CENTRAL BUSINESS CENTRES P.L.C.

Annual Report and Financial Statements
31 December 2017

Company Registration Number: C 65702

Directors' report

The directors present the audited financial statements for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is to act as a finance, investment and property-holding company for lease to third parties.

Review of the business

During the period under review, the Company leased offices in the Zebbug Business Centre and Gudja Business Centre to third parties. During 2017, both the Gudja Business Centre and the Zebbug Business Centre were fully occupied by tenants.

The loss for the year of €143,742 (2016: €31,143) is partially attributable to finance costs of €167,938 (2016: €168,818) which have been expensed during the year, and which relate to the apportionment of interest on the Bonds in issue to finance the Zebbug and Gudja Central Business Centres.

The Company's financial position at 31 December 2017 is set out on page 16. During 2017, costs relating to the continuing development of the St. Julian's Central Business Centre and restoration of the adjoining Villa Fieres were capitalised within Investment Property. Management involvement in monitoring of development of this site remains very close to ensure that costs are kept under scrutiny and for the property to align to the high-end specifications of business centres developed by the Company.

The St. Julian's Central Business Centre is in an advanced stage of completion and the Company envisages to arrive at full completion of the project by the second quarter of 2018. All interest costs for the Bonds in issue will thereafter be accounted for in the income statement and projections prepared by management indicate that rental income from the St. Julian's Central Business Centre will adequately cover the interest allocated to this property given that demand from prospective tenants is very positive.

The directors have assessed that the carrying value of investment property as at 31 December 2017 is reasonable and not subject to indications of impairment. In the event that general economic conditions and property market conditions experience a downturn, this may have an adverse impact on the fair value of the Company's Investment Property. The directors have no intention of disposing of investment property in the foreseeable future.

During 2017, the Company purchased a large tract of land located in Zebbug from a related entity, with the intention of developing it into a business premises. The premises comprises a combination of uses, ranging from storage, retail and office space.

The main liability in the statement of financial position relates to the €12 million Bonds in issue and deferred tax liability on revalued property.

An analysis of exposure to market risk, credit risk, liquidity risk and cash flow risk can be found in Note 2.

Results and dividends

The financial results are set out in the income statement on page 17. The directors do not propose the payment of dividends.

Directors

The directors of the Company who held office during the year were:

Mr. Joseph Cortis
Mr. Anthony Cortis
Mr. Alfred Sladden
Mr. Francis Gouder

The Company's Articles of Association require directors to seek re-election on a yearly basis.

Directors' report - continued

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the 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 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 the 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 (Cap. 386). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Central Business Centres p.l.c. for the year ended 31 December 2017 are included in the Annual Report 2017, which is made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Going concern statement pursuant to Listing Rule 5.62

After making enquiries and having taken into consideration the future plans of the Company, the directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they adopt the going concern basis in the preparation of the financial statements.

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.

Principal risks and uncertainties faced by the Company

The company is subject to market and economic conditions in general

The company is subject to general market and economic risks which include factors such as condition of the local property market, inflation prices for the rental of commercial properties and other economic and social factors affecting demand for real estate generally. In the event that general economic conditions and property market conditions experience a downturn, this may have an adverse impact on the financial conditions of the company and its ability to meet its obligations set-out within the Bond Prospectus.

Directors' report - continued

Principal risks and uncertainties faced by the Company - continued

Risks associated with the property market

Risks associated with the property development and real estate industry generally include, but are not limited to, risks of cost over-runs and risks of delay in completion of the St. Julian's Central Business Centre and the new Zebbug business premises. In the event that these risks were to materialise they could have a significant impact on the financial position of the Company.

The property market is a very competitive market that can influence the lease of space

The real estate market in Malta is very competitive in nature. An increase in supply and/or decrease in demand in the commercial property segment in which the company operates and targets to lease, may cause the lease of such spaces to be leased at lower lease contributions or at a slower pace than that originally anticipated by the company. If these risks were to materialise, they could have an adverse material impact on the ability of the company to repay the Bond and Interest.

Share capital structure

The Company's authorised and issued share capital amounts to €250,000 divided into 250,000 Ordinary shares of €1 each. The share capital consists of one class of ordinary shares with equal voting rights attached. No restrictions apply to the transfer of shares.

Holding in Excess of 5% of the Share Capital

On the basis of the information available to the Company as at 31 December 2017, Anthony Cortis, Francis Cortis, Philip Cortis Joseph Cortis, Raymond Cortis and Paul Cortis each held 41,666 shares, equivalent to 99% of the Company's issued share capital.

Shareholders holding in aggregate more than 50% of the issued share capital, shall be entitled to appoint the directors. Other limitations of the voting rights of holders are contained in the Company's Articles of Association, Clause 55.

Appointment and Replacement of Directors

Board members are appointed for one year and are eligible for re-appointment at the Annual General Meeting.

Board Member Powers

The powers of the Board members are contained in Article 54-69 of the Company's Articles of Association.

The Articles of Association grant the Company the power to buy back its own shares in terms of the Maltese Companies Act (Cap. 386).

Contracts with Board Members and Employees

The Company has no contract with any of its Board members that include a severance payment clause. The Company had no employees during the period ended 31 December 2017.

No disclosures are being made pursuant to listing Rules 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 as these are not applicable to the Company.

Directors' report - continued

Pursuant to Listing Rule 5.70.1

At the year-end, the company had various agreements for the lease of office and car spaces in the Zebbug Central Business Centre and further agreements for the lease of office space and car spaces in the Gudja Business Centre. As at 31 December 2017, both business centres were operating at full capacity.

