ENDEAVOUR HOLDINGS LIMITED - MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS FOR FINANCIAL YEAR ENDED APRIL 30, 2019

Overview

The following discussion aims to provide Management's perspective of the financial statements and the general operations for the year ended 30 April 2019.

The company is involved in rental of prime real estate throughout Trinidad and include shopping malls, commercial rental (including Class A office buildings) and light industrial properties.

The financial statements attached should be read in conjunction with this discussion. The information provided aims to assist readers in understanding the financial performance during the period specified and any trends which may have impacted on performance and future performance.

All amounts are stated in Trinidad & Tobago dollars unless otherwise stated.

Critical Accounting Policies

The accounting and reporting polices of the company conform to International Financial Reporting Standards (IFRS). Developments to these standards are actively monitored and disclosure is provided in accordance with IFRS and local best practice.

The company adopted the following IFRS as at May 1, 2018

(1) IFRS 9 – Financial Instruments:
There were "no expected credit loss adjustments" to be made to the financial statements either to retained earnings or the current period earnings.

(2) IFRS 15 – Revenue from contracts with customers:
This standard only impacted on the presentation of revenue on the Statement of Comprehensive Income and had no effect on profit.

Summary

The reported profit before income tax for 2019 was $50.5 M inclusive of fair value adjustments of $2.8 M compared to $53.6M inclusive of fair value adjustment of $8.1M in 2018.

Profits after tax include fair value adjustments which had an impact on the reported results. See table 1 below for further details.

The fair value of investment properties reflect, among other things, rental income from current leases and other assumptions market participants would make when pricing the properties under current market conditions. Changes in fair values are recognised in the statement of comprehensive income.

Table1: Profits adjusted for fair value adjustments:

	2019		2018
	$ M		$ M
Net Profit for the Year	37.9		41.5
Less : Fair Value Adjustment on Investment Properties	(2.8)		(8.1)
Adjusted Profit	***35.1***		***33.4***
Revenue from contracts with customers	***93.0***		***92.8***
Adjusted Profit as a percentage of revenue from contracts with customers	***37.7%***		***35.9%***

Revenue from contracts with customers

Over the fiscal period revenue remained stable at $93M as compared to $92.8M in 2018.
The properties portfolio continues to enjoy almost 100% occupancy levels.

Expenditure

Rental expenses increased by 5.8% from *2018: $20.5M* vs *2019: $21.7M primarily* due to (1) increase of $1.5M in repairs and maintenance and janitorial services and (2) reclassification of property management fees of $2.7M from administrative expenses. There was a reduction of $3.4M for property taxes due to reversal of accruals for years 2016 and 2017.

Administration expenses decreased by $1.8M primarily due to the reclassification of property management fees to rental expenses (as above) from *2018: $3.3M* vs *2019: $1.5M,*

Finance cost decreased by $1.7M from *2018: $21.1M* vs *2019: $19.4M*, as a result of the repayment of principal in accordance with the loan agreement.

Operating expense remained stable at $2.9M 2018 vs $3.0M *2019:* the main expense being depreciation of $1.8M 2018 vs $1.9M 2019.

Statement of Financial position

Total assets of the company increased by $2.5M from $897M in 2018 to $900.0M in 2019 mainly due to the increases in investment properties revaluations of $2.8M, bank balances $0.9M and receivables of $1.4 M and offset by decrease in Property, plant and equipment of $2.1M due to depreciation.

Current liabilities decreased marginally by $0.7M from $52.5M in 2018 to $51.8M in 2019.

The non-current liabilities decreased by $25.2M from $342.5M in 2018 to $317.3M in 2019. This was due to a decrease in principal from loan payments of $28M during the financial year and offset by an increase in the deferred tax liability of $2.8M.

Borrowings

During 30th September 2015, the company restructured its their borrowing portfolio through the issue of Endeavour Holdings Limited TT $400 million Fixed Rate Mortgage Backed Notes, which comprised of three series of Notes due to Mature in 2022, 2030 and 2035, respectively. The Notes are secured by a mortgage over the investment properties and an assignment of the company's All risk insurance. The principal sum outstanding on the Notes has decreased due to repayments towards principal as per the terms thereof.

Risk Assessment

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, credit risk and liquidity risk). Risk management is carried out by the finance department under policies approved by the Company's management. There is no exposure to fair value interest rate risk or price risk as there are no financial instruments carried at fair value. There is no exposure to cash flow interest rate risk as there are no financial instruments with variable rates. There have been no changes to policies and procedures compared to the prior year.

Foreign exchange risk - The Company does not operate internationally and is thus not exposed to foreign exchange risk arising from various currency exposures. The majority of the Company's financial assets, financial liabilities and rental income is determined and collected in Trinidad and Tobago dollars.

Credit risk - Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only reputable local institutions are recognised.

Customers consist of third parties who are involved in medium to long term contracts and as such risk of default is not considered significant or are long standing customers with no history of default. Credit limits were not exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparts.

Liquidity risk- Prudent liquidity risk management implies maintaining sufficient cash and short term funds and the availability of funding through an adequate amount of committed credit facilities.

The expected collection and repayment dates of assets and liabilities are important factors in assessing the liquidity of this Company.

Capital risk management - The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and other stakeholders and to maintain an optimal capital structure.

The Company monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. The decrease in this ratio was due to repayment of loans during the fiscal year. There have been no changes to policies and procedures from the prior year.

Conclusion

Endeavour Holdings Limited continued to perform strongly in 2019 and had a vibrant and fully tenanted portfolio of Investment Properties. As the industry leader in construction and design of properties we continue to invest in Trinidad and Tobago despite the challenges within the local economy. Our company has and will continue to maintain its position as a competitive property investment and developer in the country.