



WEST HAMILTON HOLDINGS LIMITED

ANNUAL REPORT | 2019



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CHAIRMAN'S LETTER

WEST HAMILTON HOLDINGS LIMITED ("WHHL" OR "THE COMPANY") IS A COMMERCIAL REAL ESTATE INVESTMENT AND MANAGEMENT COMPANY WHICH HAS OFFICE SPACES, RESIDENTIAL ACCOMMODATION AND CAR PARKING ON PITTS BAY ROAD, HAMILTON.



In 2019, the Company has had another successful year. We continue to have high occupancy rates at all our property assets and benefit from our prime location in Hamilton. This is reflected in our strong financial results, in particular our cash generation, and the Board was delighted to recommend an increase to the Company's dividend by 50%. The commercial property market in Bermuda remains challenging and, as such, the Directors have taken the decision that it would not be prudent to look to further develop our property assets at this stage. However, we remain ready to move forward as and when the market dynamics change for the positive.

During the year, the Company experienced significant turnover in rental of office spaces with approximately 10,866 square feet (or 33 percent) of the available spaces in the Belvedere Building becoming vacant because of non-renewal of leases. Although the property market remains very soft with high vacancy rates, we were able to secure new tenants for 12,644 square feet, increasing the occupancy rate from 75.4 percent to 80.9 percent.

The Belvedere Building, a well maintained, recently painted landmark featuring old Bermudian architecture, has a high occupancy rate with vacant spaces on the fourth, third and first floors. We have had enquiries from a few prospective tenants, which is likely to result in the available spaces on the fourth and third floors being rented to new start-up reinsurance companies. These potential new leases will improve the occupancy rate to almost 97.2 percent.

The softness in the market pricing perpetuated by over supply, along with the new taxes on commercial leases introduced in 2019, will continue to pressure operating margins. However, we will focus on our core attributes, parking and location, to attract prospective clients and retain current tenants while servicing their needs with the highest level of service. While the fundamentals of the market may be unfavorable, the cash generation of our business remains strong and the Company will generate surplus cash to pay regular annual dividends to shareholders.

Since the completion of the Belvedere Residences in 2016, two units were sold and the remaining units are occupied by tenants with long term leases. Post the year end four leases were renewed under the same terms for a further period of three years. The location of this attractive mixed-use building, in the heart of Hamilton's international business district, and the quality of the executive style accommodation have proven very attractive to tenants and others that use the building daily. The Company will continue to benefit from these appealing characteristics of this property.

The car parking facility was completed more than 10 years ago and it has been fully occupied since that time with a current waiting list of approximately 90 users. The annual fee was recently increased by approximately 10 percent. We anticipate that, given the location of the facility, full occupancy will continue despite a shrinking number of people working in international business.

Over the past years, the Company continued to explore opportunities to grow its asset base and explored the potential for developing a mixed-use building providing more parking and residential accommodation for executive style living. However, the sluggishness of international business, the source of our clients, unfavorable government regulations and slow economic growth in Bermuda contributed to management's decision to hold off any further development of the property in the short term. Meanwhile, we will focus on retention of current clients, maximising cash flow and reduce the debt burden.

On September 30, 2019, the land and building (69 Pitts Bay Road) and the construction in progress and car park (71 Pitts Bay Road) were valued by a Chartered Valuation Surveyor at \$37 million. The valuation of \$37 million was allocated to 69 Pitts Bay Road and 71 Pitts Bay Road as \$13 million and \$24 million, respectively. 69 and 71 Pitts Bay Road represent individual cash generating units ("CGU") and are therefore assessed for impairment individually at their respective CGU levels. The valuation report contains assumptions regarding potential cash generation in the future should the development plans be implemented for 71 Pitts bay Road. Since the future development plans were put on hold, the expected cash generation is unlikely to occur. Consequently, management is of the opinion that the fair value for both 69 and 71 Pitts Bay Road of approximately \$27 million represents a reasonable estimate of the fair value of both properties.

Management has adopted a change in accounting policy which allows the Company's investment properties to be carried at fair value. All Belvedere Properties as at September 30, 2019 of approximately \$44.0 million was accepted by Management as a reasonable estimate of fair value which resulted in an impairment loss of \$10.0 million.





COMPANY HIGHLIGHTS

Gross income from operations



Net income from operations (excluding movements in fair value)



Net loss



Operating expenses (net of recoveries and movements in fair value)



Net debt



Loss per share



OFFICE SPACE

80.9%



PARKING

100%



PARKING WAITING LIST

90

FINANCIAL STATEMENTS



Income Statement

The Company's operating income (excluding movements in fair value) for the year ended September 30, 2019 was \$1.7 million (2018: \$1.4 million), which is the highest reported operating income for the Company since inception. Last year, the Company reported operating income of \$1.7 million, which was restated to \$1.4 million due to the change in accounting policy requiring all property transactions to be reported at fair value rather than previously adopted amortised cost. The change in accounting policy allows the investment values previously reported for depreciation and gain on disposal of investment property which have been restated.

Total revenue for the period was \$3.2 million, which is marginally above last year (2018: \$3.1 million) and operating expenses (excluding movements in fair value) before interest were \$0.9 million (2018: \$0.9 million).

Operating income for the year increased by 14.5% owing to lower cost of maintenance services and reduced interest expense related to the reduction of the principal balance of the amortised bank loan along with a reduction in the interest rate.

The efficiencies realised from better utilisation of manpower and lower debt service costs were offset by higher land taxes and significantly higher fees payable to the government to stamp commercial rental leases.

In addition, the Company's operating margin was impacted by higher Insurance rates and utility expenses. These service providers experienced significant increase in operating costs related to the introduction of government fees, which were passed on to consumers. Loss per share was \$(3.02) for the period as compared to \$(1.36) per share in 2018.

Balance Sheet

The Company reported total shareholders' equity as at September 30, 2019 of \$34.9 million (September 2018: \$43.6 million) a decrease of 20.16%.

Current assets, which include cash and other assets that could readily be converted into cash, totaled \$2.0 million as at September 30, 2019 compared with \$1.7 million as at September 30, 2018.