Pursuant to Listing Rule 5.68

Statement by the Directors on the Financial Statements and Other Information included in the Annual Report

The directors declare that to the best of their knowledge, the financial statements included in the Annual Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit of the Company and that this report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

Mr. Joseph Cortis
Chairman and CEO

Mr. Alfred Sladden
Director

Registered office:
Cortis Buildings
Mdina Road
Zebbug ZBG 4211
Malta

13 April 2018

Corporate Governance – Statement of Compliance

The Listing Rules issued by the Listing Authority of the Malta Financial Services Authority, require listed companies to observe The Code of Principles of Good Corporate Governance (the "Code"). Although the adoption of the Code is not obligatory, Listed Companies are required to include, in their Annual Report, a Directors' Statement of Compliance which deals with the extent to which the Company has adopted the Code of Principles of Good Corporate Governance and the effective measures that the Company has taken to ensure compliance with the Code, accompanied by a report of the auditors thereon.

Compliance

The Board of Directors (the "Board") of Central Business Centres p.l.c. (the "Company") believes in the adoption of the Code and has endorsed it except where the size and/or particular circumstances of the Company are deemed by the Board not to warrant the implementation of specific recommendations. In this context it is relevant to note that the Company has issued bonds to the public and has no employees. Accordingly, some of the provisions of the Code are not applicable whilst others are applicable to a limited extent.

The Board

The Board of Directors is responsible for devising a strategy, setting policies and the management of the Company. It is also responsible for reviewing internal control procedures, financial performance and business risks facing the Company. The Board is also responsible for decisions relating to the redemption of the Bond, and for monitoring that its operations are in conformity with the Prospectus and all relevant rules and regulations.

Throughout the period under review, the Board regularly reviewed management performance. The Company has in place systems whereby the directors obtain timely information from the Chief Executive Officer, not only at meetings of the Board but at regular intervals or when the need arises.

Chairman and Chief Executive Officer

The functions of the Chairman and Chief Executive Officer are vested by the same individual. The Chairman's main function is to lead the board, set the agenda and ensure that all board members partake in discussions of complex and contentious issues.

The Chief Executive Officer has specific authorities from the Board to manage the Company's operational activities within the strategy and parameters set by it.

Complement of the Board

The Board is composed of one executive and three non-executive directors, as listed below:

Executive Directors

Mr. Joseph Cortis (Chairman and Chief Executive Officer)

Non-Executive Directors

Mr. Anthony Cortis
Mr. Alfred Sladden
Mr. Francis Gouder

Corporate Governance – Statement of Compliance - continued

Non-Executive Directors - continued

Directors are appointed during the Company's Annual General Meeting for periods of one year, at the end of which term they may stand again for re-election. The Articles of Association of the Company clearly set out the procedures to be followed in the appointment of directors.

Internal Control

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to achieve business objectives and to manage rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material error, losses or fraud.

Authority to manage the Company is delegated to the Chief Executive Officer within the limits set by the Board of Directors. Systems and procedures are in place for the Company to control, report, monitor and assess risks and their financial implications, and to take timely corrective actions where necessary. Regular financial budgets and strategic plans are prepared, and performance against these plans is actively monitored and reported to the directors on a regular basis.

The approval of credit to customers is made by the CEO, in strict adherence to a Board-approved limit. Proposals falling outside the limit are referred, together with the supporting documentation and the CEO's recommendations, to the Board. The Board also approves, after review and recommendation by the Audit Committee, the transfer of funds and other amounts payable to related companies and ensures that these are subject to terms and conditions which are on an arm's length basis.

Directors' Attendance at Board Meetings

The Board believes that it has systems in place to fully comply with the principles of the Code. Directors meet regularly, mainly to review the financial performance of the Company and to review internal control processes. Board members are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting Board papers, which are circulated well in advance of the meeting. All the directors have access to independent professional advice at the Company's expense should they so require.

The Board met formally nine times during the period under review. The number of board meetings attended by directors for the year ended 31 December 2017 is as follows:

Members	Attended
Mr. Joseph Cortis	9
Mr. Anthony Cortis	9
Mr. Alfred Sladden	9
Mr. Francis Gouder	9

Committees

The directors believe that, due to the Company's size and operations, the remuneration, evaluation and nominations committees that are suggested in the Code are not required, and that the function of these can efficiently be undertaken by the board itself. However, the Board on an annual basis undertakes a review of the remuneration paid to the directors and carries out an evaluation of their performance and of the audit committee. The shareholders approve the remuneration paid to the directors at the annual general meeting.

Corporate Governance – Statement of Compliance - continued

Audit Committee

The Board has established an Audit Committee (the "Committee") and has formally set out Terms of Reference as outlined in the Principles laid out in the Listing Rules. The purpose of the Committee is to protect the interest of the Company's share and bond holders and assist the directors in conducting their role effectively. In the absence of an internal audit department, the Audit Committee also monitors the financial reporting process, the effectiveness of internal control and the audit of the annual financial statements. Additionally, it is responsible for monitoring the performance of the entities borrowing funds from the Company, to ensure that budgets are achieved and if not, corrective action is taken as necessary. It also scrutinises and supervises related party transactions for materiality and ensures that these are carried out at arm's length basis. The Listing Authority considered the Terms of Reference as having sufficient safeguards to ensure the independence of the Audit Committee.

