

SD HOLDINGS LIMITED

Annual Report and
Consolidated Financial Statements
31 March 2017

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Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2017.

Principal activities

The company's principal activity is that of holding investments.

The group operates in the local market and predominantly in hospitality, leisure and catering activities. It operates and owns the db Seabank Resort & SPA situated at Ghadira Bay, Mellieha and the db San Antonio Hotel & SPA situated in Bugibba. It also operates and owns the restaurant amenities at the Tunny Net Complex and operates three outlets under the *Hard Rock Café* franchise.

The group also holds investments in associates which provide catering services to hospitals and retirement homes, together with other healthcare services; and associates which provide catering services primarily to Air Malta and other airlines operating from Malta. Other associated investments operate in the hospitality industry.

Review of the business

Total revenue for the Group during the year under review reached €46.6 million resulting in a year on year increase of €4 million (a year on year increase of 9.3%). This incremental revenue reflected itself in an earnings before interest, depreciation, tax and amortisation (EBIDTA) which continues to show a positive trajectory, factoring in at €19.8 million as against €18.2 million registered for 2016 (a year on year increase of 9.3%). These results further consolidate the margin of profit or return on turnover generated at 42% in line with comparative numbers for 2016. The Group continues to witness an increase across all its revenue streams, particularly in the hospitality and leisure sector. The main driver within this segment of revenues is the improved yields on hotel accommodation. These numbers reflect another record year in terms of profitability for the Group.

The overall hotel portfolio occupancy continued on a strong footing, reaching 81% on an annual level against an 80% for the preceding year. The business spread across the entire 12 months of the year continues to gain strength and reflects trends being experienced over the past years. The Food and beverage and Merchandise components also registered positive growth rates of 11% and 4.7%.

These reported results are testimony of the excellent performance of the group that on one hand offers a specialised product within the tourist industry and our ability to exploit the crest of higher tourism figures to the Island. Our hospitality KPIs continue to outdo the average MHRA figures and reached into the top scales when compared to our competitors.

This performance led to an improvement in net profit of €1.1 million, factoring in at €6.7 million against comparative for 2016 of €5.6 million. Net finance costs at €3.4 million were €0.3 million below 2016 comparatives as a direct result of the reduction in external borrowing levels of the Group coming from prior years.

The Group's balance sheet totalled €218 million, an increase of €57 million over the previous year. This is primarily accounted for through an increase of €60 million in investment property which relates to the acquisition of the land title in St Julian's, Malta. The Group's vision for this investment is to develop a state of the art multi purpose development.

Cash and cash equivalents, net of overdrafts stood at €2.4 million, a marked improvement of €4 million over 2016 comparatives. This is reflected in a net interest rate cover of 5.7 multiple against a 4.9 multiple. As noted above in 2017, existing bank borrowings continued to decrease in line with the committed repayments. In the latter part of 2017, the group availed itself of new bank facilities for its initial investment in the St Julian's project.

Directors' report - continued

Review of the business - continued

The Group's equity base increased by €9 million, to reach €66 million. This is reflected through higher revenue reserves due to the above noted profits and an increase in share capital of €3.5 million mainly related to the capitalisation of shareholder balances. The Group's gearing ratio continues to fall, and now stands at 47.5% as against 50.1% for 2016.

Outlook for the financial year ending 2018

The outlook for 2018 continues to be characterised by a strong performance in the tourism sector. At a Group level, we are cautiously optimistic of improving on the numbers registered for 2017.

The forthcoming year offers new challenges and opportunities to the Group. The acquisition of the concession of the ITS site in St Julian's will see the Group delivering a high end mixed used development incorporating a 5 star hotel, residential tower, large retail mall, a substantial number of public amenities and eateries together with 6 floors of underground parking to complement the development. This concession is however still subject to the securing of all the necessary development permits.

On 25 April 2017, SD Finance plc (the "issuer"), which is a subsidiary of SD Holdings Limited, issued an aggregate of €65,000,000 in bonds having a face value of €100 per bond, subject to minimum holding of €2,000 in bonds. The bonds have a coupon interest rate of 4.35% per annum as stated in the prospectus dated 27 March 2017. These bonds were eventually admitted for listing on the Malta Stock Exchange on 4 May 2017. SD Holdings Limited is the guarantor of these bonds.

In accordance with the provisions of the above noted prospectus, the proceeds from the bond issue have been advanced by the issuer to undertakings forming part of the db Group for the purpose of re-financing existing bank facilities within the group, financing the redemption of redeemable preference shares of a fellow subsidiary of the issuer and for the general corporate funding purposes of the group.

Financial risk management

The group's and company's activities expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Refer to Note 2 in these financial statements.

Results and dividends

The consolidated financial results are set out on page 10. The directors do not recommend the payment of a dividend.

Directors

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

Silvio Debono
Arthur Gauci
Robert Debono
Victoria Debono
Vincent Degiorgio
Jesmond Vella

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

Directors' report - continued

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap.386) to prepare financial statements which give a true and fair view of the state of affairs of the group and the parent company as at the end of each financial period and of the profit or loss for that period.

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

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

The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap.386). They are also responsible for safeguarding the assets of the group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of SD Holdings Limited for the year ended 31 March 2017 are included in the Annual Report and Consolidated Financial Statements 2017, which is published in hard-copy printed form and made available on the group's website. The directors of the entities constituting the db Group are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the group's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

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

On behalf of the board



Robert Debono
Director



Arthur Gauci
Director

Registered office:
Seabank Hotel
Marfa Road
Ghadira, Malta

31 July 2017



Independent auditor's report

To the Shareholders of SD Holdings Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- SD Holdings Limited's group and parent company financial statements (the "financial statements") give a true and fair view of the group's and the parent company's financial position as at 31 March 2017, and of the group's and the parent company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

SD Holdings Limited's financial statements, set out on pages 8 to 59, comprise:

- the consolidated and parent company statements of financial position as at 31 March 2017;
- the consolidated and parent company income statements and statements of comprehensive income for the year then ended;
- the consolidated and parent company statements of changes in equity for the year then ended;
- the consolidated and parent company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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



Independent auditor's report - continued

To the Shareholders of SD Holdings Limited

Other information

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

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

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

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

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

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

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

Responsibilities of the directors for the financial statements

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

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



Independent auditor's report - continued

To the Shareholders of SD Holdings Limited

Auditor's responsibilities for the audit of the financial statements

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

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

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

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



Independent auditor's report - continued

To the Shareholders of SD Holdings Limited

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

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

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

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

PricewaterhouseCoopers

78, Mill Street

Qormi

Malta

A handwritten signature in blue ink, appearing to read 'Stefan Bonello', is written over a light blue grid background.

Stefan Bonello
Partner

31 July 2017

Statements of financial position

		As at 31 March			
		Group		Company	
Notes	2017	2016	2017	2016	
	€	€	€	€	
ASSETS					
Non-current assets					
Property, plant and equipment	4	133,715,719	136,666,533	-	-
Investment property	5	60,140,267	-	-	-
Intangible assets	6	727,826	969,582	-	-
Investments in subsidiaries	7	-	-	16,522,812	16,271,612
Investments in associates	8	5,251,745	4,356,171	900	900
Deferred tax assets	9	5,101,464	7,786,800	-	-
Trade and other receivables	10	97,393	327,816	-	-
Total non-current assets		205,034,414	150,106,902	16,523,712	16,272,512
Current assets					
Inventories	11	1,165,391	916,643	-	-
Trade and other receivables	10	8,502,370	8,787,160	1,558,819	1,376,363
Cash and cash equivalents	12	2,896,329	507,872	2,026,198	110,835
Total current assets		12,564,090	10,211,675	3,585,017	1,487,198
Total assets		217,598,504	160,318,577	20,108,729	17,759,710

