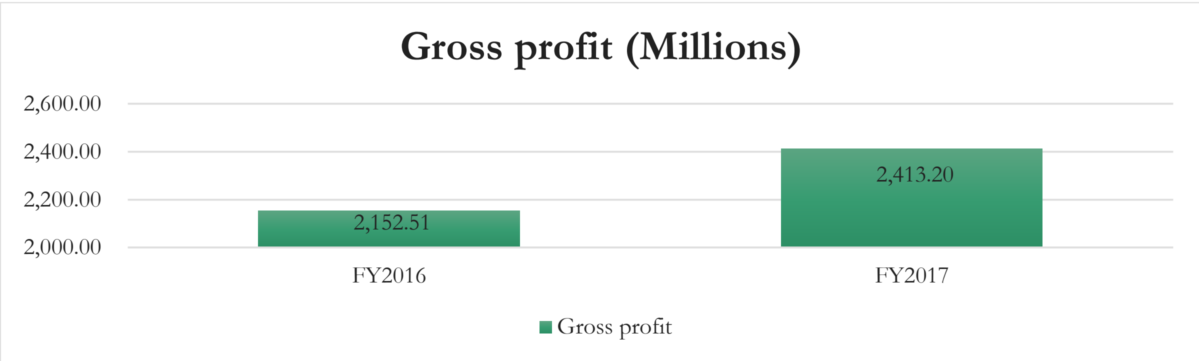
Details	**FY2017**	**FY2016**	**% of increase**
Traffic revenue			
Landing fee	207,732,515	193,284,745	7%
Parking fee	53,380,019	59,139,528	-10%
Navigation fee	80,311,733	72,104,095	11%
Ground Handling charges	399,483,020	395,067,020	1%
Departure control system	46,401,447	42,404,381	9%
	787,308,734	**761,999,769**	**3%**
Non traffic revenue			
Fuel Sales	1,929,741,057	1,508,154,470	28%
Duty free sales	866,914,151	797,004,804	9%
Rent and lease charges	124,223,032	118,041,726	5%
Cargo Income	149,619,771	124,487,237	20%
Utility Sales	76,052,386	87,075,390	-13%
lounge income	98,672,319	90,549,782	9%
revenue share	22,280,529	19,745,269	13%
Miscellaneous income	19,381,908	17,199,180	13%
Passenger related charges	7,790,123	6,492,657	20%
	3,294,675,276	**2,768,750,515**	**19%**
Total Revenue	**4,081,984,010**	**3,530,750,284**	**16%**

As the government has announced construction of new airports, the revenue of the company is anticipated to increase in the future.

However, other operating income and finance income has reduced dramatically in FY2017. The company has earned dividend income of MVR 231,300,000 in FY2016 for the investment in Maldives inflight catering Pvt Ltd, while no dividend income was received in FY2107. Likewise, the company has earned MVR 15,069,861 as interest on deposits in FY2016 but no interest on deposits was earned in FY2017.

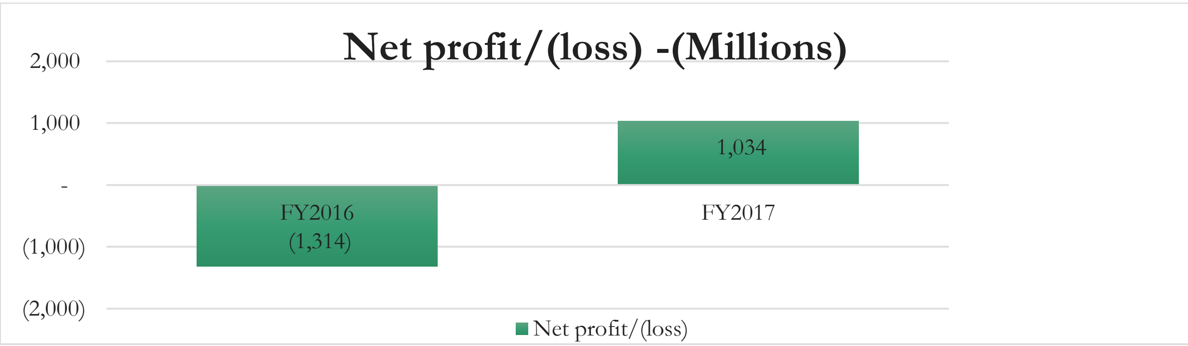
3.2 Profitability

Gross Profit



MACL has made a gross profit of over MVR 2 billion consecutively for last two years. When compared to the performance of FY2016, gross profit of the company has increased by 12% and gross profit margin has increased from 59% to 61%. The increase in GP is due to the upward lift in the revenue.

Net Profit



Net profit of the company has increased by 179%. The huge increase in net profit is because the company has made a net loss in FY2016. (The loss was due to the arbitration payment made to GMR).

The administrative expenses has reduced by 1% which shows the company has managed its overheads although it has managed to increase the revenue. In FY2016 the company has incurred huge legal expenses due to dispute arising from the concession agreement with GMR Male' International Airport Private Limited (GMIAL). However, the company was able to reduce the legal expense in FY2017. Further, MACL has not created any provision for claims in FY2017, while a provision of MVR 6,727,215 was created in the previous year. In addition, MVR 15 million as fiftieth anniversary expense was incurred in FY2016, but it was reduced to MVR 123,281 in FY2017.

Staff related costs decreased by MVR 5,176,112 in FY2017. Although the no. of staffs has increased, MACL has reduced the overall staff related expenses by cutting down staff welfare, overtime and training and development expenses.

Since MACL is a capital intensive company, the company has significant amount as depreciation. The deprecation consists of 18% of the administrative expenses, however when compared to the previous year it has increased by MVR 35,712,617 as the company has acquired new property, plant and equipment's this year.

It has to be noted that garbage disposal expense has increased by 19%, fuel and consumables has increased by 8% and subscription expense has increased by 6% when compared to the previous year.

Since the sales has increased in FY2016, the selling and marketing costs has also increased. Although there is only 16% increase in sales, the related expense has increased by 187%. Selling and marketing expenses includes only impairment of trade receivables and the huge increase will adversely affect MACL, as the company will not be able to recover this amount.

Further, MACL has decided to impair the investment in Addu International Airports Company Limited since material uncertainties exist which cast significant doubt about the going concern. As such, amount (MVR 12,000,000) invested in the year has been recognized as impairment.

During the year 2017, MACL has borrowed additional loans, as a result the company has incurred interest expense of MVR 10,159,134. In addition interest on corporate bond has increased by MVR 72,877,374. With the increase of these two expense the finance cost as a whole has increased by 623%.

It is important to highlight that the loss made in FY2016 are mainly due to policy level decisions namely the GMR arbitration settlement. The disputes with regard to the concession agreement were concluded in 2016, accordingly the company paid US$ 271,485,862 to GMIAL. The company had to borrow huge amounts to repay this amount.

During the year 2017, MACL has started development of many projects like upgrading Velana International Airport, development of a resort and construction of new sea plane terminal. It has to be noted that most of the money borrowed has been used for these developmental projects. At the end of FY2017, MACL has capital commitments of MVR 13 billion for development projects.

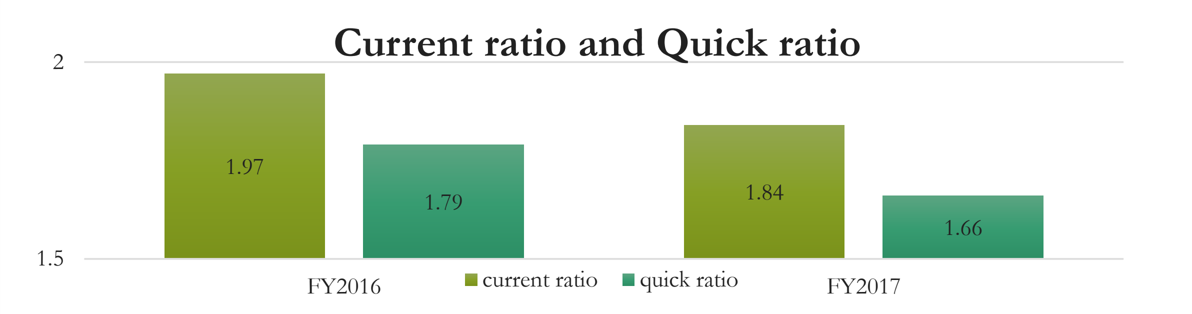
3.3 Working capital management and efficiencies

Working capital management is the strategy intended to monitor and utilize current assets and liabilities, to ensure operational effectiveness and financial efficiency. One of the main aim of proper working capital management is to maintain sufficient cash flow to meet short term obligation.

Current ratio and Quick Ratio

MACL has ability to meet short term liabilities using their current assets. In FY2017 MACL has MVR 1.84 current asset for every MVR 1 worth of short term liability however this is a reduction when compared to the previous year.

Quick ratio is similar to current ratio and it is superior compared with current ratio since it ignores illiquid assets such as inventory. Quick ratio has fallen from 1.79 to 1.66. Both the ratios have decreased because MACL has borrowed additional loans.



Before choosing a method of finance such as short term or long term sources, companies have to consider risk and rewards. In general, short term has lower interest rates compared to long term thus it will be profitable to choose short term sources to devote on short term assignment.

Receivable and payable days

Accounts receivables are considered valuable because they represent money that is contractually owed to MACL by its customers. In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible. Receivable day of MACL has increased from 186 to 194 days in FY2017, meaning MACL takes more time to collect payments than previous year. It has to be noted that MACL has recognized a provision of MVR 35,973,805 for the impairment of its trade receivables and receivables from related parties which is 2% of total receivables.

Although the most significant component of receivables is receivables from related parties, it is important to highlight that collection from related parties are more difficult when compared to other parties. As of 31 December 2017, MVR 203 million were due from related parties and if this amount is recovered, company's cash position would increase by 41%. In addition it is important to note that other receivables includes recoverable from Ministry of Finance and Treasury amounting to MVR 1,285,301,940. If MACL could collect this receivables their cash position will be improved and could reduce level of dependence on other sources.

The age analysis of the trade receivables are as flows;

	FY2016	FY2017
31 to 60 days	66,284,467	45,444,877
61 to 90 days	32,470,545	26,809,877
Over 90 days	108,963,660	124,028,713
Total	**207,718,672**	**196,283,467**

As of 31 December 2017, trade receivables of MVR 196,283,467 were past due but not impaired.

In addition, there are impaired trade receivables of MVR 89,801,233 as of 31 December 2017, this is a 74% reduction when compared to previous year. Movement of provision for impairment is as follows:

	FY2016	FY2017
Opening balance	346,884,677	351,772,145
provision made during the year	12,457,578	35,714,765
reclassification from provision for other receivables	-	129,027
Written-off as uncollectable	(7,570,110)	(297,814,704)
Closing balance	**351,772,145**	**89,801,233**

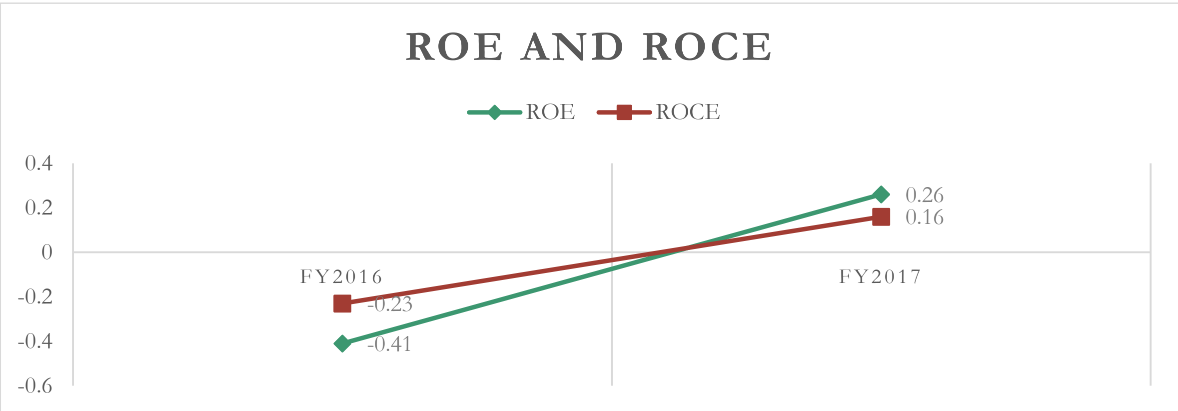
It is important to highlight that MACL has written-off MVR 297 million as uncollectable in FY2017 which is a significant amount. The company has to make strict receivable collection strategies to collect the money, otherwise the company will be facing cash flow problems.

Payable day's measures how long it takes to pay trade creditors or suppliers. The longer it takes to pay suppliers which is good for working capital and cash position. If the company takes long time to pay their creditor business relation may get affected. In FY2016 MACL takes 228 days on average to pay creditors and it has shortened to 204 days in FY2017. Even though it supports to company cash position MACL has to consider risk associated in this management technique. A further extension may take company into more challenging condition such as it may affect growth of business and since may need to drive cash from other sources to pay credit bills. It seems that MACL face difficulty in repaying trade payables as result of challenge they face in collecting their receivables.

The following list includes several suggestions MACL should consider to improve the liquidity ratios:

- Reduce days in accounts receivable to improve current assets by evaluating accounts receivable on a more frequent basis and take a more assertive stance in the collection of accounts receivable and delinquent accounts.
- Prepare thorough cash forecasts and evaluate the company's ability to meet goals on a regular basis.
- Consider paying off short-term obligations if the cash position of the company is favorable.
- Consider converting short-term debt to long-term debt.
- Reduce levels of non-moving inventory.

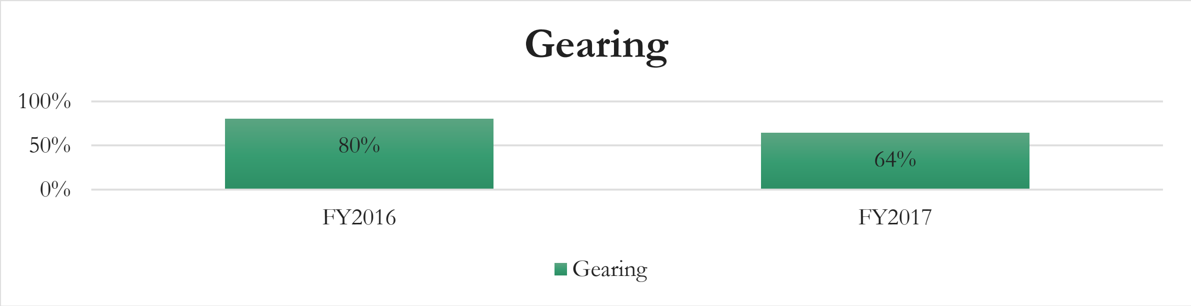
3.4 Return on Equity (ROE) and Return on Capital Employed (ROCE)



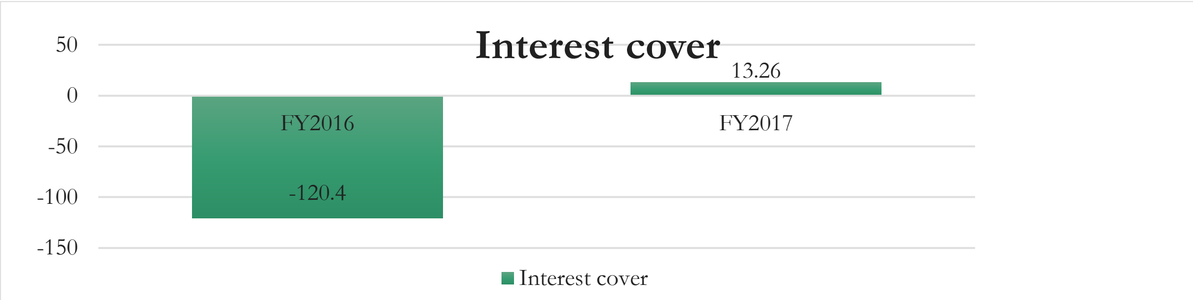
ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. MACL's ROE has changed from -0.41 times to 0.26 times in 2017. It has to be noted that the company has just started making profits this year, hence ROE is expected to increase in future.

ROCE measures a company's profitability and the efficiency with which its capital is employed. When compared to previous year MACL's ROCE has increased from -0.23 to 0.61. Although the figure is increasing the ROCE ratio is comparatively low, which illustrates the capital is not being used efficiently.

3.5 Financing



Financial risk of the company is very high, since MACL has high amounts of long term borrowings. Although the gearing level has reduced in FY2017, 64% of gearing shows a high level of borrowing. When compared to previous year non-current liabilities has increased from MVR 3,110 million to MVR 3,160 million and equity and reserves of the company has increased from MVR 3,907 million to MVR 4,944 million. The higher a company's level of gearing, the more the company is considered risky.



It can be seen from the above table that the company's ability to pay its interest expense has improved although the finance cost has increased, and this is a favourable thing for a high geared company like MACL.

Due to the GMR concession agreement, the company had to pay USD 271 million as arbitration settlement cost and this was financed through government bond. Hence, the borrowing was increased not only because of the business operations but for the payment of arbitration. As such, it is important to analyse the financial position excluding the arbitration payment. The gearing ratio will fall to 36% in FY2017 (FY2016: 40%) and further, the interest cover will increase to 15.39 (the interest with regard to arbitration is deducted).

A company with high gearing (high leverage) is more vulnerable to downturns in the business cycle because the company must continue to service its debt regardless of how bad sales are. As such, excessive borrowing will have adverse effects on MACL in the future.

3. External Audit

Auditor General has expressed that the company's financial Statements give a true and view of its financial position for the year 2017. Therefore we assumed that financial statement of MACL is free from material misstatement.

4. Conclusion & recommendation

MACL is one of the well performing and money making state owned enterprises in the Maldives. The company has started making profits in FY2017 after making a huge loss in FY2016 mainly due to the GMR arbitration payment. Therefore, in order to improve financial performance, additional measures should be taken in managing cost and expenses. Identify value adding activities and invest more on value adding activities and eliminate or minimize all out non value adding activities.

The company has paid MVR 75 million as dividend in respect of FY2015, however no dividends were declared in respect of FY2016 or FY2017. Although the cash flow position of the company is weakening year by year, the company has invested MVR 218 million in property plant and equipment.

It has to be noted that MACL is highly geared, resulting high interest payments. The financial position of the company is very risky, considering the gearing level and cash flow position of the company. MACL has to make strategies to overcome these issues. However, it is important to highlight that the borrowings were utilized partially to finance GMR arbitration settlement and for the huge development projects. The development projects include upgrading Velana International Airport, development of fuel farm, new sea plane terminal and development of Madifushi resort project.

Once the capital projects are completed the returns will be flowing into the company as a result it is expected to improve the overall financial situation of MACL. Improving earnings are a good sign under any circumstances, but when accompanied by increasing interest expenses, their positive effect is tempered.

Definitely inefficiency in working capital management will affect smooth running of business operation thus to eliminate disruption it is important to maintain current asset and current liabilities at appropriate level. Thus to improve cash position first and foremost a strict receivable collection steps need to be implemented within the company. It is very important to perform a credit check on customer and ensure legally sound agreements are made for significant transactions as the company has already written off huge amounts as uncollectable and has impaired huge amounts of trade receivables.

Annual Financial Review of

Maldives Transport and Contracting Company

Maldives Transport and Contracting Company

1. Executive Summary

The intention of this report is to analyze the financial status of Maldives Transport and Contracting Company (MTCC) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking in performance and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

Maldives Transport and Contracting Company Plc (MTCC) was incorporated on 18 December 1980 as the first public company in the Maldives. Throughout its existence MTCC has positioned itself as the leading marine and land transport provider and civil and marine constructor.

MTCC is the most dynamic company engaged in infrastructure development, construction and project management, dredging and reclamation, transport services and trading in products related to marine transport and construction. MTCC is also the largest logistics provider and largest and most comprehensive docking service provider in Maldives.

Geographically the core business units of the Group are based in Male', Thilafushi' and construction sites across the Maldives, the business units are operationally divided into seven strategic business units (SBUs), namely Trading, Contracting, Dredging, Logistics, Transport, Real Estate and Docking & Maintenance Service.

Construction and Project Management (CPM)

MTCC is a leader in infrastructure development and construction in the Maldives. The company is well-known for its expertise in marine infrastructure development, harbor construction, shore protection, beach replenishment and sheet piling.

MTCC has the largest fleet of construction related machinery and equipment in the country and has the capacity to execute several projects simultaneously in multiple locations across the country. Over the years, CPM segment has been the biggest contribution to the company's revenue and earnings. A total of 66 projects were conducted during the year 2017. The most important projects embarked during the year was development of Male' Industrial Village, Sultan Park re-development and Gdh. Thinadhoo Museum and Park Project. Major two shore protection projects for airport development in Hdh. Kulhudhuffushi and Sh. Funadhoo also commenced during the year in review.

During the year, CPM contributed MVR 798 million, which is over 61% of the Group revenue with an increase of over 2% compared to the segmental revenue of 2016.

Dredging and Reclamation

The dredging and reclamation segment was created in 2016. The company has the largest dredger-Mahaa Jarrafu which was acquired in 2017. Hdh. Kulhudhuffushi Airport Reclamation Project is the first project of Mahaa Jarraafu where it was officially unveiled by the President. With the latest technology MTCC has become a significant dredging company in the country. During 2017, the company undertook 5 reclamation projects, the largest of which was the reclamation of land and shore protection in Hdh. Kulhudhuffushi. While two projects were completed, two more were in the final stages of completion by the end of the year.

The dredging and reclamation segment contributed MVR 90 million to the company's annual revenue during 2017. This is an increase of 15.4% from its contribution of MVR 78 million in 2016.

Trading

MTCC is also engaged in trading of goods targeted to marine transport industry. The goods include Yanmar marine engines, generators and water pumps, lube oils, marine coatings and outboard marine engines. Trading segment contributed MVR 229 million (17.7%) towards the total revenue of the company.

Transport Services

MTCC provides a comprehensive range of travel options and a nationwide transport network that covers almost 85% of the Maldivian population. The transport service includes Hulhumale Ferry and Bus services, Villingili Ferry Service, Intra atoll & Inter atoll ferry services. Other services include speed boat and dhoni charter and cargo delivery service between Male', Vilingilli, Gulhifalhu and Thilafushi. The transport segment contributed revenue of MVR 138 million to the company which is an increase of 6% compared to the MVR 130 million in 2016.

Engineering and Docking Services

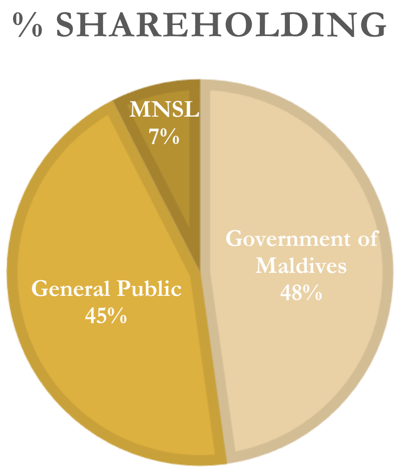
MTCC's boat yard is one of the largest in the country and recently installed 200-ton boat hoist. The company offers comprehensive range of services that incudes welding, metal fabrication, marine engineering, electrical works, machining, fiber works and woodworks. MTCC's boatyard has the capacity to service more than twenty vessels at a time. The Engineering and Docking segment contributed MVR 5 million to the company's total revenue in 2017 in comparison to the MVR 2 million contributed in 2016. The segment's revenue is expected to rise significantly during the next year with the expansion of docking facility.

Logistics Services

MTCC provides domestic logistics, international logistical and ship agency services. MTCC has the largest fleet of domestically operated and internationally operated steel vessel fleet of tugs, barges and landing crafts in the Maldives. During the year 2017, the domestic fleet was expanded with a specialized barge that can carry concrete blocks to more than one island, designed in consideration of the harbor entrance and depth of island harbors. The procurement process of a second customized landing craft was completed during the year and its delivery is expected in March 2018. The logistics operations segment contributed MVR 35 million to the company's revenue in the year 2017. This is an increase of 25% over the segment's revenue of MVR 28 million in 2016.

3. Ownership Structure

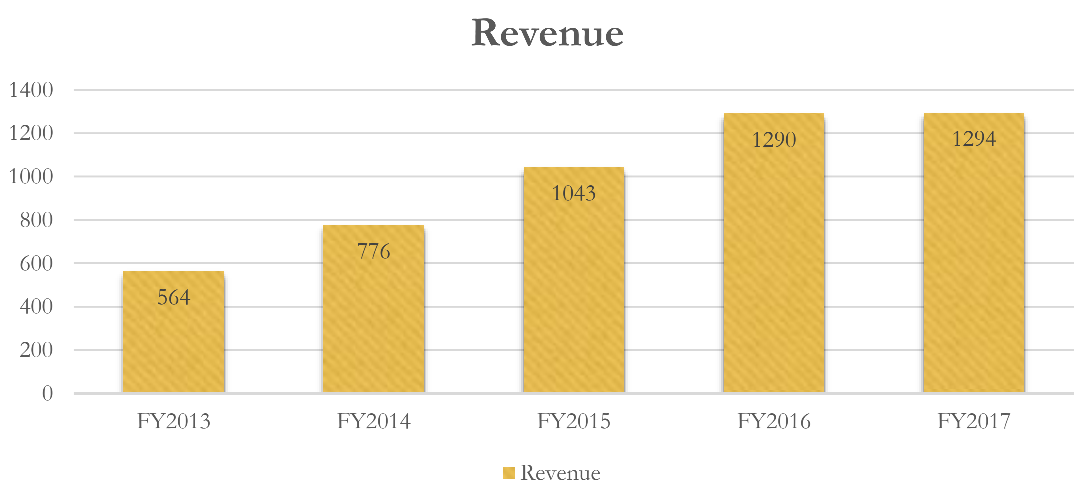
47.8% of shares of MTCC is owned by Government of Maldives, while 44.7% is owned by public and the remaining 7.5% shares are owned by Maldives National Shipping Limited.



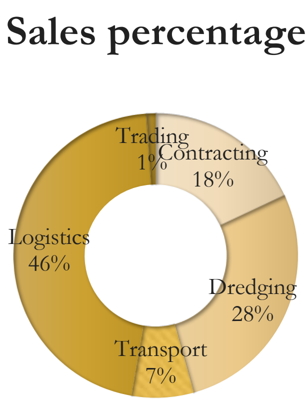
4. Financial Analysis and Interpretations

4.1 Revenue

There are 6 revenue generating segments from which construction represents 61.6% of total revenue. FY2017 was marked as one of the most successful years for the company following the record breaking revenue results of 2016 with a total revenue of MVR 1,294 million, slightly below that of the previous year. However the total revenue generated from the company grew by 0.31% compared to the previous year.



Out of all the segments, the most of the profit for the company is generated mainly from contracting and trading during the year 2017.

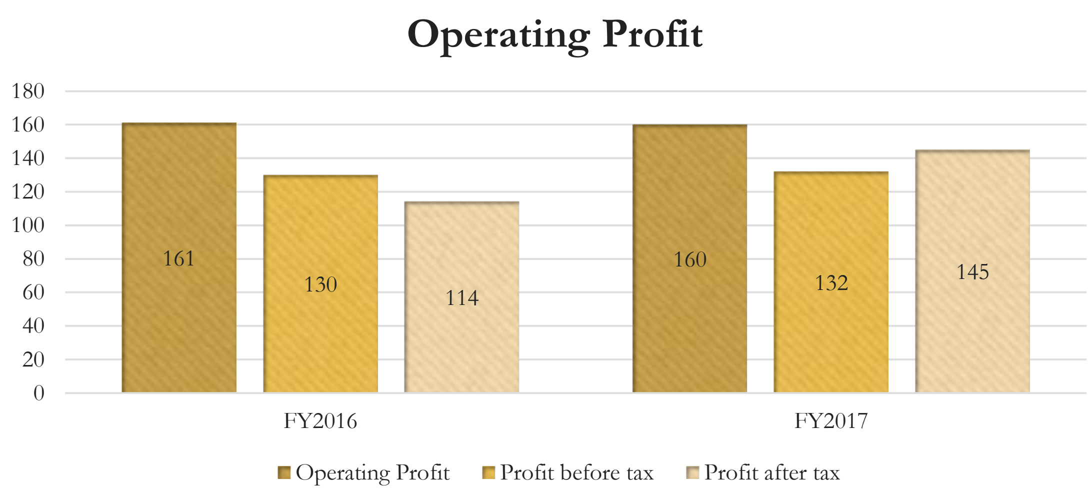


Apart from the trading segment, revenue from all other segments has improved when compared to previous year.

Revenue Category	FY2016	FY2017	% change
Trading	267,401,704	228,845,524	-14%
Contracting	784,904,587	797,608,134	2%
Dredging	77,910,585	89,774,399	15%
Logistics	27,780,295	35,129,869	26%
Transport	130,005,908	137,814,735	6%
Docking and Maintenance	1,962,856	5,004,421	155%

In 2017 MTCC has continued to expand their services in all the operating segments there by achieving remarkable outcomes.

4.2 Profitability

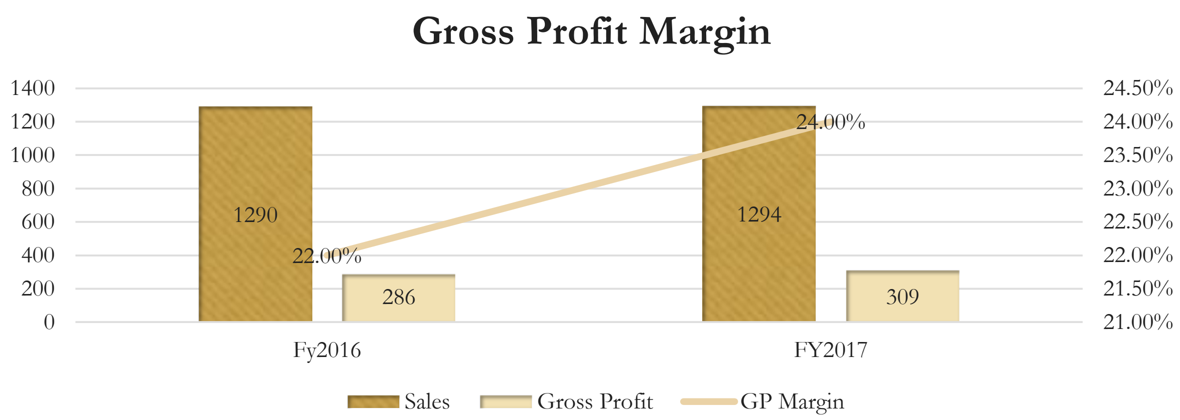


The operating profit of the company was maintained at a same level while the profit after tax has increased by 27% compared to previous year, basically as a result of deferred tax assets created in the balance sheet as per IFRS and not from the operations.

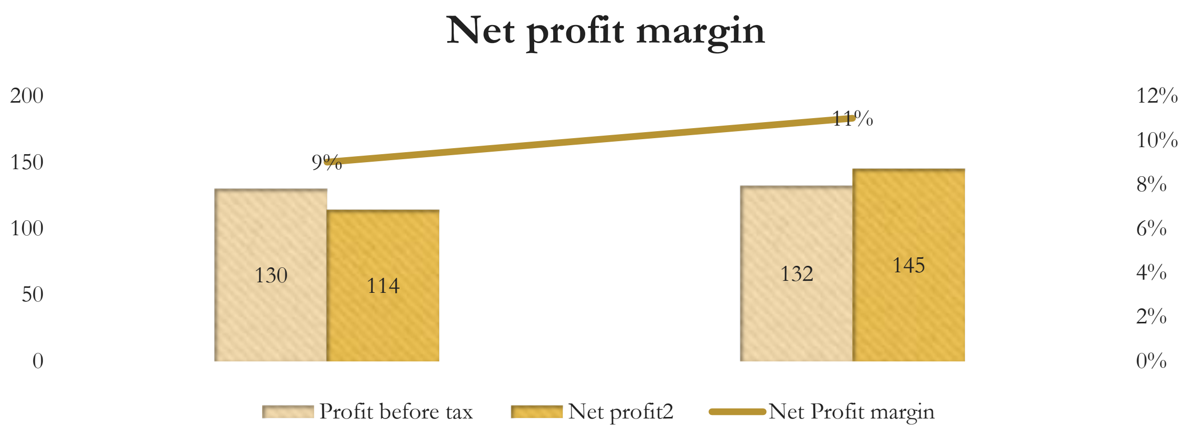
Category	FY2016	FY2017	% change
Trading	41,157,755	22,905,819	-44%
Contracting	112,859,287	172,029,446	52%
Dredging	23,128,765	9,523,505	-59%
Logistics	3,441,890	11,384,358	231%
Transport	(35,140,160)	(55,864,888)	59%
Docking and Maintenance	7,193,799	(1,828,163)	-125%

Out of MVR 160 million of operating profits of the company; MVR 23 million is attributable to trading, contracting MVR 172 million, dredging MVR 10 million, logistics MVR 11 million, transport MVR (56) million and docking and maintenance MVR (2) million.

4.3 Gross profit and Net profit Margins



The overall profit margin of the company has increased by 2% from 22% to 24% during the FY2017. The increase is due to the reduction of cost of sales by 2% when compared to previous year.



From FY2016 to FY2017, company has achieved a growth of MVR 2 million of profit before tax. The increase of MVR 31 million of Net Profit (Profit after tax) was mainly due to the deferred tax asset.

As the scale of operation expanded, the administrative expenses had increased by 17% compared to 2016 due to the increase in staff costs, rent expenses and insurance expenses. As the company had acquired huge machineries in the year, (MVR 695 million was added to the PPE) the depreciation expenses had increased by 11% in FY2017. Further, it has to be noted that the company has sold PPE at a cost of MVR 20 million and realized a loss of MVR 1.3 million.

The company continuously introduced new technologies and invested in specialized machinery and equipment, while also considering staff training as an important part. As a result the training expenses had increased by 48%. However, it is important to note that staff development costs should be maintained at an ideal level and an increase of 48% is unreasonable.

In FY2017 the company's workforce had increased to 1722 compared with 1440 staffs in FY2016. The increase was driven by the continued efforts to expand the business segments. As a result of increase in number of staffs by 20%, wages and salaries and pension has increased by 17% and 13% respectively.

In addition, transport, travel and inspection expense had increased significantly by 45%, this is because MTCC was conducting projects across the country.

The selling and marketing expenses also shows an increase of 12% due to additional provisions made over doubtful debts. Other expenses shows an increase of 24% due to increase in miscellaneous expenses.

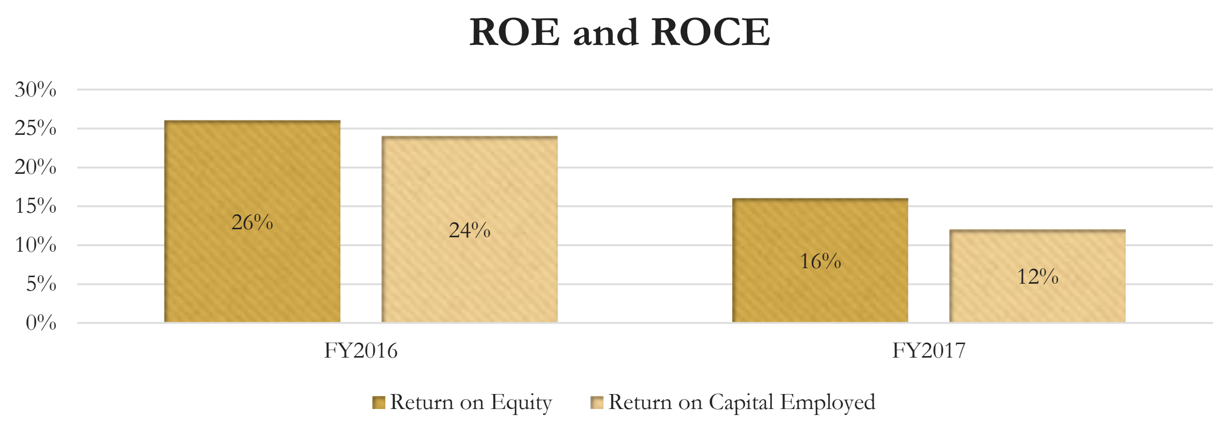
The below table shows the expenses which were significantly increased in FY2017.

Administrative Expenses	FY2016	FY2017	% change
Depreciation	95,104,293	105,683,200	11%
Employee benefit expenses	199,620,172	223,997,882	12%
Transportation, Travel and Inspection	20,732,353	30,002,699	45%
Accounting and Professional Charges	802,216	926,949	16%
Consultation, Legal fees and Service Charges	460,517	560,128	22%
Zakat	1,199,845	1,603,857	34%
Training expense	7,956,422	11,754,714	48%
Loss on Sale of Assets	1,015	1,305,119	128483%
Provision for Impairment of Receivables	4,627,082	6,545,103	41%
Other Expenses	22,312,919	27,772,340	24%

Other income has decreased from MVR 21 million to MVR 17 million in FY2017, mainly due to discontinuation of government subsidy from March 2016, an amount of MVR 6.8 million was received in the year 2016 as a subsidy income to compensate the losses incurred from transport services operated by the company with controlled tariffs in Greater Male' region. Dividend received from investment in shares of Bank of Maldives amounting to MVR 4.38 million (2016: MVR 3.72 million) and profit from Tawmil Takist Asset Financing amounting to MVR 3.34 million (2016: 2.50 million) has also been classified under other income.

Interest expense on borrowings have increased from MVR 19 million to MVR 25 million as additional borrowings of MVR 411 million was taken in FY2017. However, net finance costs of MVR 27.63 million for the year ended 31 December 2017 shows a marginal decrease compared to the previous year amounting to MVR 30.49 million basically due to decrease in exchange loss by MVR 9.18 million during the year due to US Dollar arrangements for foreign payments from Maldives Monetary Authority.

4.4 Return on Equity(ROE), Return on Capital Employed (ROCE)



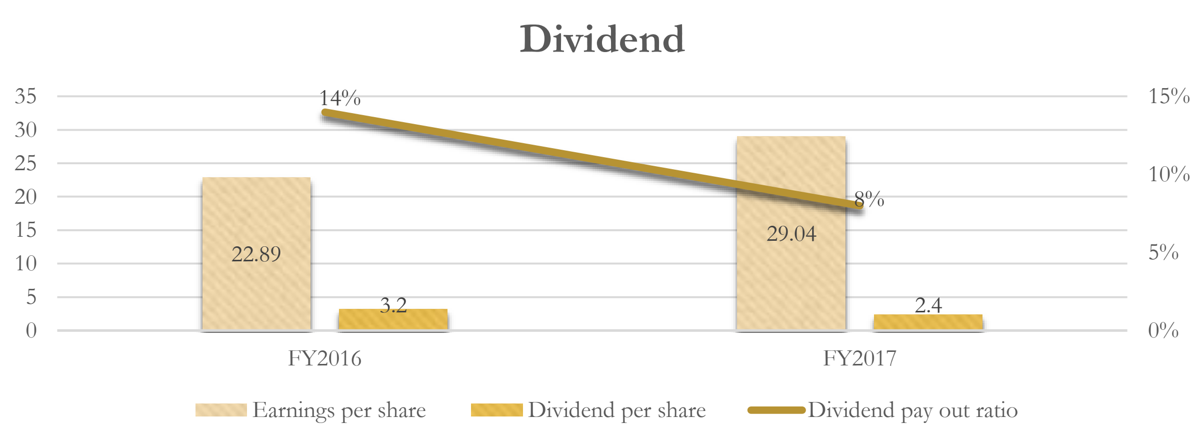
ROE measures a company’s profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.

The company has accumulated a return to the equity holders amounting to MVR 145 million (2016: 114 million) with a ROE of 16% (2016: 26%) for the year ended 31 December 2017. Similarly the ROCE had also decreased from 24% to 12% for the year FY2017. In FY2016 MTCC has used their resources or capital more effectively to generate profit when compared to FY2017.

ROE and ROCE had decreased due to increase in equity and reserves. This was resulted from advance received from shareholders. Advance received from shareholders represents the cash received for the new right issue of ordinary share capital at the par value of MVR 5.00 per share with a share premium of MVR 57.00 per share, the allotment was made after 31 December 2017 and the full amount is shown as advance under the equity as at the reporting date.

4.5 Shareholders Return

Dividend Policies of MTCC



Dividend policy of a company is the strategy a company uses to decide on how much earning they will pay out to shareholders in the form of dividends. The company's earnings per share has increased from MVR 29.04 to MVR 22.89, however the company has reduced the dividend per share from MVR 3.2 to MVR 2.4 in FY2017. Consequently, the dividend payout ratio has dropped from 14% to 8%.

It can be seen from the above ratios that the company pays a small portion of its earnings to shareholders, hence they can invest the money in the business. A relatively low payout could mean that the company is retaining more earnings toward developing the company instead of paying shareholders, which hints at future growth. In this case, it is clearly seen from MTCC's performance, that they have expanded their business and is significantly investing on capital goods. On the other hand, if the dividend is too low investor has every right to sell some of the shares to stimulate cash flow they expected.

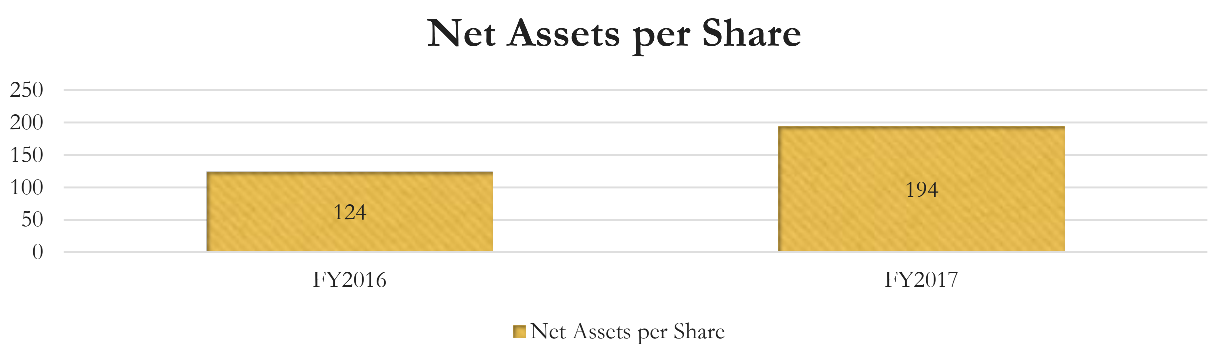
Dividend yield

Details	FY2016	FY2017
Share price	20	22
Dividend per Share	3.2	2.4
Dividend yield	16%	11%

Although the share price has increased by 10%, dividend yield of the company has decreased from 16% to 11% in FY2017. The reduction in dividend yield is mainly due to the fall in dividend per share. For each Rufiyaa invested, the investors are getting only 11% of return from it, which is a relatively low percentage.

High dividend yield are attractive to investors, yet high dividends may often come at the cost of growth potential. Every Rufiyaa a company is paying in dividends to its shareholders is a Rufiyaa that company is not reinvesting in itself in an effort to make capital gains. Considering the investments, the company is paying a reasonable amount of dividends to the shareholders.

Net Assets per Share



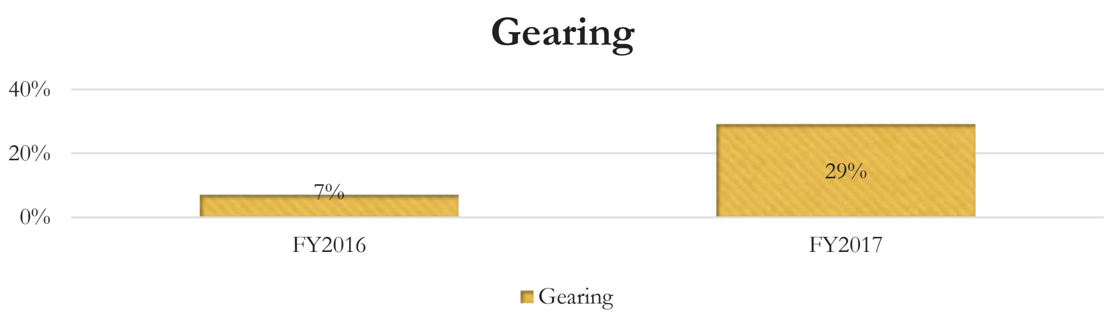
The company's assets are increasing year by year as the company is investing huge amounts as capital investments and on business expansion. As a result the net assets per share has improved in FY2017.

4.6 Long term Investments

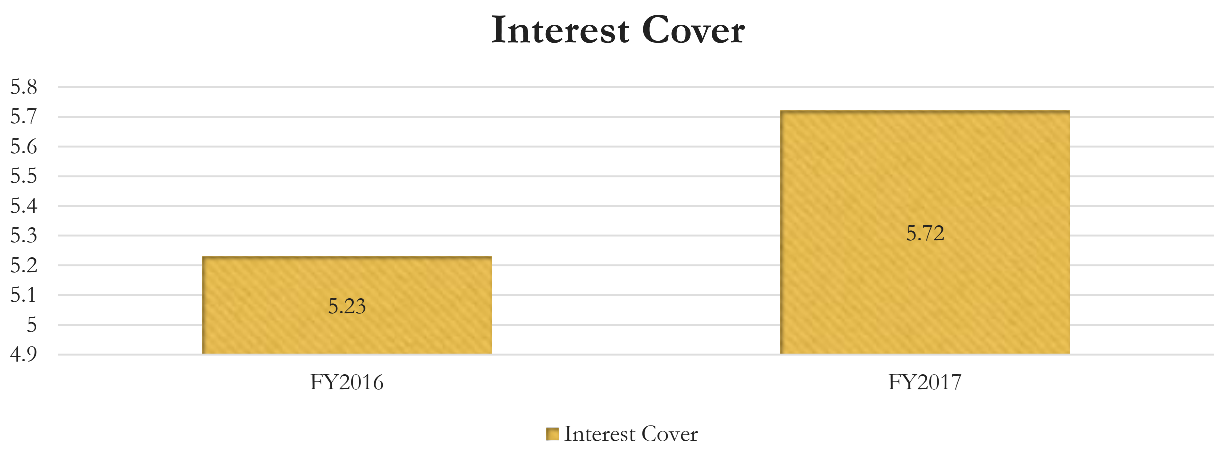
The group has made investments in capital assets during the year amounting to MVR 695.04 million (2016: MVR 124.86 million) through finance leases, term loans and operating cash flows. Investments in capital assets in 2017 mainly include investments in hopper suction dredger amounting to MVR 538 million, boat hoist for docking operations amounting to MVR 12 million, machineries and equipment to accommodate for the increase in construction projects amounting to MVR 48 million, vessels and vehicles for the transport operations financed through various sources during the year 2017.

Additional investments include MTCC's investment in shares of Bank of Maldives Plc which has been categorized as an available for sale investments. By the end of the year the shares of Bank of Maldives had an average market price of MVR 340 (2016: MVR 150) per share and the highest traded price during the year was recorded as MVR 340.

