MINISTRY OF FINANCE

ANNUAL FINANCIAL REVIEW FY 2018

SECRETARIAT FOR
PRIVATIZATION AND CORPORATIZATION BOARD

August 2019

Table of Contents

SUMMARY of Financial Statements Review 2018

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 2018 and review their performance. The performance will be evaluated through financial analysis of audited 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.

This report comprises of the companies whose Annual Reports were received prior to 01 August 2019.
The following are companies from whose annual reports were not received before the aforementioned date.

#	Company Name	#	Company Name
1	Housing Development Corporation Ltd	7	Maldives Hajj Corporation Limited
2	Waste Management Corporation Limited	8	Maldives Integrated Tourism Development Corporation Limited
3	Maldives Marketing and Public Relations Corporation Limited	9	Business Center Corporation Limited
4	Kadhdhoo Airport Company Limited	10	Public Service Media
5	Aasandha Pvt Ltd	11	Island Aviation Services Ltd
6	Fenaka Corporation Limited	12	Greater Male' Industrial Zone Limited

2. Financial Analysis

Revenue

Company	2017	2018	% growth
1. State Electric Company Limited (STELCO)	1,675,906,409	1,757,355,443	5%
2. Maldives Ports Limited (MPL)	628,209,833	758,200,640	21%
3. Maldives Sports Corporation Limited (MSCL)	234,905	290,118	24%
4. Housing Development Financing Corporation Plc (HDFC)	119,507,928	126,306,836	6%
5. Dhivehi Raajjeyge gulhun plc (Dhiraagu)	2,620,300,000	2,762,487,000	5%
6. State Trading Organization Plc (STO)	7,505,223,841	9,404,114,486	25%
7. Male' Water and Sewerage Company Private Limited (MWSC)	1,053,271,759	1,254,442,095	19%
8. Maldives Centre for Islamic Financing Limited (MCIF) *	34,174	233,871	584%
9. Maldives Islamic Bank (MIB)	111,375,422	144,671,427	30%
10. Maldives Transport and contracting Company Plc (MTCC)	1,294,177,082	1,281,440,000	-1%
11. Hazana Maldives Limited (Hazana)	-	-	-
12. Maldives Tourism Development Corporation Plc (MTDC)	68,403,721	70,605,050	3%
13. Maldives Airports Company limited (MACL)	4,025,474,455	4,746,544,013	18%
14. Bank of Maldives (BML)	2,293,181,000	2,516,518,000	10%
15. Addu International Airport Private Limited (AIA)	44,292,080	52,609,106	19%

Table 1: Revenue

* *MCIF is unable to generate operational revenue throughout the period. Thus, revenue generated is only from educational programs (SAIIF) and magazine advertisement.*

Except MTCC, all other companies have achieved a growth in revenue in 2018. The highest revenue was generated by STO similar to previous year. Followed by, MACL, Dhiraagu, BML, STELCO, MTCC and MWSC.

Hazana was unable to generate any revenue since its inception in 2016 and was operated with support from GoM. Therefore, Government has decided to liquidate the company and transfer its assets and liabilities to Maldives Centre for Islamic Finance Corporation.

The overall performance of MTCC declined in 2018 due to reduction of revenue in most of the segments. Revenue from Contracting and logistics segment reduced significantly in 2018 mainly due to lower projects undertaken compared to previous year. In addition, following the opening of Sinamale Bridge, the demand for public transport has reduced resulting a significant revenue loss of this segment.

Most of the companies have recorded a healthy revenue growth from FY2017 to FY2018 (Detailed reviews are included in annual review report of individual companies).

Gross Profit

Company	2017	2018	% growth
1. Hazana	-	-	-
2. MCIF	24,645	(453,203)	-1939%
3. MIB	53,990,732	72,802,543	35%
4. STO	936,140,364	1,189,695,515	27%
5. MSCL	234,905	290,118	24%
6. MPL	192,128,156	273,639,233	42%
7. MWSC	524,934,555	668,956,004	27%
8. AIA	(43,868,763)	(54,252,419)	24%
9. MACL	2,095,044,720	2,437,741,746	16%
10. BML	1,894,869,000	2,104,570,000	11%
11. HDFC	119,507,928	126,306,836	6%

12. Dhiraagu	1,079,003,000	1,102,647,000	2%
13. STELCO	304,352,449	349,594,831	15%
14. MTDC	39,063,825	41,265,154	6%
15. MTCC	309,120,551	240,480,413	-22%

Table 2: Gross Profit

* *Operating profit is used for service based companies*

In terms of gross profit, the highest growth was achieved by Maldives Ports Limited as shown in the above table. Although the expenses has increased, with increased revenue company was able to achieve this result.

MIB has achieved operating profit growth of 35%, this is a notable growth compared to previous year. MIB has achieved a substantial growth over the years and started paying dividends as well.

Dhiraagu has achieved a marginal GP growth of 2%, because the operating costs grew proportionately higher than the revenue.

The gross profit made by MTCC has declined consequent to the loss of revenue by the company. Further, MCIF has made a gross loss in 2018 due to high direct costs.

Net profit

Company	2017	2018	Growth
1. Hazana	(4,127,244)	(2,398,993)	-
2. MCIF	(7,337,711)	(7,175,922)	-2%
3. MIB	40,054,299	52,550,465	31%
4. STO	211,281,737	14,411,864	-93%
5. MSCL	(5,774,767)	(5,957,058)	3%
6. MPL	158,587,777	228,753,152	44%
7. MWSC	264,766,792	411,443,989	55%
8. AIA	(78,246,001)	(84,500,201)	8%
9. MACL	1,033,636,440	1,128,644,551	9%
10. BML	1,038,181,000	1,098,760,000	6%
11. HDFC	81,187,109	98,995,225	22%
12. Dhiraagu	897,560,000	905,093,000	1%
13. STELCO	52,863,661	110,558,594	109%
14. MTDC	(631,310)	23,714,495	3856%
15. MTCC	140,924,342	36,055,579	-74%

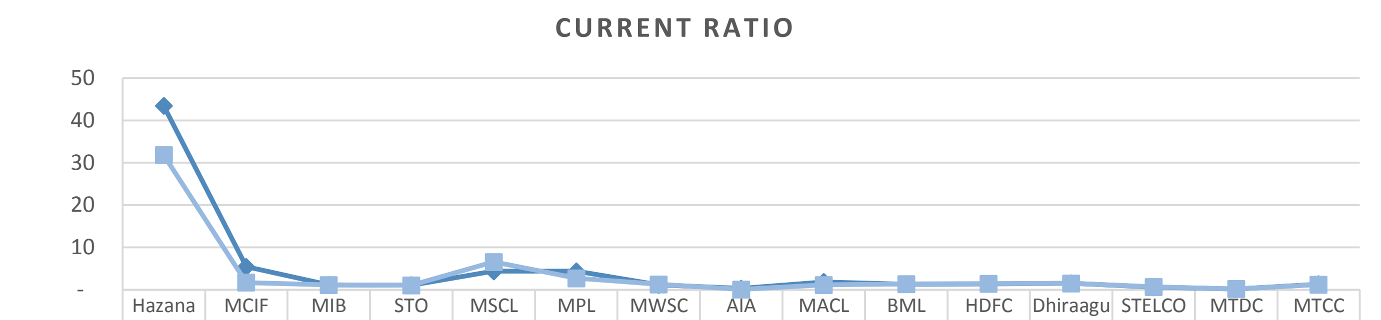
Table 3: Net Profit

MTDC has achieved the highest net profit growth in 2018. The net loss in 2017 is due an impairment loss of MVR 25.5 million.

STELCO achieved the second highest net profit growth in 2018, mainly due to increased other income (operational and miscellaneous income) and accumulated tax loss. In addition, net profits made by MPL, MWSC, MIB and HDFC increased significantly, while net profits of MTCC and STO has declined. This was mostly because those companies were inefficient in managing their overheads.

There are loss making SOE's whose operations are funded solely by the capital injunctions from the GoM namely MCIFL, Hazana, MSCL and AIA. Further, the overheads of these companies continue to rise although they are unable to produce enough revenue to cover them.

Short Term Liquidity Ratios



	Hazana	MCIF	MIB	STO	MSCL	MPL	MWSC	AIA	MACL	BML	HDFC	Dhiraagu	STELCO	MTDC	MTCC
2017	43	5	1.1	1	4	4	1.1	0.3	1.8	1.3	1.4	1.5	0.6	0.2	1.3
2018	32	2	1.1	1	7	3	1.3	0.1	1.1	1.3	1.4	1.5	0.7	0.2	1.2

Table 4: Current Ratio

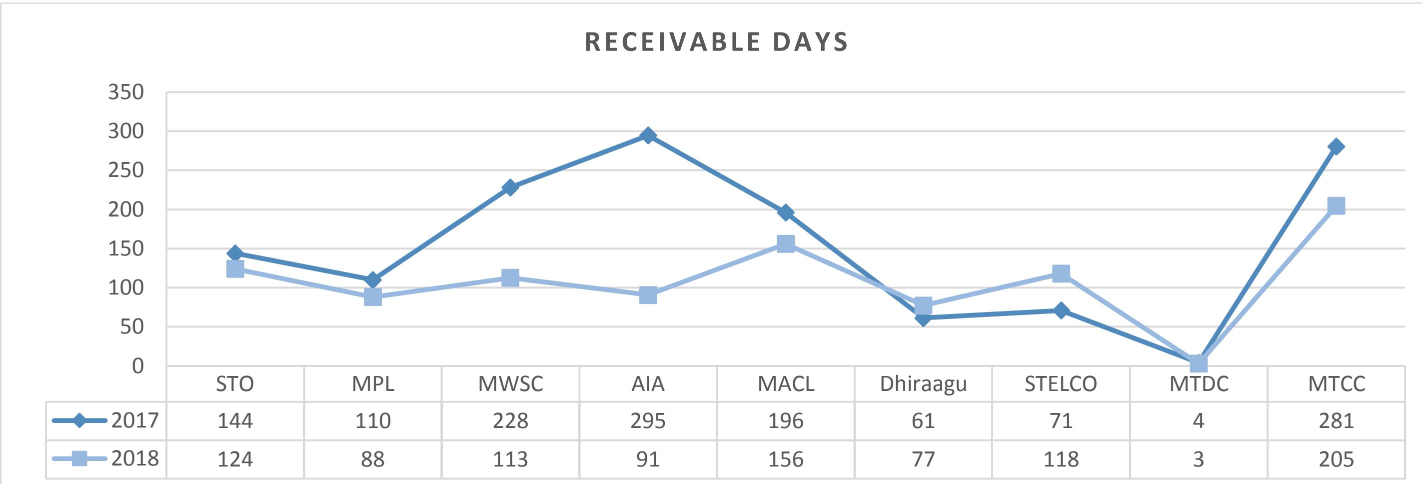
The ideal level of current ratio is 2:1, for every MVR 1 worth of short term liability (current liability) there should be MVR 2 worth of current asset although it could defer based on the nature of business. The higher the current ratio, the more capable the company is of paying its obligations. However, 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, it is important to note that its current asset (cash and cash equivalents) are the capital injections from the GoM, as such the high ratio does not mean that the company is operationally efficient. In addition, as per the above table MCIF, MIB, MSCL, MPL, MWSC, MACL, BML, HDFC, Dhiraagu and MTCC has current assets above its current liabilities.

We note that MCIF does not earn revenue from operational activities and the company's cash position is seen stable solely due to government capital injections

On contrary, AIA, STELCO and MTDC'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

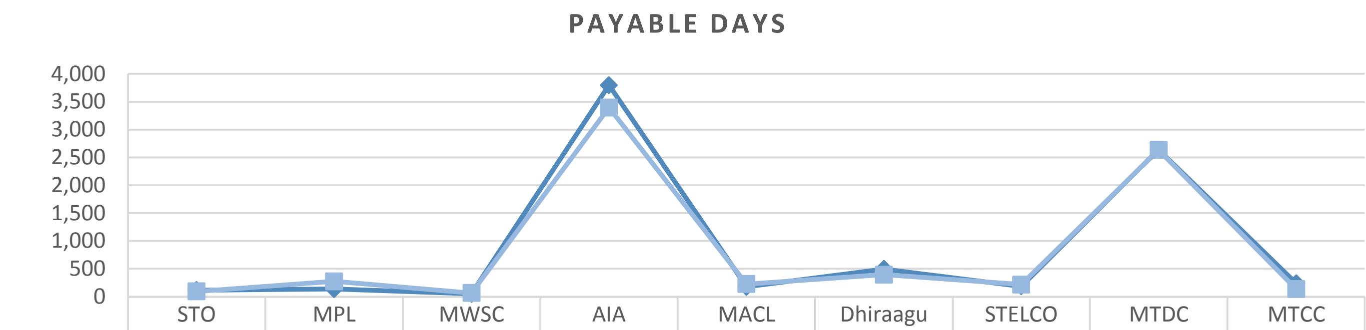


	STO	MPL	MWSC	AIA	MACL	Dhiraagu	STELCO	MTDC	MTCC
2017	144	110	228	295	196	61	71	4	281
2018	124	88	113	91	156	77	118	3	205

Table 5: Receivable Days

(Companies excluded 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 STO, Dhiraagu and MTDC 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.



	STO	MPL	MWSC	AIA	MACL	Dhiraagu	STELCO	MTDC	MTCC
2017	118	136	51	3,796	176	496	186	2,637	240
2018	95	275	65	3,395	226	396	217	2,635	136

Table 6: Payable Days

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, MPL, MWSC, MACL, STELCO, and MTCC.

AIA and MTDC 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 terms of relationship with suppliers. 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

Company	Earnings per Share		Dividend per Share		Payout Ratio	
	2017	2018	2017	2018	2017	2018
1. Hazana	(3)	(2)	-	-	-	-
2. MCIF	(4)	(4)	-	-	-	-
3. MIB	223	292	-	80	-	27%
4. STO	187.5	12.8	55	58	29%	453%
5. MSCL	(1.2)	(0.9)	-	-	-	-
6. MPL	37	54	24	22	60%	60%
7. MWSC	992	1,541	630	595	64%	39%
8. AIA	(276)	(284)	-	-	-	-
9. MACL	689	752	50	451	7%	60%
10. BML	193	204	22	24	11%	12%
11. HDFC	50.9	62.1	22	25	43%	40%
12. Dhiraagu	11.8	11.9	11.8	11.9	100%	100%
13. STELCO	352,424	737,057	-	-	-	-
14. MTDC	(0.001)	0.045	-	-	-	-
15. MTCC	28.2	4.5	2.4	2.6	9%	58%

Table 7: Earnings and Dividend

As per the above table 9 companies have declared dividend based on 2018's profit. Dhiraagu has maintained its 100% payout ratio throughout comparable period.

Although STO maintained dividend at the same level in terms of dividend per share, due to lower profits made in 2018 the dividend payout has increased significantly.

Earnings per share of STELCO shows a high figure since company's issued share capital comprises of only 150 shares.

Financing

Gearing

Company	2017	2018
1. Hazana Maldives Limited (Hazana)	No borrowings	
2. Maldives Centre for Islamic Financing Limited (MCIF)	No borrowings	
3. Maldives Islamic Bank (MIB)	NA	
4. State Trading Organization Plc (STO)	22%	19%
5. Maldives Sports Corporation Limited (MSCL)	No borrowings	
6. Maldives Ports Limited (MPL)	11%	16%
7. Male' Water and Sewerage Company Private Limited (MWSC)	5%	3%
8. Addu International Airport Private Limited (AIA)	91%	138%
9. Maldives Airports Company limited (MACL)	39%	46%
10. Bank of Maldives (BML)	NA	
11. Housing Development Financing Corporation Plc (HDFC)	NA	
12. Dhivehi Raajjeyge gulhun plc (Dhiraagu)	No borrowings	
13. State Electric Company Limited (STELCO)	76%	78%
14. Maldives Tourism Development Corporation Plc (MTDC)	No borrowings	
15. Maldives Transport and contracting Company Plc (MTCC)	35%	33%

Table 8: Gearing

AIA is the highest geared company among SOE's and government controlled companies. As at 2017, AIA has borrowed MVR 339 million (2017: MVR 369 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.

STELCO is also a highly geared company with 78% of gearing. At the end of 2018, STELCO had loans and borrowings of MVR 2,112 million, which is an increase of 48% compared to previous year.

Although the highlighted companies have not taken any loans/borrowings, these companies are operationally weak and is surviving on government capital injections.

Conclusion

Financial year 2018 was successful for some of the companies such as MIB, MPL, MWSC, MACL, BML, HDFC, Dhiraagu, STELCO and MTDC. The highest net profits were achieved by MACL followed by BML. MACL is spending heavily on capital expenditure and it is important to highlight that these are funded through borrowings. Thus financial risk of the company is rising.

Bank of Maldives is the market leader of banking services with 265,000 customers and during the year BML has opened 4 new branch premises and further expanded their self-service banking network with introduction of self-service banking ATMs in five islands.

The drop in net profits of STO was mainly due to impairment of Hulhumale' hotel and increased Administrative and Selling and finance costs. As a result almost all key measures were affected. However, they have paid a significant amount of dividend in 2018.

MTDC has made profits in FY2018 after a year of loss in the previous year, resulted from maintaining the cost of operation and cutting down operational expenses. The loss made in 2017 was mainly resulted from the impairment loss recognized with regard to the financial asset. (Naagoshi). Although a profit was made, no dividend was paid.

After a number of loss making years STELCO has started to maintain its profitability over past two years. This was achieved by increasing overall efficiency of power generation and distribution together with the implementation of measures to minimize operating costs.

MIB has achieved solid business growth in all the segments together with improvements in ratio of non-performing advance. Subsequently, MIB has recorded a net profit growth of 33%. And the company has paid a dividend of MVR 80 per share.

Conversely, AIA, MCIFL, MSCL and Hazana's performance was very poor in FY2018. With significant accumulated losses these companies are facing serious going concern issues. Therefore, Government of the Maldives has decided to liquidate Hazana Maldives and transfer its assets and liabilities to Maldives Centre for Islamic Finance.

FY2017 was not a successful year for MTCC, as their net profits has reduced by 74%. The significant drop in profits are due to high operational costs and finance costs accompanied by the growing loss in public transport segment due to the decreased demand resulted from the opening of Sinamale' bridge.

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.

BANK OF MALDIVES

ANNUAL FINANCIAL REVIEW

FY2018

1. 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 37 branches and 100 ATMS in 20 atolls. In addition there are 277 cash agents in 165 islands.

2. Shareholding Structure

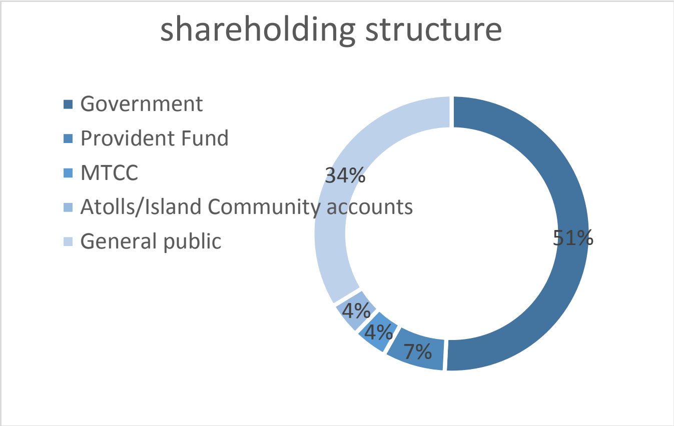


Figure 1: shareholding

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

3. Financial Analysis

3.1 Income

Total income has increased by 10% reaching MVR 2.5 billion. This was achieved through revenue growth from almost all the lines as shown below.

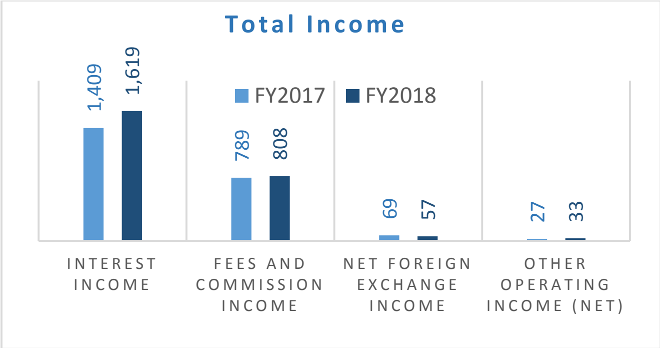


Figure 2: Income
The above table consists of gross revenue figures.

Interest income is the main source of income for the bank and net Interest Income growth of 12% was achieved despite significant increase in funding costs.

Fees and commission income and other operating income has also recorded a positive growth of 2% and 23% respectively. Net foreign exchange income on the other hand has reduced by 18%. The total Non-interest income stands at MVR 606 million, representing 29% of total income.

3.2 Profitability

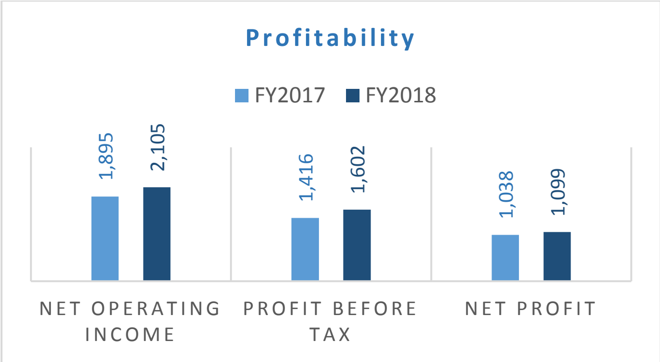


Figure 3: Profitability

The Bank achieved a Net Profit before Tax of MVR 1.6 billion, which is an increase of 13% compared to 2017. In addition Net Profit after tax has increased by 6%. The good Performance was as a result of solid growth across most core business sectors and income sources, while further improvements in loan book quality significantly strengthened the bottom line.

While the operating income has increased by 11%, the operating costs has increased by only 6%. This is a positive result as the increase has decelerated and the bank was able to maintain its cost/income ratio at 24%.

3.3 Net Interest Margin

Net interest margin reveals the bank's net profit on interest-earning assets, such as loans or investment securities.

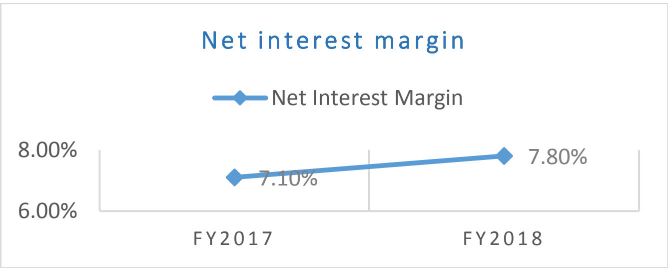


Figure 4: Net Interest Margin

Increase in net interest income and interest earning assets has caused a positive movement in net interest margin. While loans and other receivables to customers has reduced financial assets available for sale has increased by 17% in FY2018.

Interest Income from placement with banks has increased by 31% and although placement with banks increased by 8%. On the other hand interest income from loans to customer has increased by 16% even though loan receivable to customer dropped by 8%.

3.4 Loans and Deposits

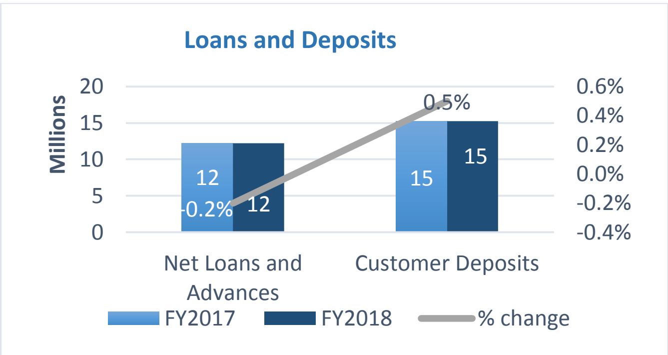


Figure 5: Loans and Deposits

Customer Deposits has increased by 0.5%, on the other hand net loans and Advances has reduced by 0.2%.

The deposit itself is a liability owed by the bank to the depositor, however it will fuel bank's liquidity. Reducing loans and advances will have an adverse impact on bank's profitability, however, interest from loans has increased in this year. Further, the bank has written off MVR 239 million worth of loans as uncollectible and which is equal to 2% of loans and advances.

3.5 Shareholders Return

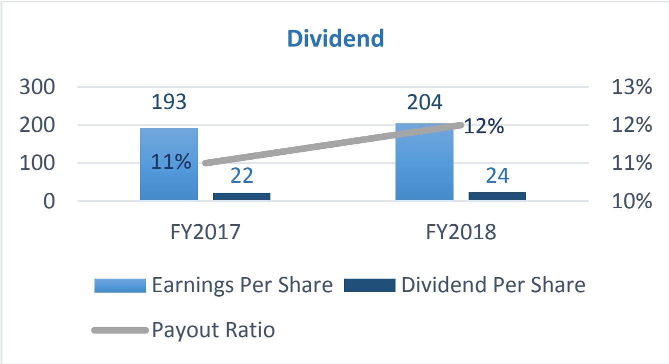


Figure 6: Dividend

While Earnings per share increased by MVR 11, bank has increased its dividend per share by MVR 2. The growth of earning per share is 6% while dividend has recorded a growth of 9%. This results are attractive for the investors as the returns are getting higher. Although it seems that the bank is maintaining a low payout ratio of 12% it is reasonable within banking industry. Low payout ratio means the bank is investing money in the business rather than distributing it to shareholders, thus generating future returns. The business expansion is clearly seen from BML since they are developing new branches across Maldives.

3.6 Net Assets Per Share

At the end of the year total asset stands at MVR 23 billion, which is a 3% progress compare to previous year. Equity and reserves has increased by 5% in comparison to previous year mainly from current year's profit and net gains on re-measuring of FVOCI financial assets. Since the share capital remained unchanged, increasing assets has led to an increase in net assets per share.

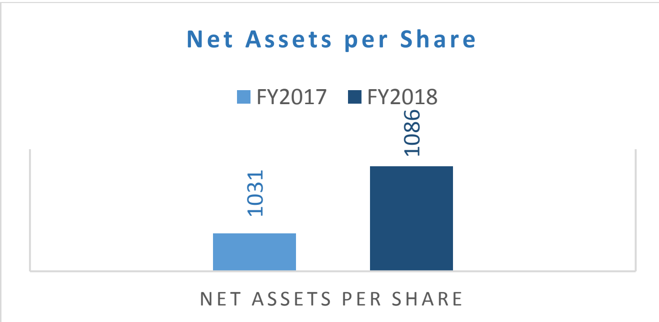


Figure 7: Net Assets per Share

3.7 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%.

The Bank during the year 2018 updated its capital computation methodology to comply with the Basel 2 Standardized Approach.

As per Basel 2 guidelines, the Total Capital Ratio must be maintained at or above 15% for both Tier 1 and Tier 2 Capital.

Stage 1	Stage 2	Stage 3
(Initial Recognition)	(Significant increase in credit risk since initial recognition)	(Credit Impaired)
12- Month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The Bank reported 37% and 47% for Tier 1 and Tier 2 Capital respectively for the year ended 2018 (2017: Tier 1 - 29%, Tier 2 - 39%).

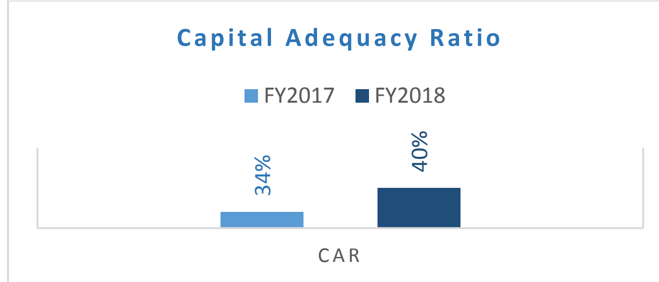


Figure 8: Capital Adequacy Ratio

The Bank is strongly capitalized with a Capital Adequacy Ratio of 40%, well above regulatory requirements of 12%. Maintaining an acceptable CAR protects bank depositors and the financial system as a whole.

3.8 Loan Book Quality

Total non-performing loans less interest in suspense at the end of 2018 stood at MVR 618 million, a drop of MVR 248 million or 29% with no significant new non-performing loans during the year. The ratio of non-performing loans to total loans further reduced from 4.1% to 3.5%, while the provision cover ratio was maintained at 100%.

3.9 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

The Bank classifies its financial instruments as Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

Loans and Receivables are summarized as follows;

	FY2017	FY2018
STAGE 1 - PERFORMING	10,963,571,000	11,594,873,000
STAGE 2 - SIGNIFICANT INCREASE IN CREDIT RISK (SICR)	525,344,000	583,174,000
STAGE 3 - CREDIT IMPAIRED (DEFAULT)	1,063,452,000	980,925,000

GROSS LOANS AND RECEIVABLES TO CUSTOMERS	12,552,367,000	13,158,972,000
LESS: ALLOWANCE FOR IMPAIRMENT	-331,309,000	-960,068,000
NET LOANS AND RECEIVABLES TO CUSTOMERS	**12,221,058,000**	**12,198,904,000**

As shown in the above table 7% of loans and receivables are at sage 3 where the loans credit is impaired. The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank 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 Bank 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.

As per the notes to the financial statement, Management believes that in spite of substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

4. 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 2018. The following were identified by the auditor as key audit matters.

→ Impairment 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 53% of total assets, which are subject to collective impairment.

→ The impact on transition to IFRS 9 on recognition of expected credit loss to Bank's financial statements has been quantified and presented separately in the financial statements.

5. Conclusion

Being the market leader of Banking Services with 265,000 customers, the bank has a deposit base of MVR 15 billion and MVR 23 billion worth of assets. FY2018 was again marked as a prosperous year for the bank resulted to a net profit before tax growth of 13%. Further, net interest margin has also recorded improvement.

During the year BML has opened 4 new branch premises and further expanded their self-service banking network with introduction of self-service banking ATMs in five islands.

A substantial improvement in loan book quality was achieved where non-performing to total loans ratio has reduced from4.1% to 3.5%.

The bank is strongly capitalized with a capital adequacy ratio of 40%, (2017: 34%) well above regulatory requirements. The bank also has solid policies to mitigate the credit and liquidity risk.

On the back of the Bank’s solid financial position, the dividend per share has recorded a growth of 9%, from MVR 22 to MVR 24 per share.

As per the BML Annual Report 2018, the Bank has fully achieved its strategic plan 2014 -2018 and a new plan focusing on the next 5 years was developed by the Board of Directors during the year. The plan continues to focus on the three key pillars of Financial Inclusion, Customer Service and Support for Business, underpinned by strategic foundations of robust Risk Management and People Excellence

DHIVEHI RAAAJJEYGE GULHUN PLC

ANNUAL FINANCIAL REVIEW

FY2018

1. 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.