Statements of financial position - continued

		As at 31 March			
		Group		Company	
Notes	2017	2016	2017	2016	
	€	€	€	€	
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	13	4,000,000	520,000	4,000,000	520,000
Revaluation reserve	14	22,585,765	22,585,765	-	-
Hedging reserve	15	(34,727)	(177,906)	-	-
Other reserves	16	3,377,359	2,000,700	-	-
Retained earnings/(accumulated losses)		26,216,596	20,720,873	(19,910)	(555)
		56,144,993	45,649,432	3,980,090	519,445
Non-controlling interest	17	9,552,805	11,047,133	-	-
Total equity		65,697,798	56,696,565	3,980,090	519,445
Non-current liabilities					
Trade and other payables	18	56,366,235	6,490,965	-	-
Borrowings	19	43,611,030	50,965,117	1,218,851	576,864
Amounts owed to ultimate shareholder	20	299,493	3,779,493	299,493	3,779,493
Deferred Government grants	21	23,283	32,104	-	-
Deferred tax liabilities	9	4,213,646	3,886,053	-	-
Total non-current liabilities		104,513,687	65,153,732	1,518,344	4,356,357
Current liabilities					
Trade and other payables	18	27,306,501	26,803,466	14,304,064	12,741,993
Current tax liabilities		285,073	180,619	-	-
Borrowings	19	19,002,266	10,208,095	306,231	141,915
Deferred Government grants	21	8,821	8,821	-	-
Derivative financial instruments	22	53,426	273,702	-	-
Other loans	23	730,932	993,577	-	-
Total current liabilities		47,387,019	38,468,280	14,610,295	12,883,908
Total liabilities		151,900,706	103,622,012	16,128,639	17,240,265
Total equity and liabilities		217,598,504	160,318,577	20,108,729	17,759,710

The notes on pages 16 to 59 are an integral part of these financial statements.

The financial statements on pages 8 to 59 were authorised for issue and signed by the board of directors on 31 July 2017 and were signed on its behalf by:



Robert Debono
Director



Arthur Gauci
Director

Income statements

		Year ended 31 March			
		Group		Company	
		2017	2016	2017	2016
Notes		€	€	€	€
	Revenue	46,623,500	42,647,437	2,458	1,800
	Cost of sales	(32,119,532)	(28,711,784)	-	-
	Gross profit	14,503,968	13,935,653	2,458	1,800
	Selling expenses	(340,679)	(399,795)	-	-
	Administrative expenses	(2,208,616)	(2,091,671)	(21,813)	(2,246)
	Other operating income	314,147	266,386	-	-
	Operating profit/(loss)	12,268,820	11,710,573	(19,355)	(446)
	Finance income	3,241	3,319	71,896	70,895
	Finance costs	(3,431,092)	(3,697,123)	(71,896)	(70,929)
	Share of results of associates	1,145,574	423,804	-	-
	Profit/(loss) before tax	9,986,543	8,440,573	(19,355)	(480)
	Tax expense	(3,231,830)	(2,813,627)	-	-
	Profit/(loss) for the year	6,754,713	5,626,946	(19,355)	(480)
	Profit/(loss) attributable to:				
	Owners of the parent	6,709,344	5,585,921	(19,355)	(480)
	Non-controlling interest	45,369	41,025	-	-
		6,754,713	5,626,946	(19,355)	(480)

The notes on pages 16 to 59 are an integral part of these financial statements.

Statements of comprehensive income

		Year ended 31 March			
		Group		Company	
Notes	2017	2016	2017	2016	
	€	€	€	€	
Profit/(loss) for the year	6,754,713	5,626,946	(19,355)	(480)	
Other comprehensive income:					
<i>Items that will not be reclassified to profit or loss</i>					
Revaluation surplus on property arising during the year, net of deferred tax	-	22,585,765	-	-	
<i>Items that may be subsequently reclassified to profit or loss</i>					
Cash flow hedges, net of deferred tax	143,179	110,185	-	-	
Total other comprehensive income	143,179	22,695,950	-	-	
Total comprehensive income for the year	6,897,892	28,322,896	(19,355)	(480)	
Total comprehensive income attributable to:					
Owners of the parent	6,852,523	28,281,871	-	(480)	
Non-controlling interest	45,369	41,025	-	-	
	6,897,892	28,322,896	(19,355)	(480)	

The notes on pages 16 to 59 are an integral part of these financial statements.

Statements of changes in equity

Group	Notes	Attributable to owners of the parent					Non-controlling interest €	Total €
		Share capital €	Revaluation reserve €	Hedging reserve €	Other reserves €	Retained earnings €		
Balance at 1 April 2015		520,000	-	(288,091)	2,000,700	15,134,952	11,006,108	28,373,669
Comprehensive income								
Profit for the year		-	-	-	-	5,585,921	41,025	5,626,946
Other comprehensive income:								
Revaluation surplus on property arising during the year, net of deferred tax	14	-	22,585,765	-	-	-	-	22,585,765
Cash flow hedges, net of deferred tax	15	-	-	110,185	-	-	-	110,185
Total other comprehensive income		-	22,585,765	110,185	-	-	-	22,695,950
Total comprehensive income for the year		-	22,585,765	110,185	-	5,585,921	41,025	28,322,896
Balance at 31 March 2016		520,000	22,585,765	(177,906)	2,000,700	20,720,873	11,047,133	56,696,565

Statements of changes in equity - continued

Group	Notes	Attributable to owners of the parent					Non-controlling interest €	Total €
		Share capital €	Revaluation reserve €	Hedging reserve €	Other reserves €	Retained earnings €		
Balance at 1 April 2016		520,000	22,585,765	(177,906)	2,000,700	20,720,873	11,047,133	56,696,565
Comprehensive income								
Profit for the year		-	-	-	-	6,709,344	45,369	6,754,713
Other comprehensive income:								
Cash flow hedges, net of deferred tax	15	-	-	143,179	-	-	-	143,179
Total comprehensive income		-	-	143,179	-	6,709,344	45,369	6,897,892
Transactions with owners								
Issue of shares	13	3,480,000	-	-	-	-	-	3,480,000
Redemption of redeemable non-cumulative preference shares of a subsidiary attributable to non-controlling interest	17	-	-	-	-	-	(1,376,659)	(1,376,659)
Transfer to capital redemption reserve	16	-	-	-	1,376,659	(1,376,659)	-	-
Acquisition of non-controlling interest – excess of carrying amount recognised in equity	17	-	-	-	-	163,038	(163,038)	-
Total transactions with owners		3,480,000	-	-	1,376,659	(1,213,621)	(1,539,697)	2,103,341
Balance at 31 March 2017		4,000,000	22,585,765	(34,727)	3,377,359	26,216,596	9,552,805	65,697,798

Statements of changes in equity - continued

Company

	Note	Share capital €	Accumulated losses €	Total €
Balance at 1 April 2015		520,000	(75)	519,925
Comprehensive income				
Loss for the year				
- total comprehensive income		-	(480)	(480)
Balance at 31 March 2016		520,000	(555)	519,445
Comprehensive income				
Loss for the year				
- total comprehensive income		-	(19,355)	(19,355)
Transactions with owners				
Issue of shares	13	3,480,000	-	3,480,000
Balance at 31 March 2017		4,000,000	(19,910)	3,980,090

The notes on pages 16 to 59 are an integral part of these financial statements.

Statements of cash flows

		Year ended 31 March			
		Group		Company	
		2017	2016	2017	2016
Notes		€	€	€	€
Cash flows from operating activities					
	31	25,261,026	19,806,898	1,361,351	412,053
	8	250,000	-	-	-
		(3,427,851)	(3,693,804)	(1,091)	48,082
		(191,544)	(123,965)	-	300
		21,891,631	15,989,129	1,360,260	460,435
Cash flows from investing activities					
		(7,145,268)	(10,271,600)	-	-
		11,000	-	-	-
		(9,808,990)	-	-	-
		(4,000,000)	-	(251,200)	-
		(20,943,258)	(10,271,600)	(251,200)	-
Cash flows from financing activities					
	19	10,766,237	-	1,000,000	-
	19	(7,713,933)	(6,082,578)	(193,697)	(127,634)
		3,052,304	(6,082,578)	806,303	(127,634)
		4,000,677	(365,049)	1,915,363	332,801
		(1,543,604)	(1,178,555)	110,835	(221,966)
	12	2,457,073	(1,543,604)	2,026,198	110,835

The notes on pages 16 to 59 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

These consolidated financial statements include the financial statements of SD Holdings Limited and its subsidiary undertakings. These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act (Cap.386). They have been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category of property, plant and equipment.