4.7 Financing



Financial risk of the company has increased as the gearing ratio has increased from 7% to 29% for FY2017. The company has purchased MVR 454 million worth of machineries, vehicles and equipment from long term loans including finance leases during the year and repaid MVR 43 million short-term and long-term loans, and MVR 21 million as interest expenses over the outstanding loans. Further, sharia compliance short-term credit facility (Mudharaba Equity Finance) amounting to MVR 100 million was also obtained during the year ended 31st December 2017 from MOFT, which was agreed to be rolled over on a quarterly basis and thus considered as a short-term liability in the balance sheet.

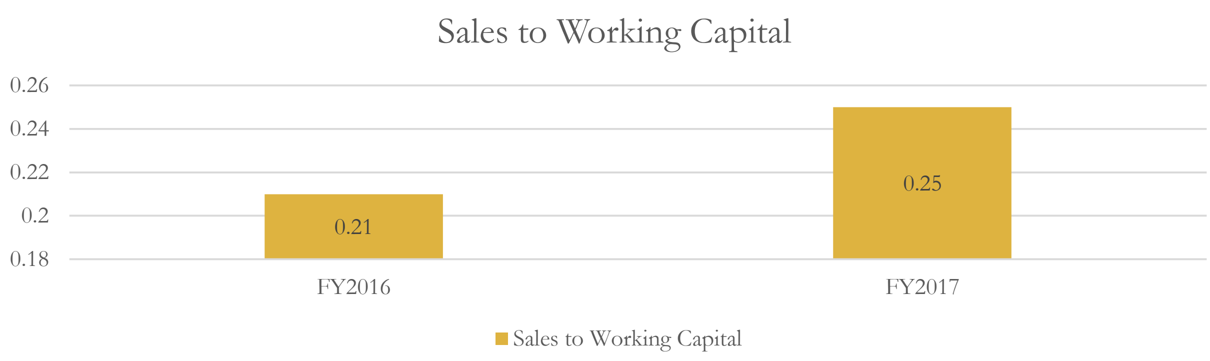


Interest cover of the company has slightly increased when compared to previous year. Net finance costs of MVR 27.63 million for the year ended 31 December 2017 shows a marginal decrease compared to the previous year amounting to MVR 30.49 million basically due to decrease in exchange loss by MVR 9.18 million during the year due to US Dollar arrangements for foreign payments from Maldives Monetary Authority (MMA).

4.8 Working Capital Management

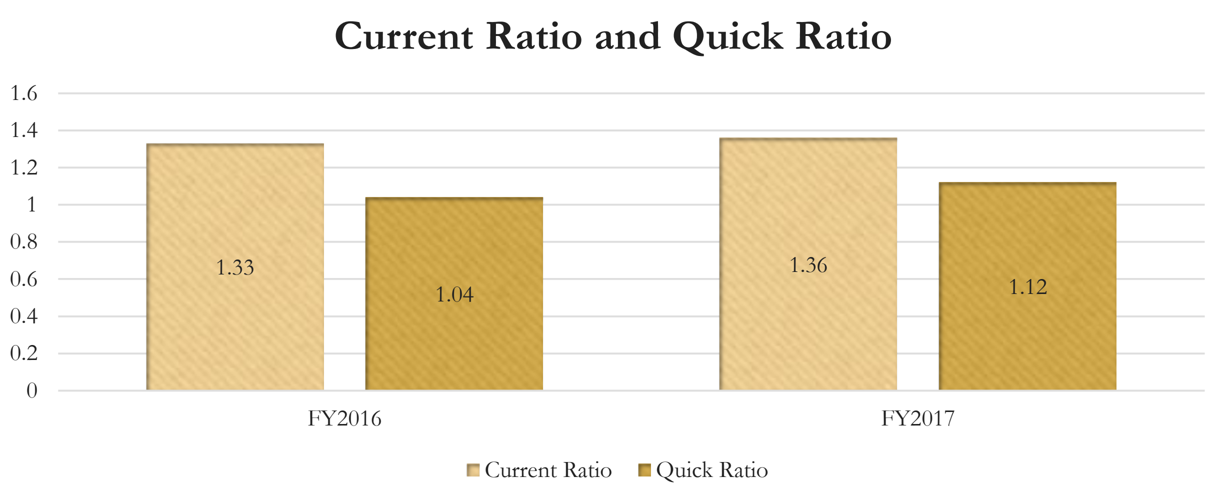
Sales to Working Capital

This ratio measures a company's ability to finance current operations. Working capital (current assets - current liabilities) is another measure of liquidity and the ability to cover short-term obligations. This ratio relates the ability of a company to generate sales using its working capital to determine how efficiently working capital is being used.



The sales to working capital ratio of MTCC has improved which reveals that the company's level of working capital is strong. The company may want to make an effort to generate additional sales using the available working capital.

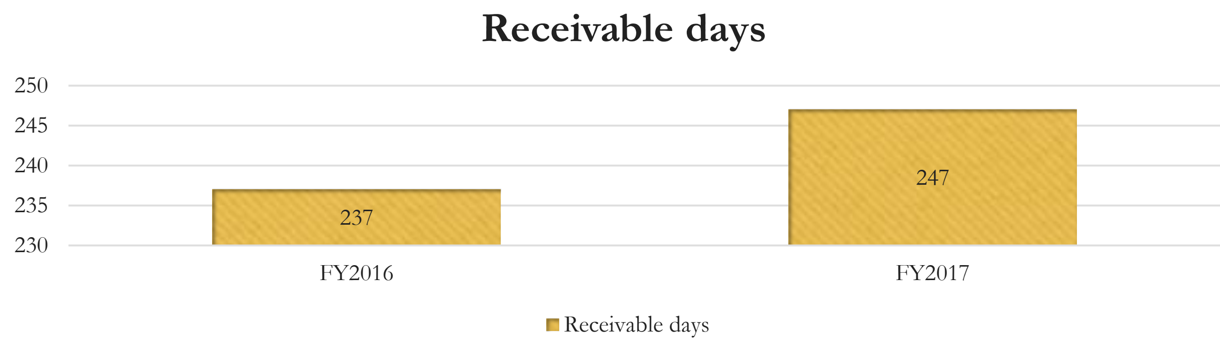
Current Ration and Quick ratio



While the current ratio has slightly improved, quick ratio has decreased when compared to previous year. The short term liabilities of the company includes BPT payable, shareholders loan, trade and other payables and borrowings and bank overdraft.

The above ratios illustrate that the company's ability to service its short term obligations is not satisfactory. Further, the current liabilities of the company has increased in FY2017.

Receivable and Payable days

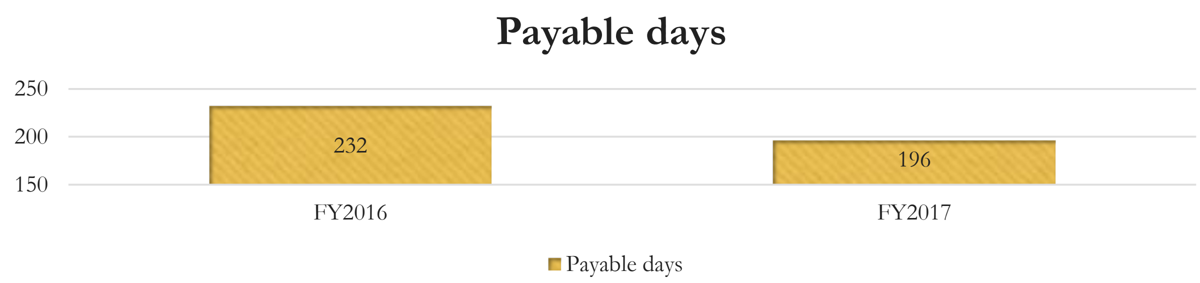


Accounts receivable days measures the number of days a company's receivables are outstanding. In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible. The receivable days of the company has increased from 237 days to 247 days that indicates the company is effective in collecting outstanding receivables.

The age analysis of the trade receivables are as flows;

Details	FY2016	FY2017
Between 1-60 days	339,532,934	321,139,980
Between 61-121 days	28,251,310	114,830,564
Between 121-180 days	20,742,091	44,636,364
Between 181-365 days	30,919,209	86,533,047
More than 365 days	151,992,452	163,629,238
Less-Provisions for impairment	(49,990,853)	(55,871,528)
Total	**521,447,143**	**674,897,665**

It is important to note that, receivable from related parties are the most significant value in trade receivables. And it is important to note that collection from related parties will be more difficult when compared to other components of receivables. Normally amounts due from related parties are unsecured, interest free and have no fixed repayment terms. In order to manage working capital efficiently MTCC has to make financially viable arrangements with related party to improve cash position and expand their operation.



Payable day's measures how long it takes to pay trade creditors or suppliers. The longer it takes to pay suppliers which is good for working capital and cash position. If the company takes long time to pay their creditors, business relation may get affected. The payable days has decreased from 232 days to 196 days, indicating that the company pays its suppliers quicker than last year, this will put the company in cash flow problems since the receivable days has increased.

5. Economic value Added (EVA)

Economic value added (EVA) is an estimate of a firm's economic profit, or the value created in excess of the required return of the company's shareholders. EVA is the incremental difference in the rate of return over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested into it. If a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a company is producing value from the funds invested in it.

MTCC has achieved remarkable results on EVA, increasing the economic profit from MVR 184 million to MVR 232 million. This result shows that the company is creating wealth and returns for shareholders above its cost of capital.

6. External Audit

The external audit of the group for the FY2017 was performed by KPMG, and they have expressed an unqualified opinion on the financial statements of the group and the company. However, the external auditors have identified the revenue of construction revenue is recognized based on estimates in other matter paragraph.

A significant portion of the company's and group's revenue related to the revenue from construction contracts for the year ended 31 December 2017.

As per IAS 11 construction contracts prescribes the contractor's accounting treatment of revenue and costs associated with construction contracts. IAS 11 requires:

- when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract to be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period; and
- when the outcome of a construction contract cannot be estimated reliably: revenue to be recognized only to the extent of contract costs incurred that is probable will be recoverable;

As per the external auditors, the company has recognized based on the percentage of the completion of work performed. This is assessed by reference to the proportion of contract cost incurred for the work performed up to the end of the reporting period relative to the estimated total cost for each contract.

Since the auditors opinion was not modified based on this matter, we believe that the company has recognized revenue related to construction contracts correctly.

7. Conclusion

MTCC is one of the well performing and money making public limited company in the Maldives. 2017 was a good year of solid progress for MTCC and have continued to deliver consistent strong results in their core business segments. Further, the company has invested total of MVR 695.04 million in capital assets during the year.

The company has declared and paid a dividend of MVR 12 million for FY2017 and MVR 16 million for FY2016. Investors of the company get a good return as dividend for their investment however variation in dividend and falling divided may seem unfavorable in their perspective. Therefore, to keep steady as well as gradual growth in dividend could be psychological techniques which can be used to attract prospective investors and keep existing investors soothed. Further MTCC needs to focus superficially to the matter of share value reduction in order to improve public image.

As a result of high borrowing the gearing of the company has increased in FY2017, increasing the financial risk of the company. However, it is important to note that the borrowings were used for capital investments. Further, the interest cover ratio illustrates that the company is in a position to pay its interest.

Working capital analysis reveals the company’s level of working capital is strong. To add to it, as per cash flow statement, the company’s cash has increased from MVR 29 million to MVR 104 million in FY2017. Although MTCC has spent huge amounts of capital investments, the closing cash position is strong, which shows there is still room for expansion.

Annual Financial Review of

Addu International Airport Private Limited

Addu International Airport Private Limited

1. Executive Summary

The intention of this report is to analyze the financial status of Addu International Airport Private Limited (AIA) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas for improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

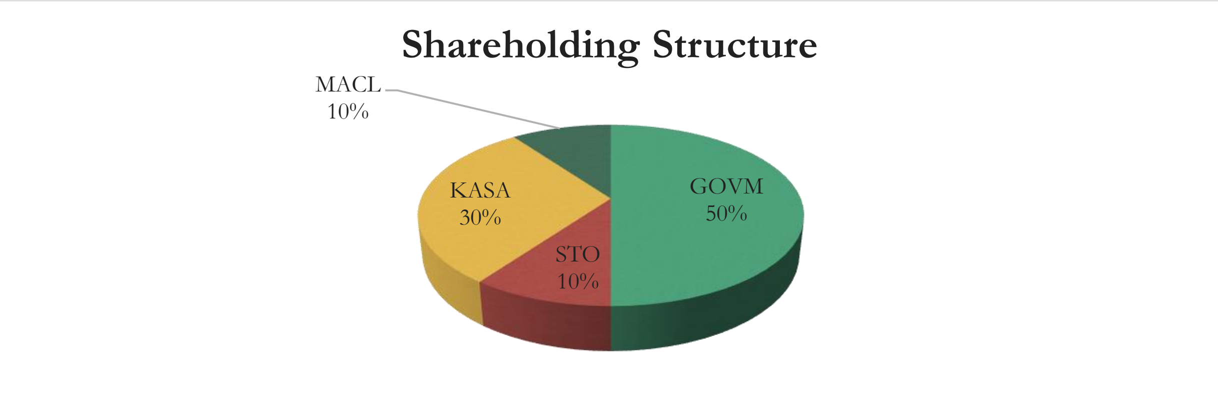
2. Introduction

Addu International Airport Private Limited, a private limited company incorporated in the Republic of Maldives under the Act No.10/96 on 2l March 201l. The main objectives of the company are to develop, manage and operate either on its own or by way of third party engagements, Gan Airport as an International Airport and develop any and all ancillary or related facilities in the same manner together with the airport.

The rights, interests, liabilities and ownership from Gan Airport Company Limited were transferred to Addu International Airport in accordance with Clause B of the Memorandum of Understanding between Gan Airport Company Limited and Addu International Airport Private Limited dated 3l March 2013.

3. Ownership Structure

The Company shares are owned by Government of Maldives (GOM), Kasa Holding Limited, Maldives Airports Company Limited and State Trading Organization PLC as follows:



4. Financial Analysis and Interpretations

4.1 Revenue

The company's main source of revenue is sale of jet fuel, indicating 65% of the revenue. However, the revenue from jet fuel has decreased compared with the previous year along with most of other revenue sources as illustrated below.

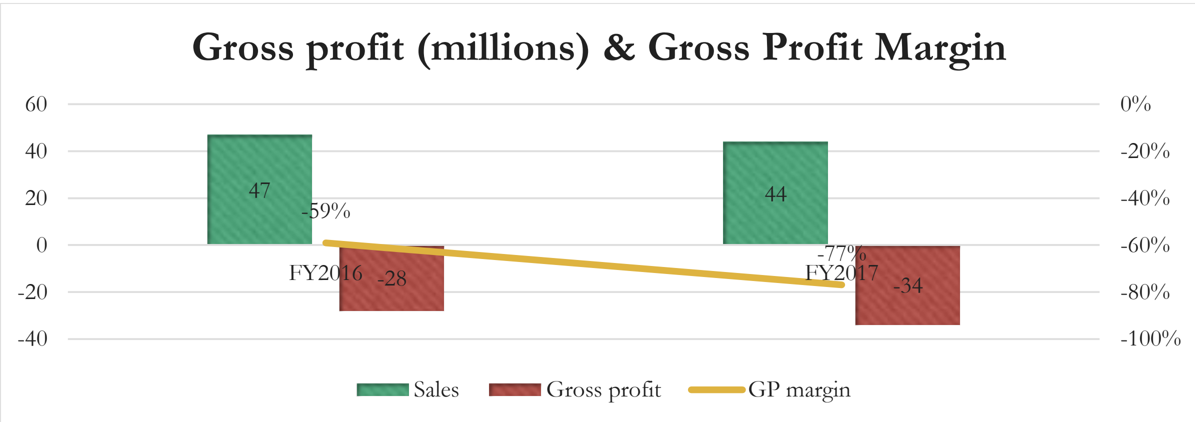
Revenue	2016	2017	% change
Jet fuel Revenue	31,166,850	28,614,128	-8%
Ground Handling Charge	8,649,813	7,621,070	-12%
Landing fees	3,762,457	3,492,929	-7%
Parking fee	2,857,411	2,736,189	-4%
Ground power unit charges	616,029	1,512,471	146%
Passenger Service Charge	-	197,764	-
Airport pass	49,800	63,950	28%
Cargo handling/terminal income	-	53,579	-
Total	**47,102,360**	**44,292,080**	-6%

The company has experienced 6% fall in total revenue from FY2016 to FY2017. It has to be noted that margin on fuel is very low compared with other companies within the industry. This creates substantial risks in meeting the operational costs from operating revenue.

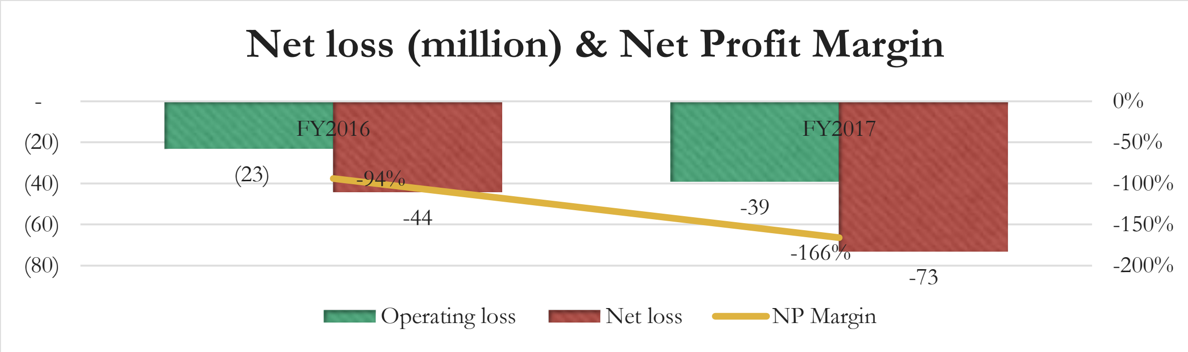
4.2 Profitability

The company has not made any profits since its inception. The negative gross margin of the company suggests that the company is not covering direct costs of running the airport from the revenue they generate. In the current business model, largest component (around 65%) of AIA's revenue is generated through the sale of jet fuel. The margin on jet fuel sales has increased from 20% to 27% from FY2016 to FY2017, however this is still lower than the margin charged by MACL. (37%)

Based on the company's position in the market and the general demand, it is mainly influenced by outside factors such as growth of bed capacity and tourist arrivals. Therefore to reduce losses of the company, they have to streamline its business activities and concentrate on reducing costs.



Although the sales of the company has reduced, operating expenses has increased by 15% thereby the gross profit has reduced more when compared to the fall in revenue.



The operating loss of the company has further worsened from MVR 23 million to MVR 39 million as result of increasing administrative expense and falling other incomes. In addition high finance costs resulted a much worse net loss.

An analysis of the company's major expense categories shows that selling and marketing expense has increased by 150%. The below are the expenses which has significantly increased in FY2017.

Expenses	2016	2017	% change
Employee benefit expense	28,366,915	29,660,191	5%
Depreciation	11,562,957	17,340,741	50%
Provision for doubtful debt	2,140,783	7,151,074	234%
Bad debt written off	1,771,974	2,649,452	50%
Supplies and requisites	1,185,673	1,911,931	61%
Subscription expenses	887,497	1,174,864	32%
Fines and penalties	7,088	119,729	1589%
Amortization	2,516	26,800	965%

As per the financial statements, employee benefit expense has increased from MVR 28 million to MVR 29.6 million due to increase in all staff related expenses. Wages and salaries increased by 7% and training and staff insurance increased by 15% in FY2017.

Increase in depreciation is another major expense which contributed to the total increased costs of the company. An increase of MVR 5.7 million was recorded for depreciation. The increase was as a result of the additions to the PPE (MVR 1.3 million) and transfers from capital work-in-progress (MVR 8.4 million). Out of total depreciation, Runway and island infrastructure comprises the highest portion, the related depreciation charge has increased by 70% while the cost value has only increased only 8 million. Hence, it is likely that the company has changed its depreciation policy. Although depreciation is not a cash expense it contributed to the deteriorating net profit of the company.

Further, the provision for doubtful debts has increased by 234% and bad debts written off by 50%. As of 31 December 2017, trade receivables amounting to MVR 16 million were past due and impaired, which is 37% of revenue of FY2017. Considering the position of the company, the company has to make strict receivable collection strategies to collect the money, otherwise the company will be facing cash flow problems.

Since the company has acquired new intangible assets (MVR 505,566) as a result the amortization cost has increased from MVR 2,516 to MVR 26,800.

In addition to the above expenses, supplies and requisites, subscription and fines and penalties has increased significantly this year.

4.3 Return on Equity (ROE) and Return on Capital Employed (ROCE)

ROE measures a company’s profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.

Since the company has not made any profits since its inception, ROE and ROCE will be negative for AIA, which shows the investors have not received any returns yet.

It is important to highlight that the current liabilities of the company exceeds current assets by MVR 156,524,947 as such the company is not capable to repay its short term debts.

As the company has never made a profit, the equity component of the company is only the issued share capital of the company. The accumulated losses of the company is MVR 211,014,650 which reduces the equity of the company to MVR 71,985,350.

As such the company is in a very critical situation where it is unable to meet its short term debts together with huge accumulated losses.

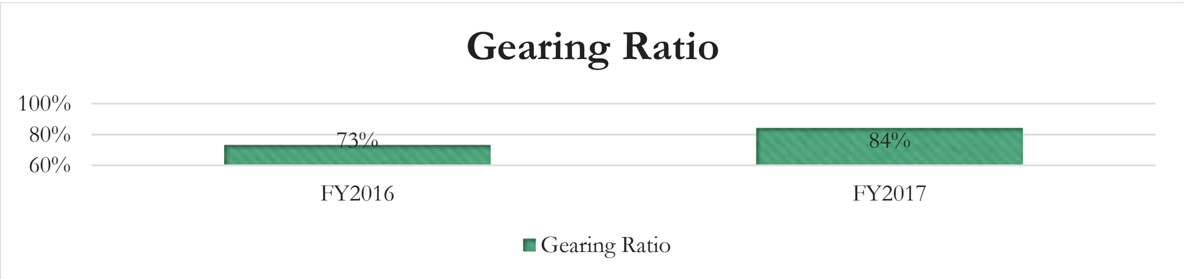
4.4 Debt to Total Assets and Debt to Equity

Debt to assets ratio measures what proportion of debt a company is carrying relative to its assets. A ratio value greater than one indicates a company has more debt than assets. Naturally, companies and creditors prefer a lower number.

The company’s debt to assets ratio has slightly increased from 0.81 to 0.89 which indicates the company should be able to withstand losses without harming creditor interests or could obtain additional financing if desired. However, based on the current position of the company, it will be difficult to convince the lenders.

Debt to equity ratio measures the financial leverage of a company by indicating what proportion of debt and equity a company is using to finance its assets. A lower number suggests there is both a lower risk involved for creditors and strong, long-term, financial security for a company. Debt to equity ratio has increased from 430% to 819%, indicates the company has been aggressive in financing its developments with debt. Aggressive leveraging practices are often associated with high levels of risk. It is important to note that currently GOM is taking responsibility of repaying $24m borrowed from BML, since AIA is not in position to do so.

4.5 Financing



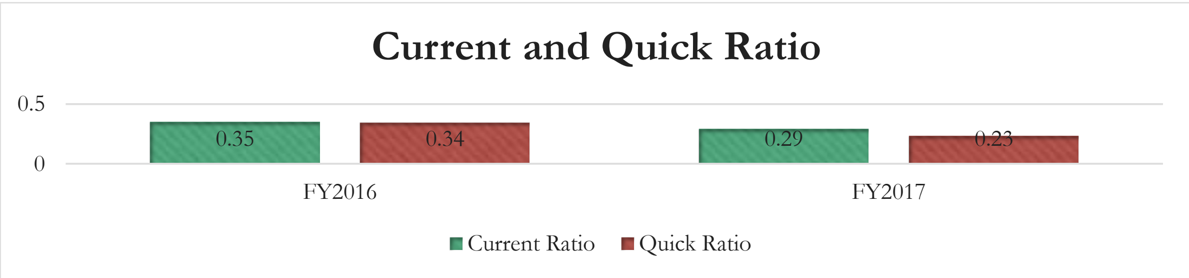
The financial risk of the company has increased as the gearing ratio has increased from 73% to 84% in FY2017. As at 2017, company has borrowed MVR 369 million (2016: MVR 349 million) from Bank of Maldives at a fixed interest rate of 8.5%. The loan is secured by the guarantees of Government of Maldives and Kasa Holdings Pvt Ltd as such this loan is repaid by the government and Kasa holding as injection to AIA.

With the increase of borrowing, the finance cost has increased by MVR 13 million in FY2017. Consequently, the interest cover has decreased from -1.09 to -1.13. This ratio illustrates that the company is not in a position to pay its finance cost on outstanding debts.

4.6 Working capital Management

Working capital management is the strategy intended to monitor and utilize current assets and liabilities, to ensure operational effectiveness and financial efficiency. One of the main aim of proper working capital management is to maintain sufficient cash flow to meet short term obligation.

<u>Current Ratio and Quick Ratio</u>



Current ratio measures whether or not the company has enough resources to meet its short-term obligations. In FY2017 the company has MVR 0.29 current asset for every MVR 1 worth of short term liability. This ratio illustrates that the company's short term liabilities are more than when compared to its current assets. The company's short term liabilities include trade payables, amounts due to related parties, accrued expenses and other payables, from which the largest component is amounts due to related parties.

The amount due to a related party is unsecured, interest free and has no fixed repayment period. Accordingly, the amount has been shown as falling due within one year. If related party receivables and payables are removed from the calculation, company's current ratio will improve to 2, showing the company has enough resources to meet other short-term obligations.

Quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets (without inventory). The quick ratio of the company has fallen from 0.34 to 0.23 mainly due to decrease in current assets and increase in current liabilities. It is important to highlight that the closing inventory of the company has increased from MVR 3 million to MVR 14 million in FY2017.

<u>Receivable and Payable Days</u>

Details	FY2016	FY2017
Receivable days	510	374
Payable days	2,972	3,842

Receivable Days

Accounts receivables are considered valuable because they represent money that is contractually owed to the company by its customers. In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible. Receivable days of the company has improved from 510 days to 374 days. This indicates the company collected its receivables quicker than the previous year.

It is important to note that majority of receivables are from related parties such as government and other state owned enterprises. The amounts due from related parties are unsecured, interest free and have no fixed repayment terms. In order to manage working capital efficiently AIA has to make financially viable arrangements with related party to improve cash position.

As per the financial statements, there is no concentration of credit risk in respect of trade receivables as the company has a large number of customers. It is also important to highlight that the total number of receivables has reduced from MVR 66 million to MVR 45 million in FY2017.

As of 31 December 2017, trade receivables amounting to MVR 16 million were past due and impaired, which is equivalent to 37% of revenue of FY2017 and MVR 7 million of provision for doubtful debts were created for the year FY2017. Considering the position of the company, the company has to make strict receivable collection strategies to collect the money, otherwise the company will be facing cash flow problems.

Ideally, when a company has high levels of receivables, it signifies that it will be flush with cash at a defined date in the future. But it is important to note that account receivables are not guaranteed to turn in cash because in some instances customer neglect to pay the money owe at times. Therefore, accounts receivable alone does not tell the whole story about a company's account collections.

Payable Days

It measures how long it takes to pay trade creditors or suppliers. The longer it takes to pay suppliers the better it is for working capital and cash position. If the company takes a long time to pay their creditor, business relation may get affected. In FY2016 AIA took 2,972 days on average to pay creditors and it has increased to 3,842 days in FY2017. This ratio shows company’s inefficiency to pay its creditors. Even though it supports the company’s cash position AIA has to consider risk associated in this management technique. A further extension may take company into more challenging conditions such as, it may affect growth of business and since they may need to drive cash from other sources to pay credit bills.

5 External Audit

Upon auditing the financial statement of AIA for the year ended 31 December 2017, Auditor General has expressed that financial statements give true and fair view of the financial position of the company. Further, the report has highlighted the material uncertainty relating to going concern of the company.

“We draw attention to Note 2.3 in the financial statements, which states that the company has incurred a net loss of MVR 73,330,110 during the year ended 31 December 2017 and as of that date, it had accumulated losses of MVR 2l1, 014,650 and the company’s current liabilities exceeds current assets by MVR 156,524,947. These conditions, along with other matters as set forth in note 2.3, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.”

As per note 2.3 of the financial statements, the financial statements of the company have been prepared on the basis of the company being a going concern on the assumption that the Government of Maldives will continue to fund working capital requirements, and will not demand repayment of its dues, for a period of at least one year from the date of these financial statements

6 Conclusion

Based on the financial evaluation, it can be concluded that the company is an underperforming company with the high risk of going concern. The company has been making losses since its inception, with an accumulated loss of MVR 211 million at the end of FY2017.

Since AIA's revenue primarily depends on the air traffic and the number of flights landed on the Gan International Airport, revenue increasing through its core business can be achieved by increasing the number of flights and number of passengers. To this end on the revenue side, the company does not have control over the bed capacity within the region and therefore on the traffic flow to the airport.

At present, the sale of fuel is the highest revenue generating activity as such the company has to increase its margin to cover the operational costs. It is important to note that the fuel margin is below when compared to other companies in the industry.

The liquidity position of the company is worse with high level of gearing and a negative interest cover. The company has a significant liability of MVR 369 million loan which is undertaken to develop the airport with a fixed interest rate of 8.5% and the finance cost currently stands at 78% of the total revenue of the company. At present the loan repayments are paid by the Government of Maldives and Kasa Holdings.

Further, the company is not even able to cover its short-term liabilities with the current resources. Given the high gearing it is very unlikely that the company will be able to borrow further funds. In order to improve its cash flow position, the company has to improve its working capital management. AIA has to give emphasis on maintaining its current assets and current liabilities at an appropriate level, given that at present the company's current liabilities exceed its current assets.

Thus to improve liquidity position first and foremost a stricter receivable collection method needs to be implemented within the company. It is very important to perform a credit check on customer and ensure legally sound agreements are made for significant transactions as the company has already written off huge amounts as uncollectable and has impaired huge amounts of trade receivables. Although the company holds significant amount of cash at the end of the year, this cash flow comes from capital injections and borrowings and not through operating activities.

Investors of the company have not received any returns from the company yet, as such they will not be motivated to invest further in developmental projects. Further, as the company has not made any profits, no value was added to the shareholder wealth.

It is important that the company find additional sources to generate revenue and formulate a reasonable strategic plan. The company can increase its revenue through non-core business activities such as the development of proposed hotel in the Gan International Airport. As this is not the company's core business, the development and functioning of the airport is not directly tied to the development of this hotel. However through this, the company can subsidize its current levels of losses. The company has developed a proposal for the development of 150 room four star resort at Gan Island. This, if successfully implemented can add value to the company's operations and subsidize the operation of the airport. This will also increase the traffic to the airport. In addition, the company should think of diversifying into other business areas as the company is not expected to make profit without bed growth in this region.

A more feasible method to reduce losses for the company would be to manage its expenditure and reduce costs. But from 2016 to 2017 the company’s expenditure has increased. AIA can reduce some of the costs related to the operation such as the costs related to the head office which is situated at Male.

Annual Financial Review of

Housing Development Corporation Limited

Housing Development Corporation Limited

1. Executive Summary

The intention of this report is to analyze the financial status of Housing Development Corporation Limited (HDC) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

HDC was incorporated in 2005 as a limited liability company. The main business activity of the company is to reclaim the land of Hulhule-Farukolhufushi lagoon and to establish infrastructure and to provide residential, commercial and industrial developments for sale or lease.

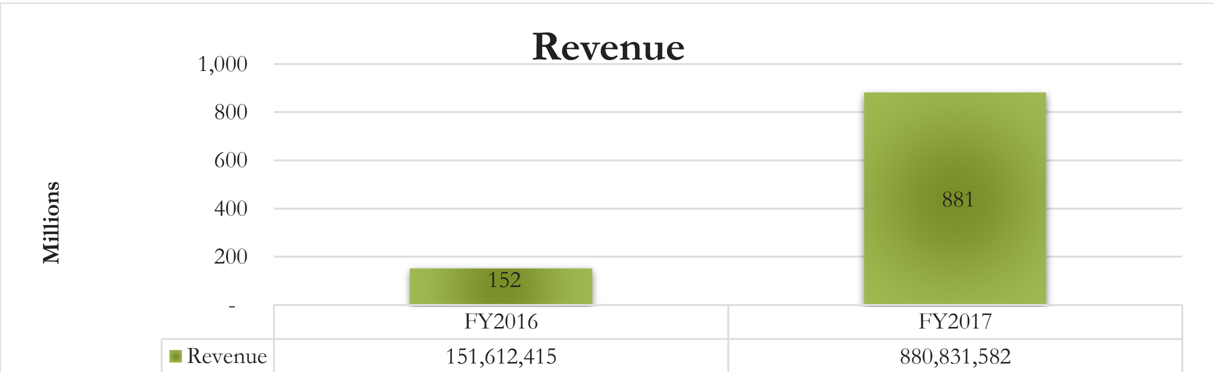
HDC acts as the master developer of Hulhumalé, a planned city situated in the capital region.

The Government of Maldives (GOM) holds 100% shares of the company. The GOM has transferred the ownership of Hulhule-Farukolhufushi lagoon to the company under the presidential Decree No.2005/37 on 23rd March 2005.

3. Financial analysis

3.1 Revenue

The company's revenue is earned from sales of properties and rental income. The total revenue from these two segments have increased significantly by 481% from MVR 152 million to MVR 881 million.



Further, other income of the company has increased from MVR 29 million to MVR 12.6 billion mainly due to fair value gain on investment property.

IFRS 13 defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). In the case of HDC, the investment property was revalued at fair value under IAS 40 investment property.

IFR 13 allows three valuation techniques, namely market approach, cost approach and income approach. HDC has used the income approach. This approach converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

The valuer has considered the present value of net cash flows to be generated from the property taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive cost such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates.

other income	2016	2017	% change
Maintenance charges	5,306,046	5,760,399	9%
Reversal of Impairment provision	-	23,588,088	
Government Grant Income Received	1,482,303	21,493,394	1350%
Profit on sale of Property Plant and Equipment	7,499,322	-	-100%
Profit on Sale of Investment Properties	71,560	-	-100%
Fair Value on Investment Property	-	12,599,862,110	
Miscellaneous Income	14,218,331	9,563,136	-33%
Total other income	**28,577,562**	**12,660,267,127**	**44201%**

As shown in the above table, the company has reversed impairment provision of MVR 23.5 million in this year and has recognized this amount as other income.

Government grants related to housing units transferred to the company are recognized as other income when the asset is sold to the third parties. As such, in FY2017, HDC has recognized MVR 21 million as government grant which is 1350% higher than that of previous year.

Further, the company has recognized fair value on Investment property of MVR 12.6 million in FY2017.

The phase 1 of the land reclaimed and developed under Hulhumale' development Master Plan has been initially revalued by a professional valuer on 31 December 2006. The difference between the land development cost up to 31 December 2006 and the revalued amount had been recognized through profit or loss in the financial statements. During the year ended 31 December 2013, the company has changed its accounting policy to measure land classified as investment properties at cost less impairment loss and the carrying amount prior to the change of the policy has been recognized as a deemed cost.

However, during the year ended 31 December 2017, the company has changed its policy to recognize all of its investment properties at fair value and accordingly a gain on fair value amounting to MVR 12, 599,862,1l0/- has been recognized through profit or loss.

It is important to note that although this was included in other income, it is an unrealized gain.

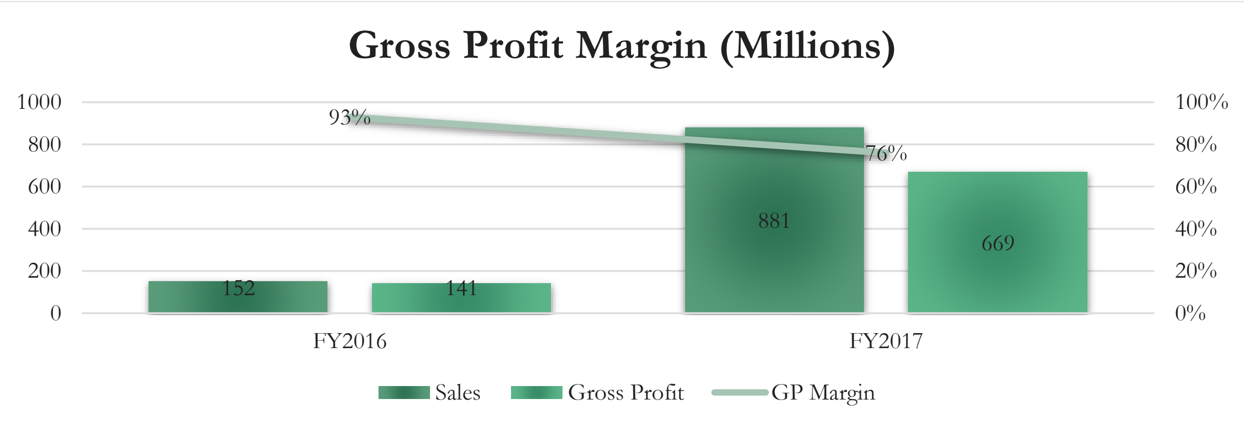
As per IAS 40, an investment property is measured initially at cost. The cost of an investment property interest held under a lease is measured in accordance with IAS 17 at the lower of the fair value of the property interest and the present value of the minimum lease payments.

For subsequent measurement an entity must adopt either the fair value model or the cost model as its accounting policy for all investment properties. One method must be adopted for all of an entity's investment property. Change is permitted only if this results in a more appropriate presentation. HDC has changed its measurement policy from cost to fair value in FY2017.

Under the fair value model, investment property is re-measured at the end of each reporting period. Changes in fair value are recognized in profit or loss as they occur. Fair value is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction, without deducting transaction costs.

3.2 Profitability

Gross Profit Margin

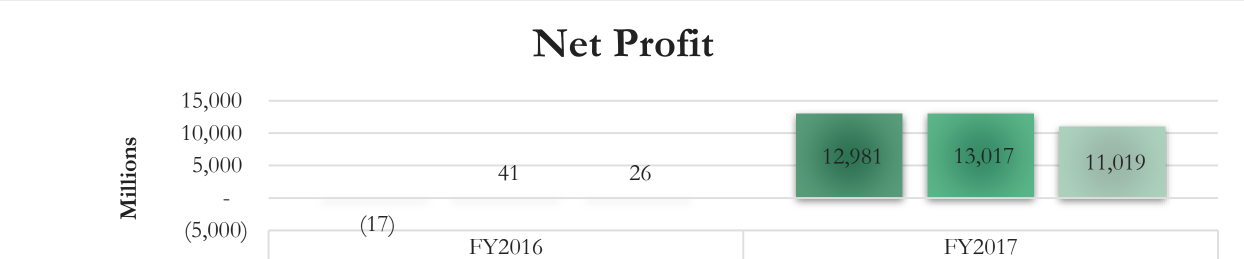


The company has achieved remarkable results in FY2017, by making a gross profit of MVR 669 million (2016: MVR 141 million). This is an increase of 375% when compared to previous year. However, the gross profit margin had declined from 93% to 76% because the rate of increase in revenue is lower than the rate of increase in cost of sales. While the company's revenue has increased by 481%, the cost of sales has increased by 1853%.

Details	FY2016	FY2017
Sales	151,612,415	880,831,582
Cost of Sales	10,853,388	211,919,776
COS as a % of Sales	7%	24%

As the percentage of revenue cost of sales has increased from 7% to 24%, which shows the company is inefficient in managing the direct costs.

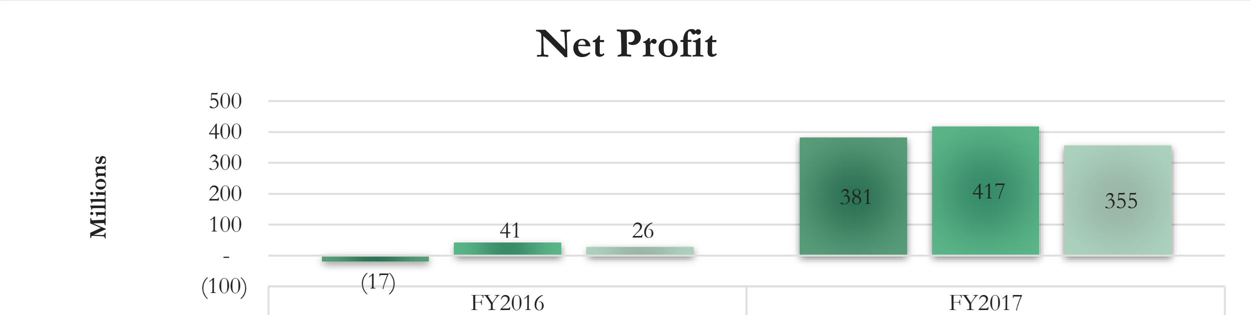
Net Profit Margin



	FY2016	FY2017
Operating Profit	(17,492,528)	12,980,596,014
Profit before tax	41,340,947	13,017,008,383
Net Profit (after tax)	26,142,175	11,019,014,456

The company's net profit has increased from MVR 26 million to MVR 11 billion. However this result was not achieved from the business operation, rather it was achieved because of the fair value gain on investment properties. Due to this, company's tax expense has increased to MVR 1,997,993,927. Since the profit is due to an unrealized gain, the company will not be able to pay the tax as there is cash balance of only MVR 183 million at the year end.

The below graph shows the company's profitability excluding the fair value gain of investment property.



	FY2016	FY2017
Operating Profit	(17,492,528)	380,733,904
Profit before tax	41,340,947	417,146,273
Net Profit (after tax)	26,142,175	354,574,332

The company's performance is still notable even after removing the unrealized gain. Although the total expenses has increase by 87%, HDC was able to make an operating profit of MVR 380 million. Finance income of the company outweighs finance cost, thereby making MVR 417 million as profit before tax. Net profit after tax figure for FY2017, is an estimated figure. The tax expense is calculated without the business profit tax adjustments. However, the company will be making around MVR 350 million after tax profits.

The selling and marketing expenses of the company has increased by 140%, maintenance expenses by 161%, staff cost by 47% (number of staffs has increased by more than 200) and depreciation and impairment expenses by 108%. The below are the expenses which grew significantly.

Detail	2016	2017	% change
General Marketing Expenses	86,235.00	2,157,265.00	2402%

PR Expenses	622,656.00	1,999,278.00	221%
Ceremonial Expenses on allocations	-	7,977,795.00	
Municipal Maintenance	15,887,597.00	25,925,663.00	63%
Building Maintenance	379,389.00	19,875,841.00	5139%
General maintenance	2,533.00	3,565,547.00	140664%
Repair Expenses	2,692,348.00	3,134,925.00	16%
Payroll Expenses	62,119,023.00	91,190,810.00	47%
visa/ID/travelling/Hajj scheme)	4,077,025.00	5,998,233.00	47%
Impairment provision - Trade receivables	10,435,992.00	75,382,742.00	622%
Depreciation - IP & PPE & IA	29,282,065.00	43,771,624.00	49%

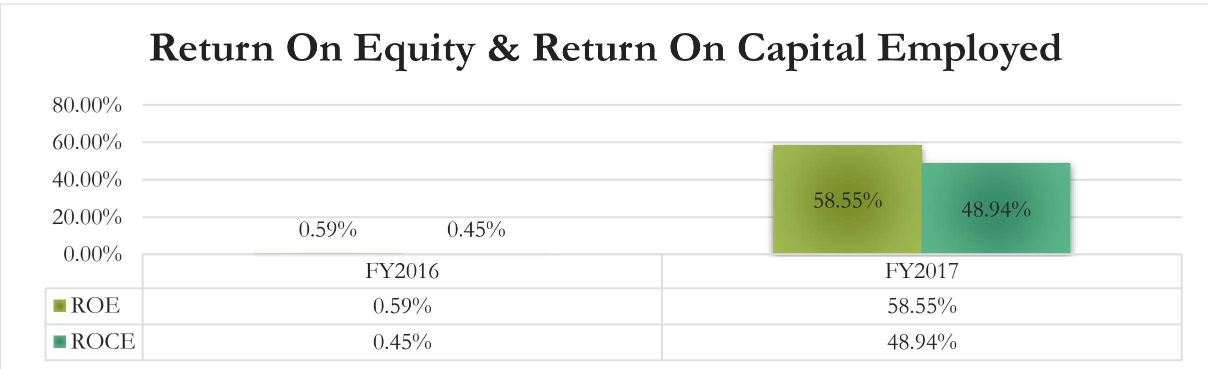
As the sale of properties and rental income has increased by 481% the related expenses has recorded a significant increase. The general marketing expenses has increased from MVR 86,235 to 2,157,265, which is a 2402% increase when compared to previous year. Further, PR expenses has increased by 221%. HDC has also spent MVR 8 million on ceremonies. The ceremony expense consists of costs incurred for opening event of community center and N1 park, HDC youth day event and event planning and management services for Hiyaa Event.

All the maintenance expenses has increased, from which the general maintenance has increased from MVR 2,533 to MVR 3,565,547. This a huge increase of maintenance when there is only 481% increase in the revenue. Overall repair and maintenance expenses of the company has increased enormously due to repainting of Hulhumale flats (area 1-3), increase in cleaning expense and park maintenance.

In addition, HDC has recognized MVR 75 million as impairment of trade receivables, which represents 2% of trade receivables and 9% of revenue.

During the year 2017, HDC has additions to the PPE of MVR 18 million, as a result the depreciation expense has increased by 49%.

3.3 Return on Equity (ROE) and Return on Capital Employed (ROCE)



ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.

The huge increase in the ratios for FY2017 is because of the fair value gain of investment property. If this unrealized gain removed, ROE and ROCE will be 1.88% and 1.57% respectively for FY2017.These ratios illustrates that the company is using their resources or capital efficiently to generate profits.

3.4 Shareholders Returns

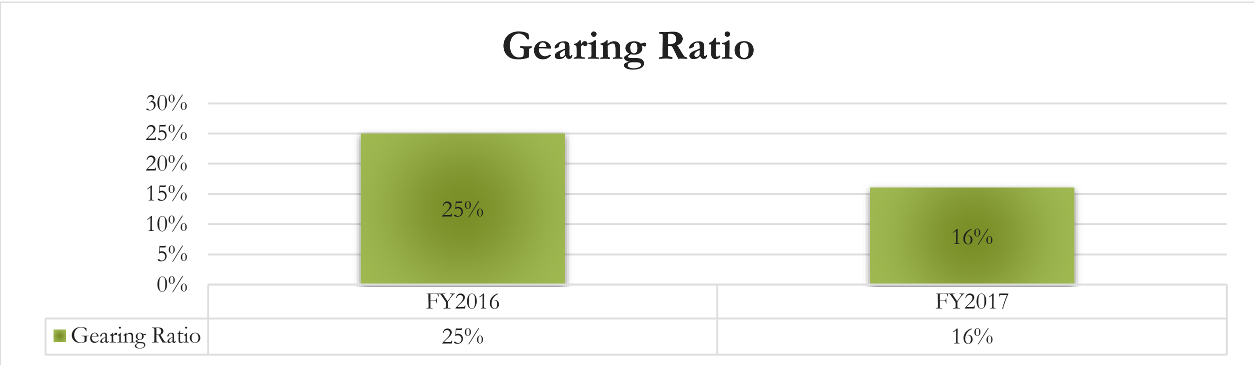
Dividend Policies

Dividend policy is the strategy a company uses to decide how much of its earnings it will pay out to shareholders. The company has not declared any dividend for FY2017 but has declared a dividend of MVR 22 million in the previous year. This can be justified since the company made a net operating loss in FY2016. Dividend are declared after the year end, as such dividend for FY2017 will be declared in the year 2018.