The Members of the Audit Committee are:

Mr. Alfred Sladden (Chairman)
Mr. Anthony Cortis
Mr. Francis Gouder

Alfred Sladden is a director who the Board considers as a person competent in accounting. Alfred Sladden held senior management positions at Mid-Med Bank and Investment Finance Bank including that of director of Mid-Med Life Insurance from 1995-1996 and chairman of Maltapost and the Foundation for Medical Services between 1998 till 1999. Between 1999-2011, he held a part time post as Financial Advisor for the Eurochange Financial Services and simultaneously the post of Chairman of the VAT Appeals Board. He was Executive Director for a subsidiary of the Cortinthia Group in the Czech Republic between 2000 and 2010 and financial advisor of Technoline Limited between 2009 and 2013.

Anthony Cortis has been a director of the Company since its inception in June 2014. He previously held a long-standing position with S.M.W. Cortis Limited as a master craftsman in cabinet making, apertures and joinery, with over 45 years of experience in design, manufacture, factory organisation, cost control, management and customer relations.

Francis Gouder served his career in the financial service sector for 45 years. He was a non-executive director of Bay Street Finance plc between January 2010 and August 2012 and is currently non-executive director of Izola Bank plc. Mr. Gouder presently also holds office as a non-executive director of other companies operating in varied spectrum of commercial activities.

Remuneration Statement

In terms of the Company's Memorandum and Articles of Association, it is the shareholders of the Company in the General Meeting who determine the maximum annual aggregate remuneration of the directors. The aggregate amount approved for this purpose during the last Annual General Meeting was €8,000.

None of the directors are employed or have a service contract with the Company.

No part of the remuneration paid to the directors is performance based, the Chief Executive Officer receives remuneration of €30,000. None of the directors, in their capacity as a Director of the Company, is entitled to profit sharing, share options or pension benefits.

During 2017, the directors received €8,000 for services rendered (Note 16).

Corporate Governance – Statement of Compliance - continued

Relations with bondholders and the market

The Company publishes interim and annual financial statements and when required company announcements. The Board feels these provide the market with adequate information about its activities.

Conflicts of Interest

On joining the Board and regularly thereafter, directors and officers of the Company are informed and reminded of their obligations on dealing in securities of the Company within the parameters of law and Listing Rules. The Company has also set reporting procedures in line with the Listing Rules, Code of Principles, and internal code of dealing.

Signed on behalf of the Board of Directors on 13 April 2018 by:

Mr. Anthony Cortis	Mr. Alfred Sladden
Director	Director and Chairman of the Audit Committee

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Independent auditor's report

To the Shareholders of Central Business Centres p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- Central Business Centres p.l.c.'s financial statements give a true and fair view of the company's financial position as at 31 December 2017, and of the 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).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

Central Business Centres p.l.c.'s financial statements, set out on pages 16 to 39, comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement 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 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 the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

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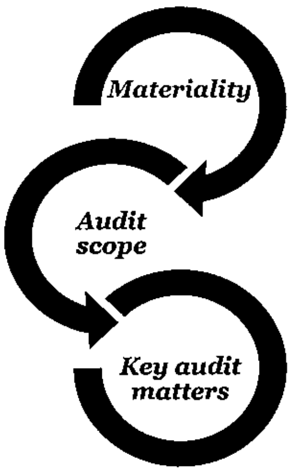
Independent auditor's report - *continued*

To the Shareholders of Central Business Centres p.l.c.

Our audit approach

Overview



Overall materiality: €276,000 (2016: €160,000), which represents 1% of total assets.

Valuation of investment properties

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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Independent auditor's report - *continued*

To the Shareholders of Central Business Centres p.l.c.

Overall materiality	€276,000 (2016: €160,000)
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We have applied total assets as a benchmark for determining materiality as we considered that this provides us with a consistent year-on-year basis for setting materiality given that the largest properties are still in the process of construction. We believe that until the respective properties start generating revenue, the Company's levels of investment property are the most appropriate basis for determining materiality, and also consider that it is the key measure used by the board and the shareholders as a body in assessing the Company's financial position.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €13,800 as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of investment property	
The carrying amount of investment property in the statement of financial position represents the value of the land, development and borrowing costs attributable to commercial blocks located in Zebbug, Gudja and St. Julian's, which are either held for lease or property under development as at 31 December 2017. The properties were revalued on 10 May 2017 by a professionally qualified valuer. Valuations were made on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.	We understood and evaluated the assessment performed by management to ascertain fair valuation of investment property. Our audit procedures included a review of the property information in the valuation reports prepared by third party qualified valuers. With respect to the property under development, we carried out testing to ensure that the costs were supported by available third-party data including contracts and invoices. We have traced the final deed of sale in relation to the newly acquired property. We have also discussed the key assumptions underlying the assessment performed with management and the audit committee.

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Independent auditor's report - *continued*

To the Shareholders of Central Business Centres p.l.c.

Key audit matter	How our audit addressed the Key audit matter
Valuation of investment property - continued	
On 14 July 2017, the Company purchased a large tract of land located in Zebbug from a related entity, with the intention of developing it into a business premises. The premises comprises a combination of uses, ranging from storage, retail and office space.	We concluded, based on our audit work, that the outcome of the assessment is not unreasonable.
Valuation of the Company's property portfolio is inherently subjective principally due to the judgemental nature of the factors mentioned above. The significance of the estimates and judgements involved, coupled with the fact that a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus in this area.	In addition, we reviewed the adequacy of disclosures made in Note 4 of the financial statements.
Further disclosure is included in Note 4 (Investment Property).	

Other information

The directors are responsible for the other information. The other information comprises 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).

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Independent auditor's report - *continued*

To the Shareholders of Central Business Centres p.l.c.

Other information - continued

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.

When we read the Directors' report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance in accordance with International Standards on Auditing.