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

As at 31 March 2017, the group's current liabilities exceeded its current assets by €27,648,085 after adjusting for non-cash items amounting to €7,174,844 in aggregate, which include advance deposits from tour operators, loans to be set-off against suppliers discounts, deferred Government grants and derivative financial instruments. As at 31 March 2017, also the company's current liabilities exceed its current assets by €10,051,063 after adjusting for advance deposits from other third parties amounting to €974,215. In this respect, related parties have undertaken not to request repayment of amounts due to them until alternative financing is available. Furthermore, after also considering the financing options available (refer to Note 2.1(c)), the group's shareholder has undertaken to continue to support the group and to provide the necessary finance and guarantees to enable the group to meet any obligations in full.

Standards, interpretations and amendments to published standards effective during the current financial year

During the current financial year, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 April 2016. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the company's accounting periods beginning after 1 April 2016. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application, except for IFRS 9 'Financial instruments', IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases'.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only three classification categories: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through profit or loss. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9, 'Financial instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018, although early adoption is permitted. The group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group is assessing the impact of IFRS 15.

Under IFRS 16, 'Leases', a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to endorsement by the EU, and subject to the group also adopting IFRS 15. The group is assessing the impact of IFRS 16.

1.2 Consolidation

(a) Subsidiaries

Subsidiary undertakings are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

(a) Subsidiaries - continued

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

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

In the company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting. Provisions are recorded where, in the opinion of the directors, there is a long-term impairment in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

(b) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment losses) identified on acquisition (refer to accounting policy note 1.6[a] – Intangible assets).

The group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

(b) Associates - continued

In the company's separate financial statements, investments in associates are accounted for by the cost method of accounting. Provisions are recorded where, in the opinion of the directors, there is a long-term impairment in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of associates are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

1.4 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings are subsequently shown at fair value, based on periodic valuations by professional valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is subsequently stated at historical cost less depreciation and impairment losses. 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 asset are capitalised as part of its cost (Note 1.23).

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

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

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment - continued

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts of the assets to their residual values over their estimated useful lives, as follows:

	%
Buildings	1 - 3
Computer equipment	20 - 33.33
Furniture, fixtures and fittings	6.67 - 10
Motor vehicles	20
Plant, machinery and operational equipment	6.67 - 15
Audio visual equipment	10 - 50

Freehold land is not depreciated as it is deemed to have an indefinite life. Leasehold land is amortised on a straight-line basis over the period of the lease.

Assets in the course of construction and payments on account are not depreciated. Depreciation will commence once the respective assets are commissioned for their intended use.

No depreciation is charged on linen, crockery, cutlery and glassware. Normal replacements are charged to profit or loss.

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

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

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in profit or loss. When revalued assets are disposed of, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

1.5 Investment property

Investment property comprises leasehold property acquired during the year.

The group adopts the cost model under IAS 40, 'Investment property', whereby investment property is stated in the statement of financial position at historical cost less accumulated depreciation and impairment losses. 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 if the development of the asset is suspended.

1. Summary of significant accounting policies - continued

1.5 Investment property - continued

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 company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment property consists of land which is not depreciated as it is deemed to have an indefinite life. Useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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. Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

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

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

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

1.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of associates is included in 'Investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use.

1. Summary of significant accounting policies - continued

1.6 Intangible assets - continued

(b) Franchise rights

Franchise rights are shown at historical cost. Franchise rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of franchise rights over their estimated useful lives (20 years).

Assets that are subject to amortisation 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.

1.7 Impairment of non-financial assets

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

1.8 Financial assets

Classification

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise loans and advances, trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.9, 1.11 and 1.12).

Recognition and measurement

The group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets classified within the loans and receivables category are recognised on settlement date, which is the date on which an asset is delivered to or by the group. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

1. Summary of significant accounting policies - continued

1.8 Financial assets - continued

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The group first assesses whether objective evidence of impairment exists.

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

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

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of receivables is described in Note 1.10.

1.9 Loans and advances

Under the requirements of IAS 39, the group's loans and advances, are classified as loans and receivables, unless the group has the intention of trading the asset immediately or in the short-term, in which case the loans and advances are categorised as instruments held-for-trading.

All loans and advances are recognised when cash is advanced to the borrowers. Loans and advances are initially recognised at the fair value of cash consideration given or proceeds advanced, plus transaction costs. These financial assets are subsequently carried at amortised cost, which is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts, using the effective interest method. The group assesses at each reporting date whether there is objective evidence that a financial asset is impaired.

1.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method. Cost is the invoiced value of goods and, in general, includes transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1. Summary of significant accounting policies - continued

1.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables 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 receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

1.12 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

1.13 Share capital

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

1.14 Financial liabilities

The group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The group's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.15 Trade and other 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 (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.16 Borrowings

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

1. Summary of significant accounting policies - continued

1.17 Deferred Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants related to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants related to assets, i.e. in respect of the purchase of property, plant and equipment, are included in liabilities as deferred government grants, and are credited to profit or loss on a straight-line basis over the expected lives of the related assets, presented within 'Other operating income'.

Grants related to income are presented as a deduction in reporting the related expense.

1.18 Offsetting financial instruments

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

1.19 Derivative financial instruments and hedging

Derivative financial instruments include interest rate swap agreements and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. That portion of hedging derivatives which is expected to be realised within 12 months of the reporting date is presented as current; the remainder of the derivative is presented as non-current. The company does not hold any trading derivatives.

1.20 Current and deferred tax

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

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

Deferred tax on the fair valuation of property, plant and equipment is charged or credited directly to the revaluation reserve. Deferred tax on the difference between the actual depreciation on the asset and the equivalent depreciation based on the historical cost of the asset is realised through profit or loss.

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

1. Summary of significant accounting policies - continued

1.20 Current and deferred tax - continued

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

1.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Sales are recognised upon delivery of products or performance of services, net of sales taxes, returns, rebates and discounts. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below.

(a) Sales of goods

Sales of goods are recognised when the group has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products.

(b) Sales of services

Revenue from services is generally recognised in the period the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

(c) Interest income

Interest income is recognised in profit or loss for all interest-bearing instruments as it accrues, on a time-proportion basis using the effective interest method.

(d) Dividend income

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

1.22 Operating and finance leases

(a) Operating leases – where a group undertaking is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

(b) Operating leases – where a group undertaking is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with accounting policy 1.4. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term and is presented within 'Other operating income'.

1. Summary of significant accounting policies - continued

1.22 Operating and finance leases - continued

(c) Finance leases – where a group undertaking is the lessor

When assets are leased out under a finance lease, the lower of the fair value of the leased asset and the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method which reflects a constant periodic rate of return.

1.23 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment and 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. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the group's interest-bearing borrowings.

1.24 Dividend distribution

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

2. Financial risk management

2.1 Financial risk factors

The group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management, covering risk exposures for all subsidiaries, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The parent company's directors provide principles for overall group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. In order to manage exposures attributable to risks arising from fluctuations in interest rates, a group undertaking made use of derivative financial instruments during the current and preceding financial years, by entering into an interest rate swap agreement with a major local banking institution.

(a) *Market risk*

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. A portion of a group undertaking's purchases are denominated in US dollar. Balances denominated in foreign currencies are settled within very short periods in accordance with the negotiated credit terms. Also, foreign exchange risk attributable to future transactions is not deemed to be material since the group undertaking manages the related risk by reflecting, as far as is practicable, the impact of exchange rate movements registered with respect to purchases in the respective sales prices.

2. Financial risk management - continued

The group's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro except as outlined above. Management does not consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions denominated in US dollar to be significant. Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the balance sheet date is not deemed necessary.

(ii) Fair value interest rate risk

The group's significant instruments which are subject to fixed interest rates represent, bank factoring loans (Note 19). In this respect, the group is potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

(iii) Cash flow interest rate risk

For the company the cash flow interest rate risk principally arises from bank borrowings issued at variable rates (Note 19) and amounts owed by subsidiary also subject to variable rates (refer to Note 18). The interest expense arising from the borrowings is equivalent to the interest income from the receivables. Accordingly, the company is not exposed to cash flow interest rate risk.

