EXALCO HOLDINGS LIMITED

Annual Report and Consolidated
Financial Statements
31 December 2018

Company Registration Number: C 86836

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Directors' report

The directors present their first annual report and the audited consolidated financial statements for the year ended 31 December 2018.

Incorporation

The company was incorporated on 27 June 2018 under the terms of the Maltese Companies Act, 1995. Accordingly, the financial statements of the company reflect the period from the date of incorporation to 31 December 2018.

The company entered a share for share exchange agreement with the shareholders of Exalco Properties Limited, who are also the company's shareholders, on 6 July 2018. All the shares in Exalco Properties Limited were transferred to the company in exchange for an issue of 8,835 ordinary shares of a nominal value of €1.00 per share in Exalco Holdings Limited. For accounting purposes, the investment in subsidiary will be accounted for at the net book value of the shares exchanged at the time of the transfer.

The aggregated net book value attributed to the subsidiaries amounted to €36.8million. The amount of €36.6million being the difference between the net book value of the subsidiaries and the nominal amount of shares issues, has been recognised directly in equity in a reserve titled "Capital reserve".

As disclosed in accounting policy 1.1 "basis of preparation" on page 15, the consolidated financial statements have been prepared as if the group was in existence prior to the date of the group's formation. The substance of this transaction was that of a group restructuring and consequently, in accordance with generally accepted accounting principles, the transaction has been accounted for in the consolidated financial statements using the predecessor basis of accounting as if it had occurred at the beginning of the earliest period reported. Consequently, comparative figures for 2017 are disclosed for information purposes only and have been prepared as if the group was in existence prior to the date that the holding company was incorporated.

Principal activities

The group's main business comprises the acquisition, development, managing and leasing of commercial property in Malta. All properties are retained by the group to generate rental and management revenues.

Exalco Finance plc, a subsidiary company, was incorporated on 17 July 2018, to carry on the business of a finance company, and the financing or re-financing of the funding requirements of the business of the group.

Exalco Properties Limited, the main subsidiary company of Exalco Holdings Limited, owns and manages six business centres in prime locations across Malta and its primary activity is the acquisition and development of high-quality business centres and the leasing and management of office and retail space to third parties.

Financial Position of the Group

The group's total assets have increased from €56.1million to €68.3million as at 31 December 2018 mainly due to the acquisition during the year of a sixth business centre which is to be completed by end of Quarter 2 of 2019. The group's asset base is 55.5% funded through equity.

As at year end the group's main liabilities are borrowings consisting of two bank loans amounting to €7.9million and €14.7million in bonds.

As at 31 December 2018, the group's current assets amounted to €4.4million and consist mainly of cash of €3.7million. Current liabilities amounted to €3.2million consisting mainly of trade and other payables of €2million.

Directors' report - continued

Financial Performance of the Group

In 2018, the group generated revenue of €3.8million, an increase of €1.1million over the comparative year. This increase is mainly attributable to a full twelve months of rental income receivable from the building named "@GiG Beach" as well as rental income generated from the new property acquisition mentioned below.

The group's administrative expenses amounted to €0.4million compared to €0.2million in 2017. This increase is mainly due to a significant increase in professional fees incurred due to the group restructuring carried out during the year.

The group's finance costs amounting to €0.6million comprise interest payable on bank loans and interest payable on the outstanding bond issue and amortisation of the issued costs thereof.

The group's profit before tax for the year under review amounted to €2.3million. Profit for 2017 amounted to €19.1million. These include investment income amounting to €17.7million related to the fair value gains of investment property. This increase was accounted for in the income statement in accordance with the group's accounting policy. If such gains were to be excluded from the assessment of the 2017 performance, one would note a marked improvement between 2018 and 2017 of €883,427.

Developments in 2018

On 21 August, 2018, Exalco Finance plc issued to the general public guaranteed and secured bonds totalling €15million. The bonds have a coupon interest rate of 4% per annum. Exalco Properties Limited is the guarantor of the bonds issued by Exalco Finance plc and also provides two business centres as security for the bond issue. In accordance with the provisions of the bond issue prospectus, the bond issue proceeds were advanced to Exalco Properties Limited, €11.2m of which were utilised to repay all outstanding bank loans in connection with the acquisition and development of the various business centres operated by Exalco Properties Limited.

On 26 September, 2018, Exalco Properties Limited acquired the "Phoenix Building" situated in St. Venera which is to be renamed the "Phoenix Business Centre" on completion. External façade works and internal finishing works to Levels 2 and 3 of the building commenced in October 2018 and are expected to be completed by June 2019. Bond proceeds are being utilised to part-finance the above mentioned internal finishes. As the building was acquired with 2 levels already occupied and leased to retail and commercial tenants, income from rental contracts started to accrue to Exalco Properties Limited as from 1 October, 2018.

In Quarter 3 2018, Exalco Properties Ltd obtained new bank loans to part-finance the acquisition and internal and external finishing costs of the "Phoenix Building".

Outlook for 2019

The group's focus is now firmly on completing the "Phoenix Business Centre" in preparation to receive potential tenants in Quarter 3 2019. The directors are confident that this new building will achieve 100% occupancy by the end of 2019.

Same as every year, Exalco Properties Limited will continue to renovate and upgrade its existing property portfolio to ensure the buildings remain competitive and attractive in line with new market standards and demands.

Directors' report - continued

Risks and uncertainties

The local positive economic situation is expected to continue to drive demand for quality commercial premises and subject to any unforeseen circumstances, the group envisages occupancy levels in 2019 to remain at 100% in all its buildings.

Notwithstanding this, the group's performance and financial position would be impacted negatively in the event of a downturn in certain sectors of the local economy, specifically the gaming and financial services sectors.

Financial risk management

The group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, and cash flow interest rate risk), credit risk and liquidity risk. Further information on these risks is included in Note 2 to the financial statements.

Results and dividends

The income statements of comprehensive are set out on page 11. During the period, the directors declared a net dividend of €90,001 (2017: €2,238,014).

Directors

The directors of the holding company who held office during the period since incorporation were:

Alexander Montanaro
Jean Marc Montanaro
Michael Montanaro

The company's Articles of Association do not require any directors to retire.

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the group and the parent company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business as a going concern.