Responsibilities of the directors and those charged with governance 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 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 company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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Independent auditor's report - *continued*

To the Shareholders of Central Business Centres p.l.c.

Auditor's responsibilities for the audit of the financial statements - continued

- 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 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 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.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on the statement of compliance with the Principles of Good Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles. The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures. In our opinion, the Statement of Compliance set out on pages 5 to 8 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

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Independent auditor's report - *continued*

To the Shareholders of Central Business Centres p.l.c.

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.
- under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

Appointment

We were first appointed as auditors of the Company on 28 January 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Stephen Mamo
Partner

13 April 2018

Statement of financial position

	Notes	As at 31 December 2017 €	2016 €
ASSETS			
Non-current assets			
Investment property	4	**27,369,343**	14,243,189
Current assets			
Trade and other receivables	5	**111,577**	628,816
Current tax assets		**12,529**	21,647
Cash and cash equivalents	6	**1,073,743**	1,247,181
Total current assets		**1,197,849**	1,897,644
Total assets		**28,567,192**	16,140,833
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	7	**250,000**	250,000
Capital reserve	8	**15,850,000**	10,050,000
Revaluation reserve	9	**596,162**	-
Accumulated losses		**(769,923)**	(30,019)
Total equity		**15,926,239**	10,269,981
Non-current liabilities			
Borrowings	10	**11,761,513**	5,865,016
Deferred tax liabilities	11	**739,802**	-
Total non-current liabilities		**12,501,315**	5,865,016
Current liabilities			
Trade and other payables	12	**139,638**	5,836
Total liabilities		**12,640,953**	5,870,852
Total equity and liabilities		**28,567,192**	16,140,833

The notes on pages 20 to 39 are an integral part of these financial statements.

The financial statements on pages 16 to 39 were authorised for issue by the board on 13 April 2018 and were signed on its behalf by:

Mr Joseph Cortis
Director

Mr. Alfred Sladden
Director

Statement of comprehensive income

		Year ended 31 December	
		2017	2016
	Notes	**€**	€
Revenue	13	**329,091**	223,661
Administration expenses	15	**(182,597)**	(85,986)
Fair value movement relating to investment property	4	**662,402**	-
Operating profit		**808,896**	137,675
Finance costs	14	**(167,938)**	(168,818)
Profit/(loss) before tax		**640,958**	(31,143)
Tax expense	17	**(784,700)**	-
Loss for the year – total comprehensive income		**(143,742)**	(31,143)
Earnings per share	18	**(0.57)**	(0.13)

The notes on pages 20 to 39 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Capital reserve €	Revaluation reserve €	Accumulated losses €	Total €
Balance at 1 January 2016		250,000	10,050,000	-	1,124	10,301,124
Comprehensive income						
Loss for the year		-	-	-	(31,143)	(31,143)
Total comprehensive income		-	-	-	(31,143)	(31,143)
Balance at 31 December 2016		250,000	10,050,000	-	(30,019)	10,269,981
Comprehensive income						
Loss for the year		-	-	-	(143,742)	(143,742)
Total comprehensive income		-	-	-	(143,742)	(143,742)
Transactions with owners						
Increase in subordinated loans with related parties	8	-	5,800,000	-	-	5,800,000
Transfer of revaluation surplus on investment property, net of deferred tax	9	-	-	596,162	(596,162)	-
Balance at 31 December 2017		**250,000**	**15,850,000**	**596,162**	**(769,923)**	**15,926,239**

The notes on pages 20 to 39 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2017 €	2016 €
Cash flows from operating activities			
Cash generated from/(used in) operations	19	**668,791**	(500,640)
Interest paid		**(454,073)**	(330,000)
Income tax paid		**(35,780)**	(21,647)
Net cash generated from/(used in) operating activities		**178,938**	(852,287)
Cash flows from investing activities			
Purchase of investment property	4	**(12,152,376)**	(754,155)
Net cash used in investing activities		**(12,152,376)**	(754,155)
Cash flows from financing activities			
Proceeds from issuance of bond	10	**6,000,000**	-
Proceeds from subordinated loans with related parties	8	**5,800,000**	-
Net cash generated from financing activities		**11,800,000**	-
Net movement in cash and cash equivalents		**(173,438)**	(1,606,442)
Cash and cash equivalents at beginning of year		**1,247,181**	2,853,623
Cash and cash equivalents at end of year	6	**1,073,743**	1,247,181

The notes on pages 20 to 39 are an integral part of these 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

These financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRSs') as adopted by the EU and with the requirements of the Maltese Companies Act, (Cap. 386). The financial statements have been prepared under the historical cost convention, except as modified by the fair valuation of investment property and available-for-sale financial assets.

On 14 July 2017, the Company purchased a large tract of land located in Zebbug from a related entity, with the intention of developing it into a business premises. The premises comprises a combination of uses, ranging from storage, retail and office space.

The company entered into three subordinated loans with related parties to part finance the acquisition of the Zebbug Central Business Centre, the Gudja Central Business Centre, St. Julians Villa Fieres and Central Business Centres and Zebbug Commercial Centre Site. The parties have agreed that these loans shall be interest free, at least for a period of two years. Following this period, should it be agreed that interest will apply, this will not exceed 5%. The repayment of the principal and, if applicable, the interest is on demand. However, settlement of these loans will not be made unless the Company has sufficient funds to repay in full the principal and interest on the Bonds in issue in accordance with the terms of the Bond Issuance Programme.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgment in the process of applying the Company's accounting policies (see Note 3 – Critical accounting estimates and judgments).