The group's interest rate risk principally arises from bank borrowings issued at variable rates (Note 19) which expose the group to cash flow interest rate risk. In prior years, a group undertaking entered into a swap agreement to manage exposures arising from variable interest rates on a particular bank loan. Management monitors the impact of changes in market interest rates on borrowing costs in respect of these liabilities. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the balance sheet date to be immaterial and accordingly the level of interest rate risk is contained. The group's operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding debtors and committed transactions. The group's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Loans and receivables category:				
Trade and other receivables (Note 10)	8,599,763	9,114,976	1,558,819	1,376,363
Cash and cash equivalents (Note 12)	2,896,329	507,872	2,026,198	110,835
	11,496,092	9,622,848	3,585,017	1,487,198

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

2. Financial risk management - continued

The group banks only with local financial institutions with high quality standing or rating.

The group assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of goods and services are effected to customers with an appropriate credit history. The group monitors the performance of its receivables on a regular basis to identify incurred collection losses, which are inherent in the group's debtors, taking into account historical experience in collection of accounts receivable.

In view of the nature of the group's activities and the market in which it operates, a limited number of customers account for a certain percentage of the group's trade receivables. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk with respect to trade debts, these exposures are monitored and reported more frequently and rigorously. These customers trade frequently with the respective group undertaking and are deemed by management to have excellent credit standing, usually taking cognisance of the performance history without defaults.

The group manages credit limits and exposures actively in a practicable manner such that there are no material past due amounts receivable from customers as at the reporting date. The group's trade and other receivables, which are not impaired financial assets, are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers.

A portion of the group's receivables are amounts owed by associates and other related parties, whilst a significant amount of the company's receivables is due from subsidiaries. The group's treasury monitors related party credit exposures on a regular basis and ensures timely performance of these assets in the context of overall liquidity management. The group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

As at 31 March 2017 and 2016 no significant trade receivables were considered to be impaired.

At 31 March 2017, trade receivables amounting to €1,678,166 (2016: €2,490,287) were past due but not impaired. The group's receivables, which are not impaired financial assets, are principally in respect of transactions with customers from whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. The ageing analysis of these past due trade receivables is over 3 months.

As at 31 March 2017, Sky Gourmet Malta Limited (one of the group's associates), had a receivable of €973,761 (2016: €682,670) from Air Malta p.l.c. regarding catering services. Such outstanding amounts are being honoured in line with agreed repayment terms and management does not expect any losses from non-performance of this customer.

(c) *Liquidity risk*

The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise interest-bearing borrowings (Note 19) and trade and other payables (Note 18). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the group's obligations.

2. Financial risk management - continued

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. This is also performed at a central treasury function which controls the overall liquidity requirements of the group within certain parameters. The group's liquidity risk is actively managed taking cognisance of the matching of cash inflows and outflows arising from expected maturities of financial instruments, together with the group's committed bank borrowing facilities and other intra-group financing that it can access to meet liquidity needs. In this respect management does not consider liquidity risk to the group as significant taking into account the liquidity management process referred to above.

At the end of the reporting period, the group and the company reported a net current liability position of €27,648,085 (after adjusting for non-cash items amounting to €7,174,844) and €10,051,063 (after adjusting for non-cash items amounting to €974,215) respectively. After excluding bank loans amounting to €18,563,010, which will be refinanced after the end of the reporting period (as disclosed in Note 35), the shortfall goes down to €9.1 million. Considering the strong EBITDA generated by the group's principal operations of €18.7 million for 31 March 2017, which is expected to be enhanced in the forthcoming years, such creditors should be paid from the cash generated from operating activities of the forthcoming year. After considering the financing options available (disclosed in Notes 19 and 35) and the support from related parties and the shareholder, the directors are confident that the group and the company are in a position to meet commitments as and when they fall due.

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

	Less than one year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €	Total €
Group					
At 31 March 2017					
Bank loans and overdrafts	20,713,787	9,508,166	23,991,105	14,397,784	68,610,842
Due to Government in relation to purchase of land	1,429,571	1,429,571	5,850,223	171,657,525	180,366,890
Trade and other payables	20,924,836	-	-	-	20,924,836
At 31 March 2016					
Bank loans and overdrafts	12,211,724	10,151,556	26,080,275	21,927,488	70,371,043
Trade and other payables	22,484,880	-	-	-	22,484,881
Company					
At 31 March 2017					
Bank borrowings	388,626	388,626	956,994	-	1,734,246
Trade and other payables	13,329,849	-	-	-	13,329,849
At 31 March 2016					
Bank borrowings	174,325	174,325	467,133	-	815,783
Trade and other payables	12,741,993	-	-	-	12,741,993

With respect to the group's derivative financial liabilities disclosed in Note 22, the balances due within twelve months equal their carrying amounts as the impact of discounting is not significant.

2. Financial risk management - continued

2.2 Capital risk management

The group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the parent company may issue new shares or adjust the amount of dividends paid to shareholders.

The group also monitors the level of capital on the basis of the ratio of aggregated net debt to total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash at bank and in hand. Total capital is calculated as total equity, as described below, plus net debt. The aggregated figures in respect of the group are reflected in the following table:

	Group	
	2017	2016
	€	€
Total external borrowings	62,613,296	61,173,212
Less: cash at bank and in hand	(2,896,329)	(507,872)
Net debt	59,716,967	60,665,340
Equity – as shown in the consolidated statement of financial position	65,697,798	56,696,565
Amounts owed to ultimate shareholder earmarked as additional capital	299,493	3,779,493
Total equity	65,997,291	60,476,058
Total capital	125,714,258	121,141,398
Net debt/total capital	47.5%	50.1%

The level of capital of SD Holdings Limited as reflected in the consolidated statement of financial position is maintained by reference to its respective financial obligations and commitments arising from operational requirements. In view of the nature of the group's activities and the extent of borrowings or debt, the capital level as at the end of the reporting period determined by reference to the consolidated financial statements is deemed adequate by the directors.

2. Financial risk management - continued

2.3 Fair values of financial instruments

2.3.1 Financial instruments carried at fair value

The group's financial instruments which are carried at fair value include derivative financial instruments designated as hedging instruments (Note 22).

The group is required to disclose fair value measurements by level of the following fair value measurement hierarchy.

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

The group's interest rate swap agreement (refer to Note 22), is fair valued on the basis of valuation techniques by reference to interest rates at the end of the financial reporting period. Accordingly, these derivative financial instruments are categorised as level 2 instruments since initial recognition.

2.3.2 Financial instruments not carried at fair value

At 31 March 2017 and 2016 the carrying amounts of cash and cash equivalents, receivables, payables, accrued expenses, short-term borrowings and other short-term loans, reflected in the financial statements, are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of balances with related parties which are short-term or repayable on demand is equivalent to their carrying amount.

The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments. The fair value of the group's non-current payables and borrowings at floating interest rates as at the reporting date is not significantly different from the carrying amounts.

3. Critical accounting estimates and judgements

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

As referred to in Note 4 to the financial statements, the group's land and buildings category of property, plant and equipment is fair valued periodically by the directors on 31 December on the basis of professional advice, which considers current market prices in an active market for all properties.