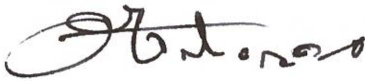
The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report - continued

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board



Alexander Montanaro
Director

Jean Marc Montanaro
Director

Registered office:
Cornerstone Business Centre
Level 4
16 September Square
Mosta MST1180

8 April 2019

Independent auditor's report

To the Shareholders of Exalco Holdings Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Exalco Holdings Limited's Group and the Parent Company, financial statements (the ' financial statements') give a true and fair view of the Group's and the Parent Company's financial position as at 31 December 2018, and of the Group's and Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

Exalco Holdings Limited's financial statements, set out on pages 9 to 48, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2018;
- the Consolidated and Parent Company income statements for the year ended;
- the Consolidated and Parent Company statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Group and the Parent company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

pwc

Independent auditor's report - *continued*

To the Shareholders of Exalco Holdings Limited

Other information

The directors are responsible for the other information. The other information comprises of the Directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and the Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report - *continued*

To the Shareholders of Exalco Holdings Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group and the Parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report - *continued*

To the Shareholders of Exalco Holdings Limited

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

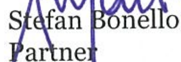
Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta



Stefan Bonello
Partner

8 April 2019

Statements of financial position

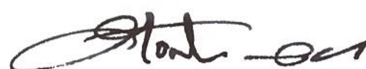
		As at 31 December		
		Group		Company
	Notes	2018 €	2017 €	2018 €
ASSETS				
Non-current assets				
Property, plant and equipment	4	**451,838**	456,323	**-**
Investment property	5	**61,450,857**	54,431,808	**-**
Investments in subsidiaries	6	**-**	-	**36,832,366**
Loan receivable from related party	7	**2,032,980**	-	**-**
Total non-current assets		**63,935,675**	54,888,131	**36,832,366**
Current assets				
Trade and other receivables	8	**667,661**	1,000,558	**-**
Cash and cash equivalents	9	**3,701,557**	212,771	**1,165**
Total current assets		**4,369,218**	1,213,329	**1,165**
Total assets		**68,304,893**	56,101,460	**36,833,531**

Statements of financial position - continued

		As at 31 December		
		Group		Company
		2018	2017	**2018**
	Notes	**€**	€	**€**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital/Share premium	10	**10,000**	2,840,000	**10,000**
Capital reserve	11	**2,831,165**	-	**36,573,532**
Valuation reserves	13	**30,328,032**	30,270,332	**-**
Retained earnings		**4,724,382**	3,074,096	**249,214**
Total equity		**37,893,579**	36,184,428	**36,832,746**
Non-current liabilities				
Borrowings	14	**21,879,607**	10,609,078	**-**
Deferred tax liabilities	15	**4,685,790**	4,650,990	**-**
Trade and other payables	16	**678,364**	551,693	**-**
Total non-current liabilities		**27,243,761**	15,811,761	**-**
Current liabilities				
Borrowings	14	**732,893**	1,660,643	**-**
Trade and other payables	16	**1,970,394**	2,146,658	**785**
Current tax liability		**464,266**	297,970	**-**
Total current liabilities		**3,167,553**	4,105,271	**785**
Total liabilities		**30,411,314**	19,917,032	**785**
Total equity and liabilities		**68,304,893**	56,101,460	**36,833,531**

The notes on pages 15 to 48 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 9 to 48 were authorised for issue by the board of directors on 8 April 2019 and were signed on its behalf by:



Alexander Montanaro
Director

Jean Marc Montanaro
Director

Income statements

	Notes	Group 2018 €	Group 2017 €	Company 2018 €
		Year/Period ended 31 December		
Revenue	17	**3,806,838**	2,731,386	**340,000**
Direct operating expenses	18	**(515,926)**	(547,649)	**-**
Administrative expenses	18	**(414,429)**	(195,339)	**(785)**
Operating profit		**2,876,483**	1,988,398	**339,215**
Investment income	20	**92,500**	17,709,389	**-**
Finance income		**26**	67	**-**
Finance costs	21	**(634,950)**	(537,833)	**-**
Profit before tax		**2,334,059**	19,160,021	**339,215**
Tax expense	23	**(536,072)**	(3,449,454)	**-**
Profit for the year/period		**1,797,987**	15,710,567	**339,215**

Statements of comprehensive income

	Group 2018 €	Group 2017 €	Company 2018 €
	Year/Period ended 31 December		
Profit for the year/period	**1,797,987**	15,710,567	**339,215**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Revaluation gain on property, plant and equipment, (net of deferred tax)	**-**	325,564	**-**
Total comprehensive income for the year/period	**1,797,987**	16,036,131	**339,215**

The notes on pages 15 to 48 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group	Notes	Share capital €	Capital reserve €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2017		2,840,000	-	15,351,835	4,194,476	22,386,311
Comprehensive income						
Profit for the year		-	-	-	15,710,567	15,710,567
Other comprehensive income						
Revaluation gains on property, plant and equipment (net of deferred tax)		-	-	325,564	-	325,564
Fair value of investment property (net of deferred tax)	5,15	-	-	14,592,933	(14,592,933)	-
Total other comprehensive income		-	-	14,918,497	(14,592,933)	325,564
Transactions with owners						
Dividends paid	24	-	-	-	(2,238,014)	(2,238,014)
Balance at 31 December 2017		**2,840,000**	**-**	**30,270,332**	**3,074,096**	**36,184,428**
Balance at 1 January 2018		2,840,000	-	30,270,332	3,074,096	36,184,428
Comprehensive income						
Profit for the year		-	-	-	1,797,987	1,797,987
Other comprehensive income						
Fair value of investment property (net of deferred tax)	5,15	-	-	57,700	(57,700)	-
Transactions with owners						
Issue of share capital (before group restructuring)		1,165	-	-	-	1,165
Increase of share capital (after group restructuring)		8,835	(8,835)	-	-	-
Impact of group restructuring on share capital	10,11	(2,840,000)	2,840,000	-	-	-
Dividends paid	24	-	-	-	(90,001)	(90,001)
Total transactions with owners		(2,830,000)	2,831,165	-	(90,001)	(88,836)
Balance at 31 December 2018		**10,000**	**2,831,165**	**30,328,032**	**4,724,382**	**37,893,579**

The notes on pages 15 to 48 are an integral part of these consolidated financial statements.

Statements of changes in equity - continued

	Notes	Share capital €	Share premium €	Retained earnings €	Total equity €
Company					
Balance at 27 June 2018		-	-	-	-
Comprehensive income					
Profit for the period		-	-	339,215	339,215
Transactions with owners					
Issue of share capital	10	1,165	-	-	1,165
Increase in share capital (due to share exchange)	10,11	8,835	36,573,532	-	36,582,367
Dividends paid	24	-	-	(90,001)	(90,001)
Total transactions with owners		10,000	36,573,532	(90,001)	36,493,531
Balance at 31 December 2018		**10,000**	**36,573,532**	**249,214**	**36,832,746**

The notes on pages 15 to 48 are an integral part of these consolidated financial statements.