Total assets amounted to \$47.1 million compared with \$57.1 million as at September 30, 2019 a decrease resulting mostly from the change in accounting policy mandating the reporting of investment property at fair value rather than amortised cost as reported in previous years.

Book value per share at September 30, 2019 was \$11.96 (September 30, 2018: \$14.98).

Cash Flow

During the year, the Company generated cash from operations of \$2.3 million, which was used for building renovations, the partial repayment of the bank loan facility and loan interest for the year. During 2019, the Company invested \$0.2 million in the maintenance and upgrade of the Company's property assets.

The Board of Directors is pleased to announce that they have approved a dividend of \$0.15 per share, which will be paid on January 30, 2020 to shareholders of record on January 6, 2020. This dividend represents an increase of 50 percent per share compared to 2018. The increase in the dividend is the result of improved free cash flow.

Looking Forward: Foundations For Flexibility

The current real estate market presents an attractive opportunity in the residential sector, although continued consolidation in international business, the source of our target tenants, threatens the sector's long-term sustainability. The Bermuda Government has introduced tax on rental income and increased the burden on international companies. This has resulted in a reduction in demand residential real estate investment. These factors represent considerable risk, which the Directors are constantly evaluating.

We will continue to monitor the economic and political environment to inform the development of the Company's assets. The Directors believe the Company is well placed and in a strong financial position to invest should the right opportunity arise.

Recognising Our People: Thank You To Everyone

Our continued financial success relies on everyone involved with the Company. Without our valued clients, tenants, shareholders, contractors, engineers, architects, quantity surveyors, office team and Directors, we would not be in the position we are today. As we continue to respond to the market and navigate our future, we inform every decision with your expertise and influence. Thank you for your support and collaboration; I look forward to the year ahead.

J. MICHAEL COLLIER
CHAIRMAN

MAKING A DIFFERENCE: COMMUNITY

The Company is a significant sponsor of The Bermuda Olympic Association which is committed to the development of athletes and supports the development of “sport for all” programmes, including high performance sports in Bermuda. We also provide an annual donation to Meals on Wheels, a charity that provides hot meals to those who are not self-sufficient within our community.

WEST HAMILTON HOLDINGS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

(With Independent Auditor’s Report Thereon)

FOR THE YEARS ENDED
SEPTEMBER 30, 2019 AND 2018 (RESTATED)

The accompanying report of KPMG is for the sole and exclusive use of the Company. No person, other than the Company, is authorised to rely upon the report of KPMG unless KPMG expressly so authorises. Furthermore, the report of KPMG is as of December 9, 2019 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.



KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 8280
Internet www.kpmg.bm



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of West Hamilton Holdings Limited

We have audited the accompanying consolidated financial statements of West Hamilton Holdings Limited (the "Company") and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2019 and 2018 and the related consolidated statements of profit and loss and other comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as at September 30, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in accordance with IFRS.

Emphasis of matter

As discussed in note 3(ii) of the consolidated financial statements, the Company has elected to change its method of accounting for investment property for the year ended September 30, 2019. Our opinion is not modified with respect to this matter.

Other matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The annual report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Chartered Professional Accountants
Hamilton, Bermuda
December 9, 2019

WEST HAMILTON HOLDINGS LIMITED

Consolidated Statements of Financial Position

As at September 30, 2019 and September 30, 2018
(Expressed in U.S. dollars)

	2019	2018 (restated)	October 1, 2017 (restated)
Assets			
Non-current assets			
Property, plant and equipment (Note 5)	\$ 1,069,925	\$ 1,197,798	\$ 1,259,096
Investment property (Note 6)	44,000,000	54,250,000	61,300,000
Total non-current assets	45,069,925	55,447,798	62,559,096
Current assets			
Cash and cash equivalents (Note 4 and 14)	994,112	629,203	174,665
Investments (Notes 7 and 14)	748,148	746,134	526,889
Accounts receivable (Note 14)	132,221	196,154	196,745
Pension surplus (Note 13)	-	7,090	20,424
Prepaid expenses	131,000	78,693	53,377
Total current assets	2,005,481	1,657,274	972,100
Total assets	\$ 47,075,406	\$ 57,105,072	\$ 63,531,196
Equity			
Share capital (Note 10)	\$ 2,908,398	\$ 2,908,398	\$ 2,908,398
Share premium (Note 10)	7,819,961	7,819,961	7,819,961
Accumulated other comprehensive income (loss) (Note 10)	111,053	109,039	(110,206)
Retained earnings	23,943,921	32,721,625	36,979,540
Total equity	34,783,333	43,559,023	47,597,693
Liabilities			
Non-current liabilities			
Loans and borrowings (Notes 9 and 14)	10,842,160	11,744,487	8,426,505
Current liabilities			
Accounts payable and accrued liabilities (Notes 8 and 14)	171,170	239,150	215,168
Dividend payable	88,808	290,840	-
Refundable deposit on lease	36,000	36,000	48,000
Funds withheld on contract	-	-	754,823
Loans and borrowings (Notes 9 and 14)	902,328	965,278	6,103,741
Deferred income	251,607	270,294	385,266
Total current liabilities	1,449,913	1,801,562	7,506,998
Total liabilities	12,292,073	13,546,049	15,933,503
Total equity and liabilities	\$ 47,075,406	\$ 57,105,072	\$ 63,531,196

The accompanying notes on pages 16 to 37 are an integral part of these consolidated financial statements

Signed on behalf of the Board

Director

Director

WEST HAMILTON HOLDINGS LIMITED

Consolidated Statements of Profit and Loss and Other Comprehensive Income

Years ended September 30, 2019 and September 30, 2018
(Expressed in U.S. dollars)

	2019	2018 (restated)
Income		
Rental income from investment property	\$ 3,158,935	\$ 3,105,026
Total income	3,158,935	3,105,026
Expenses		
Decrease in fair value of investment property (Note 6)	(10,435,420)	(5,414,548)
Depreciation (Note 5)	(127,873)	(142,546)
Maintenance, cleaning and wages (Note 13)	(148,584)	(258,634)
Professional fees (Note 18)	(277,752)	(302,209)
Insurance	(92,151)	(74,846)
Land taxes and other expenses	(185,247)	(77,344)
Utilities	(85,803)	(54,841)
Total expenses	(11,352,830)	(6,324,968)
Finance expense		
Dividend income	30,485	27,217
Interest expense	(614,294)	(616,850)
Net finance expense	(583,809)	(589,633)
Loss on disposal of investment property through finance lease (Note 6)	-	(157,500)
Loss for the year (attributable to owners of the Company)	(8,777,704)	(3,967,075)
Other comprehensive income:		
Net change in fair value of available-for-sale investments (Note 7)	2,014	219,245
Total comprehensive loss for the year (attributable to owners of the Company)	\$ (8,775,690)	\$ (3,747,830)
Basic and diluted earnings per share (Note 12)	\$ (3.02)	\$ (1.36)

All items included in the consolidated statements of profit and loss and other comprehensive income relate to continuing operations.

