Company Registration No:- C 5067

# Hal Mann Vella Group plc
**(formerly known as Hal Mann Velsud Group Limited)**

**Annual Report and Consolidated Financial Statements**

**for the year ended**

**31 December 2014**


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GZ/BLD/718

# Hal Mann Vella Group plc
## (formerly known as Hal Mann Velsud Group Limited)
# Directors' report
## for the year ended 31 December 2014

The Board of Directors is hereby presenting its annual report together with the audited financial statements of the Group and the Company for the year ended 31st day of December 2014.

**Principal activities**
The principal activity of the Company is to hold assets for the Group. As from November 2014, the Company also acts as the financing arm of the Group.

The principal activities of the Group mainly relate to the manufacture of terrazzo, stone, marble and granite. The Group extended its operations to the retail of clothing apparel. The Group also owns two hotels in the North of Malta – Huli Hotel with an underlying Bistro and the Mavina Hotel. The Group is also involved in the rental of property as well as property development and resale.

**Review of business**
The Company registered a profit before tax of €1,521,587 during the year ended 31 December 2014 (2013: €6,434,897).

The Group registered a consolidated profit before tax of €1,951,746 during the year ended 31 December 2014 (2013: €6,619,757). The result for the year includes the Group's share of the associates' profits or losses.

**Performance**
The increase in turnover and rental income of €823,395 for the Group did not translate into a proportional increase in operating profit. Finance cost for the year amounted to €1,089,216 (2013: €835,885) also as a result of the additional financing earmarked for the projects outlined below. The EBITDA decreased to 10% (2013: 46.61%). The upgrading and modernisation of the manufacturing plant targeted for the end of 2015 is intended to cater for further planned increases in revenue and to bring about improvement in efficiencies.

**Income Generation**
The Group has for the last ten years focused on stone, marble and granite. The main showroom space in Mosta is being extended by circa 20% and further complimentary products have been added to the existing lines to enable the Group to provide complete flooring and cladding solutions.

Given the Group's and Company's financing structure and the positive net assets position attained by the Group and the Company by the end of the current year, the directors consider the Group's and Company's state of affairs as at the close of the financial year to be satisfactory.

**Bond Issue**
In November 2014, the Company issued a Bond for €30,000,000. The purpose of the Bond issue was generally threefold, namely: to repay most of the bank borrowings, to finance two projects the development of a retail/office block on Group's premises and the modernisation and upgrading of its manufacturing plant.

As a result of the cancellation of all hypothecs by the previous financiers the Group endeavored to rationalize its operating legal structure through a number of internal mergers, acquisitions and reorganisations.

**Outlook for financial year ending 31 December 2015**
During the next two years the Group will be going through a transformation. Obsolete equipment will be scrapped and new plant and machinery installed. The remodeled showroom will be inaugurated in June and should place the Group in a better position to achieve increased sales from complementary products. Sales are already picking up strongly on the local market with exports also showing promising growth. The efficiencies resulting from the Group's transformation programme are expected to yield results from mid-2016.

# Directors' report (continued)
## for the year ended 31 December 2014

The apparel section of the group is showing a marked improvement in sales, with the newly introduced brands picking up in a linear manner.

2015 will see the final reorganisation of the legal entities through internal mergers and acquisitions. The finance cost efficiency resulting from the Bond issue is expected also to have a positive effect on the bottom line and give the Group the flexibility required to manage its finances more efficiently.

The consolidation and reorganisation of the existing space at Hal Mann property released additional space that is being leased to third parties as from May 2015. This is expected to have a positive impact on operating margin given that the corresponding operating costs are minimal.

The Board will continue to monitor the progress of the Group's plans and expects the implementation of planned projects and the Group's reorganization to translate into improved operating margins and efficiencies.

**Dividends and Reserves**
The results for the year are set in the Consolidated Statement of Comprehensive Income on page 13.

The Board of Directors does not propose the payment of a dividend. Retained profits carried forward at the end of the reporting period amounted to €5,154,540 (2013: €4,397,822) for the Group and €1,787,176 (2013: €1,919,122) for the company.

**Directors**
The directors of the company since the beginning of the year up to the date of this report were:

Mr. Vincent Vella – Chairman
Mr. Martin Vella – Director and Chief Executive Officer – Appointed CEO on 20 February 2015
Dr. Arthur Salomone – Non-executive director – Appointed on 24 June 2014
Mr. William Van Buren – Appointed on 24 June 2014
Mr. Mark Vella - Director
Mr. Joseph Vella - Director

**Statement of Directors' Responsibilities for the financial statements**

The Companies Act Cap. 386 of the Laws of Malta requires the Directors of Hal Mann Vella Group plc to prepare annual financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the profit or loss for the year in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

In preparing such financial statements, the Directors are required to:
- adopt the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business;

- select suitable accounting policies and apply them consistently from one accounting year to another;

- make judgments and estimates that are reasonable and prudent; and

- account for income and charges relating to the accounting year on the accruals basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Group and the Company and enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, Cap. 386 of the Laws of Malta. The directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of errors, fraud and other irregularities.

The financial statements of Hal Mann Vella Group plc for the year ended 31 December 2014 are included in the Annual Report 2014, which is published in hard-copy printed form and is available on the Parent Company's website.

The directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the group and the company as at 31 December 2014, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and

- the annual report includes a fair review of the development and performance of the business and the position of the group and the company, together with a description of the principal risks and uncertainties that the group and the company face.

**Going Concern Basis**

After reviewing the Group's forecasted financial statements and after making enquiries, the directors are satisfied at the time of approving the financial statements as the Group and parent company have adequate resources to continue operating for the foreseeable future and therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

**Shareholder register information pursuant to Listing Rule 5.64**

- **Structure of Capital**

The company has an authorised share capital of €5,000,000 Ordinary Shares of €1 each and issued and fully paid up share capital of €4,999,820 with a nominal value of €1 each. Each Ordinary Share is entitled to 1 vote. The Ordinary Shares in the Company shall rank pari passu for all intents and purposes at law. There are currently no different classes of Ordinary Shares in the company and accordingly all Ordinary Shares have the same rights, voting rights and entitlements in connection with any distribution whether of dividends or capital.

- **Appointment and removal of Directors**

Article 55.1 of the company's Memorandum and Articles of Association states that the Directors of the company shall be appointed by the Members in the annual general meeting of the Company. An election of the Directors shall take place every year. All Directors, except a managing director (if any), shall retire from office every 3 years, but shall be eligible for re-election. The Directors shall be elected as provided in Article 55.1.1 & 55.1.2 of the Memorandum and Articles of Association, that any Member or number of Members who in the aggregate hold not less than 200,000 shares having voting rights in the Company shall be entitled to nominate a fit and proper person for appointment as Directors of the Company . In addition to the nominations that may be made by Members pursuant to the provisions of Article 55.1.1, the Directors themselves or a committee appointed for the purpose by the Directors, may make recommendation and nominations to the Members for the appointment of Directors at the next following annual general meeting.

- **Powers of Directors**

The powers and duties of directors are outlined in the Company's Articles of Association.

- **General Meetings**

The company shall in each year hold a General Meeting as its Annual General Meeting in addition to any other meetings in that year. All general meetings other than annual general meetings shall be called extraordinary general meetings. The Directors may convene an extraordinary general meeting whenever they think fit. If at any time there are not sufficient Directors capable of acting to form a quorum for a meeting of the Directors, any Director, or any two Members of the Company holding at least 10% of the Equity Securities conferring a right to attend and vote at general meetings of the Company, may convene an extraordinary general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors and shall give notice thereof.

A General Meeting of the company shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it was given and shall specify the place, the day and the hour of the meeting, and in case of special business, the general nature of that business, and shall be accompanied by a statement regarding the effect and scope of any proposed resolution in respect of such special business.

**Other matters**

The company has nothing to report in relation to the other requirements of Listing Rules since they do not apply to the company

**Auditors**

The Auditors HLB Falzon & Falzon have intimated their willingness to be reappointed. A resolution for their reappointment will be proposed at the annual general meeting.

**By order of the Board:**

Mr. Vincent Vella - Chairman

Mr. Martin Vella – CEO

**Registered Office**
The Factory,
Mosta Road,
Lija LJA 9016.

29 April 2015

# Hal Mann Vella Group plc
## (formerly known as Hal Mann Velsud Group Limited)

# Corporate Governance Statement

Pursuant to the Listing Rules as issued by the Listing Authority of the Malta Financial Services Authority, Hal Mann Vella Group plc ('the Company') is hereby reporting on the extent of its own adoption of the Code of Principles of Good Corporate Governance (the Code) contained with the Listing Rules.

**Introduction**

Pursuant to the Listing Rules issued by the Malta Financial Services Authority, Halmann Vella Group p.l.c. (the "Company") is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance (the "Principles") with respect to the financial year under review.

The Company become subject to the principles and to report thereon in November 2014, when its bonds were admitted to listing and subsequent trading on the Malta Stock Exchange. Accordingly this is this first report of the Company on this matter and only covers the period November-December 2014.

The Company acknowledges that although the Code does not dictate or prescribe mandatory rules, compliance with the principles of good corporate governance recommended in the Code is in the best interests of the Company, its shareholders and other stakeholders.

The Company has only issued debt securities which have been admitted to trading on the Malta Stock Exchange accordingly it is exempt from reporting on the matters prescribed in Listing Rules 5.97.1 to 5.97.3, 5.97.6 and 5.97.7 in this corporate governance statement (the "Statement"). It is in the light of this exemption afforded to the Company that the directors are herein reporting on the corporate governance of the Company.

**General**

Good corporate governance is the responsibility of the Board of Directors of the Company (the "Board") as a whole, and has been and remains a priority for the Company. In deciding on the most appropriate manner in which to implement the Code, the Board took cognisance of the Company's size, nature and operations, and formulated the view that the adoption of certain mechanisms and structures which may be suitable for companies with extensive operations may not be appropriate for the Company. The limitations of size and scope of operations inevitably impact on the structures required to implement the Code, without however diluting the effectiveness thereof.

The Board considers that, to the extent otherwise disclosed herein, the Company has generally been in compliance with the Principles throughout the year under review.

This Statement shall now set out the structures and processes in place within the Company and how these effectively achieve the goals set out in the Code for the period under review. For this purpose, this Statement will make reference to the pertinent principles of the Code and then set out the manner in which the Board considers that these have been adhered to.

For the avoidance of doubt, reference in this Statement to compliance with the principles of the Code means compliance with the Code's main principles and the Code provisions.

# Corporate Governance Statement (continued)

**Compliance with the Code**

***Principles One to Five***

***Principles One to Five of the Code deal fundamentally with the role of the Board and of the directors.***

The directors believe that for the period under review the Company has generally complied with the requirements for each of these principles. Further information in this respect is provided hereunder.

***Principle One***

The directors report that for the period under review, the directors have provided the necessary leadership in the overall direction of the Company and have performed their responsibilities for the efficient and smooth running of the Company with honesty, competence and integrity.

***Principle Two***

In compliance with the provisions of this Principle, the functions of the Chairman and the Chief Executive Officer (the "CEO") of the Company are segregated.

***Principle Three***

The Board is composed of 6 members, with 3 executive and 3 non-executive directors, 2 of which are independent from the Group. It is responsible for the overall long term strategy and general policies of the Company, of monitoring the Company's systems of control and financial reporting; and that it communicates effectively with the market as and when necessary.

The Director of Finance also attends board meetings this giving the directors immediate access to the information on the Company's financial position and systems. This also ensures that the CEO and the Director of Finance, who are the persons responsible for the implementation of the strategies devised by the Board, have the ability to inter-act with the board on an on-going basis.