Statements of cash flows

	Notes	Group 2018 €	Group 2017 €	Company 2018 €
		As at 31 December		
Cash flows from operating activities				
Cash generated from operations	25	**3,178,831**	3,790,492	**-**
Dividends received		**-**	-	**340,000**
Interest paid		**(634,950)**	(537,833)	**-**
Interest received		**26**	67	**-**
Income tax paid		**(334,976)**	(273,355)	**-**
Net cash generated from operating activities		**2,208,931**	2,979,371	**340,000**
Cash flows from investing activities				
Purchases of property, plant and equipment		**(2,059)**	(901,591)	**-**
Purchases of investment property		**(6,926,549)**	(2,505,320)	**-**
Additions in investment in subsidiaries		**-**	-	**(249,999)**
Advances of loan to a related party		**(2,032,980)**	-	**-**
Net cash used in investing activities		**(8,961,588)**	(3,406,911)	**(249,999)**
Cash flows from/(used in) financing activities				
Issue of share capital		**1,165**	-	**1,165**
Issue of €15,000,000 4% bonds		**15,000,000**	-	**-**
Issue costs		**(300,000)**	-	**-**
Repayment of bank borrowings		**(10,952,957)**	(916,245)	**-**
Proceeds from bank borrowings		**7,900,000**	2,581,308	**-**
Advances from shareholders		**-**	414,696	**-**
Repayment of advances from shareholders		**(582,694)**	-	**-**
Dividends paid to company's shareholders		**(90,001)**	(2,238,014)	**(90,001)**
Net cash generated from/(used in) financing activities		**10,975,513**	(158,255)	**(88,836)**
Net movement in cash and cash equivalents		**4,222,856**	(585,795)	**1,165**
Cash and cash equivalents at beginning of year/period		**(521,299)**	64,496	**-**
Cash and cash equivalents at end of year/period	9	**3,701,557**	(521,299)	**1,165**

The notes on pages 15 to 48 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

Exalco Holdings Limited was incorporated on 27 June 2018 under the terms of the Maltese Companies Act, 1995. On 6 July 2018, Exalco Holdings Limited acquired a 100% shareholding in Exalco Properties Limited in exchange for the issue of shares to the shareholders of this company, which are the same shareholders of the holding company. On 17 July 2018, the company incorporated Exalco Finance p.l.c, which in turn issued a bond to the general public of €15,000,000.

The substance of this transaction was that of a group restructuring and accordingly the provisions in respect of business combinations set out in IFRS 3 are not applicable. In accordance with generally accepted accounting principles, the transaction has been accounted for in the consolidated financial statements as a restructuring, and these accounts have been compiled as if the company, was the parent company of the group from incorporation. Accordingly, in order to provide more meaningful information, the comparative figures for 2017 include the financial performance and position of the group even though the new parent company was legally incorporated during the current period.

These consolidated financial statements include the financial statements of Exalco Holdings Limited and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial information has been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category within property, plant and equipment and investment property, and except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgement in the process of applying the group's accounting policies (see note 3 – Critical accounting estimates and judgements). These accounting policies have been applied to the books of accounts of the entity acquired by Exalco Holdings Limited except for the reorganisation between the group entities under common control which is accounted for using the reorganisation method of accounting. Under this method, assets and liabilities are incorporated at the predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entity as recognised and measured in this entity's pre-organisation financial statements. No goodwill arises in reorganisation accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity, is included in equity. The financial statements, incorporate the acquired entity full year results, including comparatives, as if the post-reorganisation structure was already in place at the commencement of the comparative period.

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2018. Other than changing its accounting policies for financial assets as a result of adopting IFRS 9, 'Financial Instruments', the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies impacting the group's financial performance and position.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards effective in 2018 - continued

IFRS 9 – Financial Instruments

IFRS 9 replaced the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement; the group adopted IFRS 9 on 1 January 2018, which is the date of initial application of the standard. IFRS 9 has resulted in changes in accounting policies related to the classification and measurement and impairment of financial assets. The group has taken advantage of the exemption in IFRS 9 allowing it not to restate comparative information for prior periods with respect to classification and measurement and impairment charges.

(a) Classification of Financial assets under IFRS 9

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

The transition from IAS 39 to IFRS 9 did not have a material impact on the group's measurement models applied to its financial assets; the differences between IAS 39 and IFRS 9 consists solely of reclassifications. Reclassification adjustments reflect the movement of balances between categories of financial assets with no impact to shareholders' equity. There is no change to the carrying value of financial instruments as a result of reclassifications.

The application of IFRS 9 resulted in the reclassification of all the group's financial assets from the 'Loans and receivables' category in IAS 39 to 'Financial assets at amortised cost' under IFRS 9. These assets comprise loans, trade and other receivables and cash and cash equivalents. The new classification requirements have not had a material impact on the group's accounting for loans and receivables, which continued to be measured at amortised cost upon the adoption of IFRS 9, and they did not have an impact on the classification of the company's financial liabilities.

The changes in classification accordingly had no impact on the group's equity and tax balances.

(b) Impairment

From 1 January 2018 the group has to assess on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. IFRS 9 replaced the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to the group's financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For the loan receivable from related party and cash and cash equivalents, which are both subject to the impairment requirements of IFRS 9, the expected credit losses are immaterial.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards effective in 2018 - continued

For trade receivables, the company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for all trade receivables. The impact on the group of this change in the impairment model is not significant in view of the high quality of the counterparties to which the group is exposed to credit risk, and the loss allowance is not material.

The new policy is disclosed in more detail in note 1.9.

IFRS 15 Revenue from contracts with customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when customers obtain control of the good or service and thus have the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.

After taking cognisance of the nature of the group's contracts with customers, it was concluded that the transition to IFRS 15 was immaterial and no adjustments were made to the group's results and financial position.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the group's accounting periods beginning after 1 January 2018. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU.

The directors are of the opinion that there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application taking also to consideration IFRS 16.

Under IFRS 16 a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The standard is effective for annual periods beginning on or after 1 January 2019. The group has not entered into long-term non-cancellable leases and thus IFRS 16 will not impact the group.

1.2 Consolidation

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

1. **Summary of significant accounting policies** - continued

1.2 Consolidation - continued

The group applies the acquisition method of accounting to account for business combinations except as dislosed in Note 1.4. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

A listing of the subsidiaries is set out in Note 26 to the financial statements.

1.3 Foreign currency translation

(a) Functional currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the group's and company's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.4 Business combinations involving entities under common control

As disclosed in the basis of preparation Note 1.1 above, Exalco Holdings Limited acquired a 100% shareholding in Exalco Properties Limited, in exchange for the issue of shares to the previous ultimate shareholders of this entity which are the same shareholders of the holding company. In accordance with generally accepted accounting principles, the pooling of interest basis of accounting has been adopted and this transaction has been recorded as if it had occurred at the beginning of the earliest period reported.

Business combinations involving entities under common control are transactions in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. The key feature of a transaction among entities under common control is that there is no change in the ultimate control of the combining entities as a result of the transaction. Control could be exercised by a group of individuals that are all part of the same close family group when they have the collective power to govern the financial and operating policies of the entity.