Standards, interpretations and amendments to published standards effective in 2017

In 2017, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2017. Other than for an amendment to IAS 7, Statement of Cash Flows described below, the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies.

During the year, IAS 7 was amended as a result of the IASB's Disclosure initiative project. The amendments to IAS 7 require disclosure of change in liabilities arising from financing activities, disclosed in Note 10.

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 Company's accounting periods beginning after 1 January 2017. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

IFRS 9, 'Financial Instruments'

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The completed version of IFRS 9 was issued on July 2014. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial assets and liabilities, impairment and hedge accounting.

For financial assets, IFRS 9 retains but simplifies the mixed measurement model in IAS 39 and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Nothwithstanding this change, the directors expect that trade and other receivables which are measured at amortised cost under IAS 39, will also continue to be measured at amortised cost.

IFRS 9 also introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. This amendment impacts the Company only to the extent of trade and other receivables, and the directors have concluded that there will not be a significant impact on the Company as a result of this amendment.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. The directors have also concluded that there will not be a significant impact on the Company as a result of this amendment.

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 a customer obtains control of a good or service and thus has an ability to direct the use and obtain the benefits from the good or service. This standard replaces IAS 18, 'Revenue', which covers revenue arising from the sale of goods and the rendering of services, IAS 11, 'Construction contracts' and related interpretations. The standard permits either a full retrospective or a modified retrospective approach for the adoption. It is effective for reporting periods beginning on or after 1 January 2018.

The Company earns rental income from the investment property located in Zebbug and Gudja. Management has carried out an analysis of the Company's customer contracts to identify performance obligations present within those contracts. A key component of revenue recognition under IFRS 15 is that in terms of the standard, consideration based on uncertain future outcome is deemed to be variable consideration. The consideration that the Company is entitled to is determinable when a contract is entered into. On this basis, the directors have concluded that the effects of the introduction of IFRS 15 will not result any changes to the Company's revenue recognition model and will not have an impact on the Company's financial statements.

IFRS 16, 'Leases'

Under IFRS 16, 'Leases', 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 required lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to endorsement by the EU, and subject to the Company also adopting IFRS 15. The Company is yet to assess IFRS 16's full impact.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Going concern

The Company's principal activity is to act as a finance company for the development of various commercial blocks which once completed will be retained by the Company for rental to third parties for the generation of future rental income streams. In this context, the Company's trading prospects are dependent on the timely development of such properties and on the performance of the related projected rental streams. While the location of such developments is spread over different locations on the island, the company is exposed to risks of negative economic trends that may from time to time impact Malta.

In preparing these financial statements the directors of the Company have made reference to the cash flow forecast of the Company covering the years 2017 to 2019. The cash flow forecast assumes that the Company will complete the respective developments as planned and generate the required cash flows from its trading activities from property rentals.

Based on the foregoing, the directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements however, do not include any adjustments in the event that the forecast and assumptions as set out above do not materialise as planned.

1.2 Foreign currency translation

Functional and presentation 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 euro is the Company's functional and presentation currency.

1.3 Investment property

Investment property, comprising commercial premises including offices, shops, showrooms and car spaces, is held for long term rental yields or for capital appreciation or both, and is not occupied by the Company. Investment property comprises land and building and is measured initially at its cost, including related transaction costs. 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 Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors. Investment property being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. If this information is not available, the company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Valuations are reviewed every three years by a professional valuer. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of the investment property reflects, among other things, 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.

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

1.3 Investment property - continued

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Changes in fair values are recorded in the profit or loss for the year and then transferred to "fair value gains reserve" through the statement of changes in equity. Gains or losses on disposal are determined by comparing proceeds with carrying amount and are included in surplus or deficit.

1.4 Financial assets

1.4.1 Classification

The Company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.5 and 1.6).

1.4.2 Recognition and measurement

The Company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the Company. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans and receivables are 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 are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

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

1.4 Financial assets - continued

1.4.3 Impairment - continued

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is 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) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company first assesses whether objective evidence of impairment exists.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

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

Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the loss is 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 is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can 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 is recognised in profit or loss.

1.5 Trade and other receivables

Trade receivables comprise amounts due from customers for merchandise sold 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 1.4). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1.6 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks.

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

1.7 Share capital

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

1.8 Financial liabilities

The Company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of the 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 Company 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.

1.9 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.

1.10 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 Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.11 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.

1.12 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.

1. Summary of significant accounting policies - continued

1.12 Current and deferred tax - continued

Deferred tax 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 tax asset is realised or the deferred tax liability is settled.

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

Deferred 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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.13 Provisions

Provisions for legal claims are recognised when the Company 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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 interest expense.

1.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

Rental income from investment property

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

1.15 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2. Financial risk management

2.1 Financial risk factors

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

(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 entity's functional currency. The Company has no significant currency risk since substantially all assets and liabilities are denominated in Euro.

(ii) Cash flow and fair value interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its financing position and cash flows.

As at the reporting date, the Company has fixed rate interest-bearing liabilities and loans owed to related companies are interest free. Accordingly, operating cash flows are substantially independent of changes in market interest rates.

As at the statement of financial position date, the Company's exposure to changes in interest rates on bank accounts held with financial institutions was limited as the Company is subject to fixed interest rates.

Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

(b) Credit risk

Credit risk arises from credit exposures to customers and amounts held with financial institutions (Notes 5 and 6).

The maximum credit exposure to credit risk at the reporting date in respect of the financial assets was as follows:

	Notes	2017 €	2016 €
Trade and other receivables	5	**107,977**	625,216
Cash and cash equivalents	6	**1,073,743**	1,247,181
		1,181,720	1,872,397

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Credit risk on funds advanced to group companies and amounts deposited with local financial institutions is considered as limited, since cash at bank and fixed term deposits are placed with local financial institutions having a high-quality standing.