Some investors are concerned with dividend only and others take in to account performance since they expect a high capital gain in the long run. Thus for investors who are worried with divided will be happy about FY2017 performance because the high profit hints about future dividend. It is important to highlight that the earnings per share has increased from MVR 0.59 to MVR 249.30 in FY2017.

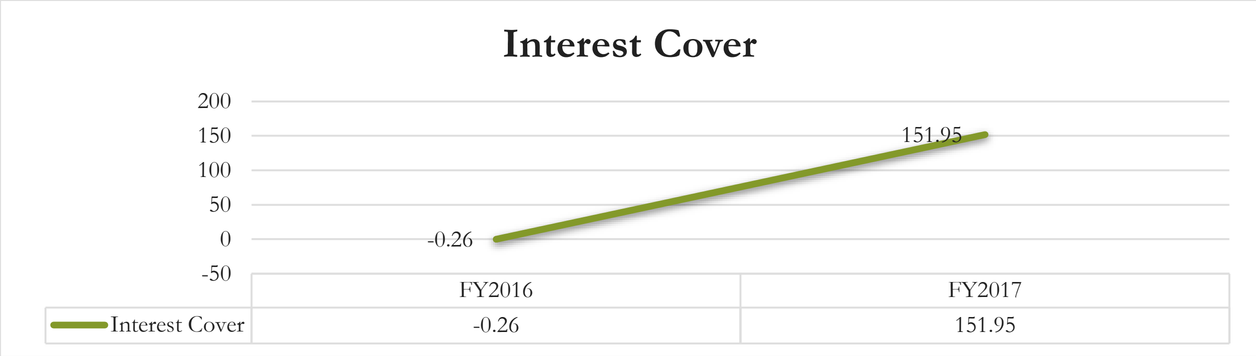
Usually businesses try to maintain a balance of their debt to equity ratio in advance of declaring dividend and which is a long-term goal rather than short term. Thus HDC will also declare dividend after consideration of this objective.

3.5 Financing



Despite the fact that the company has borrowed new loans, the company's gearing ratio has reduced. This is because the value of assets has increased due to the fair value gain in investment properties. During the year 2017, the company has taken additional MVR 1 billion worth of loan facilities. If the fair value gain on investment properties are excluded the gearing ratio of the company in FY2017 is 37% which is 12% increase when compared to previous year.

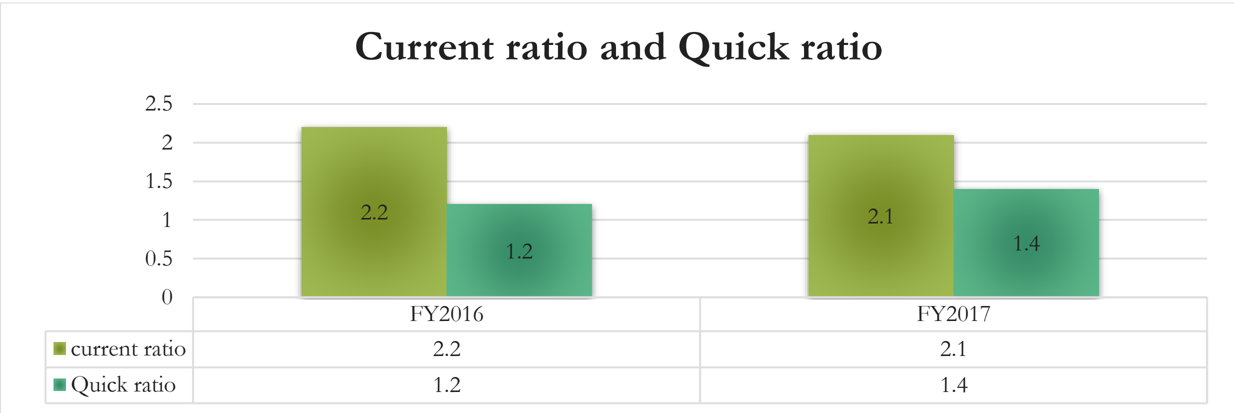
The additional finance were taken for TATA housing units, 7000 housing units down payment loan, phase II road network project, CMEC 1530 housing units and Hulhumale phase II development.



Interest cover of the company has significantly improved from negative 0.26 to a positive 151.95 times since HDC has made an operating profit in FY2017. However, the total finance cost of the company has increased from MVR 67 million to MVR 85 million in FY2017. After considering the interest income and removing fair value adjustment the interest cover will change to 1.62 and 5.88 times for FY2016 and FY2017 respectively. This ratio illustrates that the company is capable of repaying its interest on debts.

3.6 Working Capital Management

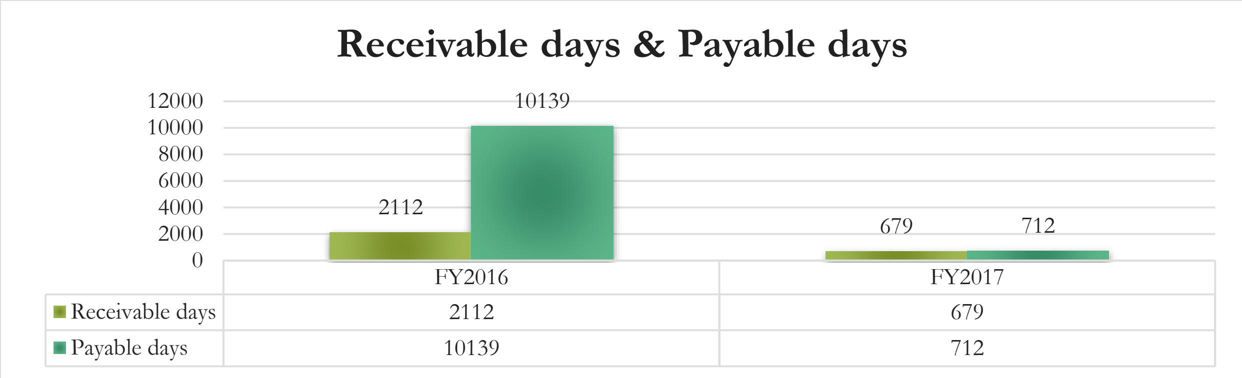
Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.



The liquidity ratios shows that the company is in a healthier liquidity position. There is only slight movements in both current and quick ratio. HDC has the ability to meet its short term liabilities using their current assets. In FY2017, the company has MVR 2.1 current assets for every MVR 1 worth of short term liability. Further, the current ratio is above the ideal current ratio of 2:1.

Quick ratio is similar to current ratio but it is superior with current ratio since it ignores illiquid assets such as inventory. The company has maintained quick ratio of above the ideal level of 1:1 for both the years. A ratio above 1 might also indicate that the company has idle resources within the company which can be reinvested to acquire additional returns to the shareholders.

Generally short term liabilities have lower interest rates compared to long term, thus it will be profitable to choose short term finance to devote on short term projects. Therefore, before choosing a method of finance a company has to consider the risk and rewards.



Accounts receivable represents the money that is contractually owed to HDC by its customers. As per the receivable collection days it takes 2112 days in FY2016 to receive the payment and it has reduced to 679 days in FY2017. The lower the company's collection ration, the more efficient its cash flow. The total receivables for 2017 is MVR 3,158 million and the value was MVR 2,363 million in FY2016.

The company has made a provision for impairment of receivables of MVR 75 million which represents 2% of trade receivables and 9% of total revenue. As such, HDC should be more cautious of its collection policies.

Ideally, when a company has high levels of receivables, it signifies that it will be flush with cash at a defined date in the future. But it is important to note that account receivables are not guaranteed to turn in to cash because in some instances customers neglect to pay the money owed on time. Therefore, accounts receivable alone does not tell the whole story about a company's account collections. The trade receivables consists of non-current and current receivables, thus the current receivables of MVR 1.6 million are expected to receive within one year.

Payable day's measures how long it take to pay its creditors or suppliers. The longer they take to pay their creditors, the more money the company has on hand, which is good for working capital and free cash flow. Nonetheless, it will affect the relations with creditors and suppliers. The company's payable days has reduced from 10139 days to 712 days in FY2017. This usually means that money owed is expected to be paid back within 12 months. However, HDC takes almost 24 months to pay its debtors.

4. Economic Value Added (EVA)

Economic value added (EVA) is an estimate of a firm's economic profit, or the value created in excess of the required return of the company's shareholders. EVA is the most recognized and applied modern performance financial measurement, in shareholder value creation. Shareholder value is created when the net return on assets held by the business exceeds the return required by those who have contributed capital to the business. In other words, value is created only when companies invest capital at returns that exceed the cost of that capital

If a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a company is producing value from the funds invested in it.

EVA of the company has improved from a negative MVR 152 million to a positive MVR 297 million in FY2017. This ratio illustrates that HDC is able to generate value from invested funds above the cost of capital.

5. External Audit

As per Auditor General the financial statements of the company gives a true and fair view of the financial position of the company as at 31 December 2017.

Auditor General have not highlighted that the company has changed its accounting policy to measure land classified as investment properties at fair value and accordingly a gain on fair value amounting to MVR 12, 599,862,1l0/- has been recognized through profit or loss. Due to this change in policy, company made a profit before tax of MVR 13,017,008,383, consequently a business profit tax of MVR 1,997,993,927 is incurred for FY2017. However, considering the financial position of the company it is very unlikely that HDC would be able to make this payment.

As per IAS 8 an entity is permitted to change its accounting policy only if the change;

- Is required by a standard or interpretation; or
- When new accounting policy provides better, more reliable and relevant information.

If a change in accounting policy is required by a new IASB standard or interpretation, the change is accounted for as required by that new pronouncement then the change in accounting policy is applied retrospectively.

Retrospective application means adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

However, it should be noted that HDC has not applied this change in measurement basis retrospectively.

6. Conclusion

As per the financial evaluations of HDC it is evident that the company has achieved high growth in its revenue in FY2017. Further, the company has achieved a net profit of MVR 11,019,014,456 which is a huge improvement when compared to the previous year. However, it is important to note that the substantial growth in the profit is mainly due to the fair value gain of investment properties recognized as other income. The expenses of the company has seen a significant growth in FY2017.

In terms of short term liquidity position the company has recorded a tremendous result. Current and quick ratio are maintained above the ideal level. However, the receivable collection and payable days are not maintained at an acceptable level. HDC has to make policies on managing receivable and payables of the company in order to manage the cash flow position. It is important to highlight the impairment of receivables. The company has made a provision for impairment of receivables of MVR 75 million which represents 2% of trade receivables and 9% of total revenue. As such, HDC should be more cautious of its collection policies. HDC can reduce days in accounts receivable by evaluating accounts receivable on a more frequent basis and take a more assertive stance in the collection of accounts receivable and delinquent accounts.

Although the company has not declared any dividend in FY2017, earnings per share has increased from MVR 0.59 to MVR 249.30 in FY2017. This hints that the company might be declaring dividend in the annual general meeting.

The financial risk in terms of gearing was maintained at an acceptable level. Furthermore, the interest cover of the company illustrates that the company is capable to pay interest on its debts. The company has incurred a business profit tax of MVR 2 billion in FY2017, which is a huge amount for the company. It seems impossible to pay this amount by the company as the closing cash and cash equivalents at the end of FY2017 is only MVR 183 million.

The overall performance of the company is satisfactory and it seems it will be improving year by year. Once the Hulhumalé phase II is completed, the revenue of the company is anticipated to increase further.

Annual Financial Review of

Bank of Maldives Plc

Bank of Maldives Plc

1. Executive Summary

The intention of this report is to analyze the financial status of Bank of Maldives Plc (BML) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

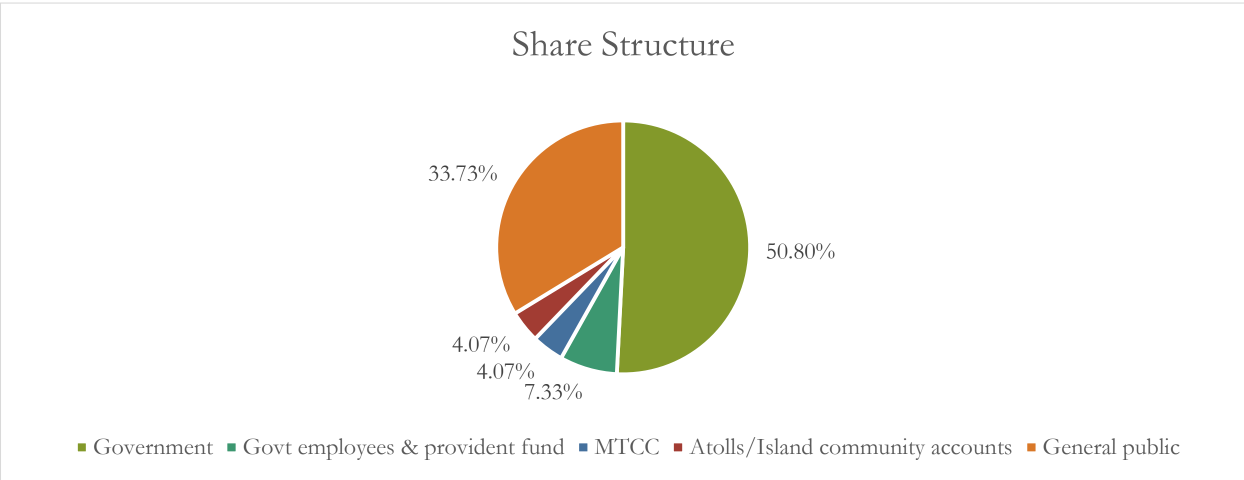
2. Introduction

BML is a public quoted company incorporated on 11 November 1982 with limited liability. The bank provides a comprehensive range of financial services including corporate and retail banking, deposit services, treasury and investment services, project financing, issuing of credit cards and debit cards, electronic banking and money remittance services. It is engaged in both conventional and Islamic banking.

BML is the leading financial provider in Maldives with 34 branches and 95 ATMS in 20 atolls. In addition there are 230 cash agents in 165 islands.

3. Share Structure

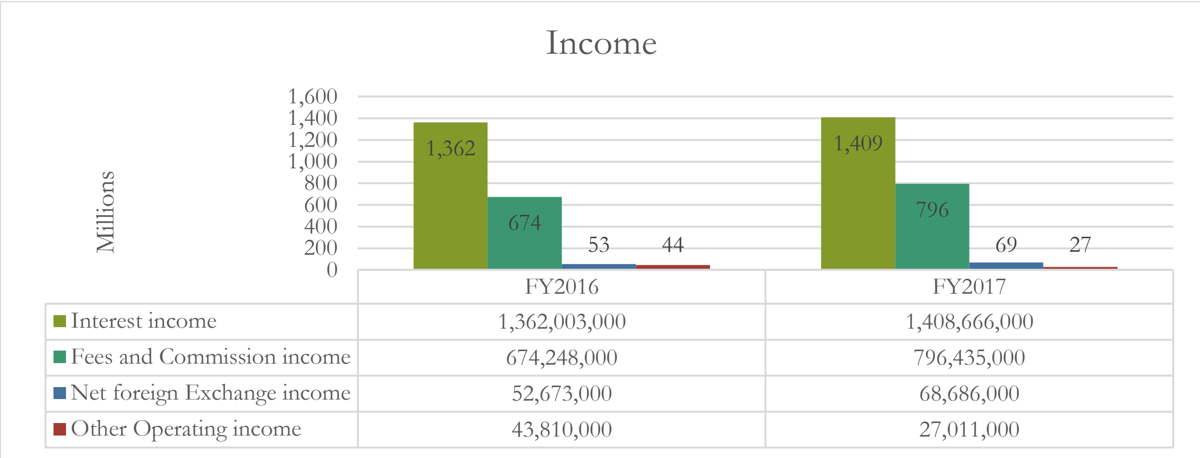
The majority shareholder of BML is Government of Maldives (GoM) holding 50.8% of share capital.



4. Financial Analysis

4.1 Income

Total income reached MVR 2.3 billion in FY2017, an increase of 8% with most lines showing satisfactory growth. Net interest income growth of 3% was constrained by higher funding costs and reduced treasury income. Fees and commission income on the other hand, saw strong growth of 17%, mainly due to higher fee income from card and corporate banking operations. At MVR 630 million, Non-interest income is now contributing almost one third of the Bank's total income which is positive.



The interest income comprises of the following items.

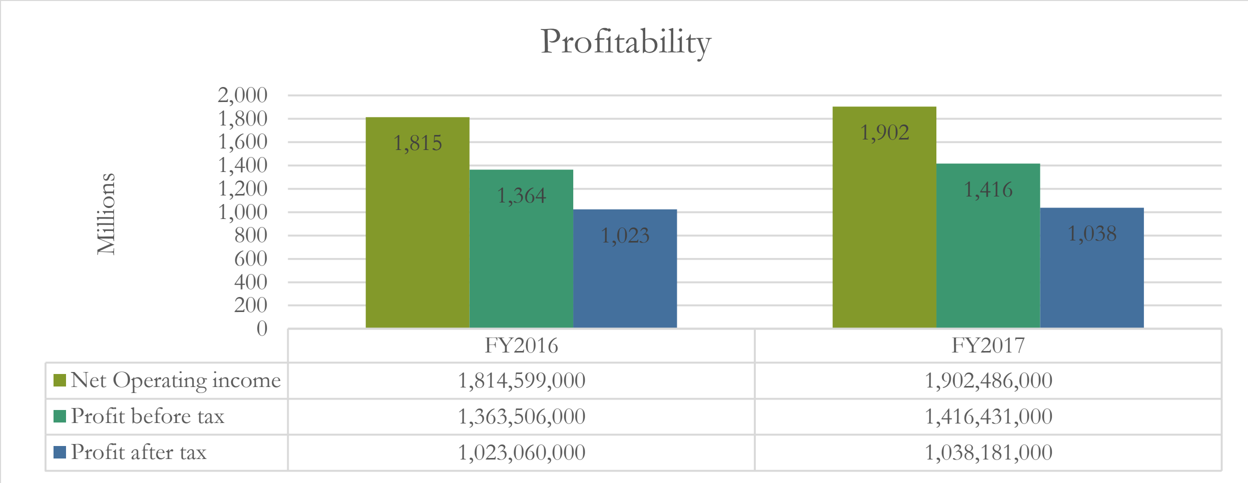
Interest Income	FY2016	FY2017
Placements with banks	62,034	27,310
Loans and Receivables to other customers	1,067,407	1,183,416
Financial Investments- Held to Maturity	224,770	190,263
Financial Assets- Available for Sale	13	-
Assigned capital and Reserve Deposits	7,779	7,677

It is apparent from the above table that the loans and receivables to other customers contributes the highest amount of interest income.

The interest on financial investments held to maturity includes interest income from treasury bills of GoM securities and related financial instruments.

4.2 Profitability

The net operating income of the bank has increased from MVR 1,815 million to MVR 1,902 million in FY2017. Further, profit before tax has increased by 4%.



Although the net operating income has increased by 6%, the total operating expenses has increased by 8%. Below are the operating expenses that has increased significantly.

Operating Expenses	FY2016	FY2017	% of increase
Depreciation of PPE	37,777	45,595	21%
Administration and Establishment expenses	39,570	44,118	11%
Software License Fees and Hardware maintenance Expenses	27,084	32,007	18%
Communication Expenses	15,783	17,978	14%
Salaries, wages and Other Related Expenses	215,534	242,035	12%
Operating Lease Rental	17,940	18,329	2%

Note: All amounts in thousands

Depreciation of Property, Plant and Equipment (PPE) has increased by 21% when compared to previous year. This increase was mainly due to revaluation surplus of MR 47 million and new additions to PPE of MVR 73 million which included investment of MVR 43 million on computer hardware.

BML is operating in 20 atolls and opened 3 new branches in the atolls as well as 14 additional self-service banking centers. As a result, administrative and establishment expenses have increased by 11%.

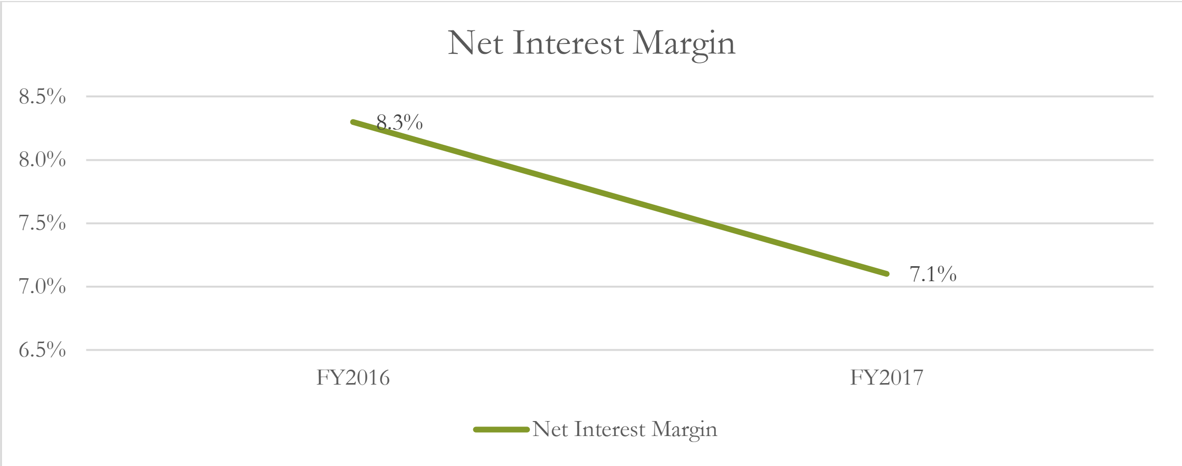
As mentioned earlier BML has spent MVR 43 million on computer hardware in FY2017, hence the related expenses such as software license fees and hardware maintenance expense has increased by 18%.

As per financials, throughout the year the bank implemented a number of trainings and other initiatives to improve staff engagement, thus the salaries and related expenses has recorded a growth of 12% in FY2017.

The impairment of loans and other credit losses has increased from MVR 17 million to MVR 44 million, this is 157% increase when compared to the previous year.

Net Interest Margin

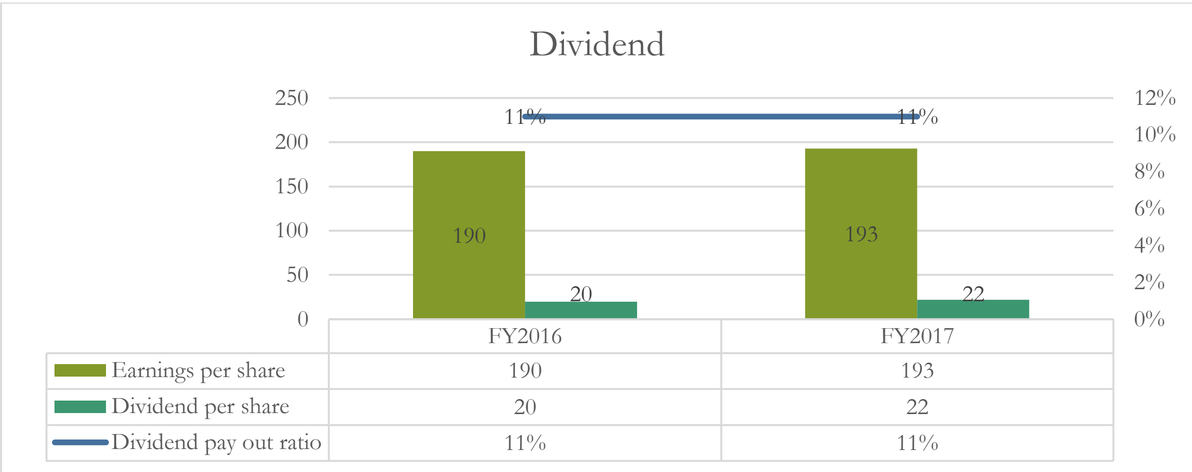
Net interest margin is an especially important indicator in evaluating banks because it reveals a bank's net profit on interest-earning assets, such as loans or investment securities. Since the interest earned on such assets is a primary source of revenue for a bank, this metric is a good indicator of a bank's overall profitability, and higher margins generally indicate a more profitable bank. Net interest margin is calculated as the sum of interest and investment returns minus related expenses; this amount is then divided by the average total of earning assets.



A number of factors can significantly impact net interest margin, including interest rates charged by the bank and the source of the bank's assets. There is a marginal decrease in company’s net interest margin from 8.3% to 7.1%. The company’s total earning assets has increased from MVR 15 billion to MVR 18 billion. However the net interest income has not increased by that rate, thus net interest margin has shown a marginal decrease.

4.3 Shareholders Returns

Earnings per Share and Divided per Share



Divided policy of a company is the strategy a company uses to decide on how much earning they will pay out to shareholders in the form of dividends. Earnings per share of BML has increased from MVR 190 to MVR 193 in FY2017, likewise the dividend per share has also recorded a growth of MVR2 per share. Dividend payout ratio has remained unchanged in FY2017. This is be a good sign for the shareholders since they will be getting a stable return from the investment.

Low payout ratio means the company is investing money in the business rather than distributing it to shareholders, thus generating returns in future. The business expansion is clearly seen from BML since they are developing new branches across Maldives.

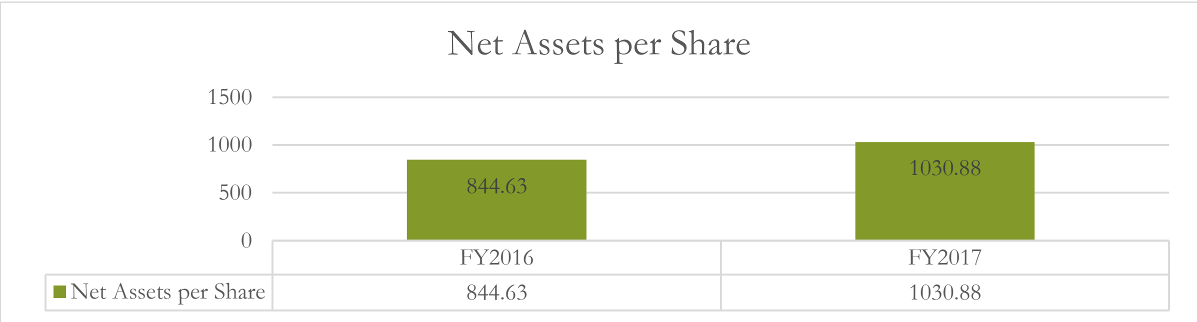
Dividend Yield

Details	FY2016	FY2017
Weighted Average Share price	151.08	206.7
Dividend per Share	20	22
Dividend yield	13%	11%

During 2017, a total of 19 transactions amounting to 5,374 shares were traded through the Maldives Stock Exchange (MSE). The weighted average price over the year was MVR 206.70 and the total value of the shares traded was MVR 1,110,825. Dividend yield of the company has reduced from 13% to 11%, due to the increase in share price. For each Rufiyaa invested, the investors are getting only 11% of return from it, which is a relatively low percentage.

High dividend yield are attractive to investors, yet high dividends may often come at the cost of growth potential. Every Rufiyaa a company is paying in dividends to its shareholders is a Rufiyaa that company is not reinvesting in itself in an effort to make capital gains. Considering the investments, the company is paying a reasonable amount of dividends to the shareholders.

Net Assets per Share



The company is maintaining a strong capital position well above regulatory requirement of MVR 22 million. Since the company's share capital is unchanged with 5,381,920,000 shares, the net assets per share has experienced a growth from MVR 844.63 to MVR 1,030.88.

4.4 Leverage and Risk

Banking is a highly-leveraged business requiring regulators to dictate minimal capital levels to help ensure the solvency of each bank and the banking system. Maldives Monetary Authority (MMA) is the regulator of financial sector, who ensure compliance to uphold the soundness and integrity of the banking system.

Credit Risk

Credit risk is the likelihood that a borrower will default on a loan or lease, causing the bank to lose any potential interest earned as well as the principal that was loaned to the borrower. As investors, these are the primary elements of risk that need to be understood when analyzing a bank's financial statement. To absorb these losses, banks maintain an allowance for loan and lease losses. This allowance should be maintained at a level that is adequate to absorb the estimated amount of probable losses in the institution's loan portfolio.

The table below shows the maximum exposure to credit risk for the components of financial position.

	31-Dec-16		31-Dec-17	
Details	**Maximum exposure to risk**	**No exposure to credit risk**	**Maximum exposure to risk**	**No exposure to credit risk**
Balances with Other Banks	417,140	417,140	652,808	652,808
Placement with Banks	1,549,986	1,549,986	1,750,216	1,750,216
Loans and Receivables to Other Customers	10,394,992	1,290,606	12,515,771	1,488,634
Financial Investments- Available for Sale	84,556	84,556	123,483	123,483
Financial Investments- Held to Maturity	4,246,300	4,246,300	4,381,825	4,381,825
Total	**16,692,974**	**7,588,588**	**19,424,103**	**8,396,966**

Note: values are shown as thousands

From the above table it is apparent that only loans and receivables to other customers are exposed to credit risk and it is the significant component of BML's earning assets.

Loans and advances are summarized as follows;

Loans and Advances	FY2016	FY2017	% change
Neither past due nor impaired	7,337,176	10,334,650	41%
Past due but not impaired	2,288,817	1,315,414	-43%
Individually impaired	768,999	865,707	13%
Gross	10,394,992	12,515,771	20%
Less: allowance for impairment	-798,875	-294,711	-63%
Net	**9,596,117**	**12,221,060**	27%

Note: values are shown as thousands

The gross loans and advances have increased by 20% when compared to the previous year, and individually impaired loans have increased by 13%, however BML has reduced the allowance for impairment by 63%.

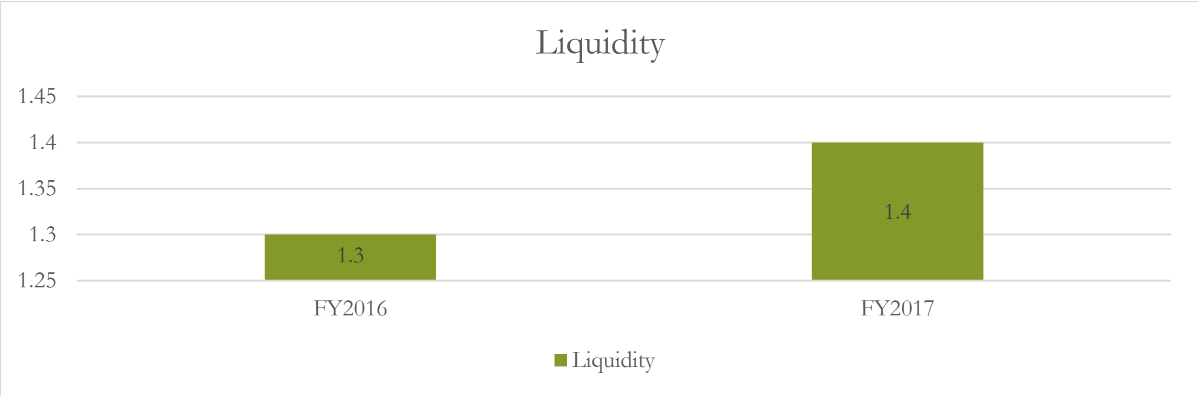
Currently, the group does not maintain an internal credit rating system except for exposures which are classified as non-performing. However, the group carries out an in-depth credit risk assessment on a qualitative and quantitative basis before granting a facility. Exposure to each borrower is reviewed on a scheduled basis.

Liquidity Risk

Liquidity risk is defined as the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The group maintains a statutory deposit with MMA equal to 10% of customer deposits. Furthermore, the group maintains a ratio of net liquid assets to liabilities to reflect market conditions.

Maintaining adequate liquidity is essential to manage the expected and unexpected fluctuations in the assets and liabilities to provide funds for growth.

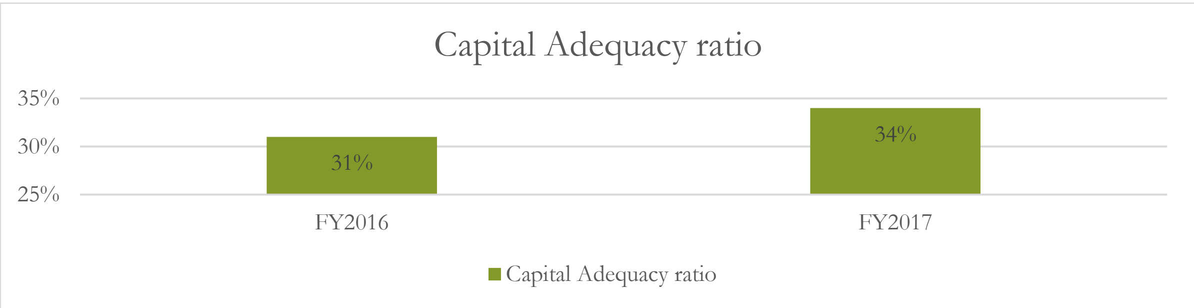


The financial assets to financial liabilities of the company shows that the company has MVR 1.3 of worth financial assets for each MVR 1 financial liabilities.

4.5 Capital Management

MMA requires each bank or banking group to hold a minimum level of regulatory capital of MVR 150 million and to maintain a ratio of total regulatory capital to risk-weighted assets (the 'Basel ratio') at or above 12%.

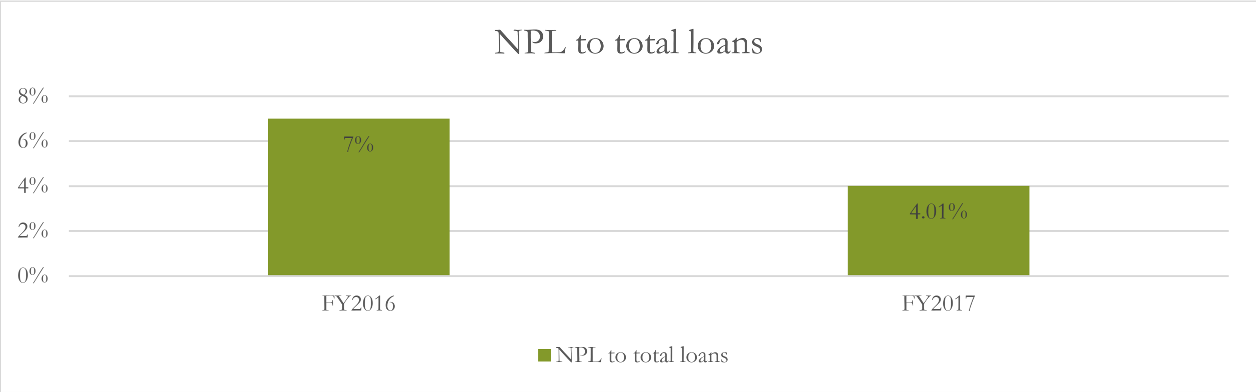
BML has complied with all regulatory capital requirements during both years FY2016 and FY2017. As per Basel 2 guidelines, the total capital ratio must be maintained at or above 15% for both Tier 1 and Tier 2 capital. The group reported 29% and 39% for Tier 1 and Tier 2 capital respectively for the year ended 2017.



The capital adequacy ratio (CAR) is an international standard that measures a bank's risk of insolvency from excessive losses. Maintaining an acceptable CAR protects bank depositors and the financial system as a whole. BML has a remarkable CAR of 34%.

4.6 Loan Book Quality

Total non-performing loans less interest in suspense at the end of 2017 stood at MVR 504 million, with no significant new non-performing loans during the year. The ratio of non-performing loans to total loans reduced from 7.0% to 4.1%, while the provision cover ratio was maintained at 100%. Ratio of non-performing to total loans was 20.3% just three years before, thus company has achieved substantial improvement in loan book quality.



5. External Audit

The external audit of BML was conducted by Ernst & Young. As per their opinion, the financial statements of the company gives a true and fair view of its financial position as at 31 December 2017. The following were identified by the auditor as key audit matters.

- Improvement provision for loans and advances as per IAS 39: the allowance is considered to be a matter of most significance as it requires the application of judgment and use of subjective assumption by management. Loans and advance to customers contribute approximately 54% of total assets, which are subject to collective impairment.
- IT controls: Due to the significant number of transactions processed is daily with the use of technology, the bank's internal controls around IT controls are important. The key areas of IT controls include logical access management for privileged and general user accounts, change management, system integrations, and cyber security.
- Identification and disclosure of related party transactions: The majority of the shares of the bank are held by the GoM through Ministry of Finance and Treasury (MoFT) and other government related entities. The bank enters into transactions with those entities and such transactions are summarized and disclosed in FS.

6. Conclusion

Financial year 2017 was a positive year for BML. The bank has achieved solid business growth together with improvements in loan book quality ratio of non-performing to total loans falling from 7.0% to 4.1%. Further, the bank has added new 23,000 customers to their customer base.

Although the after tax profit of the bank was increased by only 1%, the gross income of the company has achieved a growth of 8%. The bank's earning assets have increased from MVR 15 billion to MVR 18 billion, which will generate further interest income.

The bank is strongly capitalized with a capital adequacy ratio of 34%, well above regulatory requirements. The bank has solid policies to mitigate the credit and liquidity risk.

Investors of the company are getting a reasonable return from the amount invested by means of dividend. The company has maintained a dividend payout ratio of 11% for both FY2016 and FY2017.

Annual Financial Review of

Housing Development Finance Corporation Plc

Housing Development Finance Corporation Plc

1. Executive Summary

The intention of this report is to analyze the financial status of Housing Development Finance Corporation Plc (HDFC) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statements. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

In order to do comparative financial analysis, previous years' financial statements have been used, as financial statements are the principal tool which can be used to identify financial strength of the company and make prospective decision. Therefore in analyzing financial strength or weakness of the company, importance is given to establish a relation between the items in the financial statement.

2. Introduction

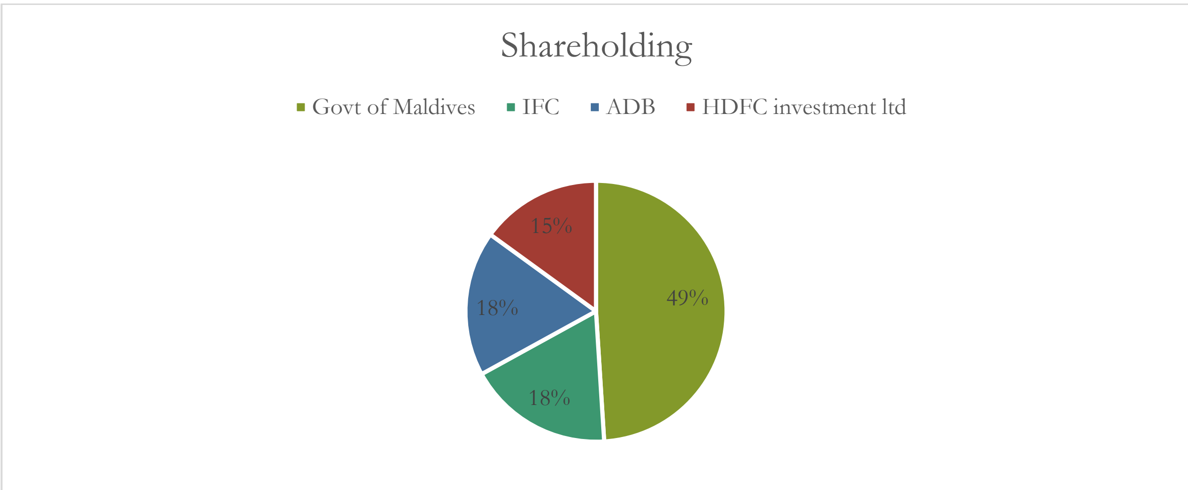
HDFC was incorporated as a state owned enterprise on 28 January 2004 by a Presidential Decree under the Companies Act Law No. 10/96. The Company was registered as a public company on 9 February 2006 and was privatized with the signing of a "Shareholders" agreement for privatization between the Government of Maldives (GoM), International Finance Corporation (IFC) of the World Bank Group, Asian Development Bank (ADB) and HDFC Investments Ltd- India on July 23, 2008.

HDFC is engaged in the business of granting housing loans for residential and commercial purpose. The company is a limited liability Company and is incorporated and domiciled in the Republic of Maldives.

HDFC has the second largest market share, with over one-third of the housing finance market and registered mortgages at 49.1%. HDFC has concluded fourteen years of operations, having given more than MVR 2 billion of both, conventional and Islamic housing finance to thousands of Maldivian citizens.

3. Ownership Structure

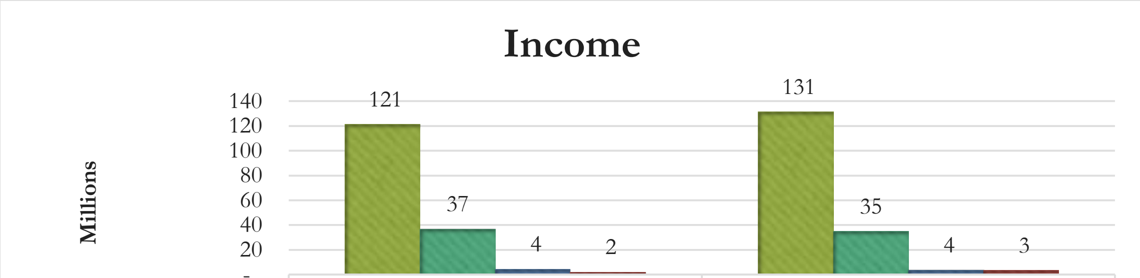
HDFC's major shareholders are; Government of Maldives (49%) Asian Development Bank (18%), International Finance Corporation (18%) and HDFC Investments Limited, India (15%).



4. Financial Analysis

4.1 Revenue

The total revenue for the year ended 31 December 2017 is recorded as MVR173.2 million as against MVR141.9 million corresponding period in the year 2016. Net interest income has shown a growth of 6%, net income on the sharia products and other income on the other hand, saw a strong growth of 56% and 78% respectively.



	FY2016	FY2017
Gross Interest Income	121,228,951	131,234,043
Gross Sharia Income	36,811,313	34,899,355
Fee Income	4,311,927	3,695,355
Other Income	1,915,739	3,409,175

Interest income comprises of interest from housing loans and treasury bills/ other deposits with bank.

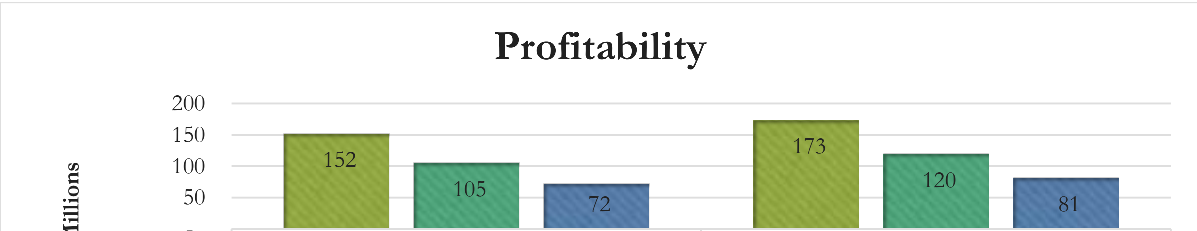
HDFC Amna

Since the commencement of HDFC Amna in 2012, now it holds approximately 22% of the company's housing portfolio, where its total loan portfolio stands over MVR 1.4 million. As per financials, it is expected to dominate the market by 2020, provided that the growth level remains steady.

HDFC offers three sharia compliant products all related to housing. They are Isthisna' for Home construction, Musharaka Muthangisa for home purchase and Murabahah for home renovation. HDFC received a total of 39 applications for Amna for the year 2017 and provided housing facilities to 27 amongst them.

Net income from Sharia products increased to MVR 22.5 million in 2017 compared to MVR 14.4 million in previous year. This reflects an increase of 56.25%.

4.2 Profitability



	FY2016	FY2017
Gross revenue	151,771,914	173,237,908
Operating Profit	105,083,885	119,507,928
Net Profit	72,299,405	81,187,109

The gross revenue and operating profit of the company has increased by 14%, however net profit of the company has seen a growth of 12%. This is because the operating expenses has increased by 35% in FY2017.

The below tables shows the expenses which were increased in FY2017.

Expenses	FY2016	FY2017	% change
Provision for loan impairment	(4,021,155)	(10,576,163)	163%
Board remuneration and meeting expenses	582,024	791,165	36%
Bank Charges	145,149	309,828	113%
Other expenses	1,438,954	2,183,078	52%
Amortization of intangible assets	8,994	71,793	698%

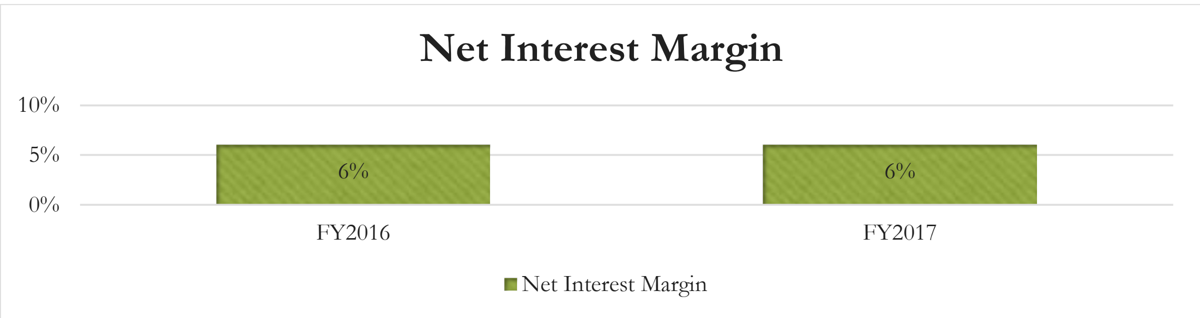
The housing loans have increased from MVR 1.3 million to MVR 1.4 million in FY2017, which is an 8% increase, provision for loan impairment on the hand has seen a drastic increase of 163%. During the year the company did not write off any bad loans or facilities.

In addition, board remuneration and meeting expenses have increased by 36%. As per the annual report a new board member was appointed in February 2017.

Bank charges and other expenses have increased by 113% and 52% respectively. In FY2017, HDFC have acquired MVR 454,296 worth of intangible assets, thus amortization expenses have increased by 698%.