2. Ownership Structure

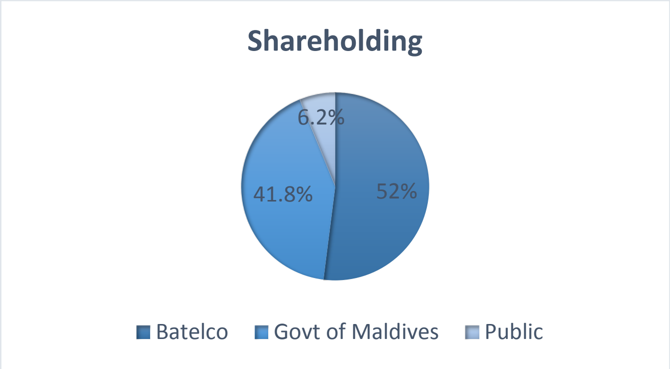


Figure 1: Shareholding

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.

3. Financial Analysis

3.1 Revenue

Revenue grew by MVR 142m in 2018 mainly contributed by an increase in revenue from major revenue lines – mobile, fixed broadband, enterprise and adjacent services. Customer growth in Mobile data, fixed broadband and TV with focus on providing new, value added services have helped to achieve this performance.

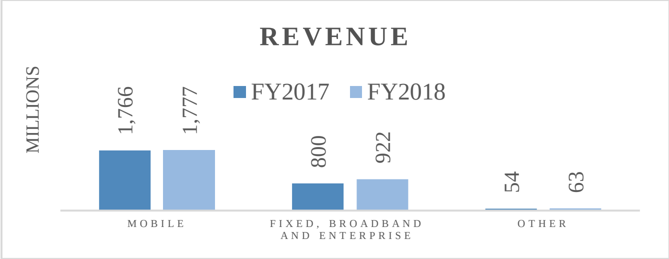


Figure 2: Revenue

All the three revenue segments has reported a growth in FY2018, with the increase of its customer base and demand for high-speed broadband.

3.2 Operating Profit Margin

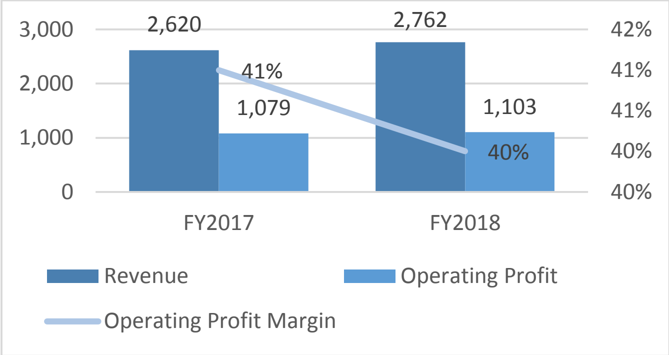


Figure 3: Profitability

Although revenue has increased by 5% the operating profit margin has shown a downward movement. This is because the growth of operating costs are higher when compared to revenue growth.

3.3 Segment Profit

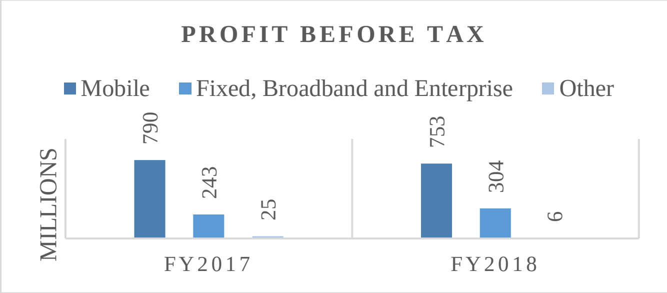


Figure 4: Segment Profit

Although Mobile is the most significant business segment of the company, the profit of the segment has seen a marginal fall of 5 percent, mainly due to significant increase in finance costs.

Segmental Margins

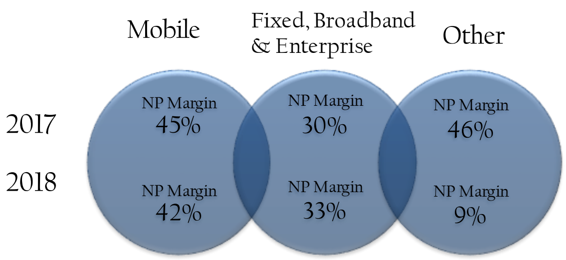


Figure 5: Segmental Profit Margins

As shown above only Fixed, Broadband & Enterprise segment was able to increase their net profits in 2018. While profit margin of mobile segment has decreased by 3%, others segment has dropped significantly by 37%. Other operations include the customer equipment maintenance, bulk SMS services, domain and web hosting and other adjacent services.

3.4 Operating Costs

The operating expenses has recorded a marginal increase of 6% in this year. However, a significant increase was recorded by the impairment loss on trade and other receivables from MVR 1 million to MVR 15 million from FY2017 to FY2018.

The below table shows the movements in the operating expenses and impairment loss on trade and other receivables.

operating Costs	FY2017	FY2018	%
Direct cost of services	466,735,000	516,082,000	11%
Personnel costs	218,052,000	225,791,000	4%
license fees	113,133,000	115,207,000	2%
Operating Lease rental	45,162,000	50,335,000	11%
Support Services	47,212,000	48,050,000	2%
External Publicity	56,902,000	53,480,000	-6%
Network Costs	112,014,000	118,323,000	6%
Property and Utility Costs	108,138,000	110,165,000	2%
Professional Fees	12,733,000	15,179,000	19%
Other Administrative expenses	69,192,000	76,819,000	11%
Total Operating Costs	**1,249,273,000**	**1,329,431,000**	**6%**

Figure 6: Operating Expenses

Professional fees has recorded the highest increase in this year, followed by direct costs, operating lease rental and other administrative expenses.

During the year, Dhiraagu has invested MVR 331 million on Property, Plant and Equipment (PPE) and has disposed MVR 377 million worth of PPE. These additions are capital work in progress which is cost incurred mainly on the projects of the service extensions and expansion of the network. The depreciation charge has increased by only one percent when compared to the previous year.

In addition, capital work-in progress of MVR 74 million was added to intangible assets, thus amortization of MVR 32 million was incurred.

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

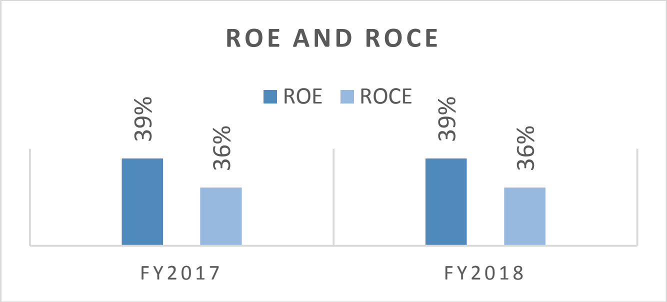


Figure 7: ROE and ROCE

ROE measures the ability of the company to generate profit 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 remained at same level for both the years since net profit, equity and capital employed has increased by the same percentage. In general, investors tend to favor companies with stable and rising ROCE. From investors point of view it is not favorable where ROCE is volatile and bounces around from one year to the next. In this regard, Dhiraagu is an attractive company for the investors.

3.6 Shareholders Returns

<u>Dividend Policies</u>

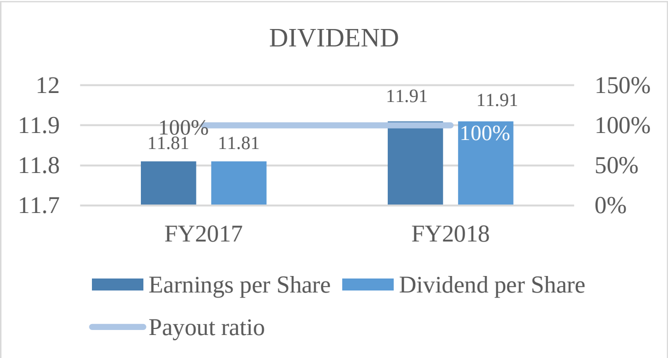


Figure 8: Dividend

Dhiraagu has maintained a payout ratio of 100% for both the years' paying its earnings available to shareholders fully as dividend. This illustrates that instead of reinvesting Dhiraagu has paid 100% of their earning to the shareholders.

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. However, maintaining 100% payout ratio might hinder company's future development, thus Dhiraagu should consider the implications of their current dividend policy.

Detail	FY2017	FY2018
Share Price	83.84	82.91
Dividend Per Share	11.81	11.91
Dividend Yield	14.00%	14.36%

Figure 9: Dividend Yield

The weighted average traded share price has recorded a marginal decrease from MVR 83.84 to MVR 82.91 in FY2018. Since the dividend per share has seen a slight increase this was reflected in the dividend yield. For each Rufiyaa invested, the investors are getting 14% as return. The share price of the company has slightly reduced, causing capital losses for the shareholders who sold their shares which were bought at a higher price than current market price.

3.7 Net Assets per Share

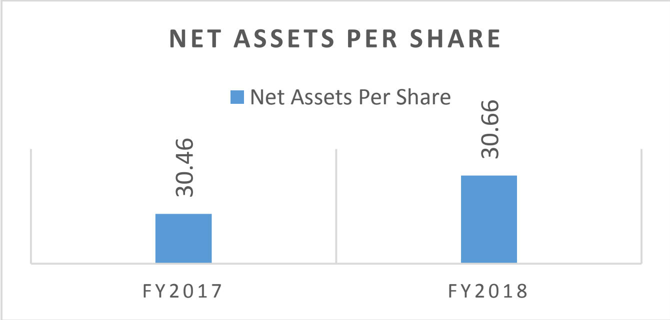


Figure 10: Net Assets per Share

There is a marginal increase in Net Assets per Share from MVR 30.46 to 30.66. The net Assets of the company has increased from MVR 2,315 million to MVR 2,330 million. High net assets per share is attractive to investors as it is a sign that company is performing well.

During 2018 a total of 8,751 shares were traded at Maldives Stock Exchange, this is an increase of 124% compared to 2017.

3.8 Financing

The company does not have any borrowings or loans, accordingly 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.

3.9 Working Capital Management

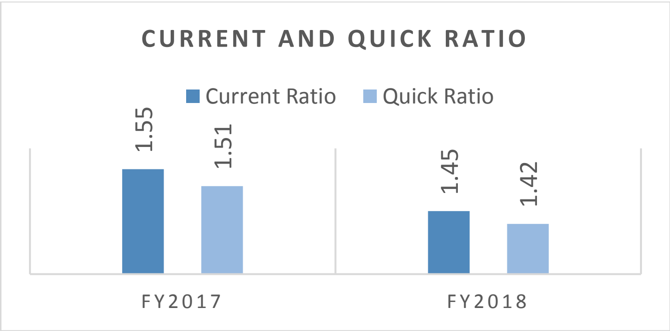


Figure 11: Working Capital Ratios

Current and Quick ratio of the company has a downward movement in FY2018 since both its current assets and liabilities has declined. While trade and other receivables has increased by MVR 144 million in this year, cash and bank balance on the other hand has reduced by MVR 272 million. A total of MVR 450 million was used for purchase and construction of property and equipment and MVR 896 million for dividend payments.

Current liabilities of the company has reduced in terms of trade and other payables and income tax payable.

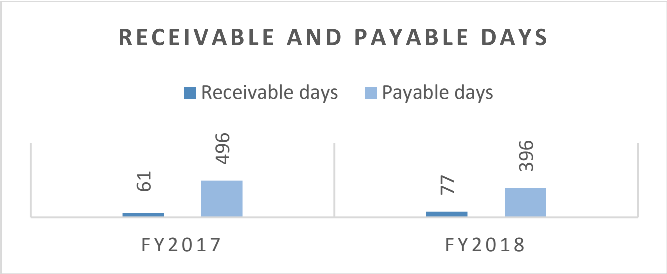


Figure 12: Receivable and Payable days

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 has increased from 61 to 77 days and considering the previous years it is extending. This means the customers are taking more than 2 months to settle their bills, and it is not favorable for the company as money is tied up here.

The company's trade receivable has increased by 33% while revenue increased by only 5%. Total receivables at the end of the year represents 21% of its revenue of FY2018. An increasing receivables is a major concerning issue for a business as it represents a drain on cash for the company.

Trade and other receivables	*FY2017*	*FY2018*	*% change*
Trade receivables	186,885,000	232,470,000	24%
Contract Assets	209,356,000	256,453,000	22%
	396,241,000	488,923,000	23%
Less: Provision for impairement loss	(41,498,000)	(56,588,000)	36%
	354,743,000	432,335,000	22%
Prepayments	61,438,000	78,252,000	27%
Other receivables	24,684,000	74,632,000	202%
	86,122,000	152,884,000	78%
Les: Allowance for impairment	(555,000)	(555,000)	0%
	85,567,000	152,329,000	78%
TOTAL	440,310,000	584,664,000	33%

Dhiraagu has recognized a provision for impairment trade receivables and contract assets of MVR 56.5 million, which is a 36% growth compared to previous year. In addition, impairment of other receivables of MVR 555,000 was also recognized.

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. Payable days has declined from 496 days to 396 days in FY2018 since trade payables has reduced from MVR 634 million to MVR 560 million.

3.10 Free Cash flow

Figure 13: Free Cash flow

Free cash flow represents the cash Dhiraagu generates after cash outflows to support operations and maintain its capital assets.

The reduction of 27 million was mainly due to capital expenditure and dividend payments. Although the company made a profit of MVR 905 million, the free cash flow stands at MVR 617 million.

4. Economic Value Added

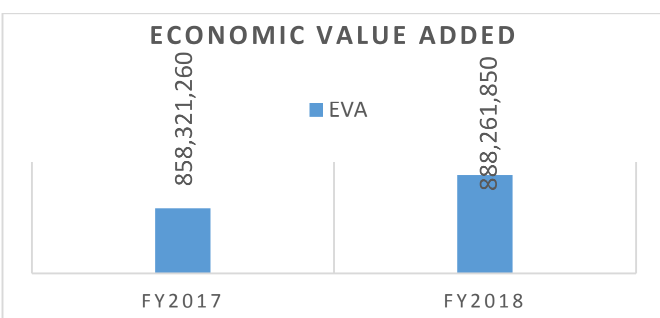


Figure 14: EVA

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 figure of the company has improved when compared to previous year, which shows the incremental difference in the rate of return over the company's cost of capital. Essentially, EVA shows the value Dhiraagu generates from funds invested into it.

5. External Audit

The external audit of the company for FY2018 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 matter paragraph.

The majority of the company's revenue is generated from output of billing systems which must be recognized as per IFRS 15- Revenue from contracts with customers. 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 there is no material misstatement.

6. Corporate Governance

Dhiraagu has been committed to adhere to good governance practices and responsible business practices that are ethical, sustainable and accountable. In this regard, the board regularly reviews company's governance arrangements as well as developments in market practice, expectation and regulation.

The boards Remuneration, Nomination and Governance committee is responsible for periodical review of the Dhiraagu CG code to ensure their practices conform to regulatory standards. The board responsibilities are detailed in the board charter. The board meetings are conducted at least once in every quarter

7. Conclusion

Financial results of 2018 shows a strong performance with a gross revenue of MVR 2.8 billion, a revenue growth of 5%. The profit after tax is MVR 905 million in FY2018, which is an increase of MVR 7.5 million in comparison to previous year.

Earnings per share grew by 10 laari to MVR 11.91 in FY2018 and was fully paid as dividends maintaining their dividend payout ratio of 100% of profit after tax. However, such a dividend policy doesn't allow the company to use its profits for future growth. Although the company is committed to provide the best return to its shareholders, they should also consider company's future growth and development. Thus Dhiraagu should consider the consequences of current dividend policy.

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.

During the year, Dhiraagu has invested MVR 270.7 million into network innovation and expansion, assessable to 74% of national households, reaching over 55 islands, making it the largest fiber network in the country. Due to high capital expenditure free cash flow has reduced to MVR 617 million which is a reduction of 4.2%.

Financial year 2018 ended with a receivables amounting to MVR 584 million, which is 24% of company's revenue. Further, the impairment of receivables has increased by 36% in comparison to previous year. These figures are increasing at a concerning level. Therefore Dhiraagu should formulate plans to recover it's receivables as it is draining company's cash flow. The company could 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.

STATE TRADING ORGANIZATION PLC

ANNUAL FINANCIAL REVIEW

FY2018

1. 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.

2. Ownership Structure

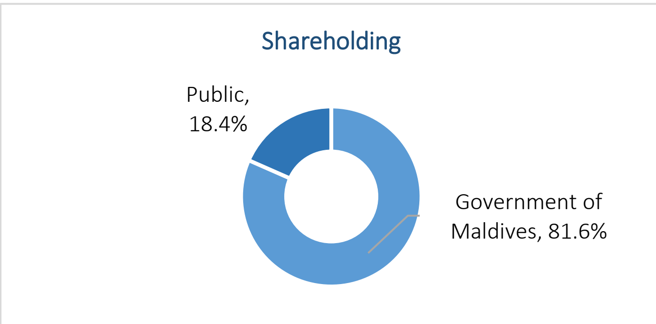


Figure 1: Shareholding

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.

Group of Companies

#	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%

Figure 2: Group Companies

3. Financial Analysis

3.1 Revenue

The company achieved a revenue of MVR 9 Billion and achieved a remarkable revenue growth of 25% in FY2018. The company has 3 operating segments, retail and wholesale, fuel and lubricants and other services. Revenue growth was seen across all these three segments.

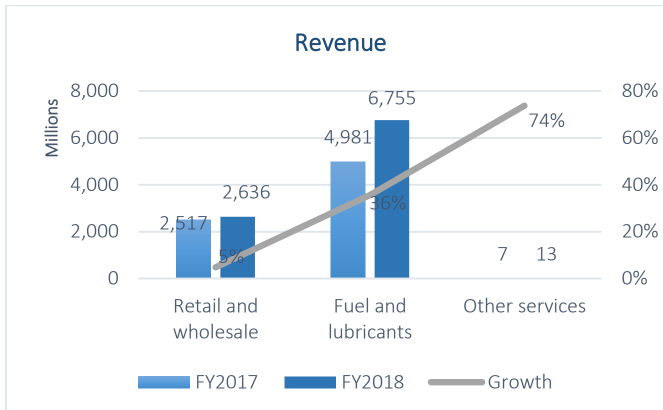


Figure 3: Revenue

3.2 Profit Margin

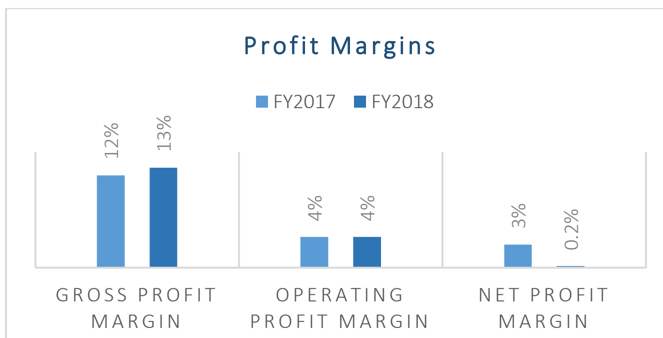


Figure 4: Profitability

While gross profit margin was improved by one percent, operating profit has remained at 4%. Net profit Margin on the other hand has recorded a fall from 3% to 0.2%. Although operating profit margin was kept at the same level, all the operating costs has increased.

The significant fall in net profit was due to increase in all the expenses and finance costs. In addition, the company has made impairment of MVR 209,894,959 as investment in Hulhumale hotel. Due to continuous delay in completing the construction of the hotel, Board of Directors has decided to test the property in progress for impairment and recognized an impairment loss.

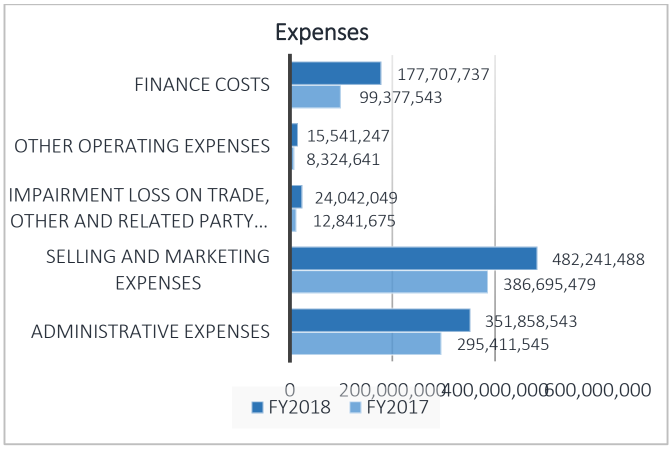


Figure 5: Expenses

Administrative and selling and marketing expenses has increased by 19% and 25% respectively. Impairment loss on trade, other and related party receivables and other operating expenses has recorded a significant increase of 87% in FY2018. Below are the expenses which has increased significantly in FY2018.

DETAIL	FY2018	FY2017	CHANGE	%
LOSS ON SALE OF ASSETS	13,090,018	1,969,614	11,120,404	565%
REBATE ON FUEL	28,095,161	7,044,673	21,050,488	299%
TANKER RELATED ALLOWANCE	1,699,860	607,644	1,092,216	180%
BANK CHARGES	19,822,773	7,093,396	12,729,377	179%
FINES & PENALTIES PAID	1,039,809	427,341	612,468	143%
AFTER SALES SERVICES	7,152,415	3,514,838	3,637,577	103%
FOOD EXPENSES	5,520,422	3,002,691	2,517,731	84%
BAD DEBTS WRITTEN OFF	3,780,430	2,185,275	1,595,155	73%
FIXED ALLOWANCE	11,312,704	6,777,688	4,535,016	67%
VESSELS AND FLEET EXPENSES	31,096,272	19,098,344	11,997,928	63%

Figure 15: Administrative Expenses

STO has recognized a huge loss on sale of assets of MVR 13 million. (2017: 1.9 million) Rebate on fuel has also increased significantly from MVR 7 million to MVR 28 million.

Staff related expenses has also increased in FY2018 as shown in the below table.

DETAIL	FY2018	FY2017	CHANGE	CHANGE %
STAFF LEAVE PAYOFF	585,271	384,419	200,852	52%
MEDICAL EXPENSES-STAFF	244,873	171,627	73,246	43%
RETIREMENT BENIFIT/EXTRATIAL ALLOWANCE	3,011,030	2,458,791	552,239	22%
EXTRA WORKING DAYS ALLOWANCE	3,430,192	3,045,269	384,923	13%
LONG SERVICE ALLOWANCE	7,592,860	6,762,234	830,626	12%
SALARY INCREMENTS	1,126,177	1,012,759	113,418	11%
FOOD /MEDICAL ALLOWANCE	7,255,536	6,547,251	708,285	11%
OVERTIME	45,602,644	43,016,180	2,586,464	6%
BASIC SALARY	121,277,553	113,033,737	8,243,816	7%

Figure 16: Staff Related Expenses

Although the basic salary has increased by only 7%, the related allowances has increased at much higher rate. This trend shows that the increase in allowances is not purely due to increase in number of staffs.

The total expenses has recorded an increase of 24% while the revenue has recorded a growth of 25%.

Finance Cost

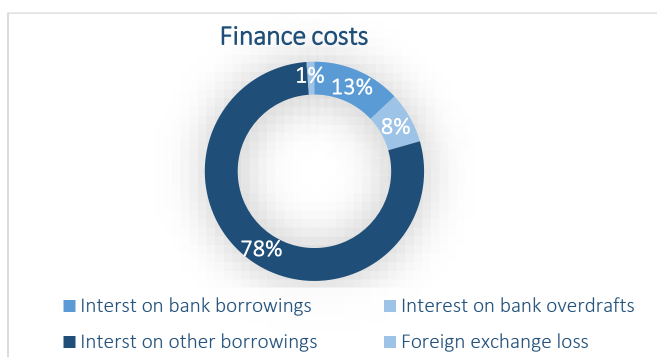


Figure 17: Finance Cost

The largest component of finance cost is interest on other borrowings, which has increased from MVR 68 million to MVR 139 million. Interest on bank borrowings is the second largest, and it has recorded a marginal fall in FY2018. The total finance costs has increased by 79% in FY2018 while the total loans and borrowings has grown by only 33%.

3.3 Return on Equity (ROE) and Return on Total Assets (ROA)

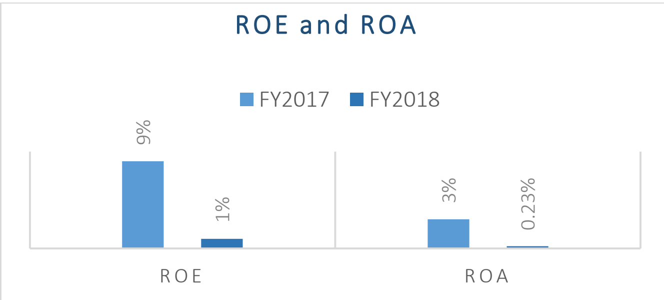


Figure 18: ROE and ROA

ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROA measures how efficiently a company can manage its assets to produce profits during a period.

Both these profitability ratios has decreased mainly due to fall in company's net profits.

Since STO had strong retained earnings, the company has paid MVR 61 million as dividends while they made a profit of MVR 14 million. The retained earnings was affected by the high dividend payments and adjustments due to initial recognition of IFRS 9.In terms of investor's perspective STO was not able to create additional value to shareholders in FY2018. 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 Shareholders Returns

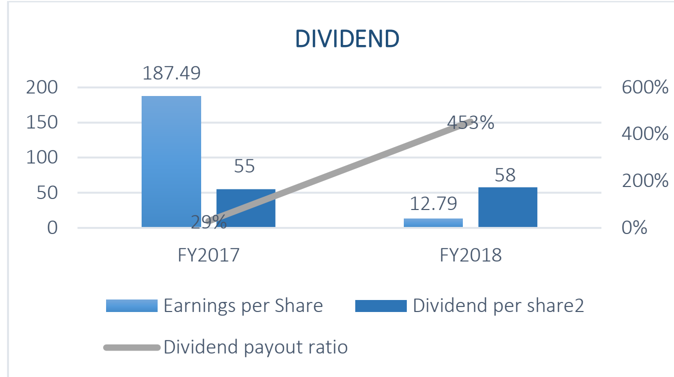


Figure 10: Dividend

Although earnings of the company has drastically fell, dividend per share has increased. In FY2018, company has paid more than their earnings as dividends to shareholders. This demonstrates that STO does not have a specified dividend policy nevertheless pattern of dividend payout is more similar to hybrid dividend policy.

If a company's dividend payout ratio is over 100%, it means that company is paying out more than it is earning, which is an unstable move. This isn't a sustainable model, and should be taken as a sign that dividend payments will likely go down in the future.

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 FY2018 performance because dividend per share was high compared with previous year.

3.5 Net Assets per Share

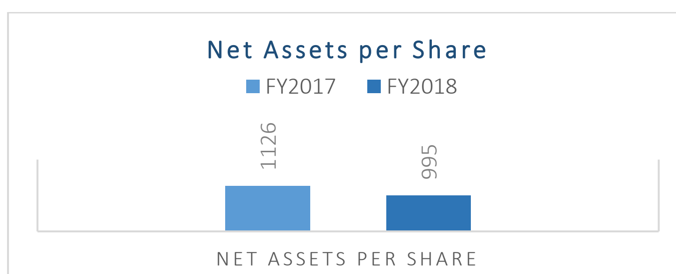


Figure 11: Net Assets per Share

Net assets of the company has decreased from MVR 2,252 million to MVR 1,990 million in FY2018. The main reasons for the deterioration in equity are the significant adjustment due to initial application of IFRS 9 and dividend payments.

3.6 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.

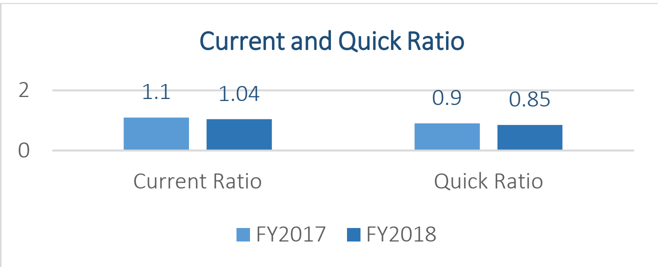


Figure 12: Working Capital Ratios

Although both ratios have recorded a marginal decline, STO has ability to meet short term liabilities using their current assets. In FY2018 STO has MVR 1.04 current asset for every MVR 1 worth of short term liability. The decrease in current and quick ratio is mainly due to increase in company's current liabilities mainly in terms of short term loans and borrowings.

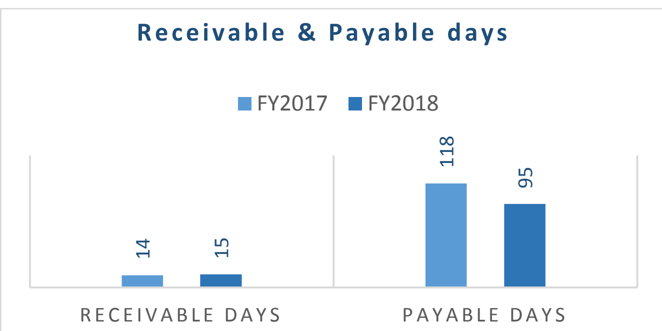


Figure 13: Receivable and Payable days

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 maintained at a very low level. The total receivables has increased by 34% while the revenue has increased by 25% and the total receivables represent 4% of total revenue. The receivable days is calculated excluding the dues from related parties. When related parties dues are included, receivable days of STO is 144 and 124 for FY2017 and FY2018 respectively.

Most significant component in the receivables is advances, prepayments and deposits and it has increased by MVR 100 million. In FY2018, STO has made a provision of MVR 21 million which is a growth of 87% when compared to last year. Provision for impairment consists of impairment of receivables, other receivables and due from related parties.

DETAIL	FY2018	FY2017	CHANGE	CHANGE %
TRADE RECEIVABLES	21,425,687	3,633,365	17,792,322	490%
OTHER RECEIVABLES	(589,017)	13,716,701	(14,305,718)	-104%
RELATED PARTIES	3,205,379	-4,508,391	7,713,770	-171%
TOTAL	24,042,049	12,841,675	11,200,374	87%

Figure 14: Trade and other receivables

While the provision for impairment of other receivables and related parties has reduced, provision for impairment of trade receivables has increased significantly, this had an adverse effect on the profit of the company.

Amounts due from and due to related parties are significant in STO's books as shown in the below comparison.

DETAIL	FY2017	FY2018
AMOUNTS DUE FROM RELATED PARTIES	2,572,205,851	2,778,275,204
AMOUNTS DUE TO RELATED PARTIES	342,943,083	189,217,524
NET RECEIVABLE	2,229,262,768	2,589,057,680

Figure 15: Related party Transactions

The longer it takes to pay suppliers is good for working capital and cash position. However, if the company takes long time to pay their creditor business relation may get affected. In FY2017 STO takes 118 days on average to pay creditors and it has shortened to 95 days in FY2018. 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.