The accompanying notes on pages 16 to 37 are an integral part of these consolidated financial statements

WEST HAMILTON HOLDINGS LIMITED

Consolidated Statements of Changes in Equity

Years ended September 30, 2019 and September 30, 2018
(Expressed in U.S. dollars)

	Attributable to owners of the Company				
	Share capital	Share premium	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at October 1, 2017 (restated)	\$ 2,908,398	\$ 7,819,961	\$ (110,206)	\$ 36,979,540	\$ 47,597,693
Loss for the year (restated)	–	–	–	(3,967,075)	(3,967,075)
Dividends declared	–	–	–	(290,840)	(290,840)
Other comprehensive income:					
Net change in fair value of investments	–	–	219,245	–	219,245
Balance at September 30, 2018 (restated)	2,908,398	7,819,961	109,039	32,721,625	43,559,023
Loss for the year	–	–	–	(8,777,704)	(8,777,704)
Other comprehensive income:					
Net change in fair value of investments	–	–	2,014	–	2,014
Balance at September 30, 2019	\$ 2,908,398	\$ 7,819,961	\$ 111,053	\$ 23,943,921	\$ 34,783,333

The accompanying notes on pages 16 to 37 are an integral part of these consolidated financial statements

WEST HAMILTON HOLDINGS LIMITED

Consolidated Statements of Cash Flows

Years ended September 30, 2019 and September 30, 2018
(Expressed in U.S. dollars)

	2019	2018 (restated)
Cash flows from operating activities		
Loss for the year	\$ (8,777,704)	\$ (3,967,075)
Adjustments for:		
Depreciation	127,873	142,546
Interest expense, interest income and dividend income	583,809	589,633
Loss on disposal of investment property through finance lease	–	157,500
Decrease in the fair value of investment property	10,435,420	5,414,548
Changes in non-cash working capital balances:		
Deferred income	(18,687)	(114,972)
Accounts receivable	63,933	591
Pension surplus	7,090	13,334
Prepaid expenses	(52,307)	(25,316)
Refundable deposit on sale	–	(12,000)
Funds withheld on contract	–	(754,823)
Accounts payable and accrued liabilities	(67,980)	23,982
Net cash provided by operating activities	2,301,447	1,467,948
Cash flows from investing activities		
Proceeds on disposal of investment property through finance lease	–	1,692,500
Dividends received	30,485	27,217
Additions to property, plant and equipment	–	(81,248)
Additions to investment property	(185,420)	(214,548)
Net cash (used in) provided by investing activities	(154,935)	1,423,921
Cash flows from financing activities		
Proceeds from bank loans	–	200,000
Repayment of bank loan	(965,277)	(2,020,481)
Interest paid	(614,294)	(616,850)
Dividends paid	(202,032)	–
Net cash used in financing activities	(1,781,603)	(2,437,331)
Net increase in cash and cash equivalents	364,909	454,538
Cash and cash equivalents at beginning of year	629,203	174,665
Cash and cash equivalents at end of year	\$ 994,112	\$ 629,203

The accompanying notes on pages 16 to 37 are an integral part of these consolidated financial statements

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

1. General

West Hamilton Holdings Limited and its subsidiaries (the "Company") was incorporated on May 14, 2007 under the laws of Bermuda and is the parent company of West Hamilton Limited ("WHL") under a Scheme of Arrangement approved by shareholders of WHL and sanctioned by the Bermuda Court. The Company is listed on the Bermuda Stock Exchange ("BSX") and is domiciled in Bermuda. WHL is incorporated under the laws of Bermuda and owns three properties known as the Belvedere Building and Belvedere Residences (or Condominium), and the Belvedere Place parking facility in which space is generally let under medium and long-term commercial leases. The registered office is at 71 Pitts Bay Road, Pembroke, Bermuda.

The Company's parent company and ultimate controlling party is Somers Limited which owns 57.06% of the Company's outstanding shares. These consolidated financial statements have been approved for issuance by the Board of Directors on December 9, 2019.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the periods, unless otherwise stated – see note 3 (ii).

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of investments and investment property which are measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are included in Note 16.

These consolidated financial statements are presented in U.S. dollars (\$), which is the functional currency of the Company.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company, and its two wholly owned subsidiaries. All subsidiary companies are incorporated in Bermuda. All intercompany transactions and balances are eliminated upon consolidation.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and they are recognised within profit or loss. Depreciation is calculated on the depreciable amount which is the cost of an asset less its residual value, using the straight-line method over the following estimated useful lives.

Equipment	3 – 25 years
Computers	4 years
Furniture and fixtures	10 years

Refer to accounting policy 2(i) for accounting policy related to impairment of non-financial assets.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

2. Significant accounting policies (continued)*(d) Investment property*

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Refer to Note 3(ii) for the impact of the change in accounting policy for investment property in these consolidated financial statements.

(e) Income recognition

Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the lease. When the Company provides incentives to its tenants, the cost of the incentives is recognized over the lease term, on a straight-line basis, as a reduction in rental income. The recognition of rental income is in accordance with IAS 17.

(f) Finance leases

The Company accounts for 999-year leases of investment property as finance leases (Note 5) as the significant risks and rewards of the asset transfer to the lessee during the lease terms, even though title is not transferred. The difference between the carrying amount of the condominiums leased and the lease payments (received at inception of the lease) is recognised in the consolidated statement of profit and loss and other comprehensive income as a gain or loss on disposal in the year that the lease is finalized.