4. Property, plant and equipment

Group

	Land & buildings €	Assets in course of construction and payments on account €	Computer equipment €	Furniture, fixtures & fittings €	Motor vehicles €	Plant, machinery & operational equipment €	Audio visual equipment €	Total €
At 1 April 2015								
Cost	66,605,259	1,522,090	290,258	45,774,749	499,832	10,738,880	78,803	125,509,871
Accumulated depreciation	(2,037,863)	-	(236,395)	(6,465,609)	(301,776)	(2,968,100)	(64,047)	(12,073,790)
Net book amount	64,567,396	1,522,090	53,863	39,309,140	198,056	7,770,780	14,756	113,436,081
Year ended 31 March 2016								
Opening net book amount	64,567,396	1,522,090	53,863	39,309,140	198,056	7,770,780	14,756	113,436,081
Additions	454,332	860,920	3,270	1,928,384	87,500	363,062	-	3,697,468
Commissioned assets	-	(232,102)	-	232,102	-	-	-	-
Revaluation surplus (Note 14)	25,384,879	-	-	-	-	-	-	25,384,879
Disposals	-	-	-	-	(8,106)	-	-	(8,106)
Depreciation charge	(534,751)	-	(39,823)	(4,384,752)	(71,805)	(815,820)	(4,944)	(5,851,895)
Depreciation release on disposals	-	-	-	-	8,106	-	-	8,106
Closing net book amount	89,871,856	2,150,908	17,310	37,084,874	213,751	7,318,022	9,812	136,666,533
At 31 March 2016								
Cost or valuation	89,871,856	2,150,908	293,528	47,935,235	579,226	11,101,942	78,803	152,011,498
Accumulated depreciation	-	-	(276,218)	(10,850,361)	(365,475)	(3,783,920)	(68,991)	(15,344,965)
Net book amount	89,871,856	2,150,908	17,310	37,084,874	213,751	7,318,022	9,812	136,666,533

4. Property, plant and equipment - continued

	Land & buildings €	Assets in course of construction and payments on account €	Computer equipment €	Furniture, fixtures & fittings €	Motor vehicles €	Plant, machinery & operational equipment €	Audio visual equipment €	Total €
Year ended 31 March 2017								
Opening net book amount	89,871,856	2,150,908	17,310	37,084,874	213,751	7,318,022	9,812	136,666,533
Additions	628,592	134,173	20,859	1,745,104	135,268	1,132,007	-	3,796,003
Reclassification to investment property (Note 5)	-	(540,847)	-	-	-	-	-	(540,847)
Commissioned assets	21,500	(1,018,153)	-	996,653	-	-	-	-
Disposals	-	-	-	-	(20,000)	-	-	(20,000)
Depreciation charge	(525,911)	-	(35,126)	(4,655,256)	(87,662)	(889,071)	(4,944)	(6,197,970)
Depreciation release on disposals	-	-	-	-	12,000	-	-	12,000
Closing net book amount	89,996,037	726,081	3,043	35,171,375	253,357	7,560,958	4,868	133,715,719
At 31 March 2017								
Cost or valuation	90,521,948	726,081	314,387	50,676,992	694,494	12,233,949	78,803	155,246,654
Accumulated depreciation	(525,911)	-	(311,344)	(15,505,617)	(441,137)	(4,672,991)	(73,935)	(21,530,935)
Net book amount	89,996,037	726,081	3,043	35,171,375	253,357	7,560,958	4,868	133,715,719

4. Property, plant and equipment - continued

The reclassification from property, plant and equipment to investment property amounting to €540,847 during the current financial year, relates to expenditure incurred in prior years in respect of the acquisition of the property title disclosed in Note 5.

Bank borrowings in the name of group undertakings are secured on the group's land and buildings (refer to Note 19).

Fair valuation of property

The principal elements of the group's land and buildings, within property, plant and equipment were last revalued on 31 March 2016 by independent professionally qualified valuers. The book value of the properties had been adjusted to the revaluation and the resultant surplus, net of applicable deferred income taxes, had been credited to the revaluation reserve in shareholders' equity (Note 14).

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

As at 31 March 2017, the directors have reviewed the carrying amount of the properties referred to above and no adjustments to the carrying amounts were deemed necessary as at the end of the reporting period. Any remaining property has not been revalued since acquisition or initial recognition and following an assessment by the directors on the fair value of these properties at 31 March 2017, the fair values were deemed to fairly approximate the carrying amounts.

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

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

The group's revalued land and buildings, consist principally of the db Seabank Resort & SPA and the db San Antonio Hotel & SPA, being operational property that is owned and managed by the respective group undertakings. The recurring property fair value measurements at the end of each financial period presented use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

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

A reconciliation from the opening balance to the closing balance of property for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, for the current and preceding financial year, is reflected in the table above.

4. Property, plant and equipment - continued

Valuation processes

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

- information provided by the group which is derived from the respective group undertaking's financial systems and is subject to the entity's overall control environment; and
- assumptions and valuation models used by the valuers; with assumptions being typically market related and based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by designated officers within the group. This includes a review of fair value movements over the period. When the designated officers consider that the valuation report is appropriate, the valuation report is recommended to the respective group undertaking's Board of directors. The Board then considers the valuation report as part of its overall responsibilities.

At the end of every reporting period, the designated officers assess whether any significant changes or developments have been experienced since the last external valuation. This analysis is usually supported by an assessment performed by the third party property valuers. The officers report to the Board on the outcome of this assessment.

Valuation techniques

The external valuations of the Level 3 property as at 31 March 2016 have been performed using the discounted cash flow, being the valuation technique considered by the external valuers to be the most appropriate for the group's properties. In view of a limited number of similar or comparable properties and property transactions, comprising sales or rentals, in the local market, the valuations have been performed using unobservable inputs. The significant inputs used are generally those described below:

- Discounted cash flow ("DCF") approach: considers the free cash flows arising from the projected income streams expected to be derived from the operation of the property, discounted to present value using an estimate of the weighted average cost of capital that would be available to finance such an operation. The significant unobservable inputs utilised with this technique include:

Earnings before interest, tax, depreciation and amortisation (EBITDA)	based on projected income streams less operating expenditure necessary to operate the hotels, but prior to depreciation and financing charges.
Growth rate	based on management's estimated average growth of the respective company's EBITDA levels, mainly determined by projected growth in income streams.
Discount rate	reflecting the current market assessment of the uncertainty in the amount and timing of projected cash flows. The discount rate reflects the estimated weighted average cost of capital that would be available for financing such an operation. The discount rate is based on an assumed debt to equity ratio; estimation of cost of equity is based on risk free interest rates adjusted for country risk and equity risk premium adjusted for entity-specific risk factor; estimation of cost of debt is based on risk free interest rates adjusted for country risk and assumed credit spread.

4. Property, plant and equipment - continued

Information about fair value measurements using significant unobservable inputs (Level 3), as at 31 March 2017 and 2016

Description by class based on highest and best use	Fair value as at year end €000	Valuation technique	Significant unobservable input	Range of unobservable inputs
Current use as commercial premises (hotel operations)	88,600	DCF approach	EBITDA	€6,700,000 to €9,500,000
			Growth rate	2% to 2.25% per annum
			Discount rate	7.9% to 10.8% (post-tax)

With respect to the DCF approach, an increase in the projected levels of EBITDA and growth rate would result in an increased fair value of the property, whereas a higher discount rate would give rise to a lower fair value.

At 31 March 2017 and 2016, the directors consider the current use of the properties to be equivalent to the highest and best use.

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

	2017 €	2016 €
Cost	67,709,683	67,059,591
Accumulated depreciation	(3,098,525)	(2,572,614)
Net book amount	64,611,158	64,486,977

5. Investment property

	Group	
	2017	2016
	€	€
Year ended 31 March		
Opening cost and carrying amount	-	-
Additions	59,599,420	-
Reclassification from property, plant and equipment (Note 4)	540,847	-
	60,140,267	-
Closing cost and carrying amount	60,140,267	-

The group's investment property represents property title in the name of DB San Gorg Property Limited, a wholly owned subsidiary of the parent company. DB San Gorg Property Limited, entered into a 99 year concession agreement with the Government of Malta and the Government Property Department on 1 February 2017 for the acquisition of three portions of land having a total surface area of circa 23,975sqm. The said land is located in St Julian's. This property, subject to the securing of all necessary development permits, is earmarked as a mixed use development encompassing a five star hotel, residential tower, shopping mall, large underground car park and other amenities to complement the project. DB San Gorg Property Limited has submitted an application with the Planning Authority.

The contract of acquisition of the emphyteutical grant and related acquisition costs are payable over an extended period of time and was therefore discounted to its present value of €60.1 million at the date of purchase. The rate applied in discounting the future outflows to present value is 3.5%, based upon the current market interest rate that is available to the group.