1. Summary of significant accounting policies - continued

1.4 Business combinations involving entities under common control - continued

The group has chosen to apply the pooling of interests method to account for transactions involving entities under common control. The group accounts for business combinations involving entities under common control by recording:

(a) the transaction as if it had taken place at the beginning of the earliest period presented;
(b) the assets and liabilities of the acquired entity using predecessor book values from the consolidated financial statements of the controlling party, and
(c) the difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity as an adjustment to equity.

When the controlling party does not prepare financial statements, the book values from the financial statements of the acquired entity are used.

1.5 Property, plant and equipment

All property, plant and equipment, is initially recorded at historical cost. Land and buildings are shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis, such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other furniture, fixtures, fittings and office equipment, and motor vehicles are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve and shown in the valuation reserves within shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of any related deferred income taxes, is transferred from the valuation reserve to retained earnings.

Freehold land is not depreciated as it is deemed to have an indefinite life.

1. Summary of significant accounting policies - continued

1.5 Property, plant and equipment - continued

Depreciation on assets other than land, is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life as follows:

	%
Buildings	1
Lifts and escalators	15
Furniture, fixtures, fittings and office equipment	10
Motor vehicles	20
Computer and equipment	25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognised in profit and loss. These are taken into account in determining operating profit when revalued assets are sold, the amounts included in the valuation reserve relating to the assets are transferred to retained earnings.

1.6 Investment property

Investment property comprising freehold commercial property is held for long-term rental yields or for capital appreciation or both, and is not occupied by the group. Investment property comprises freehold land and buildings.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed periodically by the group's directors.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measured.

The fair value of investment property reflects, among other factors, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

1. Summary of significant accounting policies - continued

1.6 Investment property - continued

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the group decides to dispose of an investment property without development, the group continues to treat the property as an investment property. Similarly, if the group begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment.

If an item of property, plant and equipment becomes an investment property because its use has changed, its cost and accumulated depreciation at the date of reclassification becomes its cost and accumulated amortisation for subsequent accounting purposes.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

1.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.8 Investments in subsidiaries

Subsidiaries are all entities over which the company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

In the company's financial statements, investments in subsidiaries, which represent shares in subsidiaries, are accounted for by the cost method of accounting. The dividend income from such investments is included in profit or loss in the financial year in which the company's rights to receive payment of dividends is established. The company gathers objective evidence that an investment is impaired using the same process disclosed in Note 1.7. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1. Summary of significant accounting policies - continued

1.9 Financial assets

Accounting policy applied from 1 January 2018

Classification

The group classifies its financial assets as financial assets measured at amortised costs. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The group classifies its financial assets as at amortised cost only if both the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and

- The contractual terms give rise to cash flows that are solely payments of principal and interest.

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 on 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 of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group 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.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Interest income on debt instruments measured at amortised cost from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition of these instruments is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated statement of profit or loss.

1. Summary of significant accounting policies - continued

1.9 Financial assets - continued

Impairment

The group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The group's financial assets are subject to the expected credit loss model.

Expected credit loss model

The group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. The group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and it considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or the financial asset is more than 90 days past due.

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 group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the group assesses whether financial assets carried at amortised 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 observable data such as significant financial difficulty of the borrower or issuer, or a breach of contract such as a default or being more than 90 days past due.

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

Simplified approach model

For trade receivables, the group applies the simplified approach required by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

1. Summary of significant accounting policies - continued

1.9 Financial assets - continued

Impairment - continued

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2018 or 1 January 2018, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the liability of the customers to settle the receivable. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

Accounting policy applied until 31 December 2017

Classification

The group classified its financial assets in the loans and receivables category. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They arose when the group provided money, goods or services directly to a debtor with no intention of trading the asset. They were included in current assets, except for maturities greater than twelve months after the end of the reporting period. These were classified as non-current assets. The group's loans and receivables comprised trade and other receivables together with cash and cash equivalents in the statement of financial position (Notes 1.10 and 1.11).

Recognition and measurement

The group recognised a financial asset in its statement of financial position when it became a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets were recognised on the settlement date, which is the date on which an asset was delivered to or by the group.

Financial assets were initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss were initially recognised at fair value and transaction costs were expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Loans and receivables were subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets were derecognised when the rights to receive cash flows from the financial assets had expired or had been transferred and the group had transferred substantially all risks and rewards of ownership or had not retained control of the asset.

Impairment

In prior year, the impairment of receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectable were written off by reducing the carryng amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified.

1. Summary of significant accounting policies - continued

1.9 Financial assets - continued

Impairment - continued

The group assessed at the end of each reporting period whether there was objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. The group first assessed whether objective evidence of impairment existed. The criteria that the group used to determine that there was objective evidence of an impairment loss included:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it became probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial assets carried at amortised cost, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount was reduced and the amount of the loss was recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

1.10 Trade and other receivables

Trade receivables comprise amounts due from customers for rents due or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.9). Details about the group's impairment policies and the calculation of loss allowance are provided in Note 1.9.

1.11 Cash and cash equivalents

Cash and cash equivalents are carried in the statements of financial position at face value. In the statements of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included under borrowings in current liabilities.

1.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1. Summary of significant accounting policies - continued

1.13 Financial liabilities

The group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The group's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities'). These financial liabilities are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.14 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.15 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

1.16 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.17 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred taxation is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

1. Summary of significant accounting policies - continued

1.17 Current and deferred tax - continued

Under this method the group is required to make provision for deferred income taxes on the revaluation of certain property assets and provisions on the difference between the carrying values for financial reporting purposes and their tax base. Such deferred tax is charged or credited directly to the respective reserve.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.18 Provisions

Provisions for legal claims are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

1.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the group's activities. Revenue is recognised upon or performance of services, net of sales tax, returns, rebates and discounts.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group and when specific criteria have been met for each of the group's activities as described below:

(a) Rental income from investment property

Rentals receivable, short-term lets receivable and premia charged to tenants of immoveable property are recognised in the period when the property is occupied. Premia are taken to profit or loss over the period of the leases to which they relate.

(b) Complex management income

Revenue from services related to complex management is generally recognised in the accounting period in which the services are provided, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

1. Summary of significant accounting policies - continued

1.20 Finance income and costs

Finance income and costs are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. Finance income is recognised as it accrues, unless collectability is in doubt. Finance costs includes the effect of amortising any difference between net proceeds and redemption value in respect of the group's borrowings.

1.21 Leases

Where the group is a lessor

Assets leased out under operating leases are included in investment property in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned investment property. Rental income is recognised as it accrues, unless collectibility is in doubt.

1.22 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment, investment property or property held for development and resale are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed.

Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the group's interest-bearing borrowings.