3.7 Financing

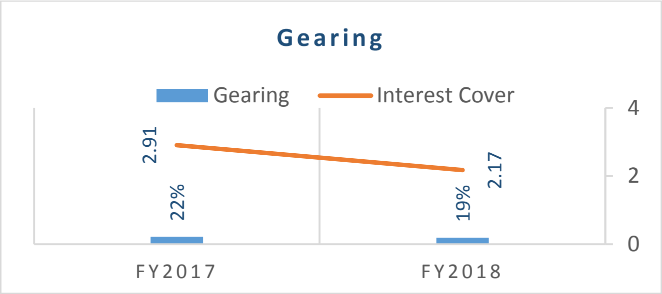


Figure 16: Gearing

STO's long term borrowings has decreased in FY2018 due to high repayments, thus financial leverage of the company has reduced. However, company has borrowed huge additional funds amounting to MVR 4,176 million and repaid MVR 3,648 million in FY2018. Further, STO has invested MVR 974 million for non-current assets in FY2018. Most of the additional funds are spent on operational activities rather than on capital projects.

It is important to highlight that STO has more short term loans than long term loans which indicates that the company is severely depending on short term finance. While the long term loans stands at MVR 490 million, short term loans stands at MVR 728 million at the end of FY2018. Funds raised from short term financing is generally less costly and more flexible than long term financing.

As a result of increase in finance cost due to additional borrowings the interest cover has faced a downward movement. Interest cover has reduced by 25% while the total debts has increased by 43%. This ratio shows STO's ability to pay its interest expense has reduced. The ability to service its debt obligations is a key factor in determining a company's solvency and is an important statistic for shareholders and prospective investors.

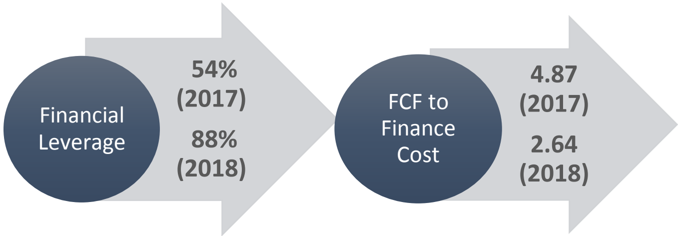


Figure 17: Financial Leverage

STO's leverage has increased significantly due to increase in total debt and reduction of total equity. Equity has reduced mainly due to the adjustment due to the initial application of IFRS 9 and dividend payment.

Free cash flow (FCF) is the cash left over after a company pays for its operating expenses and capital expenditures, also known as CAPEX. STO has positive FCF for both the years. However, FCF to Finance cost has reduced from 4.87 to 2.64 times. Nevertheless the positive ratio indicates that STO have enough cash, after funding operations and capital expenditures, to pay interest and dividends.

Finance providers are concerned with the company's ability to make their interest payments as well. If they are struggling to make the interest payments on their current debt obligations, it doesn't make any sense for a prospective credit to extend them additional credit. Therefore, STO has to give consideration in these matters.

3.8 Asset Utilization

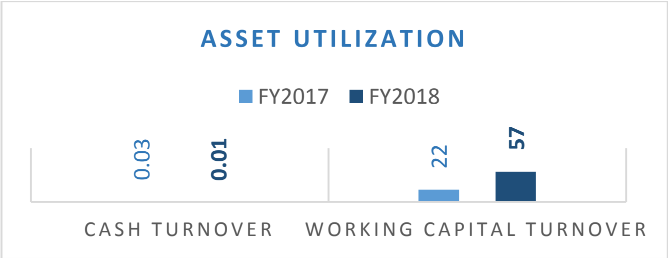


Figure 18: Asset Utilization

STO is maintaining high levels of cash in comparison to the sales, as such the cash turnover is comparatively low.

Working capital turnover ratio measures how efficiently STO is using its working capital to support a given level of sales. And impressively, STO has improved this ratio in FY2018.

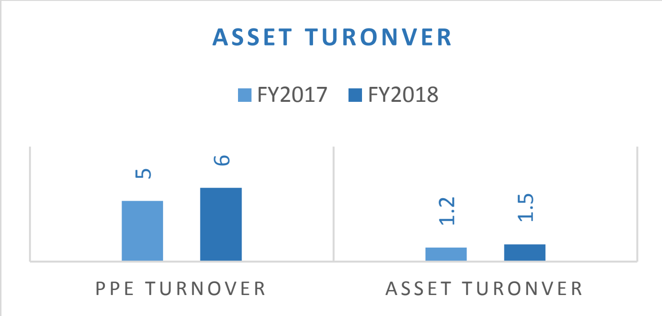


Figure 19: Asset Turnover

PPE turnover shows efficiently STO is producing sales with its property plant and equipment. PPE turnover ratio of the company increase from 5 to 6. The asset utilization of the company illustrates an improvement in 2018.

The asset turnover ratio shows how efficiently STO uses there assets to generate sales. Each Rufiyaa of assets generates more than one Rufiyaa of Profits for both the years. This gives investors and creditors an idea of how STO is managed and uses its assets to produce products and sales.

4. Economic Value Added

Figure 19: EVA

EVA is the most recognized and applied modern financial performance measurement, in determining 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.

EVA is an estimation of STO's economic profit, or the value created in excess of the required return of the company's shareholder. Positive EVA of STO shows that company is producing value from the funds invested in it. Further, this value has increase in FY2018 showing remarkable results.

5. External Audit

The external auditor of the company has expressed an unqualified opinion in the financial statements for the year 2018. Therefore we assumed that financial statement of MACL is free from material misstatement.

6. Corporate Governance

STO complies with the good governance practices and the Board develops and reviews the Company's corporate governance principles to help fulfill its corporate responsibility towards the stakeholders. The company has developed a manual for board directors, a code of ethics for directors and renewed the board charter and corporate governance guidelines.

As per company secretary Board continuously monitors and reviews the board evaluation framework. The Board has laid down a set of evaluation criteria for the performance review of board and management.

7. Conclusion and Recommendation

STO has been a well performing company and has generated a revenue of MVR 9 billion in FY2018. However the net profit was hindered by impairment of Hulhumale' hotel and increased Administrative and Selling and finance costs. As a result almost all key measures were affected. Therefore, in order to improve public image STO need to improve their profit margin in future through cost reduction and elimination of waste.

Investors of the company gets good returns in terms of dividend and the company has increased dividends in FY2018 regardless of fall in net profits. However having a payout ratio of more than 100% could slow down company's future investments.

STO's working capital ratios in terms of receivable days are maintained at 15 days excluding dues from related parties. When related parties dues are included, receivable days of STO rises up to 124. On the other hand the long payable days might be good for working capital and cash position, however it will disrupt the relationship with suppliers. However, this might also suggest that STO has better credit terms than competitors or is having inability to pay creditors on time. There is no clear-cut number on what constitutes a healthy days payable outstanding, as it varies significantly by industry, competitive positioning of the company, and its bargaining power.

STO has borrowed huge amounts representing a high proportion of debt to equity. However, in terms of ratios the gearing percentage has reduced due to significant repayments. Consequently, high finance cost related to this has reduced the net profits of STO. It is important to highlight that STO is more dependent on short term financing than long term financing. While the long term loans stands at MVR 490 million, short term loans stands at MVR 728 million at the end of FY2018.

Identify value adding activities and invest more on value adding activities and eliminate or minimize all the non-value adding activities. Further efficiency has to be improved in all process of business activities.

HOUSING DEVELOPMENT FINANCING CORPORATION PLC

ANNUAL FINANCIAL REVIEW

FY2018

1. 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.

2. Ownership Structure

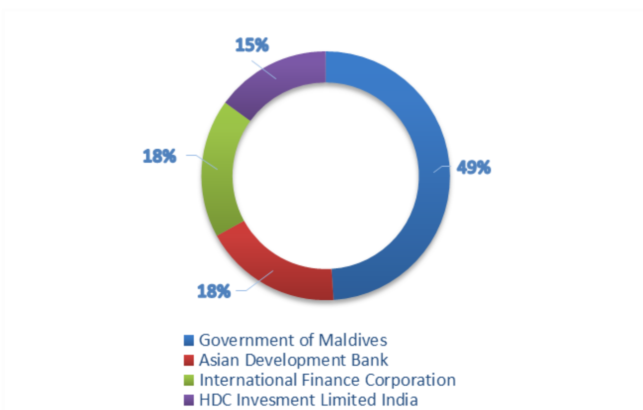


Figure 1: Shareholding

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

3. Financial Analysis

3.1 Revenue

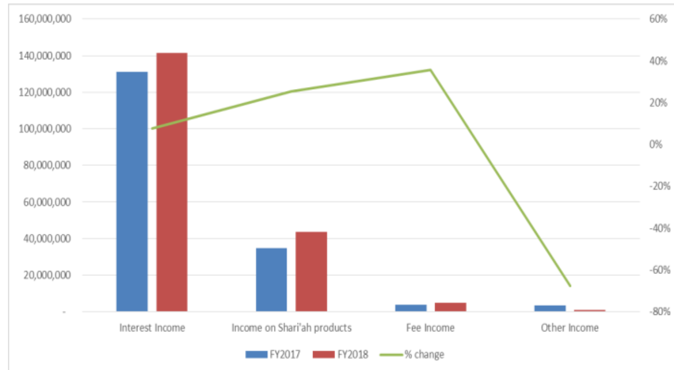


Figure 2: Revenue

The total revenue has increased by 10% from 2017 to 2018 (MVR 173.2 million to MVR 191.3 million). Among the various types of income received to the Corporation, Interest Income (74% of total income) and Income on Shari'ah Products (23% of total income) has shown a growth of 8% and 25% respectively from FY2017 to FY2018. Moreover, Fee Income has significantly increased from MVR 3.7 million to 5 million. However, Other Income has decreased by 68% when compared FY2017.

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

Gross loan and Facility Portfolio

The Company's housing loan and facility portfolio has reached MVR 1.6 billion, out of which Conventional and Amna holds 77% and 23% respectively.

Since the commencement of Amna (Shari'ah products) in 2012, it has shown a very positive growth over the period of six years. As such, the portfolio has grown from MVR 28 million to MVR 383 million over this period. Net income from Amna products has shown an 11% growth from FY2017 to FY2018 (MVR 22.5 million to MVR 25.1 million).

HDFC offers three sharia compliant products all related to housing. They are Isthisna' for Home construction, Musharaka Muthangisa for land/home purchase and Murabahah for home renovation.

Conventional loan portfolio has increased by 10% in 2018. As stated in the annual report of HDFC, it is important to note that during the year 2018, the company approved loans and facilities amounting to MVR 363.9 million as compared to MVR 324 million in the same period of the previous year, recording a growth of 12.3%. In the same year (2018), the Company disbursed loans worth MVR 315.1 million while in the previous year MVR 230.1 were disbursed. This is an increase of 37%. HDFC believes this growth is commendable when compared with the industry credit growth on pure housing as company operates in a more limited market than traditional commercial banks.

3.2 Profitability

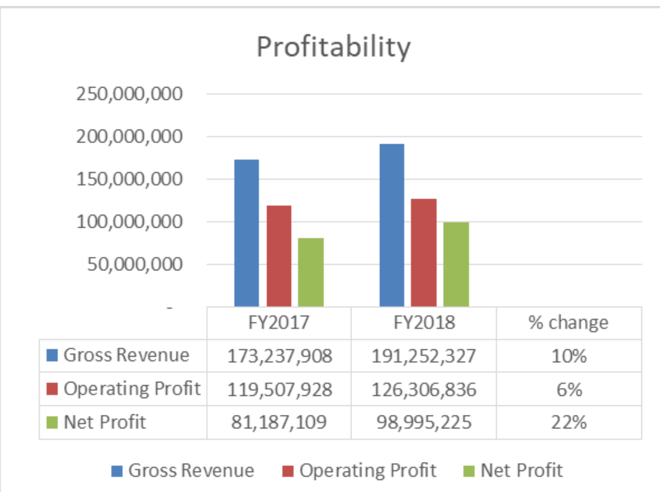


Figure 3: Profitability

Net profit margin was stated at 52% in FY2018, which is a 5% increase compared to the FY2017. Although operating expenses such as salaries and other operating expenses were increased from FY2017 to FY2018, provision for loan impairment has decreased from MVR -10.6 million to MVR 8.2 million, causing an increase in Net Profit.

Salaries and personnel expenses has increased by 12% over the period (MVR 8.9 million to MVR9.9 million). Other Operating Expenses has shown a 24% increase over the period. Expenses with significant increase are detailed below.

Expenses	FY2017	FY2018	% change
Professional fee	963,923	1,611,411	67%
Premises, equipment and establishment expense	1,128,470	1,387,945	23%
Board remuneration and meeting expenses	791,165	1,080,224	37%
Bank charges	309,828	534,677	73%
Amortization of intangible assets	71,793	174,147	143%
Loss on disposal	52,047	72,624	40%

Figure 4: Expenses

On the other hand, provision for loan impairment has seen a drastic decrease of 178%.During the year the company did not write off any bad loans or facilities.

Net Interest Margin

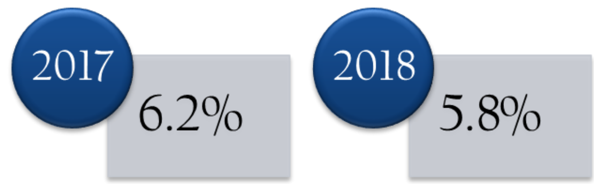


Figure 5: Net Interest Margin

Net interest margin is an important indicator in evaluating banks since 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 has decreased from 6.2% to 5.8% from FY2017 to FY2018. This decrease is caused due to the level of increase in Total Earning Assets (MVR 1.4 billion to 1.6 billion) being higher than the level of increase in the Net Interest Income. (MVR 89.8 million to MVR 95.1 million).

3.3 Shareholders Return

Earnings per Share and Dividend per Share

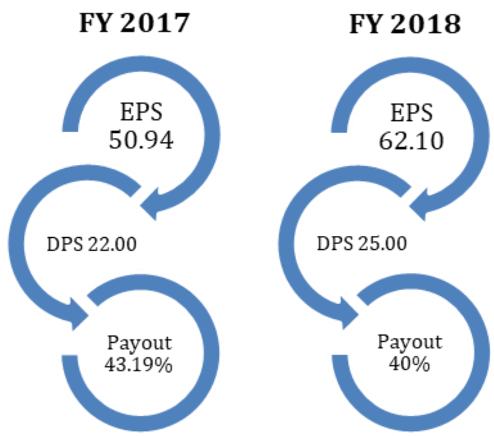


Figure 6: Dividend

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 have increased from MVR 50.94 in FY2017 to MVR 62.10 in FY2018. Similarly, the dividend per share has also recorded a growth from MVR 22 in FY 2017 to MVR 25 in FY 2018. Dividend payout ratio has seen a marginal decrease from 43% to 40%. However, HDFC's payout ratio is comparatively high when compared to similar companies. (BML: 12%)

However, high payout ratio comes 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.

3.5 Asset Quality

As stated in HDFC's Annual Report, "the Company maintained its asset quality during the year (when compared to 2017 of the same periods) despite the aggressive competition. At the end of 31 December 2018, the total net portfolio amounts to MVR 1.6 billion. The Company maintains an internal credit rating system for all facilities either past due or impaired. The facility value falling under category A+ was maintained at 100% as at 31 December 2018 and in 2017 as well."

"In order to minimize the potential increase of the credit risk exposure, HDFC focuses more on securing loans to greater Male' region. All assets are covered by insurances i.e.; contractor risk insurance during the grace period and fire insurance during the repayment period for the tenure of both conventional loans and Islamic facilities."

3.6 Capital Management

HDFC's capital as managed by its management comprises of share capital, retained earnings and reserves created by appropriations of retained earnings and current year earnings.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit ,market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of capital and the ratios of HDFC for the year ended 31st December 2018. HDFC complied with all of the externally imposed capital requirements to which they were subjected.

Capital Management	**31-Dec-17**	**31-Dec-18**
Share capital	159,375,000	159,375,000
Advance for shares	-	-
General reserve	15,000,000	15,000,000
Staff education reserve	2,136,480	-
Retained earnings	285,967,217	341,400,374
Total qualifying capital	**462,478,697**	**515,775,374**
Risk-weighted assets		
On balance sheet	728,435,996	849,425,314
Basel ratio	**63%**	**61%**

Figure 7: Basel Ratio

The changes in the regulatory capital was mainly due to the profit earned during the year ended 31 December 2018. The increase in risk-weighted assets reflects the expansion of the loan portfolio during year.

It is important to note that, 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%. Hence, in the past two years HDFC has been performing well in this area.

3.7 Loan Book Quality

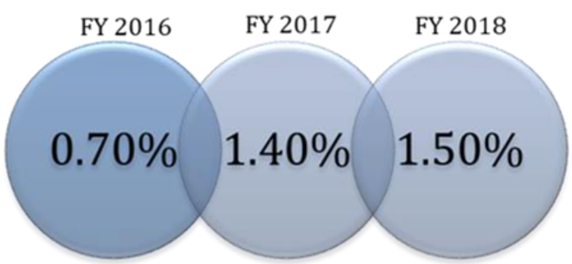


Figure 8: Loan Book Quality

Non-performing loans (NPL) to total loans ratio has slightly increased from 1.4% in FY 2017 to 1.5% in FY2018. As of 31st December 2018 the company's total portfolio value of loans/facilities has increased to MVR 1.6 billion from MVR 1.4 billion in FY2017.

Although HDFC has maintained the same lowest NPLs among the leading banks in the industry, and with the increase of loan/facilities by MVR 0.20 billion over last two years, it is important to highlight that NPLs has been increasing over the last three years (from 0.70% to 1.5%). Therefore it is vital that company push more effort on collections, regular reviews, use of legal channel and other measures for recovery so as to minimize default and to maximize collections.

3.8 Liquidity

Liquidity risk is defined as 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 31st December 2017

As at 31 December (in MVR '000)	Upto 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits	-	-	8,362	-	74,061	**82,423**
Debt Securities in issue	2,756	1,475	14,307	78,696	256,727	**353,961**
Other borrowed funds	4,468	23,337	173,670	490,699	34,142	**726,316**
Other liabilities	-	-	59,413	-	228,608	**288,021**
Current tax liabilities		-	8,371	-	-	**8,371**
Total liabilities	**7,224**	**24,812**	**264,123**	**569,395**	**593,538**	**1,459,092**
Assets						
cash and balances with banks	76,654	15,000	-	-	-	**91,654**
Financial assets held to maturity	-	29,976	-	-	-	**29,976**
Loans and advances	28,839	61,027	303,097	1,069,349	1,919,623	**3,381,935**
Other assets	80	147	1,554	5,575	-	**7,356**
Total assets	**105,573**	**106,150**	**304,651**	**1,074,924**	**1,919,623**	**3,510,921**
NET (Assets-Liabilities)	**98,349**	**81,338**	**40,528**	**505,529**	**1,326,085**	**2,051,829**

As at 31st December 2018

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**

Figure 9: Assets and Liabilities

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

During FY2018, Company has performed to generate a net asset of MVR 40.5 million whereas FY2017 shows a net liability of MVR 90 million. Significant increase in loans and advances (by 106%) from FY2017 to FY2018 has led to increase in the ability and competency to meet its payment obligations associated with its financial liabilities when they fall due.

4. External Audit

The external audit of HDFC was conducted by Price Waterhouse Coopers (PWC). As per their opinion, the financial statements of the company give a true and fair view of its financial position as at 31st December 2018. However, the matter addressed below was identified by the auditor as a key audit matter.

Impairment of housing loans; as at 31st December 2018, 92.3% of the total assets of the Company consisted of loans and advances amounting to MVR 1.6 billion shown net of loss allowance of MVR 26.2 million.

The loss allowance in respect of loans and advances represent management's best estimate of the impairment loss incurred and expected within the loan portfolio at the reporting date.

The loss allowance had been calculated using statistical methods and historical collection trends adjusted for forward-looking information. Significant estimates and assumptions used by the management in such calculations and the basis for impairment allowance is disclosed in Note 29.1.

External auditor has identified expected credit loss allowance for loans and advances as a key audit matter as the calculation of loan loss allowance is a complex area and requires management to make significant assumptions and judgments.

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

5. Conclusion

Financial year 2018 was a successful year for HDFC, achieving over 22% profit growth and 14% portfolio growth. The financials show that operating expenses have decreased by 62% in FY2018. However, this decrease is mainly due to a drastic decrease in a non-cash expense which is the provision for loan impairment.

The Company has been maintaining a high asset quality. At the end of 31 December 2018, the total net loan/facility portfolio amounts to MVR1.6 billion. Further, the company maintains a ratio of total capital to the risk-weighted asset (the 'Basel ratio') over 61%, well above regulatory requirements.

Although HDFC has maintained the same lowest NPLs among the leading banks in the industry, it is vital that company push more effort on collections as the company has faced a slight increase in NPL to total loans ratio over the past two years.

In addition, the company has a favorable liquidity position, maintaining net assets of MVR 40.5 million at the end of 2018.

Even though the company has a payout ratio of 40%, which is comparatively high when compared to similar companies, investors have faced a decrease of 3% in the returns paid to them when compared to FY2017.

MALE' WATER AND SEWERAGE COMPANY PRIVATE LIMITED

ANNUAL FINANCIAL REVIEW

FY2018

1. 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 principal activities of the company is to develop, manage and maintain an efficient and cost effective strategies in providing public water and sewerage services. Over the years, the company has diversified into engineering, contracting and manufacturing.

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.

2. Ownership Structure

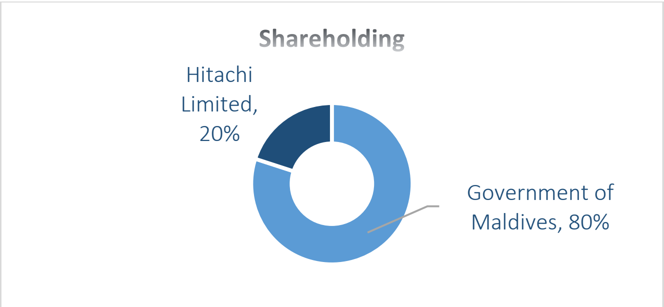


Figure 1: Shareholding

The total authorized number of ordinary shares is 267,000 shares and government of Maldives owns 213,600 shares which is 80%.

3. Financial Review

3.1 Revenue

There are four revenue generating segments of which water, Electricity and Sewerage is the major revenue generating segment of the company.

The below table shows a comparison of revenue generated for the major revenue generating segments for the previous two years.

REVENUE	FY2017	FY2018	+/-
WATER, ELECTRICITY AND SEWERAGE	602,901,534	701,718,763	**+16%**
CONSTRUCTION PROJECT	325,447,153	426,032,355	**+31%**
BOTTLED WATER AND ICE (MANUFACTURING)	119,550,871	118,742,367	**-1%**
PIPE & OTHER WATER RELATED ITEMS (TRADING)	5,372,201	7,948,610	**+48%**
TOTAL REVENUE	**1,053,271,759**	**1,254,442,095**	+19%

Figure 2: Segmental Revenue

Total revenue has recorded a growth of 19% in comparison to previous year. This was achieved through a positive growth from all segments except sale of bottled water and Ice.

Segment Performance

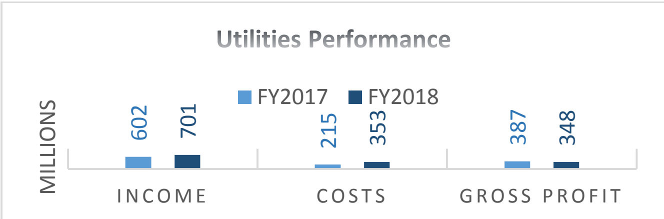


Figure 3: Utilities Performance

Although revenue from utilities has seen a positive growth, gross profit was constrained by high costs. Likewise, the GP margin was reduced from 64% to 50% in FY2018.

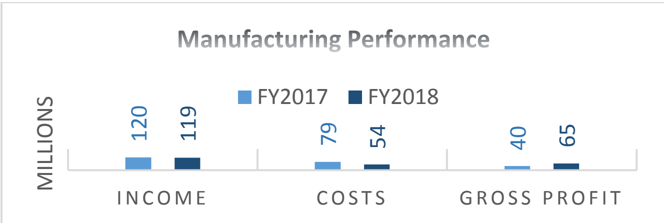


Figure 4: Manufacturing Performance

Revenue has decreased by 1% from manufacturing services which is one of the major segment where company is investing on high values. However, in terms of profitability manufacturing has achieved a gross profit of MVR 65 million, which is an increase of 63%. Further, the GP margin has improved from 33% to 50%.

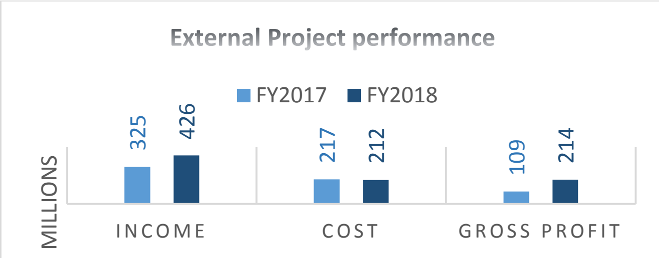


Figure 5: External Projects Performance

Major revenue increment of MVR 100 million was achieved by construction segment through increased number of external projects, and GP margin has increased from 33% to 50%.

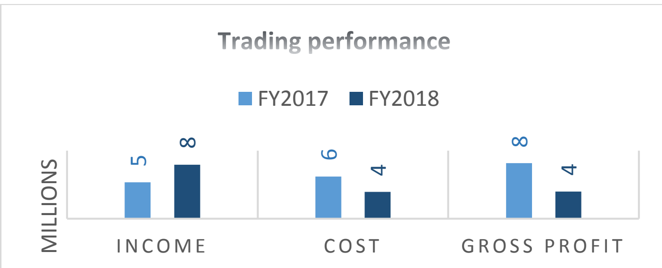


Figure 6: Trading Performance

Revenue from trading segment has also increased from MVR 5 million to MVR 8 million, and made a gross profit of MVR 4 million. As a result the GP margin has increased from negative 16% to 50%.

3.2 Profitability

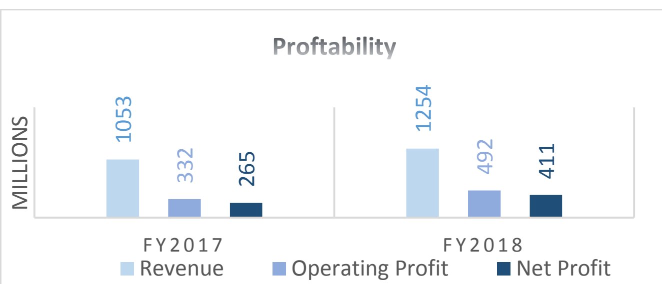


Figure 7: Profitability

The operating profit of the company has seen a robust growth of 48% accompanied by a net profit growth of 55%. This was achieved through managing company's overheads. MWSC has managed to reduce its overheads from MVR 258.5 million to MVR 242.8 million. In FY2018, overheads represents 19% of revenue of the company (FY2017: 25%).

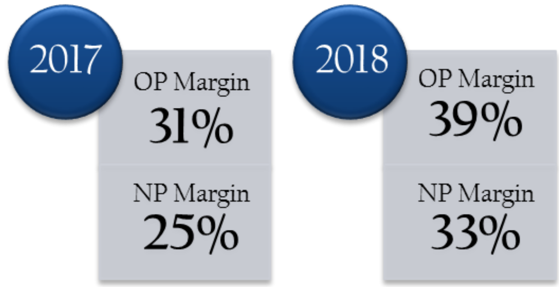


Figure 8: Profit Margins

Both Operating Profit and Net Profit Margin had a healthy growth in FY2018 as a result of increase in revenue and reduction of expenses.

Expenses

Administrative and selling & marketing expenses has reduced by MVR 8 million and 7 million respectively.

Although the total expenses has reduced, the below tables shows individual expenses which has recorded a growth in FY2018.

DETAIL	FY2017	FY2018	% INCREASE
SALARIES AND WAGES	38,693,997	44,310,283	15%
ALLOWANCE	33,201,945	36,993,582	11%
OVERTIME	4,307,868	5,925,133	38%
DEPRECIATION AND AMORTISATION	21,448,185	26,156,232	22%
BANK SERVICE CHDRGES AND COMMISSION	9,579,165	11,388,364	19%
LAND AND OFFICE RENTALS	4,204,651	9,791,655	133%
INSURANCE	3,423,290	7,036,260	106%
LOSS ON DISPOSALOF PROPERTY, PLANT	-	1,973,975	
PROVISION FOR SLOW MOVING INVENTORY	-	950,086	

Figure 9: Expenses

Increase in salaries and wages are mainly due to the yearly increment of staffs. Compare to year 2017, land and office rental has increased due to a payment of MVR 4 million, paid to MIRA in regards to the Villingilli land rent. In addition, Insurance cost has increased due to the increase in company's investments for the development and expansion of the business.

3.3 Working Capital Management

Liquidity and efficiency are equally important for smooth running of the business.

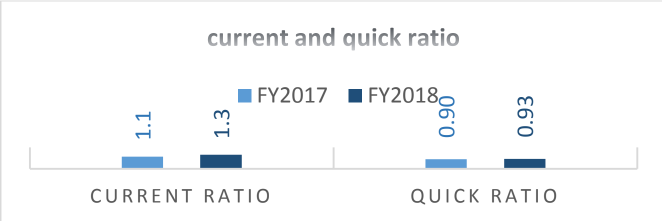


Figure 10: Working Capital Ratios

The current ratio has recorded a marginal increase. This is because the reduction of current liabilities are greater than the reduction of current assets. As per this ratio MWSC has the ability to meet its short term liabilities with available current assets. The company has dividend payable of MVR 421 million as at the end of FY2018 while receivable from related parties stands at MVR 255 million. Therefore, if these balances were set off against each other, the company will still be owing to the related parties since payables are more.

Quick ratio of the company is below 1 which illustrates 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.

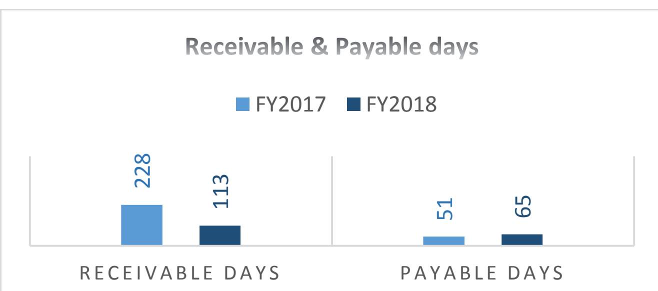


Figure 11: Receivable and payable days

Receivable days of the company has reduced from 228 days to 113 days, this shows that MWSC has become more efficient in collecting receivables. It is important to note that receivable from related parties are the major component of receivables representing 66% of total receivables. If related party receivables are removed, this ratio will be reduced to 97 and 38 for FY2017 and FY2018 respectively. Therefore, MWSC has become more efficient in collecting receivables as they are collecting them almost in a month. Further, accumulated impairment of receivables is 15% of receivables (FY2017: 8%) which is equal to 5% of total revenue. Almost 50% of impaired receivables are receivables aged over 180 days and the remaining 50% consists of receivables aged over 365 days. This illustrates that although the receivables collection days shows that company is collecting receivables within 38 days (excluding receivables from related parties), MWSC is also unable to collect almost 15% of total 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 51 days in FY2017 and 65 days in FY2018.