As at 31 March 2017, following an assessment by the directors, the fair value of the property is deemed to fairly approximate its carrying amount.

6. Intangible assets

Franchise license rights

	Group	
	2017	2016
	€	€
Year ended 31 March		
Opening net book amount	969,582	1,211,338
Amortisation charge	(241,756)	(241,756)
	727,826	969,582
At 31 March		
Cost	2,965,266	2,965,266
Accumulated amortisation	(2,237,440)	(1,995,684)
	727,826	969,582
Net book amount	727,826	969,582

The intangible assets represent the value of franchise license rights and related brand costs, covering a period of twenty years, to use the *Hard Rock Café* brand name and certain other trade names, service marks, logos and commercial symbols related to the operation of restaurant/bar establishments and sale of merchandise in accordance with the franchise agreement.

7. Investments in subsidiaries

	Company	
	2017	2016
	€	€
Year ended 31 March		
Opening cost and carrying amount	16,271,612	16,271,612
Additions	251,200	-
Closing cost and carrying amount	16,522,812	16,271,612

The principal subsidiaries at 31 March, whose results and financial position affected the figures of the group, are shown below:

	Registered office	Class of shares held	Percentage of shares held	
			2017	2016
DB Catering and Events Limited	San Antonio Hotel and Spa Triq it-Turisti, St. Paul's Bay, Malta	Ordinary shares	100%	100%
DB San Gorg Property Limited	Seabank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary shares	100%	-
Evergreen Travel Limited	Akara Building 24 De Castro Street, Wickhams Cay, Road Town, Tortola British Virgin Islands	Ordinary shares	100%	100%
Hotel San Antonio Limited	San Antonio Hotel and Spa Triq it-Turisti St. Paul's Bay, Malta	Ordinary shares Preference A shares Preference B shares	100% 100% 100%	100% 100% 100%
J.D. Catering Limited	Seabank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary shares	100%	98.6%
SA Marketing Company Limited	Grand Hotel Mercure San Antonio Tourists Street, St. Paul's Bay, Malta	Ordinary shares	100%	99.4%
SD Finance plc	Seabank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary shares	100%	-

7. Investments in subsidiaries - continued

	Registered office	Class of shares held	Percentage of shares held	
			2017	2016
S.R.G.N. Company Limited	Seabank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary shares	100%	98.8%
Sea Port Franchising Limited	Seabank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary shares	100%	93.8%
Seabank Hotel and Catering Limited	Seabank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary shares Preference shares	100% 32.8%	98.8% 26.2%
Silverstars Boat Chartering Limited	Seabank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary shares	100%	100%
TN Holdings Limited	Seabank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary shares	100%	99.9%

The shareholdings in DB Catering and Events Limited, Seabank Hotel and Catering Limited, Silverstars Boat Chartering Limited and TN Holdings Limited are held directly by SD Holdings Limited. The shareholding in Hotel San Antonio Limited is held equally between SD Holdings Limited and Seabank Hotel and Catering Limited. The shareholdings in J.D. Catering Limited, S.R.G.N. Company Limited and Sea Port Franchising Limited are held through Seabank Hotel and Catering Limited, whilst the shareholdings in Evergreen Travel Limited and SA Marketing Company Limited are held through Hotel San Antonio Limited.

During the current financial year, the parent company acquired the remaining 1.2% of the issued share capital of Seabank Hotel and Catering Limited. Furthermore, Seabank Hotel and Catering Limited also acquired the remaining 5% of the issued share capital of Seaport Franchising Limited. Accordingly, all the subsidiaries listed above are now wholly owned by SD Holdings Limited. The considerations for these acquisitions have been forfeited.

8. Investments in associates

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Year ended 31 March				
Opening carrying amount	4,356,171	3,932,367	900	900
Share of results	1,145,574	423,804	-	-
Dividends received	(250,000)	-	-	-
Closing carrying amount	5,251,745	4,356,171	900	900
At 31 March				
Cost	1,675,763	1,675,763	900	900
Share of results and reserves	3,575,982	2,680,408	-	-
Closing carrying amount	5,251,745	4,356,171	900	900

The group's share of results of the associates, disclosed above and in profit or loss, is after tax and non-controlling interest in the associates. The principal associates at 31 March, whose results and financial position affected the figures of the group, are shown below:

	Registered Office	Class of shares held	Percentage of shares held	
			2017	2016
DP Road Construction Limited	Sea Bank Hotel, Marfa Road, Ghadira Bay, Mellieha, Malta	Ordinary A shares	45%	45%
Malta Healthcare Caterers Limited	BLB 009Y, Bulebel, Industrial Estate, Zejtun, Malta	Ordinary shares	50%	49.4%
Porto Azzurro Limited	Ridott Street, Xemxija Hill, St.Paul's Bay, Malta	Ordinary shares	33.3%	32.9%
Porto Azzurro Resort Club Limited	Porto Azurro Limited, Ridott Street, Xemxija Hill, St.Paul's Bay, Malta	Ordinary shares	33.3%	32.9%
Sky Gourmet Malta Inflight Services Limited	James Confectionery, Velleran Street, Fgura, Malta	Ordinary shares	30%	29.6%
Sky Gourmet Malta Limited	James Confectionery, Velleran Street, Fgura, Malta	Ordinary shares	30%	29.6%

The shareholding in DP Road Construction Limited is held directly by SD Holdings Limited, whilst all the other investments are held through Seabank Hotel and Catering Limited.

8. Investments in associates - continued

Disclosure requirements emanating from IFRS 12 'Disclosure of interests in other entities'

The principal activities of the Malta Healthcare Caterers Limited Group, is the provision of catering services to hospitals and retirement homes, together with the provision of nursing, medical and clinical services; whilst Sky Gourmet Malta Limited's principal activity is the provision of catering and commissary services to airlines operating from Malta. These investments provide strategic partnerships for the group within business sectors which are targeted by the group for diversification or consolidation purposes. The principal places of business for both associates are based in Malta.

Associates are measured using the equity method in accordance with the group's accounting policy and there are no contingent liabilities relating to the group's interest in the associates.

The statutory financial year end for the Malta Healthcare Caterers Limited Group is 31 December and accordingly the financial information made available to shareholders relates to the financial year ended 31 December 2016. Accordingly, the consolidated financial statements of Malta Healthcare Caterers Limited used in applying the equity method are attributable to the financial year ended 31 December 2016, which year end is different from that of the reporting entity.

Set out below are the summarised financial information of the group's principal associates, as presented in the respective financial statements.

Summarised balance sheets

	Malta Healthcare Caterers Limited		Sky Gourmet Malta Limited	
	As at 31 December		As at 31 March	
	2016	2015	2017	2016
	€	€	€	€
Non-current assets	1,996,653	2,053,984	636,154	795,229
Current assets	18,715,360	12,704,413	2,135,619	1,698,157
Non-current liabilities	(233,964)	(386,376)	(43,856)	-
Current liabilities	(16,266,129)	(11,925,124)	(1,601,068)	(1,628,186)
Net assets	4,211,920	2,446,897	1,126,849	865,200

The carrying amount of these investments is lower than the group's share of the net assets reflected above as a result of fair value adjustments made at the time of acquisition and the fact that the share of results for the year of acquisition was not a full financial year.

8. Investments in associates - continued

Summarised statements of comprehensive income

	Malta Healthcare Caterers Limited		Sky Gourmet Malta Limited	
	Year ended 31 December		Year ended 31 March	
	2016	2015	2017	2016
	€	€	€	€
Revenue	34,241,628	25,127,724	5,620,384	5,684,832
Profit/(loss) for the year - total comprehensive income	1,765,023	847,607	261,649	(226,575)

The other associates of the group are not deemed material, individually and in aggregate, to the group as a reporting entity taking cognisance of the group's financial position and aggregate assets. Accordingly, the disclosure requirements emanating from IFRS 12 were not deemed necessary for the user's understanding of the financial results and the financial position of the group.