With regards to amounts receivable arising from rental income, the Company assesses the credit quality of the third-party tenants on an ongoing basis, taking into account financial position, past experience and other factors. The Company manages credit limits and exposures actively in a practicable manner such that there are no material past due amounts receivable from third party tenants as at the reporting date. The Company has no significant concentration of credit risk arising from third parties.

As of 31 December 2017, trade receivables of €29,136 (2016: nil) were impaired. Provisions for impairment in this respect are equivalent to the amounts disclosed. The impaired receivables relate to a previous tenant which is in unexpectedly difficult economic situations.

The movement in provisions for impairment of trade receivables is disclosed in Note 5 to the financial statements.

(c) Liquidity risk

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally interest-bearing borrowings and trade and other payables (Notes 10 and 12). Prudent liquidity risk management includes maintaining sufficient cash to ensure the availability of an adequate amount of funding to meet the Company's obligations and ensuring that alternative funding is available when the bonds are due for repayment.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount €	Contractual cash flows €	On demand €	Due within one year €	Between 1 and 2 Years €	Between 2 and 5 years €	After 5 years €
31 December 2017							
Borrowings	11,761,513	16,461,255	-	594,000	1,188,000	8,280,000	6,399,255
Trade and other payables	139,638	139,638	10,893	128,745	-	-	-
Total	**11,901,151**	**16,600,893**	**10,893**	**722,745**	**1,188,000**	**8,280,000**	**6,399,255**
31 December 2016							
Borrowings	5,865,016	8,280,000	-	330,000	660,000	4,132,500	3,157,500
Trade and other payables	5,836	5,836	5,836	-	-	-	5,836
Total	5,870,852	8,285,836	5,836	330,000	660,000	4,132,500	3,163,336

The company continues to assess its funding requirements to ensure that adequate funds are in place to meet its financial liabilities when they fall due.

2. **Financial risk management** - continued

2.2 Fair value estimation

The fair value of non-current borrowings is based on amortised cost representing proceeds received net of transaction costs incurred. The amortisation of transaction costs is calculated using the effective yield method.

At 31 December 2017 and 2016 the carrying amounts of other financial instruments, comprising cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

2.3 Capital risk management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;
- to maintain an optimal capital structure to reduce the cost of capital; and
- to comply with requirements of the Prospectus issued in relation to the 5.75%, 5.25% and 4.40% bonds.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence to sustain future development of business. The board of directors monitor the return on capital, which the Company defines as the profit for the year divided by total equity. The board of directors also monitors the level of dividends to ordinary shareholders.

3. Critical accounting estimates and judgments

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, 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, except for:

Valuation of investment property

The Company reviews the valuation of the investment property on an annual basis. In 2017, management determined the fair value of the investment property by referring to the valuation reports prepared by third party qualified valuers. The Company adjusted the book value to its revalued amount and recognised the resultant surplus in the income statement. Further disclosures on key assumptions in this regard are included in Note 4.

4. Investment property

	Land and buildings	
	2017	2016
	€	€
Year ended 31 December		
At 1 January	**14,243,189**	13,309,966
Additions	**12,152,376**	754,155
Capitalised borrowing costs	**311,376**	179,068
Revaluation surplus	**662,402**	-
At 31 December	**27,369,343**	14,243,189

Fair valuation of property

On 10 May 2017, the Company's investment property, which comprises three office blocks located in Zebbug, Gudja and St Julian's, were revalued by a professionally qualified valuer. The book value has been adjusted to the revalued amount and the resultant surplus, net of applicable deferred income taxes, has been credited to the income statement. The surplus, net of deferred tax has been transferred to the revaluation reserve through the statement of changes in equity (Note 9).

On 14 July 2017, the Company purchased a large tract of land located in Zebbug from a related entity, with the intention of developing it into a business premises. The premises will comprise a combination of uses, ranging from storage, retail and office space. In the opinion of the directors, the purchase price of the newly acquired property in Zebbug reflects the market value as at 31 December 2017.

Valuations were made on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

The Company 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 Company's investment property, comprises the properties described above. The Zebbug and Gudja Central Business Centres are complete and being rented, whilst construction of the St. Julian's Central Business Centre is underway and is expected to be completed and available for rental by the end of 2018. Development of the newly acquired property located across the completed Zebbug Business Centre has not yet commenced. Property fair value measurements at 31 December 2017 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Company'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 2017.

4. **Investment property** - continued

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above.

Valuation processes

The valuation of these properties is performed on the basis of the valuation reports prepared by third party qualified valuers. These reports are based on both:

- information provided by the Company; and
- assumptions and valuation models used by the valuers; with assumptions being typically market related and based on professional judgement and market observation.

The information provided to the valuers, together with the underlying assumptions and valuation models used by the valuers, are reviewed by the Board of directors. The Board then considers the valuation report as part of its overall responsibilities.

Valuation techniques

The valuation was performed using the guidelines of the "Valuation Standards for accredited Valuers" published by the Kamra tal-Periti.

Given the specific nature of these assets, the valuations of the Level 3 property have been performed by reference to valuation models. These valuation models include:

- in the case of the completed properties, namely those located in Zebbug and Gudja, the annual rental value earned, adjusted for comparative rates available on the market for similar properties. The valuation model also assumes capitalisation rates, which deemed to reflect the risks inherent in the utilisation of the specific properties and long-term occupancy for the respective business centres. Rental and occupancy rates factor in adjustments for the respective properties to cater for differences in the size, age, location and condition of the properties; and

- in the case of the St. Julian's Central Business Centre and Villa Fieres, which still have ongoing works and, thus not generating rental income, the valuation is based on the contract price on acquisition during 2014, together with additional capitalised amounts covering construction costs carried out to date and property location value.