DETAILS	FY2017	FY2018
AMOUNT DUE TO RELATED PARTIES	11,691,052	11,847,539
DIVIDEND PAYABLE	453,532,387	421,024,441
AMOUNTS RECEIVABLE FROM RELATED PARTIES	378,308,543	255,471,269
NET PAYABLE	**(86,914,896)**	**(177,400,711)**

Figure 12: Related Party Transactions

Inventory Level

DETAILS	FY2017	FY2018
RAW MATERIALS	20,880,094	36,630,076
CONSUMABLE STOCK	184,341,102	211,785,818
FINISHED GOODS	8,164,341	9,002,584
	213,385,537	257,418,478
LESS: IMPAIRMENT	(5,479,038)	(6,429,124)
EMPLOYEE HOUSING UNIT		2,154,487
CLOSING INVENTORY	**207,906,499**	**253,143,841**

Figure 13: Inventory

MWSC maintains relatively high inventory and the closing inventory is equivalent to 41% of cost of goods sold.

Consumables stock and raw material represents 84% and 14% of total closing inventory respectively. Thus MWSC has to perform a cost benefit analysis of maintaining high inventory and make necessary changes for the betterment of the company. Impairment of inventory has seen a growth of 17%, thus recognized MVR 6 million as such. The impairment of inventory is 2% of closing inventory.

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

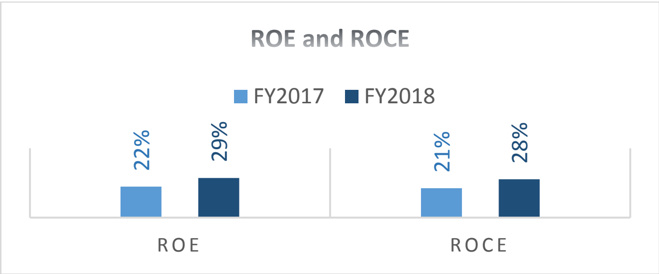


Figure 14: ROE and ROCE

ROE shows how much profit MWSC generates with the money shareholders have invested. In general reserves of the company has improved. Even with the growth in reserve, the return on equity illustrates a favorable growth thus management is dealing the company's assets effectively to generate profits.

Return on capital employed shows how much profits each MVR of capital employed generates. This ratio has also improved since net profits growth is much higher compare with increase in capital employed. Both measures illustrates improvement in utilizing company resources to generate profit. In order to create value the returns of the company should always be high than the rate at which they are borrowing to invest.

3.5 Shareholder Returns

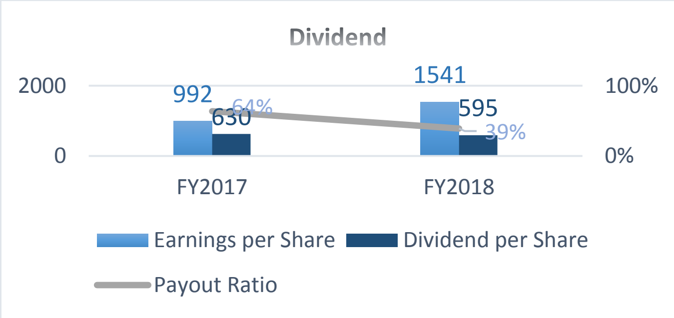


Figure 15: Dividend

Compared to previous year, the earnings of the company has improved, however, the dividend per share has reduced. As a result the dividend payout ratio has dropped from 64% to 39%.

A lower payout ratio indicates that MWSC is retaining more of its earnings to fuel its growth. Dividends are usually cut due to factors such as weakening earnings or a limited amount of funds available to meet the dividend payment. Usually, dividends are paid out from the company's earnings, and if earnings decline over time this will definitely affect the dividend of the company.

However, the decision of cutting down dividends might not be attractive for the investors as the returns are getting lower.

3.6 Financing

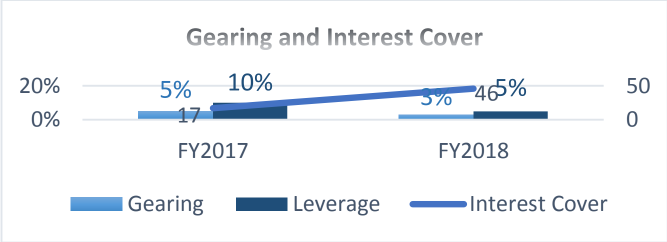


Figure 16: Gearing

MWSC is maintaining a very low gearing level thereby the financial risk of the company is fairly low. Non-current liabilities of the company has reduced from MVR 64 million to MVR 48 million and equity and reserves has increased from MVR 1188 million to MVR 1441 million. Financial Leverage of the company has also reduced from 10% to 5% as the total debt has reduced from MVR 123.7 million to MVR 78.8 million. Based on current financial position MWSC has a high prospect to raise finance through borrowing from financial institutions.

However, it is important to note that MWSC has high level of short term loans and borrowings which indicates that the company is severely depending on short term finance. While the long term loans stands at MVR 37.5 million, short term loans stands at MVR 41 million at the end of FY2018.

As a result of lower finance costs and improvement in profit, interest cover of the company has improved from 17 to 46 times. The total finance cost was reduced due to significant reduction in foreign exchange loss. Interest expense on borrowings was only reduced by MVR 270,724. Compared to the reduction of Non-current liabilities the finance cost has reduced by a small percentage. This mainly because of high short term loans and borrowings. Funds raised from short term financing is generally less costly and more flexible than long term financing.

MWSC has spent MVR 24 million for purchase and construction of property, plant and equipment an acquired intangible assets worth of MVR 3 million. In addition, MVR 90,027 was invested in financial assets and MVR 211 million was incurred on construction of capital work-in-progress.

With low gearing and high interest cover, current financial status of MWSC is very pleasing to finance providers since it demonstrates a quite low financial risk. Therefore the company has a high chance of obtaining additional finance for development projects.

3.7 Asset Utilization

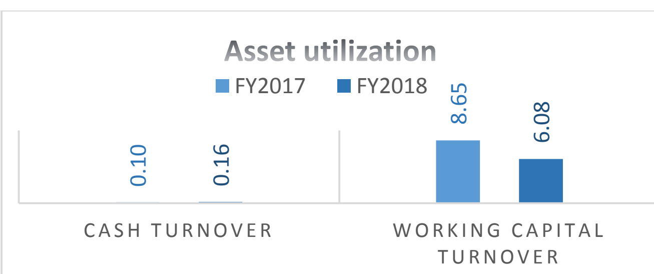


Figure 17: Asset Utilization

MWSC has a very low cash turnover, indicating that the company is maintaining high level of cash. A lower ratio means cash is not being actively used for the generation of returns. On the other hand, Cash conversion cycle (CCC) of MWSC is 181 days for 2017 and 121 days for 2018. CCC represents time it takes for the company to convert its investments in inventory and other resources into cash flows through sales.

Working capital turnover ratio measures how efficiently a company is using its working capital to support a given level of sales. MWSC's working capital turnover has reduced, meaning the efficiency of using company's short-term assets and liabilities for supporting sales has weakened.

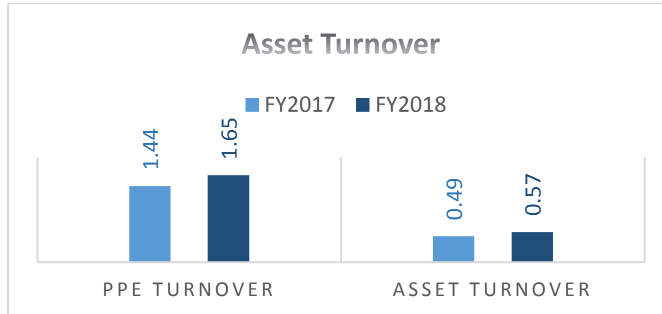


Figure 18: Asset Turnover

The asset turnover ratio shows how efficiently MWSC can use its assets to generate sales. As per the above table, Each Rufiyaa of assets generates 0.57 Rufiyaa of sales.

The total asset turnover ratio is a general efficiency ratio that measures how efficiently a company uses all of its assets. This gives investors and creditors an idea of how a company is managed and uses its assets to produce products and sales.

PPE turnover measures a company's return on their investment in property, plant, and equipment by comparing net sales with fixed assets. In other words, it calculates how efficiently a company is a producing sales with its machinery and equipment. PPE turnover of MWSC is very impressive as the ratio is above 1. It indicates that assets are being utilized efficiently to generate sales.

3. External Audit

The external auditor of the company has expressed an unqualified opinion in the financial statements for the year 2018. Therefore we assumed that financial statement of MWSC is free from material misstatement.

4. Conclusion and Recommendation

Revenue of the company has increased over the years and has achieved a remarkable revenue growth of 19% in FY2018. The highest growth was achieved by Trading and Construction Projects by 48% and 31% respectively. Income from Construction segment represents 34% of company's revenue and is the second largest segment of MWSC. Company's main business is supply of utilities, although revenue from utilities has seen a positive growth, their gross profit margin was affected by high direct costs.

In terms of short term liquidity, MWSC does not have sufficient current assets to cover their short term obligations after exclusion of their inventory. Therefore, MWSC has to improve their liquidity position for a smooth running of the business. At the end of FY2018, company has dividend payable of MVR 421 million. Further, MWSC has significant trade receivables, however the company has managed to reduce it by 41% in FY2018. Receivable from related parties are the major component of receivables representing 66% of total receivables. The impairment of receivables is almost 15% of receivables (FY2017: 8%) which is equal to 5% of total revenue. In addition, impairment of inventory has a growth of 17% and represents 2% of inventory. MWSC has to find ways for better working capital management for a healthy running of its operations.

Although the earnings of the company has seen a positive growth. Dividend per share of the company declined from MVR 630 to MVR 595. Although cutting down dividends are not attractive to investors, retaining profits will support in future investments.

The gearing and financial leverage of the company is maintained at a fairly low level. Non-current liabilities of the company has reduced from MVR 64 million to MVR 48 million, as a result the gearing level has reduced further. However, MWSC has high level of short term loans and borrowings which indicates that the company is severely depending on short term finance.

Financial year 2018 was a successful year for MWSC reflecting strong performance. The overall profitability of the company has increased by 55% compared to previous year reaching MVR 411 million.

MALDIVES CENTRE FOR ISLAMIC FINANCE LIMITED

ANNUAL FINANCIAL REVIEW

FY2018

1. 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.

2. Financial Analysis

2.1 Revenue

Figure 1: Revenue

The company has earned revenue from educational programs (SAIIF) and magazine advertisement. Revenue from education programs has increased in 2018 from MVR 34,174 to MVR 182,956. However, it is important to highlight that MCIF is unable to generate enough revenue even to cover their operational expenses. And they do not have a decent plan to generate worthy revenue.

2.2 Profitability

Gross Profit

Figure 2: Profitability

Although the income has increased, MCIF has made a huge gross loss for the year 2018 due to high cost of sales. MVR 533,587 was spent on magazine production costs while only MVR 50,915 was earned as income from magazine. In addition, direct cost of Education Programs and workshops stands at MVR 153,487. As a result the GP margin has fallen to from 72% to negative 194%. These results shows that there is no financial planning prior to these investments. And does not consider financial implication in any business dealing.

Net Loss

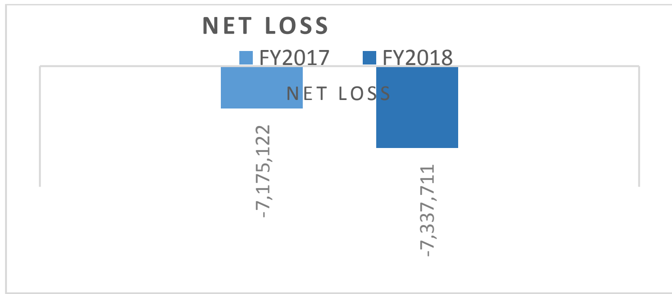


Figure 3: Net Loss

When compared to the gross loss, the net loss of the company is significantly high due to high personnel and operating expenses.

Regardless of the significant loss of the company, the financials were prepared on the basis that 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.

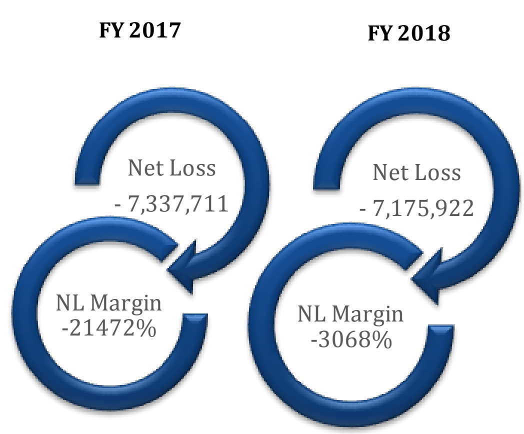


Figure 4: Net Loss Margin

Since the loss has reduced in comparison to previous year, negative margin has also reduced but it is still significant. A business can sustain this only as long as it has cash reserves or other sources of capital. Currently, MCIF is surviving with the capital received from government. Therefore, to succeed, MCIF must ultimately grow its sales or reduce its expenses so that it produces net income and a positive profit margin.

Expenses

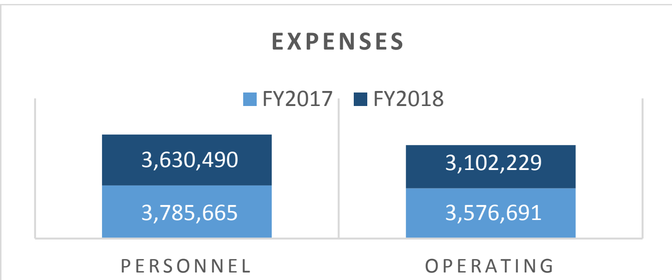


Figure 5: Expenses

The personnel and operating expenses has recorded a marginal reduction of 4% and 13% respectively. However, considering the level of operations, these expenses are still high.

The personnel costs of the company are as follows;

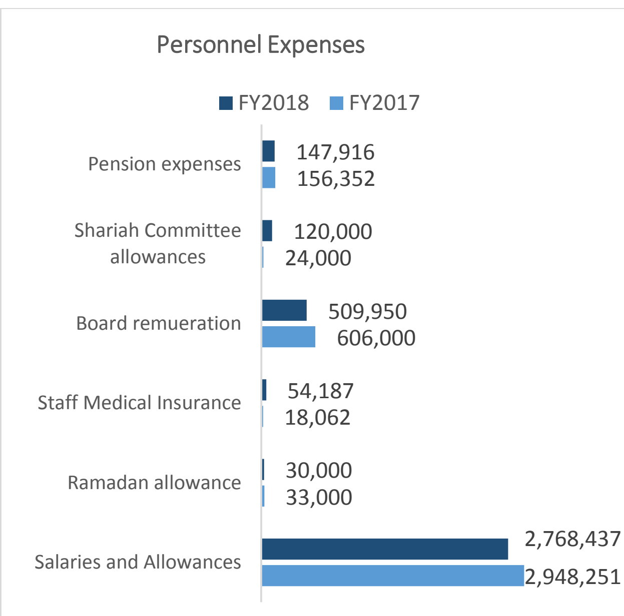


Figure 6: Personnel Expenses

Except staff medical expense and sharia committee allowance all other expenses has reduced. Since MCIF staffs would receive Aasandha, it is recommended not to use a separate medical insurance policy in order to reduce company's overheads. Considering that the company is currently not conducting any major business operations, the personnel expenses are quite high. Salaries & allowance and pension has reduced with almost similar rate of 6% and 5% respectively, indicating there was a reduction in number of staffs.

The operating expenses of the company consists of the following.

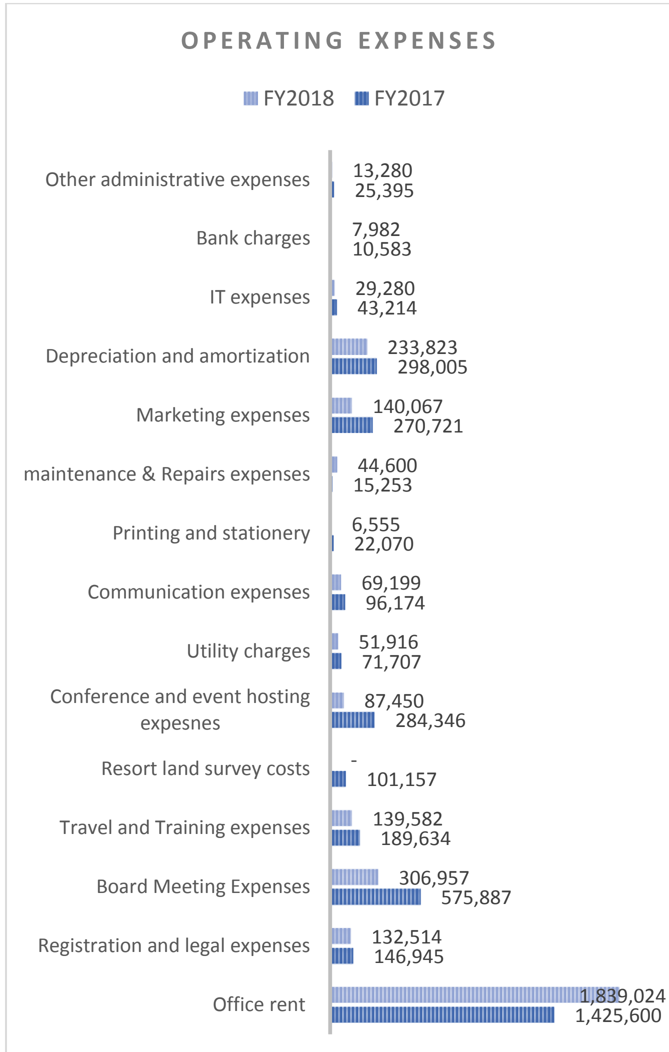


Figure 7: Operating Expenses

Office rent has increased due to disallowing of Input tax claim from rent as per MIRA Audit.

From May 2018 onwards, the company has only Maldivians as board members, thus board meeting expense has reduced by 47%. Boar meeting expenses comprises of travelling, visa and accommodation expenses of foreign directors and refreshments of board meetings.

MCIF has also reduced its conference and event hosting expenses and travel and training expenses. Although the operating expenses has reduced, it still stands at MVR 3.1 million which is 1326% more compare to total revenue of the company.

2.3 Shareholders Returns

The company is unable to distribute any returns to shareholder since it is making huge losses since its inception in 2016. 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 for the operation of the company. In 2018, the total operating costs and personal expenses of the company stands at MVR 6.7 million.

As an investor, nobody will be willing to invest in a bleeding company like MCIF, where the company is struggling and losses are mounting. In addition, it seems the management is unable to implement a good strategy to become self-sufficient. Further, from current investment (such as magazines) without the proper planning and financial implication, it seems MCIF is not working in the best interest of the shareholder.

Net Assets per Share

Figure 8: Net Assets per Share

MCIF has issued new shares of 250,000 in 2017 and 610,000 in 2018. The net assets of the company has also reduced from MVR 1.6 million to MVR 0.5 million. Thus net assets per share of the company is very low, therefore the company is less attractive to investors.

2.4 Working Capital Management

Working capital management involves the relationship between a company's current assets and current liabilities. The goal of working capital management is to ensure that a company is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

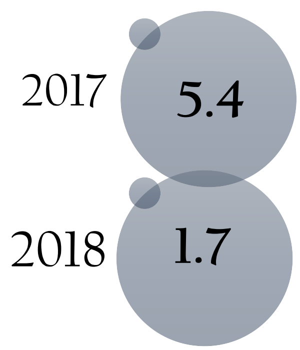


Figure 9: Current Ratio

Current assets of the company has reduced while the current liabilities has increased in FY2018. Thus the current ratio has reduced significantly from 5.4 to 1.7 times. Although the current ratio is still above 1, only cash balance is the liquid assets the company have. If only the liquid assets are considered, the current ratio of the company is 0.7, indicating that the company is incapable to meet its short term obligations. The cash balance of the company is the capital contribution by the government. If the cash balance is not considered MCIF will be having serious financial problems.

Accounts payable has increased from MVR 258,296 to MVR 440,185, which is a growth of 70%. The increase was mainly in terms of payable to vendors.

3. 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 2018 and its financial performance and its cash flows for the year ended.

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

4. Conclusion

The company has made a significant loss of MVR 7,175,922 for the financial year 2018 and has an accumulated loss of MVR 18,051,234 as at 31 December 2018. If the company is unable to generate enough revenue to support their operation government may need to continue their support, which results in increased government expenditure. In order to be self-sufficient, MCIF should come up with a feasible business model.

The company has earned revenue from educational programs (SAIIF) and magazine advertisement, however was unable to make a profit from these. In addition, MCIF has significant personnel and operating costs, which makes the net loss of the company even worse. During FY2018 the company has made a loss of MVR 7,175,922. If the company wants to survive it must find ways to control its operating costs.

Short term liquidity position of the company is very weak with cash being only the liquid asset. Moreover, the cash balance of the company is the capital contribution by the shareholder.

On April 2019, the government has decided to liquidate Hazana Maldives Limited and transfer all the assets and liabilities to MCIF and the process is on-going.

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. Investors will not be willing to invest in a bleeding company like MCIF, where the company is struggling and losses are mounting. 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 expenses as well.

MALDIVES ISLAMIC BANK

ANNUAL FINANCIAL REVIEW

FY2018

1. 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 6th 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.

2. Shareholding Structure

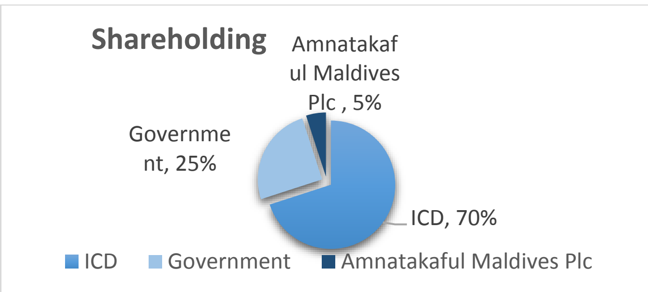


Figure 1: Shareholding

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 180 million.

3. Financial Analysis

3.1 Income

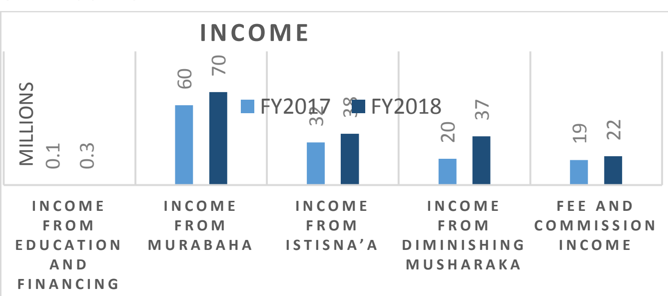


Figure 2: Income

Income from financing activities has reached MVR 144 million, 30% increase compared to previous year, where all line items have recorded a growth.

Profit from customer accounts amounting to MVR 32 million was paid to customers in FY2018 (FY2017: MVR 21 million) from income from financing activities.

4.2 Profitability

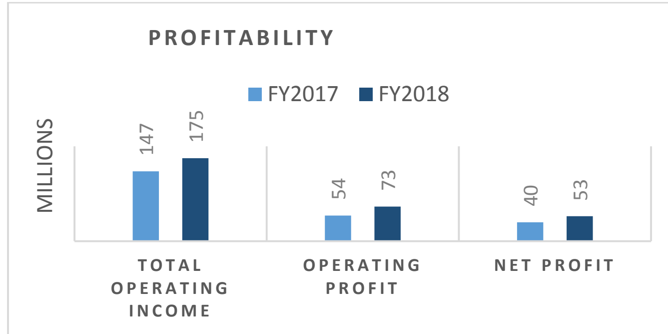


Figure 3: Profitability

The bank has achieved a net profit of MVR 40 million, a growth of 33% compared to previous year. While total operating income has recorded a growth of 18%, the total operating expenses has increased by only 9%. Thus, cost to income ratio has reduced from63% to 58%, indicating that MIB now incurs less cost to generate every MVR of income.

Expenses

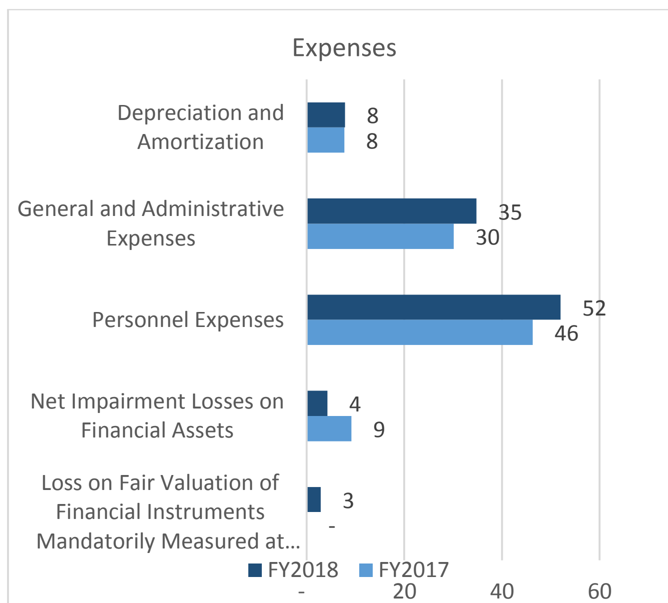


Figure 4: Expenses

Depreciation and amortization stands constant at MVR 8 million over the period from 2017 to 2018.

General and Administrative expenses on the other hand had increased by 15%. The increase was recorded mainly by legal and professional expenses, director's allowance and board related expenses, marketing and advertising expenses and other operating expenses.

Figure 5: General and Administrative expenses

Personnel expenses were the most significant cost of the Bank and it had recorded a growth of 12%. The breakdown of personnel expenses as below;

PERSONNEL EXPENSES	FY2017	FY2018	% CHANGE
SALARIES AND WAGES	31,832,163	35,527,951	12%
CONTRIBUTION TO DEFINED CONTRIBUTION PLANS	1,755,108	2,085,167	19%
HOUSING ALLOWANCE	4,507,521	5,282,419	17%
EXECUTIVE ALLOWANCE	162,000	216,000	33%
ANNUAL AND RAMADHAN BONUS	4,351,594	5,304,181	22%
TRAINING AND DEVELOPMENT	938,979	1,137,517	21%
MEDICAL INSURANCE	1,049,291	1,225,554	17%
UNIFORMS	766,131	375,526	-51%
OTHER STAFF EXPENSES	941,781	877,615	-7%
TOTAL	46,304,568	52,031,930	12%

Figure 6: Personnel Expenses

Net Impairment losses on financial assets of MVR 4 million was recognized, however this is a reduction of 54% in comparison to previous year.

MIB has recognized MVR 2.8 million as loss on Fair Valuation of Financial Instruments Mandatorily Measured at FVTPL in FY2018.

Net Financing Margin

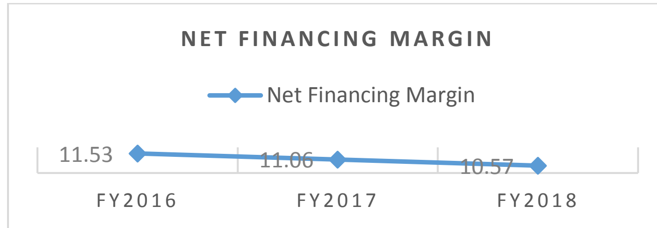
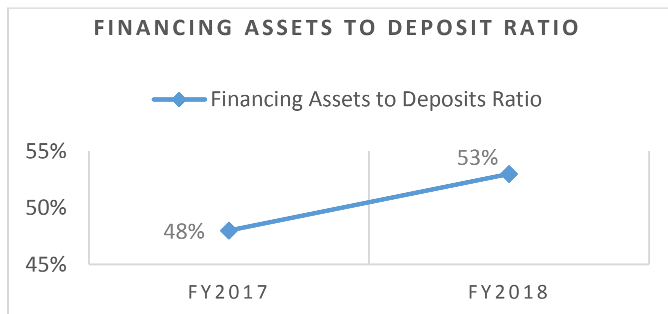


Figure 7: Net Interest Margin

Net Finance Margin has a downward trend over the years. Although income from financing has increased net interest margin has declined because the profit paid to customer accounts has increased far greater.

3.3 Solvency

Financing Assets to Deposits Ratio



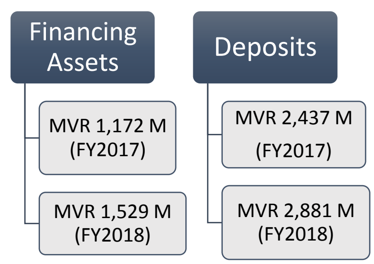


Figure 8: Financing Assets and Deposits

Both financing assets and deposits have recorded an upward growth, thus financing assets to deposit ratio has improved. A ratio of below 100% is acceptable, since it has more deposits than the assets invested.

Non- performing Advance Ratio

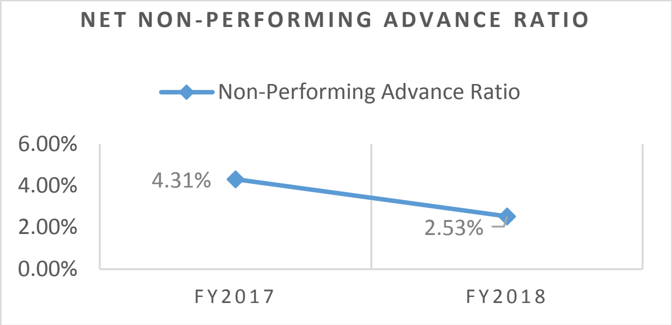


Figure 9: Non-Performing Advance Ratio

Non-performing advance refers to the advances that do not create any income for the bank. Non-performing advance ratio has reduced from 4.31% to 2.53%, indicating the percentage of non-performing assets of MIB has reduced which will have a favorable impact on bank's profitability.

3.3 Shareholders Returns

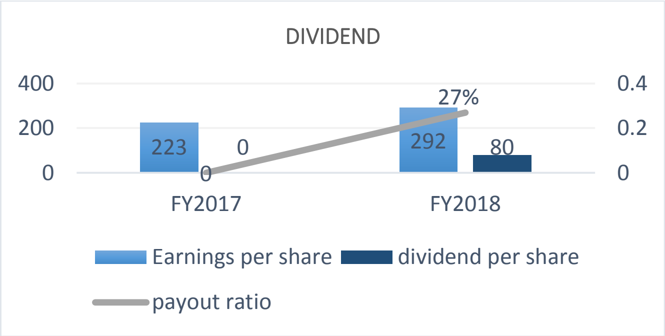


Figure 10: Dividend

A dividend of MVR 80/- per share has been declared for FY2018 (FY2017: Nil). As a result of increase in bank's profitability earnings per share has increased from MVR 223 to MVR 292.