The group's share of the results of the other associates and its share of the assets and liabilities are as follows:

	Assets €	Liabilities €	Revenues €	Profit €
2017				
Porto Azzurro Limited	797,445	(549,781)	418,213	127,852
Sky Gourmet Malta Inflight Services Limited	120,260	(2,369)	482,261	5,792
2016				
Porto Azzurro Limited	825,375	(284,336)	281,420	83,006
Sky Gourmet Malta Inflight Services Limited	121,688	(9,569)	543,994	31,814

Porto Azzurro Resort Club Limited is considered by the directors to be a non-operating company. With respect to DP Road Construction Limited, operations are not deemed to be material. For these entities no recent financial information was available.

9. Deferred taxation

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

	Group	
	2017	2016
	€	€
Year ended 31 March		
At beginning of year	3,900,747	9,382,400
Credited/(charged) to profit or loss:		
Temporary differences on intra-group transactions (Note 29)	9,266	9,266
Temporary differences on property, plant and equipment and unutilised tax credits (Note 29)	(2,936,680)	(2,632,475)
Other temporary differences (Note 29)	(8,418)	-
Charged to other comprehensive income:		
Tax effect of re-measurement of derivatives (Note 15)	(77,097)	(59,330)
Tax effect of revaluation on property, plant and equipment (Note 14)	-	(2,799,114)
	887,818	3,900,747
At end of year	887,818	3,900,747

Deferred taxation is principally composed of deferred tax assets and liabilities which are expected to be recovered and settled after more than 12 months. Deferred tax assets have been recognised in the financial statements on the basis that the directors of the respective companies are of the opinion that it is probable that future taxable profits will be available to utilise such assets.

The balance at 31 March represents:

	Group	
	2017	2016
	€	€
Unutilised tax credits arising from:		
Unabsorbed capital allowances	1,395,776	2,248,456
Unabsorbed tax losses	791,852	791,852
Investment tax credits	7,537,808	9,146,893
Taxable temporary differences arising from depreciation of property, plant and equipment	(4,981,138)	(4,506,223)
Taxable temporary differences arising from revaluation of property, plant and equipment	(2,799,114)	(2,799,114)
Taxable temporary differences arising from intra-group transactions	(127,289)	(136,555)
Deductible temporary differences arising from derivative instruments	18,699	95,796
Deferred taxation arising on transfer of property on acquisition of subsidiary	(950,384)	(950,384)
Other temporary differences	1,608	10,026
	887,818	3,900,747
Disclosed as follows:		
Deferred tax assets	5,101,464	7,786,800
Deferred tax liabilities	(4,213,646)	(3,886,053)
	887,818	3,900,747

10. Trade and other receivables

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Non-current				
Finance lease receivable (net of unearned finance income)	97,393	327,816	-	-
Current				
Trade receivables	5,876,676	6,265,388	-	-
Payments in advance to suppliers	285,022	212,080	-	-
Finance lease receivable (net of earned finance income)	230,418	230,423	-	-
Amounts owed by subsidiaries	-	-	1,311,717	1,299,096
Amounts owed by associates	709,570	277,570	175,000	-
Amounts owed by other related parties	121,919	124,447	-	-
Other receivables	694,146	800,293	-	6,372
Indirect taxation	112,480	105,938	206	-
Prepayments and accrued income	472,139	771,021	71,896	70,895
	8,502,370	8,787,160	1,558,819	1,376,363

A group undertaking entered into a finance lease arrangement in prior years with the group's shareholder, whereby the contractual terms essentially transfer all risks and rewards incidental to ownership of the related asset. This arrangement does not include significant unguaranteed residual values accruing to the benefit of the lessor. The group's gross receivables from the finance lease at the end of the reporting period are analysed as follows:

	Group	
	2017 €	2016 €
Gross finance lease receivables:		
Not later than one year	233,738	233,743
Later than one year and not later than five years	97,393	331,136
	331,131	564,879
Unearned future finance income	(3,320)	(6,640)
Net investment in finance leases	327,811	558,239

The net investment in finance leases is analysed as follows:

	Group	
	2017 €	2016 €
Not later than one year	230,418	230,423
Later than one year and not later than five years	97,393	327,816
	327,811	558,239

Amounts receivable from the lease debtor are subject to an effective interest rate of 1% (2016: 1%).

11. Inventories

	Group	
	2017	2016
	€	€
Food and beverage	625,914	490,228
Merchandise	318,616	257,695
Other goods for resale	71,904	60,919
Consumables and other inventory	148,957	107,801
	1,165,391	916,643

12. Cash and cash equivalents

For the purposes of the cash flow statements, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2017	2016	2016	2015
	€	€	€	€
Cash at bank and in hand	2,896,329	507,872	2,026,198	110,835
Bank overdrafts (Note 19)	(439,256)	(2,051,476)	-	-
	2,457,073	(1,543,604)	2,026,198	110,835

13. Share capital

	Company	
	2017	2016
	€	€
Authorised		
5,000,000 (2016: 520,000) Ordinary shares of €1 each	5,000,000	520,000
Issued and fully paid		
4,000,000 (2016: 520,000) Ordinary shares of €1 each	4,000,000	520,000

By virtue of a resolution dated 16 October 2016, the company's shareholder approved an increase in the authorised issued share capital to €5,000,000 divided into 5,000,000 ordinary shares having a nominal value of €1 each. Subsequently, the company's shareholder approved the issue and allotment of 3,480,000 fully paid up ordinary shares of €1 each for an aggregate value of €3,480,000. The shares issued were in consideration for the capitalisation of a shareholder's loan for an amount of €3,480,000 (refer to Note 20).

14. Revaluation reserve

	Group	
	2017	2016
	€	€
Surplus arising on fair valuation of property		
At beginning of year	22,585,765	-
Revaluation surplus arising during the year (Note 4)	-	25,384,879
Deferred tax on revaluation surplus arising during the year (Note 9)	-	(2,799,114)
	22,585,765	22,585,765

The tax impact relating to this component of other comprehensive income is presented in the above table.

The revaluation reserve is non-distributable.

15. Hedging reserve

The fair values of cash flow hedges are recorded in the hedging reserve, in a separate category of equity, as shown below:

	Group	
	2017	2016
	€	€
Interest rate swaps		
At 1 April		
Gross amounts of losses	273,702	443,217
Deferred income tax	(95,796)	(155,126)
	177,906	288,091
Movements in year ended 31 March		
Net losses from changes in fair value	1,949	41,533
Deferred income tax	(682)	(14,537)
	1,267	26,996
Reclassified to profit or loss as a reclassification adjustment	(222,225)	(211,048)
Deferred income tax	77,779	73,867
	(144,446)	(137,181)
At 31 March		
Gross amounts of losses	53,426	273,702
Deferred income tax	(18,699)	(95,796)
	34,727	177,906

The tax impacts relating to this component of other comprehensive income are presented in the above table.

The net fair value losses as at 31 March 2017 and 2016 on open interest rate swap agreements which hedge anticipated future interest rate fluctuations will be reclassified from the hedging reserve to profit or loss as a reclassification adjustment when the forecast transactions occur, at various dates up to one year from the end of the reporting period.

16. Other reserves

	Group	
	2017	2016
	€	€
Capital redemption reserve	2,075,474	698,815
Incentives and benefits reserve	1,301,885	1,301,885
	3,377,359	2,000,700

The capital redemption reserve represents a sum equal to the nominal amount of the preference shares redeemed by a subsidiary in accordance with Article 115 of the Maltese Companies Act (Cap. 386). The capital redemption reserve may be applied in paying up unissued shares to be issued to members as fully paid bonus shares. The redemptions taking place during the current financial years are disclosed in Note 17, since the preference shares redeemed are attributable to non-controlling interest.

The incentives and benefits reserve represents transfers effected by a subsidiary for the net amount of profits subject to income tax at a reduced rate of tax, in accordance with Articles 24B and 36 of the Business Promotion Act. No transfers to the incentives and benefits reserve have been made during the current and the preceding financial years, as no income was subject to tax at reduced rates. Such profits are set aside for the exclusive purpose of financing the upgrading projects within the qualifying company as approved by Malta Enterprise Corporation in accordance with Article 6 of the Business Promotion Act. The incentives and benefits reserve is not distributable and will be retained for a period of eight years after which it can be distributed by means of a bonus issue.