Net Interest Margin

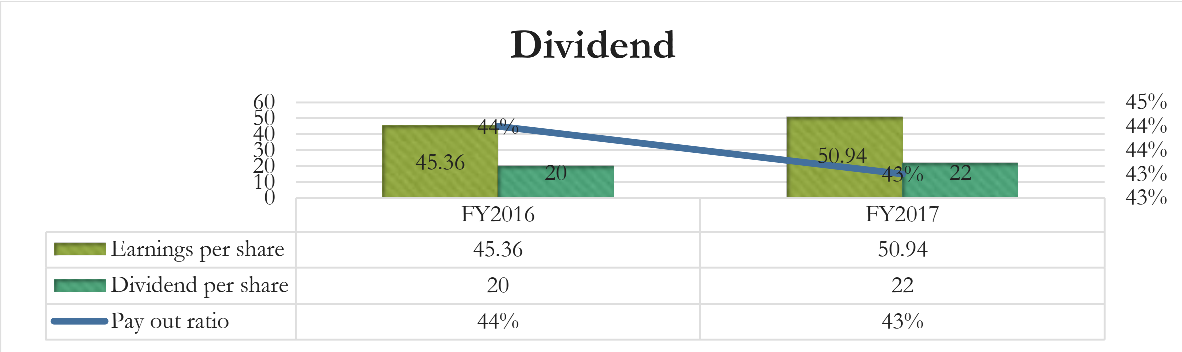
Net interest margin is an especially important indicator in evaluating banks because it reveals a bank's net profit on interest-earning assets, such as loans or investment securities. Since the interest earned on such assets is a primary source of revenue for a bank, this metric is a good indicator of a bank's overall profitability, and higher margins generally indicate a more profitable bank.



The company's net interest margin remain unchanged in FY2016 and FY2017. However, there is an increase of net interest income of MVR 5 million. Similarly the earning assets have also increased by MVR 108 million.

4.3 Shareholders Return

Earnings per Share and Dividend per Share



Divided policy of a company is the strategy a company uses to decide on how much earning they will pay out to shareholders in the form of dividends. Earnings per share of HDFC has increased from MVR 45.36 to MVR 50.94 in FY2017, similarly the dividend per share has also recorded a growth of MVR 2 per share. Dividend payout ratio has seen a marginal decrease from 44% to 43%. However, HDFC's payout ratio is comparatively high when compared to similar companies. (BML: 11%)

However, high payout ratio come at the cost of growth potential. Every Rufiyaa a company is paying in dividends to its shareholders is a Rufiyaa that company is not reinvesting in itself in an effort to make capital gains.

4.4 Asset Quality

The company improved its asset quality substantially during the year when compared to 2016 of the same period, despite the aggressive competition. At the end of 31 December 2017, the total net loan/facility portfolio amounts to MVR1.4 billion. The company maintained an internal credit rating system for loans either past due or impaired. The loan value falling under category A+ was maintained at 99.86% as at 31 December 2017 and previous year as well. In order to minimize the potential increase of the credit risk exposure, HDFC focused more on securing loans to greater Male' region than in the outer atolls. All assets are covered by insurance and all loans are now covered for the tenure of the loans/facilities.

4.5 Capital Management

Netherlands Development Finance Company and Deutsche Investitutions und Entwicklungs Gesellschaft MBH require HDFC to maintain a ratio of total capital to the risk-weighted asset (the 'Basel ratio') at or above 12%.

The table below summarizes the composition of capital and the ratios of HDFC for the year ended 31 December 2017. HDFC complied with all of the externally imposed capital requirements to which they were subjected.

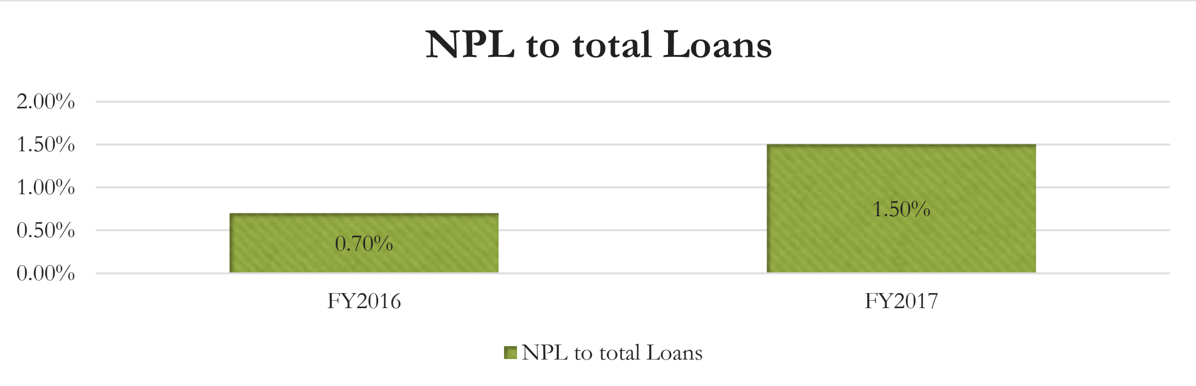
Capital	31-Dec-16	31-Dec-17
Share capital	159,375,000	159,375,000
Advance for shares	51,407,100	51,407,100
Retained earnings	240,694,334	285,967,217

Reserves	16,284,754	17,136,480
Total qualifying capital	**467,761,188**	**513,885,797**
Risk-weighted assets		
On balance sheet	670,280,209	728,435,996
Basel ratio	**70%**	**71%**

The increase of the regulatory capital for the year ended 31 December 2017 is mainly due to the contribution of the year-end profit. The increase of the risk-weighted assets reflected the expansion of the loan portfolio in the year. However, the Basel ratio had increased marginally.

4.6 Loan Book Quality

As of 31st December 2017 the company's total portfolio value of loans/facilities had increased to MVR 1.4 billion from MVR 1.3 billion in 2016, with the loan attrition rate at 11%. Non-performing loans (NPL) to total loans ration has slightly increased from 0.70% to 1.5% in FY2017.



With a rigorous implementation of collection efforts and possible use of legal channels of recovery. The recovery process is structured with early warning arrangements, regular reviews and prompt legal actions. These actions have assisted the company in minimizing defaults and maximizing collections.

4.7 Liquidity

Liquidity risk is the risk that HDFC might be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

As at 31 December (in MVR '000)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits	-	-	3,592	-	64,844	**68,436**
Debt Securities in issue	9,036	19,182	10,208	111,602	-	**150,028**
Other borrowed funds	19,527	51,711	168,091	465,000	92,437	**796,766**
Other liabilities	-	-	55,075	-	129,264	**184,339**
Total liabilities	**28,563**	**70,893**	**236,966**	**576,602**	**286,545**	**1,199,569**
Assets						

cash and balances with banks	68,526	-				**68,526**
Financial assets held to maturity	29,960	67,000				**96,960**
Loans and advances	16,325	32,651	146,928	783,618	1,959,044	**2,938,566**
Other assets	-	-			7,868	**7,868**
Total assets	**114,811**	**99,651**	**146,928**	**783,618**	**1,966,912**	**3,111,920**
NET (Assets-Liabilities)	**86,248**	**28,758**	**(90,038)**	**207,016**	**1,680,367**	**1,912,351**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, deposits with banks, financial asset held to maturity and housing loan repayment from customers. HDFC would also be able to meet unexpected net cash outflows by discounting treasury bills, other investments and accessing the undrawn borrowing facilities**.**

5 External Audit

The external audit of HDFC was conducted by Price Waterhouse Coopers (PWC). As per their opinion, the financial statements of the company gives a true and fair view of its financial position as at 31 December 2017. The below addressed matter was identified by the auditor as key audit matters.

- Impairment of housing loans; The Corporation's net loans and advances comprising of conventional housing loans and Amna assets show at MVR 1.41 billion after accumulated allowance of impairment amounting MVR 28.58 million, represent 89% of total assets as at 31 December 2017.
  Impairment calculations have been done in accordance with IAS 39, which involved identification of impaired assets, estimation of probability of default for unimpaired loans on portfolio basis and loss given default based on historical loss experience for loans/assets.

The audit opinion was not qualified over this matter, as such we believe there are no material misstatements in recognition of impairment.

6 Conclusion

Financial year 2017 was a successful year for HDFC, achieving over 12.3% profit growth and 8.3% portfolio growth. The operating expenses has increased by 172% in FY2017. The significant expenditure of the company is provision for loan impairment which has recorded a growth of 163%.

The Company has been maintaining a high asset quality. At the end of 31 December 2017, the total net loan/facility portfolio amounts to MVR1.4 billion. Further, the company maintains a ratio of total capital to the risk-weighted asset (the 'Basel ratio') over 70%, well above regulatory requirements.

The company has a system of vigorous collection efforts and judiciously use legal channels for recovery. Thus company has maintained its expectation of lowest ratio of non-performing to total loans at 1.5% compared to other local banks.

In addition, the company has a favorable liquidity position, maintaining net assets of MVR 1.9 billion at the end of 2017.

Investors of the company are getting a high return from the amount invested by means of dividend. The company has a payout ratio of 43%, which is comparatively high when compared to similar companies.

Annual Financial Review of

State Electric Company Limited

State Electric Company Limited

1. Executive Summary

The intention of this report is to analyze the financial status of State Electric Company Limited (STELCO) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

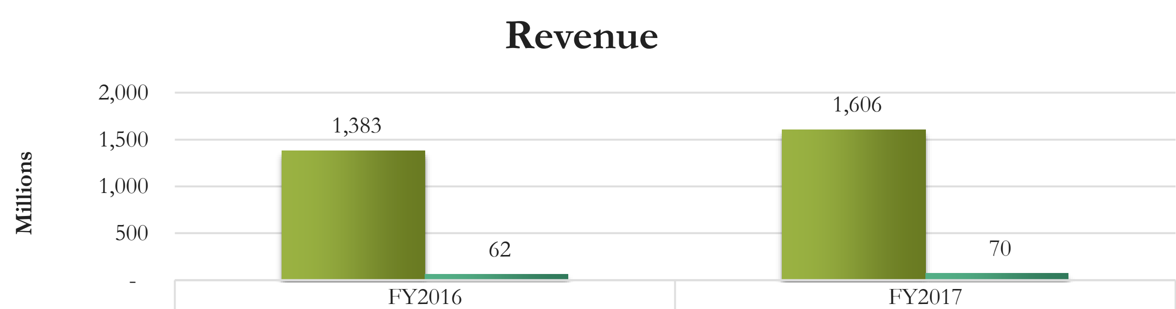
STELCO is a wholly owned government company incorporated in accordance with Section 95 of the Companies Act of 1996 under Presidential Decree no 1997/83 of 19th June 1997.

The main objectives of the company are to generate and supply electricity and to provide customer service for the safe and efficient use of electrical energy. The company generates and supplies electricity to various islands in Maldives.

3. Financial Analysis

3.1 Revenue

STELCO has recorded revenue of MVR 1,698 million in FY2017, a substantial increase of MVR 250 million, which represents 17% growth compared to previous year.



	FY2016	FY2017
Electricity	1,382,961,303	1,605,808,554
Non-electricity	61,754,085	70,097,855

As per the above table, both electricity and non-electricity revenue has increased in this year. The growth is mainly due to increase in the Company's customer base coupled with increase in demand for electricity especially from commercial customers.

In addition, other income of the company has significantly increased from MVR 3.7 million to MVR 22.7 million, which is an increase of 509%.

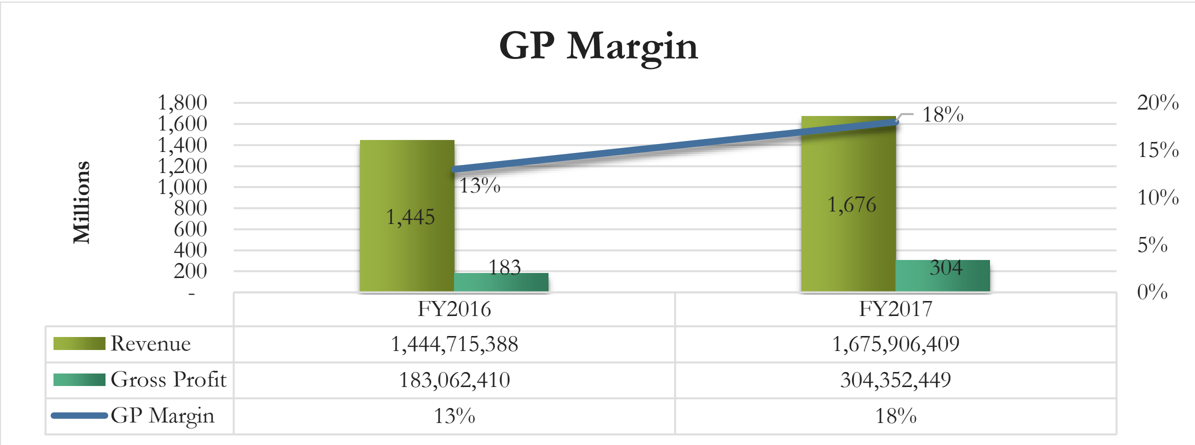
Other Income	FY2016	FY2017	% change
Reversal of provision for doubtful debts	-	16,296,086	100%
Operational income	1,570,795	2,322,619	48%
Capital grant taken to income	1,691,823	1,691,823	-
Rental income	964,714	1,219,217	26%
Miscellaneous income	-	1,147,868	100%
Bottling Plant expenses	(504,085)	-	
Total Other Income	**3,723,247**	**22,677,613**	**509%**

The huge increase in other income is mainly due to the reversal of provision for doubtful debts and the miscellaneous income recorded in FY2017.

Further, operation income has increased by 48% and rental income has also recorded a growth of 26%.

3.2 Profitability

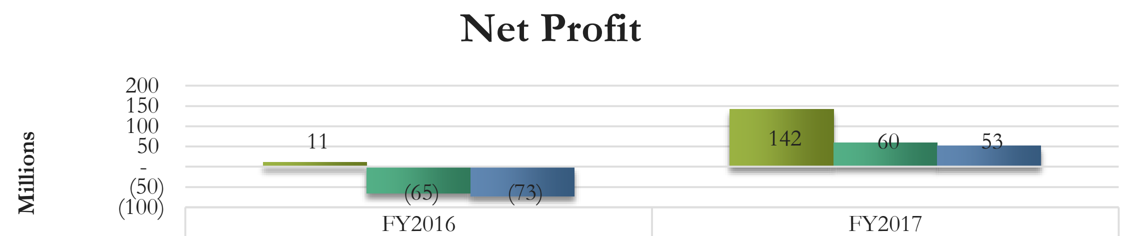
Gross profit Margin



The company has achieved remarkable results in FY2017, by making a gross profit of MVR 304 million (2016: MVR 183 million). This is an increase of 66% when compared to previous year.

While revenue was increased by 16%, the cost of sales has increased by only 9%, which shows the company has managed its direct costs. As a result, the gross profit margin has increased from 13% to 18%.

Net Profit Margin



	FY2016	FY2017
Operating Profit	10,955,759	142,042,505
Profit before tax	(65,431,055)	59,701,785
Net Profit	(72,669,914)	52,863,662

The operating profit of the company has improved significantly in FY2017 as a result of increasing revenue and other income together with effective cost control. STELCO was a loss making company thereby has made a net loss of MVR 73 million in FY2016, however the company has improved its performance in this year and has implemented effective cost control measures, thus achieved a net profit of MVR 53 million.

The administrative expenses of the company has seen a growth of 5% when compared to the previous year. Considering the increase of revenue and other income, the increase of expenses are minimal.

Fuel expenditure accounts for 90% of company's production cost and therefore is a critical component of profit and sustainability. Production costs were held at a sustainable rate due to government's initiative to control fuel price.

By taking stringent measures to improve efficiency of power generation and reducing costs by implementing innovative procurement methodologies, the company has achieved a significant saving on costs. STELCO has saved costs in costs of power purchase, travelling expense, insurance expenses, training expense, water quality testing and audit fees.

On the other hand, the below expenses have recorded a growth in FY2017.

Other Income	FY2016	FY2017	% change
Depreciation	82,277,604	99,475,489	21%
Rental expense	12,953,123	29,064,666	124%
Customer service expenses	12,409,242	19,950,757	61%
Bank charges	5,387,130	8,329,389	55%
Transport and hiring expenses	2,674,304	4,070,576	52%
Advertising costs	568,801	927,109	63%
Directors remuneration	616,123	713,531	16%
Lawyer fees	159,976	195,578	22%
Loss on disposal of assets	122,875	261,579	113%

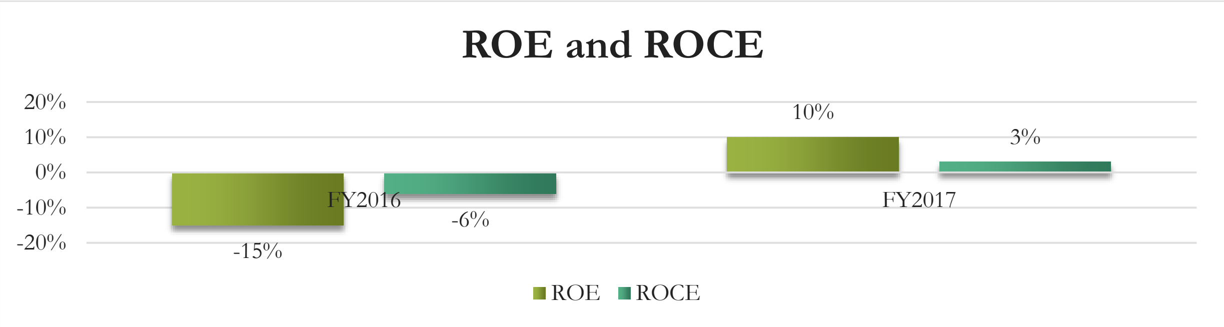
Staff allowance	64,052,833	73,578,889	15%
Wages and Salaries	64,737,432	73,210,075	13%
Staff medical and welfare	2,830,374	4,069,320	44%
Other staff expenses	1,309,888	2,541,845	94%

During the year the company has acquired MVR 21 million worth of Property, Plant and Equipment (PPE) and MVR 264 million was transferred from capital work-in-progress. Thus, the depreciation expenses has increased by 21%.

Further, the company has sold MVR 4 million of PPE, and has realized a loss of MVR 261,579.

The staff related expenses as a whole has seen a growth of 10%, which includes 13% increase in wages and salaries, 15% increase in staff allowance, 44% increase in staff medical and welfare and 94% increase in other staff expenses. It is important to highlight that staff cost comprise of 13% of total expense (cost of sales + admin expense). This increase is caused by hiring additional 117 staffs in 2017.

3.3 Return on Equity (ROE) and Return on Capital Employed (ROCE)



ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.

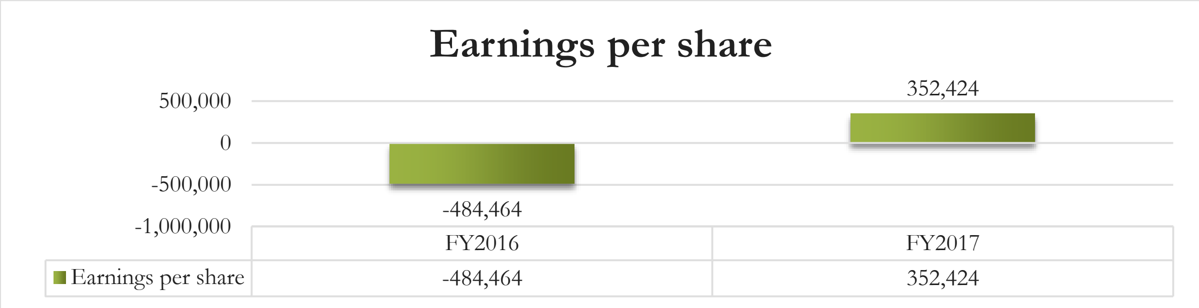
Since the company has made a net loss in FY2016, the ROE and ROCE figures are negative for the year. On the other hand, these figures are positive in FY2017 due to the Net Profit made by the company. The positive figures in FY2017 illustrates that the company is using their resources or capital efficiently to generate profits.

3.4 Shareholders Returns

Dividend Policies

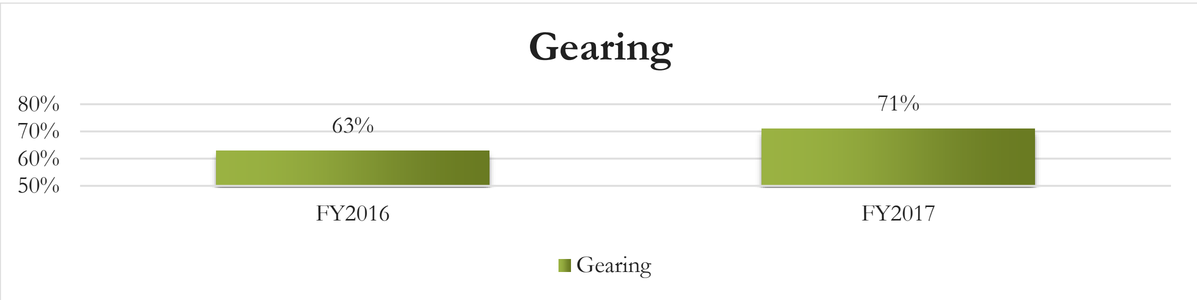
Dividend policy is the strategy a company uses to decide how much of its earnings it will pay out to shareholders. The company has not declared any dividend for FY2016 and FY2017. This can be justified since the company made a net operating loss in FY2016. Dividend are declared after the year end, as such dividend for FY2017 will be declared in the year 2018. The company is wholly owned by the Government of Maldives (GoM).

Earnings Per share



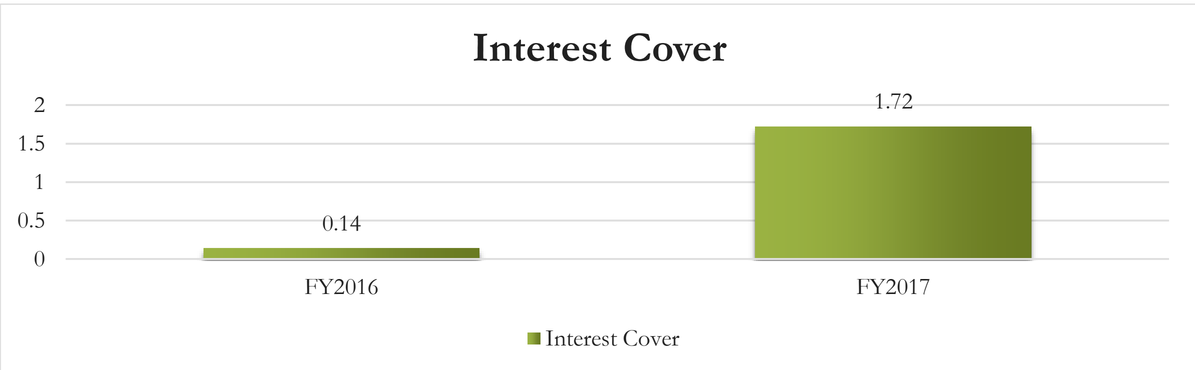
The company's issued share capital is 150 for both the years in review. Since the company has changed its financial results from a loss to profit in FY2017, the earnings per share has changed from negative to positive MVR 352,424.

3.5 Financing



The company's non-current assets has increased by MVR 513 million, as a result the gearing of the company has increased from 63% to 71%. The non-current assets were taken to finance the company's projects (power system, generator set, and poised project). With high gearing, company's financial risk has increased as company's debts are higher than its equity. Gearing ratios are utilized by the financial institutions in preparation of issuing loans, thus high gearing could mean it will be difficult for STELCO to entertain further funds as means of loans.

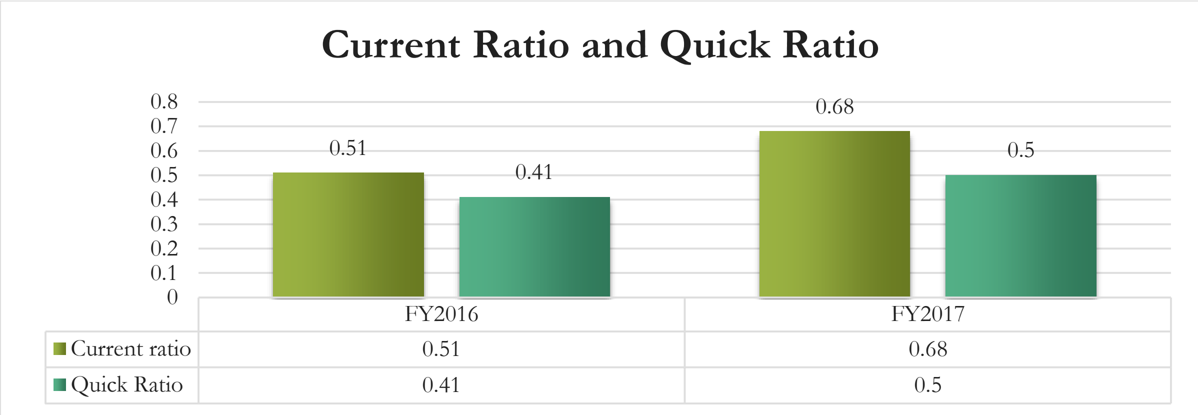
Currently STELCO's financial commitment is MVR 1.9 billion (loan and interest), all these commitments are to MOFT and STELCO is currently negotiating to restructure the balance sheet, by converting all loans of completed projects totaling 1.5 billion to equity. This will reduce the gearing ratio to 19%.



The interest cover ratio is used to determine how easily a company can pay their interest expenses on outstanding debt. The interest cover of STELCO has increased from 0.14 to 1.72 times. The finance cost has increased from MVR 76,399,333 to MVR 82,343,879. Further, the increase in interest cover is also led by the increase in operating profit in FY2017. A company's ability to meet its interest obligations is an aspect of a company's solvency, and is thus a very important factor in the return for shareholders.

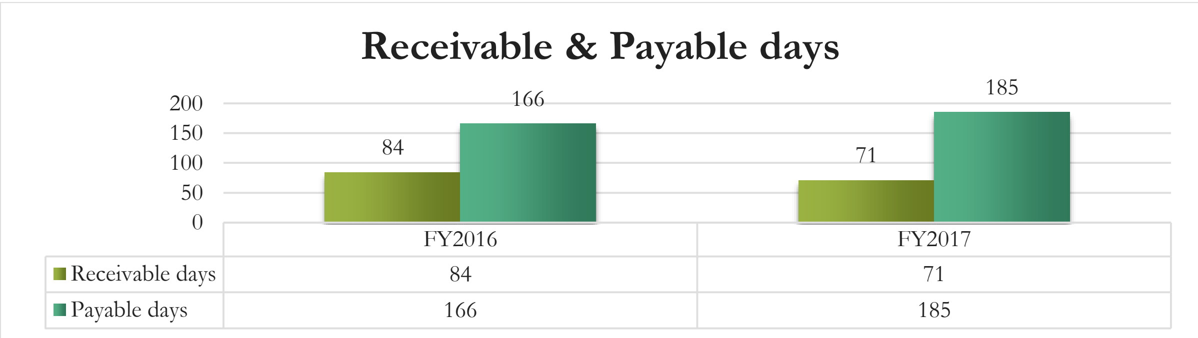
3.6 Working Capital Management

Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.



Both current and quick ratio is below the ideal level, thus the liquidity position of the company is poor. STELCO do not have the ability to meet its short term debts with its current assets.

Both the ratios have seen a marginal increase in FY2017, this is because both current assets and current liabilities have increased in FY2017. The current liabilities of the company consists of trade and other payables, government grants and borrowings. The payables of the company includes trade payables, amounts due to related parties and other payables. (Other payables consists of accrued interest payable, payables related to power house acquisition, refundable deposit, WHT payable, accrued expenses and GST payable.)



Accounts receivable represents the money that is contractually owed to STELCO by its customers. As shown in above chart it took 84 days in FY2016 to collect the payments and it has reduced to 71 days in FY2017. The lower the company's collection ration, the more efficient its cash flow, thus the company is very efficient is collecting its receivables. The total receivables of the company have reduced from MVR 334 million to 327 million in FY2017.

During 2017, company has made a reversal of provision for doubtful debts, as such MVR 16 million was recognized under other income. This figure represents 5% of trade receivables as at 31 December 2017.

The company's trade receivables consists of the following.

Trade and other receivables	FY2016	FY2017
Trade receivables	223,013,903	221,773,725
Receivables from related parties	70,874,486	70,989,798
Prepayments	1,913,517	1,971,459
Other receivables	38,374,569	32,176,579
Total	**334,176,475**	**326,911,561**

Trade receivables is the largest component of trade and other receivables. As per the financials there is no concentration of credit risk with respect to trade receivables as the company has large number of customers, nationally dispersed.

Second largest component is receivables from related parties and it is important to note that collection from related parties will be more difficult when compared to other components of receivables. Normally amounts due from related parties are unsecured, interest free and have no fixed repayment terms.

As of 31 December 2017, trade receivables of MVR 40,160,213 were past due and impaired, which represents 12% of total receivables and 2% of company's revenue. Considering the liquidity ratios of the company, it has to make strict receivable collection strategies to collect the money, otherwise the company will be facing cash flow problems.

Ideally, when a company has high levels of receivables, it signifies that it will be flush with cash at a defined date in the future. But it is important to note that account receivables are not guaranteed to turn in cash because in some instances customer neglect to pay the money owed at times. Therefore, accounts receivable alone does not tell the whole story about a company's account collections.

Payable day's measures how long it take to pay its creditors or suppliers. The longer they take to pay their creditors, the more money the company has on hand, which is good for working capital and free cash flow. Nonetheless, it will affect the relations with creditors and suppliers. The company's payable days has increased from 166 days to 185 days in FY2017. It is important to note that the company collects money sooner than it has to pay its debtors, thus STELCO will not be facing cash flow problems in this regard.

4. Economic Value Added

Economic value added (EVA) is an estimate of a firm's economic profit, or the value created in excess of the required return of the company's shareholders. EVA is the most recognized and applied modern performance financial measurement, in shareholder value creation. Shareholder value is created when the net return on assets held by the business exceeds the return required by those who have contributed capital to the business. In other words, value is created only when companies invest capital at returns that exceed the cost of that capital.

If a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a company is producing value from the funds invested in it.

The company's EVA figure has shown a remarkable figure of MVR 108 million in FY2017 (2016: 25 million). This ratio illustrates that STELCO is able to generate value from invested funds above the cost of capital.

5. External Audit

After auditing the financial statements of STELCO, the Auditor General has expressed a qualified opinion. The opinion was qualified due to the below issue.

The PPE of the company were revalued in 2011. Accordingly, the assets having net book value of MVR 434,455,893 as at 31 December 2011 were revalued for MVR 847,932,997 and a revaluation surplus of MVR 413,477,104 was recognized. However, the revaluation report excluded assets having net book value of MVR 26,661,392 as at 31 December 2011 and the company accounted these assets at their respective net book values based on historical cost.

IAS16 require valuation of the entire class of PPE, when a particular item of PPE within that class is revalued. Therefore, in the absence of valuation of these assets, the auditors were unable to conclude whether the sum of MVR 11,346,422 include in the PPE of MVR 1,652,557,551 and revaluation reserve of MVR 230,024,580 at the year-end are fairly stated.

Some of our financial ratios are based on the PPE and revaluation reserve, thus the accuracy of those ratios are in question.

6. Conclusion

From the financial review of the company it is evident that the company has achieved a significant revenue growth in FY2017. After a few consecutive loss making years the company has observed a net profit of MVR 53 million in FY2017. This was achieved by increasing overall efficiency of power generation and distribution together with the implementation of measures to minimize operating costs. Although the company does not have control over its price, the result of FY2017 proves that the company is capable of achieving profitability in its operations if it can manage its costs.

In terms of short term liquidity position, the company is facing difficulties to meet its short term liabilities. The current and quick ratio are below the ideal level. It is important to highlight that as at 1 December 2017, trade receivables of MVR 40,160,213 were past due and impaired, which represents 12% of total receivables and 2% of company's revenue.

In addition to this, the financial risk of the company is high with a gearing of 71%, which will have a negative impact on borrowing ability as the financial institutions consider this ratio before issuing loans. Currently STELCO's financial commitment is MVR 1.9 billion (loan and interest). All these commitments are to MOFT and STELCO is currently negotiating to restructure the balance sheet, by converting all loans of completed projects totaling 1.5 billion to equity. This will reduce the gearing ratio to 19%.

The company has not paid any dividend in FY2016, and although the company has made a profit in 2017, considering the liquidity position of the company it is very unlikely that any dividend will be declared for FY2017.

Annual Financial Review of

Waste Management Corporation Limited

Waste Management Corporation Limited

1. Executive Summary

The intention of this report is to analyze the financial status of Waste Management Corporation Limited (WAMCO) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

WAMCO is a limited liability company fully owned by Government of Maldives (GoM). The company was incorporated on 22 January 2009.

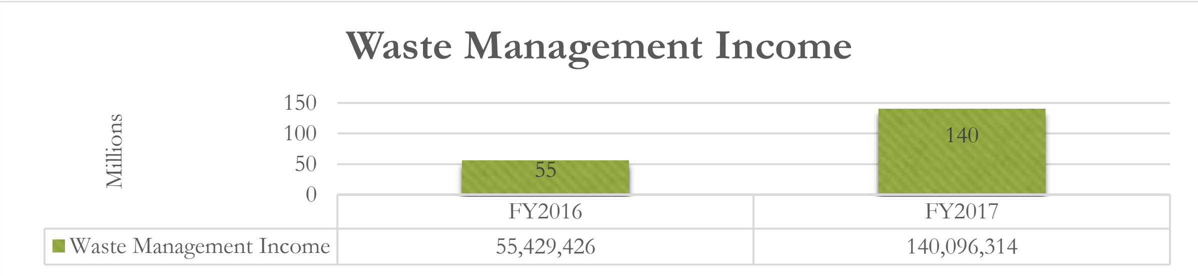
The principal activities of the company are to set up a waste management system in the Maldives and identify methods of disposing waste in an environmental friendly way.

WAMCO was initially formed in 2009, and later revived in September 2015 with a mandate to provide a sustainable waste management solution through the country. On January 1 2016, the corporation officially started operations by taking over the waste management function of Male' region. This includes the daily transfer of waste from Male' to Thilafushi, the waste management of Vilimale', and the disposal of waste at Thilafushi landfill areas.

3. Financial Analysis

3.1 Revenue

The operation of the company was started in 2015 thereby waste management income has increased by MVR 85 million, which represents a significant growth of 153% compared to previous year.



In addition to the revenue, the company also earned other income of MVR 1.5 million, this is an increase of 18% when compared to previous year.

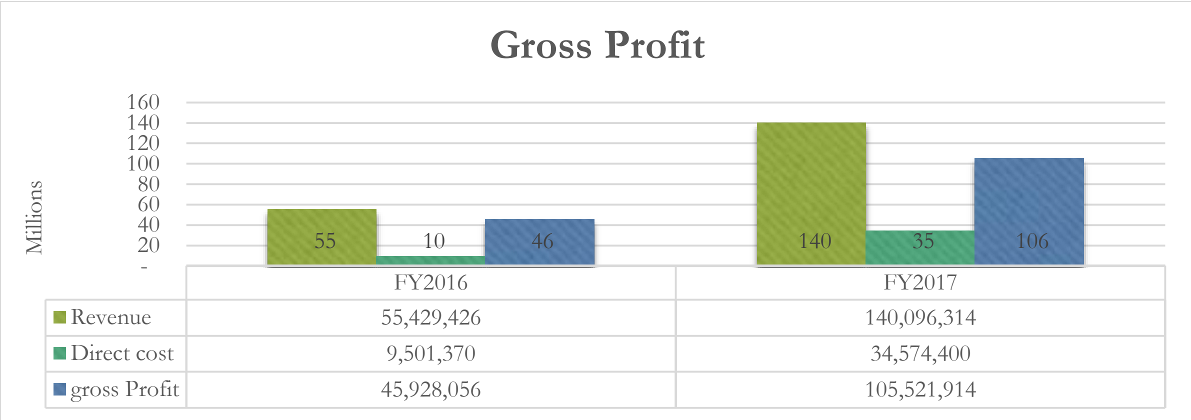
The other operating income consists of;

Other operating income	FY2016	FY2017	% increase
Rental income	1,131,410	-	-100%
Recycling income	122,644	1,368,684	1016%
Interest income	-	111,322	100%
Total	**1,254,054**	**1,480,006**	**18%**

Recycling income has increased substantially, on the other hand, company has stopped rental income.

3.2 Profitability

Gross profit



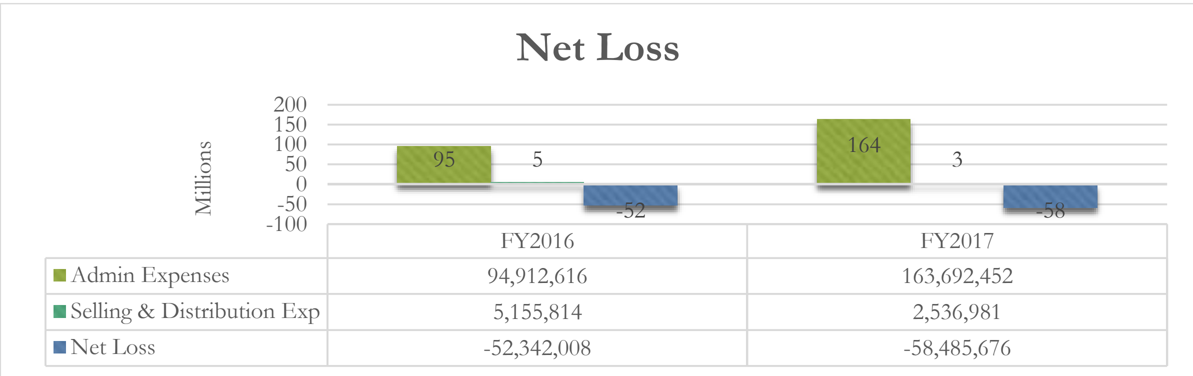
The company has achieved a gross profit of MVR 106 million in FY2017. (2016: 46 million). This is a growth of 130% when compared to the previous year. As seen in the above table, the direct expenses of the company has recorded a drastic increase of 264%, from MVR 10 million to MVR 35 million in FY2017.

Direct expenses consists of the following;

Direct expenses	FY2016	FY2017	% increase
Direct Salaries	9,216,734	33,761,347	266%
Clearing Charges	276,836	78,087	-72%
Other direct expenses	7,800	734,966	9323%
Total	**9,501,370**	**34,574,400**	**264%**

Direct salaries have recorded a growth of 266%, which represents 98% of the direct expenses. In addition, while clearing charges has recorded a fall, other direct expenses has significantly increased. As a result, the growth of direct expenses are too high when compared to the revenue growth.

Net Loss



The net loss of the company was deteriorated due to increase in the administrative expenses. The administrative expenses has increased from MVR 95 million to MVR 164 million in FY2017. The below tables shows the expenses which has recorded a drastic change.

Administrative Expenses	FY2016	FY2017	% increase
Staff Salaries	5,089,931	22,968,076	351%
Pension	337,518	1,714,162	408%
Staff Welfare	183,322	1,092,605	496%
Rent	72,741,835	83,410,217	15%
Water and Electricity	755,238	2,325,307	208%
Communication expenses	73,648	743,546	910%
Printing and Stationery	297,994	1,608,927	440%
License and permits	143,707	615,247	328%
Insurance charges	37,109	384,211	935%
Travelling expenses	1,474,283	3,634,502	147%
Depreciation and amortization	2,616,367	15,807,757	504%
Repair and maintenance	9,358,982	21,068,964	125%
Fines and penalties	28,420	240,975	748%
Sundry Expenses	727,304	3,838,612	428%
Sponsorship	-	2,188,977	100%

Staff costs are the second most significant component of administrative expenses, comprising 16% of total admin expenses. Staff salaries have recorded a growth of 351% and pension by 408%.

As the business operation grew in FY2017, the water and electricity, communication expenses and printing and stationery expenses have increased. However, the level of increase is very significant when it is compared to the growth of revenue.

During the year 2017, WAMCO has invested MVR 85 million on Property, Plant and Equipment (PPE), thus depreciation expenses has increased by MVR 13 million. Although it is a non-cash expenditure, it contributed to the deteriorating net profit of the company. Along with this, repair and maintenance expenses and have also increased by 125% in FY2017. Repair and maintenance expense stands at 24% of PPE.

WAMCO has also spent MVR 2 million on sponsorship, which has increased the company’s total overheads.

3.3 Return on Equity (ROE) and Return on Capital Employed (ROCE)

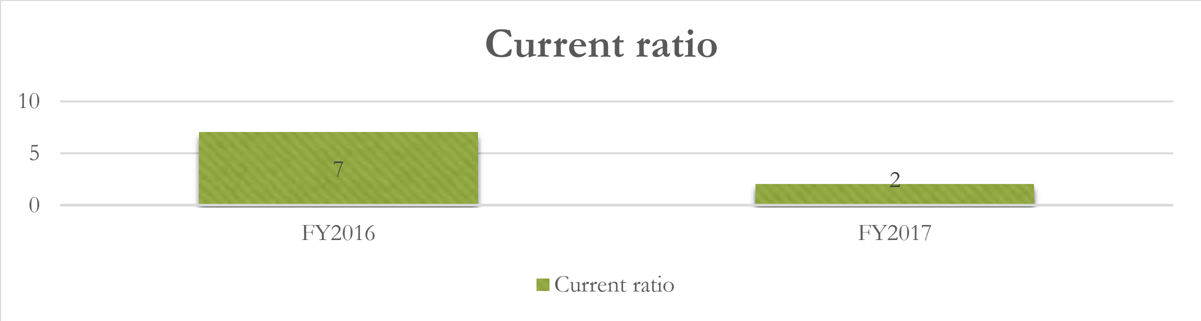
ROE measures a company’s profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.

Since the company has not made any profits since the start of its operation in FY2016, ROE and ROCE will be negative, which shows the investor (Government) have not received any returns yet.

The share capital of the company has increased from MVR 167 million to MVR 266 million in FY2017, due to increase in paid up capital. However, the company has accumulated loss of MVR 112 million, thus capital and reserves of the company stands at MVR 154 million.

3.4 Working Capital Management

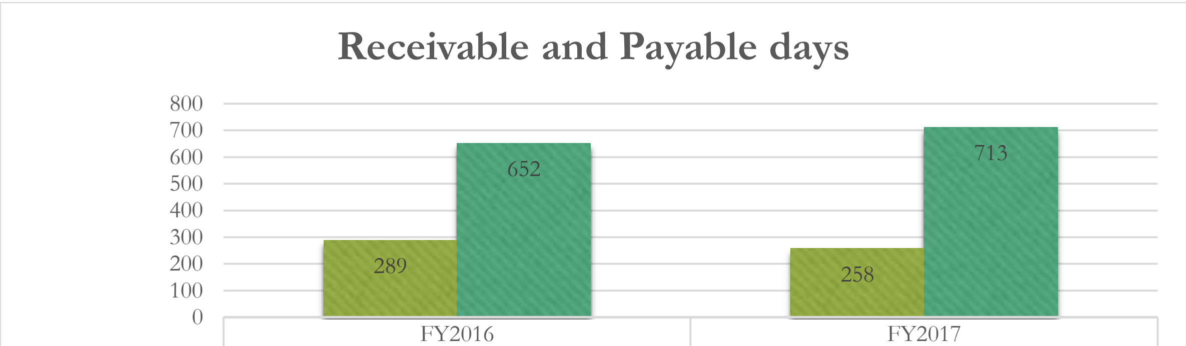
Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.



The current ratio of the company is maintained above the ideal level for both the years. However, the ratio has recorded a significant fall in FY2017. This is because the current liabilities of the company has increased by 298% when compared to the previous year.

The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities. However, a high ratio (over 3) does not necessarily indicate that a company is in a state of financial well-being either. Depending on how the company's assets are allocated, a high current ratio may suggest that that company is not using its current assets efficiently, is not securing financing well, or is not managing its working capital well.

Although the current ratio is above the ideal level, the significant component of it is trade and other receivables. This shows that even if the company had to pay anything, the company does not have quick funds to pay, and thus it will face cash flow problems. It is also important to note that 44% of trade receivables is from government and the company is struggling to collect this amount.



	FY2016	FY2017
Receivable days	289	258
Payable days	652	713

Accounts receivable represents the money that is contractually owed to WAMCO by its customers. As shown in above chart it takes 289 days in FY2016 to collect the payments and it has reduced to 258 days in FY2017. The lower the company's collection ration, the more efficient its cash flow, however company's receivable days are not at an acceptable level. The total receivables of the company have increased from MVR 44 million to 99 million in FY2017.

The current assets of the company consists of trade and other receivables and cash and bank balances. Trade and other receivables consists of the following;

Trade and other receivables	FY2016	FY2017
Receivables from Government	13,433,691	43,382,243
Receivables from other parties	4,621,680	25,953,186
less: Provision for impairment	(1,300,037)	(1,340,690)
	16,755,334	67,994,739
Refundable deposits	778,213	1,340,092
Advances and prepayments	26,321,389	29,648,230
Total	**43,854,936**	**98,983,061**

Receivables from government stands almost 44 percent of total receivables and it is the most significant component of trade receivables. Normally amounts due from related parties are unsecured, interest free and have no fixed repayment terms, thus the collection of such receivables are difficult when compared to others.

Ideally, when a company has high levels of receivables, it signifies that it will be flush with cash at a defined date in the future. But it is important to note that account receivables are not guaranteed to turn in cash because in some instances customer neglect to pay the money owed at times. Therefore, accounts receivable alone does not tell the whole story about a company's account collections.

Payable day's measures how long a company takes to pay its creditors or suppliers. The longer they take to pay their creditors, the more money the company has on hand, which is good for working capital and free cash flow. Nonetheless, it will affect the relations with creditors and suppliers. The company's payable days has increased from 652 days to 713 days in FY2017.

The payables of the company consists of trade payables and accrued expenses. WAMCO has MVR 39 million worth of trade payables and MVR 28.5 million of accrued expenses as at 31 December 2017.

4 External Audit

Upon auditing of the financial Statements of WAMCO for the year ended 31 December 2017, the Auditor General has expressed an adverse opinion. The basis for the adverse opinion are;

- The Auditors were unable to verify the accuracy of total assets of MVR 5,013,870, total liabilities of MVR 130,420, equity of MVR 4,833,450 brought forward from 31 December 2015 since these balances have not been subjected to an audit.

- The government introduced MVR 2 million towards share capital while incorporating the company on 22 January 2009. Net loss and net assets as at 31 December 2010 were MVR 1,039,063 and MVR 960,937 respectively. However, theses balances along with transactions during the period from 1 January 2011 to 31 December 2014 have not been brought forward to the current financial statements.

- Auditors were unable to substantiate revenue amounting to MVR 21,891,219 due to unavailability of a customer register. Due to this and in the absence of effective internal controls over revenue recognition, auditors were unable to satisfy the fairness of the revenue recognized.

The amount of revenue auditors were unable to verify stands for 16% of revenue and this figure directly affects the profitability of the company. Further, auditors have highlighted that there are no effective internal controls over revenue recognition.