2. Financial risk management

2.1 Financial risk factors

The group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group did not make use of derivative financial instruments to hedge certain risk exposures during the current financial year. The directors provide policies for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective group entity's functional currency. The group is not exposed to significant foreign exchange risk arising from the group's financing transactions as assets and liabilities are denominated in euro and the group is not exposed to foreign exchange risk arising on trading transactions as these are all conducted in euro.

The group's cash and cash equivalents, borrowings, loans and receivables and payables are denominated in euro.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(i) Foreign exchange risk - continued

Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

(ii) Cash flow and fair value interest rate risk

The group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises from borrowings. Borrowings issued at variable rates, comprising bank borrowings (Note 14), expose the group to cash flow interest rate risk. Certain group's borrowings are subject to an interest rate that varies according to revisions made to the Bank's base rate. Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Interest rates on these financial instruments are linked with the Central Intervention Rate issued by the European Central Bank.

Borrowings issued at fixed rates relating to the bond issued do not carry an interest rate risk as rate does not fluctuate.

Based on the above, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial. Up to the end of the reporting period the group did not have any hedging arrangements with respect to the exposure of floating interest rate risk.

(b) Credit risk

The group measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward-looking information in determining any expected credit loss.

The group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below. The group's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	Group	
Financial assets measured at amortised cost (classified as loans and receivables in 2017):	**2018 €**	2017 €
Loan receivable from related party (Note 7)	**2,032,980**	-
Trade and other receivables (Note 8)	**649,886**	963,102
Cash and cash equivalents (Note 9)	**3,701,557**	212,771
	6,384,423	1,175,873

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The group does not hold any collateral as security in this respect.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(c) Credit risk - continued

To measure the expected credit losses, trade receivables, other receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. The accrued income relate to unbilled dues and claims and have substantially the same risk characteristics as the related receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for the receivables are a reasonable approximation of the loss rates for the accrued income.

The group monitors the performance of its receivables on a regular basis to identify incurred collection losses, which are inherent in the group's receivables, taking into account historical experience.

The group assesses the credit quality of its customers taking into account financial position, past experience and other factors. The loss allowances for financial assets are based on assumptions about risk of default and, with effect from 1 January 2018, expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. No loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the group.

The expected loss rates are based on the payment profiles of customers over a period of 12 months before 31 December 2018 or 1 January 2018, respectively, and the corresponding historical credit losses experienced within this period. There was no history of default and thus no impairment provision was recorded as at 31 December 2018 on adoption of IFRS 9.

Loans and amounts receivable from related party are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management consider 'low credit risk' for instruments which have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. In this case, the assessment takes into consideraton the financial positon, performance and other factors of these entities. Management monitors intra-group credit exposures on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The company take cognisance of the related party relationship with this entity and management does not expect any losses from non-performance or default.

At 31 December 2018 and 31 December 2017, cash and short-term deposits are held with counterparties with a credit rating of BB or higher and are due to be settled within 1 week. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the group.

(c) Liquidity risk

The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally trade and other payables and interest-bearing borrowings (Notes 16 and 14). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the group's obligations.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period and ensures that when additional financing facilities are expected to be required over the coming period there are adequate credit facilities in place with external sources and the treasury function.

The group's liquidity risk is monitored in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments, coupled with the group's committed borrowing facilities. The carrying amounts of the group's assets and liabilities are analysed into relevant maturity based on the remaining period at the end of the reporting period to the contractual maturity date in the respective notes to the financial statements.

The table below analyses the group's financial liabilities into relevant maturity based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

Group

	Carrying amount €	Contractual cash flows €	Within one year €	One to five years €	Over five years €
31 December 2018					
Bank borrowings	7,900,000	9,462,655	964,860	3,989,538	4,508,257
Bonds 2018 – 2028	14,712,500	20,753,425	600,000	2,401,644	17,751,781
Trade and other payables	2,648,758	2,648,758	1,970,394	678,364	-
	25,261,258	**32,864,838**	**3,535,254**	**7,069,564**	**22,260,038**
31 December 2017					
Bank borrowings	11,687,027	14,189,349	1,434,976	6,518,202	6,236,171
Shareholder's loans	582,694	582,694	582,694	-	-
Trade and other payables	2,698,351	2,698,351	2,146,658	551,693	-
	14,968,072	**17,470,394**	**4,164,328**	**7,069,895**	**6,236,171**

2.2 Fair values

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Refer to Note 5 for details of such techniques.

Financial instruments not carried at fair values

The carrying amounts of cash at bank, trade receivables (net of impairment provisions), payables and borrowings are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

As at the end of the reporting period, the fair values of financial assets and liabilities, approximate the carrying amounts shown in the statement of financial position.

2. Financial risk management - continued

2.3 Capital risk management

The capital of the group is managed with a view of maintaining a controlled relationship between capital and structural borrowings in order to maintain an optimal capital structure which reduces the cost of capital. To maintain or adjust its capital structure, the group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The group's objectives when managing capital are to safeguard the group'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.

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

Structural borrowings include all borrowings, less cash and cash equivalents.

The gearing ratios at 31 December were as follows:

	Group	
	2018	2017
	€	€
Total borrowings (Note 14)	**22,612,500**	12,269,721
Less: Cash in bank and in hand (Note 9)	**(3,701,557)**	(212,771)
Net borrowings	**18,910,943**	12,056,950
Total equity	**37,893,579**	36,184,428
Total capital	**56,804,522**	48,241,378
Gearing	**33%**	25%

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.
In the opinion of the directors with the exception of the revaluation of the property, plant and equipment and investment property, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

As referred to in Notes 4 and 5 to the financial statements, the Group's land and buildings carrying value category of property, plant and equipment and investment property, were reassessed on 31 December 2018 by the directors on the basis of fair market value after considering the intrinsic value of the property and net potential returns.

4. Property, plant and equipment

Group

	Office buildings €	Furniture, fixtures, fittings and office equipment €	Motor vehicles €	Total €
At 1 January 2017				
Cost or valuation	-	596,292	42,518	638,810
Accumulated depreciation	-	(480,700)	(30,239)	(510,939)
Net book amount	-	115,592	12,279	127,871
Year ended 31 December 2017				
Opening net book amount	-	115,592	12,279	127,871
Additions	-	901,591	-	901,591
Disposals	-	-	(19,776)	(19,776)
Depreciation charge	-	-	(4,699)	(4,699)
Depreciation released on disposals	-	-	19,776	19,776
Transfers from/(to) investment property	448,743	(1,017,183)	-	(568,440)
Closing net book amount	448,743	-	7,580	456,323
At 31 December 2017				
Cost or valuation	448,743	480,700	22,742	952,185
Accumulated depreciation	-	(480,700)	(15,162)	(495,862)
Net book amount	448,743	-	7,580	456,323
Year ended 31 December 2018				
Opening net book amount	448,743	-	7,580	456,323
Additions	-	2,059	-	2,059
Depreciation charge	(1,329)	(515)	(4,700)	(6,544)
Closing net book amount	**447,414**	**1,544**	**2,880**	**451,838**
At 31 December 2018				
Cost or valuation	448,743	482,759	22,742	954,244
Accumulated depreciation	(1,329)	(481,215)	(19,862)	(502,406)
Net book amount	**447,414**	**1,544**	**2,880**	**451,838**

The group's land and buildings were last revalued on 31 December 2017 by professionally qualified independent valuer. Valuations were made on the basis of open market value. The surplus arising on revaluation, net of applicable deferred taxes, was credited to other comprehensive income and is shown in the revaluation reserve in shareholder's equity.