Net Assets per Share

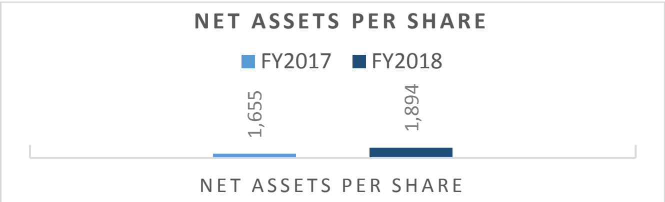


Figure 11: Net Assets per Share

The bank finished the year with total assets of MVR 3,282 million (2017: MVR 2,768 M), increased by 19% compared to previous year. The share capital remained unchanged, therefore increase in total assets has resulted in increase in net assets per share.

Return on Assets (ROA) and Return on Equity (ROE)

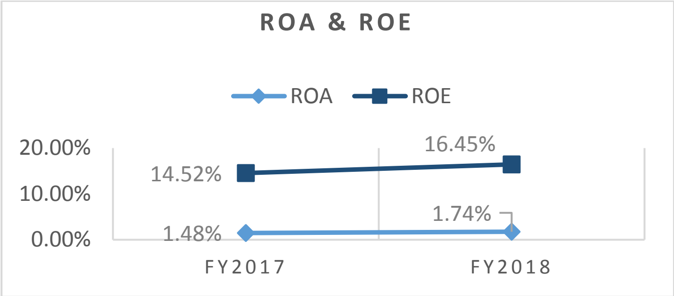


Figure 12: ROA and ROE

Both ROA and ROE has recorded an upward movement, indicating improvement in bank's ability to generate profits from Equity and Assets.

3.4 Capital Management

The Regulator of the Bank, Maldives Monetary Authority, sets and monitors capital requirements for the Bank.

MIB has complied with all regulatory capital requirements during both years FY2017 and FY2018. 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 14% and 17.2% for Tier 1 and Tier 2 capital respectively for the year ended 2018.

3.5 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.

Credit Risk

Receivable from Financing Activities are classified into 5 grades based on the number of days due.

				31/12/2018	31/12/2017
	Stage 1	Stage 2	Stage 3	Total MVR	Total MVR
Grade 1 - Low Risk (0 Days)	1,257,616,321	-	-	1,257,616,321	879,751,683
Grade 2 - Low Risk (1 - 30 Days)	128,216,116	-	-	128,216,116	152,541,294
Grade 3 - Fair Risk (31 - 60 Days)	-	112,841,454	-	112,841,454	110,145,123
Grade 4 - Fair Risk (61 - 89 Days)	-	9,799,226	-	9,799,226	10,222,991
Grade 5 - Default (Over 90 Days)	-	-	38,660,903	38,660,903	37,633,644
	1,385,832,437	122,640,680	38,660,903	1,547,134,020	1,190,294,735
Loss Allowance	-3,592,205	-4,477,313	-9,822,190	-17,891,708	-13,644,137
Carrying Amount	**1,382,240,232**	**118,163,367**	**28,838,713**	**1,529,242,312**	**1,176,650,598**

Figure 13: Receivable from Financing Activities

As per the above the table, 3% of financing activities are default at the end of 2018. The Bank has minimized the credit risk exposure of all of these financing activities by obtaining sovereign guarantee except for the investment made in HDFC.

Liquidity Risk

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. Ratio of net liquid assets to deposits from customers at the reporting date were as follows.

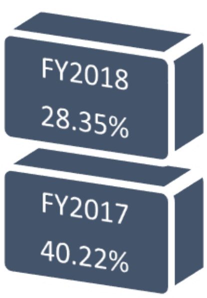


Figure 14: Assets to Deposits

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 2018. The following were identified by the auditor as key audit matters.

→ IT Systems and controls impacting the financial reporting- the bank's business utilize a large number of complex, interdependent IT systems to process and record a high volume of transactions and the financial accounting and reporting processes are highly dependent on the automated controls.

→ Impact due to adaptation of IFRS 9- Due to this an adjustment of MVR 4.6 million was recognized on 01st January 2018 relating to the impairment on net receivables from financing activities. As at 31st December 2018, the bank reported total gross receivables from financing activities of MVR 1,547 million and expected credit losses provision of MVR 17.89 million.

6. Conclusion

Financial year 2018 was a positive year for MIB achieving solid business in all the segments together with improvements in ratio of non-performing advance falling from 4.31% to 2.53%. Subsequently, MIB has recorded a net profit growth of 33%. However, net financing margin of the bank has a downward trend for the past 3 to 4 years.

Income from financing activities had a healthy growth of 30%, while cost/income has reduced from 63% to 58%. Further, both financing assets and deposits has increased, thus increasing the ratio from 48% to 53%.

The bank is complying with the regulatory capital requirements outlined by MMA, reporting 14% and 17.2% for Tier 1 and Tier 2 capital respectively for the year ended 2018 under Basel 2 guidelines.

MIB has declared a dividend of MVR 14.4 million, MVR 80/- per share for the year 2018 (2017: Nil). Thus the payout ratio for the year is 27%.

The overall performance of MIB for the year 2018 is satisfactory, ending the year with a Profit after tax of MVR 52 million.

MALDIVES PORTS LIMITED

ANNUAL FINANCIAL REVIEW

FY2018

1. 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. Beyond the main operation, the company provides public land transportation (bus) services and construct housing projects.

2. Financial Analysis

2.1 Revenue

The company has recorded a revenue of MVR 758 million in FY2018, a growth of 21% compared to previous year. The following table shows the revenue breakdown of the company.

Revenue	FY2017	FY2018	% change
Ship arrival and pilotage services	77,885,554	85,315,806	10%
Unloading the cargo	170,364,405	199,248,373	17%
Clearing the goods	64,435,011	63,505,334	-1%
Loading/Unloading the cargo	242,979,649	288,263,800	19%
Empty containers & vessel departure	30,282,374	67,952,098	124%
Vessel & equipment hiring charges	7,002,589	8,899,609	27%
Rent income	28,263,927	38,231,410	35%
Revenue from transport	3,131,783	2,969,351	-5%
Revenue from ferry transport	3,864,541	3,814,859	-1%
Total Revenue	**628,209,833**	**758,200,640**	**21%**

Figure 1: Revenue

Revenue from 'Emptying containers and vessel departure' has recorded the highest growth of 124% in FY2018. Except for revenue from transport, ferry transport and revenue from clearing goods, all other revenue sources has seen a healthy growth from FY2017 to FY2018.

2.2 Other Income

The total other income of the company has increased slightly by 4%, the growth was constrained by income streams from profit on disposal of fixed assets and miscellaneous income.

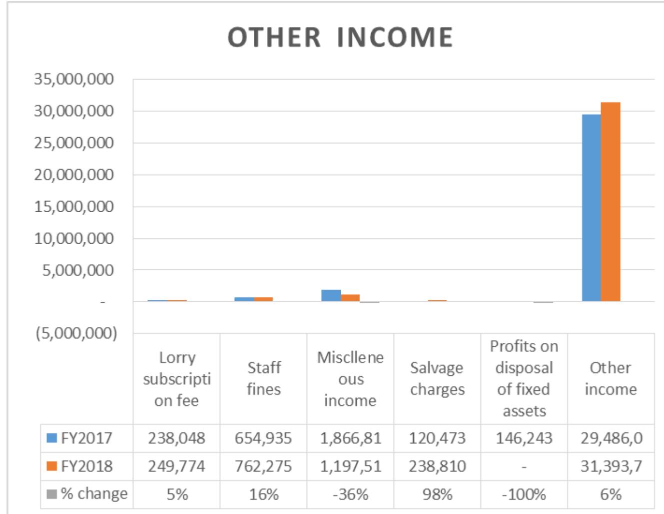


Figure 2: Other Income

2.3 Expenses

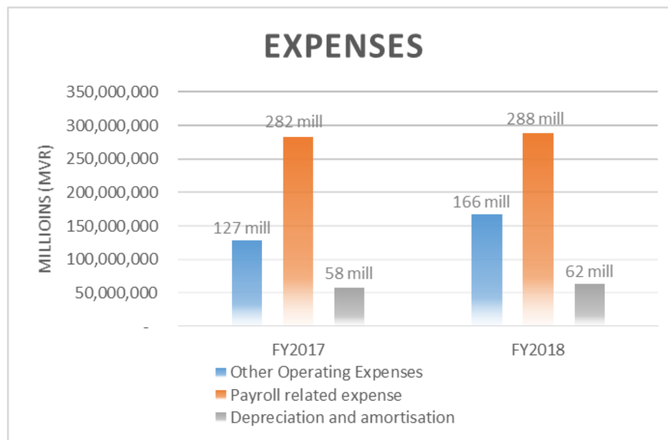


Figure 3: Expenses

When revenue and income has shown a 21% increase over the period, operating expense has shown a 30% increase. Below are the breakdown of

Other Operating Expense	FY2017	FY2018	% change
Equipment hire charges	1,291,933	3,645,389	182%
Insurance	2,685,897	3,061,947	14%
Electricity charges	19,638,021	14,605,999	-26%
Water charges	2,997,949	3,284,334	10%
Fuel charges	22,127,792	42,815,963	93%
Professional fees	878,158	4,995,180	469%
Travelling	2,471,699	3,496,964	41%
Communicaton expenses	2,230,920	2,703,163	21%
Foreign exchange loss	5,011,756	1,083,476	-78%
Other expenses	6,421,244	4,134,461	-36%
Provision for non-moving inventory	-	1,845,631	N/A

Figure 4: Other Operating Expenses

expenses which has shown significant variances over the period.

Breaking down the operating expense, it is identified that electricity fee has significantly decreased over the period from MVR 19.6 million to MVR 14.6

Payroll related expenses	FY2017	FY2018	% change
Salaries and wages	107,156,664	106,015,700	-1%
Overtime	25,289,295	27,138,054	7%
Staff allowances	107,938,580	108,662,738	1%
Boat laari	12,482,052	14,196,662	14%
Bonus	4,995,177	6,260,700	25%
Contribution	7,106,364	7,169,557	1%
Staff training expenses	3,176,939	2,875,355	-9%
Staff compensation	967,040	1,170,281	21%
Medical expenses	1,016,225	690,505	-32%
Uniform expenses	113,384	1,943,657	1614%
Other expenses/allowances	12,283,840	12,860,408	5%
Total	**282,525,560**	**288,983,617**	**2%**

Figure 5: Payroll Related Expenses

million whereas fuel charges has increased from MVR 22.1 million to MVR 42.8 million. Above are the detailed breakdown of other operating expense.

Although total payroll expenses has shown a slight increase by 2% over the period this cost comprise of 36% of total revenue in the year 2018.

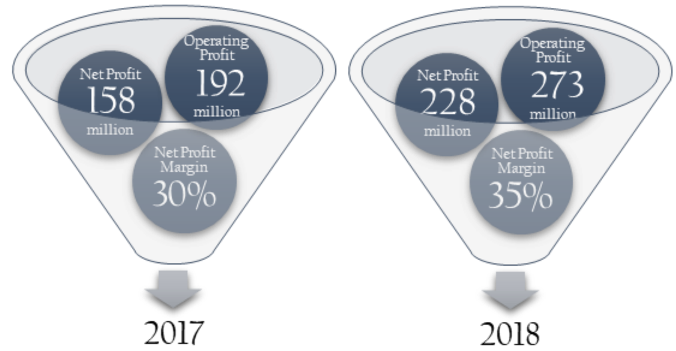
When analyzing its breakdowns it is noticed that boat laari has increased by 14% (MVR 12 million to MVR 14 million). Likewise, bonus pay has increased from MVR 4.9 million to MVR 6 million. Uniform expenses has significantly increased by 1614% over the period from 2018 to 2019.

We note that reason for aforementioned variances were unable to acquire from company after number of requests made.

2.4 Profitability

Operating profit of the company has significantly increased from MVR 192 million to MVR 273 million (42% increase over the period), along with net profit increased by 44% (MVR 158 million to MVR 228 million).

Operating profit margin has shown an increase from



31% to 36% from 2017 to 2018 and net profit margin has shown an increase by 5% over the period from 2017 to 2018. Finance income remained constant over the period whereas finance cost has shown a slight increase from MVR 8.9 million to MVR 9.3 million (5%). With these improvement shown, profitability of MPL has overall improved over the period.

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

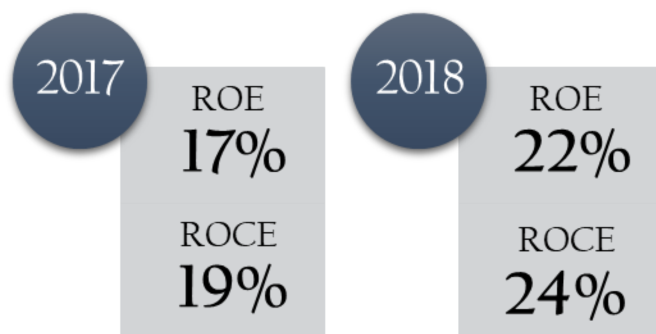


Figure 7: ROE and ROCE

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 228 million (2017: 158 million) with a ROE of 21.9% (2017: 17.4%) for the year ended 31 December 2018. Similarly ROCE has increased from 19.2% to 23.5% for the year 2018.

Overall, both ROE and ROCE has shown improvement (increased by 5%), indicating that company is utilizing their capital resources effectively to generate higher returns.

2.6 Shareholders Returns

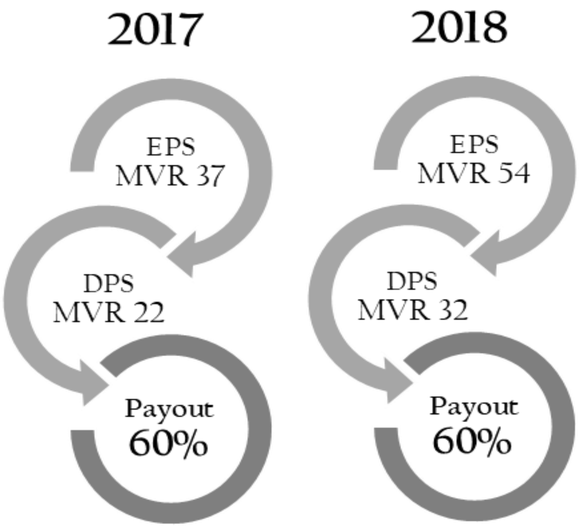


Figure 8: Dividend

Dividend policy of a company is the strategy a company uses to decide on how much earnings they would pay out to shareholders in the form of dividends.

As with the increase in company's earnings per share (EPS) from MVR 37 to MVR 54, dividend per share (DPS) has also increased from MVR 22 to MVR 32 in 2018. This led the dividend payout ratio to be maintained at 60% throughout the comparable period.

It can be seen from the above ratios that the company has paid a less portion of its earnings to shareholder in 2018. Although high payout ratio can indicate a willingness to share more of the company's earnings with investors, a lower payout ratio could indicate that the company has retained its earnings generated during the year 2019 for investment in following year.

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, which the company needs to address in the following year.

2.7 Net Assets per Share

Figure 9: Net Assets per Share

Total assets were increased by MVR 297,413,878 while total liabilities has increased by MVR 163,813,392 over the period from 2017 to 2018. The net assets per share has increased from MVR 214 to MVR 245 mainly due to the significant increase in accumulated retained earnings as at period ending 2018.

2.8 Gearing

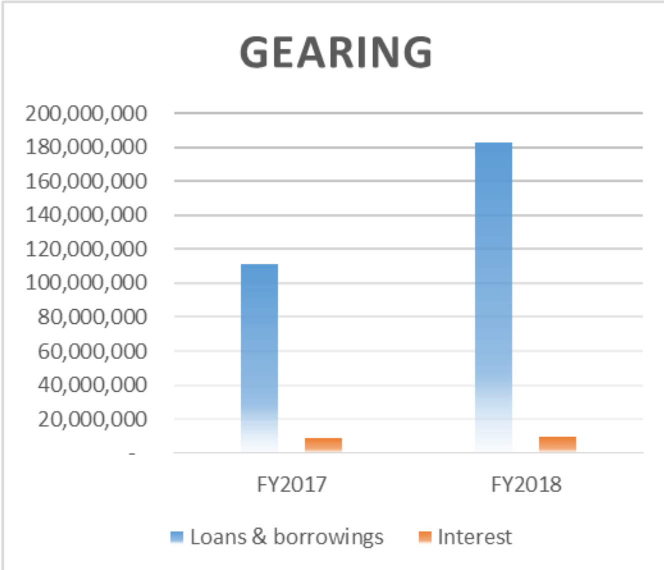


Figure 10: Loans and borrowings

Gearing ratio has increased from 11% to 16% due to increase in interest bearing-loan and borrowings.

During 2018, company has obtained additional loan facilities of MVR 92.6 million, resulting to a total gearing of MVR 183,045,065 as at 31st December 2019.

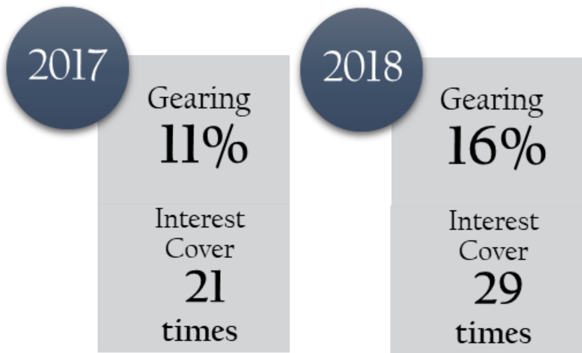


Figure 11: Gearing and Interest cover

Although gearing has increased from 11% to 16%, financial performance of the company shows that they are capable of paying the incremental finance cost from its operating profit. As such, interest cover has increased from 21 times to 29 times over the period. Interest cover calculates that ability of a company to pay its finance cost, (arising from increase of long-term liabilities) from its operating profit.

2.9 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

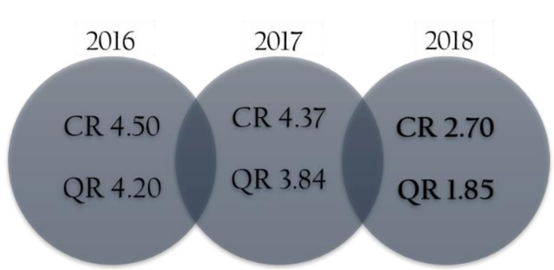


Figure 12: Working Capital Ratios

Current liabilities of the company are low compared to its current assets, thus the current ratio and quick ratio are maintained above the ideal level. However, compared to previous year both current and quick ratio has decreased significantly, mainly due to the significant increase of trade payables.

Although ratios seems to be decreasing compared to previous two years, these ratios illustrate that short term liquidity position of the company is strong. However it is important to highlight that over 60% of current assets are trade and other receivables and inventories, 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 company is not using its current assets efficiently, is not securing financing well, or is not managing its working capital well. Therefore it is important to manage company's working capital to the most optimum level in order to ensure the most financially efficient operation.

The current assets and current liabilities of the company are as follows;

Current Assets	FY2017	FY2018	% change
Inventories	44,825,168	183,315,270	309%
Trade and other receivables	184,163,490	176,804,463	-4%
Contract assets	5,165,290	6,197,172	20%
Other current financial assets	71,710,361	84,283,278	18%
Cash and cash equivalents	63,343,056	131,274,457	107%
Total	**369,207,365**	**581,874,640**	**58%**

Current Liability	FY2017	FY2018	% change
Interest bearing loans and borrowing	24,662,237	63,281,818	157%
Trade and other payables	47,567,330	125,163,982	163%
Contract liabilities	261,937	270,077	3%
Business Profit Tax payables	12,043,175	26,677,850	122%
Total	**84,534,679**	**215,393,727**	**155%**

Figure 13: Current Assets and Current Liabilities

Receivable and Payable days

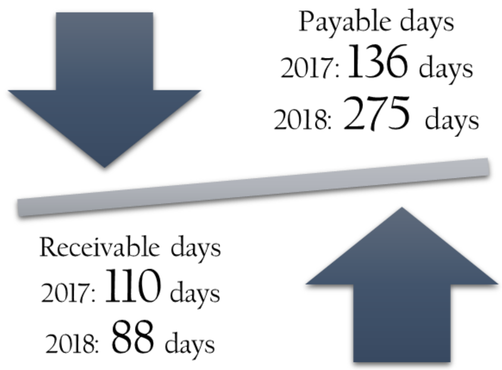


Figure 14: Receivable and Payable days

Accounts receivables are considered valuable because they represent money that is contractually owed to the company by its customers. In order to manage and retain a favorable cash position, it is vital to collect outstanding debt as early as possible. The company's receivable collection days has reduced from 110 to 88 days. 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 For instance, receivables from MMPRC balances over MVR 85 million as at December 2018. Company needs to make financially viable arrangements with related parties in order to manage working capital efficiently which would improve cash position and expand their operation. At the same time company must assess for the recoverability of longstanding receivables by studying nature, significance and current status of transactions incurred.

Payable day measures how long a company takes to pay trade creditors or suppliers. The longer it takes to pay the better for working capital and cash position. However, this cash flow advantage can be obtained at the expense of the business relationship with entity's creditor.

During 2018, MPL has taken an average of 275 days to pay their creditors, which is twice the number of days taken in 2017 (136 days). Compared to previous year, it seems MPL is efficiently managing its working capital through keeping receivable days at a lower level when payables days are extended. Company must exercise the existing methods and perhaps more techniques shall be considered to bring down both receivables and payables to an optimum level.

2.10 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 indicates a company is producing value from the funds invested in it.

The company's EVA figure has increased from MVR 159 to MVR 224 million in 2018, illustrating that the company is more effective in generating value from invested funds above the cost of capital.

3. 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, Kulhudhufushi Port Limited (the "KPL") since audited financial statements of the said Company were unavailable 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.

• The carrying value of the investment made in Kulhudhufushi Port Limited as stated in these financial statements is stated at MVR. 52,040,800/- (Note 15 to the financial statements). The investee incurred recurring losses since incorporation and the operational revenue of the KPL has been decreasing over the years. The KPL has recorded an accumulated net loss of MVR. 59,827,212/- as at the year-end resulting in a net asset of MVR. 42,213,588/- based on financial statements prepared by the management. As required by IAS 36; Impairment of assets, the Company should assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company should estimate the recoverable amount of the asset. Given the continuous losses, the management has not adequately assessed whether there is any indication that the said assets may be impaired. Accordingly, we were unable to sufficiently satisfy ourselves as to the valuation of the said balances stated in these financial statements.

• Capital work in progress balance includes an amount of MVR. 24,004,229/- (Note 13.2 to the financial statements) 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 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. Further, we were not allowed access to the premises of tug boat to satisfy ourselves regarding the physical existence. Hence, we are unable to satisfy ourselves whether the amount shown under capital work in progress in the statement of financial position is fairly stated.

• Related party receivables at the date of the statement of financial position includes receivables amounting to MVR. 13,073,636/- (Note 18.1 to the financial statements) from Maldives National Shipping Limited, which has been outstanding for more than seven years and therefore, doubtful of recovery. Hence, we are unable to satisfy ourselves whether the amount shown under related party receivables in the statement of financial position is fairly stated.

• Other receivables include MVR. 85,137,999/- (Note 18 to the financial statements) due from Maldives Marketing and Public Relation Corporation. The Company has been unable to recover two promissory notes originally matured on 31 March and 27 April 2015 respectively as of our opinion date. Based on the information available, the recoverability of these amounts is doubtful.

4. Conclusion

As per the financial evaluations of MPL, it is evident that the company has achieved high growth in its revenue in 2018. Further, the company has achieved a net profit of MVR 228 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 2018. 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 a dividend of MVR 95 million in 2018 (MVR 100 million in 2017). Investors of the company get a good return as dividend for their investment however variation in dividend with a slight reduction may seem unfavorable in their perspective.

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, which means auditors disagree with the company's management in certain assumptions, thus this needs to be addressed upon as soon as possible since some these significant issues constantly remains over the periods.

MALDIVES TRANSPORT AND CONTRACTING COMPANY PLC

ANNUAL FINANCIAL REVIEW

FY2018

1. 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 six strategic business units (SBUs), as shown in the below chart.

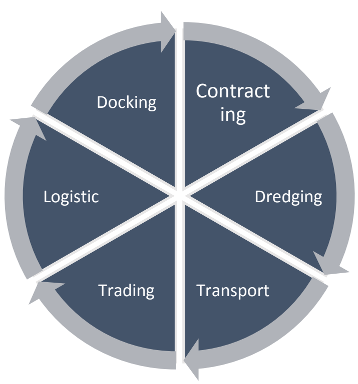


Figure 1: Business Units

2. Ownership Structure

A right issue was exercised from 19 October 2017 to 31 December 2017. And with the allotment of new shares the shareholding of the company changed on 14 February 2018 as below;

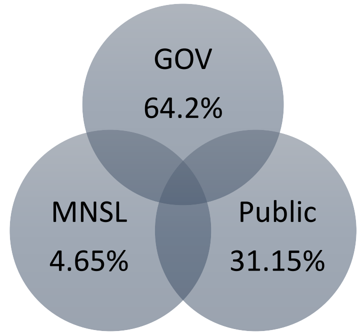


Figure 2: Ownership Structure

As of 31 December 2018, Government of Maldives held 64.2% of the shares, while 31.15% is owned by public and the remaining 4.6% shares are owned by Maldives National Shipping Limited, a company wholly owned by the Government of Maldives.

3. Financial Review

3.1 Revenue

The total revenue of the company for FY2018 was MVR 1,281 million, which was 1% decrease from MVR 1,294 million in FY2017.

The following chart illustrates the revenue generated by each business units.

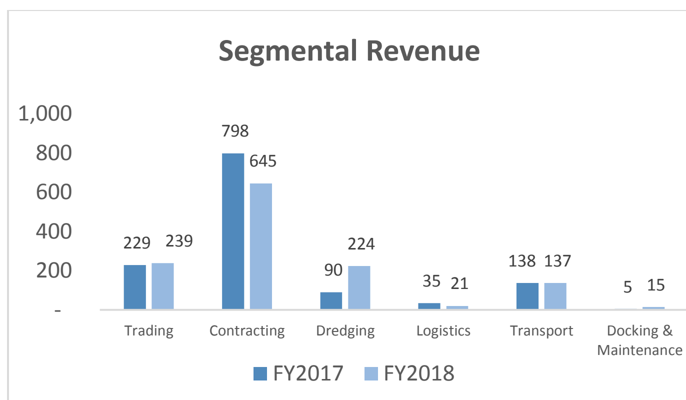


Figure 3: Segmental Revenue

Trading segment of the company deals with products and services required for marines transport, industrial power generation, tourism and fisheries industries of the country. During the year 2018, trading segment contributed MVR 239 million towards the total group revenue, 4.5% increase compared to previous year.

Being the leader in infrastructure development and construction in the Maldives, contracting segment is the largest business segment representing 50% of total revenue. However, this is 19% less compared to segmental revenue of FY2017.

With rapid inflow of new investments into the country, Dredging and reclamation segment has been experiencing tremendous growth. With the addition of the largest fleet in the country, Mahajarraf, MTCC has been undertaking huge reclamation projects and has completed eight projects during FY2018. As a result, the dredging and reclamation segment has contributed MVR 224 million in FY2018, which represents 17 % of total revenue. Further, this segment has achieved a remarkable revenue growth of 149% in comparison to previous year.

MTCC provides domestic logistics, international logistical and ship agency services. Logistics segment contributed MVR 20 million towards the total revenue of the company, which represents 2% of total revenue. However, this is 41% less compared to segmental revenue of 2017. This was mainly due to reduced trips of international logistics fleet. MTCC lost one fleet due to bad weather in the end pf 2017. In addition, company took fewer projects in 2018 as a result the usage of domestic vessels were also reduced.

MTCC provides a comprehensive range of travel options and a nationwide transport network that covers almost 85% of the Maldivian population. Due to opening of Sinamale' bridge in 2018, the demand for sea transport has reduced, resulting a fall in revenue from transport. During FY2018, transport segment contributed MVR 137 million, which is a reduction of 0.3% compared to FY2017.

MTCC's boat yard is one of the largest in the country and recently installed 200-ton boat hoist. With this change, MTCC began to undertake fleet management on contracts basis from various private and corporate customers on retainer basis. The Engineering and Docking segment contributed MVR 15.44 million, which is an increase of 209% compared to MVR 5 million contributed in FY2017.

3.2 Profitability

Gross Profit

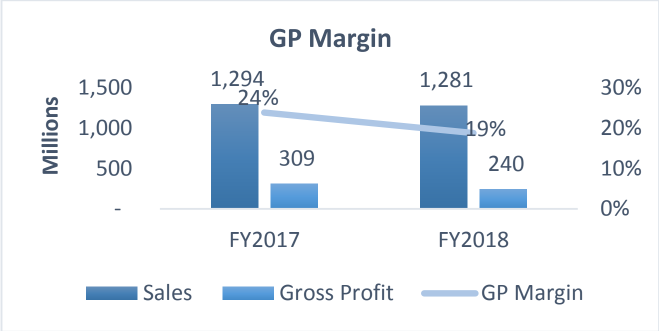


Figure 4: GP Margin

Although the revenue has reduced by only one percent, gross profit margin has reduced by more than 5%, because of increase in cost of sales.

Net Profit

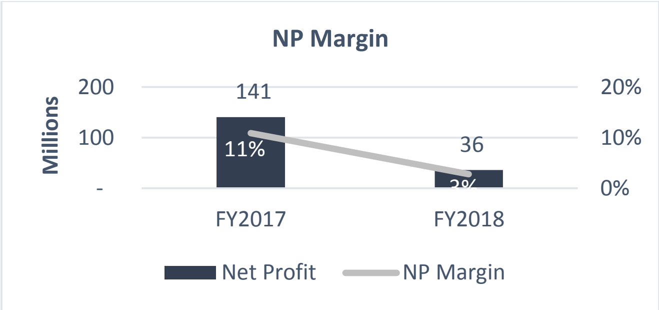


Figure 5: NP Margin

Net Profit of MTCC has recorded a drastic fall of MVR 105 million, thus NP margin has reduced from 11% to 3%. The significant drop is mainly due to increase in finance costs relating to the investment in dredger during the year 2017 and losses suffered from the transport segment as a result of the sudden fall in number of passengers following the opening of the bridge between Male' and Hulhumale'. However, it has to be noted that revenue fall of transport segment is just 0.3%, therefore based on changing revenue the impact on profit should be immaterial compare to the level of deterioration of overall profit.

Segmental margin

SEGMENTAL NET PROFIT MARGIN	FY2017	FY2018
TRADING	8%	6%
CONTRACTING	20%	18%
DREDGING	1%	-6%
LOGISTICS	19%	-15%
TRANSPORT	-41%	-60%
DOCKING & MAINTENANCE	-37%	11%
OTHERS	136%	31%
TOTAL	**11%**	**3%**

Figure 6: Segmental NP Margin

Except docking and maintenance, profit margin of all other segments have deteriorated. The segments which have affected the most are dredging, logistics and transport. The most significant segment of MTCC, contracting segment has also experienced fall in profit margins. Profit margins are deteriorated by fall in revenues and high costs.