5 Conclusion

Since WAMCO has started its operation in FY2015, the company has been making losses. In FY2017, the net loss for the year increased to MVR 59 million. On the other hand, the expenses of the company have recorded a drastic increase. The most significant expense of the company is staff costs. If the company is unable to manage its expenses in the future, the accumulated losses will be further deteriorating.

The company has achieved a notable revenue growth of 153% in FY2017, however it was not able to cover the company's overheads.

The liabilities of the company stands at MVR 68 million. The short term liquidity ratios illustrate that WAMCO has strong liquidity position; for every MVR 1 worth of current liability the company has MVR 2 worth of assets. Although the current ratio is above the ideal level, the significant component of it is trade and other receivables. This shows that even if the company had to pay anything, the company does not have quick funds to pay, and thus it will face cash flow problems. It is also important to note that 44% of trade receivables is receivable from government and the company is struggling to collect this amount.

It is also important to note that the Auditor General has expressed an adverse opinion on the financial statements for two consecutive years. The Auditors were unable to verify a part of assets, liabilities, equity and revenue. These components are the most important figures in a financial statement.

Annual Financial Review of

Dhivehi Raajjeyge Gulhun PLC

Dhivehi Raajjeyge Gulhun PLC

1 Executive Summary

The intention of this report is to analyze the financial status of Maldives Transport and Contracting Company (MTCC) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

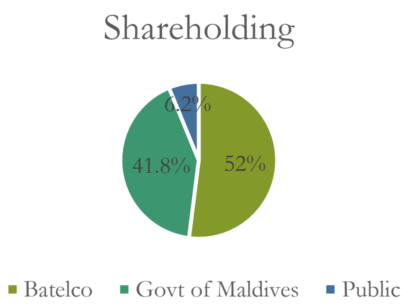
As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2 Introduction

Dhivehi Raajjeyge Gulhun PLC (Dhiraagu) was originally incorporated under the Limited Liability Companies Decree No. 1988/123 and presently governed under the Companies' Act No. 10 of 1996 as a limited liability company in the Republic of Maldives. The company provides telecommunication services in the Maldives.

The company is a listed company in the Maldives Stock Exchange (MSE), in the Republic of Maldives with effect from 29th September 2011.

3 Ownership Structure



BTC Islands Limited (Batelco) holding 52%, and the Government of Maldives (GoM) holding 41.8%, are the two substantial shareholders of Dhiraagu. The remaining 6.2% of shares are held by the general public.

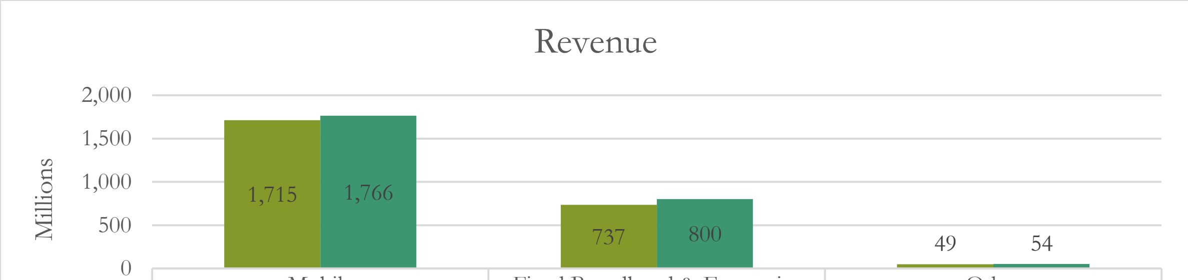
4 Financial Analysis

4.1 Revenue

Revenue has recorded an increase of MVR 119 million in FY2017, this is an increase of 4.8% when compared to the previous year. This was led by the increase in revenue from mobile and fixed broad band, enterprise and adjacent services.

The company has mainly two operating segments. They are mobile, fixed broadband & enterprise and others.

Mobile operation primarily includes prepaid mobile, postpaid mobile, roaming, mobile equipment, and mobile broadband which are provided to consumer, business and government customers. Fixed, Broadband and Enterprise primarily include fixed telephony, fixed and fiber broadband, lease circuits, datacoms, IP TV services, mobile money and enterprise infrastructure project. The company provides these products and services to the individuals, businesses and government customers.

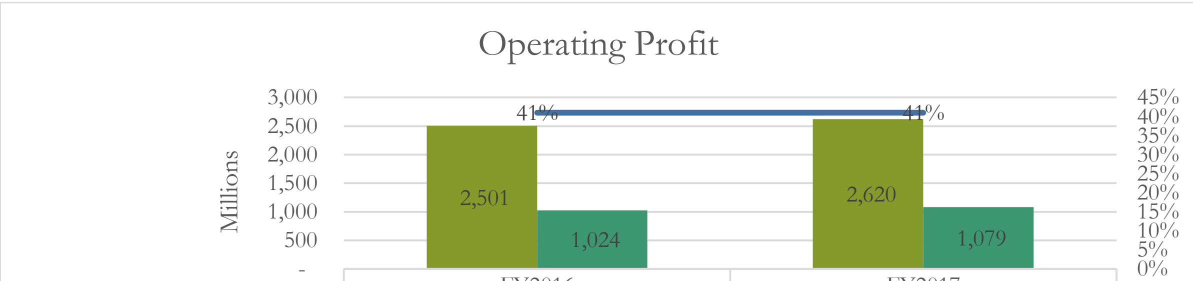


	Mobile	Fixed Broadband & Enterprise	Other
FY2016	1,715,158,000	737,288,000	48,973,000
FY2017	1,765,829,000	800,336,000	54,135,000

The revenue of each segment has seen an increase in FY2017, with the increase of its customer base and demand for high-speed broadband.

4.2 **Profitability**

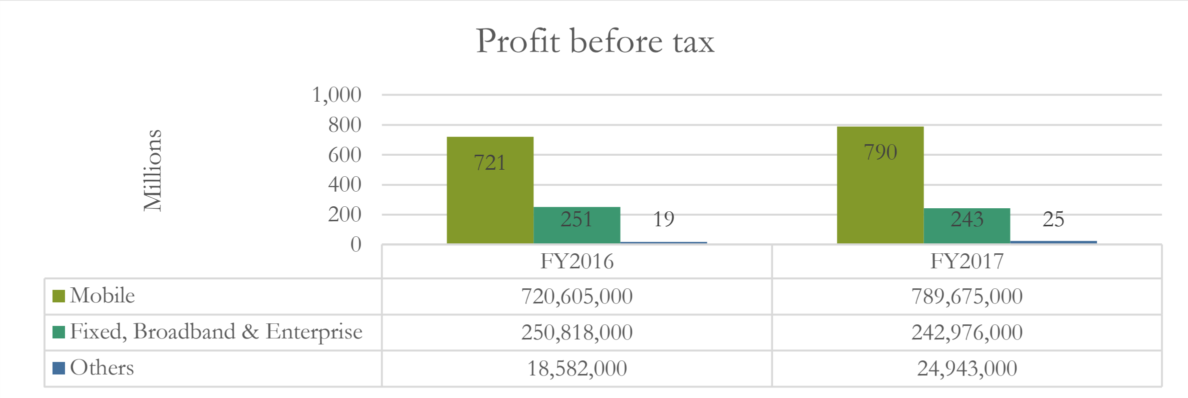
<u>Operating profit Margin</u>



	FY2016	FY2017
Sales	2,501,419,000	2,620,300,000
Operating Profit	1,023,869,000	1,079,003,000
Operating Profit Margin	41%	41%

Although there is an increase of revenue by 4.8%, the operating profit margin is unchanged in FY2017. It is because along with the revenue the operating costs and depreciation has also recorded a growth of 4.8%. An operating profit margin of 41% is an acceptable level.

Segment Profit



Mobile is the most significant operating segment of the company earning MVR 790 million profit, which represents 73% of total profit. Mobile and other segments have performed well in the year, thus the profit has increased by 10% and 34% respectively. On the other hand, fixed, broadband & enterprise have experienced a marginal decrease of profits in FY2017.

Operating Costs

A slight increase of operating costs was recorded in FY2017. The below table shows the changes of operating costs.

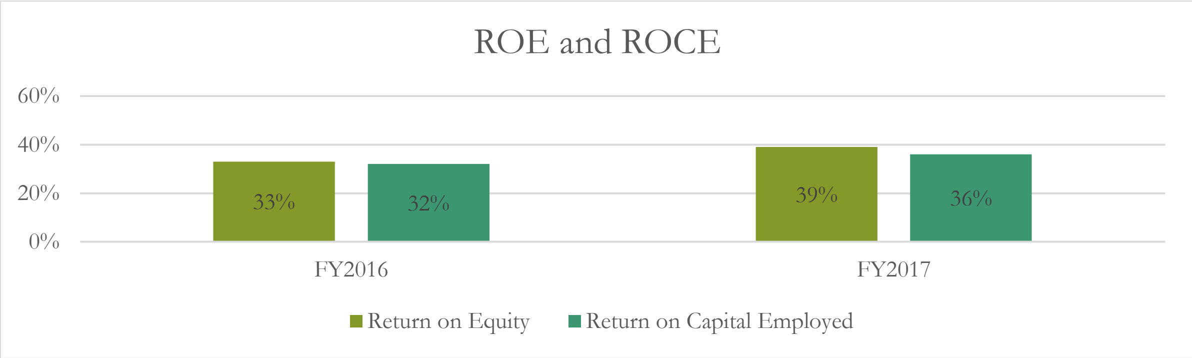
operating Costs	FY2016	FY2017	% change
Direct cost of services	348,102,000	466,735,000	34%
Personnel costs	211,760,000	218,052,000	3%
license fees	111,180,000	113,133,000	2%
Operating Lease rental	44,347,000	45,162,000	2%
Write off and Provision for impairment	12,938,000	429,000	-97%
Support Services	43,918,000	47,212,000	8%
External Publicity	40,782,000	56,902,000	40%
Network Costs	105,273,000	112,014,000	6%
Property and Utility Costs	97,247,000	108,138,000	11%
Professional Fees	10,508,000	12,733,000	21%
Other Administrative expenses	86,531,000	69,192,000	-20%
Total	**1,112,586,000**	**1,249,702,000**	**12%**

The direct cost of services has seen an increase of 34% in FY2017, and external publicity by 40%, though on average the total expenses has increased by only 12%. The increase in operating costs are reasonable considering the increase in customer base and growth in data usage.

During the year, Dhiraagu has invested MVR 287 million on Property, Plant and Equipment (PPE) and has disposed MVR 29 million worth of PPE. As a result the depreciation charge has decreased by 15% when compared to previous year.

In addition, capital work-in progress of MVR 110 million was added to intangible assets, thus amortization of MVR 29 million was incurred.

4.3 Return On Equity (ROE) and Return on Capital Employed (ROCE)



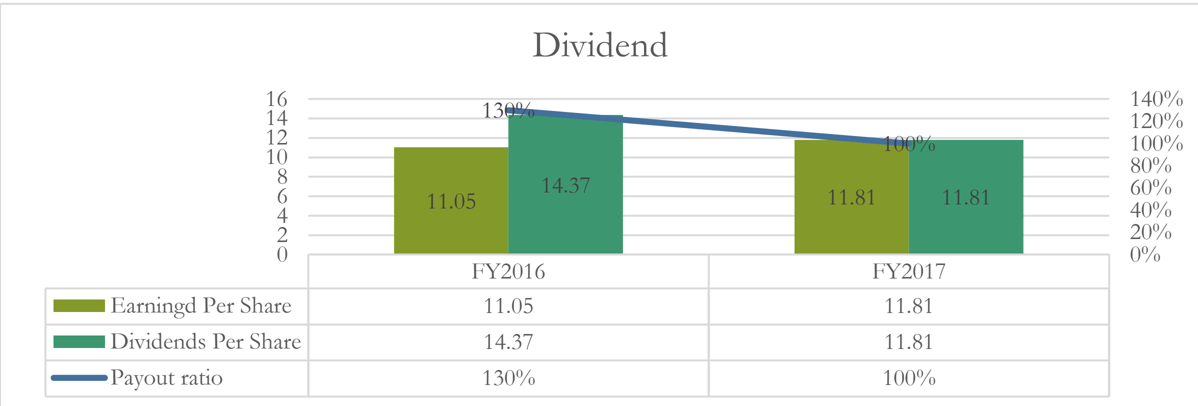
ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.

Both ROE and ROCE has improved in FY2017. ROE has increased from 33% to 39%, this illustrates that the company's efficiency in turning shareholders' funds into profit and growth of the company. The share capital of the company is unchanged and the only change in the equity is the changes in retained earnings (profits and dividend of 2017).

Similarly, ROCE has also increased from 32% to 36%. The capital employed of the company has fallen due to decrease in total assets and current liabilities. On the other, the net profit has recorded a positive growth. This illustrates that the capital that is used to create company's profits has reduced when compared to previous year. In general, investors tend to favor companies with stable and rising ROCE numbers over companies where ROCE is volatile and bounces around from one year to the next. In this regard, Dhiraagu is an attractive company for the investors.

4.4 Shareholders Return

<u>Dividend Policies</u>



Dividend policy of a company is the strategy a company uses to decide on how much earning they will pay out to shareholders in the form of dividends. In FY2016, the company has a payout ratio of 130%, although it has earned earnings per share of MVR 11.05, Dhiraagu has paid more than that as dividends. A payout ratio greater than 100% may be interpreted to mean that the company is paying out more in dividends than it is earning for the period, which is an unsustainable move.

In FY2017, the company has paid its earnings available to shareholders fully as dividend, thus maintaining payout ratio of 100%.

Paying 100% of its earnings means that the company is not reinvesting their profits. However, in the case of Dhiraagu the company is also investing in new products. These investments might be funded with the retained earnings since the company does not have any borrowings.

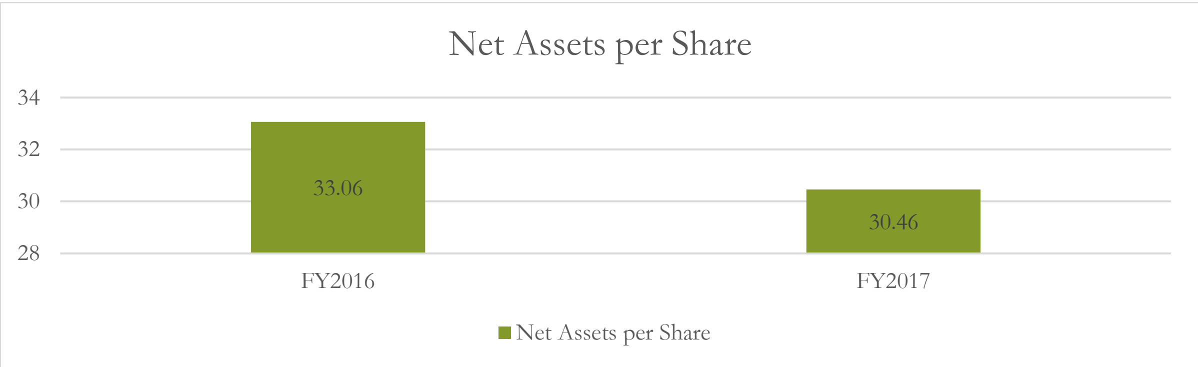
Companies in telecommunication sectors have stable and predictable earnings and cash flows, and thus can support much higher payout. A high payout ratio is always attractive to the investors.

Details	FY2016	FY2017
Share Price	82.44	83.84
Dividend Per Share	14.37	11.81
Dividend Yield	17%	14%

The weighted average traded share price has recorded an increase from MVR 82.44 to MVR 83.84 in FY2017. Since the dividend per share has reduced, dividend yield has also fallen in FY2017. For each Rufiyaa invested, the investors are getting 14% as return.

High dividend yield are attractive to investors, yet high dividends may often come at the cost of growth potential. Every Rufiyaa a company is paying in dividends to its shareholders is a Rufiyaa that company is not reinvesting in itself in an effort to make capital gains.

Net Assets per Share



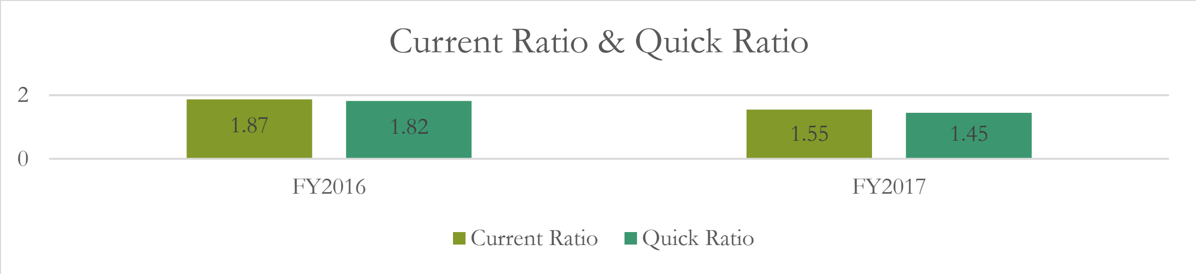
The company's net assets has declined in FY2017 from MVR 2,512 million to MVR 2,315.

4.5 Financing

The company does not have any borrowings or loans, meaning the company's operations and investments are financed by itself. Thus, the company does not have to keep up with costs of serving bank loans or debt finance, allowing to use the capital for business activities.

4.6 Working Capital Management

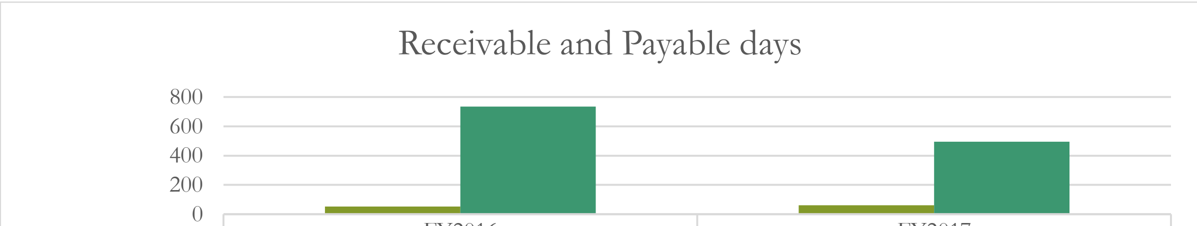
Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.



Current ratio and quick ratio of the company has recorded a marginal fall, and the ratio is maintained below than the ideal level of 2. The current assets and current liabilities of the company has declined in FY2017. The short term liabilities of the company consists of trade and other payables, amounts due to related party and income tax payable.

The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities.

Receivable and Payable days



	FY2016	FY2017
Receivable days	53	61
Payable days	735	496

Accounts receivable days measures the number of days a company's receivables are outstanding. In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible. The receivables days of Dhiraagu is impressive maintained at 61 days for FY2017. However, it is an extension when compared to previous year.

The company’s trade receivable has increased by MVR 74 million, which represents 17% of revenue. Company has recognized a provision for impairment of trade receivable of MVR 41 million in FY2017 and has written off bad debts of 27 million. The amounts written off represents 6% of trade receivables and 1% of revenue.

Payable day’s measures how long it takes to pay trade creditors or suppliers. The longer it takes to pay suppliers which is good for working capital and cash position. If the company takes long time to pay their creditors, business relation may get affected the payable days are calculated using the direct cost of service. Payable days has declined from 735 days to 796 days in FY2017. Payables of the company stands at MVR 634 million which is MVR 193 million more than receivables.

5 Economic Value Added

Economic value added (EVA) is an estimate of a firm's economic profit, or the value created in excess of the required return of the company's shareholders. EVA is the incremental difference in the rate of return over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested into it. If a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a company is producing value from the funds invested in it.

Dhiraagu has achieved remarkable results on EVA, economic profit has increased from MVR 765 million to MVR 858 million. This result illustrates that the company is creating wealth and returns for shareholders above its cost of capital.

6 External Audit

The external audit of the company for FY2017 was conducted by KPMG, and they have expressed an unqualified opinion on the financial statements of the company. However, the revenue recognition and capitalization of assets was highlighted in other matte paragraph.

The majority of the company’s revenue is generated from output of billing systems. Determining when and how much revenue is recognized from customer contract has a significant impact especially on multiple elements arrangements and customer offers.

Items of assets under construction are transferred to PPE when they are ready for intended use. The complex nature of the assets is such that judgment is required to determine when the assets are ready for its intended use. Any late transfer of assets under construction may result in appropriate classification in the financial statement.

Since the auditors opinion was not modified based on this matters, we believe the company has recognized revenue and assets correctly.

7 Conclusion

Dhiraagu is one of the well performing and money making public limited company in the Maldives. In 2017, Dhiraagu has rebranded with a fresh logo, color and slogan and has introduced two new products i.e. Dhiraagu TV and Dhiraagu pay.

Financial year 2017 was a successful year for Dhiraagu, achieving a revenue growth of 4.8% driven by strong growth in broadband and digital services. The after tax net profit is MVR 898 million in FY2017, which is a 7% increase when compared to previous year.

Due to the strong commercial performance, earnings per share grew to MVR 11.81 and full dividend of MVR 11.81, which is equivalent to 100% of earnings per share. Companies in telecommunication sectors have stable and predictable earnings and cash flows, and thus can support much higher payout. A high payout ratio is always attractive to the investors.

Further, the company does not have any borrowings and its business operations are fully financed by itself. Thus, the company does not have to keep up with costs of serving bank loans or debt finance, allowing to use the capital for business activities.

Working capital analysis reveals the company’s level of working capital is satisfactory with a current ratio of 2. Also the receivable day’s ratio is also maintained at 61 days. Free cash flow (cash flow from operating activities less capital expenditure) was MVR 643 million in FY2017. This is a 25.5% decrease from 2016 mainly due to higher capital expenditure and changes in working capital.

Annual Financial Review of

Gulhifalhu Investments Limited

Gulhifalhu Investments Limited

1 Executive Summary

The intention of this report is to analyze the financial status of Gulhifalhu Investments Limited (GIL) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2 Introduction

GIL is a state owned limited liability company incorporated on 13 August 2008.

The main objectives of the company are to engage in reclamation and development of Global Green city, Gulhifalhu, in Male atoll in accordance with the rules and regulation framed by the Government of Maldives (GoM).

The board of directors have decided on 26 March 2018 to transfer assets and liabilities of GIL to the newly established state owned company, Greater Male' Industrial Zone Ltd (GMIZL), which was established to combine the GIL and Thilafushi Corporation Ltd (TCL).

3 Financial Analysis

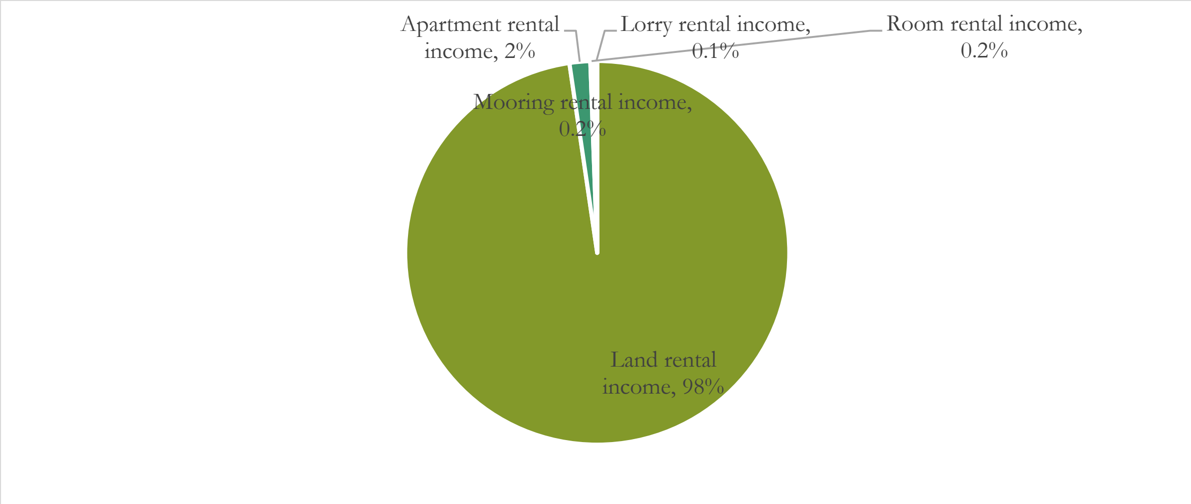
3.1 Revenue

The total income of the company has increased by MVR 15 million, a growth of 171% when compared to previous year. The significant increase is primarily due to the increase in land rental income.

The income of the company consists of the following.

Income	FY2016	FY2017	% increase
land rental income	8,887,357	23,719,018	167%
Apartment rental income	-	423,620	
Room rental income	34,000	56,000	65%
Mooring rental income	43,219	50,151	16%
Lorry rental income	-	33,000	
Total	**8,964,576**	**24,281,789**	**171%**

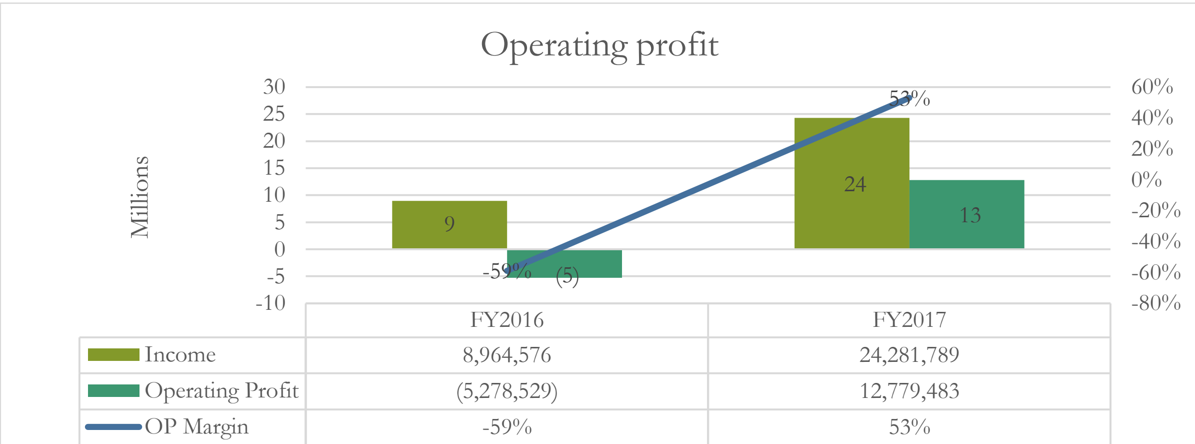
All the revenue sources has recorded a growth in FY2017, contributing to the overall growth of the company.



Land rental income represents 98% of the total income of the company. As per the financials the company started leasing out land in 2016. Income recorded for the year 2016 represents land rent generated from lease plots. Majority of the plots have been leased out during 2017.

3.2 Profitability

Operating profit margin



The company has recorded tremendous results in this year, achieving an operating profit of MVR 12.7 million. Further, the operating profit margin has increased from negative 59% to a positive 53%.

The notable result was achieved through successful cost reduction strategies together with increase in its income. The total administrative expenses has reduced from MVR 14 million to MVR 11 million.

The company has saved its costs from the below areas.

Administrative expenses	FY2016	FY2017	% decrease
Directors emoluments	660,427	642,162	-3%
Travel expenses	1,250,223	356,173	-72%
Other expenses	507,125	230,460	-55%
Professional fees	1,939,260	204,842	-89%
Printing and stationery	152,111	149,546	-2%

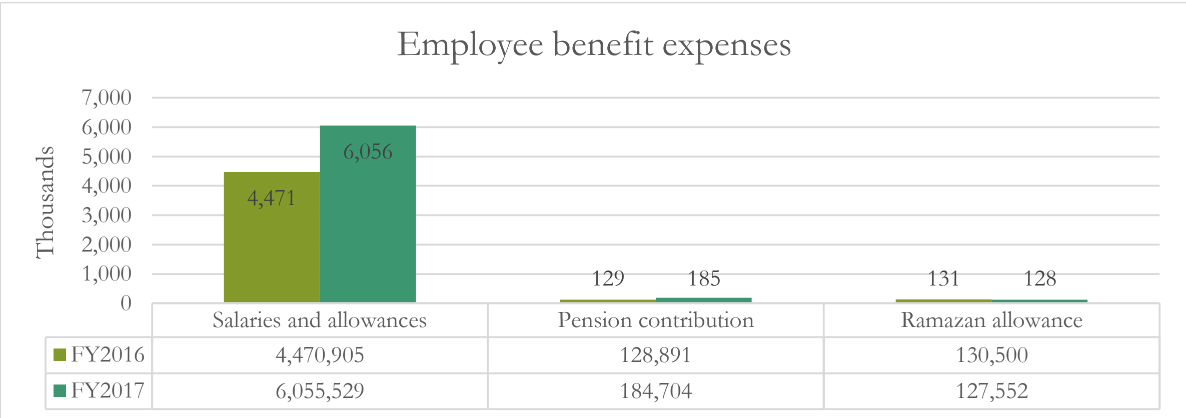
Telephone charges	165,264	86,741	-48%
Legal expenses	3,060,709	52,321	-98%
Bank charges	31,226	6,973	-78%
Amortization charge	6,362	-	-100%

The company has cut down its expenditure on travel, professional fees, other expenses, telephone charges, legal and bank charges. In addition, director's remuneration and printing and stationery has also declined marginally in FY2017.

On the other hand, the below expenses has increased in FY2017 when compared to the previous year.

Administrative expenses	FY2016	FY2017	% increase
Employee benefit expenses	4,730,296	6,367,785	35%
Sponsorship expenses	606,061	823,323	36%
Rent expenses	432,278	729,451	69%
Depreciation	285,940	692,351	142%
Withholding Tax	-	325,206	
Repair & Maintenance	-	313,565	
Electricity charges	186,433	264,064	42%
Water charges	195,100	218,605	12%
Miscellaneous expenses	34,290	38,468	12%

Employee benefit expenses have increased by 35%, which consists of the following.

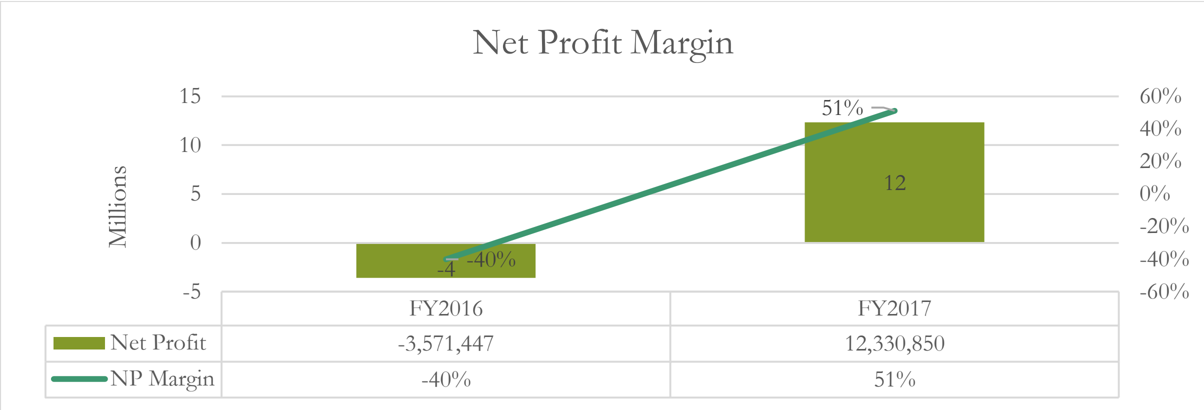


Salaries and allowances have recorded a growth of 35% and pension contribution by 43%.

The company operates the business form premises taken on lease for which a sum of MVR 729,451 was paid as annual rentals. Due to the rise in rentals, this expenditure has seen a growth of 69%.

The company has acquired property, plant and equipment (PPE) of MVR 1.5 million in the year, thus the depreciation expense has increased by MVR 406,411 an increase of 142% when compared to the previous year.

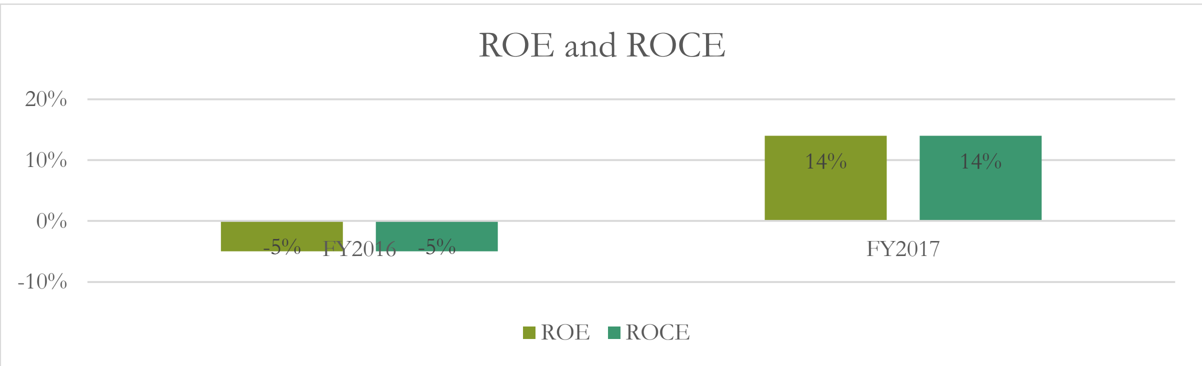
Net profit Margin



The company has performed very well in this year, thus the net loss of MVR 3.5 million was improved to a net profit of MVR 12 million in FY2017. Thereby achieving an impressive net profit margin of 51%.

3.3 Return on Equity (ROE) & Return on Capital Employed (ROCE)

ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.



Since the company does not have non-current liabilities, the two ratios are giving same figure. The company made a net loss for FY2016, therefore ROE and ROCE was negative for that year. And with the net profit, these ratios show a positive figure of 14% in FY2017.

3.4 Shareholders Returns

Dividend

Dividend policy is the strategy a company uses to decide how much of its earnings it will pay out to shareholders. The company has not declared any dividend for FY2016 and FY2017. This can be justified since the company made a net operating loss in FY2016. Dividend are declared after the year end, as such dividend for FY2017 will be declared in the year 2018. The company is wholly owned by the Government of Maldives (GoM).

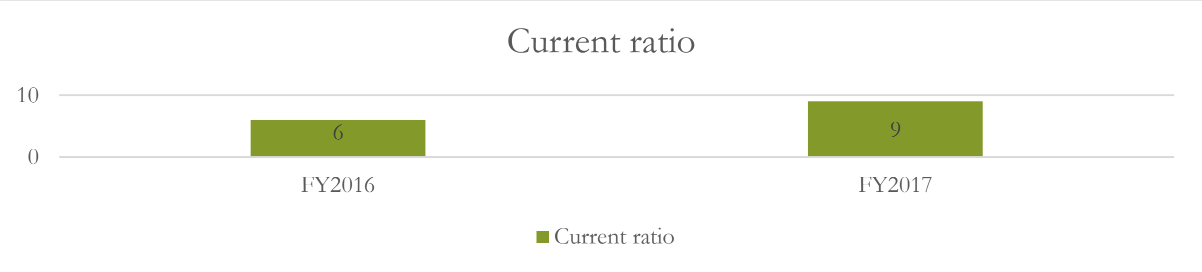
Earnings per Share

Earnings per share has increased to MVR 2,057 from negative MVR 595.

	FY2016	FY2017
Profit/(loss) attributable to equity shareholders	(3,571,447)	12,340,850
Weighted average number of ordinary shares in issue	6,000	6,000
Earnings/(loss) per share	(595)	2,057

3.5 Working Capital Management

Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

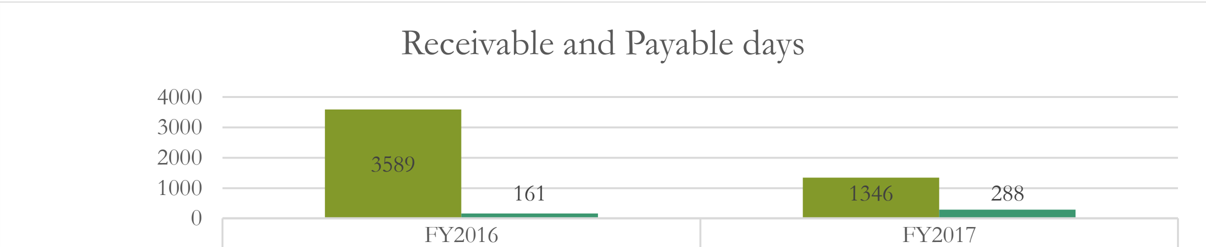


The current ratio of the company is much higher than the ideal level of ratio.

The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities. However, a high ratio (over 3) does not necessarily indicate that a company is in a state of financial well-being either. Depending on how the company’s assets are allocated, a high current ratio may suggest that that company is not using its current assets efficiently, is not securing financing well, or is not managing its working capital well.

However, it is important to note that although the ratio is theoretically good, the significant portion of company’s current assets are trade and other receivables. This shows that the company does not have real funds to pay its current liabilities. Out of total current assets, 92% represents trade and other receivables. The most significant component of trade receivables is receivable from previous developer amounting to MVR 85,123,445 and it is unlikely that it will be recovered.

Receivable and Payable days



	FY2016	FY2017
Receivable days	3589	1346
Payable days	161	288

Accounts receivable represents the money that is contractually owed to the company by its customers. As shown in above chart it takes 3589 days in FY2016 to collect the payments and it has reduced to 1346 days in FY2017. This abnormal ratio is due to the high trade receivables because of receivables from the previous developer.

The company's trade receivables consist of the following.

Trade and other Receivables	FY2016	FY2017
Receivables from previous developer	85,123,445	85,123,445
Receivables from tenants	2,801,723	3,545,798
Receivables from shareholder	6,000	6,000
Other receivables	223,745	840,030
Total	**88,154,913**	**89,515,273**

95% of trade and other receivables are receivables from previous developer. In addition, receivables from tenants represents 15% of revenue of FY2017.

As of 3l December 2017, trade receivables of MVR 87,683,526 (2016: MVR 87,925,168) were past due but not impaired. The age analysis of trade receivables are as follows;

Age Analysis	FY2016	FY2017
31 to 60 days	801,574	134,671
61 to 90 days	251,816	50,130
91 to 365 days	1,748,333	668,520
Over 365 days	85,123,445	86,830,205
Total	**87,925,168**	**87,683,526**

Payable day's measures how long it take to pay its creditors or suppliers. The longer they take to pay their creditors, the more money the company has on hand, which is good for working capital and free cash flow. Nonetheless, it will affect the relations with creditors and suppliers. The company's payable days has increased from 161 days to 288 days in FY2017.

The company's trade payables are;

Other Payables	FY2016	FY2017
Amounts due to related parties	3,141,875	3,141,875
Accrued expenses	3,127,436	5,921,785
payables to directors	2,500	2,500
Deferred revenue	21,291	-
Total	**6,293,102**	**9,066,160**

Payables to related parties consists of payables to TCL and Ministry of Finance and Treasury (MoFT). These payables are unsecured, interest free and have no fixed repayment period.

The accrued expenses are the most significant component of payables representing 65% of payables.

Cash and cash equivalents of the company stands at MVR 7.6 million and the payables without dues to related parties are MVR 5.9 million.

4. External Audit

Upon auditing of the financial statements of GIL for the year ended 31 December 2017, the Auditor General has expressed an adverse opinion. The basis for the adverse opinion are;

- Gulhifalhu Island was transferred to GIL by MOFT on 4 July 2012. However, the value of the land has been ascertained by engaging a professionally qualified valuer as at 17 February 2016 amounting MVR 180,414,000 and has subsequently not been recorded in the books of account. Therefore, the auditors were unable to conclude whether the PPE and the corresponding liabilities and capital balances are fairly stated in the financial statement.

- Receivable from previous developer as at 31 December 2017 amounted to MVR 85,123,445 of which MVR 33,468,850 was outstanding for more than 3 years, MVR 22,604,208 was outstanding for more than 2 years and MVR 29,050,387 was outstanding for more than one year from the land developer as at the year end. In the absence of direct confirmation and a settlement plan from the land developer, the auditors were unable to satisfy whether the receivable balance amounting to MVR 85,123,445 is recoverable and fairly stated.

5. Conclusion

The company has performed well in FY2017, thereby changing a net loss of MVR 3.5 million into a net profit of MVR 12 million. This result was achieved with a healthy revenue growth together with successful cost control strategies. The revenue has recorded a growth of 167% when compared to previous year, mainly due to increase in land rental income. Further, the company has cut down its expenditure by 19%, achieving an operating margin of 53%.

The company's return on capital and return on equity has improved with the net profit made in FY2017. In addition, earnings per share has increased to MVR 2,057 from negative MVR 595. However, they have not paid any dividend. The company just made profit in FY2017, therefore it is unlikely that it will distribute dividend from it.

In term of short term liquidity, the company's current ratio is above the ideal level. However, it is important to note that although the ratio is theoretically good, the significant portion of the company's current assets are trade and other receivables. This shows that the company does not have real funds to pay its short term obligations. Out of total current assets, 92% represents trade and other receivables. Further, the trade receivables of the company (excluding receivable from developer) represents 18% of total income.

The payables of the company stands at MVR 9 million at the end of 31 December 2017 and the cash balance is MVR 7.6 million. The company does not have any external borrowings or loans, as such all the operations are financed by itself.

It is also important to note that the Auditor General has expressed an adverse opinion on the financial statements of FY2017 and disclaimer of opinion for FY2016. The Auditors were unable to verify PPE (Gulhifalhu land) and corresponding liabilities and equity and receivables from previous developer. In order to correct it, the company must resolve the issues being identified.

The board of directors have decided on 26 March 2018 to transfer assets and liabilities of GIL to the newly established state owned company, Greater Male' Industrial Zone Ltd, which was established to combine the GIL and TCL.

Annual Financial Review of

Maldives Sports Corporation Limited

Maldives Sports Corporation Limited

1. Executive Summary

The intention of this report is to analyze the financial status of Maldives Sports Corporation Limited (MSCL) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statements. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

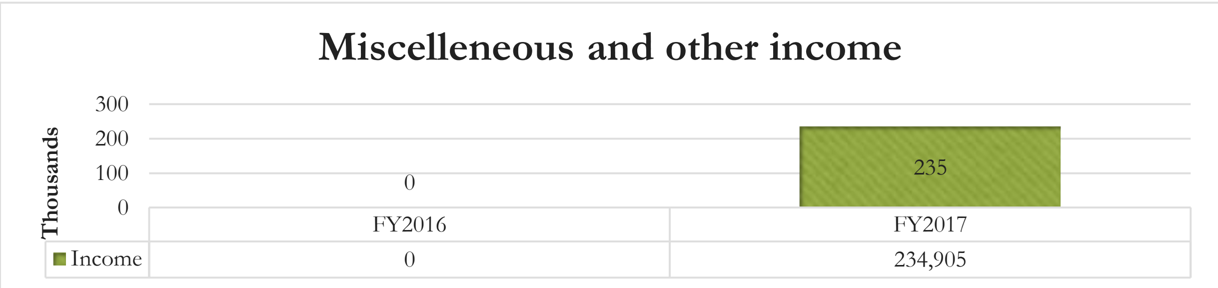
MSCL is a limited liability company, which is fully owned by the Government of Maldives (GoM). The company is incorporated under Sports Act 30/2015 in Republic of Maldives on l5th day of March 2016 bearing registration number: C- 280/2016.

The main business activity of company is developing of sports related infrastructure and generating income through sports related activities.

3. Financial Analysis

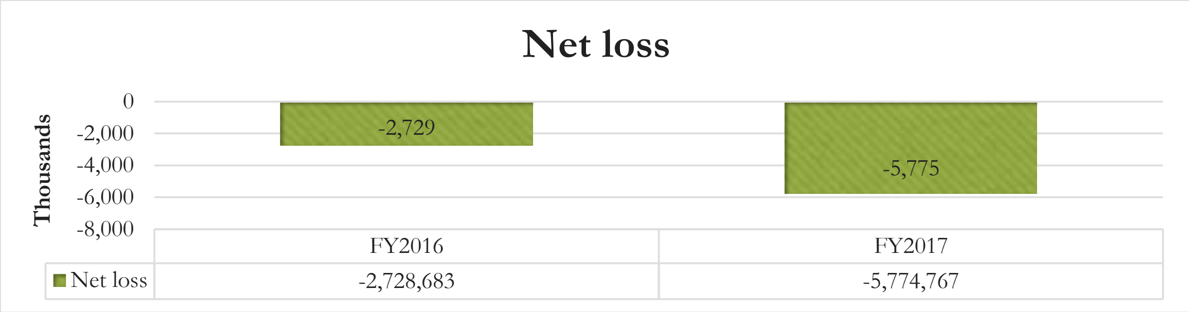
3.1 Revenue

Although the company was incorporated in FY2016, no income was generated in that year. In FY2017, company has recorded miscellaneous and other income of MVR 234,905.



3.2 Profitability

The company has made a significant loss of MVR 5,774,767 in FY2017 and has a retained loss of MVR 8,503,450 as at 31 December 2017.

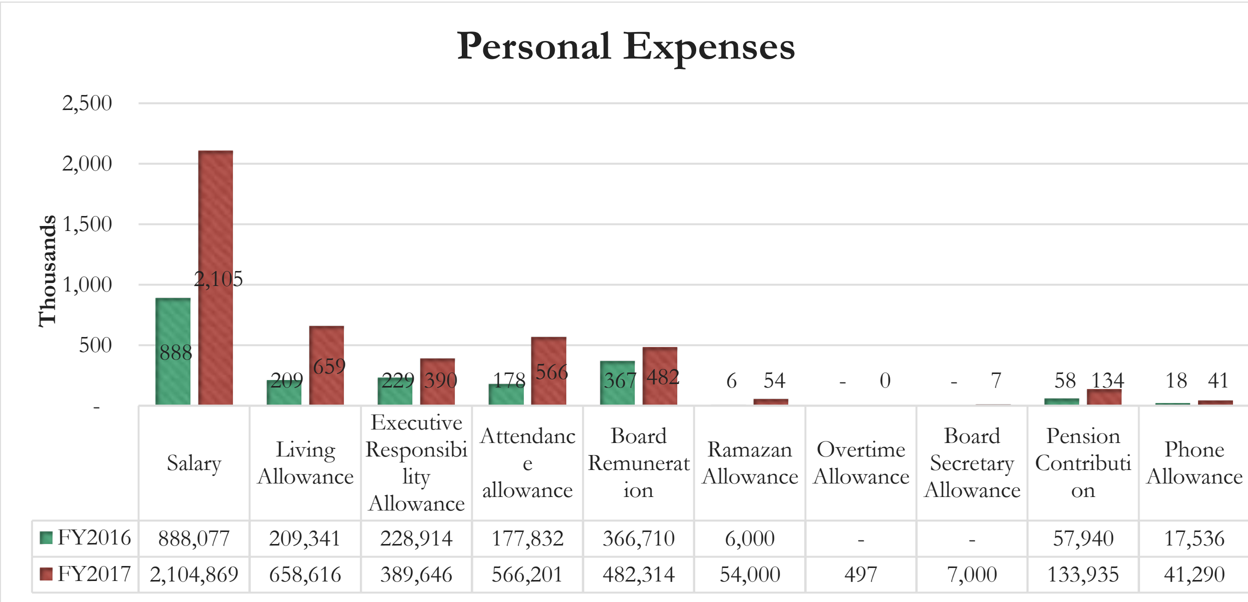


Despite of the fact that the company has incurred huge losses, the financials were prepared on the basis of going concern on the assumption that the shareholder of the company, GoM, intends to continue providing working capital requirements for the first 3 years this corporation as per the Sports Act 30/2015.