(g) Maintenance fee

Maintenance fees received in cash from lessees are recognised as maintenance liabilities in the consolidated statement of financial position in recognition of the contractual commitment to either refund such receipts or hold them for future scheduled maintenance work to be performed thereafter. Amounts currently recognised as liabilities are \$nil (2018 - \$nil) as expenses have exceeded income to date. Maintenance income for the year ended September 30, 2019 amounted to \$293,913 (2018 - \$277,502).

(h) Financial instruments

The Company's financial assets comprise of cash and cash equivalents, investments, and accounts receivable. The Company's financial liabilities include loans and borrowings, dividends payable, accounts payable and refundable deposit on leases.

The Company adopted IFRS 9: *Financial Instruments* effective October 1, 2018. Prior to this date the Company followed IAS 39: *Financial Instruments: Recognition and Measurement*.

(i) Recognition and initial measurement

Accounts receivable are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. Accounts receivable are initially measured at the transaction price which reflects fair value. All other financial assets and financial liabilities are initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

2. Significant accounting policies (continued)*(h) Financial instruments* (continued)*(ii) Classification and subsequent measurement**Financial assets*

On initial recognition, the Company determines the classification of its financial assets. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case, all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company classifies all its financial assets at amortized cost except investments which are classified as fair value through other comprehensive income ("FVOCI") or at fair value through profit or loss ("FVTPL"). A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

Financial assets – Business model assessment:

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the Company is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

2. Significant accounting policies (continued)*(h) Financial instruments* (continued)*(ii) Classification and subsequent measurement* (continued)*Financial assets – Subsequent measurement and gains and losses:*

The Company's financial assets classified as amortized cost are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by any impairment losses. Interest income and impairment gains and losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets – Classification and subsequent measurement:

The Company classified its cash and cash equivalents and accounts receivable at amortized cost.

Financial liabilities – Classification, subsequent measurement and gains and losses

The Company classifies its financial liabilities as amortized cost and they are subsequently measured at amortized cost using the effective interest method.

*(iii) Derecognition**Financial assets*

The Company derecognizes a financial asset when the contractual rights to the cash flow from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership, and it does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

*(i) Impairment**Financial assets:*

The Company recognizes allowances for expected credit losses ("ECLs") on financial assets measured at amortized cost. The Company measures loss allowances at an amount equal to 12-month ECLs for cash and cash equivalents that are determined to have a low credit risk at the reporting date and for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables and other receivables are always measured at an amount equal to lifetime ECLs.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

2. Significant accounting policies (continued)*(i) Impairment* (continued)*Financial assets* (continued):

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significant if it is more than 120 days past due. The Company considers a financial asset to be in default when it is more than 180 days past due.

The Company considers cash and cash equivalents to have low credit risk when its credit risk rating is equivalent to B or higher per Standard and Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the issuer;
- a breach of contract such as a default or being more than 120 days past due; or
- it is probable that the issuer will enter bankruptcy or other financial reorganization.

Presentation of the allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the relevant assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

2. Significant accounting policies (continued)*(i) Impairment* (continued)*Financial assets* (continued):

Prior to October 1, 2018 a financial asset was considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost was calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Significant financial assets were tested for impairment on an individual basis. The remaining financial assets were assessed collectively in groups that shared similar credit risk characteristics.

Losses were recognized in profit or loss and reflected in an allowance account against trade and other receivables or investments. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss was reversed through profit or loss.

The allowance for impairment of accounts receivable reflected estimates of losses arising from the failure or inability of the Company's customers to make required payments. The allowance was based on the ageing of customer accounts, customer creditworthiness and the Company's historical write-off experience. Changes to the allowance may be required if the financial condition of customers improves or deteriorates. An improvement in the financial condition may result in lower actual write-offs.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Factors that are considered important and which could trigger an impairment review include the following:

- Obsolescence or physical damage;
- Significant changes in technology and regulatory environment;
- Significant under-performance relative to expected historical or projected future operating results;
- Significant changes in the use of the assets or the strategy for business; and
- Significant negative industry or economic trends.

The identification of impairment indicators, estimation of timing and amount of expected future cash flows, determination of application of discount rates and computation of recovered amounts for assets involves significant judgment. If any such indication exists, then the asset's recoverable amount is estimated. For assets that have indefinite useful lives, or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

2. Significant accounting policies (continued)*(i) Impairment* (continued)*Impairment of non-financial assets* (continued)

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(j) Pension costs

The Company operates a defined contribution pension plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised within maintenance, cleaning and wage expense in the consolidated statement of profit and loss and other comprehensive income in the period during which services are rendered by employees. Pension surplus is recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(k) Finance income and finance expenses

Finance expenses comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Finance income comprises dividend income from investments.

(l) Earnings per share

The Company presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company has one category of potentially dilutive ordinary shares: share options. For the share options, the exercise price will be the average of the last three traded prices just prior to the exercise date less a discount of 15%. The exercise of the share options for certain employees is at the discretion of the employees and as at the reporting date there were no options exercised.

(m) Share based payments

The Company operates an equity-settled, share-based compensation plan under which the Company receives services from employees as consideration for equity instruments (options) of the Company. The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

2. Significant accounting policies (continued)*(n) Standards issued but not yet adopted*

A number of new or amended standards are effective for annual periods beginning on or after October 1, 2019 and early adoption is permitted; however, the Company has not early adopted the following new or amended standards in preparing these consolidated financial statements.

(i) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

As a lessor, the Company is not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease. The Company has no sub-leases. The Company has no material leases in its capacity as lessee at this time that would require it to recognise a right of use asset.

The Company expects that adoption of IFRS 16 will not impact its financial reporting materially. The Company plans to adopt IFRS 16 in the consolidated financial statements for the year ending September 30, 2020.

(ii) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements.

- *IFRIC 23 Uncertainty over Income Tax Treatments.*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual improvements for IFRSs 2015 – 2017 Cycle – Amendments to IFRSs 3 & 11, IASs 12 & 23*
- *Amendments to References to Conceptual Framework in IFRS Standards*

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

3. Changes to significant accounting policies

The Company adopted IFRS 9: *Financial Instruments* on October 1, 2018. Due to the transition methods chosen by the Company in applying IFRS 9, comparative information throughout these consolidated financial statements has not been restated to reflect the requirements of the new standard.