- in the case of the newly acquired property in Zebbug, on which development has not yet commenced, it was deemed that the purchase price as at date of transfer approximates the market value as at 31 December 2017.

The significant unobservable inputs in the valuation of the Zebbug and Gudja Central Business Centres include:

- average annual rental value of the properties assumed at a range between €120 and €135 per square meter, per annum, taking into account market data at the valuation date depending on the location;

- rental streams are capitalised at a rate of 6% which is deemed to reflect the risks inherent in the utilisation of the specific properties; and

- long term occupancy ranging between 90% and 95% to cater for differences in the size, age, location and condition of the properties.

5. Trade and other receivables

	2017 €	2016 €
Trade receivables	**44,287**	16,605
Other receivables (Note 21)	**-**	580,000
Indirect taxation	**63,690**	28,611
Prepayments	**3,600**	3,600
	111,577	628,816

Trade receivables above are disclosed net of provision for impairment amounting to €29,136 (2016: nil). The company's exposure to credit risk and impairment losses related to trade receivables are disclosed in Note 2.

6. Cash and cash equivalents

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

	2017 €	2016 €
Cash at bank and in hand	**1,073,743**	1,247,181

7. Share capital

	2017 €	2016 €
Authorised, issued and fully paid		
250,000 ordinary shares of €1 each	**250,000**	250,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

8. Capital reserve

	2017 €	2016 €
Subordinated loans		
At beginning of year	**10,050,000**	10,050,000
Additions	**5,800,000**	-
At end of year	**15,850,000**	10,050,000

8. Capital reserve - continued

On 20 November 2014, the company entered into two subordinated loans with related parties to part finance the acquisition of the Zebbug Central Business Centres, the Gudja Central Business Centre and Villa Fieres Site in St. Julian's.

On 14 July 2017, the company entered into another subordinated loan with the same terms and conditions to part finance the acquisition of the Zebbug property located across the completed Zebbug Business Centre.

The parties have agreed that the loans are interest-free unless otherwise agreed from time to time, provided that a two-year moratorium from date of the Subordinated Loan Agreement will automatically apply and that the rate of interest, if any, will not exceed 5%. The loan agreements stipulate that the Company has the discretion to settle the subordinated loans by way of issue of a fixed number of shares at par value.

In line with IAS 32 such amounts fall under the definition of equity and are therefore classified in these financial statements as a component of equity as a capital reserve.

9. Revaluation reserve

	2017 €	2016 €
Surplus arising on fair valuation of investment property, net of deferred tax (Note 4)	**596,162**	-

	2017 €	2016 €
Investment property		
Transfer of revaluation surplus arising during the year	**662,402**	-
Deferred taxes on revaluation surplus arising during the year	**(66,240)**	
At end of year	**596,162**	-

As at 31 December 2017, the Board of directors resolved to transfer the revaluation surplus as noted in the table above to a revaluation reserve. The revaluation reserve is non-distributable.

10. Borrowings

	2017 €	2016 €
Bonds 2021	**2,920,017**	2,919,040
Bonds 2025	**2,964,004**	2,945,976
Bonds 2027	**5,877,492**	-
	11,761,513	5,865,016

10. **Borrowings** - continued

The interest rate exposure of the company's borrowings are as follows:

	2017	2016
	€	€
Bonds 2021	**5.75%**	5.75%
Bonds 2025	**5.25%**	5.25%
Bonds 2027	**4.40%**	-

	2017	2016
	€	€
Bonds outstanding		
Proceeds	**12,000,000**	6,000,000
Gross amount of bond issue costs	**291,759**	166,015
Amortisation of gross amount of bond issue costs:		
At 1 January	**31,031**	13,145
Amortisation charge for the period	**22,241**	17,886
Accumulated amortisation at end of period	**53,272**	31,031
Unamortised bond issue costs	**238,487**	134,984
Amortised cost and closing carrying amount	**11,761,513**	5,865,016

On 5 December 2014, the Company issued a Prospectus for the issue of a 6,000,000 Bond having a nominal value of €1 each. The Bond was issued in two tranches of €3,000,000 each. The first tranche was issued on 22 December 2014, and was fully subscribed, while the second tranche was issued on 24 December 2015, and was also fully subscribed. The Company's bonds are included on the official list of the Malta Stock Exchange. The first tranche was admitted to trading in 2014, and is redeemable at par on 30 December 2021. The second tranche was admitted to trading with effect from 29 December 2015 and is redeemable at par on 30 December 2025.

Interest on the bonds issued as part of the first tranche is payable every six months in arrears, on 30 June and 30 December of each year. The first payment was made on 30 June 2015. The net proceeds have been used to acquire the Zebbug, St. Julian's and Gudja Central Business Centres, to finance the demolition and excavation works of the St. Julian's Central Business Centre as well as to finish works on the Gudja Central Business Centre.

Interest on the bonds issued as part of the second tranche is payable annually in arrears, on 30 June and 30 December of each year. The first payment was made on 30 June 2016. The net proceeds shall be used for the development and construction of the St. Julian's Central Business Centre.