The Board of Directors consists of the following:

The officers who served during the current year are as follows:

Mr. Vincent Vella – Chairman
Mr. Martin Vella – Director and Chief Executive Officer
Dr Arthur Galea Salomone – Non Executive Director appointed 24 June 2014
Mr. William Van Buren – Non Executive Director appointed 24 June 2014
Mr. Mark Vella – Director
Mr. Joe Vella – Director
Dr Louis de Gabriele – Company Secretary

In accordance with the provisions of the Company's Articles of Association, the appointment of directors to the Board is exclusively reserved to the Company's shareholders, except in so far as appointment is made by the Board to fill a casual vacancy, which appointment would be valid until the conclusion of the next Annual General Meeting of the Company following such an appointment. In terms of the Articles of Association a director shall hold office for a period of three years from the date of his appointment.

Dr Arthur Galea Salomone and Mr William Van Buren are considered by the Board to be independent non-executive members of the Board.

*Principle Four*

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for the Company's strategy and decisions with respect to the issue, servicing and redemption of its bonds in issue, and for monitoring that its operations are in conformity with its commitments towards bondholders, shareholders, and all relevant laws and regulations. The Board is also responsible for ensuring that the Company establishes and operates effective internal control and management information systems and that it communicates effectively with the market.

The executive officers of the Company may be asked to attend board meetings or general meetings of the Company, although they do not have the right to vote thereat until such time as they are also appointed to the Board. The Directors may entrust to and confer upon the Chief Executive any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

*Principle Five*

The directors meet regularly, principally to review the financial performance of the Company. The Directors are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting board papers, which are circulated in advance of the meeting. The Board did not hold any meeting during the period under review.

*Principle Six*

***Principle Six of the Code deals with information and professional development***

The Directors believe that for the in the brief period under review the Company has not had the opportunity to conduct any professional development efforts, but intends to do so in 2015.

*Principle Seven*

***Principle Seven of the Code deals with evaluation of the Board's performance***

In view of the limited period under review and the fact that no meetings of the board took place during the month under review there is nothing to report with respect to this principle.

*Principle Eight*

***Principle Eight A of the Code deals with the establishment of a remuneration committee for the Company aimed at developing policies on remuneration for directors and senior executives and devising appropriate remuneration packages.***

In view of the size and type of operation of the Company, the Board does not consider the Company to require the setting up of a remuneration committee, and the Board itself carries out the functions of the remuneration committee specified in, and in accordance with, Principle Eight A of the Code.

The Board hereby makes the following **Remuneration Statement**:

The Board confirms that there have been no changes in the Company's remuneration policy during the year under review and the Company does not intend to effect any changes in its remuneration policy for the following financial year.

The maximum annual aggregate emoluments that may be paid to the Directors is, pursuant to the Company's Memorandum and Articles of Association, approved by the shareholders in general meeting.

The Board is composed exclusively of executive and non-executive directors. The determination of remuneration arrangements for board members is a reserved matter for the Board as a whole.

# Corporate Governance Statement (continued)

During the period under review, Mr. Martin Vella, Mr. Mark Vella and Mr. Joe Vella each held an indefinite full-time contract of service with Hal Mann International Ltd, Hal Mann Vella Ltd and Mavina Holiday Complex Ltd.

The remuneration policy for directors has been consistent since inception; no director (including the chairman) is entitled to profit sharing, share options or pension benefits. There is no linkage between the remuneration and the performance of directors. A fixed honorarium is payable at each financial year to the non-executive directors.

For the financial year under review the aggregate remuneration of the directors of the Company was as follows:

| | |
|---|---|
| Fixed remuneration from Company | nil |
| Fixed remuneration from Subsidiaries | €103,596 |

***Principle Eight B of the Code deals with the formal and transparent procedure for the appointment of directors.***
In view of the size and type of operation of the Company, the Board does not consider the Company to require the setting up of a nomination committee. Reference is also made to the information provided under the subheading 'Principle Three' above.

***Principle Nine***
***Principle Nine deals with relations with shareholders and with the market***
Pursuant to the company's statutory obligations in terms of the Companies Act (Cap. 386 of the Laws of Malta) and the Listing Rules issued by the Malta Financial Services Authority, the Annual Report and Financial Statements, the election of directors and approval of directors' fees, the appointment of the auditors and the authorisation of the directors to set the auditors' fees, and other special business, are proposed and approved at the Company's Annual General Meeting.

With respect to the Company's bondholders and the market in general, during the period under review, there was no need to issue any company announcements to the market.

***Principle Ten***
***Principle Ten deals with institutional shareholders***
The directors are of the view that this Principle is not applicable to the Company.

***Principle Eleven***
***Principle Eleven deals with conflicts of interest and the principle that directors should always act in the best interests of the Company***
All of the directors of the Company save for Mr Vincent Vella, Dr Arthur Galea Salomone and Mr William Van Buren are officers of the Company. Mr Vincent Vella as well as the other executive directors have a direct or indirect beneficial interest in the share capital of the company, and as such are susceptible to conflicts arising between the potentially diverging interests of the shareholders and the Company. During the period under review, no private interests or duties unrelated to the Company were disclosed by the directors which were or could have been likely to place any of them in conflict with any interests in, or duties towards, the Company.

# Corporate Governance Statement (continued)

The Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the Company. Furthermore, in accordance with the provisions of article 145 of the Companies Act (Cap. 386 of the Laws of Malta), every Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company is under the duty to fully declare his interest in the relevant transaction to the Board at the first possible opportunity and he will not be entitled to vote on matters relating to the proposed transaction and only parties who do not have any conflict in considering the matter will participate in the consideration of the proposed transaction .

***Principle Twelve***

***Principle Twelve encourages directors of listed companies to adhere to accepted principles of corporate social responsibility***

The Company seeks to adhere to sound Principles of Corporate Social Responsibility in its management practices, and is committed to enhance the quality of life of all stakeholders and of the employees of the Company and the Group.

The Board is mindful of the environment and its responsibility within the community in which it operates. To this end the Group has taken initiatives such as; investment in renewable energy; implementation of eater management systems within its operations and manufacturing companies to curtail waste and better manage the use of water.

Furthermore, the Group also seeks to minimise waste by seeking to deploy what are by products of its manufacturing, in its terrazzo line ensuring a cheaper product complimentary to its social policy of reducing waste.

In carrying on its business the Group is fully aware and at the forefront to preserving the environment and continuously review its policies aimed at respecting the environment and encouraging social responsibility and accountability.

**The Audit Committee**

The Audit Committee's primary objective is to assist the Board in fulfilling its responsibilities: in dealing with issues of risk, control and governance; and review the financial reporting processes, financial policies and internal control structure. During the short period under review, the Audit Committee did not conduct any meetings

Although the Audit Committee is set up at the level of the Company its main tasks are also related to the activities of the subsidiaries and operational companies.

The Board has set formal terms of establishment and the terms of reference of the Audit Committee that establish its composition, role and function, the parameters of its remit as well as the basis for the processes that it is required to comply with. The Audit Committee is a sub-committee of the Board and is directly responsible and accountable to the Board. The Board reserves the right to change these terms of reference from time to time.

Furthermore, the Audit Committee has the role and function of scrutinising and evaluating any proposed transaction to be entered into by the Company and a related party, to ensure that the execution of any such transaction was at arm's length and on a commercial basis and ultimately in the best interests of the Company.
The Audit Committee is composed of 3 non-executive directors:

- Mr. Vincent Vella – Chairman
- Dr. Arthur Galea Salomone – Member
- Mr. William Van Buren – Member

# Corporate Governance Statement (continued)

Mr. William Van Buren is a non-executive director and a qualified accountant, who the Board considers as independent and competent in accounting as required in terms of the Listing Rules.

**Internal Control**

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. The Directors are aware that internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against normal business risks.

During the period under review the Company operated a system of internal controls which provided reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing the Company.

Other key features of the system of internal control adopted by the Company in respect of its own internal control as well as the control of its Subsidiary and Affiliate are as follows:

***Organization***
The board of directors of each Subsidiary regularly reports to the Board of the Company.

***Risk identification***
The board of directors, with the assistance of the Management team, is responsible for the identification and evaluation of key risks applicable to the areas of business in which the Company and its subsidiaries are involved. These risks are assessed on a continual basis.

***Information and communication***
Periodic strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives are regularly convened by the Board. Regular budgets are prepared and performance against these plans is actively monitored and reported to the Board.
In conclusion, the Board considers that the Company has generally been in compliance with the Principles throughout the period under review as befits a company of this size and nature. Non-compliance with the principles and the reasons therefor have been identified above.

Approved by the Board on 29 April 2015 and signed on its behalf by:

Mr. Vincent Vella - Chairman

Mr. Martin Vella - CEO

HLB Falzon & Falzon

Certified Public Accountants

**Independent Auditors' Report**

**to the shareholders of Hal Mann Vella Group plc**

***Report on the Financial Statements for the year ended 31 December 2014***

We have audited the accompanying consolidated and stand-alone parent company financial statements of Hal Mann Vella Group plc, set on pages 13 to 67, which comprise the consolidated and parent company statements of financial position as at 31 December 2014, and the consolidated and parent company statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***Directors' Responsibility for the Financial Statements***

As described in the Directors' Report on page 1 to 5, the Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Companies Act, Cap. 386 of the Laws of Malta, and for such internal consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements :

- give a true and fair view of the financial position of the group and the parent company as of 31 December 2014 and of their financial performance and its cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union; and

- have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

**Independent Auditors' Report (continued)**

**to the shareholders of Hal Mann Vella Group plc**

***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 Corporate Governance Statement 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 with these principles.

The Listing Rule 5.98 requires the auditor to include a report on the Corporate Governance Statement prepared by the directors.

We read the Corporate Governance Statement 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 perform additional work and we do not consider whether the Board's statements on internal control included in the Corporate Governance Statement 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 Corporate Governance Statement set out on pages 6 to 10 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

***Matters on which we are required to report by exception***

We also have responsibilities under the Companies Act, Cap. 386 of the Laws of Malta, to report to you if in our opinion:
- the information given in the Directors' Report is not consistent with the financial statements;
- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit;
- if 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, set out on pages 1 to 5, 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.

**HLB Falzon & Falzon**
**Certified Public Accountants**

*29 April 2015*

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Tel: +(356) 21 233026, 21 239671, 21 230234 Fax: + (356) 21 239113 E-mail: info@hlbff.com

# Statement of Comprehensive Income
## for the year ended 31 December 2014

| | Note | The Group Current € | The Group 2013 € | The Company Current € | The Company 2013 |
|---|---|---|---|---|---|
| **Revenue** | | 13,731,758 | 13,003,043 | - | - |
| Cost of sales | 6 | (11,535,493) | (9,391,743) | - | - |
| **Gross profit** | | 2,196,265 | 3,611,300 | - | - |
| Rental income | | 247,331 | 152,651 | 354,197 | 227,593 |
| Distribution and selling costs | 6 | (261,032) | (107,716) | - | - |
| Administrative expenses | 6 | (2,308,558) | (3,012,249) | (80,030) | (14,940) |
| Amortisation of goodwill | 6 | (10,477) | (7,920) | - | - |
| Other operating charges | 6 | (6,818) | (449) | - | - |
| Other operating income | | 72,259 | 78,916 | - | - |
| **Operating (loss)/profit** | | (71,030) | 714,533 | 274,167 | 212,653 |
| Changes in fair value of investment property | | 2,773,489 | 5,946,000 | 1,554,356 | 5,946,000 |
| Share of profits in joint ventures | | 126,787 | 778,582 | - | - |
| Dividends receivable | | - | - | - | 335,383 |
| Interest receivable and similar income | | 18,825 | 1,437 | 17,325 | 2 |
| Income from acquisition of shares of subsidiary | | - | 15,090 | - | - |
| Finance costs | | (1,089,216) | (835,885) | (436,428) | (59,141) |
| Fair value change in financial assets designated at fair value through profit or loss | | 112,167 | - | 112,167 | - |
| Write off of amount payable to related underaking | | 80,724 | - | - | - |
| **Profit before tax** | | 1,951,746 | 6,619,757 | 1,521,587 | 6,434,897 |
| Income tax expense | 8 | 86,672 | (780,081) | (309,657) | (840,502) |
| **Profit for the year** | | 2,038,418 | 5,839,676 | 1,211,930 | 5,594,395 |
| Other comprehensive income | | - | - | - | - |
| **Total comprehensive income for the year, net of tax** | | 2,038,418 | 5,839,676 | 1,211,930 | 5,594,395 |
| Earnings per share (cents) | 22 | 40.77 | 116.80 | 24.33 | 111.89 |