(i) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the consolidated statement of comprehensive income. Additionally, the Company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, measured at fair value through other comprehensive income ("FVOCI") and measured at fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the previous requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 2(i).

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

3. Changes to significant accounting policies (continued)*(i) IFRS 9 Financial Instruments (continued)**Classification and measurement of financial assets and financial liabilities (continued)*

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at October 1, 2018.

Financial assets			Original carrying amount under IAS 39	New carrying amount under IFRS 9
	Original classification under IAS 39	New classification under IFRS 9		
Cash and cash equivalents	Loans and receivables	Amortised cost	\$ 629,203	\$ 629,203
Accounts receivable	Loans and receivables	Amortised cost	\$ 196,154	\$ 196,154
Investments	Available-for-sale	FVOCI	\$ 746,134	\$ 746,134
Total financial assets			\$ 1,571,491	\$ 1,571,491
Financial liabilities			Original carrying amount under IAS 39	New carrying amount under IFRS 9
	Original classification under IAS 39	New classification under IFRS 9		
Dividends payable	Other financial liabilities	Other financial liabilities	\$ 290,840	\$ 290,840
Accounts payable	Other financial liabilities	Other financial liabilities	\$ 132,115	\$ 132,115
Refundable deposits	Other financial liabilities	Other financial liabilities	\$ 36,000	\$ 36,000
Loans and borrowings	Other financial liabilities	Other financial liabilities	\$ 12,709,765	\$12,709,765
Total financial liabilities			\$ 13,168,720	\$ 13,168,720

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and lease receivables. Under IFRS 9 credit losses are recognized earlier than under IAS 39.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

3. Changes to significant accounting policies (continued)*Impairment of financial assets* (continued)

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of the new impairment requirements at October 1, 2018 results in no material impairment of either cash and cash equivalents, accounts receivable or investments.

(ii) Change in accounting policy – investment properties

Effective October 1, 2018, the Company changed its accounting policy for investment property. As a result of this change, the Company records investment property in accordance with the Fair Value Model of IAS 40 – *Investment Property* (see Note 6). The change in accounting policy provides more relevant information on the valuation of the individual investment properties and as a result better reflects the financial position of the Company.

Previously, the Company recorded investment property in accordance with the Cost Model per IAS 40.

The following table summarizes the adjustments made to the consolidated statements of financial position on the implementation of the new accounting policy.

	Investment <u>property</u>	Retained <u>earnings</u>
Balance at October 1, 2017, as previously reported	\$ 36,633,698	\$ 12,313,238
Impact of accounting policy change – fair value adjustment	<u>24,666,302</u>	<u>24,666,302</u>
Restated balance at October 1, 2017	<u>\$ 61,300,000</u>	<u>\$ 36,979,540</u>
Balance at September 30, 2018, as previously reported	\$ 35,285,246	\$ 13,756,871
Impact of accounting policy change at October 1, 2017	24,666,302	24,666,302
Impact of accounting policy change during 2018 (below)	<u>(5,701,548)</u>	<u>(5,701,548)</u>
Restated balance at September 30, 2018	<u>\$ 54,250,000</u>	<u>\$ 32,721,625</u>

The effect of the consolidated statement of profit and loss and other comprehensive income for the year ended September 30, 2018 was as follows:

	<u>2018</u>
Decrease in fair value of investment property (Note 6)	\$ (5,414,548)
Decrease in depreciation	522,968
Decrease in gain on disposal of investment property	<u>(809,968)</u>
Decrease in profit for the year	(5,701,548)
Profit for the year as previously stated	<u>1,734,473</u>
Loss for the year, as restated	<u>\$ (3,967,075)</u>

As a result of the change in accounting policy earnings per share for the year ended September 30, 2018 was restated from \$0.60 to a loss of \$1.36 per share.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

3. Changes to significant accounting policies (continued)*(iii) Other standards*

There were several amendments to standards that were effective for periods beginning on or after January 1, 2018. These have been listed below:

- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
- *Transfers of Investment Property (Amendments to IAS 40).*

The adoption of the above amendments did not have a material impact on these consolidated financial statements.

IFRS 15: *Revenue from Contracts with Customers* introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The Company reviewed the impact of the initial application of IFRS 15 and determined that there was no material impact on the Company.

4. Cash and cash equivalents

All of the Company's cash and cash equivalents are held with one Bermuda based financial institution in several current accounts earning no interest and cash deposits earning interest. Standard and Poor's has rated this financial institution as A-/A-2

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents at bank	\$ 994,112	\$ 629,203

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

5. Property, plant and equipment

	Computers	Furniture and fixtures	Equipment	Total
Cost				
At September 30, 2017	\$ 30,501	\$ 263,414	\$ 2,598,732	\$ 2,892,647
Additions	—	—	81,248	81,248
At September 30, 2018	30,501	263,414	2,679,980	2,973,895
At September 30, 2019	\$ 30,501	\$ 263,414	\$ 2,679,980	\$ 2,973,895
Accumulated depreciation				
At September 30, 2017	\$ 29,983	\$ 242,835	\$ 1,360,733	\$ 1,633,551
Depreciation charge for the year	518	2,597	139,431	142,546
At September 30, 2018	30,501	245,432	1,500,164	1,776,097
Depreciation charge for the year	—	2,170	125,703	127,873
At September 30, 2019	\$ 30,501	\$ 247,602	\$ 1,625,867	\$ 1,903,970
Carrying amount				
At September 30, 2017	\$ 518	\$ 20,579	\$ 1,237,999	\$ 1,259,096
At September 30, 2018	—	17,982	1,179,816	1,197,798
At September 30, 2019	\$ —	\$ 15,812	\$ 1,054,113	\$ 1,069,925