In addition, as the scale of operation expanded in terms of introducing new products into trading, expanding engineering and docking services to external customers, investing in specialized machineries, the administrative expenses has increased by 6% due to increase in staff costs, rent and insurance expenses. Selling and marketing expenses shows a decrease of 32%. Other expenses shows an increase of 59% due to growth of imports of materials. The below table shows the expense which had significant changes.

DETAIL	FY2017	FY2018	CHANGE	%
DEPRECIATION	105,683,200	135,977,379	30,294,179	29%
ELECTRICITY, WATER, INSURANCE & COMMUNICATION	28,819,828	35,788,495	6,968,667	24%
ACCOUNTING AND PROFESSIONAL CHARGES	926,949	1,142,571	215,622	23%
PRINTING AND STATIONERY	3,453,806	4,253,797	799,991	23%
SUB CONTRACT EXPENSES	67,826,182	89,147,056	21,320,874	31%
CONSULTATION, LEGAL FEES AND SERVICE CHARGES	560,128	932,669	372,541	67%
ADVERTISING, SALES PROMOTION & MARKETING	12,312,852	8,364,940	(3,947,912)	-32%
TRAINING EXPENSES	11,754,714	8,278,594	(3,476,120)	-30%
LOSS ON SALE OF ASSETS	1,305,119	48,847	(1,256,272)	-96%
AMORTISATION	507,008	299,272	(207,736)	-41%
PROVISION FOR NON-MOVING INVENTORY	1,437,682	1,858,016	420,334	29%
OTHER EXPENSES	27,772,340	40,047,978	12,275,638	44%

Figure 7: Expenses

In terms of employee related expenses, bonus and staff welfare has recorded a significant growth of 41% and 134% respectively. However, as at 31 December 2018, MTCC's workforce stood at 1706 compared to 1720 staffs as at 31 December 2017.

DETAIL	FY2017	FY2018	CHANGE	%
WAGES AND SALARIES	155,123,335	187,685,374	32,562,039	21%
OTHER ALLOWANCES	40,298,134	46,884,776	6,586,642	16%
BONUS	5,476,459	7,741,373	2,264,914	41%
STAFF WELFARE	1,274,404	2,988,414	1,714,010	134%

Figure 8: Employee Related Expenses

In 2018, a total of 35 employees who has served for more than 15 years were awarded in four different categories. Further, 790 employees was qualified for the performance evaluation increment allowance in accordance with performance evaluation and rewarding policy. MTCC also awarded Hajj & Umrah pilgrimage opportunity to 4 staffs in 2018.

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

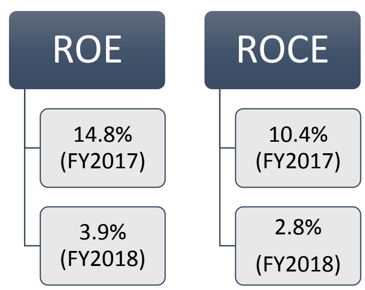


Figure 9: ROE & ROCE

Both ROE and ROCE has fallen due to reduction in profitability of the company. In addition, capital employed and equity of the company has also reduced. This ratios illustrate that effectiveness of management using company's assets and capital in generation of profits have deteriorated.

During 2018, MTCC has issued new right issue of one ordinary share for par value of MVR 5 per share with a share premium of MVR 57 per share. However, the equity of the company falls as a result of reduction in fair value reserve. The significant adjustment in fair value was with regard to the shares in bank of Maldives. (Equity investment)

3.4 Shareholder Returns

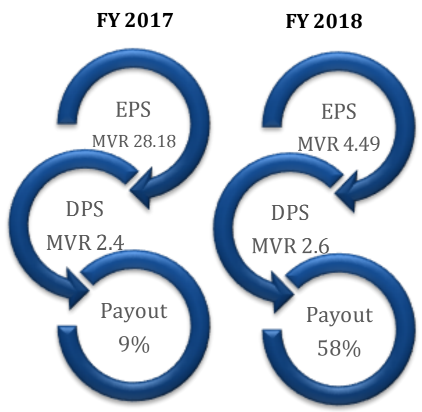


Figure 10: Dividends

The dividend policy of MTCC is to increase the flow of dividend to shareholders through time. Thus, the company has increased its payout ratio although there was a significant drop in its earning per share.

The company has not accumulated a return to the equity holders for the year ended 31 December 2018 due to restatement provision towards the retirement benefits of employees and reversal of fair value reserves caused by drop in BML market value per share.

3.5 Market Price and Net Assets per Share

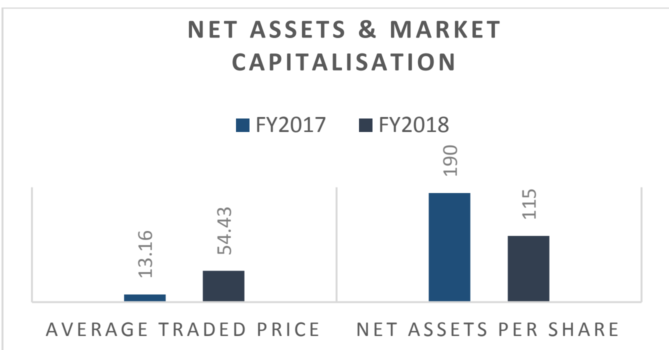


Figure 11: Net Assets & Market Capitalization

As shown in the above graph, MTCC's weighted average traded price is lower than its net assets per share. Further, the net asset value per shares has decreased compared to the previous year due to issue of new right issues of shares in the beginning of the financial year 2018. A total number of 3,037,749 shares were issued during the year at a par value of MVR 5 per share with a premium of MVR 57 per share.

During 2018, MTCC's 956 shares traded at Maldives Stock Exchange, this is an increase of 801.89% compared to 2017. The highest traded price in 2018 was MVR 155 where the lowest traded price was MVR 45.

3.6 Long Term Investments

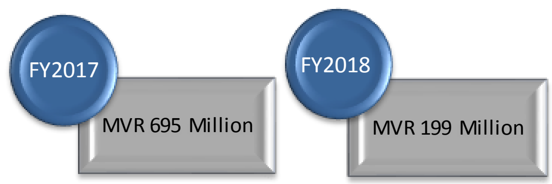


Figure 12: Capital Investments

The group has made investments in capital assets during the year amounting to MVR 199 million (2017: MVR 695 million) through finance leases, term loans and operating cash flows. Investments in capital assets in 2018 mainly include machineries and equipment for construction projects and vessels for logistics & transport operations financed through various sources during the year 2018.

Investments on development of new warehouse and showroom buildings of MVR 47 million and advance paid for implementation of new ERP software of MVR 12 million and acquisition of land to construct housing units under Hiyaa Project of MVR 36 million is also included under capital work in progress.

3.7 Financing

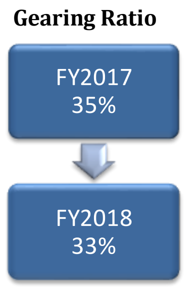


Figure 13: Gearing Ratio

Gearing ratio of MTCC has slightly reduced due to repayments of MVR 97 million. The company has purchased MVR 34 million worth of machineries, vehicles and equipment from long term loans including finance leases.

Figure 14: Financial Leverage

Financial leverage of the company has also had a downward movement due to reduction in total borrowings. Too much debt can be dangerous for a company and its investors. However, if a company's operations can generate a higher rate of return than the interest rate on its loans, then the debt is helping to fuel growth in profits.

Figure 15: Interest Cover

The total interest expenses shows an increase of 69% compared to the previous year basically due to MVR 26 million incurred towards financing the new dredger. Total borrowings on the other hand has reduced 11 percent. Thus as a result of lower operating profits the interest cover has dropped significantly from 6 to 1.6 times. This is a concerning issue for MTCC as the ratio illustrates MTCC is burdened by the high debt expense and the ability to meet its interest expenses may be questionable.

MTCC need to have more than enough earnings to cover interest payments in order to survive future (and perhaps unforeseeable) financial hardships that may arise. A company's ability to meet its interest obligations is an aspect of its solvency and is thus a very important factor in the return for shareholders.

3.8 Working Capital management

Figure 16: Sales to Working Capital Ratio

This ratio measures a company's ability to finance current operations. The sales to working capital ratio of MTCC has increased. A high turnover ratio shows that management is being very efficient in using a company's short-term assets and liabilities for supporting sales.

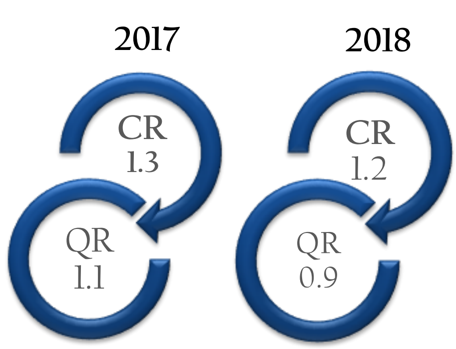


Figure 17: Current and Quick ratio

Both current and quick ratio has seen a slight fall due to reduction in both current assets and current liabilities. The above ratios illustrate that the company's ability to service its short term obligations is not satisfactory. Cash & cash equivalents as at 31 December 2018 shows a significant drop due to increase in bank overdrafts and investments in capital assets from operating cash flow.

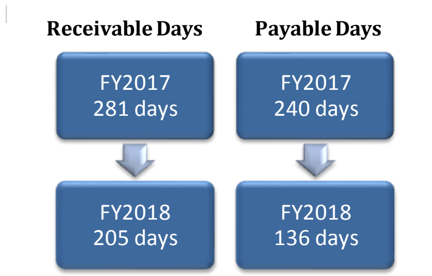


Figure 18: Receivable and Payable days

Accounts receivable days of MTCC has reduced from 281 to 205 days that indicates the company's effectiveness in collecting outstanding receivables has improved.

It is important to note that receivable from related parties are the major component of receivables representing 56% of total receivables. If related party receivables are removed, this ratio will be reduced to 141 and 104 for FY2017 and FY2018 respectively. Provision for impairment of related party receivables has increased from MVR 14 million to MVR 44 million which represents 11% of total related party receivables.

Payable days of the company are maintained below receivable days and it has reduced from 240 days to 136 days. After exclusion of payables to related parties the payables days will be 198 days in FY2017 and 91 days in FY2018.

Related Party Dues and Receivables

DETAILS	FY2017	FY2018
AMOUNT DUE TO RELATED PARTIES	113,657,308	127,505,172
AMOUNTS RECEIVABLE FROM RELATED PARTIES	508,760,666	399,873,035
NET RECEIVABLE	**395,103,358**	**272,367,863**

Figure 19: related party transactions

When net payables are set off against the receivables from related parties the balance is a net receivable for the company.

Working Capital Cycle

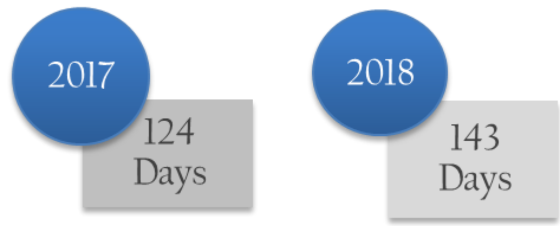


Figure 20: working capital cycle

The Working Capital Cycle is the length of time it takes to convert net working capital (current assets less current liabilities) all into cash and it has increased by 19 days in 2018. The lower the cycle the better, therefore MTCC needs to improve its cycle time. MTCC is out of pocket of cash for 143 days before receiving the payment.

3.9 Asset Utilization

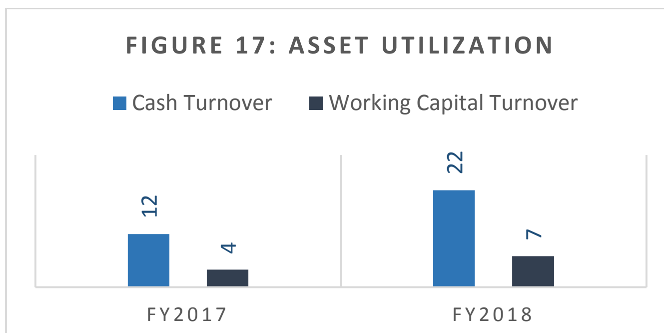


Figure 20: Asset Utilization

MTCC's cash turnover has increased in 2018, indicating the frequency of company's cash account replenishment through the sales revenue has improved. However, too high ratios may witness financial problems of a company, indicating that it is low on cash. In the case of MTCC, the quick ratio is below 1 indicating short term liquidity problems.

Working capital turnover ratio measures how efficiently a company is using its working capital to support a given level of sales. MTCC's working capital turnover has increased, it shows that management is being efficient in using company's short-term assets and liabilities for supporting sales (i.e., it is generating a higher Rufiyaa amount of sales for every Rufiyaa of the working capital used)

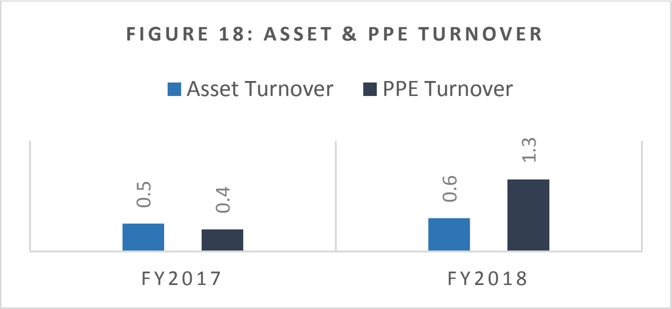


Figure 21: Asset and PPE Turnover

The total asset turnover ratio is a general efficiency ratio that measures how efficiently a company uses all of its assets. This gives investors and creditors an idea of how a company is managed and uses its assets to produce products and sales.

The asset turnover ratio shows how efficiently MTCC can use its assets to generate sales. As per the above table, each MVR of assets generates 0.4 MVR of sales which relatively low.

PPE turnover measures a company's return on their investment in property, plant, and equipment by comparing net sales with fixed assets. In other words, it calculates how efficiently a company is a producing sales with its property plant and equipment. MTCC has high level of machineries and equipment, thus PPE turnover of the company is above 1. It indicates that assets are being utilized efficiently to generate sales. Since the company is capital intensive and procuring new assets every year, there is still room for improvement of PPE turnover.

4. External Audit

The external auditor of the company has expressed an unqualified opinion in the separate and consolidated financial statements for the year 2018. Therefore we assume that financial statement of MTCC is free from material misstatement.

5. Conclusion

Financial year 2018 was not a very successful year for MTCC considering the fall in company's revenue and 74% reduction of profit after tax. The significant drop in profits are due to high operational costs and finance costs accompanied by the growing loss in public transport segment due to the decreased demand resulted from the opening of Sinamale' bridge. To improve the profitability of the company, direct and indirect costs should be managed. Further company's operational efficiency should be improved and should only undertake financially feasible projects.

In terms of short term liquidity, MTCC's results are not satisfactory as the quick funds are not sufficient to cover its short term obligations. Cash & cash equivalents and shows a significant drop due to increase in bank overdrafts and investments in capital assets from operating cash flow. In addition, the company has MVR 508 million receivable from related parties, which represents 31% of company's total revenue for 2018. . Therefore, MTCC has to improve their liquidity position for a smooth running of the business. MTCC should reduce accounts receivable collection period to improve working capital, thus in order to improve receivable collection MTCC has to take more assertive stance. In addition prepare thorough cash forecasts and evaluate the company's ability to meet goals on a regular basis.

Despite the fall in earnings for the year, MTCC has increased its payout ratio. This is in line with their dividend policy of increasing the flow of dividend to shareholders through time. However, it is important to note that MTCC has not accumulated a return to the equity holders for the year ended 31 December 2018 due to restatement provision towards the retirement benefits of employees and reversal of fair value reserves caused by drop in BML market value per share. Market value and traded price of MTCC share prices is lower than its Net asset per share, therefore share could have been sold below actual price losing the actual value they could have received if sold at book value.

The financial leverage and gearing of the company is also quite high which exposes company to financial risk. However, the loans were used to purchase machineries, vehicles and equipment which will result in future returns. Further, the total interest expenses shows an increase of 69% compared to the previous year which was incurred towards financing the new dredger. MTCC has to be cautious about its debts as too much debt can be dangerous for a company's solvency and its investors.

In order to improve financial performance, MTCC should find alternatives to compensate changing business environment. Identify value adding activities and invest more on value adding activities and eliminate and improve the loss making segments.

MALDIVES SPORTS CORPORATION LIMITED

ANNUAL FINANCIAL REVIEW

FY2018

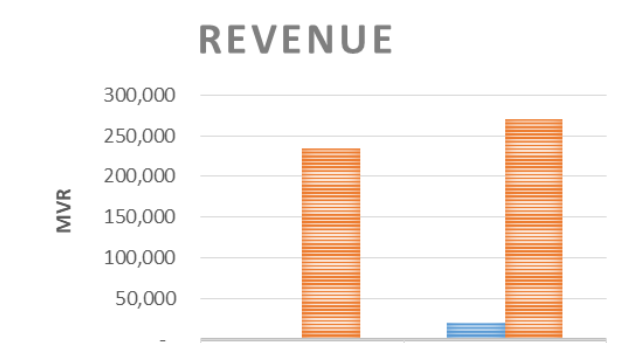
1. Introduction

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.

2. Financial Analysis

2.1 Revenue



	FY2017	FY2018
Seminars and conventions	-	20,000
Miscellaneous and other income	234,905	270,118

Figure 1: Revenue

As MSCL was incorporated in March 2016, company was unable to generate any revenue in the first year. During second year (2017) company was able to generate MVR 234,905. In the third year (2018), company was able to generate MVR 290,118 which is only 7% of total personnel expenses.. During 2017, revenue is generated through conducting dodge ball training programs and 5k team run. In 2018, revenue was only sourced by conducting dodge ball coach trainings and health seminars.

Although company incurs significant expenses to operate, especially salary and remuneration of staffs and board members, revenue generated from core activities are just incomparably low. Therefore at this stage, it is extremely important that business think of creating more and stable cash generating units, perhaps diversify business in to more business oriented activities. A starting point could be with a revised strategic plan and achievable targets with clear action plans.

After three years of incorporation, company is unable to operate in a self-sustainable manner. It is understandable that main reason for such a poor financial performance is the fact that company is unable to generate revenue. Company does not seem to have stable revenue generating units, reasons for being that its core activities are not in a business oriented method. A poor strategic plan with unclear objectives and non-achievable targets could be more reasoning factors.

2.2 Expenses

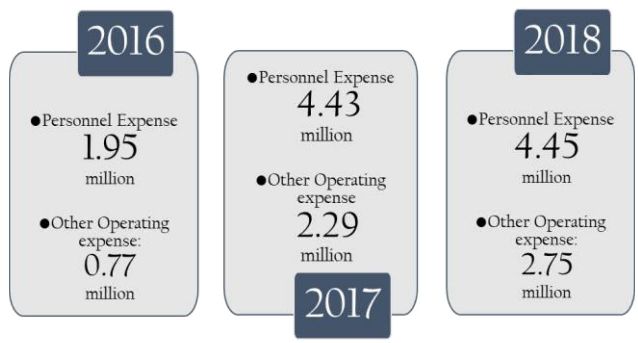


Figure 2: Expenses

Personnel Expenses

It is observed that personnel expenses over past three years has significantly raised (from MVR 1.95 and MVR 4.45 million), when revenue and other income of the company has shown only an increase from nil to MVR 290,118. Although the company was incorporated in March 2016, higher operating loss indicates that company is not properly operating under a proper or effective business plan.

The personal expenses consists of the following.

Personnel Expenses	FY 2016	FY2017	FY2018
Salary	888,077	2,104,869	2,076,932
Living Allowance	209,341	658,616	667,995
Executive responsibility Allowance	228,914	389,646	343,275
Attendance Allowance	177,832	566,201	576,549
Board Remuneration	366,710	482,314	508,701
Ramazan Allowance	6,000	54,000	57,000
Overtime Allowance	-	497	-
Board Secretary Allowance	-	7,000	29,755
Pension Contribution	57,940	133,935	156,428
Phone Allowance	17,536	41,290	37,981
Total	**1,952,350**	**4,438,368**	**4,454,616**

Figure 3: Personnel Expenses

Although previous year's annual review stated to review company's salary structure considering the relatively high pay system, it is seen that this expense remained constant compared over the period from 2017 to 2018 which is quite alarming. It is important to note that number of staffs remained at 20, 18, and 17 during 2016, 2017 and 2018 respectively.

Other Operating Expenses

Other Operating Expense	FY2017	FY2018	% change
Amortization of building	720,000	960,000	33%
Depreciation	171,240	228,061	33%
Staff travelling expenses-abroad	(13,918)	103,761	-846%
Stationary, printing and postage	64,326	182,425	184%
CSR expenses	27,000	487,024	1704%
Staff travelling expenses - domestic	48,017	131,805	174%
Legal & professional fees	15,000	119,599	697%
Other miscellaneous expenses	625,520	143,893	-77%
Advertising, Marketing and Promotion	398,569	134,518	-66%

Figure 4: Other Operating Expenses

The total other operating expenses has increased from MVR 0.77 million to MVR 2.29 million from 2016 to 2017 (increased by 197%). Likewise this expense has increased from MVR 2.29 million to 2.75 million from 2017 to 2018.

The below tables shows the expenses with significant variances in other operating expenses from 2017 to 2018.

With the additions brought to non-current assets depreciation has seen an increase of 33%. Amortization expenses represents the lease hold right of office space provided for the company by the government.

Although other miscellaneous and marketing expenses have decreased by MVR 745,678 over the period from 2017 to 2018, expenses with significant increase sum up to MVR 884,189 which brings to a difference of MVR 138,511.

The total other operating expenses excluding depreciation and amortization has shown a 12% increase from 2017 to 2018 (MVR 1,400,064 to 1,564,498).

The company is unable to generate revenue to cover its operating expenses, thus company must try to control and reduce its costs year on year if the operating loss needs to be brought down to break-even.

With this regard, the company must eliminate spending on CSR activities until they become a self-sustainable business. In addition, staff travelling expenses (both domestic and abroad) shows significant and perhaps unnecessary increase which could be further looked in to. Company has incurred more than MVR 119,000 as legal and professional expenses which is an increase of 697%.

It is Government policy to provide for company's working capital for the first three years of commencement. Before this period ends, company must find ways to generate revenue and turn in to a self-sustaining business. However, income generated in 2018 is only 4% of the total costs incurred. Therefore it is vital to seeks options to generate more revenue and minimized expenses to optimum level.

2.3 Profitability

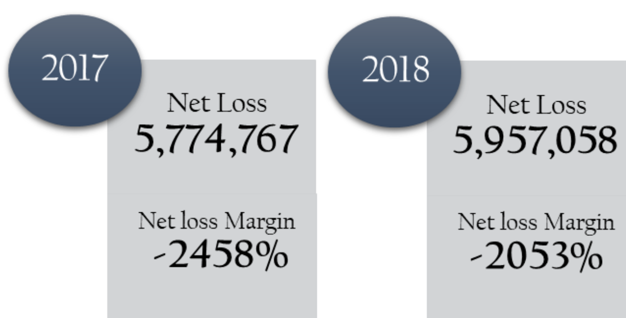


Figure 5: Net Profit

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 RUN.

The company has continued to make operating loss since its commencement of operation. Loss of MVR 5.9 million in 2018 is a 3% increase when compared to 2017. As at 31st December 2018 the company has incurred an accumulated loss of MVR 14,460,508 (MVR 2,728,683 in 2016, MVR 5,774,767 in 2017 and MVR 5,957,058 in 2018)

Net loss margin shows a significant negative impact due the denominating factor of revenue being immaterial compared to the level of operating expenses that company is incurring now.

Board of directors of MSCL must highly focus on ways to diversify and create more effective revenue generating units to overcome from this burden, while the cost centers must be further analyzed to identify ways to minimize it to minimum level.

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.

2.4 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 2018, the total operating costs and personal expenses of the company stands over MVR 6 million.

2.5 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 company's current assets consists of cash and cash equivalents only which the capital injected by the shareholder. And current liabilities consists of accounts payable and accrued expenses.

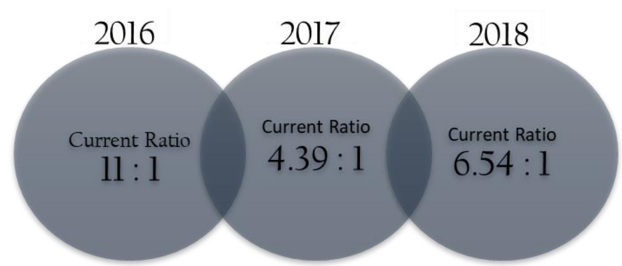


Figure 6: Working Capital ratios

The current ratio of the company has reduced from 11 to 6.54 times due to reduction in bank balance. However, this ratio is still maintained above the ideal level of 2. It is important to note that current assets consist only capital injected by the shareholder, and this does not fairly reflect on the objective of this ratio. The existing asset base are not produced through their own business operations.

Current Assets	FY2017	FY2018	% change
Cash and cash equivlents	1,108,897	1,506,633	36%
Total	**1,108,897**	**1,506,633**	**36%**

Current Liability	FY2017	FY2018	% change
Trade and other paybales	252,668	230,207	-9%
Total	**252,668**	**230,207**	**-9%**

Figure 7: Current assets and current liabilities

3. External Audit

Upon auditing the financial statements of MSCL for the year ended 31 December 2018, the Auditor General has expressed an unqualified opinion.

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

4. Conclusion

The company has made a significant loss of MVR 5,957,058 for the financial year 2018 and has an accumulated loss of MVR 14,460,508 as at 31 December 2018. Although the financials were prepared on the basis of going concern on the assumption that the shareholder of the company, intends to continue providing working capital requirements, it is not believed by GoM that MSCL shall depend entirely on shareholder's fund, especially on their re-current expenses.

The company has generated an income of MVR 290,118 for the year, on the other hand the expenditure of the company is over MVR 5.9 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. It is important to work and keep travelling expenses to its optimum level and CSR expenses must be eliminated until business turns in to a self-sustaining business. Telephone, internet and data communication expenses seems significantly high compared to the level of business operation, which needs to be addressed upon. Staff recreation and training expenses remained at 13% of total revenue to the business.

The current assets of the company is higher than its short term obligations by MVR 1,276,426. Even though government provides all the necessary finance, short term obligations such as accounts payable and accrued expenses remained at MVR 230,207.

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.

Auditor General has expressed an unqualified opinion for the financial statement of 2018 with an emphasis of matter on the significant accumulated loss.

With significant accumulated losses, company is facing serious going concern issues. In order to survive, the company must find stable revenue sources. The costs must be reduced by cutting down unnecessary operating costs. Although the company's principal activity is sports related, it could consider diversifying its business activities to stable and more profitable businesses. In order to achieve this, company must prepare a sound strategic and business plan. Followed by a realistic strategic action plan to monitor the level of target achievements. Managing business efficiently and effectively could help earn the ideal financial position is business market enabling to minimize the dependency on shareholder to finance business operation.

STATE ELECTRIC COMPANY LIMITED

ANNUAL FINANCIAL REVIEW

FY2018

1. Introduction

STELCO is a limited liability company incorporated in the Republic of Maldives under the 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.

2. Financial Analysis

2.1 Revenue

STELCO has recorded revenue of MVR 1,757 million in 2018 (2017: MVR 1,675 million) a 5% growth compared to previous year.

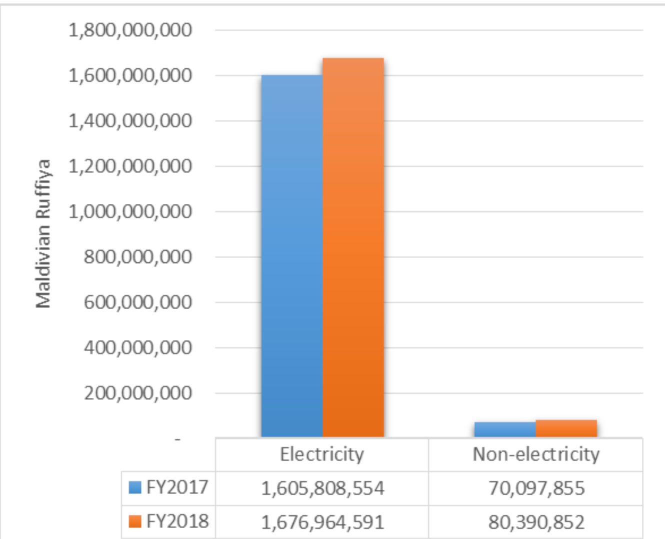


Figure 1: Revenue

As per the above table, both electricity and non-electricity revenue has increased by 4% and 15% respectively in 2018. The growth is mainly due to generic growth in consumption of electricity and increase of sales of electrical items at STELCO sales center.

In addition, other income of the company has significantly increased from MVR 6.38 million to MVR 9.91 million, which is an increase of 55%.

Other Income	FY2017	FY2018	% change
Operational income	2,322,619	5,473,885	136%
Amortization of deferred income	1,691,823	1,691,827	0%
Rental income	1,219,217	598,634	-51%
Miscellneous income	1,147,867	2,153,628	88%
Total Income	**6,381,526**	**9,917,974**	**55%**

Figure 2: Other Income

As highlighted in the table operational income has increased by 136% which includes revenue started to generate from 2018 Guraidhoo water project.

Rental income has decreased by 51% in 2018, which is due to the fact that training room, conference hall and terrace of STELCO was not adequately rented out during 2018.

2.2 Expenses

Total cost of sales has increased from MVR 1.3 billion to 1.4 billion (by 3%), from 2017 to 2018.

Cost of Sales	FY2017	FY2018	% change
Cost of Diesel	1,010,940,630	1,025,974,568	1%
Cost of Lub Oil	19,852,143	22,949,936	16%
Cost of Power Purchase	3,489,608	9,615,344	176%
Cost of Sales of Goods	4,737,698	643,532	-86%
Customer Services Expenses	19,950,757	13,254,669	-34%
Repair & Maint Distribution	26,625,416	22,456,260	-16%
Repair & Maint Power Plant	53,094,515	60,590,125	14%
Depreciation - Generation Equipment	48,755,197	52,082,807	7%
Depreciation - Distribution Equipment	20,329,748	21,531,743	6%
Depreciation - Fuel Storage	2,603,002	2,628,834	1%
Depreciation - Machinery and Equipment	7,335,174	7,057,586	-4%
Depreciation - Tools	737,535	808,118	10%
Staff Cost	143,254,790	147,265,549	3%
Cost of Sales Centre	9,409,340	20,901,528	122%
Cost of Sales - Maa TV	1,500	14	-99%
Total Cost of Sales	**1,371,117,052**	**1,407,760,612**	**3%**

Figure 3: Expenses

Fuel expenditure (cost of diesel and cost of lubricant oil) accounts for 75% of company's production cost and therefore is a critical component of profit and sustainability. Cost of diesel and cost of lubricant oil has increased by 1% and 16% respectively over the period, due to increase in generations with the increase in electricity consumption.

STELCO has saved in repair and maintenance in distribution by 16% whereas company has incurred 14% more on repair and maintenance in power plant area in 2018.

Administrative expenses of the company has seen a growth of 2% when compared to the previous year.

Considering the increase of revenue and other income, the increase of expenses are minimal.