The directors are of the opinion that the carrying amount of property, plant and equipment as at 31 December 2018, does not differ materially from that which would be determined using the above mentioned approach (refer to Note 5).

4. Property, plant and equipment - continued

If the land and buildings were stated on the historical basis, the amounts would be as follows:

	Group	
	2018	2017
	€	€
Year ended 31 December		
Cost	**132,912**	132,912
Accumulated depreciation	**(1,994)**	(665)
Closing net book amount	**130,918**	132,247

5. Investment property

	Group	
	2018	2017
	€	€
Year ended 31 December		
Opening net book amount	**54,431,808**	33,351,095
Additions	**6,926,549**	2,505,320
Net transfers from property, plant and equipment (Note 4)	**-**	568,440
Transferred to advanced deposits	**-**	(28,000)
Fair value gains (Notes 13 and 15)	**92,500**	18,034,953
Closing net book amount	**61,450,857**	54,431,808
At 31 December		
Cost	**24,530,815**	17,604,266
Fair value gains	**36,920,042**	36,827,542
Net book amount	**61,450,857**	54,431,808

All the investment property is being leased out to third parties.

The following amount have been recognised in the income statement:

	Group	
	2018	2017
	€	€
Rental income	**3,233,299**	2,219,989

5. **Investment property** - continued

If the investment property were stated on the historical cost basis, the amounts would be as follows:

	2018	2017
	€	€
At 31 December		
Cost	**24,716,412**	17,789,863
Accumulated depreciation	**(917,088)**	(586,119)
Net book amount	**23,799,324**	17,203,744

Fair valuation of property

On 31 December 2017, the directors approved the fair valuation of property owned by the group and classified as property, plant and equipment and investment property, after assessing the valuations made by a duly appointed independent chartered architect. These valuations were determined on the basis of open market values.

The directors are of the opinion that the carrying amount of investment property as at 31 December 2018, does not differ materially from that which would be determined using the above approach.

The group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (level 1, 2 or 3).

The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The group's investment property principally comprises a portfolio of properties which mainly include commercial properties leased out to third parties. The group property, plant and equipment principally comprises of offices occupied by the group for operational purposes. All the recurring property fair value measurements at 31 December 2018 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2018.

A reconciliation from the opening balance to the closing balance of investment property and property, plant and equipment for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above and in Note 4. The principal movement relates to additions amounting to €6,926,549.

5. Investment property - continued

Valuation processes

The valuations of the properties are performed periodically on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the group's directors which is derived from the group's financial records and is subject to the group's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related. These are based on professional judgement and market observation

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the board of directors. This includes a review of fair value movements over the period.

Valuation techniques

Given the specific nature of these assets, the valuations of the Level 3 property have been performed with reference to the capitalised rental approach valuation model.

This valuation model takes into consideration annual rental values earned ranging from €120 to €386 per square metres, capitalised and discounted at a rate ranging from 6.7% to 8.5% that reflects the risks inherent in the utilisation of the specific properties.

For this valuation approach, the higher the rental rate per metre squared, the higher the resultant fair valuation. Conversely, the lower the rental capitalisation rate, the higher the resultant fair valuation.

Investment property amounting to €25,484,630 is held as security by the trustee of the bondholders, as per trust agreement dated 13 August 2018 (Note 14).

6. Investments in subsidiaries

	Company 2018 €
Year ended 31 December	
At the beginning of the year	-
Additions	**258,834**
Adjustment to equity (Note 11)	**36,573,532**
Closing cost and net book amount	**36,832,366**
At 31 December	
Cost and net book amount	**36,832,366**

6. Investments in subsidiaries - continued

On 6 July 2018, the company acquired the entire shareholding in Exalco Properties Limited for a consideration in the form of a share exchange amounting to €8,835 (Note 12). Under the requirements of the predecessor basis of accounting, the difference between the net asset value of this undertaking as at this date and the consideration paid, amounts to €36,573,532 and is disclosed as an adjustment to equity (Note 11).

Details of the above investments held in subsidiaries at 31 December 2018 is shown below:

	Registered office	Class of shares	Percentage of shares	
			2018	2017
Exalco Properties Limited	Cornerstone Business Centre, Level 4, 16 September Square, Mosta, MST 1180	Ordinary shares	**100%**	-
Exalco Finance Limited	Cornerstone Business Centre, Level 4, 16 September Square, Mosta, MST 1180	Ordinary shares	**100%**	-

7. Loan receivable from related party

	Group	
	2018	2017
	€	€
At beginning of year	**-**	-
Additions	**2,032,980**	-
At end of year	**2,032,980**	
At 31 December		
Cost and net book amount	**2,032,980**	-

The loan is unsecured, subject to interest rate of 3% and repayable after more than twelve months. During 2018, the company was required to revise its impairment methodology under IFRS 9 for all classes of assets. The amount of expected loss to be provided in accordance with IFRS 9 was not deemed material and thus it was not reflected in the company's financial statements.

8. Trade and other receivables

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Current			
Trade receivables	**427,532**	330,221	-
Amounts owed by related parties	**219,909**	628,399	-
Other receivables	**2,445**	4,482	-
Prepayments and accrued income	**17,775**	37,456	-
	667,661	1,000,558	-

Amounts owed by related parties are unsecured, interest free and repayable on demand. As of 31 December 2018 and 2017 amounts owed by related parties, were fully performing and hence do not contain impaired assets. During 2018, the company was required to revise its impairment methodology under IFRS 9 for all classes of assets. The amount of expected loss to be provided for in accordance with IFRS 9 was not deemed material and thus it was not reflected in the company's financial assets.

The group's and company's exposure to currency, credit and liquidity risk relating to trade and other receivables is disclosed in Note 2.

9. Cash and cash equivalents

For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Cash at bank and in hand	**3,701,557**	212,771	**1,165**
Bank overdrafts (Note 14)	-	(734,070)	-
	3,701,557	(521,299)	**1,165**

10. Share capital

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Authorised			
2,840,000 ordinary shares of €1 each	-	2,840,000	-
10,000 ordinary shares of €1 each	**10,000**	-	**10,000**
	10,000	2,840,000	**10,000**
Issued and fully paid			
2,840,000 ordinary shares of €1 each	-	2,840,000	
10,000 ordinary shares of €1 each	**10,000**	-	**10,000**
	10,000	2,840,000	**10,000**

10. Share capital - continued

The company was incorporated on 27 June 2018, having 1,165 ordinary shares of a nominal value of €1 each.