*The notes on page 21 – 67 form part of these financial statements*

# Hal Mann Vella Group plc
### (formerly known as Hal Mann Velsud Group Limited)
## Statements of Financial Position
### as at 31 December 2014

| | Note | The Group | | The Company | |
|---|---|---|---|---|---|
| | | Current | 2013 | Current | 2013 |
| | | € | € | € | € |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant & equipment | 9 | 29,245,580 | 26,086,215 | - | - |
| Intangible assets | 10 | 49,827 | 47,518 | - | - |
| Investment in subsidiaries | 11 | - | - | 2,952,196 | 1,590,895 |
| Interest in joint-ventures | 13 | 2,561,521 | 2,622,128 | 168,752 | 189,514 |
| Available-for-sale financial assets | 14 | 200 | 200 | 200 | 200 |
| Held-to-maturity financial assets | 14 | 101,648 | 135,858 | - | - |
| Other non-current financial assets | 14 | 10,937,700 | 1,088,018 | 26,614,535 | 3,937,458 |
| Investment property | 15 | 12,752,713 | 11,580,956 | 21,870,520 | 18,746,000 |
| Goodwill | | 64,450 | 64,443 | - | - |
| **Total non-current assets** | | 55,713,639 | 41,625,336 | 51,606,203 | 24,464,067 |
| **Current assets** | | | | | |
| Inventories | | 5,999,706 | 4,491,225 | - | - |
| Property for resale | 16 | 4,181,509 | 3,512,449 | 2,142,351 | 929,217 |
| Trade and other receivables | 17 | 10,628,255 | 10,427,022 | 1,434,828 | 895,230 |
| Cash and cash equivalents | 26 | 763,949 | 494,382 | 231,860 | 5,937 |
| **Total current assets** | | 21,573,419 | 18,925,078 | 3,809,039 | 1,830,384 |
| **Total assets** | | 77,287,058 | 60,550,414 | 55,415,242 | 26,294,451 |

## Hal Mann Vella Group plc
**(formerly known as Hal Mann Velsud Group Limited)**

# Statements of Financial Position
**as at 31 December 2014**

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | Current | 2013 | Current | 2013 |
| | | € | € | € | € |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Issued capital | 21 | 4,999,820 | 4,999,820 | 4,999,820 | 4,999,820 |
| Revaluation reserve on property, plant and equipment | 23 | 19,332,004 | 18,028,542 | - | - |
| Unrealised fair value gain reserve | 24 | - | - | 9,863,431 | 8,519,555 |
| Capital redemption reserve | 25 | 47,852 | 47,852 | - | - |
| Incentives and benefits reserves | 26 | 604,060 | 604,060 | - | - |
| Retained earnings | | 5,154,540 | 4,397,822 | 1,787,176 | 1,919,122 |
| **Total equity** | | 30,138,276 | 28,078,096 | 16,650,427 | 15,438,497 |
| **Non-current liabilities** | | | | | |
| Long-term borrowings | 18 | 37,043,488 | 6,697,909 | 34,930,000 | 6,962,451 |
| Trade and other payables | 19 | 368,512 | - | 368,512 | |
| Deferred taxation | 20 | 3,654,161 | 3,776,139 | 2,460,000 | 2,249,520 |
| **Total non-current liabilities** | | 41,066,161 | 10,474,048 | 37,758,512 | 9,211,971 |
| **Current liabilities** | | | | | |
| Short-term borrowings | 18 | 612,301 | 15,194,078 | - | 1,253,403 |
| Trade and other payables | 19 | 5,375,403 | 6,612,222 | 889,659 | 215,201 |
| Current taxation due | 8 | 94,917 | 191,970 | 116,644 | 175,379 |
| **Total current liabilities** | | 6,082,621 | 21,998,270 | 1,006,303 | 1,643,983 |
| **Total liabilities** | | 47,148,782 | 32,472,318 | 38,764,815 | 10,855,954 |
| **Total equity and liabilities** | | 77,287,058 | 60,550,414 | 55,415,242 | 26,294,451 |

*The notes on pages 21– 67 form part of these financial statements.*

*The financial statements set out on pages 13 to 67 were approved and authorized for issue by the Board of Directors and signed on its behalf by:*

Mr. Vincent Vella – Chairman
29 April 2015

Mr. Martin Vella – CEO

## Statements of changes in equity
**for the year ended 31 December 2014**

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued share capital | Revaluation reserve on property, plant & machinery | Retained earnings | Incentives & benefits reserve | Capital redemption reserve | Total | Non-controlling interest | Total equity |
| **Balance as at 1 January 2013** | 4,631 | 17,612,781 | 3,853,786 | 604,060 | 47,852 | 22,123,110 | (99,514) | 22,023,596 |
| Profit for the year | - | - | 5,839,676 | - | - | 5,839,676 | - | 5,839,676 |
| Net transfer of fair value gain on property, plant and equipment net of deferred tax | - | 5,232,480 | (5,232,480) | - | - | - | - | - |
| Net transfer of fair value gain on investment property, net of deferred tax | - | 241,915 | - | - | - | 241,915 | - | 241,915 |
| Transfer from revaluation reserve on property, plant and equipment to investment property | - | (63,445) | 63,445 | - | - | - | - | - |
| Non-controlling interest | - | - | (126,605) | - | - | (126,605) | 99,514 | (27,091) |
| **Total comprehensive income for the year, net of tax** | - | 5,410,950 | 544,036 | - | - | 5,954,986 | 99,514 | 6,054,500 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Issue of share capital | 4,995,189 | (4,995,189) | - | - | - | - | - | - |
| **Total contribution by owners** | 4,995,189 | (4,995,189) | - | - | - | - | - | - |
| **Balance as at 31 December 2013** | 4,999,820 | 18,028,542 | 4,397,822 | 604,060 | 47,852 | 28,078,096 | - | 28,078,096 |

## Statements of changes in equity
**for the year ended 31 December 2014**

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Issued share capital** | **Revaluation reserve on property, plant & machinery** | **Retained earnings** | **Incentives & benefits reserve** | **Capital Redemption reserve** | **Total** | **Non-Controlling interest** | **Total Equity** |
| **Balance as at 1 January 2014** | | | | | | | | |
| Opening balance | 4,999,820 | 18,028,542 | 4,397,822 | 604,060 | 47,852 | 28,078,096 | - | 28,078,096 |
| Profit for the year | - | - | 2,038,418 | - | - | 2,038,418 | | 2,038,418 |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| Net transfer of fair value gain on investment property, net of deferred tax | - | 1,343,876 | (1,343,876) | - | - | - | - | - |
| **Total comprehensive income for the year, net of tax** | - | 1,343,876 | 694,542 | - | - | 2,038,418 | - | 2,038,418 |
| Depreciation transfer | - | (62,176) | 62,176 | - | - | - | - | - |
| Deferred taxation thereon | - | 21,762 | - | - | - | 21,762 | - | 21,762 |
| **Balance as at 31 December 2014** | 4,999,820 | 19,332,004 | 5,154,540 | 604,060 | 47,852 | 30,138,276 | - | 30,138,276 |

*The notes on pages 21 – 67 form part of these financial statements*

## Hal Mann Vella Group plc
**(formerly known as Hal Mann Velsud Group Limited)**

## Statement of Changes in Equity
**for the year ended 31 December 2014**

| | The Company | | | | |
|---|---|---|---|---|---|
| | **Issued capital** | **Revaluation reserve on property, plant and equipment** | **Unrealised fair value gain reserve** | **Retained earnings** | **Total** |
| | **€** | **€** | **€** | **€** | **€** |
| **Balance as at 1 January 2013** | | | | | |
| Opening balance | 4,631 | 8,282,264 | - | 1,557,207 | 9,844,102 |
| Profit for the year | - | - | - | 5,594,395 | 5,594,395 |
| Other comprehensive income | - | - | - | - | - |
| Transfer from revaluation reserve on property, plant and equipment to investment property | - | (8,282,264) | 8,282,264 | - | - |
| Net transfer of fair value gain on investment property, net of deferred tax | - | - | 5,232,480 | (5,232,480) | - |
| **Total comprehensive income for the year, net of tax** | - | (8,282,264) | 13,514,744 | 361,915 | 5,594,395 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of share capital | 4,995,189 | - | (4,995,189) | - | - |
| **Total contribution by owners** | 4,995,189 | - | (4,995,189) | - | - |
| **Balance as at 31 December 2013** | 4,999,820 | - | 8,519,555 | 1,919,122 | 15,438,497 |
| **Balance as at 1 January 2014** | | | | | |
| Opening balance | 4,999,820 | - | 8,519,555 | 1,919,122 | 15,438,497 |
| Profit for the year | - | - | - | 1,211,930 | 1,211,930 |
| Other comprehensive income | - | - | - | - | - |
| Net transfer of fair value gain on investment property, net of deferred tax | - | - | 1,343,876 | (1,343,876) | - |
| **Total comprehensive income for the year, net of tax** | - | - | 1,343,876 | (131,946) | 1,211,930 |
| **Balance as at 31 December 2014** | 4,999,820 | - | 9,863,431 | 1,787,176 | 16,650,427 |

# Hal Mann Vella Group plc
## (formerly known as Hal Mann Velsud Group Limited)

# Statements of Cash flows
## for the year ended 31 December 2014

| | Note | Group Current € | Group 2013 € | Company Current € | Company 2013 € |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit before tax | | 1,951,746 | 6,619,757 | 1,521,587 | 6,434,897 |
| Adjustments for: | | | | | |
| Increase in fair value of investment property | | (2,773,489) | (5,946,000) | (1,554,356) | (5,946,000) |
| Share of profit in joint venture | | (126,787) | (778,582) | - | - |
| Depreciation | | 557,409 | 550,360 | - | - |
| Provision for exchange fluctuations | | 11,385 | - | - | - |
| Amortisation of intangible fixed assets | | 10,477 | 7,920 | - | - |
| Increase in fair value of financial assets designated through profit or loss | | (112,167) | - | (112,167) | - |
| Dividends receivable | | - | - | - | (335,383) |
| Finance income | | (18,825) | (1,437) | (5) | (2) |
| Finance costs | | 1,089,216 | 833,012 | 436,428 | 58,836 |
| Working capital changes: | | | | | |
| Increase in inventories | | (1,508,485) | (2,347,351) | - | - |
| Decrease/(increase) in receivables | | 174,077 | 2,459,546 | (717,887) | (135,164) |
| (Decrease)/increase in payables | | (457,433) | (907,724) | 1,042,970 | (1,011) |
| (Increase)/decrease in property for resale | | (669,060) | 878,333 | (1,213,134) | (300) |
| Payments to related undertakings | | (62,854) | (2,196) | - | - |
| Payments/(receipts) from other undertakings | | (119,666) | 36,336 | | - |
| Interest paid on overdraft | | (439,563) | (516,397) | (119) | (4,836) |
| Other interest paid | | (345,517) | (59,163) | (325,036) | - |
| Taxation paid | | (170,947) | (118,276) | (58,736) | (68,247) |
| Finance costs payable to Inland Revenue Department | | - | 3,165 | - | - |
| Taxation refunded | | 61,372 | 36,287 | - | - |
| **Net cash (used in) / from operating activities** | | (2,949,111) | 747,590 | (980,455) | 2,790 |