Administrative cost	FY2017	FY2018	% change
Water Bottling	3,592,912	4,020,688	12%
Admin Staff cost	56,669,776	58,256,381	3%
Total Human Resource Development Expenses	8,545,037	10,961,014	28%
Total Transport & Hiring Charges	4,036,826	2,030,322	-50%
Total Repairs & Maintenance	11,858,042	9,602,457	-19%
Total Office expenses	100,284,964	103,917,859	4%
Total administrative cost	**184,987,557**	**188,788,722**	**2%**

Staff cost	FY2017	FY2018	% change
Total staff cost (direct and indirect)	199,924,566	205,521,930	3%
Number of permenant staffs	871	926	6%

Figure 4: Admin and staff costs

Additional recruitment of staff due to the growth of service has led the increase in overall staff population. As a result, total staff related expenses as a whole has seen a growth of 3% over the period from 2017 to 2018.

2.3 Profitability

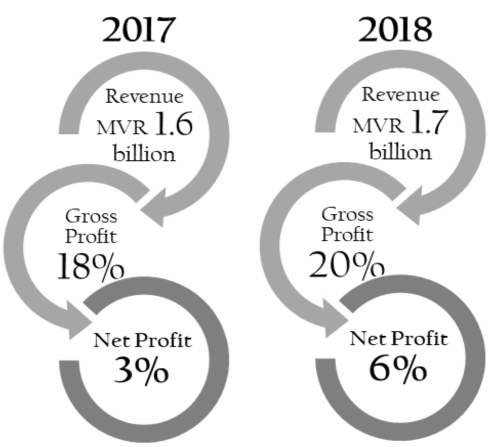


Figure 5: Profitability

The company has achieved notable results in 2018, by making a gross profit of MVR 349 million (2017: MVR 304 million). This is an increase of 15% when compared to previous year.

While revenue has increased by 5%, the cost of sales has increased by only 3%, which indicates the company has managed its direct costs. As a result, gross profit margin has increased from 18% to 20%.

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

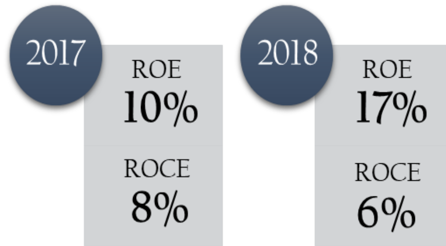


Figure 6: ROE and ROCE

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.

ROE has shown a growth of 7% while ROCE has declined by 2% over the period from 2017 to 2018, indicating company was unable use their resources or capital efficiently to generate profits. However, this decline on ROCE could be due to the significant increase in capital employment for the Work-in-Progress for the 5th power project where return will commence after completion of project.

2.5 Shareholder's Return

Dividend Policies

Dividend policy is the strategy a company uses to decide how much of its earnings will be paid out to its shareholder. The company has not declared any dividend for past years. The company is wholly owned by the Government of Maldives (GoM).

Earnings Per share (EPS)

The company's issued share capital is 150 for both the years in review, and Profit After Tax (PAT) has increased from MVR 52,863,661 to MVR 110,558,594 from 2017 to 2018. With the significant increase in PAT, company has earned a significant growth is this performance indicator (increased by 109%).

Figure 7: Earnings per Share

2.6 Financing

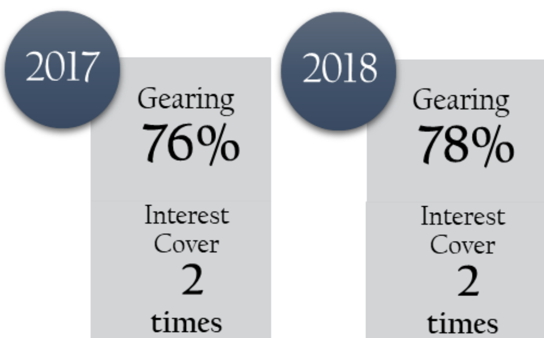


Figure 8: Gearing

The company's loans and borrowings has increased to MVR 2.1 billion as at 2018, maintaining its gearing ratio at 78% in 2018. 91% of loans and borrowings were invested to the company's 5th power project.

With high gearing, company's financial risk has increased as company's debts are higher than its equity. High gearing could indicate that STELCO could not entertain further funds as means of loans.

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 maintained in same level over the period from 2017 to 2018 (2 times). Although finance cost has increased from MVR 82,343879 to MVR 89,133,135, profit from operations has increased from MVR 142,042,504 to MVR 160,516,991 from 2017 to 2018 and aided interest cover to be maintained in same level.

During 2018, company has increased its Property, Plant and Equipment by 36% (MVR 2.2 billion to MVR 3 billion), mainly due to the increase in Work-in-Progress of 5th power project.

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 assessing return for the shareholder.

2.7 Working Capital Management

Current and Quick Ratio

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.

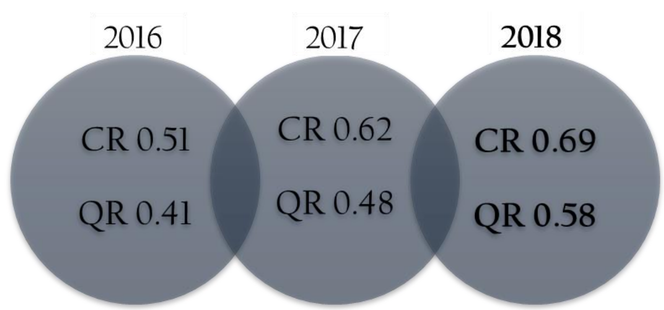


Figure 9: Working Capital ratios

Both current and quick ratio is below the ideal level, thus the liquidity position of the company is poor. The current and quick ratio of 0.69 and 0.58 in 2018 indicates that STELCO do not have the ability to meet its short term liabilities with its current assets.

Both ratios have seen a marginal increase in 2018, this is because both current assets and current liabilities have increased in 2018.

Current Assets	FY2017	FY2018	% change
Inventories	129,814,304	128,608,540	-1%
Trade and other Receivable	123,765,185	394,323,537	219%
Amounts due from related parties	203,146,376	174,986,434	-14%
Current tax receivable	9,076,282	9,076,282	0%
Cash and cash equivelen	135,199,698	69,123,904	-49%
Total	**601,001,845**	**776,118,697**	**29%**

Current Liability	FY2017	FY2018	% change
Loans and borrowings	273,757,470	280,690,081	3%
Trade and other payables	555,110,569	753,071,232	36%
Amounts due to related parties	141,485,501	84,205,832	-40%
Bank overdrafts	1,673,059	-	-100%
Total	**972,026,599**	**1,117,967,145**	**15%**

Figure 10: Current assets and current liabilities

Receivable and Payable days

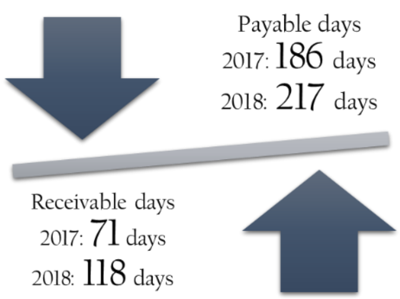


Figure 11: Receivable and Payable days

Accounts receivable represents the money that is contractually owed to STELCO by its customers. As shown in above it takes in average of 71 days in 2017 to collect the payments and this has increased to 118 days in 2018.

The higher the company's collection ratio, the more inefficient its cash flow management is, thus the company is inefficient in collecting its receivables.

The total receivables of the company have significantly increased from MVR 326 million to 569 million in 2018.

Below shown are the breakdown of receivable and payable days adjusted for advance payments to suppliers.

Receivable and Payable Days	Days (2017)	Days (2018)	Days (change)
Receivable days - Trade and other receivables	27	57	30
Receivable days - Due from related parties	44	36	(8)
Payable days - Trade and other payables	148	195	48
Payable days - Due to related parties	38	22	(16)

Figure 12: Adjusted Receivable and Payable days

Receivable days from trade and other receivables has increased by 57 days and payable days increased from 148 to 195 days.

Receivable days due from related parties has lowered to 36 days indicating efficient debt collection procedures being performed. Payables days due to related parties has decreased by 16 days, due the fact that payment to STO was made during 2018.

As per the financials there is no concentration of credit risk with respect to trade receivables as the

Figure 13: Trade receivables and Sales

company has large number of customers and is nationally dispersed. However, drastic increase in trade receivables along with increase in receivables days indicate that company is poorly performing in its collections process.

Receivables and sales	FY2017	FY2018	% change
Receivables - Trade and other receivable	123,765,185	274,422,563	122%
Receivables - Amounts due from related parties	203,146,376	174,986,434	-14%
Total sales	1,675,906,409	1,757,355,443	5%

Figure 14: Receivable and Sales

Receivables from related parties comprises 39% of total receivables (after considering advance payments to suppliers). Unlike trade receivables, receivables from related parties along with its receivable days has decreased over the period by 14% and 8 days respectively.

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 2018, trade receivables of MVR 10,207,092 were past due and impaired, which represents 2% of total receivables and 0.58% of company's revenue. Considering the liquidity ratios and its increasing trend, company needs to make strict receivable collection strategies to mitigate any possible cash flow problems.

Payables and cost of sales	FY2017	FY2018	% change
Payables - Trade and other payables	555,110,569	753,071,232	36%
Payables - Amounts due from related parties	141,485,501	84,205,832	-40%
Cost of sales	1,371,553,960	1,407,760,612	3%

Figure 14: Payables and cost of sales

Payable days measure 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 185 days to 217 days in 2018. It is important to note that the company is able to collect cash from customers, sooner than it has to pay its creditors, thus STELCO does not seem to be facing cash flow problems in this regard.

Provision for slow and non-moving inventories	FY2017	FY2018	% change
Provision for slow and non-moving inventories	12,686,423	16,254,014	28%
Inventory	129,814,304	128,608,540	-1%
Provision as a percentage of total inventory	**10%**	**13%**	29%

Figure 15: Provision for slow and non-moving inventories

It is identified that company has been accounting provision for slow and non-moving inventories by a significant amount. Provision as a percentage of total closing inventory has increased from 10% to 13% over the period from 2017 to 2018. It is important that company closely monitors its inventory management system to ensure this provision is kept to a possibly minimum level.

2.8 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 shareholder. 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 99.5 million in 2018 (increased by 5% compared to 2017). This ratio illustrates that STELCO is able to generate value from invested funds above the cost of capital.

3. External Audit

After auditing the financial statements of STELCO, the Auditor General has expressed a qualified opinion. The possible effects of the certain matters described in their basis of qualified opinion paragraph is listed below.

• The property, plant and equipment of the Company were revalued by an independent external valuer during the year 2011. Accordingly, the assets having the net book value of MVR 434,455,893 as at 31st December 2011 were revalued for MVR 847,932,997 and a revaluations surplus of MVR 413,477,104 were recognized in the financial statements. However, the revaluation report excluded assets having a net book value of MVR 26,661,392 as at 31st December 2011 and the Company continued to account these assets at their respective netbook values based on historical cost. International Accounting Standard 16 - "Property, Plant and Equipment" require the entire class of property, plant and equipment to be revalued, when a particular item of property, plant and equipment is revalued. This standard also requires a further revaluation to be carried out when the fair value of a revalued asset differs materially from its carrying amount. However, the Company has not carried out a revaluation subsequent to the valuation carried out in 2011.

• The internal policies of the Company states that the Company is 1iab1e to pay a lump sum payment to its employees at the retirement under the mandatory retirement scheme. Based on the recognition and measurement criteria of International Accounting Standard 19 “Employee Benefits" this policy is required to be measured using the projected unit credit method and the resulting actuarial gains or losses are required to be recognized in other comprehensive income for the year.

4. Conclusion

From the financial review of the company it is evident that the company has achieved a growth in its revenue during 2018. After a few consecutive loss making years the company has started to maintain its profitability over past two years. 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 2018 proves that the company is not only capable of achieving but to improve 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 since current and quick ratio are below the ideal level. As of 31 December 2018, trade receivables of MVR 10,207,092 were past due and impaired, which represents 2% of total receivables and 0.58% of company’s revenue. Considering the liquidity ratios and its increasing trend, company needs to make strict receivable collection strategies to mitigate any possible cash flow problems

Financial risk of the company is high with a gearing of 78%, 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 2.2 billion (loan and interest). MOFT and STELCO are currently negotiating to restructure the balance sheet, by converting all loans of completed projects totaling to equity which will reduce the gearing ratio.

The company has not paid any dividend in 2017, and although the company has made a profit in 2018, considering the liquidity position of the company it is very unlikely that any dividend will be declared for 2018.

HAZANA MALDIVES LIMITED

ANNUAL FINANCIAL REVIEW

FY2018

1. 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.

2. Financial Analysis

2.1 Revenue

The company has not generated any source of revenue since its inception in 2016. However, received rental income and finance income in both 2017 and 2018.

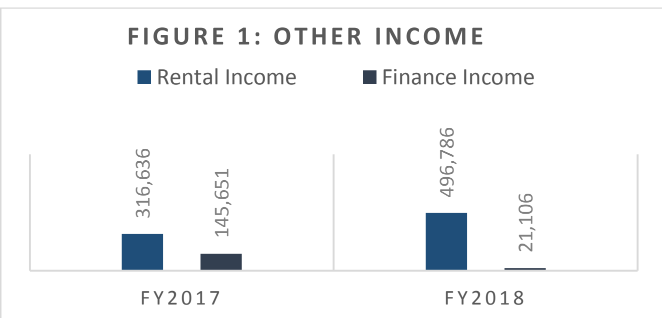


Figure 1: Other Income

2.2 Profitability

Figure 2: Net Loss

The company has made a significant net loss of MVR 2.4 million in FY2018 and has a retained loss of MVR 8,394,086 at the end of 2017.

Expenses

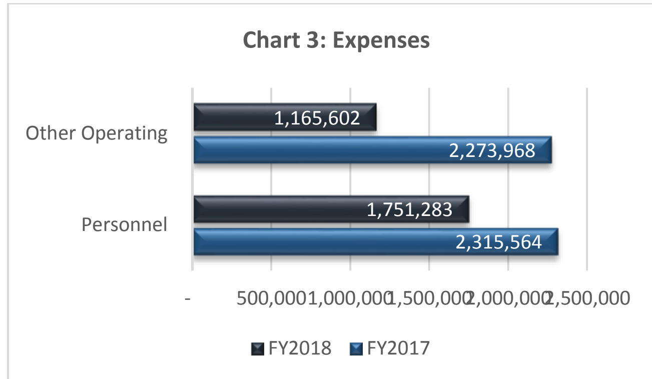


Figure 3: Expenses

In 2018, Hazana has incurred MVR 1,165,602 as other operating expenses and MVR 1,751,283 as personnel expenses. However, these figures have reduced in comparison to previous year.

Personnel expenses of the company has changed as shown in the below table.

PERSONNEL EXPENSES	FY2017	FY2018	% CHANGE
SALARIES AND OTHER EMPLOYMENT	1,738,682	1,328,558	-24%
OTHER EMPLOYMENT EXPENSES	100	-	-100%
BOARD REMUNERATION	499,500	364,500	-27%
PENSION EXPENSES	77,282	58,225	-25%

Figure 4: Personnel Expenses

Although there is no major operations, Hazana has incurred significant personnel expenses, however it has reduced by 24% in comparison to previous year. Considering the position of the company, in order to sustain its existence the company should further cut down its expenditures.

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

OTHER OPERATING	FY2017	FY2018	% CHANGE
OFFICE RENT	840,000	840,000	0%
LEGAL AND REGULATORY	180,080	87,687	-51%
MARKETING AND PROMOTION	43,746	-	-100%
TRAVEL AND TRANSPORTATION	142,992	11,862	-92%
TRAINING AND EDUCATION	414,258	56,743	-86%
UTILITY CHARGES	97,965	56,871	-42%
PANTRY EXPENSES	5,674	2,878	-49%
PRINTING AND STATIONERY	30,389	4,618	-85%
MAINTENANCE & REPAIRS	5,243	5,205	-1%
ADVISORY AND CONSULTATION	266,014	-	-100%
DEPRECIATION AND AMORTIZATION	91,571	93,400	2%
IT EXPENSES	1,103	2,136	94%
BANK CHARGES	7,840	4,202	-46%
THEFT	147,093	-	-100%
TOTAL	**2,273,968**	**1,165,602**	**-49%**

Figure 5: Other Operating Expenses

The other operating expenses of the company has reduced by 49% in comparison to previous year. Hazana has completely stopped its marketing and promotion. Further travel and transportation expenses has also reduced by over 90%.

The company does not generate any revenue to compensate these expenses, thus the loss has been aggregating.

2.3 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. As at the end of 2018 the total issued share capital of the company is MVR 12 million.

2.4 Net Assets per share

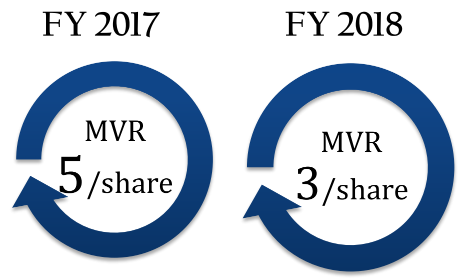


Figure 6: Net Assets per share

The net assets of the company has dropped by 40% mainly due to aggregate loss of the company. Even though share capital remained constant, the reduction in net assets resulted in the fall in net assets per share.

2.5 Working Capital Management

The main purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

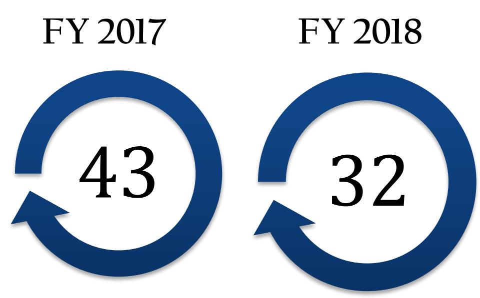


Figure 7: Current Ratio

As per this ratio, 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. Likewise, Hazana Maldives is not utilizing its assets to for any income generating operation.

The significant component of the current asset is cash and bank balance of the company which is the capital contributed by the shareholder.

3. 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 2018 and its financial performance and its cash flows for the year ended.

Further, Auditors have highlighted that since the Government has decided to liquidate the company in less than 12 months from the date of financial statements, the accounts were prepared on a break up basis.

4. Conclusion

Since company's inception in 2016, the company has been making losses and at the end of FY2018 the accumulated losses of the company is MVR 8,394,086. Therefore, the Government of the Maldives as the sole shareholder of the company has decided to liquidate the company and transfer its assets and liabilities of the company to Maldives Centre for Islamic Finance.

The total assets of the company stands at MVR 3,705,580 at the end of FY2018, from which MVR 3.07 million is its cash balance. Liabilities of the company consists of accrued expenses of MVR 19,480 and income received in advance of MVR 80,184. Since the assets are greater than its liabilities, short term liquidity ratios are favorable.

MALDIVES TOURISM DEVELOPMENT CORPORATION PLC
ANNUAL FINANCIAL REVIEW
FY2018

1. Introduction

Maldives Tourism Development Corporation Plc is a public limited company incorporated in the Republic of Maldives on 9 April 2006 and listed on the stock exchange of Maldives. The principal activity of the company during the year is to sublease islands allotted to the company by the Government of the Maldives.

2. Ownership Structure

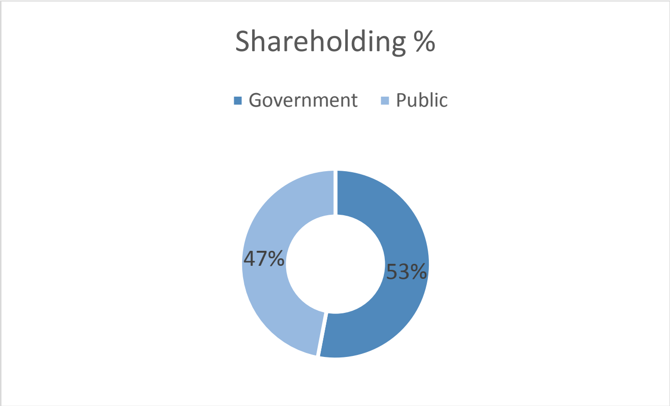


Figure 1: Shareholding

3. Financial Review

3.1 Revenue

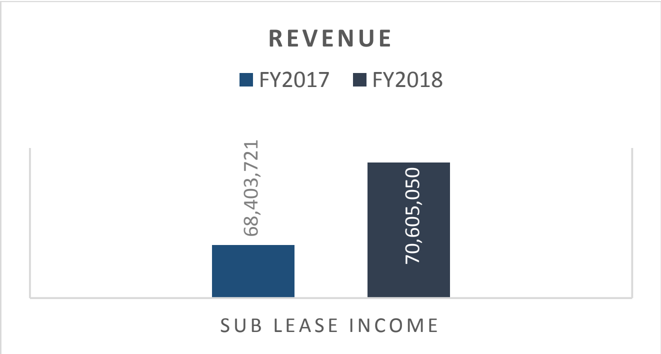


Figure 1: Revenue

Total revenue of the company has increased by MVR 2 million, a progress of 3% compared to previous year. The only source of revenue for the company is sub leasing the islands leased by government of Maldives.

3.2 Profitability

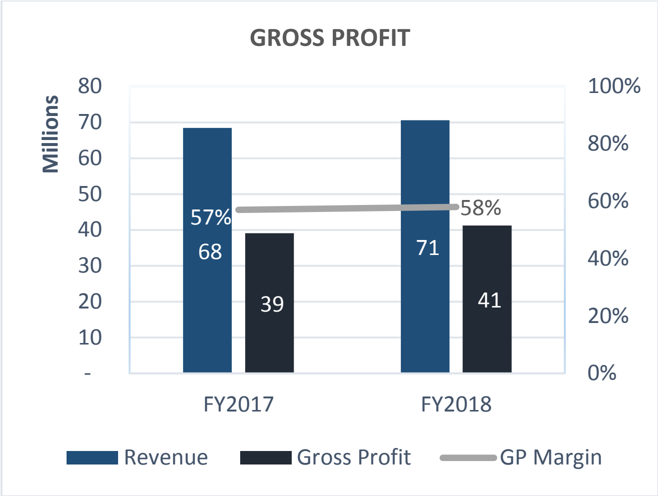


Figure 2: Gross Profit

The cost of operation remained constant while revenue has increased. Thus gross profit of the company has increased by MVR 2 million and GP margin by one percent.

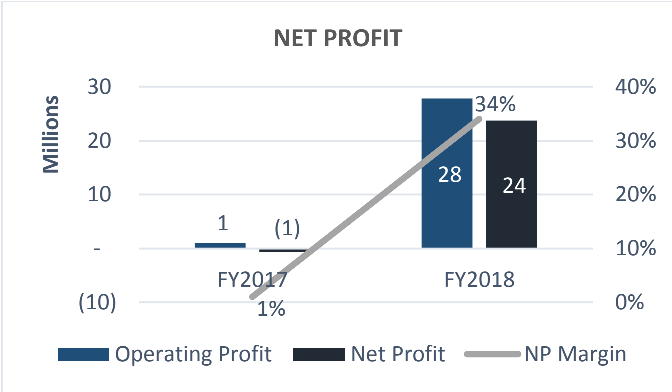


Figure 3: Net Profit

Operating Profit of the company has significantly increased from MVR 1 million to MVR 28 million in FY2018. The net loss in 2017 was mainly due to loss on impairment of financial asset (Naagoshi Island) of MVR 25.5 million. Naagoshi island head lease right was previously classified as non-current asset held for sale ceased from its classification to investment property since the occurrence of agreed sale transition is unlikely. However in 2017 the island was retained with the intention of selling within 12 months period, and agreed fair value was reduced by MVR 25.5 million, thus the difference has been charged to income statement.

As a result of increased profitability the net profit margin has recorded a remarkable growth of 33% in 2018.

Expenses

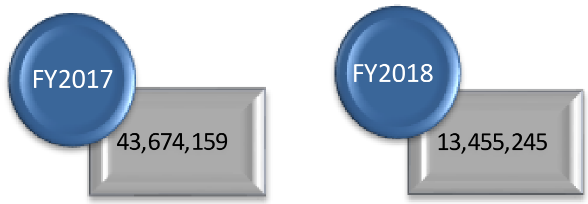


Figure 4: Administrative Expenses

The administrative expenses has drastically reduced from MVR 43 million to MVR 13 million. The breakdown of the expenses follows;

Administrative Expenses	*FY2017*	*FY2018*
Employee salary and benefits	4,220,778	3,689,651
Directors remuneration & other allowances	1,330,006	1,262,543
staff food and accommodation expenses	42,143	42,713
Depreciation	225,996	121,864
Office rent	760,021	840,005
Professional fee	241,292	134,647
Legal fee	355,046	315,046
Telephone expenses	78,010	21,187
transport and travelling	277,360	479,886
Audit fees	259,997	410,465
Other expenses	9,180,667	6,137,237
Loss of impairment of Financial Assets	25,558,650	-
Fixed asset written off	1,144,195	-
Total	**43,674,159**	**13,455,245**

Figure 5: Administrative Expenses

Except for transport & travelling and Audit fees, all other expenses has reduced resulting a 69% reduction of total administrative expenses. Audit fees were increased due to a transaction of 2017 recorded in 2018.

3.3 Return on Equity (ROE) and Return on Total Assets (ROA)

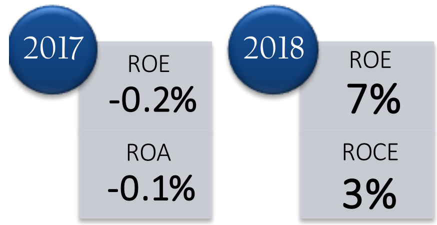


Figure 6: ROE and ROA

ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROA measures how efficiently a company can manage its assets to produce profits during a period.

Since the company had a net loss in 2017, both the ratios are negative in 2017. Consequently, MTDC was able to generate profits in 2018 with the money shareholders have invested, thus both ROE and ROA are positive.

3.4 Shareholders Returns

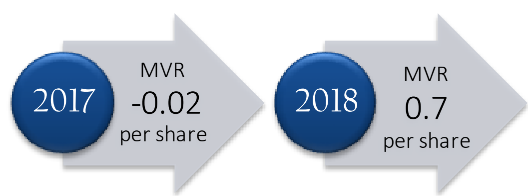


Figure 7: Earnings per share

MTDC has made a net profit in FY2018 after a net loss in the previous year. Thus, earnings per share has changed from negative MVR 0.02 to MVR 0.7. Earnings per share of the company is very low, therefore the company has not distributed any profits. As at the end of 2018, MTDC has accumulated loss of MVR 76,112,580.

3.5 Net Assets per Share

Figure 8: Net Assets per Share

As per the above figure, there is a slight increase of net assets per share by MVR 1. The total assets of the company has increased by MVR 8.8 million, total liabilities on the other hand has reduced by MVR 14.8 million.

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.

Figure 9: Current Ratio

As illustrated in the above figure, the current ratio of the company is very low at 0.2. This shows that MTDS's short term liquidity position is very critical since the company does not have short term funds to settle its obligations falling due in less than a year.

The movements in current assets and liabilities of the company are shown in the below table.

Current assets	*FY2017*	*FY2018*	*%*
Trade & other receivables and prepayments	660,516	660,516	0
Business Profit tax refund	2,544,238	2,156,302	-15%
Cash and short term deposits	33,340,954	36,355,133	9%
Total	**36,545,708**	**39,171,950**	7%

Figure 10: Current Assets

Company's cash balance has recorded a growth of 9% and trade receivables has remained constant.

Current liabilities	*FY2017*	*FY2018*	*%*
Trade and other payables	211,974,514	211,778,249	-0.10%

Figure 11: Current Liabilities

Receivable and Payable days

Figure 12: Receivable Days

In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible. As shown in the above table, receivable days of MTDC are very low since the value of receivables in comparison to revenue are proportionately small.

Trade and other receivables have remained constant for FY2017 and FY2018. While revenue has increased by 3%. Trade and other receivables of MTDC are;

Trade and other receivables	*FY2017*	*FY2018*
Deposit and prepayments	407,057	407,057
Receivable for share Capital	83,962	83,962
Other receivables	169,497	169,497
TOTAL	**660,516**	**660,516**

Figure 13: Trade and Other Receivables

Deposits and prepayments are the significant component of trade receivables representing more than 60% of total receivables.

The payables days of the company are very significant as it stands at 2,635 days. The longer it takes to pay suppliers is good for working capital and cash position. However, if the company takes long time to pay their creditor business relation may get affected. In MTDC, the receivable days are too long because payables includes significant amount of head lease rent payable.

Trade and other payable of the company are;

Trade and other Payables	*FY2017*	*FY2018*
trade payables- head lease rent payable	175,720,106	175,720,106
Trade Payables- other trade payables	1,728,752	1,478,855
Sublease advance	4,590,565	4,590,565
Dividend payable	29,866,828	29,585,275
Accrued expenses	68,264	403,433
TOTAL	**211,974,515**	**211,778,234**

Figure 14: Trade and Other Payables

3.7 Financing

The company does not have any long term borrowing as such the gearing is zero. However, there are other non-current liabilities amounting to MVR 177 million as at the end of 2018.

Non-Current liabilities	*FY2017*	*FY2018*	*%*
Lease rental equalization- head lease	18,911,227	17,760,232	-6%
Sub lease advances	172,487,812	159,004,332	-8%
Deferred tax liability	26,075	23,330	-11%
Total	**191,425,114**	**176,787,894**	**-8%**

Figure 15: Non-current Liabilities

4. External Audit

The external audit of the company was performed by Ernst & Young and as per their opinion the financial statements of the company give a true and fair view of the financial position of the company.

5. Recommendation and Conclusion

MTDC has made profits in FY2018 after a year of loss in the previous year. This was achieved through maintaining the cost of operation and cutting down operational expenses. The loss made in 2017 was mainly resulted from the impairment loss recognized with regard to the financial asset. (Naagoshi). As a result of the profit, all the key measures were improved.

MTDC has not distributed any profits in 2017 and 2018. Earnings per share of the company is very low as it stands at MVR 0.70 per share. The investors of the company might not be satisfied with this results as they do not get any returns for their investment. In addition, at the end of 2018, MTDC has accumulated loss of MVR 76,112,580. Therefore, MTDC will have to think about other revenue generating activities to increase their profitability.

The short term liquidity position of the company is very critical as its current liabilities are greater than its current assets. In other words, company does not have the capability to settle its short term liabilities.

MTDC has kept its gearing at zero since they do not have any borrowing or loans.

Although the main and only business operation of the company is sub-leasing, the company might want to get into other business to maximize their returns.

MALDIVES AIRPORTS COMPANY LIMITED

ANNUAL FINANCIAL REVIEW

FY2018

1. 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.

2. Financial Review

2.1 Revenue

The total revenue of the company has recorded a growth of 18% in comparison to previous year, contributed by increasing revenue by all revenue sources.

There are two main revenue generating segments and from which fuel represents around 51% of the total revenue. Fuel sale increase is predominantly due to increase in the international market as well as the quantity sold during the year.