On 6 July 2018, the company entered into a share for share agreement with its shareholders whereby the 2,840,000 ordinary shares in Exalco Properties Limited owned by its shareholders were transferred to Exalco Holdings Limited for a non-cash consideration. This comprised in the issue and allotment of 8,835 ordinary shares having a nominal value of €1 each.

In accordance with the general applicable accounting principles the difference between the net asset value and the consideration paid amounting to €2,831,165 was accounted for in the group accounts in the capital reserve as an adjustment to equity (Note 11).

11. Capital reserve/Share premium

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Adjustment to equity (Notes 6, 10)	**2,831,165**	-	**36,573,532**

12. Group reorganisation

On 6 July 2018, the company acquired full ownership and control of Exalco Properties Limited. The ultimate shareholders of the acquired entity are the shareholders of the company and this restructuring has been recognised in accordance with the accounting policy applicable to such transactions (Note 1.1). The following table summarises the net adjustment to equity and the amounts of assets acquired and liabilities assumed, that were recognised in the consolidated statement of financial position as at 30 June 2018, being the date of the economic group restructuring. Recognised amounts of identifiable assets acquired and liabilities assumed:

	€
Property, plant and equipment	**453,973**
Investment property	**53,722,904**
Trade and other receivables	**1,622,549**
Current tax assets	**37,003**
Cash and cash equivalents	**47,085**
Trade and other payables	**(2,266,127)**
Bank overdrafts and loans	**(12,384,030)**
Deferred tax liabilities	**(4,650,990)**
Total net assets acquired	**36,582,367**
Consideration paid	**(8,835)**
Equity adjustments to reserves	
Retained earnings	**(3,472,035)**
Valuation reserves (Note 13)	**(30,270,332)**
Net adjustment to equity (Note 11)	**2,831,165**

13. Valuation reserve

Group	Revaluation reserve €	Fair value gains reserve €	Total €
At 1 January 2017	-	15,351,835	15,351,835
Revaluation gains in property, plant and equipment net of deferred tax (Notes 5,15)	325,564	-	325,564
Revaluation gains on investment property, net of deferred tax (Notes 5,15)	-	14,592,933	14,592,933
As at 31 December 2017	**325,564**	**29,944,768**	**30,270,332**
At 1 January 2018	325,564	29,944,768	30,270,332
Revaluation gains on investment property, net of deferred tax (Note 5,15)	-	57,700	57,700
As at 31 December 2018	**325,564**	**30,002,468**	**30,328,032**

The fair value gains reserve represents changes in fair value of investment property, net of deferred tax movements, which are unrealised at financial reporting dates. These amounts are transferred from retained earnings to this reserve since these gains are not considered by the directors to be available for distribution. Upon disposal of the respective investment property, realised fair value gains are transferred to retained earnings. The fair value gains reserve is a non-distributable reserve.

Increases in the carrying amount of property, plant and equipment arising on revaluation are credited to the revaluation reserve in shareholder's equity. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings. The revaluation reserve is a non-distributable reserve.

14. Borrowings

	Group 2018 €	Group 2017 €
Non-current		
150,000 4% bonds 2018 - 2028	**14,712,500**	-
Bank loans	**7,167,107**	10,026,384
Shareholder's loans	**-**	582,694
	21,879,607	10,609,078
Current		
Bank loans	**732,893**	926,573
Bank overdrafts (Note 9)	**-**	734,070
	732,893	1,660,643
Total borrowings	**22,612,500**	12,269,721

The group's banking facilities as at 31 December 2018 and 2017 amounted €8,403,291 and €15,326,074 respectively.

The group's bank loans and overdrafts are secured by:

(a) General and special hypothecs over the group's fixed assets;
(b) Guarantees given by third party company.

The interest rate exposure of borrowings was as follows:

	Group 2018 €	Group 2017 €
Total borrowings:		
At floating rates	**7,900,000**	12,269,721
At fixed rates	**14,712,500**	-
	22,612,500	12,269,721

Weighted average effective interest rates as at the end of the reporting period:

	Group 2018 %	Group 2017 %
4% Bonds 2018 - 2028	**4.00**	-
Bank loans	**-**	4.70
Bank overdrafts	**3.00**	4.40

14. Borrowings - continued

The bonds are measured at the amount of the net proceeds adjusted for the amortisation of the difference between the net proceeds and the redemption value of such bonds, using the effective yield method as follows:

	2018	2017
	€	€
Face value		
150,000 4.0% bonds 2018 - 2028	**15,000,000**	-
Issue costs	**(300,000)**	-
Accumulated amortisation	**12,500**	-
	(287,500)	-
Amortised cost at 31 December	**14,712,500**	-

By virtue of an offering memorandum dated 31 July 2018, the company issued €150,000 bonds with a face value of €100 each. The bond's interest is payable annually on 20 August, starting from 20 August 2019. The bonds are redeemable at par and are due for redemption on 20 August 2028. The bonds are guaranteed by Exalco Properties Limited, which has bound itself jointly and severally liable for the payment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum. The bonds have been admitted on the Official List of the Malta Stock Exchange on 21 August 2018. The quoted market price as at 31 December 2018 for the bonds was €105. In the opinion of the directors, these market prices fairly represent the fair value of these financial liabilities.

Investment property amounting to €25,484,630 is held as security by the trustee of the bondholders, as per trust agreement dated 13 August 2018.

This note provides information about the contractual terms of the company's borrowings. For more information about the company's exposure to interest rate, foreign currency and liquidity risk, see Note 2.

15. Deferred taxation

Deferred income taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2017: 35%), with the exception of deferred taxation on the fair valuation of property which is computed on the basis applicable to disposals of immovable property, i.e. tax effect of 8% or 10% of the transfer value.

15. Deferred taxation - continued

	Group	
	2018	2017
	€	€
At the beginning of year	**4,650,990**	1,534,534
Debited to equity		
Deferred income taxes on revaluation gain on property, plant and equipment (Note 23)	-	44,874
Debited to income statement		
Deferred income taxes on revaluation gain on investment property arising during the year (Note 23)	**34,800**	3,071,582
At 31 December	**4,685,790**	4,650,990

The balance at 31 December represents temporary differences on or attributable to:

	Group	
	2018	2017
	€	€
Non-current assets	**4,685,790**	4,650,990

The recognised deferred tax liabilities are expected to be settled principally after more than twelve months.