Personal Expenses

The major expenses of MSCL is personal expenses and it has increased from MVR 1.9 million to MVR 4.4 million, a growth of 127% when compared to previous year.

The personal expenses consists of the following.



The company had 16 staffs in 2017, and the salary expense has recorded a growth of 137%. Further living allowance has increased by 215%, attendance allowance by 218% and Ramadan allowance by 800%. In order to control staff related expense, MSCL should review its salary structure considering the relatively high pay system in this company.

Other Operating Expenses

The total other operating expenses has increased from MVR 776,335 to MVR 1,571,304, a growth of 102%.

The below tables shows the percentage of change in other operating expenses.

Other Operating Expenses	FY2016	FY2017	% change
Depreciation	86,438	171,240	98%
Cleaning & Safety Expenses	5,461	9,946	82%
Bank Charges & Other Commissions	7,136	4,257	-40%
Sware/Hware Licensing	6,358	6,358	0%
Food Expenses	895	12,974	1350%
Seminars and Conference Exp	86,083	-	-100%
Travel, Taxi & Ferry Expenses	2,030	17,434	759%
Data communication and Network Exp	4,332	-	-100%
Permit, License and other fees	58,330	2,000	-97%
Water	3,946	11,145	182%
Telephone, Internet & Data Communication	6,635	50,371	659%
Annual Events Expenditure	231,241	-	-100%
Tea, Refreshments and Entertainment	1,351	8,703	544%
Other Miscellaneous Exp	26,004	625,520	2305%
Staff Travelling Expense-Abroad	56,977	(13,918)	-124%
Stationary, Printing and Postage	193,118	64,326	-67%
Repairs& Maintenance		10,713	
Computer Expense-Consumables		5,252	
Scholarships & Dev. Of Sports Personnel		24,898	
Corporate Social Responsibility Exp		27,000	
Staff Travelling Expense-Domestic		48,017	
Staff Training and Development		2,500	
Staff Recreation		1,500	
Advertisement, Marketing and Promotion		398,569	
Legal & Professional fees		15,000	
Health Insurance		67,499	
Total	**776,335**	**1,571,304**	**102%**

Except the highlighted expenses all other expenses has increased in FY2017.

Since the company has added Property, Plant and Equipment (PPE) of MVR 501,635, the depreciation expense has increased by MVR 84,802.

In addition, cleaning and safety expenses has increased by 82%, food expenses by 1350%, travel, taxi and ferry expenses by 759%. Further, telephone, internet and data communication has increased by 659%, tea and refreshments by 544% and other miscellaneous expenses by 2305%. Increasing food expenses are not acceptable since this is an unnecessary expense. MSCL should be more cautious on what it is incurring as its costs considering the significant net loss of the company.

The company has also incurred additional expenses in 2017, which includes repair and maintenance, computer expense, scholarships, corporate social responsibility, domestic staff travelling, advertising, marketing and promotion, legal and professional fees and health insurance.

The company is unable to generate income even to cover its operating expenses, thus the company must try to control its costs if it want to survive. In this regard, the company can stop the scholarship expenditure until the company achieves a break-even. The food expense is also an unnecessary expense which can be reduced. In addition, advertising and marketing expenses can be controlled by formulating a policy for marketing. The company can also reduce its expenditure by stopping health insurance since the staff are already entitled for Aasandha scheme.

The GoM should provide for the company's working capital only for the first 3 years, hence from 2019 onwards, the company should be operating on its own. The income earned in 2017 is just 4% of its costs, thus the company must seek for other revenue generating options.

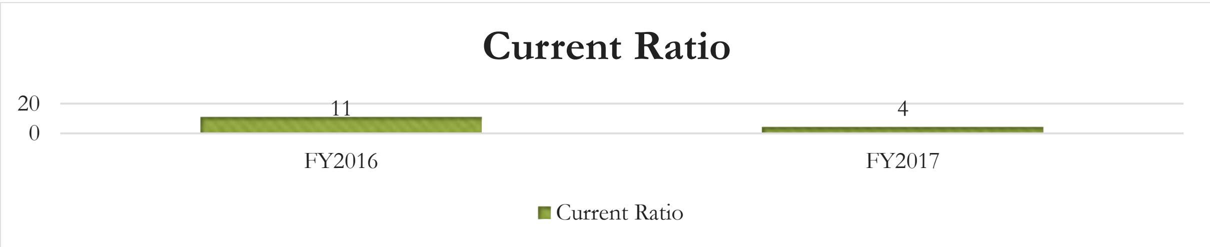
3.3 Shareholder Returns

The company is unable to distribute any returns to shareholder since it is making huge losses. Moreover, it is very unlikely that any returns will be distributed in a near future as the company is unable to generate enough income to cover its operating costs. Currently, Government, being the only shareholder is providing for the working capital requirements of the company. In 2017, the total operating costs and personal expenses of the company stands at MVR 6 million.

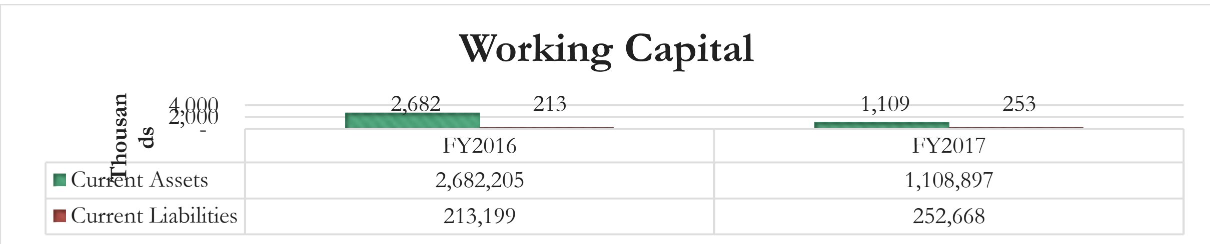
3.4 Working Capital Management

Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

The company's current assets consists of cash and cash equivalents only. And current liabilities consists of accounts payable and accrued expenses.



The current ratio of the company has reduced from 11 to 4 times due to reduction in bank balance. However, the ratio is still maintained above the ideal level of 2.



The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities.

4. External Audit

Upon auditing the financial statements of MSCL for the year ended 31 December 2017, the Auditor General has expressed a qualified opinion. The basis for the qualified opinion are;

- Government of Maldives has granted the use of the 1 floor of youth accommodation block located at the National Stadium for a period of three years to the company to use as an office space via a letter on 27 March 2017. Since then Company has been using the floor as its office space. Whilst this assistance given by the GoM to the company is a transfer of resource to facilitate operation, this transaction should be recorded in accordance with IAS 20- Accounting for Government Grants and Disclosure of Government Assistance. In these circumstances, the company could either recognize the non-monetary grant/assistance at a nominal value or the fair value (value in use) upon assessment of the same. However, the company failed to value and recognize such value in the financial statement. Therefore, the auditors were unable to assess the impact of such adjustments that might be necessary to the financial statements resulting from this grant.

Further, Auditors have highlighted the company's significant accumulated loss in emphasis of matter paragraph of the audit report. However, the opinion was not modified in this regard.

Recurring operating losses together with no stable revenue generating units are a threat to going concern of the company. Profitability of the company is essential for its survival in the long term. However, the financials of the company were prepared on the basis of going concern on the assumption that the shareholder of the company, GoM, intends to continue providing working capital requirements for the first 3 years this corporation. Since the company was started in 2016, two years has already elapsed and the government will fund only for the next year, (FY2018) thus the company must find alternative ways to survive.

5. Conclusion

The company has made a significant loss of MVR 5,774,767 for the financial year 2017 and has an accumulated loss of MVR 8,503,450 as at 31 December 2017. However, the financials were prepared on the basis of going concern on the assumption that the shareholder of the company, GoM, intends to continue providing working capital requirements for the first 3 years this corporation as per the Sports Act 30/2015.

The company has generated an income of MVR 234,905 for the year, on the other hand the expenditure of the company is MVR 6 million. The company is unable to generate income to cover its operating expenses, thus the company must try to control its costs if it want to survive. Considering high personnel costs, the company must review its salary structure in order to maintain it at a reasonable level.

Further, GoM will provide for the company's working capital only for the first 3 years, hence from 2019 onwards, the company should be operating on its own. Therefore, it is important that the company find additional sources to generate revenue and formulate a reasonable strategic plan.

The current assets of the company is higher than its short term obligations by MVR 856,229. The short term obligations consists of accounts payable and accrued expenses and there are no external borrowings or loans.

Considering the position of the company, it is very unlikely that the company will be able to generate any return to the shareholder in a near future.

It is important to highlight that the Auditor General has expressed a qualified opinion for the financial statement of 2017 as the company has not accounted for the government grant with regard to the office space being provided.

With significant accumulated losses the company is facing serious going concern issues. In order to survive, the company must find stable revenue sources. At present the only form of revenue is earned from sale of magazines. Further, in order to reduce the losses of the company it has to manage its expenditure and reduce its costs. The expenses has recorded a significant growth from 2016 to 2017. The costs can be reduced by cutting down unnecessary costs incurred as other operating expenses. Although the company's principal activity is sports related, they could think of diversifying into other businesses in order to increase its revenue generating areas.

Annual Financial Review of

Island Aviation Services Limited

Island Aviation Services Limited

1. Executive Summary

The intention of this report is to analyze the financial status of Island Aviation Services Limited (IASL) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas for improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

IASL is a Company incorporated under the Presidential Decree bearing No: 2000/55 of l3th April 2000 as a limited liability company and presently governed under the Companies' Act No. l0 of 1996.

The company is wholly owned by the Government of Maldives (GoM) and is the national airline of the country. The airline operates inter-island services within the county as well as international services to India, Bangladesh Thailand and China from its main hub at Velana International Airport (VIA).

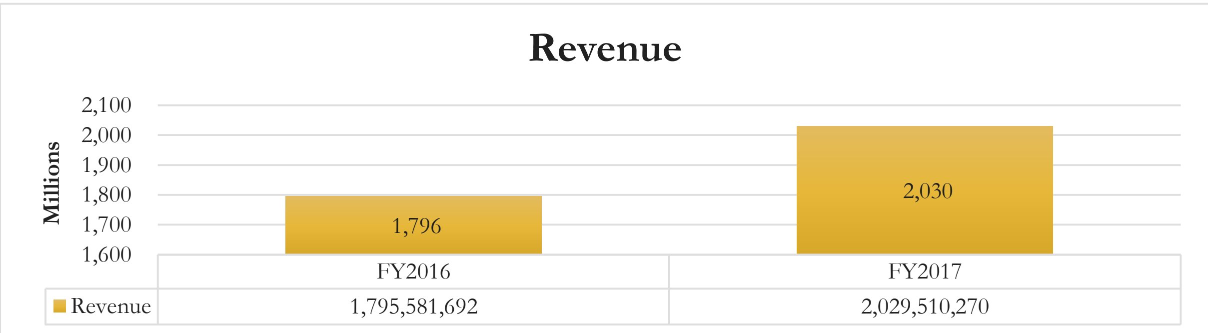
The Company's core business are;

- Airline Services
- Airport Lounge Services
- Airport Management & Operations
- Engineering & Maintenance Services
- Cargo Services
- Maldivian Holidays
- Maldivian Seaplane Services

3. Financial Analysis

3.1 Revenue Growth

IASL has a recorded revenue of MVR 2,030 million in FY2017, a substantial increase of MVR 234 million, which represents 13% growth when compared to previous year.



The company has 6 revenue generating segments as shown in the below table.

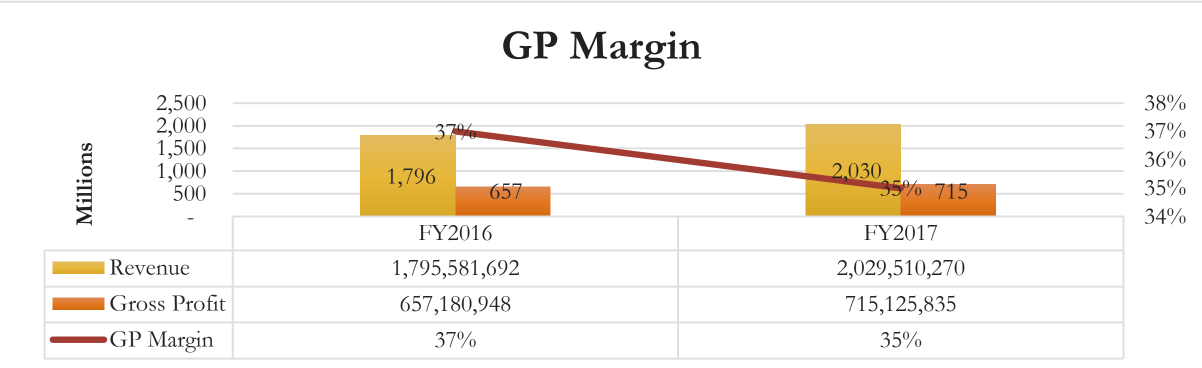
Revenue	FY2016	FY2017	% increase
Passenger Income- Domestic Service	947,813,231	1,062,905,689	12%
Passenger Income- Regional Services	712,846,737	683,132,136	-4%
Commercially important Passenger Revenue	47,599,010	79,476,448	67%
Ground Handling Revenue	40,217,794	46,592,544	16%
Cargo Handling Income	9,927,265	11,342,122	14%
Seaplane Operation Revenue	37,177,655	146,061,331	293%
Total	**1,795,581,692**	**2,029,510,270**	**13%**

The largest segment is the domestic passenger income, which represents 52% of total revenue of the company. This segment has seen a growth of 12% when compared to previous year. On the other hand, passenger income from regional services has recorded a fall of 4%.

Except the regional services, all other revenue segments has seen a healthy revenue growth, from which seaplane operations is exceptional. Maldivian Seaplane operations started in 2014 and currently cater to the tourism industry in the Maldives. With its expansion in float services, the company was able to achieve significant growth in this segment.

3.2 Profitability

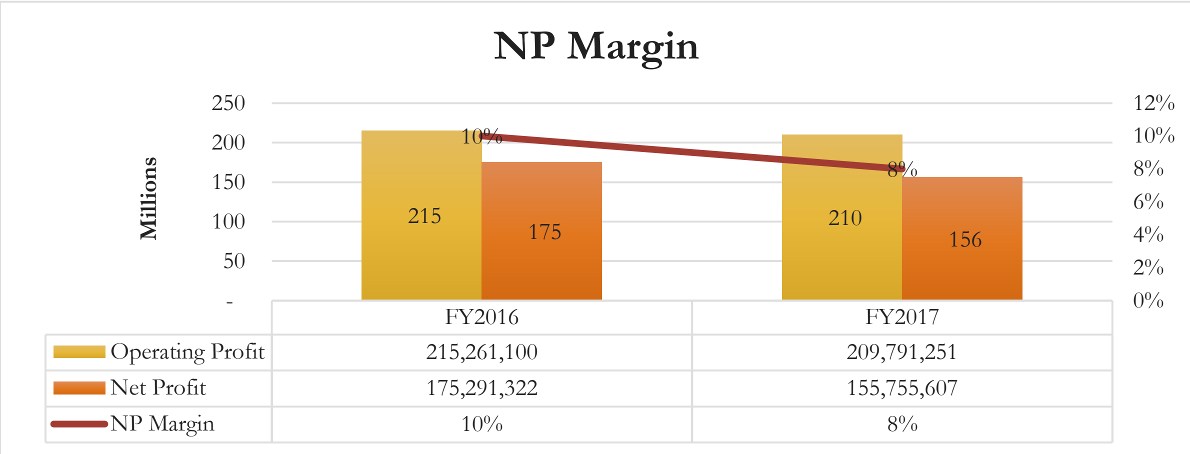
Gross Profit Margin



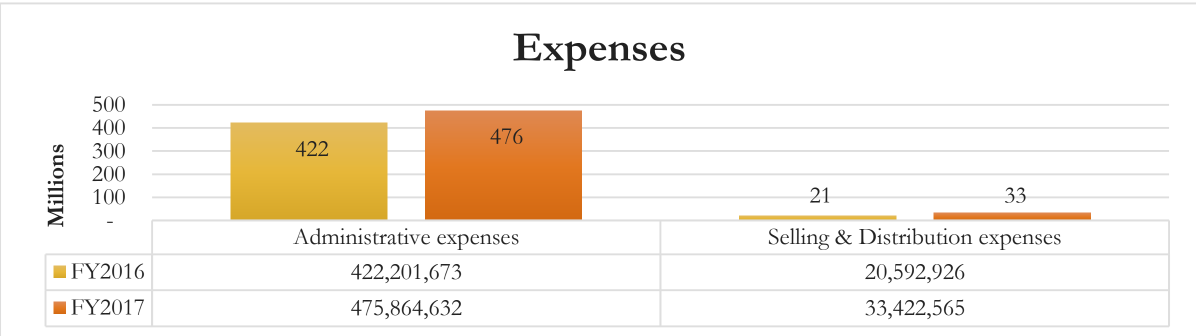
The company has achieved a gross profit of MVR 715 million (2016: 657 million). This is an increase of 9% when compared to previous year.

Although the gross profit has increased, GP margin has recorded a negative growth. This is because the growth of cost of sales is higher than the growth of revenue.

Net Profit Margin



Due to increase in company's administrative and selling & distribution expenses, the operating profit of the company has decreased from MVR 215 million to MVR 210 million.



Administrative expenses has increased by MVR 53.6 million, a growth of 13% when compared to previous year. Likewise, selling & distribution expenses has increased by MVR 12.8 million, an increase of 62% when compared to previous year.

The below table shows the expenses increased over MVR 500,000 from administrative expenses.

Administration Expenses	FY2016	FY2017	Amount Increased	% increased
Airport Lease/ Rent	370,080	740,160	370,080	100%
Powerhouse Fuel	2,082,245	2,715,172	632,927	30%
Office Rent	13,763,650	20,817,516	7,053,866	51%
Electricity & Water	6,680,957	7,791,420	1,110,463	17%
Office Cleaning	345,682	933,698	588,016	170%
Sea Transport	3,267,382	3,934,043	666,661	20%
Building Maintenance	6,065,712	7,814,440	1,748,728	29%
Software Cost	23,635,410	30,085,082	6,449,672	27%
Maintenance Of Office Furniture/ Equipment	1,338,741	8,088,546	6,749,805	504%
Personnel Accident Insurance	365,960	877,814	511,854	140%
Income Tax - India	46,831	1,386,433	1,339,602	2861%
Non Claimable Tax	3,605,063	8,387,848	4,782,785	133%
Service Tax - 12.36%	4,259,907	6,791,824	2,531,917	59%

Csr - Corporate Social Responsibility	804,957	3,629,560	2,824,603	351%
Staff Pay & Allowance	265,438,029	288,809,119	23,371,090	9%
Pension Fund	3,839,670	4,409,496	569,826	15%
Cabin Crew Meal Expenses	0	539,337	539,337	

Some of the expenses has increased abnormally such as airport lease rent, maintenance of office furniture, officer rent and software cost. Further, staff pay and allowance has increased by MVR 23 million. As the company's expense are rising at a rapid speed, measures should be taken to control these expenses.

The breakdown of the selling & distribution expenses are;

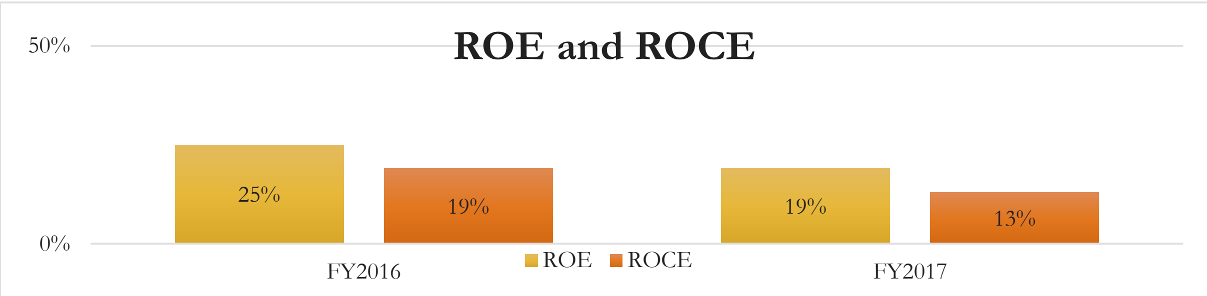
Selling and Marketing expense	FY2016	FY2017	Difference	% increased/decreased
Advertisement / Promotion and PR	1,645,461	2,474,892	829,431	50%
Sales incentives	2,382,681	3,700,337	1,317,656	55%
Other Sales and Marketing	686,697	227,283	(459,414)	-67%
Discount Allowed	3,633,947	420,839	(3,213,108)	-88%
Meeting Expenses	97,492	74,566	(22,926)	-24%
Relocation of Office Furniture / Equipment	58,246	350,174	291,928	501%
Provision for bad debts	12,088,40	(771,000)	(12,859,402)	-106%
Provision for Impairment of trade receivables		26,945,474	26,945,474	
Total	**20,592,926**	**33,422,565**	**12,829,639**	**62%**

Most of the line items have recorded a decrease except for advertisement, sales incentives, relocation cost and provision for impairment. The provision for impairment of trade receivables is significant and it stands for 6% of trade and other receivables and 1% of revenue.

The net profit of the company has decreased from MVR 175 million to MVR 156 million, a fall of 11% when compared to previous year. This was led by increase in expenses together with significant increase in net finance costs. Net finance costs have increased from MVR 7 million to 21 million due to increase in loans and borrowings.

3.3 Return on Equity (ROE) and Return on Capital Employed (ROCE)

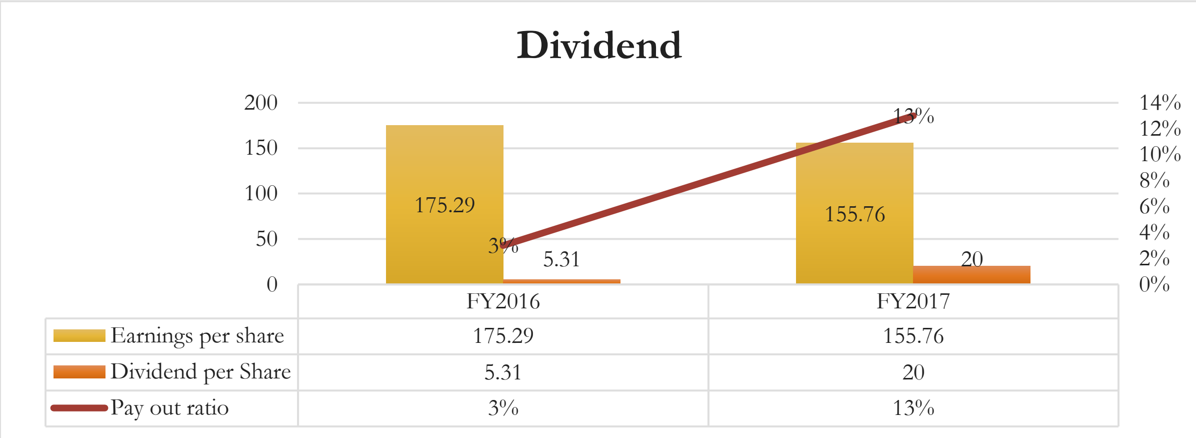
ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.



Both ROE and ROCE has recorded a fall due to decline in net profit in FY2017. However, equity of the company has increased from MVR 698 to MVR 833 million. Similarly capital employed has increased from MVR 940 million to MVR 1,198 million in FY2017.

3.4 Shareholders Return

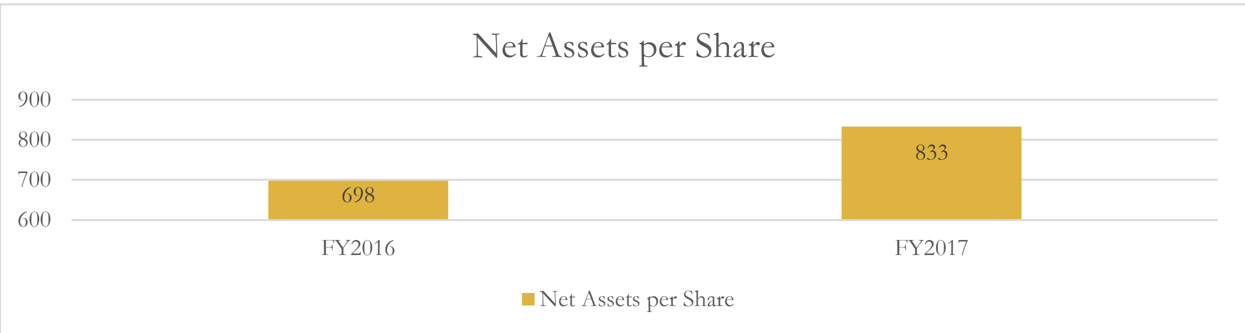
Dividend Policies



Dividend policy of a company is the strategy a company uses to decide on how much earning they will pay out to shareholders in the form of dividends. The company's earnings per share has decreased from MVR 175.29 to MVR 155.76 due to the fall in net profit. On the other hand the company has increased the dividend per share from MVR 5.31 to MVR 20 in FY2017. Consequently, the dividend payout ratio has a growth of 10%.

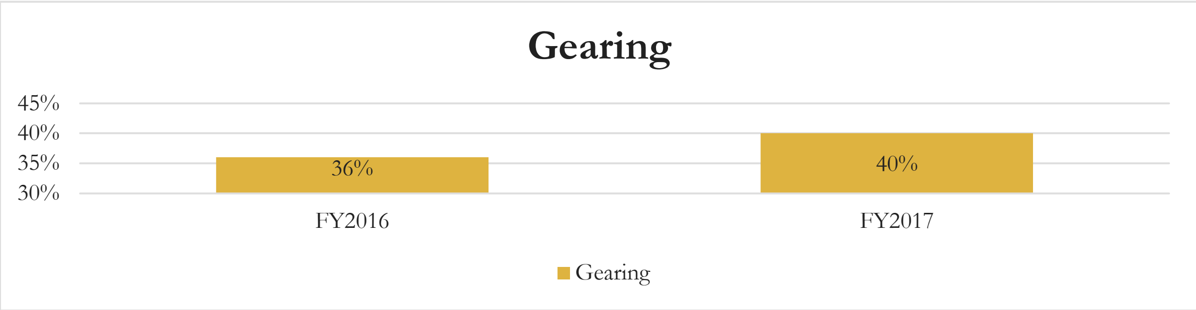
The above ratios illustrates that the company pays a small portion of its earnings to shareholders, hence they can invest the money in the business. A relatively low payout could mean that the company is retaining more earnings toward developing the company instead of paying shareholders, which hints at future growth.

Net Assets per Share



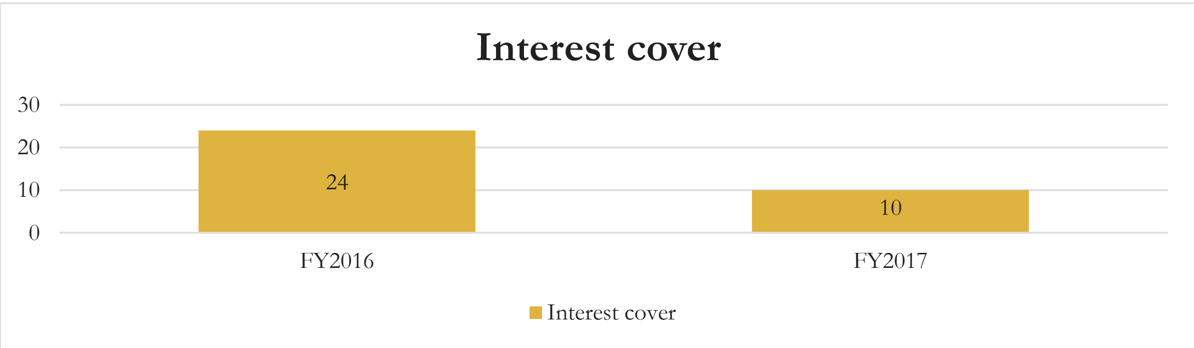
The company's assets are increasing as the company is investing in new aircrafts and other plant and equipment. As a result the net assets per share has improved from MVR 698 to MVR 833.

3.5 Financing



Gearing of the company has increased from 36% to 40% due to the additional loans and borrowings of MVR 189 million. The company has borrowed from its shareholder (MoFT) MVR 130 million with an interest rate of 3%. As per the agreement the loan capital is repayable in 16 semiannual installments of MVR 8,167,781 each, repayment starting from 15 November 2016, however the company has not made any repayments during FY2017. Further, the company has loans and borrowings of MVR 364,187,375 from external parties at the end of FY2017.

The loans were taken to finance the acquisition of aircraft DHC-6-300, upgrading of repair and modification of assets and overhauling of no of 8 aircraft engines and startup of seaplane operation.

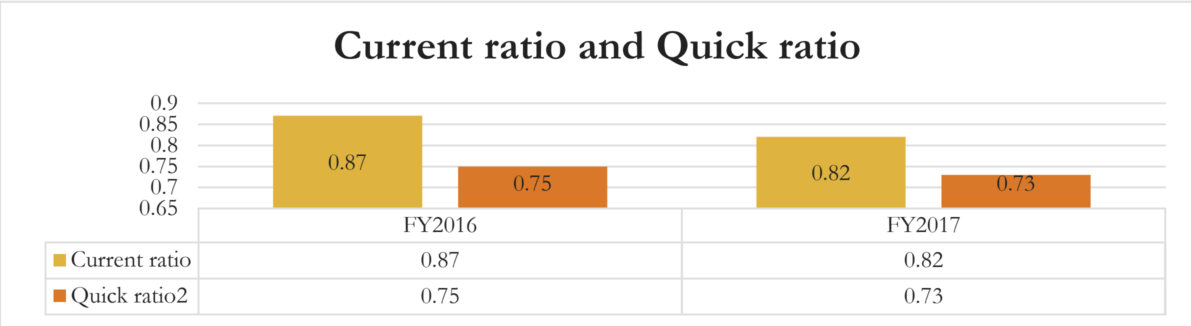


There is a significant fall in interest cover when compared to previous year. This is because the interest expense has increased from MVR 8.9 million to MVR 21.7 million due to the additional borrowings.

3.6 Working Capital Management

Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

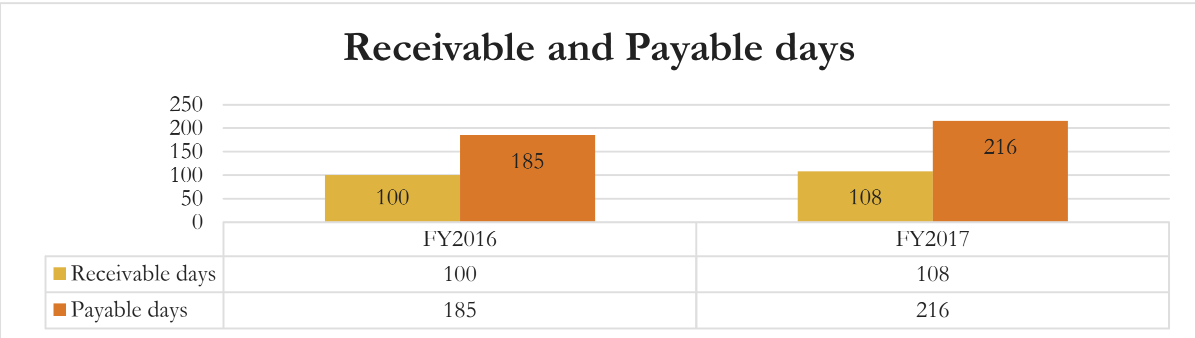
Current Ratio and Quick ratio



Both ratios are below the ideal level, thus it illustrates that the company's ability to service its short term obligations is not satisfactory. The current liabilities of the company exceeds its current assets. Further it is important to note that out of company's total current assets 80% represents trade and other receivables and amounts due from related parties. As such, the company does not have real funds to meet its short term obligations.

The current liabilities of the company has increased by MVR 206 million in FY2017. The current liabilities of the company are loans from shareholder and external parties, trade and other payables, current tax liability and bank overdraft.

Receivable and Payable days



Accounts receivable days measures the number of days a company's receivables are outstanding. In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible. The receivable days of the company have seen a marginal increase from 100 days to 108 days.

The company's trade and other receivables and dues to related party has increased from MVR 491 million to 598 million in FY2017, which equivalents to 29% of sales. Further, the company has made a provision for impairment loss on trade receivables of 26.9 million, which represents 10% of trade receivables.

Payable day's measure how long it takes to pay trade creditors or suppliers. The longer it takes to pay suppliers the better it is for working capital and cash position. If the company takes long time to pay their creditors, business relation may get affected. The payable days have increased from 185 days to 216 days, indicating that the company takes more time to pay its suppliers now.

The trade and other payables of the company includes;

Trade and other payables	FY2016	FY2017
Trade payables	283,015,989	463,850,273
Accrued Expenses	2,794,357	127,200
Dividend Payable	-	20,000,000
Lease Payable on air craft	31,209,544	31,209,544
GST Payable	7,495,863	8,297,823
Security Deposits Received	33,719,934	51,610,467
Advance Received from Customers	102,913,397	101,340,894
Other Payables	114,411,985	101,900,352
Total	**575,561,069**	**778,336,553**

The trade and other payables of the company has increased by MVR 203 million mainly due to increase in trade payables and dividend payable. Out of current liabilities, the trade payables comprise of 86%.

4. Economic Value Added (EVA)

Economic value added (EVA) is an estimate of a firm's economic profit, or the value created in excess of the required return of the company's shareholders. EVA is the incremental difference in the rate of return over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested into it. If a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a company is producing value from the funds invested in it.

The company is creating wealth and returns for shareholders above its cost of capital by MVR 252 million (2016: MVR 285 million). The value is reduced due to the reduction in net profit in FY2017.

5. External Audit

Auditor General has expressed that the company’s financial statements give a true and fair view of its financial position for the year 2017. Therefore we assumed that financial statement of IASL is free from material misstatement.

6. Conclusion

IASL is one of the well performing and money making state owned enterprises in Maldives. The company have continued to deliver consistent strong results in their core business segments. With the expansion of seaplane float services, the company’s revenue was recorded at MVR 2,029 million, a growth of 13% when compared to previous year. However, due to increase in expenses the net profit of the company has decreased by MVR 19.5 million when compared to previous year. The company should continue expanding sea plane fleets to increase profitability.

Due to fall in net profit, the earnings per share has recorded a fall MVR 19.5 per share. However the dividend per share has increased to MVR 20 per share, thereby the payout ratio has improved from 3% to 13%. Investors of the company, GoM get a good return as dividend for their investment.

The financial risk of the company has increased with additional loans and borrowings taken during the year. The gearing of the company has increased from 36% to 40% and the interest cover of the company has reduced significantly from 24 to 10 times. However, the borrowings were used to acquire new air craft and for other capital improvements. IASL should give consideration on the increasing finance costs and must try not to increase it further.

Company's current liabilities exceed its current assets, thus the short term liquidity position is weak. Out of company's total current assets 80% represents trade and other receivables and amounts due from related parties. Hence, IAS has to make policies to manage its accounts receivable. Further, the company has made a provision for impairment loss on trade receivables of 26.9 million, which represents 10% of trade receivables. Therefore, IAS should be more cautious of its collection policies. They can reduce days in accounts receivable by evaluating accounts receivable on a more frequent basis and take a more assertive stance in the collection of accounts receivable and delinquent accounts.

Annual Financial Review of

Maldives Ports Limited

Maldives Ports Limited

1. Executive Summary

The intention of this report is to analyze the financial status of Maldives Ports Limited (MPL) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

MPL is a limited liability company, which is fully owned by Government of Maldives (GoM). The company was incorporated in the Republic of Maldives on 3l July 2008 under the Act No. 25/82.

Principal business activity of the Company includes providing harbor facilities, storage, supplies and repair and maintenance services to ships and other ocean going vessels.

3. Financial Analysis

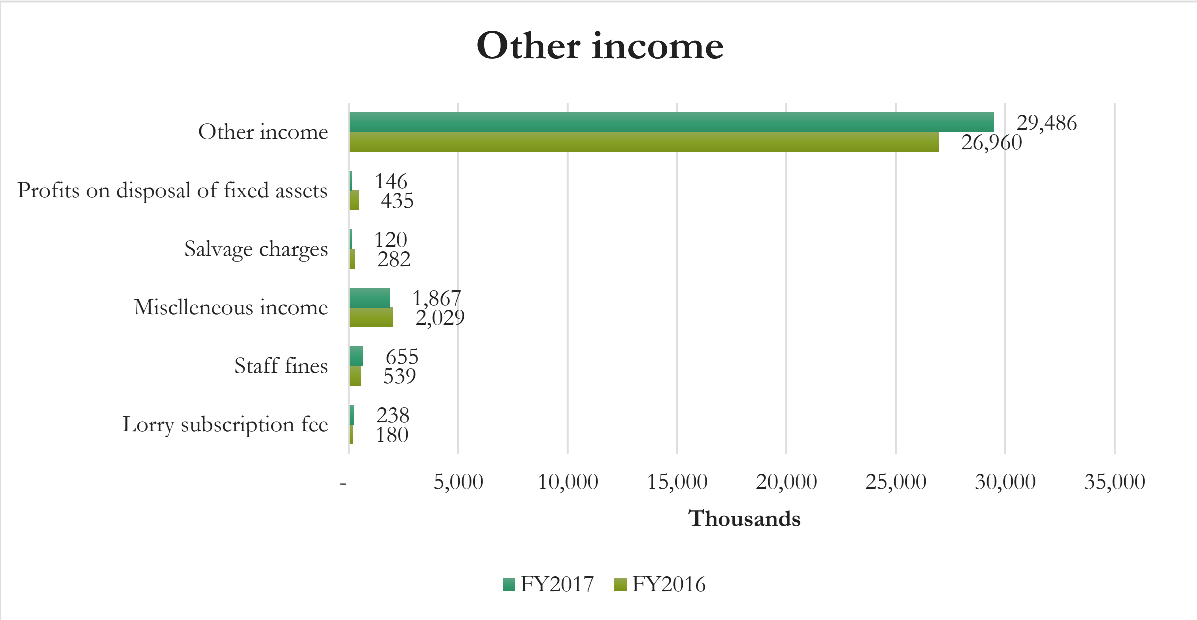
3.1 Revenue

The company has recorded a revenue of MVR 628 million in FY2017, a growth of 12% when compared to previous year. The following table shows the revenue breakdown of the company.

Revenue	FY2016	FY2017	% change
Ship arrival and pilotage services	70,267,819	77,885,554	11%
Unloading the cargo	149,527,737	170,364,405	14%
Clearing the goods	63,660,828	64,435,011	1%
Loading/Unloading the cargo	209,848,208	242,979,649	16%
Empty containers and vessel departure	35,463,899	30,282,374	-15%
Vessel and other equipment hiring charges	2,500,207	7,002,589	180%
Rent income	20,839,704	28,263,927	36%
Revenue from transport	3,653,520	3,131,783	-14%
Revenue from ferry transport	4,108,733	3,864,541	-6%
Total	**559,870,655**	**628,209,833**	**12%**

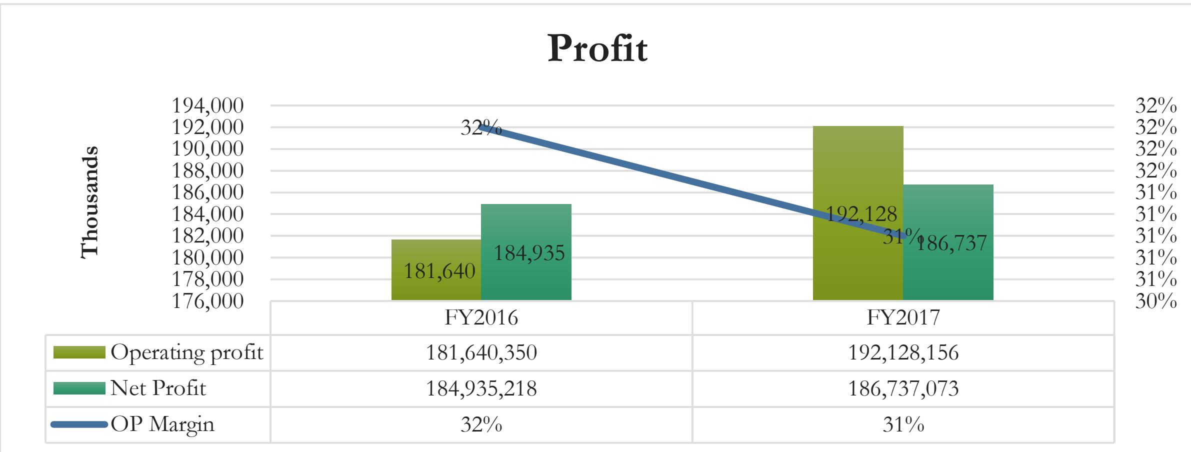
Vessel and other equipment charges has recorded the highest growth of 180% in FY2017. Except revenue from transport and empty containers and vessel departure revenue, all other revenue sources has seen a healthy growth in FY2017.

Other Income

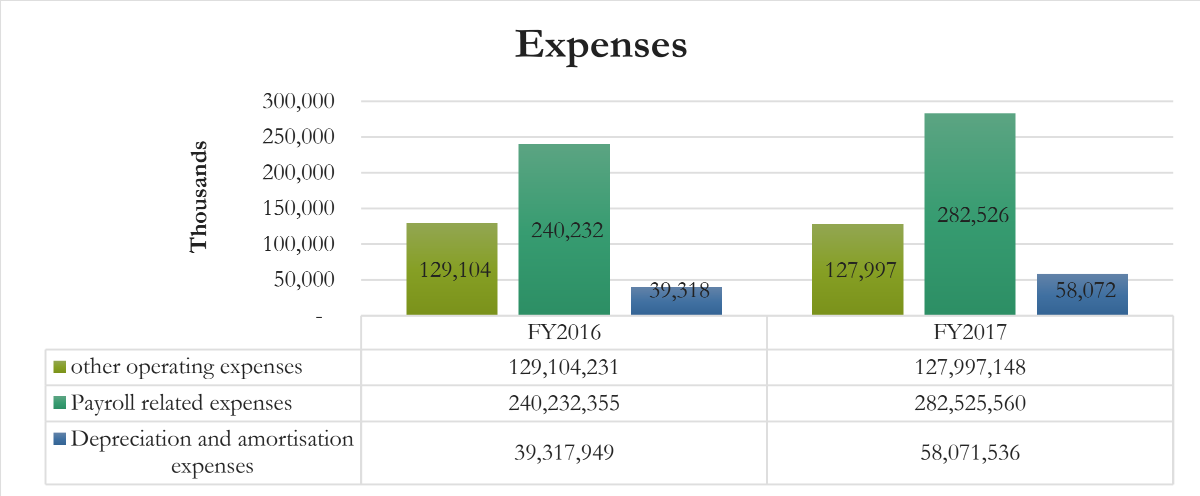


The other income of the company has increased by only 7%, the growth was restricted by the reduction in salvage services, profit on disposal of fixed assets and miscellaneous expenses.

3.2 Profitability



The operating profit of the company has increased from MVR 182 million to MVR 192 million, an increase of 6% when compared to the previous year. However due to high finance costs in FY2017, the net profit has recorded a growth of 4% only. Further, the operating profit margin has seen a marginal decrease mainly due to the increase of payroll related expenses and depreciation and amortization expense.



While other operating costs has reduced, payroll expenses and depreciation & amortization expenses have increased in FY2017. The total expenses of the company stands at 73% of total revenue of the company.

Payroll expenses consists of the following;

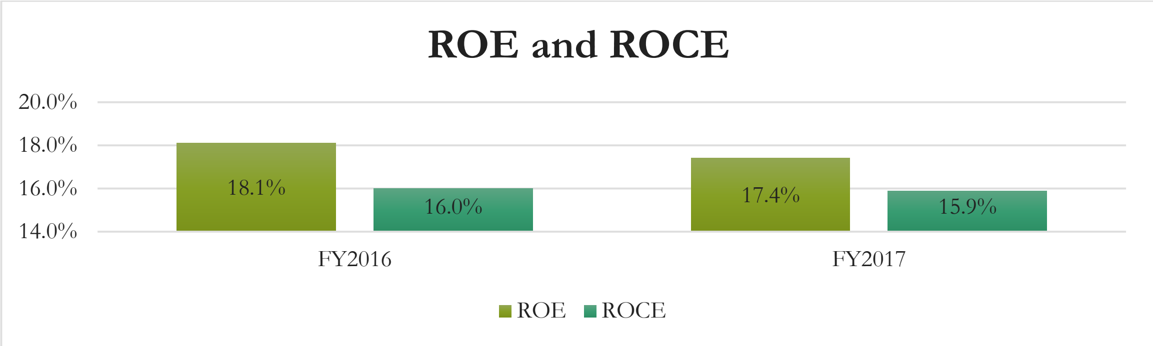
Staff expenses	FY2016	FY2017	% change
Salaries and wages	90,739,654	107,156,664	18%
Overtime	24,144,064	25,289,295	5%
Staff allowances	90,181,908	107,938,580	20%
Boat laari	11,836,015	12,482,052	5%
Bonus	4,211,062	4,995,177	19%
Contribution	5,717,960	7,106,364	24%
Staff training expenses	945,429	3,176,939	236%
Medical expenses	10,936	1,016,225	9192%
Uniform expenses	1,901,977	113,384	-94%
Other expenses/allowances	10,093,110	12,283,840	22%
Total	**239,782,115**	**281,558,520**	**17%**

A significant increase of salaries and wages from MVR 91 million to MVR 107 million was recorded in FY2017 due to increase in number of staff. It is also important to highlight that the company has paid an amount equal to salary as staff allowances as well. MPL should review its salary structure to reduce the allowances.

Further, medical expenses has recorded a drastic increase from MVR 10,936 to MVR 1,016,225. While MVR 108 million was paid as staff allowances, another MVR 12 million was paid as other expenses/allowances. The company should consider reducing the training expense in order to control its expense. MPL's payroll related expenses are very significant when compared to its operation.

Since the company has acquired MVR 122 million as property, plant and equipment (PPE) depreciation expenses has recorded an increase of MVR 19 million.