# Hal Mann Vella Group plc
## (formerly known as Hal Mann Velsud Group Limited)

# Statements of Cash flow
### for the year ended 31 December 2014

| | Note | Group Current € | Group 2013 € | Company Current € | Company 2013 € |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Payments to acquire property, plant & equipment | | (429,332) | (622,196) | - | - |
| Payments for investment property | | (1,573,501) | (50,867) | (1,570,164) | - |
| Payments to acquire investment subsidiary | | (12,786) | (12,000) | - | - |
| Payments to acquire non-current financial assets | | (9,035,651) | (1,632) | (8,817,622) | (2,000) |
| Dividends received | | - | - | - | 335,383 |
| Advances to group undertakings | | - | - | (12,837,827) | - |
| Advances to joint venture | | (19,000) | (237,000) | - | - |
| Advances to other parties | | (2,250,000) | - | (2,250,000) | |
| Payments to group undertakings | | - | - | - | (624,713) |
| Receipts from related undertakings | | - | 106,329 | - | - |
| Receipts from other undertakings | | - | 419,114 | - | - |
| Receipts from disposal of other non-current financial assets | | 471,345 | - | - | - |
| Payments from joint venture | | - | 97,269 | - | - |
| Balance transfer on merger | | (112,209) | - | - | - |
| Finance income | | 1,468 | 1,574 | 5 | 2 |
| **Net cash used in investing activities** | | (12,959,666) | (299,409) | (25,475,608) | (291,328) |
| **Cash flows from financing activities** | | | | | |
| Advances from/(repayment of) banks loans | | 23,725,346 | 609,872 | 28,222,028 | (29,375) |
| Other loans advanced | | 1,867,816 | - | 1,867,816 | - |
| Receipts from/(payments to) group undertakings | | - | 160,305 | (2,744,607) | 2,461,121 |
| Advances from/repayments to related undertakings | | 553,951 | - | - | (2,000) |
| Receipt from/(payments to) joint ventures | | 4,612,463 | - | (391,454) | (247,126) |
| Payments to other undertakings | | (70,333) | - | (70,000) | - |
| Receipts from third party | | - | 333 | - | - |
| Advances to directors | | (5,048) | - | - | - |
| Repayments to shareholders | | (5,183,987) | (2,832,367) | - | (1,937,677) |
| Interest paid on loans | | (361,813) | (330,176) | (111,273) | (58,793) |
| **Net cash from/(used in) financing activities** | | 25,138,395 | (2,392,033) | 26,772,510 | 186,150 |
| **Net movement in cash and cash equivalents** | | 9,229,618 | (1,943,852) | 316,447 | (102,388) |
| Cash and cash equivalents at beginning of year | | (8,697,237) | (6,753,382) | (84,587) | 17,801 |
| **Cash and cash equivalents at end of year** | 27 | 532,381 | (8,697,234) | 231,860 | (84,587) |

*The notes on pages 21 to 67 form part of these financial statements.*

## Hal Mann Vella Group plc
**(formerly known as Hal Mann Velsud Group Limited)**

# Notes to the financial statements
**for the year ended 31 December 2014**

## 1. Corporate information

The consolidated financial statements of Hal Mann Vella Group plc and its subsidiaries (the Group) for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the directors on 29 April 2014. Hal Mann Vella Group plc (the Company) is a limited liability company incorporated in Malta, under the Companies Act, Cap. 386 of the Laws of Malta.

## 2. Principal accounting policies

**(a) Basis of accounting and consolidation**
These financial statements are prepared under the historical cost convention, as modified by the measurement of investment property and financial assets at fair value and the revaluation of property, plant and equipment, fair value gain of the investment property, property, plant and equipment and fair value gain of financial assets and are in accordance with the requirements of the International Financial Reporting Standards as adopted by the European Union and comply with the Companies Act, Cap. 386 of the Laws of Malta.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intragroup balances, transactions, unrealised gains and losses resulting from intragroup transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the statement of comprehensive income and within the equity in the consolidated statement of financial position, separately from the parent shareholders' equity.

**(b) Investments in subsidiaries**
A subsidiary is an entity that is controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in subsidiaries are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses. Income from the investment is recognised only to the extent of distributions received by the Company from post-acquisition profits. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

**(c) Investments in associates**
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

## 2. Principal accounting policies (continued)

Under the equity method, the investment in the associate is carried on the statement of financial position at cost plus acquisition cost plus post acquisition changes in the company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

**(d) Interest in joint-ventures**
The Group has an interest in joint-ventures. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The company recognises its interest in the joint-venture using the proportionate consolidation method. The company combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its financial statements.

**(e) Property, plant and equipment**
Land and buildings are stated in the statement of financial position at its revalued amount, being the fair value at the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the statement of comprehensive income, which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land is recognised in statement of comprehensive income to the extent that it exceeds the balance, if any, held in the revaluation reserve on property, plant and equipment relating to a previous revaluation of that asset.

Freehold land is not depreciated.

Property, plant and equipment, except land and buildings, are stated at cost less accumulated depreciation. A full year's depreciation charge is provided during the year of acquisition and no depreciation charge during the year in which the asset is disposed of or scrapped. Depreciation is calculated using the reducing balance method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Plant and machinery | 10% |
| Tools | 20% |
| Computer equipment | 25% |
| Office equipment | 25% |
| Air-conditioning equipment | 16.67% |
| Telecommunications | 25% |
| Exhibition stand | 20% |
| Furniture and fittings | 10% |
| Motor vehicles | 20% |
| Buildings | 2% |
| Improvements to premises | 10% |
| Site offices | 25% |
| Electrical installations | 6.67% |

| | |
|---|---|
| Electrical system and fittings | 20% |

## 2. Principal accounting policies (continued)

| | |
|---|---|
| Kitchen equipment | 20% |
| Lift | 20% |
| Pallets | 20% |
| Exhibits | 20% |

Depreciation methods, useful life and residual values are reassessed at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

**(f) Intangible fixed assets**
Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

The Group's intangible assets comprise trade names. Trades names are being amortised on a straight line basis over a period of 15 years to reflect their useful economic value.

**(g) Other non-current financial assets**
Financial assets are classified at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or, available-for-sale financial assets as appropriate. All financial assets are recognized initially at fair value, plus in the case of financial assets not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial assets or financial liabilities. The company determines the classification of its financial assets after initial recognition and where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

## 2. Principal accounting policies (continued)

*Subsequent measurement*

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets designated at fair value through profit or loss
- Loans and receivables
- Assets held-to-maturity
- Available-for-sale financial assets

*Financial assets designated at fair value through profit or loss*
This classification includes financial assets classified as those designated at fair value through profit or loss upon initial recognition. Financial assets at fair value through profit and loss are initially recognised and are subsequently measured at fair value based on quoted bid prices. Interest receivable on financial assets at fair value through profit or loss is included with interest receivable and similar income. All related realised and unrealised gains and losses are included in trading profits in the year in which they arise.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'financial assets held for trading', or 'financial investment - available-for-sale' or 'financial assets designated at fair value through profit or loss'. After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Gains and losses are recognised in the statement of comprehensive income when the financial assets are either derecognised or impaired or through the amortisation process.

*Assets held-to-maturity*
Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognized in the statement of comprehensive income line 'Credit loss expense'.

If the group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the group would be prohibited from classifying any financial asset as held to maturity during the following two years.

*Available-for-sale financial assets*
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three other categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity (other comprehensive income) in the 'Revaluation Reserve'. When the asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income in

## 2. Principal accounting policies (continued)

'Other operating income'. The losses arising from impairment of such investments are recognised in the statement of comprehensive income in 'Impairment losses on financial investments' and removed from the 'Revaluation Reserve'.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period except for investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

*Derecognition of financial assets*
A financial asset is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- the company has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the group's continuing involvement in the asset.

**(h) Impairment**
*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 purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

*Impairment of financial assets*
The group assesses at the end of each reporting period whether there is evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

**(i) Offsetting of financial instruments**
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle on a net basis, to realise assets and settle the liabilities simultaneously.

## 2. Principal accounting policies (continued)

**(j) Investment property**

Property that is held for long-term rental yields or for capital appreciation or both, and is not occupied by the group, is classified as investment property. Investment property comprises freehold and leasehold land and buildings held under long-term operating leases.

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. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property 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. After initial recognition, investment property is carried at fair value representing open market value determined periodically. 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 the 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 professional valuers. 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 measurable. 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. 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 the statement of comprehensive income 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.

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 its future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair value are recognised in statement of comprehensive income. 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.

## 2. Principal accounting policies (continued)

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in statement of comprehensive income to the extent that it reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus with equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to the profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through statement of comprehensive income.

Part of the investment property is stated at cost less accumulated depreciation less accumulated impairment losses. Depreciation is provided for on the straight line method in order to write off the investment property over the expected useful economic life.

A full year's depreciation charge on the investment property is provided during the year of acquisition and no depreciation charge during the year in which the asset is disposed of or scrapped. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

**(k) Inventories**
Inventories are valued at the lower of cost and net realisable value.

Cost is determined on the weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**(l) Property for resale**
Property held for resale is included in the financial statements at the lower of cost and net realisable value. Cost comprises the purchase price of acquiring the property and other costs incurred to develop the property. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**(m) Trade receivables**
Trade receivables are 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, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor or, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

## 2. Principal accounting policies (continued)

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss in recognized in the statement of comprehensive income within 'selling and distribution costs'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and distribution costs in the statement of comprehensive income.

Other receivables include, receivables created by the enterprise by providing funds directly to a debtor and are measured at cost.

Prepayments comprise payments made in advance in respect of expenditure relating to the subsequent financial year and accrued income is income relating to the current period, which will not be invoiced until after the end of the current reporting period.

**(n) Cash and cash equivalents**
Cash and short-term deposits in the statement of financial position are carried at face value. For the purposes of the statement of cashflow, cash and cash equivalents comprise cash at banks and in hand.

For the purpose of the statement of cashflows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

**(o) Leases**
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains a lease if fulfillment of the arrangement is dependent on the use of a specific asset(s) and the arrangement conveys a right to use the asset(s), even if that right is not explicitly specified in an arrangement.

Leases in which the group does not transfer all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**(p) Taxation**
The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except when it relates to items recognized in other comprehensive income or directly in equity, in which case it is also dealt with in other comprehensive income or in equity, as appropriate.

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the end of the reporting period. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

## 2. Principal accounting policies (continued)

*Deferred income tax*
Deferred tax is provided using the liability method on temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recongised for all temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

***Value Added Tax***
Revenue, expenses and assets are recognised net of Value Added Tax, except:
- where the Value Added Tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case Value Added Tax is recognised as part of the acquisition of the asset or as part of the expense item, as applicable.

- Receivables and payables that are stated with the amount of Value Added Tax included.

The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**(q) Provisions**
Provisions 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 embodying economic benefits 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 the passage of time is recognised as interest expense.

## 2. Principal accounting policies (continued)

**(r) Foreign currencies**
Translations denominated in foreign currencies are translated at the exchange ruling on the dates of the transactions. Monetary receivables and payables denominated in foreign currencies are translated at the rates of exchange prevailing at the end of each reporting period. Translation differences are dealt with in the statement of comprehensive income.

**(s) Government grants**
Government grants are recognised where there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in statement of comprehensive income on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to statement of comprehensive income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in statement of comprehensive income in their period in which they become receivable.

**(t) Trade payables**
Trade payables are 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. 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.

**(u) Borrowings**
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Issue costs incurred in connection with the issue of the secured bonds include professional fees, publicity, printing, listing, registration, underwriting, management fees, trustee fees and other miscellaneous costs.

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.

**(v) 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.

## 2. Principal accounting policies (continued)

**(w) Dividend distribution**
Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

**(x) Revenue recognition**
Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of value-added tax and discounts, where applicable. Revenue is recognized to the extent that it is probable that future economic benefits will flow to the group and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods: Revenue from the sale of goods is recognized on the transfer of the risks and rewards of ownership which generally coincides with the date of the invoice.