At 31 December 2018 and 2017, the company had the following temporary differences which were not recognised in these financial statements:

	Group	
	2018	2017
	€	€
Temporary differences on:		
Unabsorbed capital allowances	-	6,870
Trading losses	**136,897**	86,568
	136,897	93,438

This gave rise to a deferred tax asset of €47,914 (2017: €32,703) which has not been recognised in these financial statements.

16. Trade and other payables

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Non-current			
Trade payables	**678,364**	551,693	-
	678,364	551,693	-
Current			
Trade payables	**138,754**	221,762	-
Deposits received from clients	**163,638**	113,643	-
Amounts due to subsidiary	-	-	**785**
Indirect taxes and social security	**392,578**	262,702	-
Accruals and deferred income	**1,275,424**	1,548,551	-
	1,970,394	2,146,658	**785**
Total trade and other payables	**2,648,758**	2,698,351	**785**

The group's and company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 2.

17. Revenue

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Dividend income from subsidiary	-	-	**340,000**
Rental operations	**3,233,299**	2,219,989	-
Management operations	**573,539**	511,397	-
	3,806,838	2,731,386	**340,000**

18. Expenses by nature

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Employee benefit expense (Note 19)	**93,212**	89,462	-
Depreciation of property, plant and equipment (Note 4)	**6,544**	4,699	-
Repairs and maintenance costs	**401,170**	453,486	-
Director's remuneration (Note 22)	**91,788**	80,193	-
Professional fees	**151,764**	24,492	
Other costs	**185,877**	90,656	**785**
Total cost of sales, direct operating expenses and administrative expenses	**930,355**	742,988	**785**

18. Expenses by nature - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2018 and 2017 relate to the following:

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Annual statutory audit	**26,500**	10,000	**5,500**
Other non-assurance services	**60,000**	-	**-**
Tax advisory services	**31,467**	3,636	**650**
	117,967	13,636	**6,150**

Included in other non-assurance services is an amount of €57,500 in relation to advisory services provided with respect to the issue of bonds. These are included in the bond issue costs (Note 14).

19. Employee benefit expense

	Group	
	2018	2017
	€	€
Wages and salaries	**69,422**	69,641
Social security costs	**23,790**	19,821
	93,212	89,462

Average number of persons employed by the group during the year

	Group	
	2018	2017
Direct	**3**	3
Administration	**3**	2
	6	5

20. Investment income

	Group	
	2018	2017
	€	€
Increase in fair value of investment property (Note 5)	**92,500**	17,709,389

21. Finance costs

	Group 2018 €	Group 2017 €
Bank interest and charges	**402,176**	537,833
Coupon interest payable on bonds	**232,774**	-
	634,950	537,833

22. Directors' remuneration

	Group 2018 €	Group 2017 €
Salaries and other emoluments	**91,788**	80,193

23. Tax expense

	Group 2018 €	Group 2017 €	Company 2018 €
Current tax expense:			
on taxable income subject to tax at 15%	**485,005**	332,998	**-**
on taxable income subject to tax at 35%	**16,267**	-	**-**
Deferred tax expense (Note 15)	**34,800**	3,116,456	**-**
	536,072	3,449,454	**-**

The tax on the group's and the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group 2018 €	Group 2017 €	Company 2018 €
Profit before tax	**2,334,059**	19,160,021	**339,215**
Tax on profit at 35%	**816,921**	6,706,008	**118,725**
Tax effect of:			
Property tax rules on rental income	**(325,118)**	(209,100)	**-**
Disallowed expenses	**719**	1,673	**275**
Over provision of unrecognised deferred tax in prior year	**25,914**	-	**-**
Unrecognised deferred tax	**15,211**	32,703	**-**
Dividends taxed at source with a final tax	**-**	-	**(119,000)**
Tax rules applicable to immovable property	**2,425**	(3,081,830)	**-**
Tax expense	**536,072**	3,449,454	**-**

24. Dividends

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Dividends paid on ordinary shares:			
Gross and net	**90,001**	2,238,014	**90,001**
Dividends per share	**9.00**	223.80	**9.00**

The dividend per share calculation has been adjusted retrospectively to reflect the equity structure of the legal parent as if it was always in place.

25. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group		Company
	2018	2017	**2018**
	€	€	**€**
Operating profit	**2,876,483**	1,988,398	**339,215**
Adjustments for:			
Depreciation of property, plant and equipment (Note 4)	**6,544**	4,699	**-**
Dividend income (Note 17)	**-**	-	**(340,000)**
Amortisation of bond issue costs	**12,500**	-	**-**
Changes in working capital:			
Trade and other receivables	**332,897**	923,990	**-**
Trade and other payables	**(49,593)**	873,405	**785**
Cash generated from operations	**3,178,831**	3,790,492	**-**

Net debt reconciliation

All the movements in the company's net debt related only to cash flow movements and disclosed as part of the financing activities in the statement of cash flows on page 14.

26. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The group is ultimately fully owned by members of the Montanaro family who are therefore considered to be related parties.

The members of the Montanaro family incorporated the company with the aim of restructuring its operational investments and financing arrangements. On 6 July 2018, they transferred their operational entity to the company as disclosed in Notes 1.1 and 12. On 17 July 2018, the company incorporated Exalco Finance p.l.c and on 31 July 2018 this company issued 150,000 secured bonds of €100 to the general public. On 21 August 2018, these bonds were listed on the Malta stock exchange.

26. Related party transactions - continued

The entities constituting the Exalco Group are ultimately fully owned by the company. Other entities on which the Montanaro family can exercise significant influence are also considered to be related parties. Hence, related parties also include other entities controlled and owned by the members of the Montanaro family.

In the opinion of the directors, disclosure of related party transactions, which are generally carried out on commercial terms and conditions, is only necessary when the transactions effected have a material impact on the operating results and financial position of the Group. The aggregate invoiced amounts in respect of a number of transaction types carried out with related parties are not considered material and accordingly they do not have a significant effect on these financial statements except for the following:

	Company
	2018
	€
Dividend income	**340,000**

Year-end balances with related parties, are disclosed in Notes 8 and 16 to these financial statements. Key management personnel compensation consisting of directors' remuneration has been disclosed in Note 22.

27. Commitments

Capital commitments

At 31 December 2018, the group had capital commitments not yet contracted and not provided for in these financial statements amounting to €255,435.

Operating lease commitments – where the group is the lessor

The future minimum lease payments payable under non-cancellable property operating leases are as follows:

	Group	
	2018	2017
	€	€
Not later than 1 year	**3,118,412**	2,457,878
Later than 1 year and not later than 5 years	**4,563,172**	7,612,381
Over 5 year	**219,894**	289,096
	7,901,478	10,359,355

28. Statutory information

Exalco Holdings Limited is a limited liability company and is incorporated in Malta.

The ultimate controlling parties of Exaclo Holding Limited are the members of the Montanaro family.