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

6. Investment property

	69 Pitts Bay Road	71 Pitts Bay Road	71 A Pitts Bay Road	Total
At October 1, 2017, previously reported	\$ 1,688,818	20,874,665	14,070,215	\$ 36,633,698
Impact of accounting policy change (Note 3(ii))	11,661,182	7,725,335	5,279,785	24,666,302
At October 1, 2017, as restated	13,350,000	28,600,000	19,350,000	61,300,000
Capital additions	33,842	28,334	152,372	214,548
Disposal due to finance lease	—	—	(1,850,000)	(1,850,000)
Change in fair value	(383,842)	(4,628,334)	(402,372)	(5,414,548)
At September 30, 2018, as restated	13,000,000	24,000,000	17,250,000	54,250,000
Capital additions	152,701	11,931	20,788	185,420
Change in fair value	(152,701)	(10,011,931)	(270,788)	(10,435,420)
At September 30, 2019	\$ 13,000,000	\$ 14,000,000	\$ 17,000,000	\$ 44,000,000

Investment property comprises an office building (69 Pitts Bay Road), a condominium building (71 Pitts Bay Road) and a car park facility (71A Pitts Bay Road).

On October 6, 2017 the Company entered into a non-cancelable 999-year finance lease as lessor for an apartment in the Condominium. A loss of \$157,500 was recognized in the consolidated statement of profit and loss and other comprehensive income and the associated value of \$1,850,000 was removed from the carrying value of the investment property for the year ended September 30, 2018. All lease payments for the life of the lease were received during the year ended September 30, 2018 and therefore no lease payments receivable, unearned finance income or allowance for uncollectable minimum lease payments receivable have been recognized in these consolidated financial statements.

The fair value of the investment property was determined by an external, independent property valuer, having an appropriate recognised professional qualification and experience in the location and category of the property being valued. The independent valuer provides the fair value of the Company's investment property annually. Management is of the opinion that the fair value of the property is \$44.0 million as at September 30, 2019.

The fair value measurement for all of the investment properties has been categorized as a Level 3 fair value based on the inputs to the valuation technique used.

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
The valuation was based on an income approach whereby net rental income for the investment property is capitalized using an investment yield.	- Void periods range between one and two years for vacant space - Investment yield ranges between 6% and 8.5%	The estimated fair value would increase (decrease) if: - Void periods were shorter (longer); - The investment yields were lower (higher)

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

7. Investments

	2019		2018	
	Cost	Fair value	Cost	Fair value
Equity securities	\$ 637,095	\$ 748,148	\$ 637,095	\$ 746,134

The investment portfolio consists of ordinary shares issued by Bermuda companies listed on the Bermuda Stock Exchange ("BSX") and those that are privately held. The Company has no other investments.

The change in the fair value of the Company's investment portfolio for the year ended September 30, 2019 amounted to \$2,014 (2018 - \$219,245).

8. Accounts payable and accrued liabilities

	2019	2018
Accounts payable	\$ 114,914	\$ 132,115
Accrued liabilities	56,256	107,035
	\$ 171,170	\$ 239,150

9. Loans and borrowing

On January 5, 2016 West Hamilton Limited (a wholly owned subsidiary) entered into a construction loan agreement with HSBC Bank Bermuda Limited ("HSBC") in the amount of \$7.65 million (the "Construction Loan"). The facility expired on November 30, 2017. The amount outstanding as at September 30, 2017 was \$5,420,408 which was classified as a current liability. On the same date West Hamilton Limited entered into a term loan agreement with HSBC in the amount of \$10.25 million, to be amortised over 15 years and subject to renegotiation after 5 years, which was used to repay the previous bank loan balance. The interest on the Construction Loan was calculated at the bank's base rate of 2.75% plus the quoted rate of 3 month USD LIBOR. Interest on the HSBC term loan is calculated at the bank's base rate of 2.5% plus the quoted rate of 3 month USD LIBOR. West Hamilton Limited provided all of its land, buildings and new development as security for the loan by way of a legal mortgage, as well as an assignment of the benefit of the construction contract and an assignment of all rental income from the existing Belvedere Building and Belvedere Residences. The Company entered into a limited guarantee for the principal outstanding on the construction and term loans.

On January 25, 2018, the Company entered into a new term loan in the amount of \$4.5 million with HSBC to refinance and convert the outstanding balance of the Construction Loan into a five year term loan facility (the "Facility") and provide an additional sum of \$200,000. The Facility is to be repaid by way of monthly principal installments of \$18,750 based on an amortization period of 20 years. The interest amount on the Facility will be calculated based on a fixed rate of 2.5% per annum plus the quoted one-month USD LIBOR. An arrangement fee of \$22,500 was paid by the Company on the date of drawdown of the facility. Security pledged for the Facility includes the security provided under the previous Construction Loan. As at September 30, 2019, the effective interest rates were 4.94% and 4.61% (2018 - 5.3% and 5.0%) respectively.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

9. Loans and borrowing (continued)

The bank granted the Company permission for a dividend to be declared to ordinary shareholders in the amount of \$290,840 representing 10 cents per share for the 2018 financial year. No dividend was declared for the year ended September 30, 2019. For further information related to the Company's exposure to interest rate and liquidity risk see Note 14.

Principal repayments over the next five financial years and beyond for the existing loans are as follows:

	Total
2020	\$ 902,328
2021	7,292,117
2022	225,000
2023	3,325,043
2024	—
	\$ 11,744,488

10. Share capital and reserves

	2019	2018
Common shares		
Authorised – 5,000,000 share of par value of \$1 each		
Issued and fully paid 2,908,398 shares (2018 - 2,908,398)	\$ 2,908,398	\$ 2,908,398

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Accumulated other comprehensive income (loss)

The accumulated other comprehensive gain comprises of the cumulative net change in the fair value of investments held until the investments are derecognised or considered impaired.

Share premium

Share premium is the difference between the consideration received and the par value of the shares on issuance of shares and for shares subscribed under the Company's employee share purchase plan.

11. Share-based payments*Employee share purchase plan*

The employee share purchase plan includes an option which permits eligible employees to purchase the Company's common shares at a price 15% below the average market price. The average market price is determined by the average of the closing prices of the Company's common shares, set out on the three days preceding the subscription date on which Company's shares are traded on the BSX.