Rendering of services: Revenue from the provision of services is recognized in the year in which the services are rendered, 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.

Rental income: Rental income arising from operating leases on investment property is accounted for on a straight line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature.

Interest income: Interest income is accounted for when it is probable that the economic benefits associated with the transaction will flow to the company and these can be measured reliably.

Revenue from sale of property: Revenue is recognised on the date illustrated on the contract of sale, when the costs incurred or to be incurred in respect of the transaction can be measured reliably and when the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

**(y) Borrowing costs**
Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment or investment property, 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.

**(z) Fair value measurements and valuation processes**
The Group measures financial instruments such as listed debt securities and non-financial assets such as investment properties at fair value at the end of each reporting period.

## 2. Principal accounting policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure at fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Information about the valuation techniques and inputs used in determining the fair value of the investment property is disclosed in note 15.

## 3. Judgements in applying Accounting Policies and Key Sources of Estimation Uncertainty

The key assumptions concerning the future, or any other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

**Revaluation of investment property**
The Group carries its investment property at fair value, with changes in fair value being recognised in the statement of comprehensive income. The group engaged an independent valuation specialist to assess fair value as at 23 June 2014. A valuation method based on open market model was used.

The key assumptions used to determine the fair value of the property is provided in Note 15.

# 4. Changes in Accounting Policies and Disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014.

The nature and the impact of each new standard and amendment is described below:

*Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since it does not have any offsetting arrangements.

*Impairment of assets - Amendments to IAS 36*
This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

*Annual Improvements 2010-2012 Cycle*
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

*IFRS 10 Consolidated Financial Statements*
This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

**IFRS 11 Joint arrangements**
This standard focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

*IFRS 12 Disclosures of interests in other entities*
This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

**Standards issued but not yet effective**
*IFRS 15 Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is

## 4. Changes in Accounting Policies and Disclosures (continued)

currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

*Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

## 5. Segment Information

For management purposes, the Group is organised into business units based on its products and services and has four reportable segments , as follows:

The Property Development and Letting segment, which carry works in the building industry, including plumbing, electrical and construction works and to operate as turnkey contractors. Also in this segment the group leases out offices and residential building to third parties.

The Hospitality and Retail Outlets which is responsible for the franchise brands in Malta. The group owns the exclusive rights to operate the franchises within Malta. The Group owns and operates two apartment hotels.

Manufacturing, Products and General Contracting Services which includes the companies responsible for manufacturing and exports. This segment includes specialising in the manufacture of stone elements, arranging logistics, plant hire, deliveries, and supplies and subcontracting work. Also coordination of orders for customers for products and services is done.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

| Year ended 31 December 2014 | Property development and letting | Hospitality and Retail Outlets | Manufacturing and General contracting services | Total segments | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | € | € | € | € | € | € |
| **Revenue** | | | | | | |
| External customers | 1,145,528 | 2,134,478 | 17,788,838 | 21,068,844 | (7,089,755) | 13,979,089 |
| **Total revenue** | **1,145,528** | **2,134,478** | **17,788,838** | **21,068,844** | **(7,089,755)** | **13,979,089** |
| **Income/(expenses)** | | | | | | |
| Depreciation and amortisation | 49,081 | 191,401 | 327,404 | 567,886 | - | 567,886 |
| Share of profit of an associate and a joint venture | 126,787 | - | - | 126,787 | - | 126,787 |
| **Segment profit** | **2,896,247** | **(411,378)** | **(659,910)** | **1,824,959** | **126,787** | **1,951,746** |
| **Total assets** | **72,014,347** | **6,851,750** | **21,981,112** | **100,847,209** | **(23,560,151)** | **77,287,058** |
| **Total liabilities** | **46,323,776** | **4,883,116** | **18,760,711** | **69,967,603** | **(22,818,821)** | **47,148,782** |
| **Other disclosures** | | | | | | |
| Investments in an associate and a joint venture | 168,752 | - | - | 168,752 | 2,392,769 | 2,561,521 |

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of the detailed reconciliations presented further below.

| Year ended 31 December 2013 | Property development and letting | Hospitality and Retail Outlets | Manufacturing and General contracting services | Total segments | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | € | € | € | € | € | € |
| **Revenue** | | | | | | |
| External customers | 1,400,524 | 1,496,349 | 17,908,425 | 20,805,298 | (7,649,604) | 13,155,694 |
| **Total revenue** | **1,400,524** | **1,496,349** | **17,908,425** | **20,805,298** | **(7,649,604)** | **13,155,694** |
| **Income/(expenses)** | | | | | | |
| Depreciation and amortisation | 48,414 | 162,126 | 347,740 | 558,280 | - | 558,280 |
| Share of profit of an associate and a joint venture | 778,582 | - | - | 778,582 | - | 778,582 |
| **Segment profit** | **6,495,471** | **(213,199)** | **(120,804)** | **6,161,468** | **458,289** | **6,619,757** |
| **Total assets** | **42,605,389** | **6,359,151** | **26,422,675** | **75,387,215** | **(14,836,801)** | **60,550,414** |
| **Total liabilities** | **19,315,633** | **4,115,291** | **23,010,080** | **46,441,004** | **(13,968,685)** | **32,472,319** |
| **Other disclosures** | | | | | | |
| Investments in an associate and a joint venture | 356,146 | - | - | 356,146 | 2,265,982 | 2,622,128 |

## 6. Expenses by nature

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Depreciation | 557,409 | 550,360 | - | - |
| Amortisation of intangible fixed assets | 10,477 | 7,920 | - | - |
| Auditors' remuneration | 31,377 | 26,412 | - | - |
| Directors' salaries (note 7) | 103,596 | 132,003 | - | - |
| Wages, salaries and social security contribution (note 7) | 2,907,382 | 2,865,156 | - | - |
| Other expenses | 10,516,599 | 8,943,296 | 80,030 | 14,940 |
| Exchange in fluctuation | (4,462) | (5,070) | - | - |
| As at 31 December | 14,122,378 | 12,520,077 | 80,030 | 14,940 |

*Auditor's fees*

Fees charged by the auditor for services rendered during the financial years ended 31 December 2014 and 2013 relate to the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **Current** | **2013** | **Current** | **2013** |
| | € | € | € | € |
| Annual statutory audit | 31,377 | 26,412 | 2,030 | 1,500 |
| Tax advisory and compliance services | 2,035 | 2,035 | 185 | 185 |
| | 33,412 | 28,447 | 2,215 | 1,685 |

## 7. Payroll costs and personnel information

Payroll costs for the financial years ended 31 December 2014 and 31 December 2013 comprised the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Wages and salaries (including directors' remuneration) | 2,734,669 | 2,777,808 | - | - |
| Social security contributions | 234,343 | 219,351 | - | - |
| As at 31 December | 2,969,012 | 2,997,159 | - | - |

The average number of persons (including the directors) employed by the Group and the Company during the financial year ended 31 December 2014 and 31 December 2013 was as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| Operational | 210 | 145 | - | - |
| Administration | 47 | 45 | - | - |
| Distribution | 19 | 18 | - | - |
| | 276 | 208 | - | - |

## 8. Income tax

Tax expense on profit on ordinary activities.

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| **Current taxation** | | | | |
| Tax at source | - | (63,256) | - | (63,256) |
| Final withholding tax at 15% | (138) | (235) | (1) | - |
| Final withholding tax at 12% | - | (34,200) | - | - |
| Current tax charge | (12,385) | (140,007) | - | (63,726) |
| Underprovision of tax in prior years | (1,021) | (327) | - | - |
| | (13,544) | (238,025) | (1) | (126,982) |
| Consideration payable by the company in respect of the tax benefit, attaching to tax losses surrendered by a subsidiary company under the Group Relief provision of the Income Tax Act | - | - | (99,176) | - |
| **Deferred taxation (Note 20):** | | | | |
| Credit/(charge) for the year | 100,216 | (512,999) | (210,480) | (713,520) |
| Adjustments in respect of prior year | - | (29,057) | - | - |
| Income tax expense for the year | 86,672 | (780,081) | (309,657) | (840,502) |

## 8. Income tax (continued)

| | The Group | | The Company | |
|---|---|---|---|---|
| *Tax Reconciliation* | | | | |
| | **Current** | **2013** | **Current** | **2013** |
| | | | **€** | **€** |
| Profit before tax | 1,951,746 | 6,619,757 | 1,521,587 | 6,434,897 |
| Income tax expense thereon | 683,111 | 2,316,915 | 532,555 | 2,252,214 |
| *Tax effect of:* | | | | |
| - expenses non allowed for tax purposes | (234,725) | (2,001,859) | 180,760 | (2,055,172) |
| - excess of carrying amount over tax base | 166,476 | 76,874 | - | - |
| - income taxed at different rates | (664,021) | (225,405) | (614,138) | (70,060) |
| - tax losses utilised | 86,641 | (1,568) | - | - |
| - unabsorbed capital allowances | (229,818) | (127,078) | - | - |
| - investment tax credit | (122,015) | 9,136 | - | - |
| - unabsorbed tax losses | (101,698) | - | - | - |
| - change in the fair value of investment property | 356,776 | 713,520 | 210,480 | 713,520 |
| - other | - | 19,546 | - | - |
| - under provision of prior year tax charge | (27,399) | - | - | - |
| Income tax expense for the year | (86,672) | 780,081 | 309,657 | 840,502 |

**Current taxation**

Provision for income tax has been made at the rate of 35% on the chargeable income for the year except for investment income which is charged at the rates of 15% and 35% and for proceeds from sale of property taxable at 12% final withholding tax.

## 8. Income tax (continued)

Taxation payable is made up as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| As at 1 January | 191,970 | 36,072 | 175,379 | 116,644 |
| Underprovision of tax in previous year | 368 | 509 | - | - |
| Income tax expense | 13,175 | 237,698 | 1 | 126,982 |
| Tax refund | 61,372 | 36,287 | - | - |
| Transfer from related undertaking | (3,014) | - | - | - |
| | 263,871 | 310,566 | 175,380 | 243,626 |
| Payments: | | | | |
| Provisional tax | (1) | (14,022) | (1) | (4,991) |
| Settlement tax | (126,535) | (18,669) | (58,735) | - |
| Final withholding tax (15%) | (138) | (235) | - | - |
| Final withholding tax (12%) | - | (34,200) | - | - |
| Capital gains tax | (42,280) | (51,470) | - | - |
| Tax at source | - | - | - | (63,256) |
| | (168,954) | (118,596) | (58,736) | (68,247) |
| As at 31 December | 94,917 | 191,970 | 116,644 | 175,379 |