3.3 Return on Equity(ROE), Return on Capital Employed (ROCE)

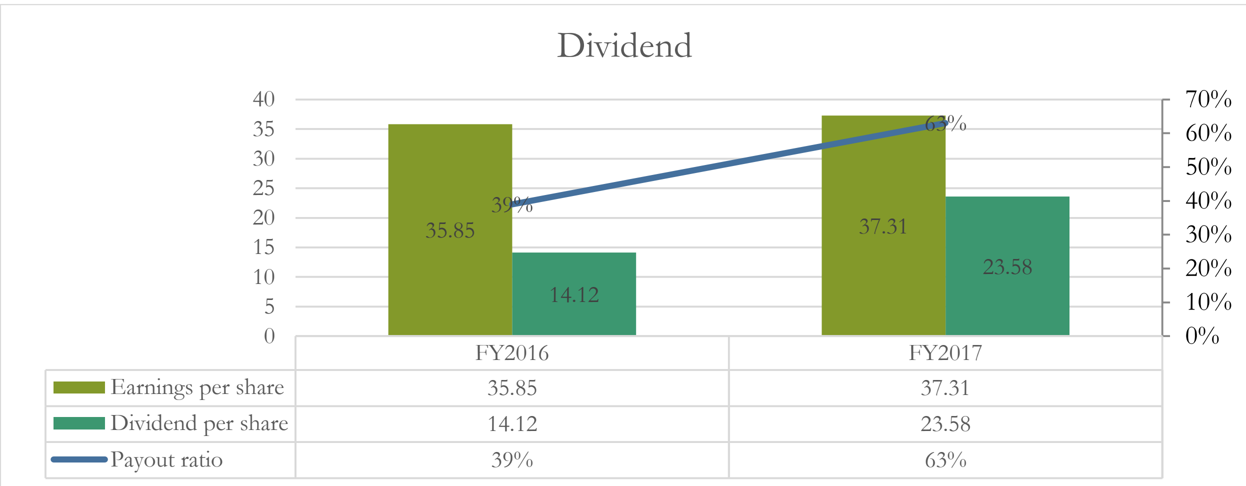


ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROCE measures a company's profitability and the efficiency with which its capital is employed.

The company has accumulated a return to the equity holders amounting to MVR 159 million (2016: 152 million) with a ROE of 17.4% (2016: 18.1%) for the year ended 31 December 2017. Similarly the ROCE has slightly decreased from 16.0% to 15.9% for the year FY2017. In FY2016 the company has used their resources or capital more effectively to generate profit when compared to FY2017.

ROE and ROCE has decreased due to increase in equity and reserves. This resulted from recognition of fair value of right to use lands in Fuvahmulah, Hulumeedhoo, Feydhoo and Hadhunmathi, based on market prices (per square feet) disclosed by the GoM. MVR 9 million was recognized under equity for the fair value of above mentioned lands.

3.4 Shareholders Returns

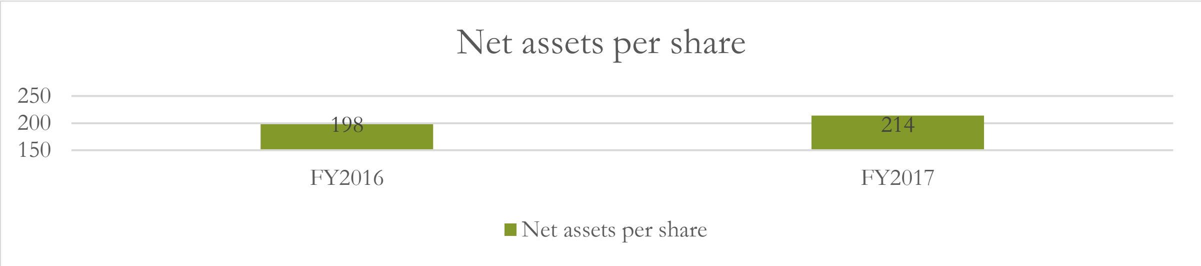


Dividend policy of a company is the strategy a company uses to decide on how much earning they will pay out to shareholders in the form of dividends. The company's earnings per share has increased from MVR 35.85 to MVR 37.31, similarly the dividend per share has increased from MVR 14.12 to MVR 23.58 in FY2017. Consequently, the dividend payout ratio has significantly increased from 39% to 63%.

It can be seen from the above ratios that the company has paid a significant portion of its earnings to shareholder in FY2017. Older, established companies typically offer high payouts. A high payout ratio can indicate a willingness to share more of the company's earnings with investors.

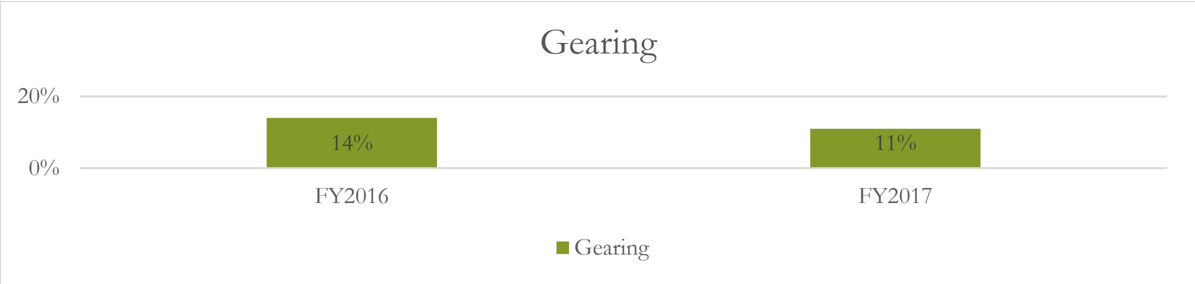
Long-term trends in the payout ratio is a matter of concern for the investors. A steadily rising ratio could indicate a healthy, maturing business, but a spiking one could mean the dividend is heading into unsustainable territory.

Net Assets per Share

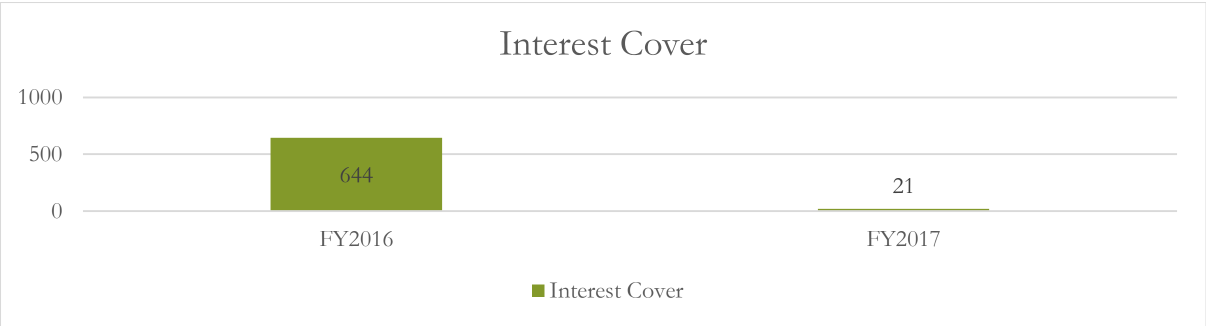


The net assets per share has increased from MVR 198 to MVR 214 mainly due to the recognition of fair value of right to use lands of MVR 9 million.

3.5 Gearing



The gearing ratio has reduced from 14% to 11% due to reduction in loan and borrowings. In 2016, company has obtained loan facility of USD 9,105,000/- to purchase heavy vehicles and machinery and disbursement was made on 24 November 2016. Principal and interest amount to be repaid in 60 monthly installments of USD 180,900/- each starting from 0l December 2016. Fixed profit payable to BML for this facility is 7% per annum.

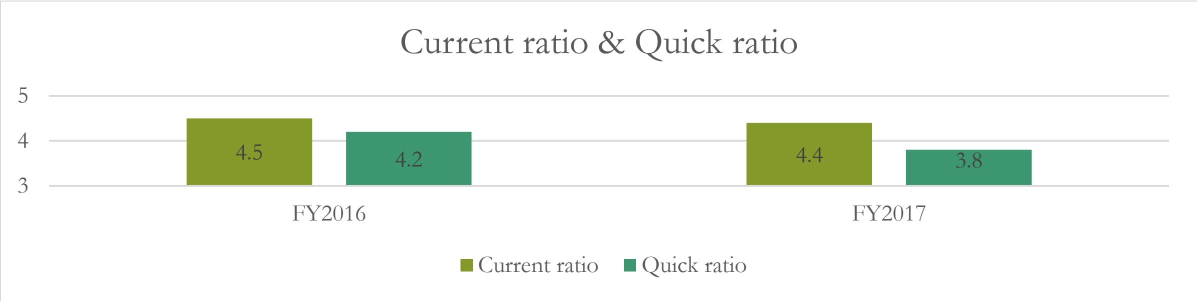


A drastic fall in interest cover was recorded for FY2017 due to the increased interest expenses. As a result of the above mentioned loan, the interest expense has increased from MVR 281,942 to MVR 8,938,863, thus interest cover dropped from 644 times to 21 times. Although the ratio has reduced, the company is capable of paying its interest expense with the profits earned.

3.6 Working Capital Management

Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

Current Ratio & Quick ratio



Current liabilities of the company are very low compared to its current assets, thus the current ratio and quick ratio are maintained above the ideal level. These ratios illustrate that the short term liquidity position of the company is strong. However it is important to highlight that above 50% of current assets are trade and other receivables, which shows that the company does not have as much as quick funds as shown in the ratio.

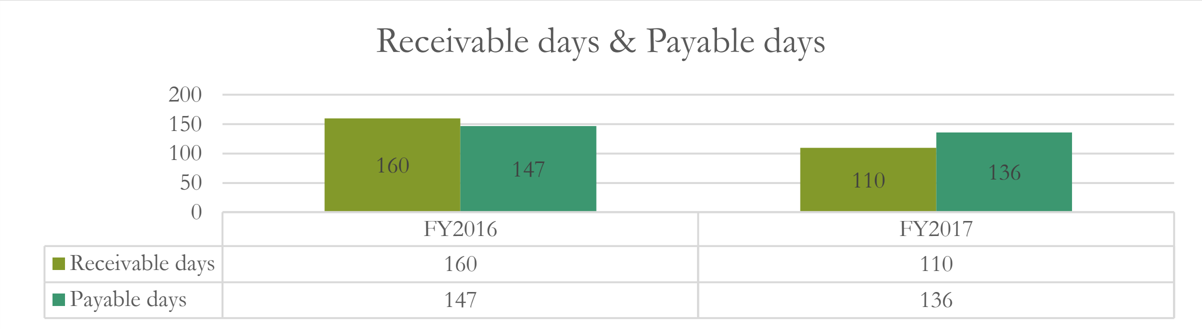
The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities. However, a high ratio (over 3) does not necessarily indicate that a company is in a state of financial well-being either. Depending on how the company's assets are allocated, a high current ratio may suggest that that company is not using its current assets efficiently, is not securing financing well, or is not managing its working capital well.

The current assets of the company are as follows;

Current Assets	FY2016	FY2017
Inventories	19,141,738	44,825,168
Trade and other receivables	246,178,843	189,328,780
Other current financial assets	96,643,417	71,710,361
Cash and cash equivalents	45,884,800	63,343,056
Total	**407,848,798**	**369,207,365**

The company's largest portion of currents assets is trade and other receivables, of which the largest portion is receivables from related parties. Companies struggle to collect the dues from related parties, as such it is unlikely that the company will be able to recover this amount in one years' time.

Receivable and Payable days



Accounts receivables are considered valuable because they represent money that is contractually owed to the company by its customers. In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible. The company's receivable collection days has reduced from 160 to 110. That indicates that the company is improving its receivable collection. But it is important to note that majority of receivables are from related parties such as government and other state owned enterprises. In order to manage working capital efficiently the company has to make financially viable arrangements with related party to improve cash position and expand their operation.

When a company has high levels of receivables, it signifies that it will be flush with cash at a defined date in the future. But it is important to note that account receivables are not guaranteed to turn in cash because in some instances customer neglect to pay the money owed on time. Therefore, accounts receivable alone does not tell the whole story about a company's account collections.

Just because receivables are an asset doesn't mean that high levels of them should uniformly be considered good. In case of STO they are struggling to collect their receivables from related parties. On the other hand, low levels of receivables are another cause for a concern, as this sometimes means that the company's finance department isn't competitive with its terms.

Payable days

It measures how long it takes to pay trade creditors or suppliers. The longer it takes to pay suppliers which is good for working capital and cash position. If the company takes long time to pay their creditor business relation may get affected. In FY2016 MPL takes 147 days on average to pay creditors and it has shortened to 136 days in FY2017. Even though it supports to company cash position MPL has to consider risk associated in this management technique. A further extension may take company into more challenging condition such as it may affect growth of business and since may need to drive cash from other sources to pay credit bills. It seems that MPL face difficulty in repaying trade payables as a result of challenge they face in collecting their receivables.

4. Economic Value Added

Economic value added (EVA) is an estimate of a firm's economic profit, or the value created in excess of the required return of the company's shareholders. EVA is the most recognized and applied modern performance financial measurement, in shareholder value creation. Shareholder value is created when the net return on assets held by the business exceeds the return required by those who have contributed capital to the business. In other words, value is created only when companies invest capital at returns that exceed the cost of that capital.

If a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a company is producing value from the funds invested in it.

The company’s EVA figure has increased from MVR 124 to MVR 136 million in FY2017, illustrating that the company is more effective in generating value from invested funds above the cost of capital.

5. External Audit

Upon auditing of the financial statements of MPL for the year ended 31 December 2017, the Auditor General has expressed a qualified opinion. The basis for the qualified opinion are;

- The Company has not consolidated the financial statements of the subsidiary, Kulhudhuffushi Port Limited, since the financial statements of the said company have not been prepared and audited as of date. As required by IAS 27 - Consolidated and Separate Financial Statements, the subsidiary should have been consolidated because it is controlled by the company. Had the subsidiary been consolidated, many elements in the accompanying financial statements would have been materially affected. Accordingly, the effects on the financial statements on the failure to consolidate have not been determined.
- Capital work in progress balance includes an amount of MVR. 24,004,229 incurred on construction of a tug boat for harbor operations. Further, the company has capitalized an amount of MVR. 779,503 paid towards Goods & Services Tax (GST) on the invoice raised by the contractor in 2012. The construction has been discontinued since the year 2010 due to a dispute with the contractor.
- Related party receivables at the date of the statement of financial position includes receivables amounting to MVR. 13,071,150/- from Maldives National Shipping Limited (MNSL), which has been outstanding for more than six years and therefore, doubtful of recovery.
- Other receivables include MVR. 85,137,999/- due from Maldives Marketing and Public Relation Corporation (MMPRC). Two promissory notes which originally matured on 3l March and 27 April2015 respectively and the Company has not been able to recover these amounts as of our opinion date. Based on the information available, the recoverability of these amounts is doubtful.

6. Conclusion

As per the financial evaluations of MPL, it is evident that the company has achieved high growth in its revenue in FY2017. Further, the company has achieved a net profit of MVR 159 million which is an improvement when compared to the previous year. Further it is important to note that expenses of the company has seen a substantial growth in FY2017. Being staff related costs the most significant expense of the company, MPL should review its salary structure to reduce the allowances through incorporating to basic salary or combining allowances. Further, it is important to maintain the number of staffs at a reasonable level.

In terms of short term liquidity position the company has recorded a tremendous result. Current and quick ratio are maintained above the ideal level. However, the receivable collection and payable days are not maintained at an acceptable level. MPL has to make policies on managing receivable and payables of the company in order to manage the cash flow position. As such, MPL should be more cautious of its collection policies. MPL can reduce days in accounts receivable by evaluating accounts receivable on a more frequent basis and take a more assertive stance in the collection of accounts receivable and delinquent accounts.

The company has declared and paid a dividend of MVR 100 million for FY2017 and MVR 60 million for FY2016. Investors of the company get a good return as dividend for their investment however variation in dividend and falling divided may seems unfavorable in their perspective. Therefore, to keep steady as well as gradual growth in dividend could be psychological techniques which can be used to, keep existing investors soothed.

The financial risk in terms of gearing was maintained at an acceptable level. Furthermore, the interest cover of the company illustrates that the company is capable to pay interest on its debts. The overall performance of the company is satisfactory and it seems it will be improving year by year.

Further auditor has expressed a qualified opinion on MPL financial statement in this year as well as previous year. That means auditors disagree with the company’s management in certain assumptions, thus which needs to be addressed in the upcoming years.

Annual Financial Review of

Maldives Center for Islamic Finance (MCIF) Limited

Maldives Center for Islamic Finance (MCIF) Limited

1. Executive Summary

The intention of this report is to analyze the financial status of Maldives Centre for Islamic Finance Limited (MCIFL) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

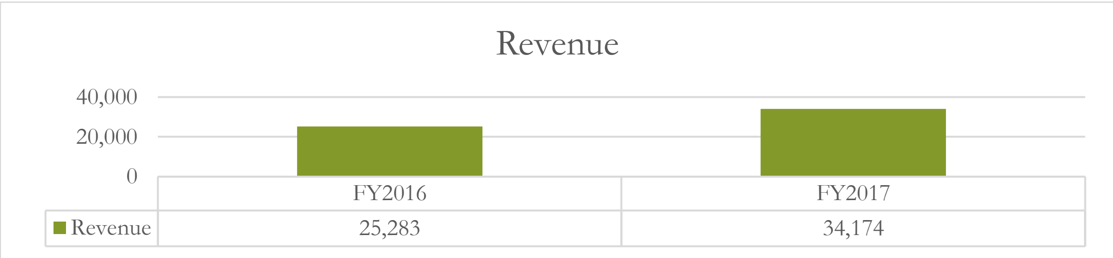
MCIFL is a limited liability company, which is fully owned by Government of the Maldives (GoM). The company was incorporated on March 24, 2016 under the Presidential Decree bearing No: 2015/7 and governed under the Companies' Act No. l0 of 1996.

The principal objective of the company is to link the Islamic Finance industry in Maldives to international markets and promote Islamic finance in the region in order to help Maldives to be the hub for Islamic finance in South Asia region.

3. Financial Analysis

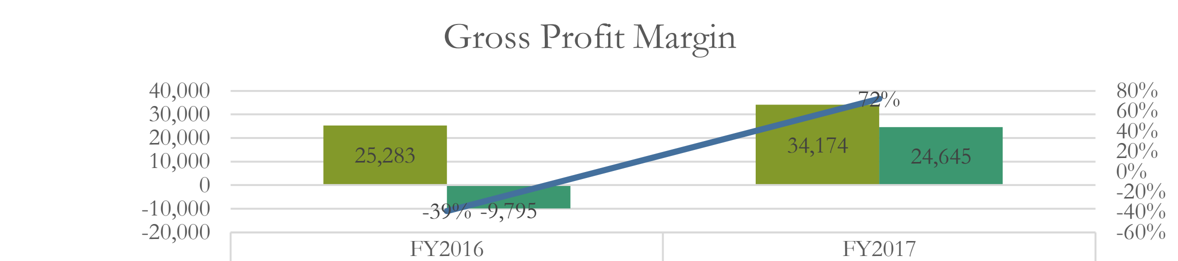
3.1 Revenue

The only source of income for the company was revenue earned from education programs. It has increased from MVR 25,283 to 34,174 in FY2017. FY2016 figures are for the period ended 24 March 2016 to 31 December 2016.



3.2 Profitability

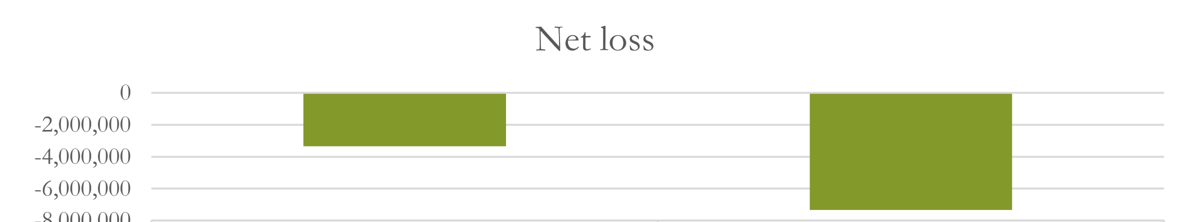
Gross Profit Margin



	FY2016	FY2017
Revenue	25,283	34,174
Gross Profit	-9,795	24,645
GP Margin	-39%	72%

While a gross loss was made in FY2016, a gross profit of MVR 24,645 was made in FY2017. This was achieved by cutting down the company's cost of sales from MVR 35,078 to MVR 9,529. The cost of sales of the company is direct cost of education programs. Although the revenue has increased, company was able to cut down the cost by 73%. Thus gross profit margin has increased from -39% to 72%. However, a gross profit of MVR 24,645 is very minimal in proportion to the company's high costs. The margin is achieved only from the education program.

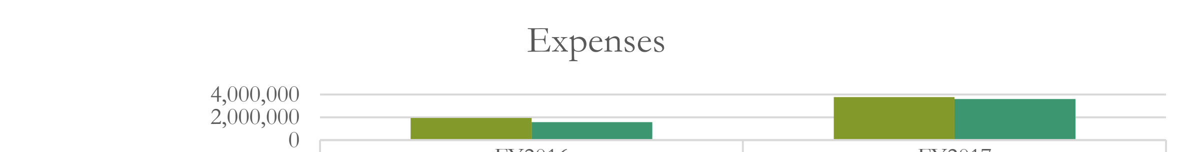
Net Profit Margin



	FY2016	FY2017
Net loss	-3,353,601	-7,337,711

The company has made a significant loss of MVR 7,337,711 in FY2017 and has a retained loss of MVR 10,875,312. The financial statements have nevertheless been prepared on the basis of the company being a going concern on the assumption that the shareholders of the company, GoM, intends to continue providing sufficient financial support to enable the company to meet its liabilities as they fall due for a period of at least twelve months from the date of these financial statements.

Expenses



	FY2016	FY2017
Personnel expenses	1,948,403	3,761,665
Other Operating expenses	1,582,538	3,600,691

Personnel expenses and other operating expenses has increased by 93% and 128% respectively.

The personnel costs of the company consists of the following.

Personnel Expenses	FY2016	FY2016	% change
Salaries and Allowances	1,423,804	2,948,251	107%
Ramadan allowance	8,500	33,000	288%
Staff Medical Insurance	-	18,062	
Board remuneration	445,434	606,000	36%
Pension expenses	70,665	156,352	121%
Total	**1,948,403**	**3,761,665**	**93%**

The staff of the company has increased from 3 to 11 staffs in FY2017, as a result of personnel expenses has increased by 93%. The company should give consideration on reducing the personnel expenses in the future either by restructuring the salary system or by cutting down staff. Further, the board remuneration has also increased from MVR 445,434 to MVR 606,000. Board remuneration is very high for a company of this size, therefore MCIFL should consider ways to control/cap it.

The other operating expenses of the company consists of the following.

Other Operating Expenses	FY2016	FY2017	% change
Office rent	727,056	1,425,600	96%
Registration and legal expenses	258,930	146,945	-43%
Board Meeting Expenses	150,725	575,887	282%
Travel and Training expenses	129,114	189,634	47%
Sharia Committee allowance	-	24,000	
Resort land survey costs	-	101,157	
Conference and event hosting expenses	-	284,346	
Utility charges	26,768	71,707	168%
Communication expenses	37,863	96,174	154%
Printing and stationery	40,420	22,070	-45%
maintenance & Repairs expenses	10,912	15,253	40%
Marketing expenses	35,860	270,721	655%
Depreciation and amortization	114,648	298,005	160%
IT expenses	34,272	43,214	26%
Bank charges	4,374	10,583	142%
Other administrative expenses	11,596	25,395	119%
Total	**1,582,538**	**3,600,691**	**128%**

All the administrative expenses (utility, printing, communication, IT) and rent for 2016 is for 6 months since from March to June the company was operated in the Ministry of Finance and Treasury (MoFT). From July onwards the company was operated in a separate office.

The high board meeting expense in FY2017 is due to the transport and accommodation (ticket and hotel expense) expense of the 3 foreign board members. From May 2018 onwards, the company has only Maldivian as board members, thus board meeting expense is expected to reduce in FY2018 onwards.

MCIFL should consider stopping travel and training expense until the company achieves break even. Further, the office rent should be also be reduced.

3.3 Shareholder Returns

The company is unable to distribute any returns to shareholder since it is making huge losses. Moreover, it is very unlikely that any returns will be distributed in a near future as the company is unable to generate enough income to cover its operating costs. Currently, GoM, being the only shareholder is providing for the working capital requirements of the company. In 2017, the total operating costs and personal expenses of the company stands at MVR 7 million.

3.4 Working Capital Management

Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

Current ratio

The current ratio of the company has reduced from 15 to 3 times in FY2017 mainly due to reduction in company's current assets. Cash at bank balance has reduced significantly from MVR 5,419,804 to MVR 494,073.

The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities.

The current liabilities of the company consists of accrued expenses, payables to vendors, pension contribution payable, other payables and amounts payable to government.

4. External Audit

In Auditor General's opinion the company's financial statement gives a true and fair view of the financial position of the company as at 31 December 2017 and its financial performance and its cash flows for the year ended.

Further, auditors have highlighted the company's significant accumulated loss in emphasis of matter paragraph of the audit report. However, the opinion was not modified in this regard.

5. Conclusion

The company has made a significant loss of MVR 7,337,711 for the financial year 2017 and has an accumulated loss of MVR 10,875,312 as at 31 December 2017. However, the financials were prepared on the basis of going concern on the assumption that the shareholder of the company, GoM, intends to continue providing sufficient financial support to enable the company to meet its liabilities as they fall due for a period of at least twelve months from the date of these financial statements. As such, after FY2018, the company has to find other financing arrangements for its operation.

The only source of revenue for the company is generated from education programs and it has recorded a growth of 35% while the cost of sales has reduced by 73%. Thereby the company has overcome its gross loss and has made a gross profit in FY2017.However, the revenue was not enough to cover its operating costs, hence if the company wants to survive it must find ways to control its operating costs.

The current assets of the company is higher than its short term obligations by MVR 887,159. The current liabilities of the company consists of accrued expenses, payables to vendors, pension contribution payable, other payables and amounts payable to government.

Considering the position of the company, it is very unlikely that the company will be able to generate any return to the shareholder in a near future.

Profitability of the company is essential for its survival in the long term. With significant accumulated losses the company is facing serious going concern issues. In order to sustain its existence the company must find additional sources of income. In addition to that the company has to find ways to cut down its costs as well.

Annual Financial Review of

Hazana Maldives Limited

Hazana Maldives Limited

1. Executive Summary

The intention of this report is to analyze the financial status of Hazana Maldives Limited (Hazana) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

Hazana is a limited liability company, which is fully owned by the Government of Maldives (GoM). The company is incorporated on June 02, 2016 under the Presidential Decree bearing No: 2016/1 and governed under the Companies' Act No. l0 of 1996.

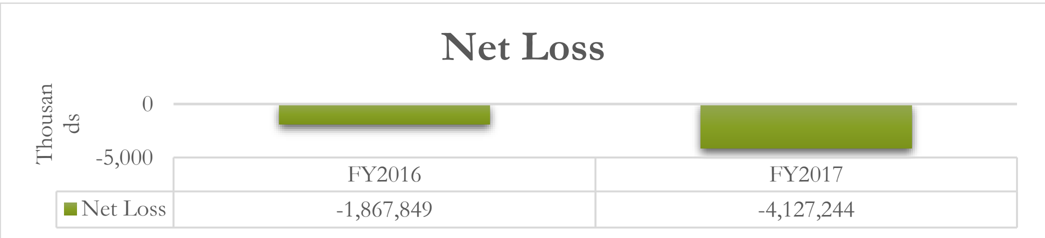
The principal objective of the company is to link the Islamic Finance industry in Maldives to international markets and promote Islamic finance in the region in order to help Maldives to be the hub for Islamic finance in South Asia region.

3. Financial Analysis

3.1 Revenue

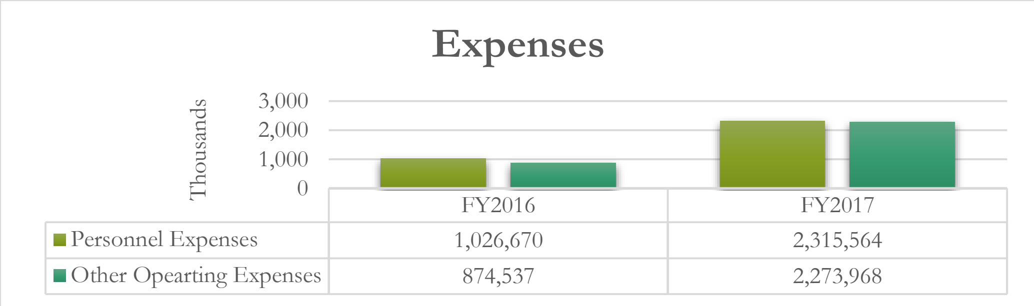
The company has not earned any source of revenue since its inception except for the rental income received in FY2017 as other income. MVR 316,636 was received as rental income and MVR 145,651 as finance income in FY2017.

3.2 Profitability



The company has made a net loss of MVR 4 million in FY2017 and has a retained loss of MVR 5,995,093 at the end of 2017. The financial statements have nevertheless been prepared on the basis of the company being a going concern on the assumption that the shareholders of the company, GoM, intends to continue providing sufficient financial support to enable the company to meet its liabilities as they fall due for a period of at least twelve months from the date of FY2017 financial statements.

Expenses



(Note: 2016 figures are from June 2016 to December 2016.)

The company has incurred MVR 2,315,564 as personnel costs and MVR 2,273,968 as other operating expense. It is important to highlight that personnel costs are the most significant expense of the company.

Personnel expenses of the company consists of the following.

Since the company was incorporated in 2016, the figures for 2016 is for 6 months and FY2017 figures are a full year.

Personnel Expenses	FY2016	FY2017	% change
Salaries	682,400	1,738,682	155%
Other Employment Expenses	100	100	0%
Board remuneration	314,125	499,500	59%
Pension expenses	30,045	77,282	157%
Total	**1,026,670**	**2,315,564**	126%

Although the company is unable to generate any revenue yet, it has incurred a significant amount as personnel expenses. Considering the position of the company, in order to sustain existence it has to cut down its expenditure in any way possible.

The other operating expenses of the company consists of the following.

Other Operating Expenses	FY2016	FY2017	% change
Office rent	640,015	840,000	31%
Legal and Regulatory Expenses	525	180,080	34201%
marketing and Promotion	-	43,746	
Travel and Transportation	143,167	142,992	0%
Training and Education	28,004	414,258	1379%
Utility charges	23,604	97,965	315%
Pantry expenses	3,071	5,674	85%
Printing and Stationery	16,405	30,389	85%
maintenance & Repairs expenses	1,026	5,243	411%
Advisory and Consultation	5,000	266,014	5220%
Depreciation and amortization	10,091	91,571	807%
IT Expenses	2,143	1,103	-49%
Bank charges	1,486	7,840	428%
Theft	-	147,093	
total	**874,537**	**2,273,968**	**160%**

(Note: 2016 figures are from June 2016 to December 2016.)

The increase of other operating expenses is not very significant provided that 2016 figures are from June to December 2016. However, the company must cut down any possible costs in order to reduce its loss.

The company can cut down its travel and transportation expenditure until the company can generate revenue. Further, advisory and consultation expenses has increased while it was not accompanied with any revenue. Hence, company should consider reduce this cost unless accompanying revenue can be generated.

On 25 June 2017 theft occurred in Hazana premises and a sum of cash was stolen with damages to the fixed assets. After the burglary, the company acquired hard disc for the CCTV. On 14 July 2017, 2 burglars broke into the premises again. Nothing of material value of was stolen however, considerable damage was done to some fixed assets. Total value of damage/theft is MVR 147,093.

Two burglary in two consecutive months' shows that the security is very weak at the company's premises. After these two incidents, the company has acquired additional physical locks, new CCTV camera and a more secure safe.

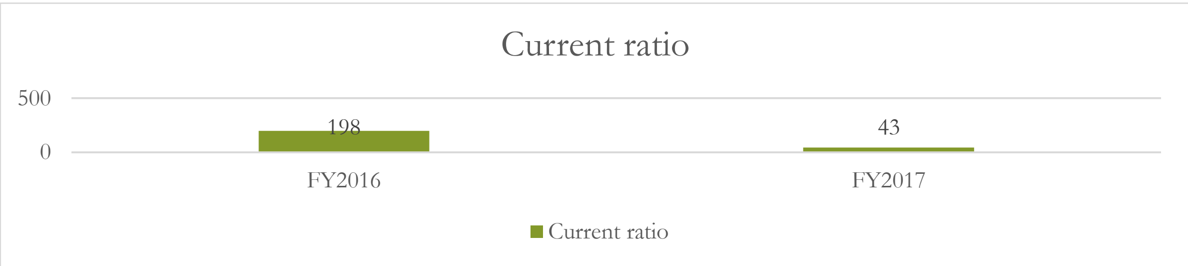
3.3 Shareholder Returns

The company is unable to distribute any returns to shareholder since it is making huge losses. Moreover, it is very unlikely that any returns will be distributed in a near future as the company is unable to generate any revenue since its inception. Currently, GoM, being the only shareholder, is providing for the working capital requirements of the company. In 2017, the total operating costs and personal expenses of the company stands at MVR 4.5 million.

3.4 Working Capital Management

Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

Current Ratio



The current ratio of the company has recorded a significant fall from 198 to 43 times in FY2017. Current assets of the company has decreased from MVR 8 million to MVR 6 million mainly due to short term investments. On the other hand, current liabilities of the company has increased due to increase in both accounts payable and other current liabilities.

The company's short term liquidity position is strong since it has larger proportion of asset value relative to the value of its liabilities. The higher the current ratio, the more capable the company is of paying its obligations. However, a high ratio (over 3) does not necessarily indicate that a company is in a state of financial well-being either. Depending on how the company's assets are allocated, a high current ratio may suggest that that company is not using its current assets efficiently, is not securing financing well, or is not managing its working capital well.

4. External Audit

In Auditor General's opinion the company's financial statement gives a true and fair view of the financial position of the company as at 31 December 2017 and its financial performance and its cash flows for the year ended.

Further, Auditors have highlighted the company's significant accumulated loss in emphasis of matter paragraph of the Audit report. However, the opinion was not modified in this regard.

5. Conclusion

The company has made a significant loss of MVR 4,127,244 for the financial year 2017 and has an accumulated loss of MVR 5,995,093 as at 31 December 2017. However, the financials were prepared on the basis of going concern on the assumption that the shareholder of the company, GoM, intends to continue providing sufficient financial support to enable the Company to meet its liabilities as they fall due for a period of at least twelve months from the date of these financial statements.

The company has not earned any source of revenue since its inception except for the rental income received in FY2017 as other income. However, the company has incurred MVR 2,315,564 as personnel costs and MVR 2,273,968 as other operating expense. It is important to highlight that personnel costs are the most significant expense of the company.

With a high current asset ratio the company has a strong short term liquidity position. A high current ratio may suggest that that company is not using its current assets efficiently, is not securing financing well, or is not managing its working capital well.

In terms of shareholder returns, considering the position of the company, it is very unlikely that the company will be able to generate any return to the shareholder in a near future.

It is important to highlight that two incidents of theft occurred in 2017 and total value of damage/theft is MVR 147,093. Thus, the company needs to improve its security systems and make sure such incidents are not repeated in future.

With recurring accumulated losses the company is facing serious going concern issues. At present, the company's operation are funded through capital injections by the government. In order to sustain its existence the company must formulate a stable strategic plan to strengthen its operations and establish a stable revenue source for the company. The company must be able to pursue revenue increase options independent from government financial help. In addition to that, the company has to find ways to cut down its costs as well.

Annual Financial Review of

Maldives Integrated Tourism Development Corporation

Maldives Integrated Tourism Development Corporation

1. Executive Summary

The intention of this report is to analyze the financial status of Maldives Integrated Tourism Development Corporation Limited (MITDC) for the year ended 2017 and review the company's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas for improvement.

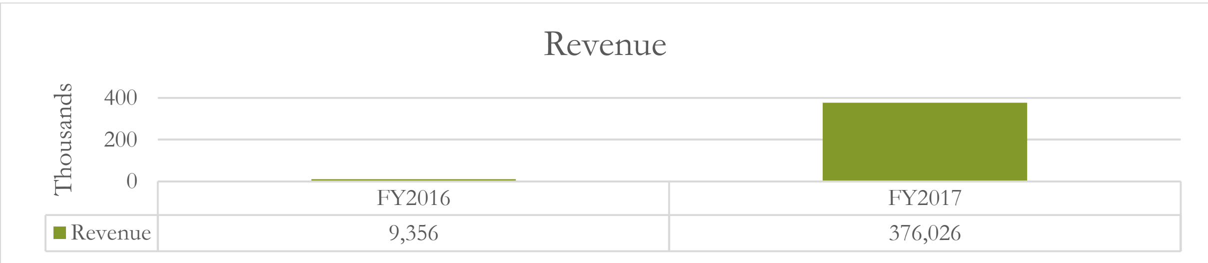
As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the company was conducted for the purpose of this analysis.

2. Introduction

MITDC is a company incorporated in the Republic of Maldives on 27th October 2016 bearing registration no. C-1043/2016. The company has been mandated with the development of integrated tourism in the Maldives.

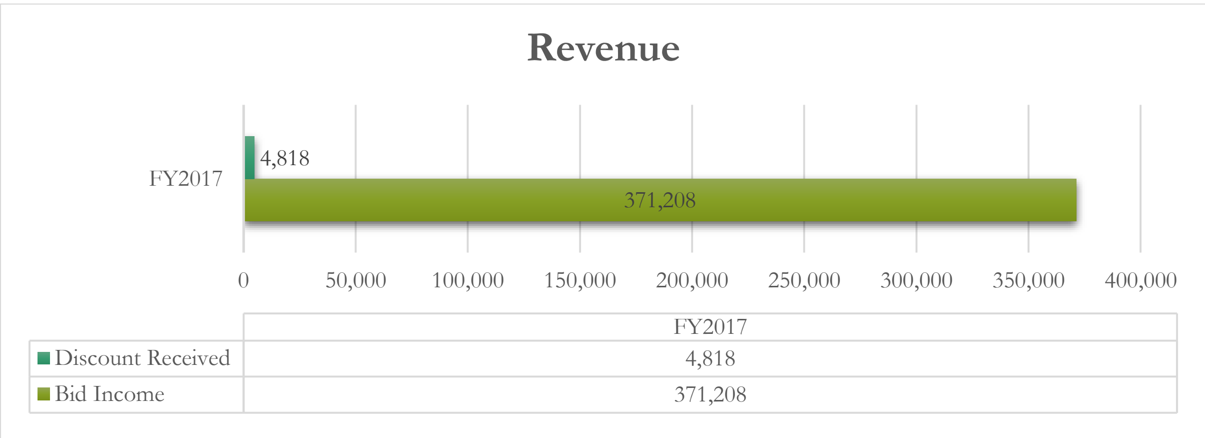
3. Financial Analysis

3.1 Revenue



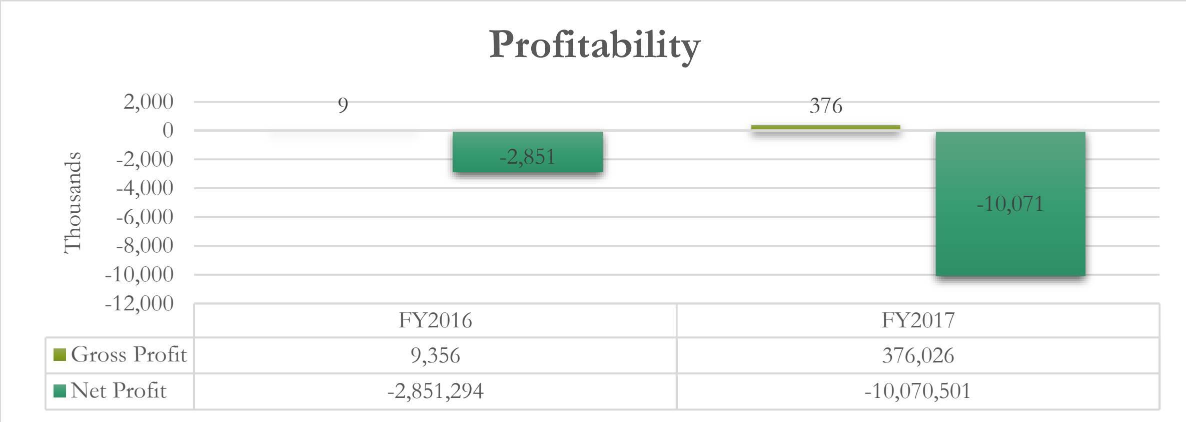
2016 figures are from October 2016 to December 2016. The company has recorded a revenue of MVR 376,026 million in FY2017.

The revenue of the company consists of the following.



Since the company does not have cost of sales, the gross profit is equal to the revenue of the company.

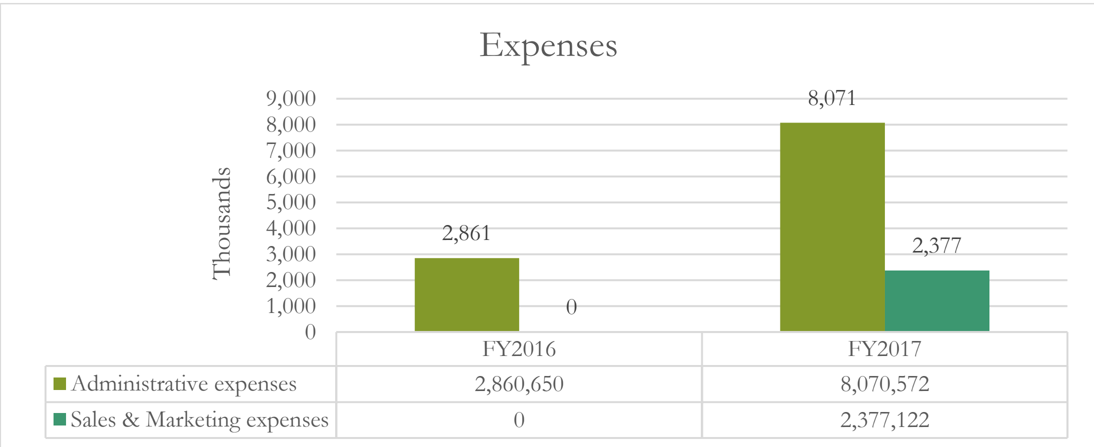
3.2 Profitability



(2016 figures are for 3 months and 2017 figures are for full year)

Since the company's expenditure is too high the revenue generated was not enough to cover them, as a result the company made a net loss. The company has made a net loss of MVR 376,026 for 3 months ended in FY2016 and for MVR 10,070,501 for FY2017. At the end of 2017, company has accumulated a net loss of MVR 12.9 million.

<u>Expenses</u>



(2016 figures are for 3 months and 2017 figures are for full year)

MITDC has incurred a significant amount of administrative expenses and it stands for 2146% of the revenue of the company. Further, MVR 2,377,122 was incurred as sales and marketing expense.

The most significant administrative expenses of the company are; (above MVR 50,000)

Administrative expenses	FY2016	FY2017
Cleaning Expenses	-	50,358
Depreciation	2,165	655,247
Legal & Professional fees	110,851	1,216,050
License & Permits	600	63,607
Refund of Land Acquisition cost	-	1,542,000
Office supplies	7,148	145,751
Directors remuneration	366,000	1,098,000
Payroll Expenses	12,659	1,630,381
Pension	2,275	83,640
Telephone	19,311	78,810
Travelling Expenses	230,900	1,381,768
Caretaker allowance	-	59,340
Withholding tax	-	268,639
CSR Expense	1,998,017	-

(2016 figures are for 3 months and 2017 figures are for full year)

Legal and professional fees include accountancy fee, feasibility fee, legal fee and staffing fee. In FY2017 MITDC has outsourced its finance department, thus accountancy fee is the fee paid to with regard to this service. Further, design and marketing service is also provided by outside staff.

In FY2017, the company had 5 board members including chairman. A total salary of MVR 648,000 and allowance of MVR 450,000 was paid to board members.

CSR Expenses of MVR 1,998,017 was wrongly recorded in 2016 financial statement under property plant and equipment. However error has been rectified and has been classified under Administrative expenses.

Further, the company had 8 staff at the start of the year 2017 and had 13 staff at the end of the year. Thus the payroll expense stands at MVR 1,098,000 for the year.

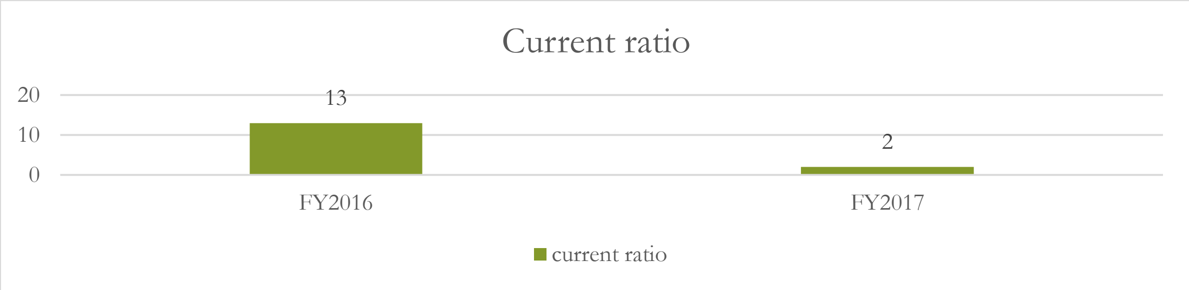
3.3 Shareholder Returns

The company is unable to distribute any returns to shareholder since it is unable to make any profits yet. However, the performance of the company is expected to improve in the coming years.

3.5 Working Capital Management

Working capital management refers to a company's strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The main purpose is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

Current ratio



Current ratio of the company has recorded a significant fall from 13 to 2 times, however it is still maintained above the ideal level. The increase of current liabilities is far greater than the increase of company's current assets. Although the current liabilities of the company has increased over the year, MITDC is still capable of paying its short term liabilities.

Current assets of the company consists of the following.

Current Assets	FY2016	FY2017
Accounts receivable	-	2,887
Land Acquisition cost receivable	20,894,100	11,256,600
Advance Payments paid to suppliers		12,181,800
Other Receivables		50,935
Prepayments		11,102
cash & cash equivalents	10,897,721	6,449,578
Total	**31,791,821**	**29,952,904**

Land acquisition cost receivable includes, receivables against sub lease land plots and rent receivables includes, guest house rent advances to be received as of 31 December 2017.

Advance payments paid to suppliers includes advance payments settled to Jausa Construction Maldives Private Limited hereinafter, Jausa, for the construction works of L. Baresdhoo Project with reference to the agreement dated April 2017.

The current liabilities of the company consists of the following.

Current Liabilities	FY2016	FY2017
Trade Payables	2,388,626	6,949,297
Accrued Expenses	113,862	292,272
GST Payable/ (refundable)	-	(312,806)
Other Payables	-	439
CSR Fund	-	1,900,101
Payroll Liabilities	7,332	(808)
Total	**2,509,820**	**13,571,380**

As per the agreement between MITDC and Jausa, dated, April 2017, 20% of the labor component shall be settled in three installments to Jausa. 1st payment on date of signing contract, 2nd payment within 15 days from signing contract and 3rd payment within 45 days from signing the contract. MVR 15,882,600 was due as of 31st December 2017.