Options are conditional on the employee completing one year's service and being over 18 years of age. Eligible employees may acquire shares in any calendar year, up to a maximum value not exceeding 15% of their annual gross salary. Employees are restricted from selling the shares for a period of one year from the subscription date. The shares purchased are issued from authorised, unissued share capital under the plan and 50,000 common shares of the Company have been made available for sale to employees.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

11. Share-based payments (continued)

All options are to be settled upon exercise of the options by the employee.

For the years ended September 30, 2019 and 2018, no employees subscribed for share options and no options were exercised, and none were outstanding.

12. Earnings per share*Basic earnings per share*

The calculation of basic earnings per share at September 30, 2019 is based on the loss attributable to ordinary shareholders of \$8,777,704 (2018 - \$3,967,075) and a weighted average number of ordinary shares outstanding of 2,908,398 (2018 - 2,908,398).

Diluted earnings per share

The Company has one category of potentially dilutive ordinary shares (Note 11); the diluted earnings per share are the same as the basic earnings per share in 2019 and 2018.

13. Defined contribution plan

The Company sponsors a defined contribution pension plan covering all eligible employees. Contributions to the plan are made by the employee and the Company. The Company matches employees' contributions up to a maximum of 5% of the employees' annual earnings. The pension expense recognised by the Company in the current year is \$6,913 (2018 - \$6,667) representing the Company's share of contributions to the plan and is included in the consolidated statement of profit and loss and other comprehensive income in maintenance, cleaning and wages. As at September 30, 2019, the Company recognized an amount of \$nil (2018 - \$7,090) included in current assets related to funds forfeited by employees who left the Company prior to the vesting period, some of which was used to offset the Company's liabilities to the plan during the year.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

14. Financial risk management

Exposure to liquidity, interest rate, credit and market risk arises in the normal course of the Company's operations.

(a) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Company monitors liquidity risk by monitoring forecasted cash flows.

The following are contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows				Total
		12 months or less	1 – 2 years	2 – 5 years		
September 30, 2019						
Financial liabilities						
Accounts payable	\$ 114,914	\$ 114,914	\$ –	\$ –	\$ 114,914	
Loans and borrowings	11,744,488	1,424,578	7,772,766	3,877,023	13,074,367	
Refundable deposit	36,000	36,000	–	–	36,000	
Dividend payable	88,808	88,808	–	–	88,808	
	<u>\$ 11,984,210</u>	<u>\$ 1,664,300</u>	<u>\$ 7,772,766</u>	<u>\$ 3,877,023</u>	<u>\$13,314,089</u>	
September 30, 2018						
Financial liabilities						
Accounts payable	\$ 132,115	\$ 132,115	\$ –	\$ –	\$ 132,115	
Loans and borrowings	12,709,765	1,574,490	1,473,884	11,548,609	14,596,983	
Refundable deposit	36,000	36,000	–	–	36,000	
Dividend payable	290,840	290,840	–	–	290,840	
	<u>\$ 13,168,720</u>	<u>\$ 2,033,445</u>	<u>\$ 1,473,884</u>	<u>\$ 11,548,609</u>	<u>\$15,055,938</u>	

(b) Interest rate risk

The Company is exposed to interest rate risk on its bank loans because of potential future changes in market interest rates.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

14. Financial risk management (continued)*(b) Interest rate risk (continued)**Sensitivity analysis*

A 1% increase in the floating interest rate for the year ended September 30, 2019 would have decreased profit for the year by \$117,445 (2018 - \$136,200) assuming all other variables remain constant. Similarly, a 1% decrease in the floating interest rate for the year ended September 30, 2019 would have increased profit for the year by \$117,445 (2018 - \$136,200). The interest rate structure of the term loan is calculated on HSBC base rate, 2.5% plus one-month USD LIBOR per annum. The one-month USD LIBOR has been quoted in the range of 2.31% to 2.01% during the current period and therefore does not currently expose the Company to significant interest rate risk. This analysis is performed using market information and in practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(c) Credit risk

The Company maintains the majority of its cash and cash equivalents in accounts with a Bermuda-based bank. The bank's current credit rating by Standard & Poor was A-/A-2 and the risk of default is not considered significant by management.

The following table presents an analysis of the credit quality of cash and cash equivalents at amortized cost (2018 – loans and receivables) by reference to the external credit rating and default rates published by Standard and Poor's:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 994,112	\$ 629,203

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The 12-month and lifetime probabilities of default are based on historical data supplied by Standard and Poor's for each credit rating and are recalibrated based on current bond yields and credit default swap prices. The Company considers that its cash and cash equivalents and investments have low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the Company recognized an impairment allowance as at October 1, 2018 on cash and cash equivalents in the amount of \$nil. The amount of the allowance remains \$nil for the year ended September 30, 2019.

*(c) Credit risk**Accounts receivables*

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company's receivable balances are predominately with multiple Bermuda-based residential and commercial customers and are subject to credit risks in the normal course of business.

The maximum exposure to credit risk for receivable balances at the reporting date is represented by the carrying value on the consolidated statement of financial position.

The credit exposure is mitigated through the use of credit policies under which each new customer is analyzed individually for creditworthiness before the Company's standard payment terms and conditions are offered. The credit exposure is further mitigated through on-going monitoring and assessment of customer payment history.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

14. Financial risk management (continued)*(c) Credit risk (continued)*

The following table provides information about the exposure to credit risk and the aging for receivables from individual customers as at September 30, 2019:

As at September 30, 2019	<u>2019</u>	<u>2018</u>
Current	\$ 50,781	\$ 116,658
Past current	47,806	–
Past 30 days	16,210	8,822
Past 60 days	7,445	–
Past 90 days	<u>9,979</u>	<u>70,674</u>
	<u>\$ 132,221</u>	<u>\$ 196,154</u>

On initial application of IFRS 9 and for the year ended September 30, 2019, the Company did not recognize any provision for accounts receivable (2018 - \$nil)

(d) Market risk

Market risk is the risk that future changes in market prices may render financial instruments less valuable or increase the liability associated with such instruments. The Company's exposure to market risk is determined by a number of factors, including the size, duration, composition and diversification of positions held, as well as market volatility and liquidity. The Company seeks to manage its exposure to market risk by investing in securities quoted on the BSX.