## 9. Property, plant & equipment

| | The Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Land & buildings | Plant & machinery | Tools | Computer equipment and software | Office equipment | Air conditioning equipment | Telecommu nications | Exhibition stand | Furniture & fittings | Motor vehicles |
| **Cost / Valuation** | | | | | | | | | | |
| As at 1 January 2013 | 12,800,000 | 2,031,908 | 156,837 | 485,077 | 69,693 | 32,302 | 18,063 | 20,832 | 878,263 | 410,085 |
| Revaluation surplus | 5,946,000 | - | - | - | - | - | - | - | - | - |
| Additions | - | 10,904 | - | 71,669 | 15,490 | 2,874 | - | - | 167,107 | 71,381 |
| As at 31 December 2013 | 18,746,000 | 2,042,812 | 156,837 | 556,746 | 85,183 | 35,176 | 18,063 | 20,832 | 1,045,370 | 481,466 |
| Additions | 1,570,164 | 22,254 | - | 17,028 | 8,293 | 5,319 | 212 | - | 315,370 | 27,854 |
| Fair value change in investment property | 1,554,356 | - | - | - | - | - | - | - | - | - |
| Transfer from investment property | - | - | - | - | - | - | - | - | - | - |
| As at 31 December 2014 | 21,870,520 | 2,065,066 | 156,837 | 573,774 | 93,476 | 40,495 | 18,275 | 20,832 | 1,360,740 | 509,320 |
| **Depreciation** | | | | | | | | | | |
| As at 1 January 2013 | - | 811,978 | 94,353 | 367,214 | 59,317 | 20,455 | 16,310 | 17,894 | 617,581 | 284,093 |
| Charge for the year | - | 123,084 | 12,516 | 46,652 | 6,031 | 2,752 | 423 | 587 | 46,756 | 39,474 |
| As at 31 December 2013 | - | 935,062 | 106,869 | 413,866 | 65,348 | 23,207 | 16,733 | 18,481 | 664,337 | 323,567 |
| Charge for the year | - | 113,001 | 9,994 | 38,715 | 6,662 | 3,244 | 373 | 470 | 81,982 | 37,151 |
| Transfer from investment property | - | - | - | - | - | - | - | - | - | - |
| As at 31 December 2014 | - | 1,048,063 | 116,863 | 452,581 | 72,010 | 26,451 | 17,106 | 18,951 | 746,319 | 360,718 |
| **Net book amount** | | | | | | | | | | |
| As at 31 December 2013 | 18,746,000 | 1,107,750 | 49,968 | 142,880 | 19,835 | 11,969 | 1,330 | 2,351 | 381,033 | 157,899 |
| As at 31 December 2014 | 21,870,520 | 1,017,003 | 39,974 | 121,193 | 21,466 | 14,044 | 1,169 | 1,881 | 614,421 | 148,602 |

## 9. Property, plant & equipment (continued)

The Group

| | Buildings | Improvements to premises | Site offices | Renewable energy | Electrical installations | Electrical system & fittings | Kitchen equipment | Lift | Pallets | Exhibits | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost / Valuation** | | | | | | | | | | | - |
| As at 1 January 2013 | 3,800,000 | 1,206,593 | 28,020 | 192,170 | 150,681 | 28,541 | 173,179 | 31,645 | 4,849 | 350,000 | 22,868,738 |
| Revaluation surplus | - | - | - | - | - | - | - | - | - | - | 5,946,000 |
| Additions | - | 283,594 | 13,250 | - | - | - | 928 | - | - | - | 637,197 |
| As at 31 December 2013 | 3,800,000 | 1,490,187 | 41,270 | 192,170 | 150,681 | 28,541 | 174,107 | 31,645 | 4,849 | 350,000 | 29,451,935 |
| Additions | - | 118,623 | - | - | 17,507 | - | 1,674 | - | - | 7,406 | 2,111,704 |
| Fair value change in investment property | - | - | - | - | - | - | - | - | - | - | 1,554,356 |
| Transfer from investment property | 16,306 | - | - | - | - | - | - | - | - | - | 16,306 |
| As at 31 December 2014 | 3,816,306 | 1,608,810 | 41,270 | 192,170 | 168,188 | 28,541 | 175,781 | 31,645 | 4,849 | 357,406 | 33,134,301 |
| **Depreciation** | | | | | | | | | | | |
| As at 1 January 2013 | - | 164,122 | 13,519 | 22,150 | 19,976 | 28,516 | 168,105 | 28,494 | 4,022 | 126,000 | 2,864,099 |
| Charge for the year | 76,000 | 79,477 | 5,550 | 6,801 | 8,717 | 5 | 1,200 | 630 | 166 | 44,800 | 501,621 |
| As at 31 December 2013 | 76,000 | 243,599 | 19,069 | 28,951 | 28,693 | 28,521 | 169,305 | 29,124 | 4,188 | 170,800 | 3,365,720 |
| Charge for the year | 74,513 | 82,695 | 4,440 | 6,529 | 9,303 | 4 | 1,295 | 504 | 132 | 37,320 | 508,327 |
| Transfer from investment property | 14,674 | - | - | - | - | - | - | - | - | - | 14,674 |
| As at 31 December 2014 | 165,187 | 326,294 | 23,509 | 35,480 | 37,996 | 28,525 | 170,600 | 29,628 | 4,320 | 208,120 | 3,888,721 |
| **Net book amount** | | | | | | | | | | | |
| As at 31 December 2013 | 3,724,000 | 1,246,588 | 22,201 | 163,219 | 121,988 | 20 | 4,802 | 2,521 | 661 | 179,200 | 26,086,215 |
| As at 31 December 2014 | 3,651,119 | 1,282,516 | 17,761 | 156,690 | 130,192 | 16 | 5,181 | 2,017 | 529 | 149,286 | 29,245,580 |

### The Group

The effective date of revaluation of the subsidiary's property, plant and equipment was during 2010.

If property, plant and equipment were included in the financial statements at cost, their carrying amounts would have been as follows:

| | Improvements to buildings | Land and buildings | Total |
|---|---|---|---|
| | € | € | € |
| **Cost** | | | |
| As at 1 January 2013 | 79,132 | 3,897,362 | 3,976,494 |
| Additions | 209,037 | - | 209,037 |
| As at 31 December 2013 | 288,169 | 3,897,362 | 4,185,531 |
| Additions | 25,210 | 1,586,470 | 1,611,680 |
| As at 31 December 2014 | 313,379 | 5,483,832 | 5,797,211 |
| **Depreciation** | | | |
| As at 1 January 2013 | 23,023 | 282,406 | 305,429 |
| Charge for the year | 26,515 | 11,082 | 37,597 |
| As at 31 December 2013 | 49,538 | 293,488 | 343,026 |
| Charge for the year | 26,384 | 23,339 | 49,723 |
| As at 31 December 2014 | 75,922 | 316,827 | 392,749 |
| **Net book amount** | | | |
| As at 31 December 2013 | 238,631 | 3,603,874 | 3,842,505 |
| As at 31 December 2014 | 237,457 | 5,167,005 | 5,404,462 |

## 10. Intangible assets

| | Trade names |
|---|---|
| | The Group |
| | € |
| **Cost** | |
| As at 1 January 2014 and 31 December 2013 | 118,798 |
| Additions | 12,786 |
| As at 31 December 2014 | 131,584 |
| **Amortisation** | |
| As at 1 January 2013 | 63,360 |
| Charge for the year | 7,920 |
| As at 1 January 2014 | 71,280 |
| Charge for the year | 10,477 |
| As at 31 December 2014 | 81,757 |
| **Net book amount** | |
| As at 31 December 2013 | 47,518 |
| As at 31 December 2014 | 49,827 |

## 11. Investment in subsidiaries

**The Company**

| | Current € | 2013 € |
|---|---|---|
| **Cost** | | |
| As at 1 January | 1,590,895 | 1,590,895 |
| Additions | 1,544,390 | - |
| Transfer to other undertakings | (183,089) | - |
| As at 31 December | 2,952,196 | 1,590,895 |

As at 31 December 2014, the company held the following equity interest:

| Undertakings / Registered Office | Number, class and nominal value of shares held | Percentage of issued shares held |
|---|---|---|
| Mavina Holiday Complex Ltd<br>Triq il-Fliegu,<br>St. Paul's Bay SPB 1403 | 2,998 Ordinary shares<br>of €2.329373 each<br>fully paid up | 99.93% |

The company is engaged in the operation of a holiday complex.

| | | |
|---|---|---|
| Sudvel Limited<br>Hal Mann Vella, The Factory,<br>Mosta Road,<br>Lija LJA 9016 | 500 Ordinary shares<br>of €2.329373 each<br>fully paid up | 100% |

The company is principally engaged in holding business of a finance and acts as a Guarantor to the Bond issuer namely Hal Mann Vella Group plc.

| | | |
|---|---|---|
| Hal Mann International Ltd<br>Mosta Road,<br>Lija, LJA 9016 | 1,000,000 Ordinary shares<br>of €1 each<br>fully paid up | 100% |

The company is engaged in manufacturing and assembling chinaware, glass and other related products and undertaking contracts to manufacture and lay all kinds of tiles and to purchase materials required for the manufacturing activity of the company.

On 24 November 2014 it was resolved that Hal Mann Industries Limited be amalgamated into Hal Mann International Limited in terms of the provision of article 358 of the Companies Act, Cap. 386 of the Laws of Malta. Hal Mann International Limited succeeds to all assets, rights, liabilities and obligations of Hal Mann Industries Limited.

| | | |
|---|---|---|
| Hal Mann Properties Ltd<br>Mosta Road,<br>Lija, LJA 9016 | 101,000 Ordinary shares<br>of €2.329373 each<br>fully paid up | 99.99% |

The company is engaged in dealing in movable and immovable property.

| | | |
|---|---|---|
| Vinmar Limited<br>Hal Mann, The Factory,<br>Mosta Road, Lija LJA 9016 | 1,500 Ordinary shares<br>of €1 each<br>fully paid up | 100% |

The company is engaged in dealing in movable and immovable property.

| | | |
|---|---|---|
| Hal Mann (Letting) Ltd<br>Hal Mann, The Factory,<br>Mosta Road,<br>Lija, LJA 9016 | 99,999 Ordinary shares<br>of €1 each<br>fully paid up | 99.99% |

The company is engaged in dealing in immovable property.

| | | |
|---|---|---|
| Hal Mann Vella Ltd,<br>Hal Mann, The Factory,<br>Mosta Road,<br>Lija, LJA 9016 | 429,300 Ordinary shares<br>of €2.329373 each,<br>fully paid up | 100% |

The company is engaged in transportation on land, delivery of all matters relating to the construction industry and related, complimentary, retail of terrazzo, marble, granite and turnkey projects or incidental activities.

On 24 November 2014 it was resolved that Hal Mann Services Ltd be amalgamated into Hal Mann Vella Ltd in terms of the provision of article 358 of the Companies Act, Cap. 386 of the Laws of Malta. Hal Mann Vella Ltd succeeds to all assets, rights, liabilities and obligations of Hal Mann Services Ltd.

| | | |
|---|---|---|
| SMG Mode Ltd,<br>Hal Mann, The Factory,<br>Mosta Road,<br>Lija, LJA 9016 | 559,480 Ordinary shares<br>of €1 each,<br>fully paid up | 100% |

The company is engaged in operating retail outlets, specialising in apparel and related items under franchise arrangements.

## 12. Investment in associate

| | Current | 2013 |
|---|---|---|
| | € | € |
| **Cost** | | |
| As at 1 January | 2,329 | 2,329 |
| Provision for impairment of investment | (2,329) | (2,329) |
| As at 31 December | - | - |

The Group holds 1,000 Ordinary shares of €2.329373 each, representing 20% shareholding of the Ordinary share capital of Hal Mann Projects Limited, a company registered in Malta with its registered address at Hal Mann Vella Group plc, Naxxar Road, Iklin, IKL 9020.