10. Borrowings - continued

On 7 July 2017, the Company issued a Prospectus for the issue of a 10,000,000 Bond having a nominal value of €1 each. The Bond was issued in two tranches, the first tranche amounting to €6,000,000 was issued on 12 June 2017, and was fully subscribed, while the second tranche of €4,000,000 is expected to be issued by the second quarter of 2018.

Interest on the bonds issued as part of the first tranche is payable annually in arrears on 30 June of each year, the first payment is to be made on 30 June 2018. The net proceeds were utilised to acquire the new Zebbug site.

The bonds constitute the general, direct, unconditional, unsecured, unsubordinated obligations of the Company, and rank equally without any priority or preference with all other present and future unsecured and unsubordinated obligations of the Company.

	2017	2016
	€	€
Net debt reconciliation		
Cash and cash equivalents (Note 6)	**1,073,743**	1,247,181
Borrowings at fixed rates - repayable after one year	**(594,000)**	(330,000)
Net debt	**479,743**	917,181

	2017	2016
	€	€
Borrowings as at 1 January 2017	**5,865,016**	5,847,130
Cash flows	**5,874,256**	-
Amortisation of bond issue costs	**22,241**	17,886
Borrowings as at 31 December 2017	**11,761,513**	5,865,016

11. Deferred taxation

Deferred 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%, with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. tax effect of 10% of the transfer value.

The movement on the deferred tax account is as follows:

	2017	2016
	€	€
Deferred taxes on revaluation surplus on investment property	**(750,000)**	-
Deferred taxes on temporary differences arising on provisions for impairment of trade receivables (Note 15)	**10,198**	-
At end of year	**(739,802)**	-

11. Deferred taxation - continued

All the amounts disclosed in the table above are recognised in the statement of comprehensive income.

The balance at 31 December represents:

	2017 €	2016 €
Temporary differences arising on fair valuation of investment property	**(7,500,000)**	-
Temporary differences arising on provisions for impairment of trade receivables	**29,136**	-
	(7,470,864)	-

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

12. Trade and other payables

	2017 €	2016 €
Trade payables	**10,893**	5,836
Bond interest payable (Note 10)	**128,745**	-
	139,638	5,836

13. Revenue

Revenue relates to the lease of office and car spaces in the Zebbug Central Business Centre and the Gudja Central Business Centre. When works on the St. Julian's Central Business Centre and the new site in Zebbug are complete, rental income will be generated on the basis of contracts finalised with tenants.

14. Finance costs

	2017 €	2016 €
Interest payable on bonds	**457,073**	330,000
Amortisation of bond issue costs (Note 10)	**22,241**	17,886
	479,314	347,886
Finance costs capitalised within investment property (Note 4)	**(311,376)**	(179,068)
	167,938	168,818

15. Expenses by nature

	2017 €	2016 €
Professional fees	**54,216**	20,571
Administration and management fees	**46,466**	35,683
Insurance	**17,918**	9,785
Provision for impairment of trade receivables	**29,136**	-
Other expenses	**34,861**	19,947
Total administrative expenses	**182,597**	85,986

Auditor's fees

Fees charged by the auditor for services rendered during the financial year ended 31 December 2017 and 2016 relate to the following:

	2017 €	2016 €
Annual statutory audit	**3,500**	3,500
Other non-audit services	**1,100**	-
Tax and compliance services	**500**	500
	5,100	4,000

16. Directors emoluments

	2017 €	2016 €
Fees	**8,000**	8,000

The above fees were paid to two non-executive directors, whereas, the CEO received payments amounting to €30,000 (2016: nil) presented as part of professional fees.

17. Tax expense

	2017 €	2016 €
Current taxation:		
Current tax expense	**30,765**	-
Under provision in prior year	**14,133**	-
Deferred tax expense (Note 11)	**739,802**	-
	784,700	-

17. Tax expense - continued

The tax on the Company's profit/(loss) before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2017 €	2016 €
Profit/(loss) before tax	**640,958**	(31,143)
Tax at 35%	**224,335**	(10,900)
Tax effect of:		
Rent maintenance allowances	**(19,536)**	(17,794)
Under provision of tax in prior year	**14,133**	-
Expenses not deductible for tax purposes	**44,376**	28,694
Movement in investment property	**521,392**	-
	784,700	-

18. Earnings per share

Earnings per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	2017	2016
Loss for the year	**(143,742)**	(31,143)
Weighted average number of ordinary shares in issue	**250,000**	250,000
Earnings per share	**(0.57)**	(0.13)

19. Cash generated from/(used in) operations

Reconciliation of operating profit to cash generated from/(used in) operations:

	2017 €	2016 €
Operating profit	**808,896**	137,675
Adjustments for:		
Provision for impairment of trade receivables	**29,136**	-
Fair value adjustment to investment property	**(662,402)**	-
Changes in working capital:		
Trade and other receivables	**488,103**	(611,810)
Trade and other payables	**5,058**	(48,152)
Cash generated from/(used in) operations	**668,791**	(522,287)

20. Related party transactions

The companies forming part of the SMW Cortis Limited Group are considered by the directors to be related parties as these companies are ultimately owned by the Cortis Family. All members of the Cortis family are deemed to be related parties.

The following transactions were carried out with related parties:

	2017	2016
Subordinated loans	**5,800,000**	-
Improvements to investment property	**-**	107,815
Purchase of investment property	**(11,500,000)**	-
Administration and management fees paid	**(46,566)**	(35,683)
Professional fees	**(38,000)**	(8,000)

21. Statutory information

Central Business Centres p.l.c. is a limited liability company and is incorporated in Malta.

22. Comparative information

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's disclosure format for the purpose of compliance with requirements of the Maltese Companies Act (Cap. 386).