The Company's exposure to market risk associated with its investments is equal to the consolidated statement of financial position carrying value of the instruments excluding level 3 investments (which remains unchanged from prior years) of \$728,148 (2018 - \$726,134).

Sensitivity analysis

All the Company's investments in common stocks are listed on the BSX. Market prices of equities listed on the BSX tend to fluctuate between 10% to 15% on average based on trading activity. A 10% increase in market prices at the reporting date, assuming that all other variables remain constant, would increase the Company's equity by approximately \$72,815 (2018 - \$72,613). An equal change in the opposite direction would decrease the Company's equity by a corresponding amount. There would be no impact on reported profit for the year. This analysis is performed on the same basis for 2018. In practice the actual trading results may differ from this sensitivity analysis and the difference could be material.

(e) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets as part of its capital management strategy.

Consistent with others in the industry, the Company monitors capital on the basis of the debt to equity ratio. This ratio is calculated as total debt divided by total capital. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

14. Financial risk management (continued)*(e) Capital management* (continued)

During 2019, the Company's strategy, was unchanged from 2018, which was to maintain a debt to equity ratio of no more than 75%. The debt to equity ratios at September 30, 2019 and September 30, 2018 were as follows:

	<u>2019</u>	<u>2018</u> (restated)
Total debt	\$ 11,744,488	\$ 12,709,765
Total equity	\$ <u>34,783,333</u>	\$ <u>43,559,023</u>
Debt to equity	<u>33.8%</u>	<u>29.2%</u>

The debt to equity ratio is in line with the capital management strategy.

(f) Fair value

The Company has not disclosed the fair value of financial assets and liabilities not measured at fair value as the carrying values of the Company's financial assets and liabilities are reasonable estimates of their fair values due to the short-term maturity of these instruments or the fact that they attract interest at market rates.

Disclosure of fair value of investment property

The Company considers that the fair value of investment property disclosed in Note 6 falls within Level 3 fair value as defined by IFRS 13 and believe that the income approach is the best methods to determine fair value of the investment property. As further outlined in IFRS 13, a Level 3 fair value recognises that not all inputs and considerations made in determining the fair value of investment property can be derived from publically available data, as the valuation methodology in respect of investment property has also to rely on other factors including technical engineering reports, comparative data and analysis, and proprietary data basis maintained by the valuers in respect of similar properties to the assets being valued.

Fair value hierarchy

The table below analyses investments by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset either directly or indirectly.

Level 3: inputs for the asset that are not based on observable date.

	<u>2019</u>	<u>2018</u>
Level 1	\$ 728,148	\$ 726,134
Level 3	\$ <u>20,000</u>	\$ <u>20,000</u>

There have been no transfers between the levels during the year.

WEST HAMILTON HOLDINGS LIMITED

Notes to Consolidated Financial Statements

September 30, 2019 and September 30, 2018

14. Financial risk management (continued)*(g) Foreign currency risk*

The Company is not exposed to significant foreign currency risk.

15. Operating leases

The Company acts as lessor and leases its investment property under operating leases (see Note 5). The future minimum lease payments receivable under currently active leases are as follows:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 1,428,511	\$ 1,636,348
Between one and five years	<u>2,007,627</u>	<u>1,702,437</u>
	<u>\$ 3,436,138</u>	<u>\$ 3,338,785</u>

16. Critical judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors. Management makes critical accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and management judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below. Principal assumptions underlying management's estimation of fair value are reflecting the economic environment and market conditions during 2018, which continued throughout 2019. The fair value of investment property (Note 6) was determined principally using the income approach, supported by the terms of any existing lease and other contracts and by external evidence such as current (at the date of the statement of financial position) market rents for similar properties in the same location and condition and recent sales of similar properties, and using an investment yield that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

17. Taxation

Under current Bermuda law, the Company is not required to pay taxes on either income or capital gains. Accordingly, no provision for income taxes or deferred taxes has been made in the consolidated financial statements.

18. Related parties

Key management personnel compensation comprised:

	<u>2019</u>	<u>2018</u>
Short-term compensation	\$ 150,000	\$ 175,000

Details of employee share purchase plan available to key management personnel are disclosed in Note 11.

During the year ended September 30, 2019, the directors and executive officers of the Company had a combined interest in 446,625 of the Company's common shares (2018 - 446,625 shares).

WEST HAMILTON HOLDINGS LIMITED DIRECTORS & OFFICERS

J. Michael Collier
President & Chairman of the Board

Peter A. Pearman
Director

Duncan Saville
Director

Glenn M. Titterton
Director

Alasdair Younie
Director

Harrichand Sukdeo
Chief Financial Officer

Conyers Corporate Services
(Bermuda)

SUBSIDIARIES AS OF 30 SEPTEMBER, 2017

West Hamilton Ltd.
71 Pitts Bay Road
Pembroke HM08
Bermuda

Incorporated in Bermuda 29 April, 2007
Offers Residential and Commercial spaces
to rent or buy

Belvedere Place 'A' Ltd.

Incorporated in Bermuda 29 October, 2007
A Commercial Property Development Company

West Hamilton Investments Ltd.

Incorporated in Bermuda 20 June, 2012
An Investment Management Company trading
in shares listed on the BSX

EXTERNAL SERVICE PROVIDERS & CONSULTANTS

BANKERS

HSBC Bank Bermuda Ltd.
37 Front Street
Hamilton HM08
Bermuda

AUDITORS

KPMG Audit Limited
4 Par-La-Ville Road
Hamilton HM08
Bermuda

LEGAL ADVISORS

Conyers, Dill & Pearman Ltd.
2 Church Street
Hamilton HM11
Bermuda

REGISTRAR & TRANSFER AGENT

West Hamilton Ltd.
71 Pitts Bay Road
Pembroke HM08
Bermuda

**WEST
HAMILTON
HOLDINGS
LIMITED**

71 PITTS BAY ROAD
PEMBROKE HM08
BERMUDA

P.O. BOX HM 833
HAMILTON HM CX
BERMUDA

TEL: 441-295-5985
FAX: 441-295-7546
INFO@WESTHAMILTON.BM

WESTHAMILTON.BM