## 13. Interest in joint-ventures

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | € | Current | € |
| Cost | | | | |
| As at 1 January | 2,622,128 | 2,112,042 | 189,514 | 187,514 |
| Addition | - | 3,632 | - | - |
| Share of profits | 154,464 | 778,979 | - | - |
| Share of losses | (27,677) | (398) | - | - |
| Dividends received | - | (272,127) | - | - |
| Transfer of shares to group undertakings | (187,394) | - | (187,394) | - |
| Transfer of shares from group undertaking | | | 166,632 | 2,000 |
| As at 31 December | 2,561,521 | 2,622,128 | 168,752 | 189,514 |

As at 31 December 2014, the group held the following equity interest:

| Undertaking/Registered Office | Number, class and nominal value of shares held | Percentage of issued shares held |
|---|---|---|
| *Joint ventures:* | | |
| Madliena Ridge Limited, 36/38, Triq l-Ispiera, Swieqi | 3,000 Ordinary shares of €50 each fully paid | 50% |

The company is engaged in dealing in immovable property

| | | |
|---|---|---|
| Hal Mann Holdings Ltd, Hal Mann Showroom, Naxxar Road, Lija IKL 9020 | 600 'Y' Ordinary shares of €2.329373 each 20% paid up | 50% |

The company is engaged in subscribing for, take, purchase or otherwise acquire and hold shares or other interests in, or securities of any other company, solely in the name and on behalf of the company. It was also involved in leasing or renting buildings and any other works in the building industry.

| | | |
|---|---|---|
| HMK International Ltd, The Factory, Mosta Road, Lija LJA 9016 | 15,000 'B' Ordinary shares of €1 each fully paid | 50% |

The company is engaged in the importation, supply, selling and/or assembly of prefabricated structures and material relating to prefabricated structures. The company also trades in building materials and acts as a turnkey contractor.

| | | |
|---|---|---|
| Hal Mann Solar Limited<br>2/3, Triq Tal-Balal,<br>Xwieki,<br>L/o Gharghur | 2,000 'A' Ordinary shares,<br>of €1 each,<br>fully paid up | 50% |

The company is engaged in financing, designing, supplying, installing, operating and maintaining photovoltaic systems in Malta or elsewhere.

| | | |
|---|---|---|
| MAC Investments Limited,<br>52/1,<br>Tigne Seafront, Sliema | 1,600 Ordinary shares,<br>of €1 each,<br>fully paid up | 33.33% |

The company is engaged in the catering industry.

The aggregate capital and reserves as at the end of the under mentioned accounting period and the results for the said period of the undertaking were as follows:

| **Undertaking** | **Accounting period** | **Aggregate capital and reserves** | **Profit/(Loss)** |
|---|---|---|---|
| | | **€** | **€** |
| Madliena Ridge Limited | 31.12.2014 | 2,116,515 | 301,494 |
| HMK International Limited | 31.12.2014 | 95,977 | 7,433 |
| Hal Mann Holdings Limited | 31.12.2013 | 3,049,653 | 7,194 |
| Hal Mann Solar Limited | 31.12.2014 | (51,353) | (51,353) |
| MAC Investments Limited | 31.12.2012 | 3,607 | (1,193) |

## 14. Other non-current financial assets

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| ***Loans and receivables:*** | | | | |
| Loans to group undertaking | - | - | 16,775,285 | 3,937,458 |
| Loans to joint ventures | 1,098,450 | 1,088,018 | - | - |
| Loans to other undertaking | 2,250,000 | - | 2,250,000 | - |
| **Total loans and receivables** | 3,348,450 | 1,088,018 | 19,025,285 | 3,937,458 |
| ***Available-for-sale investments:*** | | | | |
| Unquoted equity shares | 1,367 | 1,367 | 1,367 | 1,367 |
| Provision for impairment of investments | (1,167) | (1,167) | (1,167) | (1,167) |
| | 200 | 200 | 200 | 200 |
| ***Financial assets designated at fair value through profit or loss*** | | | | |
| Listed debt securities | 7,589,250 | - | 7,589,250 | - |
| ***Held-to-maturity investments:*** | | | | |
| Bank term deposit account | 101,648 | 135,858 | | |
| **Total other non-current financial assets** | 11,039,548 | 1,148,604 | 26,614,735 | 3,937,658 |

*Loans and receivables*
The loans to joint ventures are interest free, unsecured and have no fixed repayment date.

*Available-for-sale investment*
Available-for-sale investment consist of investment in shares of a non-listed company, which is valued at cost.

*Held-to-maturity investment*
Held-to-maturity investment comprise of bank term deposit account. This investment is measured at cost.

## 14. Other non-current financial assets (continued)

*Financial assets designated at fair value through profit or loss*
Financial assets designated at fair value through profit or loss related to listed debt securities issued by local companies and Government of Malta with different interest rates and maturing in different years. The local bonds are not rated by credit rating agencies and therefore are classified as unrated bonds. The credit quality of listed debt securities issued by the Government of Malta that were neither past due nor impaired was assessed by reference to external credit ratings about counterparty default rates which as at 31 December 2014 were rated A-2 (Standard & Poor's Investors Service). These financial assets are all denominated in Euro.

| | Current | 2013 |
|---|---|---|
| | € | € |
| **Summary of movements during the year:** | | |
| As at 1 January | - | - |
| Acquisitions | 7,477,083 | - |
| Movement in fair value | 112,167 | - |
| As at 31 December | 7,589,250 | - |

## 15. Investment property

| | The Group | |
|---|---|---|
| | Current | 2013 |
| | € | € |
| **Fair value/Cost** | | |
| As at 1 January | 11,644,044 | 9,172,460 |
| Additions | 3,337 | 50,867 |
| Fair value change on investment property | 1,219,133 | - |
| Transfer from property for resale (note 16) | - | 2,420,717 |
| Transfer to property, plant and equipment (note 9) | (16,306) | - |
| As at 31 December | 12,850,208 | 11,644,044 |
| **Depreciation** | | |
| As at 1 January 2014 | 63,088 | 14,348 |
| Charge for the year | 49,081 | 48,740 |
| Transfer to property, plant and equipment (note 9) | (14,674) | |
| As at 31 December 2014 | 97,495 | 63,088 |
| **Net book value** | | |
| As at 1 January | 11,580,956 | 9,158,112 |
| As at 31 December | 12,752,713 | 11,580,956 |

## 15. Investment property (continued)

**The Group**

Investment property with a net book value of €2,326,559 as at 31 December 2014 is measured at cost less accumulated depreciation. The fair value of this investment property is €2,420,717 (2013: €2,420,717). This property is leased out by the company under an operating lease to third party.

As at the end of the reporting period, the estimated market value of the investment property held by one of the subsidiaries is €4,608,000. The market value is based on an architect's valuation as of 13 October 2008.

**Fair value measurement of the Group's investment properties**

As at 31 December 2014, the fair value of the Company's investment property has been arrived at on the basis of a valuation carried out on 23 June 2014 by Messrs TBA periti, independent valuers not related to the Company. Messrs TBA periti have appropriate recognised professional qualifications and experience in the location and category of the property being valued. The fair value was determined on the basis of open market value taking cognisance of the specific location of the properties, their size and development potential.

Fair value hierarchy disclosures for investment property are disclosed in Note 28.

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

| | Current | 2013 |
|---|---|---|
| | € | € |
| As at 31 December | | |
| Cost | 620,028 | 620,028 |
| Accumulated depreciation | (115,867) | (103,466) |
| | 504,161 | 516,562 |

Part of the investment property is subject to a special hypothec to secure the bond issue by the parent undertaking for the sum of €30,000,000 and relative payment of the annual coupon rate as well as the repayment of the capital.

Part of this property is leased out by the company under an annual operating lease to third parties in accordance to its lease agreement and part of the property is leased out its subsidiaries. Consequently, as disclosed in Note 9, the property leased out to its subsidiaries is classified and measured in the group financial statements as property, plant and equipment in accordance with the requirements of IAS 16.

## 16. Property for resale

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Cost: | | | | |
| As at 1 January | 3,512,449 | 6,811,499 | 929,217 | 928,917 |
| Over provision of accruals in the previous years | (50,000) | - | - | - |
| Additions | 1,214,438 | 11,030 | 1,213,134 | 300 |
| Capitalisation of borrowing costs | 2,588 | 13,814 | - | - |
| Disposals | (497,966) | (903,177) | - | - |
| Transfer to investment property (note 15) | - | (2,420,717) | - | - |
| As at 31 December | 4,181,509 | 3,512,449 | 2,142,351 | 929,217 |

## 17. Trade and other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Trade receivables | 4,002,345 | 4,583,257 | - | 70,000 |
| Other receivables | 2,412,865 | 2,381,083 | - | - |
| Other advances | 794,567 | - | 794,567 | - |
| Work in progress | 1,617,679 | 1,147,081 | - | - |
| Amounts owed by group undertakings | - | - | 17,116,495 | 4,609,177 |
| Amounts owed by joint venture undertakings | 194,126 | - | 179,060 | - |
| Amounts owed by associate undertakings | 38,100 | - | - | - |
| Amounts owed by related undertakings | 16,302 | 50,786 | 16,302 | 16,302 |
| Amounts owed by other undertakings | 70,000 | - | 70,000 | - |
| Amounts owed by shareholders | 56,000 | - | - | |
| Indirect taxation | 37,438 | 102,855 | 22,482 | - |
| Advance deposits | 533,945 | 615,783 | - | 126,196 |
| Accrued income and prepayments | 854,888 | 1,546,177 | 108,043 | 11,009 |
| | 10,628,255 | 10,427,022 | 18,306,949 | 4,832,684 |
| Less non-current portion | | | | |
| Amounts owed by group undertakings | - | - | (16,872,121) | (3,937,454) |
| Current trade and other receivables | 10,628,255 | 10,427,022 | 1,434,828 | 895,230 |

## 17. Trade and other receivables (continued)

The amounts owed by group, joint venture, related and other undertakings are interest free, unsecured and payable on demand except for an amount of €16,872,121 owed by group undertakings which has no fixed repayment date. They result from trading activities and from balances owed to the company.

Trade receivables are non-interest bearing and are generally on terms of 30 to 120 days.

As at 31 December, the aging analysis of trade receivables is, as follows:

| | | | Past due but not impaired | |
|---|---|---|---|---|
| | **Total** | **< 30 days** | **30-90 days** | **> 90 days** |
| | € | € | € | € |
| **2014** | €4,002,345 | 975,608 | 1,103,961 | 1,922,776 |
| **2013** | €4,583,257 | 1,190,869 | 1,973,877 | 1,418,511 |

See note 28 on credit risk of trade receivables, which explains how the company manages and measures credit quality of trade receivables that are neither past due nor impaired.

## 18. Borrowings

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current € | 2013 € | Current € | 2013 € |
| **Amounts falling due within one year:** | | | | |
| Bank overdrafts (note 27) | 231,568 | 9,191,616 | - | 90,524 |
| Bank loans | 380,733 | 6,002,462 | - | 1,162,879 |
| Total short-term borrowings | 612,301 | 15,194,078 | - | 1,253,403 |
| **Amounts falling due after more than one year:** | | | | |
| *Between two and five years:* | | | | |
| Bank loans | 467,664 | 672,000 | - | |
| Shareholders' loans | 3,329,511 | 3,338,093 | 2,520,830 | 2,520,830 |
| Amounts due to related undertakings | 260,053 | 888,099 | - | - |
| Amounts due to group undertaking | - | - | 393,242 | 3,466,022 |
| Amounts due to joint ventures | 802,098 | 1,043,500 | 763,205 | 975,599 |
| Amounts due to other undertaking | 14,099 | - | - | - |
| Directors' loans | - | 5,048 | - | - |
| Amount due to third party | 18,000 | 18,333 | - | - |
| Other loan | 1,867,816 | - | 1,867,816 | - |
| Total long-term borrowings less than 5 years | 6,759,241 | 5,965,073 | 5,545,093 | 6,962,451 |
| *More than five years:* | | | | |
| 5% secured bonds | 30,284,247 | 732,836 | 29,384,907 | - |
| Total long-term borrowings | 37,043,488 | 6,697,909 | 34,930,000 | 6,962,451 |
| Total borrowings | 37,655,789 | 21,891,987 | 34,930,000 | 8,215,854 |

## 18. Borrowings (continued)

**The Company**

The amounts owed to group undertakings, joint venture and shareholders' loans are unsecured, interest free and have no fixed repayment date.

The other loan bears interest at 5% is unsecured, interest free and has no repayment date.

The amount due to group undertakings, related undertakings and joint ventures, directors' and shareholders' loans and amounts due to third party are unsecured, interest free and have no fixed repayment date.