Details	FY2017	FY2018	% of change
Traffic revenue			
Landing fee	207,732,515	242,083,958	17%
Parking fee	53,380,019	50,018,475	-6%
Navigation fee	80,311,733	91,199,203	14%
Ground Handling charges	399,483,020	440,378,273	10%
Departure control system	46,401,447	54,453,478	17%
	787,308,734	**878,133,387**	12%
Non traffic revenue			
Fuel Sales	1,929,741,057	2,428,490,432	26%
Duty free sales	688,534,129	711,628,936	3%
Rent and lease charges	124,223,032	139,389,036	12%
Cargo Income	149,619,771	203,808,724	36%
Utility Sales	76,052,386	78,815,096	4%
lounge income	98,672,319	119,550,891	21%
revenue share	22,280,529	24,354,217	9%
Consignment commission	121,870,467	132,095,428	8%
Miscellaneous income	19,381,908	22,428,339	16%
Passenger related charges	7,790,123	7,849,527	1%
	3,238,165,721	**3,868,410,626**	19%
Total Revenue	**4,025,474,455**	**4,746,544,013**	18%

Figure 1: Total Revenue

In addition, the other operating income has also increased from MVR 2 million to MVR 95 million in FY2018. This is mainly due to reversal of impairment provision on trade receivables. However, in 2018 MACL has not received any finance income i.e. interest on treasury bills.

2.2 Profitability

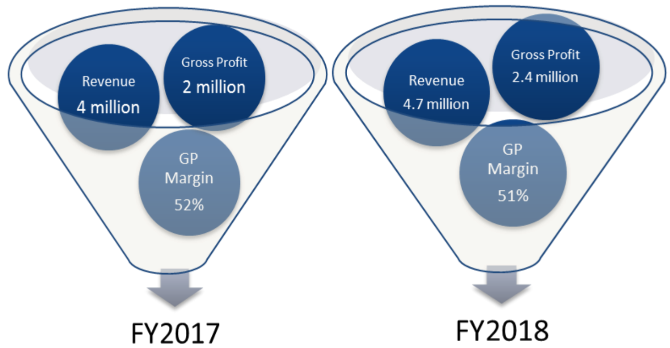


Figure 2: Gross Profit

Although Gross Profit of the company has increased by 16%, GP Margin has marginally reduced. The gross profit margin of the company reduced as result of increase on cost of sales greater than the revenue.

The highest revenue generating segment of the company is fuel, followed by duty free sales segment. The below chart shoes the profitability of these segments.

	Fuel		Duty Free	
	FY2017	FY2018	FY2017	FY2018
Sales	1,929,741,057	2,428,490,432	688,534,129	711,628,936
cost of sales	1,195,687,119	1,528,733,234	409,178,121	410,434,601
Gross Profit	734,053,938	899,757,198	301,194,335	279,356,008
GP Margin	38%	37%	41%	42%

Figure 3: Gross Profit

Highest margin is achieved by the duty free segment in comparison to fuel.

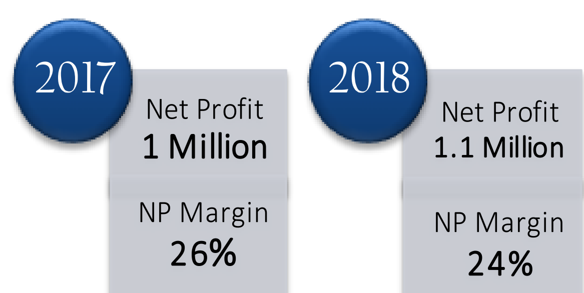


Figure 4: Net Profit

Net Profit of the company has recorded a growth of 9%, Net Profit margin on the other hand has reduced from 26% to 24%.

Expenses

Administrative Expenses	FY2017	FY2018	% Change
Depreciation on PPE	106,765,518	119,660,043	12%
Dedpreciation on Investment Property	3,678,843	6,672,837	81%
Amortisation charges	4,467,479	4,835,014	8%
Employee benefit expenses	434,085,963	625,246,996	44%
Repair and maintenance	49,316,899	57,623,875	17%
Insurance	23,014,265	26,482,904	15%
Fuel and Consumables	83,797,892	97,346,288	16%
Professional fees	10,885,027	12,570,830	15%
Legal expenses	1,482,039	525,129	-65%
Bank charges and commission	15,360,862	16,582,695	8%
License charges	3,780,364	3,009,333	-20%
Import duty and freight charges	5,074,375	9,977,947	97%
Subscription expense	16,881,429	22,310,720	32%
Functions and celebration expense	3,956,053	6,274,484	59%
Fiftieth annoversary expense	123,281	-	-100%
Printing and stationaries	4,289,115	3,889,532	-9%
Garbage disposal charges	9,271,274	8,490,566	-8%
Loss on disposal of PPE	2,760,932	28,910,590	947%
Loss on disposal of Investment Properties	-	22,512,588	
Exchange loss	1,436,835	1,972,745	37%
Others	39,207,583	60,699,620	55%
Total	**819,636,028**	**1,135,594,736**	**39%**

Figure 5: Expenses

While revenue has increased by 18%, total administrative expenses has increased by 39%. Since MACL is a capital intensive company, the company has significant amount as depreciation. The deprecation represents 11% of the administrative expenses, when compared to the previous year it has increased by 11% as the company has acquired new property, plant and equipment's amounting to MVR 33 million and transfer from work-in-progress amounting to MVR 311 million in 2018. Depreciation of Investment property has significantly increased since the value of investment property has increased by MVR 35 million.

Total Employee related expenses has increased by 37% including the direct salaries. Out of which direct salaries has seen a growth of 22% while salaries and wages under admin expenses has reduced by 9%. Training and development costs has increased from MVR 14 million to MVR 20 million, which is an increase of over 40%. In addition, MACL has introduced an employee retirement benefit scheme and thus recognized MVR 211,154,479 as an expenses. The retirement benefit obligation of the company is estimated based on the calculation performed by the actuarial valuer. The employee retirement benefit expense is significant as it represents 19% of total administrative expenses and 4% of total revenue.

Import duty and freight charges and Function and celebration expense has increased by MVR 4.9 million and MVR 2.3 million respectively.

In 2018, MACL has sold MVR 35 million worth of Buildings & Island Infrastructure and machinery and equipment and has recognized a loss of MVR 29 million.

Further, investment properties amounting MVR 24 million were sold and recognized a loss of MVR 22 million. In addition, other expenses has increased by over 50% from MVR 39 million MVR 60 million.

2.3 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.

Current and Quick Ratio

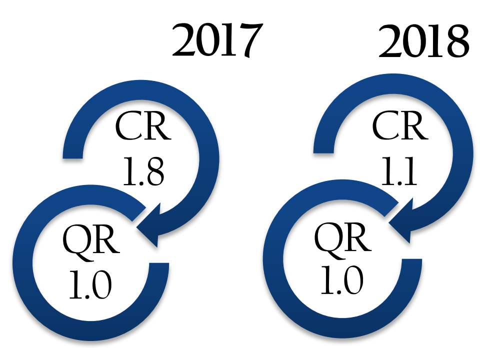


Figure 6: Current and Quick ratio

MACL's current assets has declined and current liabilities has increased in 2018, this has resulted in a reduction in both the ratios. Although a ratio of above 1 represents that a company is capable of meeting its short term liabilities, it is important to highlight that the most significant component of current asset is trade receivable, which is unlikely to be recoverable within one year. In addition, BPT recoverable of MVR 104 million is also included in current assets. Trade receivables of MACL are substantial as it represents 68% of total current assets and 43% of total revenue.

When trade receivables and BPT payables are excluded, current and quick ratio of the company is 0.3 and 0.2 respectively. This illustrates that MACL's short term liquidity position is not favorable since the company does not have short term funds to settle its obligations falling due in less than a year.

Receivable and Payable days

Figure 7: Receivable & Payable days

Receivable days of the company has decreased, payable days on the other hand has increased in comparison to previous year. In order to manage cash position and retain a favorable cash position it is important to collect outstanding debt as quickly as possible.

As per the above figure, MACL now takes fewer days to collect the amounts due. Total receivables of the company represents 43% of its total revenue. The most significant component of receivables is receivables from related parties, and collection from related parties are more difficult when compared to other parties. As of 31 December 2018, MVR 221 million were due from related parties and company has made a provision for impairment amounting to MVR 44 million. (2017: MVR 4 million)

In addition it is important to note that other receivables includes recoverable from Ministry of Finance (MOF) amounting to MVR 1,216,638,951. Majority of receivables from MOF is related to GMR arbitration. 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;

Age Analysis	*FY2017*	*FY2018*
31 to 60 days	39,911,253	36,886,384
61 to 90 days	26,809,877	21,167,057
Over 90 days	124,679,010	110,333,483
Total	**191,400,140**	**168,386,924**

Figure 8: Age Analysis

As of 31 December 2018, trade receivables including related party receivables of MVR 233,347,396 were past due and impaired. In 2018, MACL has written off MVR 840,662 (2017: MVR 297,814,704) as uncollectible.

The payable days of the company has increased from 176 days to 226 days. The longer it takes to pay suppliers which is good for working capital and cash position. However, if the company takes long time to pay their creditor business relation may get affected. 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 conditions. It seems that MACL face difficulty in repaying trade payables as a result of challenge they face in collecting their receivables.

2.4 Return on Equity (ROE) and Return on Assets (ROA)

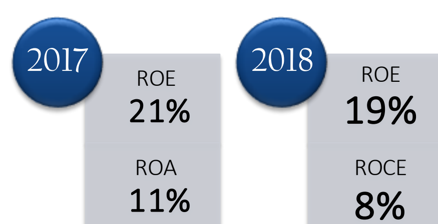


Figure 9: ROE and ROA

ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROA measures how efficiently a company can manage its assets to produce profits during a period.

As shown above, both these ratios have reduced in 2018, mainly because of total equity and assets has increased greater than that of profits. Total assets of the company increases as a result of ongoing capital projects. Positive results illustrates that MACL is generating profits with the money shareholders have invested.

2.5 Net Assets per Share

Figure 10: Net Assets per Share

Net Assets per Share of MACL has increased from MVR 3,297 to 3,868. The net Assets of the company has increased from MVR 4,945 million to MVR 5,802 million while the number of shares remained constant. High net assets per share is attractive to investors as it is a sign that company is performing well.

2.6 Shareholders Returns

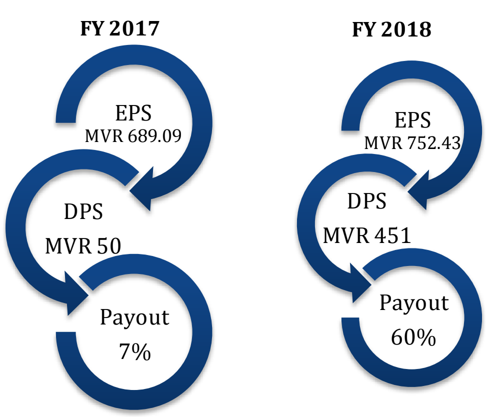


Figure 11: Dividend

With increased net profits, earnings per share of the company has increased in 2018. Thus, MACL has declared 60% of net profit as dividends.

A lower payout ratio indicates that MACL is retaining more of its earnings to fuel its growth. Dividends are usually cut due to factors such as weakening earnings or a limited amount of funds available to meet the dividend payment. At the end of 2018, MACL has retained earnings of MVR 5 billion.

2.7 Financing

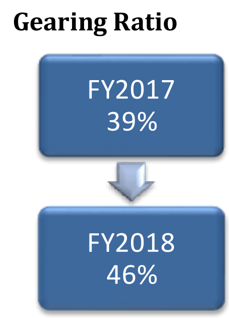


Figure 12: Gearing

Gearing of MACL has increased with increased long term liabilities, thus financial risk of the company has increased. MACL has borrowed new funds from Ministry of Finance in 2018. (China Exim, ADFD & OFID). Non-current liabilities also includes MVR 202 million of Employee retirement benefits obligations.

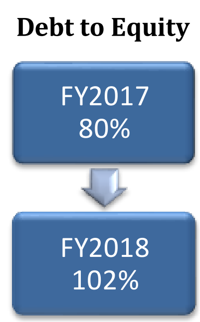


Figure 13: Financial leverage

MACL is highly leveraged as the amount of debts has exceeded company's equity in 2018. MACL's total borrowings stands at MVR 5,922 million as at the end of 2018 when its total equity stands at MVR 5,801 million. It is important to highlight that company's short term borrowings are greater than its long term borrowings. This indicates that the company is severely depending on short term finance.

MACL has invested MVR 28 million in investment properties and has acquired MVR 26 million worth of property plant and equipment in 2018. In addition, transfer from work-in-progress to PPE amounts to 311m in 2018. The capital work-in-progress of the company is growing rapidly, and in 2018 it has reached to MVR 6,704 million (2017: 2,340 million). It is important to note that majority of borrowed funds are invested in this area.

Figure 14: Interest Cover

As a result of reduced finance costs and improved EBIT, the interest cover of the company has improved. This ratio shows that the company is capable of paying its interest expenses. Although total borrowing has increased, finance costs has reduced due to reduction in interest on corporate bond.

3. Economic Value Added

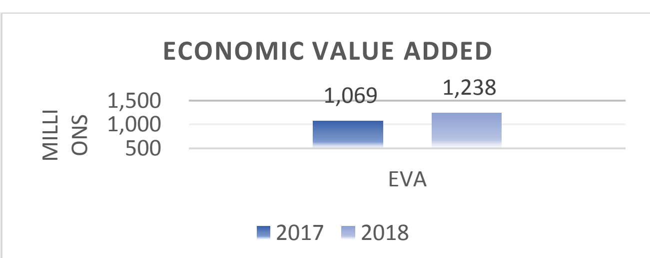


Figure 15: EVA

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 figure of the company has improved when compared to previous year, which shows the incremental difference in the rate of return over the company's cost of capital. Essentially, EVA shows the value MACL generates from funds invested into it.

4. External Audit

The external auditor of the company has expressed an unqualified opinion in the separate and consolidated financial statements for the year 2018. Therefore we assume that financial statement of MACL is free from material misstatement.

5. Recommendation and Conclusion

MACL has performed well in FY2018, achieving a revenue growth of 18% and a net profit growth of 9%. The revenue growth was achieved by the growth in almost all the revenue sources. However, the profit margins were slightly affected by the high costs and operating expenses of the company.

In terms of short term liquidity, MACL's results are not satisfactory as current assets excluding trade receivables and BPT payable are not sufficient to cover its short term obligations. Therefore, MACL has to improve their liquidity position for a smooth running of the business. The most significant component of company's current asset is trade receivables which represents 68% of total current assets and 43% of total revenue. In addition, a total of MVR 233 million was recognized as loss allowance, provision for impairment of receivables from related parties and other receivables. MACL has to collect its receivables in order to manage its cash flow.

The company is highly geared with 46% gearing ratio and highly leveraged as company's debts are more than its equity. MACL has to be cautious about its debts as too much debt can be dangerous for a company's solvency and its investors.

The company has increased its payout ratio from 7% to 60% in 2018, a favorable move for the investors of the company. Further, net assets per share of the company has also improved reflecting strong performance of the company.

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.

ADDU INTERNATIONAL AIRPORT

ANNUAL FINANCIAL REVIEW

FY2018

1. Introduction

Addu International Airport Private Limited, a private limited company incorporated in the Republic of Maldives under the Act No.10/96 on 21st 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.

2. Ownership Structure

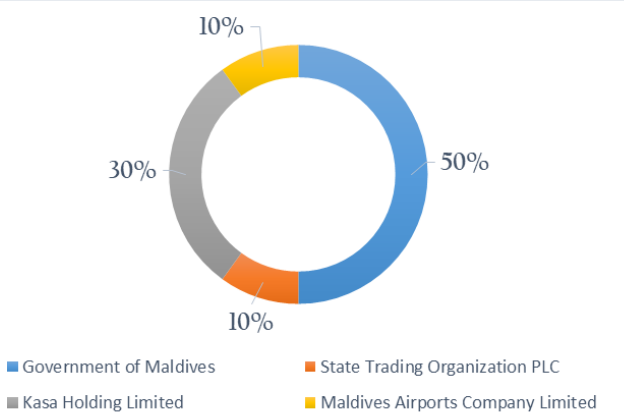


Figure 1: Shareholding Structure

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

3. Financial Analysis and Interpretations

3.1 Revenue

Total revenue has shown an increase of 19% from 2017 to 2018 (MVR 44 million to MVR 52 million) mainly due to increase in revenue from jet fuel, ground handling, cargo handling/terminal income and passenger service charges.

The company's main source of revenue is sale of jet fuel, comprising 65% of total revenue. Overall the increase is due to increase in flight operations during 2018. The start of "Fly Me" operations effective from November 2018 and further, wide body aircrafts of 6 charter flights also operated in 2018. Some of the other revenue generating units such as "Passenger service charge" and "Cargo handling/terminal income" were initiated last quarter of 2017 and remained as an inflow throughout 2018.

Revenue	FY2017	FY2018	% change
Jet fuel revenue	28,614,128	34,255,454	20%
Ground handling charge	7,621,070	8,662,901	14%
Landing fee	3,492,929	3,595,597	3%
Parking fees	2,736,189	3,079,550	13%
Ground power unit charges	1,512,471	1,402,449	-7%
Passnger service charge	197,764	750,424	279%
Airport pass	63,950	60,300	-6%
Cargo handling/terminal income	53,579	653,242	1119%
Monthly fee on flight training	-	149,189	
Total Revenue	**44,292,080**	**52,609,106**	**19%**

Figure 2: Revenue breakdown

3.2 Other Income

Total other income has deteriorated by 28% from 2017 to 2018.

Other income	FY2017	FY2018	% change
Rent income	7,632,323	5,434,306	-29%
Loung income	461,188	497,645	8%
Miscellaneous income	451,690	254,624	-44%
Electricity charges	158,561	71,575	-55%
Total Other Income	**8,703,762**	**6,258,150**	**-28%**

Figure 3: Other Income

Rent income includes invoices raised to Gan Investment Maldives (GIM) regarding lease of land plot. With the rental disputes between both parties and after discussing with AIA's external auditors company concluded invoicing GIM. As a result rent revenue recognized has deteriorated by 29% over the period. Miscellaneous income has also shown a 44% reduction (from MVR 451,690 to MVR 254,624 in 2017 and 2018), mainly due to unclaimed income being claimed in 2017 from a lessee worth MVR 263,216. Income from electricity charges decreased by 8% due relocation of ATM space provided to Bank of Maldives (BML) to other area.

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 ultimate demand for the need to travel Addu region. For instance, factors related to overall increase of demand on tourism can increase number of passengers travelling to Addu region. Air ticketing prices and flight schedules along with services provided by airlines play vital role in increasing or decreasing demand to travel from AIA to Male' or other regions, effecting revenue for AIA.

3.3 Operating Expenses

Operating expenses	FY2017	FY2018	% change
Jet fuel expenses	20,925,570	25,534,264	22%
Employee benefit expense	29,660,191	30,826,605	4%
Depreciation of property plant and equipment	22,256,631	23,659,999	6%
Amortization of intangible asset	26,800	622,713	2224%
Impairment loss on other receivable	-	13,266,774	
Electricity charges	4,036,989	3,648,852	-10%
Supplies and requisites	1,911,931	1,802,150	-6%
Subscription expenses	965,994	2,101,011	117%
Consultancy expenses	208,870	1,933,137	826%
Freight and duty charges	831,619	759,586	-9%
Repair and maintenance expenses	490,681	362,503	-26%
Fuel expenses	421,681	425,818	1%
Telephone expenses	372,376	365,841	-2%
Uniform expenses	319,740	60,152	-81%
Insurance expenses	2,790,875	2,646,507	-5%
Bank charges	67,875	49,985	-26%
Travelling expenses	391,890	254,506	-35%
Director's remuneration	360,000	401,710	12%
Printing and stationary	189,841	133,926	-29%
Fines and penalties	119,729	77	-100%
Others	714,796	713,496	0%
Total operating expenses	**87,064,079**	**109,569,612**	**26%**

Figure 4: Operating Expenses

As per the financial statement, total operating expenses has increased by 26% in 2018 (MVR 87 million to 109 million). Among the company's major expenses, jet fuel expenses shows a significant increase of 22% due to the possible corresponding increase in jet fuel revenue (by 20%).

Installation of new software for airport checking service during end of November 2017 has led to increase amortization cost of intangible assets in 2018, from MVR 26,800 to MVR 622,713.

An Impairment on other receivables of MVR 13 million was recognized in 2018, this represents 74% of other receivables and 8% of total receivables.

Subscription expenses has increased from MVR 965,994 to MVR 2,101,011 (by 117%) from 2017 to 2018. The increase is incurred for the monthly recurring support and license cost included other than hardware and software cost for the passenger check-in system upgrade project.

Consultancy expenses has increased from MVR 208,870 to MVR 1,933,137 for hiring a consultant for runway inspection for the retention period and overlook of pending works.

Uniform expenses has deteriorated over the period by 81% as purchase of new materials for uniforms were on hold due to cash flow constraints.

Employee Benefit Expense	FY2017	FY2018	% change
Wages and salaries	14,162,685	15,872,731	12%
Allowances	13,173,922	13,416,340	2%
Training expenses	966,851	133,540	-86%
Pension contribution	993,973	1,113,752	12%
Staff insurance	362,760	290,242	-20%
Total Employee Benefit Expense	**29,660,191**	**30,826,605**	**4%**
Number of staffs employed	**195**	**190**	**-3%**

Figure 5: Employee benefit expenses

Total employee benefit expense has shown a 4% increase throughout comparable period. Number of staffs remained at 195 and 190 in the year 2017 and 2018 respectively.

3.4 Profitability

Figure 6: 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, 65% of AIA's revenue is generated through the sale of jet fuel. The margin on jet fuel sales has decreased from 27% to 25% from 2016 to 2017, which is still lower than the margin charged by MACL (37%).

Based on the company's position in the market and the general demand, business is mainly influenced by external factors for instance growth of bed capacity and tourist arrivals etc. Therefore to reduce losses for the company, it is important to streamline its business activities and focus on value adding acidities and concentrate on reducing costs.

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

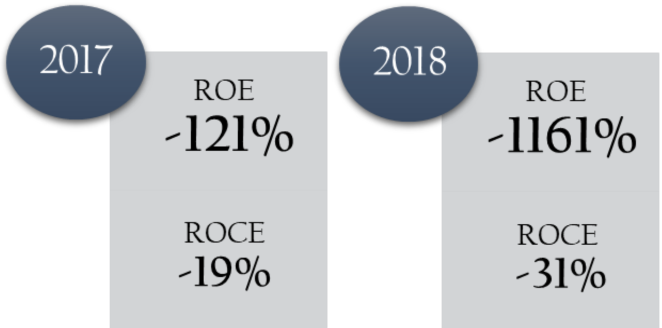


Figure 7: ROE and ROCE

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 from its inception, ROE and ROCE continued to be negative to current comparable year, which clearly indicates that investors have not earned any returns yet.

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 as at 31st December 2018 is MVR 305,274,203 which reduces the equity of the company to negative MVR 7,274,203 balance.

Negative shareholder's equity could be a warning sign that a company is in financial distress. In other words, negative shareholder's equity indicates that company must dig deeper and explore the reasons for the negative balance, and to proactively take measures to overcome from going concern issue.

3.6 Financing

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 would prefer a lower ratio with this regard.

Figure 8: Debt to Total Assets and Debt to Equity

The company's debt to assets ratio has increased from 0.90 to 1.01 which indicates the company is unable to withstand losses without harming creditor interests. In addition, based on the current financial position of the company, it will be difficult to convince the lenders for external source of finance.

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. However, debt to equity ratio has worsen from 9.09 to 84.30 indicating that the company has been aggressive in financing its developments with debt. Aggressive leveraging practices are often associated with high levels of risk.

3.7 Gearing

The financial risk of the company has increased as the gearing ratio has increased from 91% to 138% in 2018. As at 2018, company has borrowed a total of MVR 339 million (2017: MVR 369 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 (equivalent to shareholding percentage), as AIA is financially not in a position to do so.

An additional finance was sourced from Government of Maldives in 2018, as shareholders loan amounting to MVR 35 million. Since this loan is interest free and payable on demand, it has been accounted as a current liabilities in financial statement.

Gearing	FY2017	FY2018	% change
Total loans and borrowings	369,449,344	375,732,861	2%
Capital employed	404,340,873	272,323,890	-33%
Gearing ratio (LL/CE)	91%	138%	47%
Interest cover(EBIT/Interest)	-1.28	-1.79	-0.52

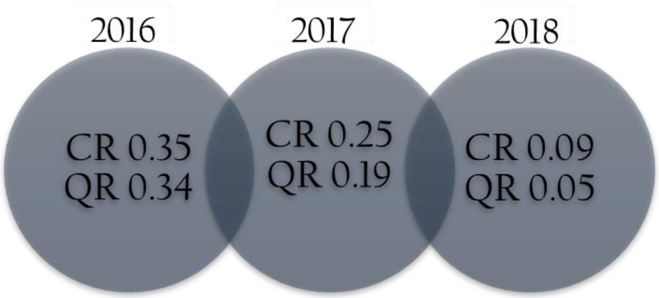
Although total loans and borrowings has increased slightly by 2% over the period, significant reduction in capital employment has led to increase overall gearing ratio from 91% to 138%. This significant reduction in capital employment has adversely affected to return on Capital Employed (ROCE) indicating financial instability over a long run.

Although total loans and borrowing has shown an increase over the period, interest based loan sourced from BML has decreased from MVR 369 million to MVR 339 million due to its repayment. As a result, finance cost over the period has decreased from MVR 34 million to MVR 30 million. Consequently, the interest cover has decreased from -1.28 to -1.79. This ratio illustrates that the company is not in a position to pay its finance cost on outstanding debts.

3.8 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.

Current ratio and Quick ratio



Current ratio measures whether or not the company has enough resources to meet its short-term obligations. In 2018 the company has MVR 0.09 current asset for every MVR 1 worth of short term liability. This ratio illustrates that the company's short term liabilities are more than to its current assets, thus settling short term obligations are now delayed or complicated.

Current Asset	FY2017	FY2018	% change
Inventories	13,537,022	12,539,578	-7%
Trade and other receivables	42,779,353	14,624,865	-66%
Cash and cash equivalents	4,759,222	1,790,887	-62%
Total current asset	**61,075,597**	**28,955,330**	**-53%**

Current Liabilities	FY2017	FY2018	% change
Loans and borrowing	29,713,251	96,134,768	224%
Trade and other payables	217,600,546	237,497,665	9%
Total current liabilities	**247,313,797**	**333,632,433**	**35%**

Table 11: Current assets and: Current Liabilities

It is important to highlight that trade and other payables includes significant amount accounted for amounts due to related parties (MVR 198 million in 2017 and MVR 215 million in 2018). This amount (more than 80% of this amount payable to STO) is unsecured, interest free and has no fixed repayment period.

Quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets (excluding inventory). The quick ratio of the company has fallen from 0.34 to 0.05 over the past three years 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 13 million to MVR 14 million in 2018.

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 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 295 days to 91 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 must make financially viable arrangements with related parties to improve cash position.

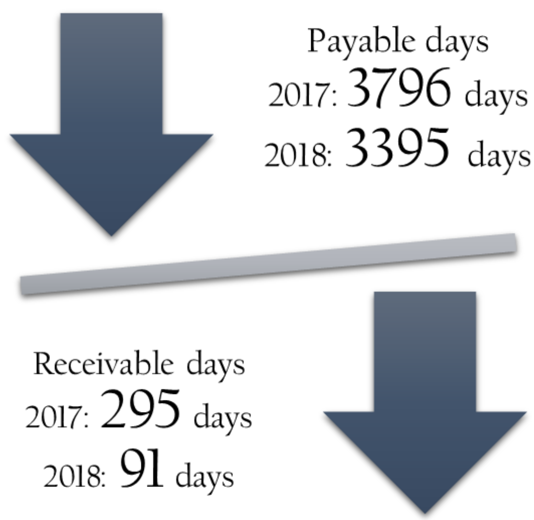


Figure 12: Receivables and Payables

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 42 million to MVR 14 million in 2018.

Receivables and Payables	FY2017	FY2018	% change
Receivables	42,779,353	14,624,865	-66%
Payables	217,600,546	237,497,665	9%

Figure 13: Receivable and Payable days

As of 31 December 2018, trade receivables amounting to MVR 21 million were past due and impaired, which is equivalent to 37% of revenue of 2018. MVR 16 million of provision for doubtful debts were created for the year 2017. Considering the liquidity position, the company has to make strict receivable collection strategies to collect the money.

Payable days measure how long it takes to pay trade creditors or suppliers. Although technically the longer time a company takes to pay its creditors, the better it is for working capital and cash position, sometimes, this cash flow advantage might be at the expense of the good business relation with company's creditor.

In 2017, AIA took 3796 days on average to pay creditors and it has decreased to 3395 days in 2018. 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 need to drive cash from other sources to pay credit bills and may affect overall growth of the business.

Based on the adverse changes seen in above key ratios, and the significance of impairment loss on trade receivables, it is identified that company is not effectively managing its working capital. As a result company is unable to maintain cash flows to meet its short term obligation and operate effectively.

4. External Audit

Upon auditing the financial statement of AIA for the year ended 31 December 2018, Auditor General has expressed a qualified opinion on financial statements on the basis explained below.

As per Note 13 to the financial statements the net carrying value of property, plant and equipment relating to the airport operation is MVR 575,781,158 as at 31 December 2018. As per IAS 36 "Impairment of Assets", the Company shall assess as at end of each reporting period whether there is any indication that an asset may be impaired. The Company has been making losses for last few years and recorded as accumulated losses of MVR 305,761,774 as at 31st December 2018. These factors should have been considered as impairment indications. However, the Company has not performed an impairment assessment to measure the recoverable amount of the property plant and equipment relating to the airport operation as at 31 December 2018. Therefore, we were unable to determine the possible effects on these financial statements as at 31 December 2018.

Auditor also have drawn attention to financial statement with regard to material uncertainty relating to going concern.

"We draw attention to Note 28 in the financial statements, which states that the company has incurred a net loss of MVR 84,500,201 during the year ended 31 December 2018 and accumulated losses of MVR 305,274,203 as at 31st December 2018. Further the company's current liabilities exceeds its current assets by MVR 304,677,103 and total liabilities exceeded its total assets by MVR 7,274,203 as at 31st December 2018. These conditions, 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 28 of the financial statements, shareholders of the company have confirmed by the letter that they will continue to provide financial support to the AIA to enable it to meet its obligations as they fall due.

5. Conclusion and Recommendation

It is apparent from the review of financial statements 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 over MVR 305 million at the end of 2018.

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

The gearing position of the company is worse with highest level of gearing and a negative interest cover in company's history. Company has a significant liability of over MVR 375 million loan which is undertaken to develop the airport with a fixed interest rate of 8.5% and the finance cost currently stands at 57% 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 additional funds.

The company has to improve its working capital management for a positive cash flow position. 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.

Therefore in order to survive, the company has to find alternatives sources of revenue and cut down avoidable expenses.