4. External Audit

Auditor General has given a disclaimer of opinion over the financial statements of FY2017 due to the below reasons.

- Government has transferred all the assets and liabilities of Baresdhoo Project from MMPRC to MITDC on 24 December 2016 with net assets value of MVR 49,386,245. This amount is recognized as an advance received against share capital. However the assets and liabilities have not been assessed for their completeness and accuracy. Due to unavailability of documentation the auditors were unable to verify the completeness and accuracy of the said MVR 49,386,245.
  Moreover, this also includes MVR 34,617,900 advance collected from investors represented by work-in progress and cash and cash equivalents. However, MITDC has not recognized the corresponding liability for the period.

- Land Acquisition cost receivable of MVR 11,256,600 has been outstanding for more than one year. However, the company has neither made an assessment nor made any allowance of this figure. Further, auditors have not received responses to balance confirmations circulated to trade debtors. Accordingly, auditors were unable to confirm the existence, accuracy, valuation and allocation of trade and other receivables.

- During 2017, MITDC has capitalized MVR 4,042,314 for construction related expenses of some projects namely; Project Palm, Addu Integrated Tourism Development Project, Fuvahmulah Project and Kelaa Project. However, due to sufficient appropriate documents to substantiate the nature of these projects auditors were unable to determine any adjustments that may be required to capital work-in progress of MVR 23,244,901/- as at December 2017.

5. Conclusion

The company was incorporated in October 2016 and is unable to make any profit yet. In this regard company has made a net loss of MVR 10 million in FY2017.

MITDC generated a revenue of MVR 376,026 million in FY2017. Further, the revenue is expected to increase with the new projects namely L. Baresdhoo. The Government of Maldives (GoM) has transferred all the assets and liabilities attached to Baresdhoo project from MMPRC to MITDC as of 24th November 2016. The total net value of assets and liabilities transferred to MITDC is recognized as an advance received against share capital. However Auditors have questioned the accuracy and completeness of the said amount.

In addition, Auditor General was unable to express an opinion on the financial statements of MITDC as he was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. The company should correct the issues identified in the audit report to present financial statements aacurately.

The company had the capability to meet its short term liabilities as at the end of 2017 with current assets worth of MVR 46.5 million. However, it is important to note that almost 87% of current assets were trade and other receivables. On the other hand, the current liabilities of the company were maintained at MVR 27.8 million.

Since profitability is an essential part for the survival of the company in the long term. MITDC must find ways to increase its revenue and emphasize on managing its costs.

Annual Financial Review of

Maldives Islamic Bank Pvt Ltd

Maldives Islamic Bank Pvt Ltd

1. Executive Summary

The intention of this report is to analyze the financial status of Maldives Islamic Bank Private Limited (MIB) for the year ended 2017 and review the Bank's performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the Bank was conducted for the purpose of this analysis.

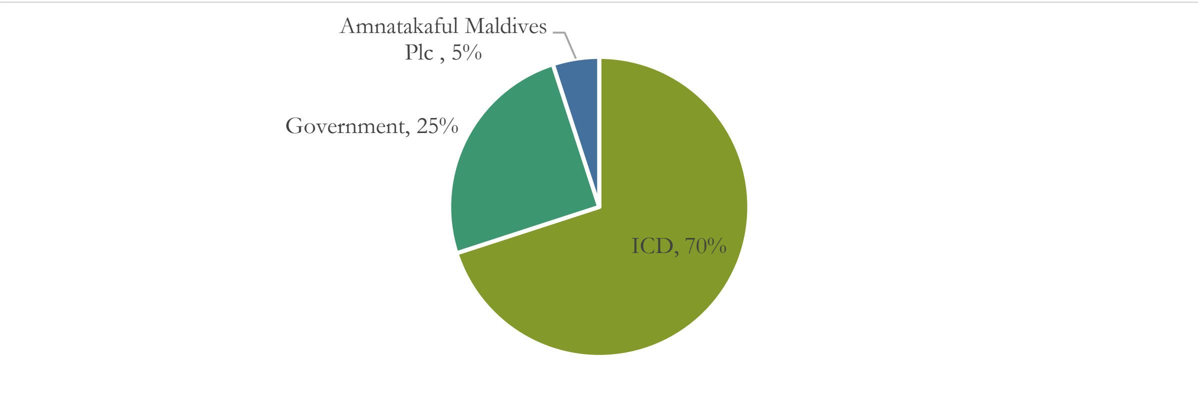
2. Introduction

MIB was incorporated and domiciled in the Republic of Maldives on 1st April 2010 as a private limited Bank and presently governed under the Bank's Act. The bank received the banking license under the Maldives Monetary Authority (MMA) on 2nd August 2010 to conduct Islamic banking business in the Maldives and obtained certificate of approval to commence operations on 6 March 2011.

The bank provides full range of banking services based on Shari'ah principles including accepting deposits, granting of financing facilities and other ancillary services.

3. Share Structure

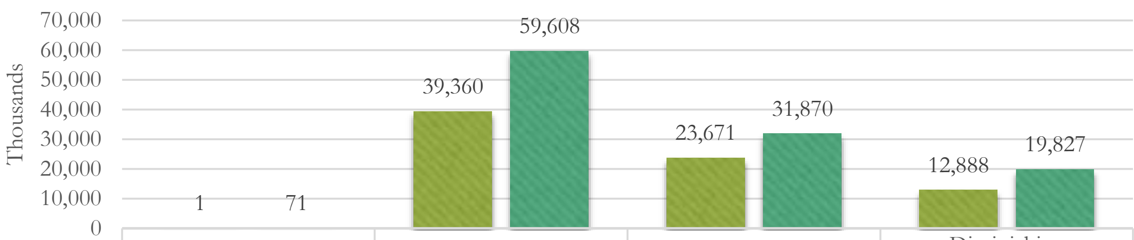
Islamic Corporation for the Development of the Private Sector (ICD) holds the majority shares of the Bank, (70%), and Government of Maldives (GoM) holds, 25%, of shares of MIB. The total share capital of the bank currently stands at MVR. 165 million



4. Financial Analysis

4.1 Income

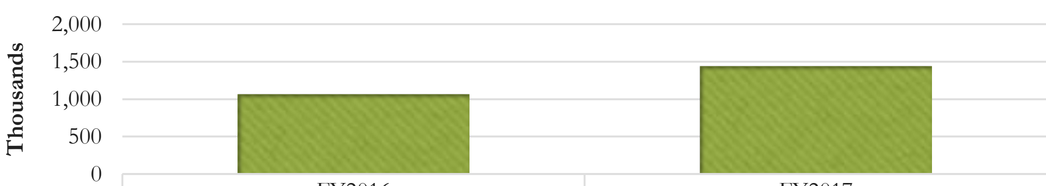
Income from financing activities reached MVR 111 million in FY2017, an increase of 47% when compared to previous year. All the line items of finance income has shown a strong growth as shown below.



	Education Financinng	Murabaha	Istisna'a	Diminishing Musharaka
FY2016	1,452	39,360,354	23,671,467	12,887,904
FY2017	70,876	59,607,718	31,870,173	19,826,655

The commission and fee income has also recorded a growth of 5%, increased from MVR 17.8 million to MVR 18.8 million. The bank should consider expanding this component as it has higher margin when compared to other components.

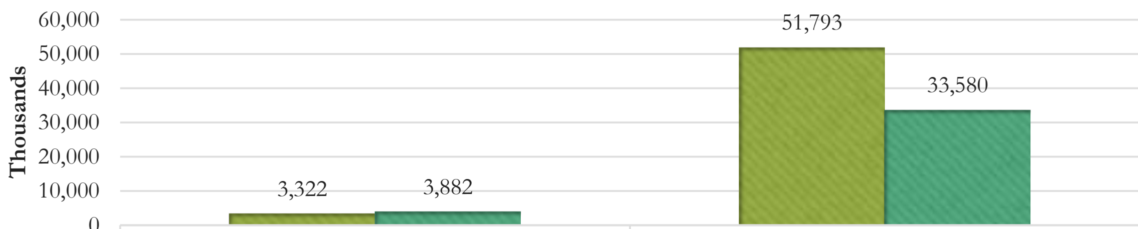
<u>Income Available for Sale Investment (Dividend Income)</u>



	FY2016	FY2017
Dividend Income	1,061,000	1,441,000

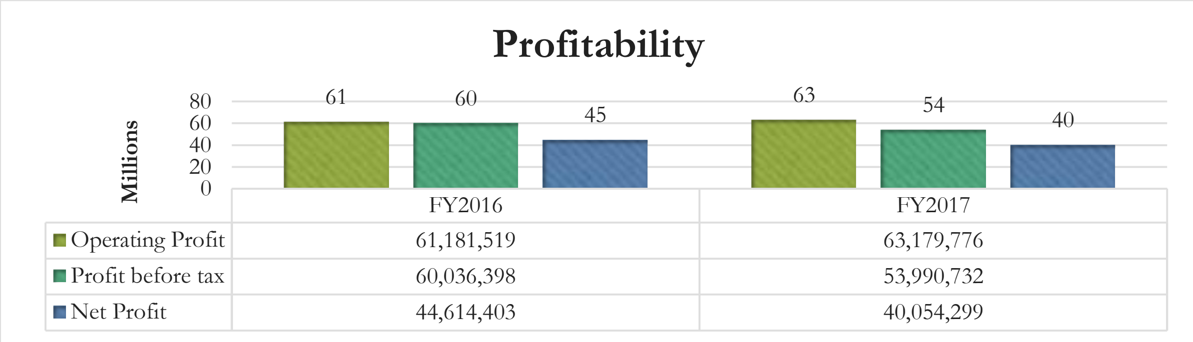
The dividend income represents the dividend received during the year from investment in the quoted shares of Dhivehi Raajjeyge Gulhun Plc (Dhiraagu). The dividend income includes MVR 14.41 per share representing interim MVR 5.96 for 2017 and MVR 8.45 final of 2016.

Dividend income has seen a growth of 36%, on the other hand income from held to maturity investments has recorded a decrease of 32%.



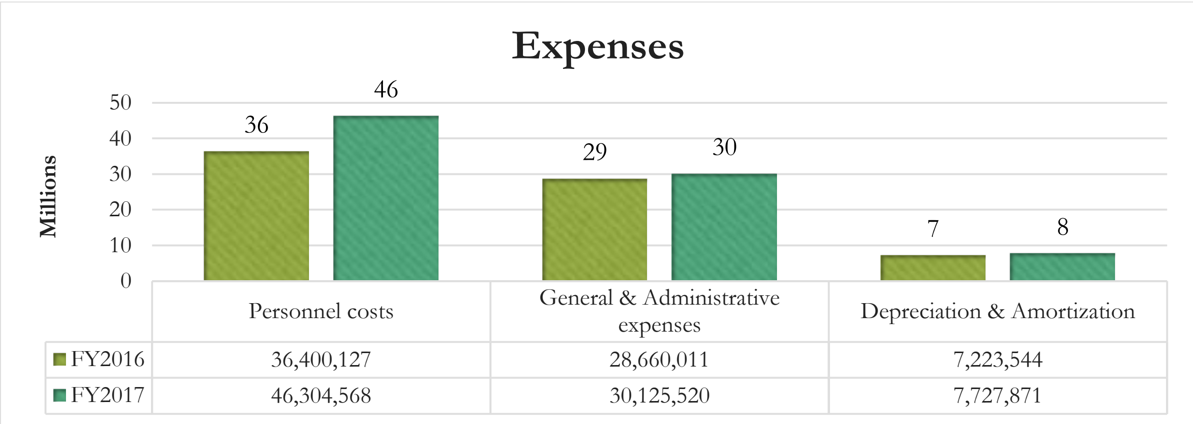
	Wakala/Musharaka placement Income	Islamic Treasury bill income
FY2016	3,322,482	51,792,841
FY2017	3,882,111	33,580,080

4.2 Profitability



The operating profit of the Bank has recorded a satisfactory growth from MVR 61 million to MVR 63 million. However, profit before tax of MIB has declined when compared to previous year. The decline was due to increase in provision for impairment loss from MVR 1 million to 9 million in FY2017. As the provision is increasing the bank should consider on improving its risk assessment.

The operating expenses of the Bank stands at MVR 84 million in FY2017, which was an increase of 16% when compared to previous year.



Personnel expenses were the most significant cost of the Bank and it had recorded a substantial growth in FY2017. However, the growth of 27% of personnel cost was below the growth of revenue at 47%. The breakdowns of personnel costs were as mentioned below;

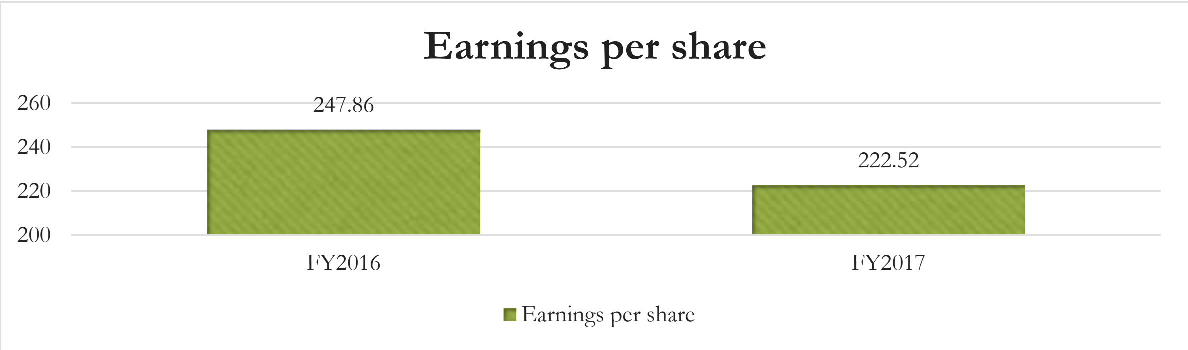
Personnel costs	FY2016	FY2017	% change
Salaries and wages	26,287,800	31,832,163	21%
Contribution to defined contribution plans	1,384,845	1,755,108	27%
Housing Allowance	3,664,464	4,507,521	23%
Executive Allowance	-	162,000	
Annual and Ramadhan Bonus	2,493,554	4,351,594	75%
Training and development	658,792	938,979	43%
Medical Insurance	713,716	1,049,291	47%
Uniforms	320,197	766,131	139%
Other staff expenses	876,759	941,781	7%
Total	**36,400,127**	**46,304,568**	**27%**

The personnel costs of the Bank had increased by almost 10 million in just one year, thus, MIB might need to think to control the substantial growth.

It is apparent from general and administrative expenses that the Bank had managed to cut down its costs from many areas such as rent, financing related expense, travelling expenses, director's allowance and board related expenses, maintenance and other operating expenses. Although the mentioned expenses were reduced, the overall general and administrative expenses had seen a minimal increase of 5% in FY2017.

During the financial year 2017, the Bank acquired property, plant and equipment (PPE) to the aggregate value of MVR 10,404,223/- (2016 - MVR 6,511,687/-). Thus depreciation expenses has increased by MVR 504,327. Further, the Bank acquired intangible assets to the aggregate value of MVR 393,994/- (2016 -MVR 438,559/-).

4.3 Shareholder Returns



As the net profit of the company has declined in FY2017, earnings per share of the company had also recorded a decrease from MVR 247.86 to MVR 222.52. The board has recommended a dividend of MVR 14,400,000 for 2017 which equates to MVR 80 per share. However, no dividend was declared for FY2016.

According to the Maldives Banking Act No 24/2010, a Bank shall allocate, after taxes, at least 50% of its net distributable profits for the formation of a capital reserve until the reserve totals 50% of its paid-up capital. Once the reserve reaches 50% of the Bank's paid-up capital, the allocation shall not be less than 25% of the Bank's net distributable profit until the reserve totals an amount equal to the Bank's paid-up capital. The Bank may not reduce its capital and the reserve accumulated in the manner described in the act or in any other manner without the MMA's prior approval. The Bank has transferred MVR 20,027,150/- during the year ended 31 December 2017 (2016: MVR 22,307,202/-).

The issued and fully paid up share capital of the bank was MVR 180 million.

4.4 Leverage and Risk

Banking is a highly-leveraged business requiring regulators to dictate minimal capital levels to help ensure the solvency of each bank and the banking system. Maldives Monetary Authority is the regulator of financial sector, who ensure compliance to uphold the soundness and integrity of the banking system.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's financings to customers and Deposits and placements with other banks, and investment in securities.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

The carrying amount of financial assets represents the maximum credit exposure and the maximum exposure to credit risk at the reporting date was;

Details	FY2016	FY2017
Cash and balances with other banks	181,630,423	209,665,651
Available for sale investments	8,100,000	52,200,000
Net receivables from financing activities	816,374,548	1,172,009,592
Held to maturity investments	853,580,526	602,128,659
Other assets	77,777,870	50,806,319
Total	**1,937,463,367**	**2,086,810,221**

The largest component of financial assets is receivables from financing activities and it is summarized as below;

Net receivables from financing activities	FY2016	FY2017
Neither past due nor impaired	749,019,340	851,881,410
Past due but not impaired	67,895,858	287,899,305
Impaired	7,926,046	50,514,020
Total	824,841,244	1,190,294,735
Less: Provision for Impairment	(7,980,576)	(17,169,620)
Less: Profit in Suspense	(486,120)	(1,115,523)
Net receivables from financing activities	**816,374,548**	**1,172,009,592**

Receivable from financing activities less than 90 days past due are not considered as impaired, unless other information is available to indicate the contrary. The individually impaired receivables from financing activities before taking into the consideration of the cash flows from collateral held is MVR. 50,514,020 which represents 4% of total receivables.

The bank has made a significant provision for impairment of MVR 17 million, which is equal to 1% of total receivables. The table below shows the bank's receivables from financing activities net of profit in suspense and associated impairment provision for each of the group.

Receivables from Financing Activities	FY2016		FY2017	
	Gross	Impairment	Gross	Impairment
Financing towards Government of Maldives	24,135,324	-	21,074,531	-
Standard (Pass)	791,056,387	4,023,880	1,110,802,643	5,612,354
Special Mention Accounts	1,237,367	37,121	6,788,018	203,641
Total performing	**816,429,078**	**4,061,001**	**1,138,665,192**	**5,815,995**
Substandard	4,510,000	902,000	46,739,948	9,347,990
Doubtful	773,755	386,878	1,903,973	951,986
Doubtful- secured Portion	-	-	1,088,599	272,149
Loss	2,619,106	2,619,106	781,500	781,500
Loss (360- 719 days) - secured portion	23,185	11,593	-	-
Total non-performing	**7,926,046**	**3,919,577**	**50,514,020**	**11,353,625**

The bank's total non-performing loans had increased by MVR 42.5 million when compared to previous year and it represents 4% of net receivables from financing activities. Non-performing loans are recognized were impaired loans at the year end.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

The below table shows the bank ratio of net liquid assets to deposits from customers for FY2017 and FY2016.

Details	FY2016	FY2017
As at 31 December	37%	40%
Average for the period	41%	39%
Maximum for the period	51%	49%
Minimum for the period	30%	28%

The liquidity reserve of the bank has increased by MVR13.8 million.

Liquidity Reserve	FY2016	FY2017
Cash and balances with Other Banks	181,630,423	209,665,651
Balances with Maldives Monetary Authority	663,077,913	648,870,979
Total	**844,708,336**	**858,536,630**

4.5 Capital Management

MMA requires each bank or banking group to hold a minimum level of regulatory capital of MVR 150 million and to maintain a ratio of total regulatory capital to risk-weighted assets (the 'Basel ratio') at or above 12%.

MIB has complied with all regulatory capital requirements during both years FY2016 and FY2017. As per MMA guidelines, the total capital ratio must be maintained at minimum 6% for Tier 1 and minimum 12% for Tier 2 capital. MIB reported 15.6% and 18.4% for Tier 1 and Tier 2 capital respectively for the year ended 2017.

5. External Audit

The external audit of MIB was conducted by Ernst & Young. As per their opinion, the financial statements of the bank gives a true and fair view of its financial position as at 31 December 2017.

6. Conclusion

Financial year 2017 was a successful year for MIB. The net income from financing activities has reached MVR 111 million in FY2017, an increase of 47% when compared to previous year. The bank should consider expanding commission and fee income as it has higher margin when compared to other components.

The operating profit of the Bank has recorded a satisfactory growth of 3%. However, profit before tax of MIB has declined when compared to previous year due to increase in provision for impairment loss from MVR 1 million to 9 million in FY2017.

The Bank is strongly capitalized with a capital ratio of 18.4%, well above regulatory requirements. The bank has solid policies to mitigate the credit and liquidity risk.

The board has proposed a dividend of MVR 14,400,000 for 2017 which equates to MVR 80 per share. However, no dividend were declared for FY2016.

Summary of Annual Review

Summary of Annual Review

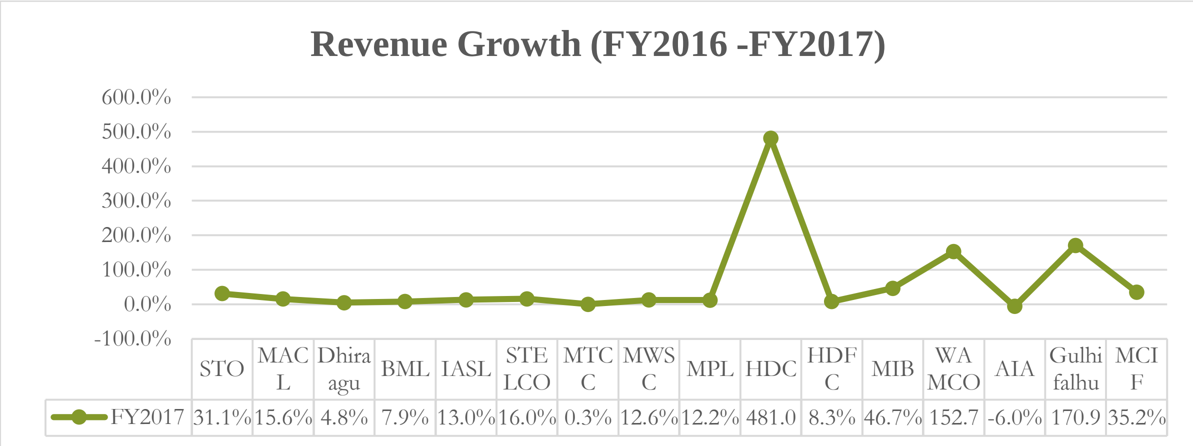
1. Introduction

The intention of this report is to analyze the financial status of (State Owned Enterprises) SOE's and Public Companies controlled by the Government of Maldives (GoM) for the year ended 2017 and review their performance. The performance will be evaluated through financial analysis of financial statement. The key purpose of the report is to find the reason or ground where it is lacking and find areas of improvement. This is a summary report prepared after analyzing each SOE and public company controlled by the GoM. Thus, detail analysis will be available in each individual report.

As financial statements are the principle tool that can be used to evaluate financial performance of a company, a comparative analysis of financial statements of the companies was conducted for the purpose of this analysis.

2. Financial Analysis

<u>Revenue Growth</u>



#	Company	FY2016	FY2017	Growth
1	STO	6,384,904,397	7,505,223,841	18%
2	MACL	3,530,750,284	4,081,984,010	16%
3	Dhiraagu	2,501,419,000	2,620,300,000	5%
4	BML	2,132,735,000	2,300,798,000	8%
5	IASL	1,795,581,692	2,029,510,270	13%
6	STELCO	1,444,715,388	1,675,906,409	16%
7	MTCC	1,289,966,205	1,294,177,082	
8	MWSC	935,782,445	1,053,271,759	13%
9	MPL	559,870,655	628,209,833	12%
10	HDC	151,612,415	880,831,582	481%
11	HDFC	121,228,951	131,234,043	8%
12	MIB	75,921,177	111,375,422	47%
13	WAMCO	55,429,426	140,096,314	153%
14	AIA	47,102,360	44,292,080	-6%
15	Gulhifalhu	8,964,576	24,281,789	171%

16	MCIF	25,283	34,174	35%
17	MITDC	9,356	2,849,009	30351%
18	MSCL	-	234,905	-
19	MHCL	74,009,559	90,239,587	22%
20	Hazana	-	-	-
Total		**21,110,028,169**	**24,614,850,109**	17%

The total revenue generated by the above companies has increased in financial year 2017. Majority of the revenue was contributed by STO among the SOEs and public companies controlled by the GoM. MACL, Dhiraagu, BML and IASL also contributed a significant revenue to the economy.

Except AIA, all other companies have recorded a revenue growth in FY2017. Since AIA’s revenue primarily depends on the air traffic and the number of flights landed on the Gan International Airport (GIA), revenue increasing through its core business can be achieved by increasing the number of flights and number of passengers only. Thus company’s revenue is mainly influenced by outside factors such as growth of bed capacity and tourist arrivals in this area.

Hazana was unable to generate any revenue since its inception in 2016 and was operated with the full support from GoM. However, MVR 316,636 was received as rental income and MVR 145,651 as finance income in FY2017.

All other companies have recorded a healthy revenue growth from FY2016 to FY2017 (Detailed reviews are included in annual review report of individual companies).

Profitability

<u>Gross profit</u>

#	Company	FY2016	FY2017	Growth
1	STO	973,141,405	936,140,364	-4%
2	MACL	2,152,509,109	2,418,338,917	12%
3	Dhiraagu	1,023,869,000	1,079,003,000	5%
4	BML	1,831,787,000	1,946,711,000	6%
5	IASL	657,180,948	715,125,835	9%
6	STELCO	183,062,410	304,352,449	66%
7	MTCC	285,968,287	309,120,551	8%
8	MWSC	490,723,885	487,974,746	-1%
9	MPL	181,640,350	192,128,156	6%
10	HDC	140,759,027	668,911,806	375%
11	HDFC	105,083,885	119,507,928	14%
12	MIB	61,181,519	63,179,776	3%
13	WAMCO	45,928,056	105,521,914	130%
14	AIA	(27,905,242)	(33,935,898)	-22%
15	Gulhifalhu	(5,278,529)	12,779,483	342%
16	MCIF	(9,795)	24,645	352%
17	MITDC	9,356	2,849,009	30351%
18	MSCL	-	234,905	-
19	MHCL	(3,624,714)	(17,720,011)	389%
20	Hazana	-	-	
Total		**8,099,650,671**	**9,332,801,067**	

* *Operating profit is used for service based companies*

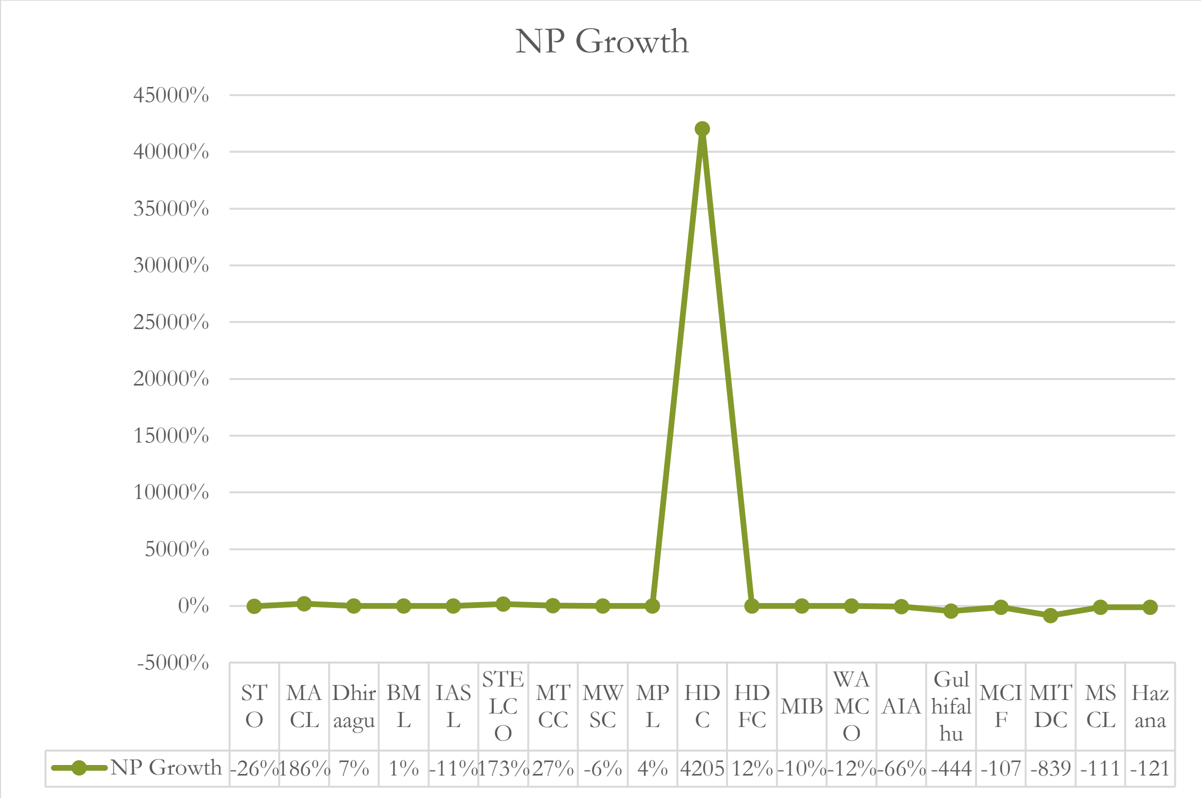
In terms of gross profit the highest growth was achieved by MITDC as per the above table. However, it was only because the 2016 figures were for 3 months as the company was incorporated in October 2016.

A remarkable growth of 375% in gross profit was recorded by HDC when compared to previous year due to increase in its revenue. The revenue growth was mainly due to fair value gain on investment property. WAMCO, STELCO and MACL had also recorded a considerable growth in terms of gross profit.

GIL and MCIFL has managed to change the gross loss made in FY2016 to a gross profit in FY2017. GIL has achieved a notable result through successful cost reduction strategies together with increase in its income.

On the other hand, STO and MWSC have recorded a negative growth in its gross profits mainly due to increase in cost of sales is higher than increase of revenue. The gross loss made by AIA has deteriorated since the revenue has fallen while the direct costs of the company were not controlled.

Net Profit



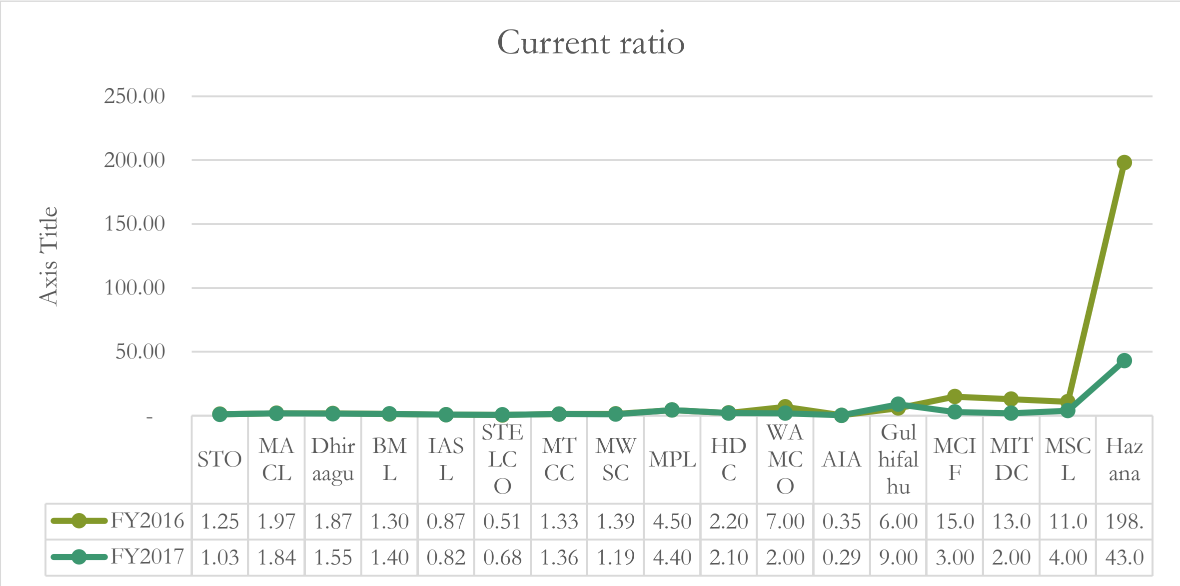
#	Company	FY2016	FY2017	Growth
1	STO	286,414,286	211,281,737	-26%
2	MACL	(1,314,229,394)	1,131,722,774	186%
3	Dhiraagu	840,016,000	897,560,000	7%
4	BML	1,023,060,000	1,038,182,000	1%
5	IASL	175,291,322	155,755,607	-11%
6	STELCO	(72,669,914)	52,863,662	173%
7	MTCC	114,446,530	145,179,832	27%
8	MWSC	280,240,263	264,766,792	-6%
9	MPL	152,355,782	158,587,777	4%
10	HDC	26,142,175	11,019,014,456	42050%
11	HDFC	72,299,405	81,187,109	12%
12	MIB	44,614,403	40,054,299	-10%
13	WAMCO	(52,342,008)	(58,485,676)	-12%
14	AIA	(44,091,437)	(73,330,110)	-66%
15	GIL	(3,581,447)	12,330,850	-444%
16	MCIF	(3,537,601)	(7,337,711)	-107%
17	MITDC	(853,276)	(8,008,185)	-839%
18	MSCL	(2,728,683)	(5,744,767)	-111%
19	MHCL	(7,993,255)	(21,769,337)	-172%
20	Hazana	(1,867,849)	(4,127,244)	-121%
Total		**1,517,889,933**	**15,029,534,086**	

The total net profit made by the above companies has considerably increased in FY2017, when compared to previous year. Net profits made by STELCO, Dhiraagu, MACL, MTCC, HDC increased significantly while net profits made by BML has seen a growth of just 1 percent. It is important to note that the significant increase of net profits was mainly because of the fair value gain on investment property. Conversely, net profits of STO, IASL, MWSC and MIB has fallen in FY2017. This was mostly because those companies were inefficient in managing their overheads.

There are many loss making SOE’s whose operations are funded solely by the capital injunctions from the GoM namely WAMCO, MCIFL, MITDC, MACL, AIA, MHCL and Hazana. Further, the overheads of these companies continue to rise although they are unable to produce enough revenue to cover them.

Short term Liquidity Ratios

Current ratio



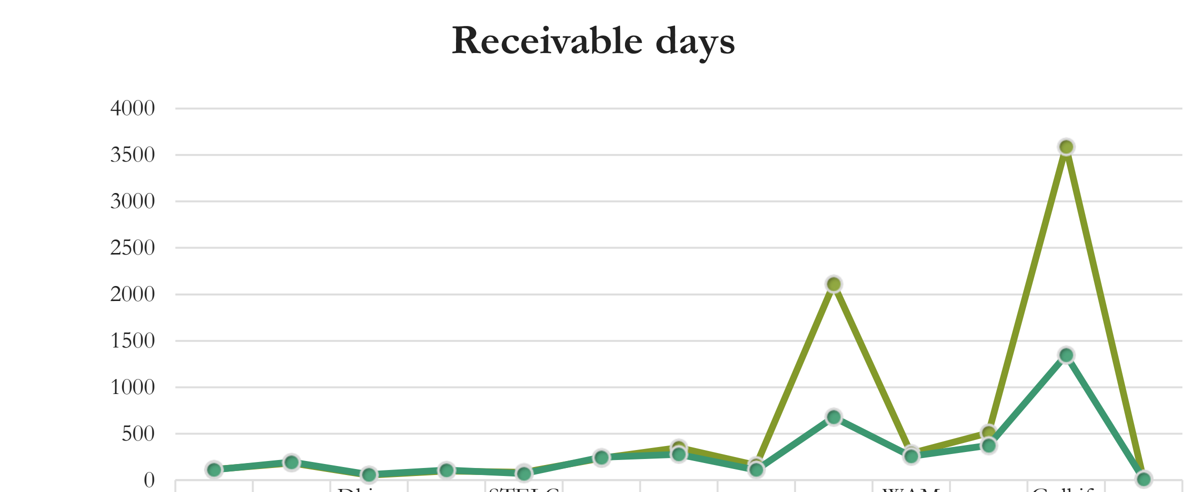
The ideal level of current ratio is 2:1, for every MVR 1 worth of short term liability (current liability) there should be MVR 2 worth of current asset. The higher the current ratio, the more capable the company is of paying its obligations. However, a high ratio (over 3) does not necessarily indicate that a company is in a state of financial well-being either. Depending on how the company’s assets are allocated, a high current ratio may suggest that that company is not using its current assets efficiently, is not securing financing well, or is not managing its working capital well.

The highest asset value when compared to current liabilities have been seen in Hazana. However, its current ratio has drastically reduced from 198 times to 43 times in FY2017. It is important to note that its current asset (cash and cash equivalents) are the capital injunctions from the GoM, as such the high ratio does not mean that the company has idle assets. In addition, MPL, HDC, WAMCO, GIL, MCIFL, MITDC and MSCL has current assets above its current liabilities.

On contrary, IASL and STELCO’s ability to service its short term obligations is not satisfactory as the current liabilities exceed its current assets. Further, the largest component of current assets are receivables from related parties as such it is unlikely that these amounts will be received in one year.

Working Capital Management

<u>Receivable days</u>

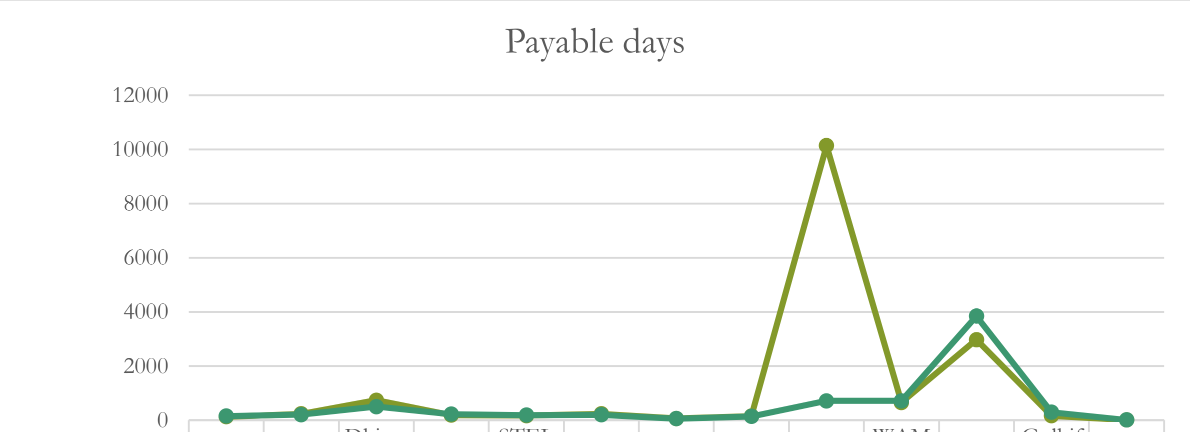


	STO	MACL	Dhiraagu	IASL	STELCO	MTCC	MWSC	MPL	HDC	WAMCO	AIA	Gulhifalhu	MHCL
FY2016	116	186	53	100	84	237	349	160	2112	289	510	3589	14
FY2017	113	194	61	108	71	247	279	110	679	258	374	1346	12

(Companies not included in the above graph are not applicable for receivable days)

Accounts receivable represents the money that is contractually owed to the company by its customers and the lower the company's collection ratio, the more efficient its cash flow. As per the above table Dhiraagu, STELCO and MHCL collects its payments at an acceptable time than the other companies. It is also important to note that majority of trade and other receivable are amounts receivable from related parties and the companies find difficulties to collect such payments.

<u>Payable days</u>



	STO	MACL	Dhiraagu	IASL	STELCO	MTCC	MWSC	MPL	HDC	WAMCO	AIA	Gulhifalhu	MHCL
FY2016	127	228	735	185	166	232	58	147	10139	652	2972	161	5
FY2017	147	204	496	216	185	196	56	136	712	713	3842	288	3

Payable day's measures how long it take to pay its creditors or suppliers. The longer they take to pay their creditors, the more money the company has on hand, which is good for working capital and free cash flow. Nonetheless, it will affect the relations with creditors and suppliers.

Most of the companies pay its creditors and suppliers within one year namely STO, MACL, IASL, STELCO, MTCC, MWSC, MPL and MHCL.

HDC and AIA takes the longest time to settle its creditors. This ratio shows company's inefficiency to pay its creditors. Even though it supports to company cash position they have to consider risk associated in this management technique. A further extension may take company into more challenging condition such as it may affect growth of business and it may need to drive cash from other sources to pay credit bills.

Shareholders Returns

Earnings and Dividend

Dividend policy of a company is the strategy a company uses to decide on how much earning they will pay out to shareholders in the form of dividends. The below table shows the company's earnings and dividend.

#	Company	Earnings per share		Dividends per share		Payout ratio	
		FY2016	FY2017	FY2016	FY2017	FY2016	FY2017
1	STO	254.16	187.49	57.00	51.00	14%	40%
2	MTCC	22.89	29.04	3.20	2.40	14%	8%
3	Dhiraagu	11.05	11.81	14.37	11.81	130%	100%
4	BML	190.00	193.00	20.00	22.00	11%	11%
5	IASL	175.29	155.76	5.31	20.00	3%	13%
6	MWSC	1,050.00	992.00	629.75	503.80	60%	50.70%
7	MPL	35.85	37.31	14.12	23.58	39%	63%
8	HDFC	45.36	50.94	20.00	22.00	44%	43%
9	STELCO	(484,464.00)	352,424.00	NA	NA	NA	NA
10	MACL	(876.15)	754.48	NA	NA	NA	NA
11	HDC	0.59	249.30	NA	NA	NA	NA
12	MIB	247.86	222.52	NA	NA	NA	NA
13	WAMCO	(1.05)	(1.17)	NA	NA	NA	NA
14	AIA	(110.23)	(183.33)	NA	NA	NA	NA
15	Gulhifalhu	(595.00)	2,057.00	NA	NA	NA	NA
16	MCIF	(0.04)	(0.07)	NA	NA	NA	NA
17	MITDC	(1.71)	(16.02)	NA	NA	NA	NA
18	MSCL	(25.78)	(54.28)	NA	NA	NA	NA
19	MHCL	(0.08)	(0.22)	NA	NA	NA	NA
20	Hazana	(1.56)	(3.44)	NA	NA	NA	NA
Total		**(484,042.54)**	**357,106.12**	**763.75**	**656.59**		

A total of 8 companies have paid dividend in FY2017. Dhiraagu has paid 100% of its earnings in FY2017, and MPL and MWSC has paid 63% and 50.7% respectively.

Financing

Gearing Ratio

#	Company	FY2016	FY2017
1	STO	34%	25%
2	MACL	80%	64%
3	Dhiraagu	No borrowings	
4	BML	NA	
5	IASL	36%	40%
6	STELCO	63%	71%
7	MTCC	7%	29%
8	MWSC	7%	4%
9	MPL	14%	11%
10	HDC	25%	16%
11	HDFC	NA	
12	MIB	NA	
13	WAMCO	No borrowings	
14	AIA	73%	84%
15	Gulhifalhu	No borrowings	
16	MCIF	No borrowings	
17	MITDC	No borrowings	
18	MSCL	No borrowings	
19	MHCL	No borrowings	
20	Hazana	No borrowings	

AIA is the highest geared company among SOE's and government controlled companies. As at 2017, AIA has borrowed MVR 369 million (2016: MVR 349 million) from BML at a fixed interest rate of 8.5%. The loan is secured by the guarantees of GoM and Kasa Holdings Pvt Ltd as such this loan is repaid by the GoM and Kasa holding as injection to AIA.

The second highest geared company is MACL with 64% gearing. This is a reduction of 16% when compared to previous year. The reduction is not because the borrowings were reduced, it is because the equity and reserves of the company increased due to revaluation and net profit.

It is important to highlight that the performance of Dhiraagu is very impressive as it is operating on its own without any external borrowings. Although the highlighted companies have not taken any loans/borrowings, their operations are not funded from its operations. Those companies are surviving from capital injections from the GoM.

3. Conclusion

FY2017 was a successful year for some of the companies such as Dhiraagu, STELCO, BML, MTCC, HDC and HDFC. In 2017, Dhiraagu has rebranded with a fresh logo, color and slogan and has introduced two new products i.e. Dhiraagu TV and Dhiraagu pay. After a few consecutive loss making years STELCO has observed a net profit of MVR 53 million in FY2017. This was achieved by increasing overall efficiency of power generation and distribution together with the implementation of measures to minimize operating costs.

FY2017 was a good year of solid progress for MTCC and have continued to deliver consistent strong results in their core business segments. Further, the company has invested total of MVR 695.04 million in capital assets during the year. BML has achieved solid business growth together with improvements in loan book quality ratio of non-performing to total loans falling from 7.0% to 4.1%. Further, the bank has added new 23,000 customers to their customer base.

The substantial growth in the profits made by HDC is mainly due to the fair value gain of investment properties recognized as other income. In addition, HDFC has achieved over 12.3% profit growth and 8.3% portfolio growth and also operating expenses has increased by 172% in FY2017.

Conversely, AIA, WAMCO, MCIFL, MITDC, MSCL, MHCL and Hazana's performance was very poor in FY2017.

AIA is an underperforming company with the high risk of going concern. The company has been making losses since its inception, with an accumulated loss of MVR 211 million at the end of FY2017. The company has a significant liability of MVR 369 million loan which was undertaken to develop the airport with a fixed interest rate of 8.5% and the finance cost currently stands at 78% of the total revenue of the company. At present the loan repayments are paid by the GoM and Kasa Holdings. It is important that the company find additional sources to generate revenue and formulate a reasonable strategic plan.

Since WAMCO has started its operation in FY2015, the company has been making losses. In FY2017, the net loss for the year has increased to MVR 59 million. On the other hand, the expenses of the company has recorded a drastic increase.

With significant accumulated losses MCIFL and MSCL are facing serious going concern issues. However, the financials were prepared on the basis of going concern on the assumption that the shareholder of the company, GoM, intends to continue providing sufficient financial support to enable the Company to meet its liabilities. Although no revenue is generated, the expenditure keeps on increasing, thus it has to take measures to control the expenses and cut down any unnecessary expenses. Further it is important to highlight that the personnel costs of the companies are the highest cost as such in order to reduce this expenses the companies need to revise the salary structure and cut down any idle staffs.

Although MITDC made a net loss, it has generated a revenue of MVR 2.8 million in FY2017. Further, the revenue is expected to increase with the new projects namely L. Baresdhoo. The GoM has transferred all the assets and liabilities attached to Baresdhoo project from MMPRC to MITDC as of 24th November 2016.

The overheads of the SOE’s keep rising each year, hence it important that companies take measures to control their expenditure and reduce costs. This can be done through cutting down the irrelevant and avoidable expenses. Further, the salary structure of the companies needs to be revised considering the high pay system and personnel costs of the companies.