The secured 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 the bonds, using effective yield method as follows:

| | Current | 2013 |
|---|---|---|
| | € | € |
| Face value of the secured bonds | 30,000,000 | - |
| Issue costs | 623,020 | - |
| Accumulated amortisation | (7,927) | - |
| Closing net book amount | 615,093 | - |
| **Amortised cost** | 29,384,907 | - |

By virtue of the prospectus dated 6 October 2014, the company issued 30,000,000 secured bonds with a face value of €100 each. The secured bonds are redeemable at par (€100 for each bond) and are due for redemption on 6 November 2024. The bonds are secured by a first-ranking special hypothec over the company's property, which comprises the Hal Mann Factory, showroom and adjacent land and by property owned by the Sudvel Ltd., pursuant to and subject to the terms and conditions in the prospectus.

The secured bonds have been admitted on the Official List of the Malta Stock Exchange on 11 November 2014. The quoted market price as at 31 December 2014 for the secured bonds was €103.75, which in the opinion of the directors fairly represents the fair value of these financial liabilities and which is considered to be a level valuation within the fair value hierarchy.

## 18. Borrowings (continued)

The interest rate exposure of borrowings was as follows:-

| | Current | 2013 |
|---|---|---|
| | € | € |
| Total borrowings: | | |
| At fixed rates | 31,252,723 | - |

Effective interest rates at the end of the reporting period:

| | Current | 2013 |
|---|---|---|
| | € | € |
| 300,000,000 secured bonds 2014 - 2024 | 5.2676% | - |
| Other loan (subrogated) | 5% | - |

**The Group**
The bank overdraft and bank loans bear interest ranging between 5.15% to 9.25% per annum (2013: 3.86% to 6.75%). These facilities are secured by a general hypothec over the group's present and future assets, special hypothecs and guarantees over the group's immovable properties and by joint and several personal guarantees and pledges given by the directors and their spouses.

The bank loan of €263,817 is repayable as follows: two year moratorium or capital repayment, meanwhile interest is to be met on a monthly basis. This loan is repayable thereafter in 12 equal monthly instalments of €41,667. The bank loan of €1,483,920 is to be repaid in 168 equal monthly repayments, initially of €14,000 each, including principal and interest, following a moratorium of twelve months.

# 19. Trade and other payables

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| **Current liabilities** | | | | |
| Amounts received in advance | 69,959 | 58,628 | - | - |
| Trade payables | 3,698,222 | 3,138,682 | 651,218 | 192,761 |
| Other payables | 32,568 | 50,259 | 5,321 | 2,890 |
| Indirect taxes and social security contributions | 346,850 | 721,199 | - | 9,033 |
| Accruals and prepaid income | 1,102,152 | 2,461,026 | 233,120 | 10,517 |
| Deferred income | 125,652 | 142,228 | - | - |
| Deposit on sale of property | - | 40,200 | - | - |
| **Total current liabilities** | 5,375,403 | 6,612,222 | 889,659 | 215,201 |
| **Non-current liabilities** | | | | |
| Trade payables | 368,512 | - | 368,512 | - |
| **Total non-current liabilities** | 368,512 | - | 368,512 | - |
| **Total trade and other payables** | 5,743,915 | 6,612,222 | 1,258,171 | 215,201 |

Trade payables are non-interest bearing and are normally settled between 60 to 90 days.

Other payables are non-interest bearing.

## 20. Deferred taxation

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| As at 1 January | (3,776,139) | (3,475,998) | (2,249,520) | (1,536,000) |
| Credit/(debit) in the statement of comprehensive income (note 8) | 100,216 | (542,056) | (210,480) | (713,520) |
| Tax effect on revaluation | 21,762 | 241,915 | - | - |
| As at 31 December | (3,654,161) | (3,776,139) | (2,460,000) | (2,249,520) |

Deferred income taxes are calculated on all 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 realized 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 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, that is tax effect of 12% of the transfer value.

The balance as at 31 December represents:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Tax effect of temporary differences relating to: | | | | |
| Excess of capital allowances over depreciation | (138,441) | (139,072) | - | - |
| Unabsorbed capital allowances | 504,894 | 275,978 | - | - |
| Unrelieved tax losses | 117,290 | 11,860 | - | - |
| Investment tax credits | 639,557 | 511,438 | - | - |
| Asset revaluation | (4,777,461) | (4,436,343) | (2,460,000) | (2,249,520) |
| | (3,654,161) | (3,776,139) | (2,460,000) | (2,249,520) |

## 21. Issued capital

| | The Group and The Company | |
|---|---|---|
| | Current | 2013 |
| | € | € |
| **Authorised:** | | |
| 5,000,000 Ordinary shares of €1 each | 5,000,000 | 5,000,000 |
| **Issued and fully paid up:** | | |
| 4,999,820 Ordinary shares of €1 each | 4,999,820 | 4,999,820 |

## 22. Earnings per share

Earnings per share is based on the profit after taxation attributable to the owners of the company divided by the weighted average number of ordinary shares in issue during the year.

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| Net profit attributable to shareholders | €2,038,418 | €5,839,676 | €1,211,930 | €5,594,395 |
| Weighted average number of ordinary shares in issue (note 21) | 4,999,820 | 4,999,820 | 4,999,820 | 4,999,820 |
| Earnings per share (cents) | 40.77 | 116.80 | 24.23 | 111.89 |

## 23. Revaluation reserve on property, plant and equipment

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| As at 1 January | 18,028,542 | 17,612,781 | - | 8,282,264 |
| Transfer to revaluation reserve on investment property | - | 5,232,480 | - | (8,282,264) |
| Net transfer of fair value gain on investment property, net of deferred tax | 1,343,876 | 241,915 | - | - |
| Transfer from revaluation reserve on property, plant and equipment to investment property | - | (63,445) | - | - |
| Depreciation transfer | (62,176) | - | - | - |
| Deferred taxation thereon | 21,762 | - | - | - |
| Issue of share capital | | (4,995,189) | - | - |
| | 19,332,004 | 18,028,542 | - | - |

The revaluation reserve comprises the revaluation surplus arising in the revaluation of property, plant and equipment net of deferred taxation. This reserve is not available for distribution.

## 24. Unrealised fair value gain reserve

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Transfer from revaluation reserve on property, plant and equipment | - | - | 8,519,555 | 8,282,264 |
| Issue of share capital | - | - | - | (4,995,189) |
| Transfer from statement of comprehensive income | - | - | 1,343,876 | 5,232,480 |
| As at 31 December | - | - | 9,863,431 | 8,519,555 |

The unrealised fair value gains reserve represents changes in fair value of investment property, net of deferred tax movements, which are unrealised at the end of each reporting period. 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 the retained earnings. The unrealised gain reserve is a non-distributable reserve.

## 25. Capital redemption reserve

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Reserves acquired through subsidiary | 47,852 | 47,852 | - | - |

## 26. Incentives and benefits reserves

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Reserves acquired through subsidiary | 604,060 | 604,060 | - | - |

## 27. Cash and cash equivalents

Cash and cash equivalents comprise of the following in the Statement of Financial Position amounts:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Current | 2013 | Current | 2013 |
| | € | € | € | € |
| Cash at bank and in hand | 763,949 | 494,382 | 231,860 | 5,937 |
| Bank overdrafts (note 18) | (231,568) | (9,191,616) | - | (90,524) |
| | 532,381 | (8,697,234) | 231,860 | (84,587) |

## 28. Financial risk management objectives and policies

The Group's principal financial assets comprise investment in associate undertakings, interest in joint ventures, other non-current financial assets, trade and other receivables and cash and cash equivalents. Its principal financial liabilities comprise trade and other payables and borrowings.

The Group is exposed to market risk, credit risk and liquidity risk.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

*Market risk*
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk. Financial instruments affected by market risk include borrowings. The Group is only exposed to interest rate risk.

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Except as disclosed in note 18, the Group's borrowings are non-interest bearing.

*Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities including deposits with banks.

**Trade receivables**

Customer credit risk is managed by the Group's management subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on each individual's credit limits. Outstanding customer receivables are regularly monitored. An impairment analysis is performed at the end of each reporting period on an individual basis.

The Group exercises a prudent credit control policy, and accordingly, it is not subject to any significant exposure or concentration of credit risk. Credit risk in respect of the Company's deposits with banks is low since such deposits are placed with local financial institution with high quality standing on rating.

*Liquidity risk*

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities. 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.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

**Year ended 31 December 2014**

| | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Tot |
|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | 88,647 | 259,837 | 2,599,297 | 30,284,247 | 33,23 |
| Trade and other payables | 923,160 | 2,177,256 | 998,885 | - | 4,09 |
| Shareholders' loans | - | - | - | 3,329,511 | 3,32 |
| Financial guarantee contracts | - | 1,327,300 | - | - | 1,32 |
| | 1,011,807 | 3,764,393 | 3,598,182 | 33,613,758 | 41,98 |

**Year ended 31 December 2013**

| | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Tot |
|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | 1,168,571 | 8,452,465 | 5,595,588 | 1,382,290 | 16,59 |
| Trade and other payables | 1,411,925 | 1,592,125 | 184,891 | - | 3,18 |
| Shareholders' loans | - | - | - | 3,338,093 | 3,33 |
| Financial guarantee contracts | - | 1,251,712 | - | - | 1,25 |
| | 2,580,496 | 11,296,302 | 5,780,479 | 4,720,383 | 24,37 |

***Fair value risk***

As at 31 December 2014 and 2013, the carrying amounts of trade and other receivables, cash and cash equivalents and trade and other payables and current borrowings approximated their fair values. The fair values of other non-current financial assets and long-term borrowings are not materially different from their carrying amounts in the statement of financial position. The company used the following hierarchy for determining and disclosing the fair value of investment property and financial assets designated at fair value through profit or loss.

Level 1: quoted(unadjusted) process in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value by level of the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | € | € | € | € |
| **As at 31 December 2014** | | | | |
| Investment property | - | - | 32,296,674 | 32,296,674 |
| Financial assets designated at fair value through profit or loss | 7,589,250 | - | - | 7,589,250 |
| | 7,589,250 | - | 32,296,674 | 39,885,924 |
| **As at 31 December 2013** | | | | |
| Investment property | - | - | 27,953,021 | 27,953,021 |
| Financial assets designated at fair value through profit or loss | - | - | - | - |
| | - | - | 27,953,021 | 27,953,021 |

***Capital management***

Capital includes the equity attributable to the shareholders of the parent undertaking.

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.
The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

## 29. Capital Commitments

The current factory and plant have been built over a number of years with the core plant and line dating back to the 1970's. Various custom made additions have been made over the years. Over the last 10 years, the company has invested in new technology to update the cutting process with semi-automated cutting machines and the introduction of water jet technology to cater for specialised cuts. The Board of Directors has the intention to modernise the factory and the planned capital outlay is circa €5 million.

At 31 December 2014, the group also had commitments of €7million relating to the development of land to create a mixed office/commercial development, with underlying car-parking.

## 30. Operating Lease Commitments

Operating lease commitments - the group as lessor
The group has entered into operating leases on its investment property consisting of certain office and manufacturing buildings. These leases have a term between 3 and 5 years. All leases include a clause to enable upward revision of the rental charge after a term of 3 and 5 years as applicable.

The group also has entered into operating leases on its retail outlets, with lease terms between 3 and 12 years.

Future minimum rental payable under non-cancellable operating leases as at 31 December are as follows:

| | Current | 2013 |
|---|---|---|
| | € | € |
| Within one year | 100,000 | 100,000 |
| After one year but not more than three years | 188,333 | 288,333 |
| | 288,333 | 388,333 |

## 31. Contingent liabilities

As at the end of each reporting period, the Group had guarantees given to third parties in the normal course of business amounting to €1,340,254 (2013: €1,335,876).

## 32. Ultimate controlling parties

The ultimate controlling parties of the Group are Mr. Vincent Vella and Ms. Mary Vella, both having 5.99% of the issued share capital and Mr. Joseph Vella, Mr. Paul Vella, Ms. Miriam Schembri, Mr. Mark Vella, Mr. Martin Vella, Mr. Simon Vella and Ms. Veronica Ciappara, who each own 12.58% of the issued share capital.

## 33. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current period's presentation.