17. Non-controlling interest

	Group	
	2017	2016
	€	€
At beginning of year	11,047,133	11,006,108
Share of results of subsidiaries	45,369	41,025
Redemption of non-cumulative preference shares of a subsidiary attributable to non-controlling interest	(1,376,659)	-
Acquisition of non-controlling interest – excess of carrying amount recognised in equity	(163,038)	-
At end of year	9,552,805	11,047,133

During the current financial year, the parent company acquired the remaining 1.2% of the issued share capital of Seabank Hotel and Catering Limited. Furthermore, Seabank Hotel and Catering Limited also acquired the remaining 5% of the issued share capital of Seaport Franchising Limited. The considerations for these acquisitions have been forfeited. Accordingly, the excess of the carrying amount of the non-controlling interest was recognised in equity.

As at 31 March 2017, non-controlling interest represents only the carrying amount of non-cumulative preference shares of a subsidiary.

18. Trade and other payables

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Non-current liabilities				
Due to Government in relation to purchase of land	48,360,859	-	-	-
Deferred income arising on long term rights of use sales	8,005,376	6,490,965	-	-
	56,366,235	6,490,965	-	-
Current liabilities				
Trade payables	7,096,251	6,226,902	-	-
Due to Government in relation to purchase of land	1,429,571	-	-	-
Payables and accruals with respect to capital expenditure	1,517,794	4,867,059	-	-
Advance deposits from tour operators and other third parties	6,381,665	4,318,586	974,215	-
Amounts owed to shareholder	1,182,672	472,939	-	-
Amounts owed to subsidiaries	-	-	13,074,201	12,740,778
Amounts owed to associates	3,142,191	2,249,338	254,392	-
Amounts owed to other related parties	1,683,840	474,461	-	-
Amounts owed to third parties	-	4,000,000	-	-
Other payables	218,687	311,996	100	100
Indirect taxation and social security	561,147	389,839	-	-
Accruals and deferred income	4,092,683	3,492,346	1,156	1,115
	27,306,501	26,803,466	14,304,064	12,741,993

The liability towards the Government of Malta in relation to the payment of ground rent and any penalty that may become due by db San Gorg Property Limited is secured by a special privilege on the site at St Julian's accorded to the dominus by law in favour of the Government of Malta.

The maturity of this liability is as follows:

	Group	
	2017 €	2016 €
Due within 1 year	1,429,571	-
Due between 1 and 2 years	1,429,571	-
Due between 2 and 5 years	5,850,223	-
Due after more than 5 years	171,657,527	-
	180,366,892	-
Less: imputed interest component	(130,576,462)	-
	49,790,430	-

Amounts owed to subsidiaries represent financing obtained by the parent company from other group undertakings to finance various group projects including the acquisition of Hotel San Antonio Limited in prior years and subsequent developments at the same hotel. Such advances are unsecured and repayable on demand. However, the respective subsidiaries have undertaken not to request repayment of amounts due until alternative financing is available. Included in such advances are offsettable amounts of €1,525,082 (2016: €718,779) owed by a subsidiary to the parent company which are subject to interest at 5.8% (2016: 5.8%). All the other amounts are interest free.

19. Borrowings

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Non-current				
Bank loans	43,611,030	50,965,117	1,218,851	576,864
Current				
Bank overdrafts	439,256	2,051,476	-	-
Factoring loans	-	47,176	-	-
Bank loans	18,563,010	8,109,443	306,231	141,915
	19,002,266	10,208,095	306,231	141,915
Total borrowings	62,613,296	61,173,212	1,525,082	718,779

The group's and the company's banking facilities as at 31 March 2017 amounted to €69,603,952 (2016: €64,125,948) and €2,500,000 (2016: €1,500,000) respectively. Such bank facilities are secured by:

- (a) special hypothecs over the group's property;
- (b) general hypothecs over the group's present and future assets;
- (c) guarantees provided by group undertakings;
- (d) guarantees given by the shareholder;
- (e) pledges over the insurance policies of group undertakings;
- (f) pledges over the shareholder's life insurance policies;
- (g) letters of undertaking.

The interest rate exposure of the borrowings is as follows:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Total borrowings:				
At fixed rates	-	47,176	-	-
At floating rates	62,613,296	61,126,036	1,525,082	718,779
	62,613,296	61,173,212	1,525,082	718,779

The weighted average effective interest rates for borrowings as at the end of the financial reporting period are as follows:

	Group		Company	
	2017	2016	2017	2016
Bank overdrafts	4.5%	5.0%	5.8%	5.8%
Factoring loans	-	8.2%	-	-
Bank loans	3.5%	4.1%	5.8%	5.8%

19. Borrowings - continued

Maturity of non-current borrowings:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Between 1 and 2 years	8,218,856	8,226,400	328,821	144,907
Between 2 and 5 years	21,648,986	22,259,472	890,030	431,957
Over 5 years	13,743,188	20,479,245	-	-
	43,611,030	50,965,117	1,218,851	576,864

20. Amounts owed to ultimate shareholder

As at 31 March 2016, the amounts owed to ultimate shareholder amounting to €3,779,493 related to the allotment and acquisition of shares in Seabank Hotel and Catering Limited. These amounts had been earmarked as additional capital required by the company.

To this effect, during the current financial year, the company's shareholder approved the issue and allotment of 3,480,000 fully paid up ordinary shares of €1 each for an aggregate value of €3,480,000 (refer to Note 13). The consideration for these shares was the capitalisation of an equivalent amount of the amounts owed to the ultimate shareholder.

As at 31 March 2017, the remaining balance of the shareholder's loan amounts to €299,493. These amounts are unsecured, interest free and have been earmarked as additional capital required by the parent company, the terms of which will be concluded in the foreseeable future.

21. Deferred government grants

	Group	
	2017	2016
	€	€
At beginning of the year	40,925	49,746
Credited to profit or loss:		
- Annual amortisation related to assets (Note 27)	(8,821)	(8,821)
At end of year	32,104	40,925
At 31 March		
Non-current	23,283	32,104
Current	8,821	8,821
At end of year	32,104	40,925

22. Derivative financial instruments

	Group	
	2017	2016
	Fair value liabilities	Fair value liabilities
	€	€
At 31 March		
Interest rate derivative		
- interest rate swap	53,426	273,702

In prior years, a group undertaking entered into an interest rate swap derivative financial instrument to mitigate the variability of future floating interest payments based on the applicable three-month Euribor rate on the entity's borrowings. The fair value movement during the current and the preceding financial year was recognised in the cash flow hedge reserve. Realised losses on the derivative have subsequently been transferred to profit or loss and presented within finance costs. The notional amount of the outstanding interest rate swap contract as at 31 March 2017 was €11.3 million (2016: €12.6 million).

The fair value of the derivative is included in the statement of financial position under the following classifications:

	Group	
	2017	2016
	€	€
Derivative financial liabilities		
Current	53,426	273,702

23. Other loans

Other loans amounting to €730,932 (2016: €993,577) represent advances from suppliers which are to be set-off against discounts allowed by the same suppliers on the basis of predetermined purchase levels.

24. Revenue

The group's entire revenue is derived locally mainly from hospitality, leisure and ancillary activities.

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
By category				
Hospitality and ancillary services	33,449,307	30,477,820	-	-
Food and beverage	8,683,807	7,841,379	-	-
Merchandise and other retailing activities	3,739,783	3,572,587	-	-
Other revenue	750,603	755,651	2,458	1,800
	46,623,500	42,647,437	2,458	1,800

25. Expenses by nature

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Employee benefit expense (Note 26)	9,339,067	8,426,388	-	-
Amortisation of intangible assets (Note 6)	241,756	241,756	-	-
Depreciation of property, plant and equipment (Note 4)	6,197,970	5,851,895	-	-
Utilities and similar charges	1,721,392	1,667,334	-	-
Operating supplies and related expenses	9,553,403	8,604,031	-	-
Repairs and maintenance costs	2,245,372	1,784,914	-	-
Marketing, advertising costs and commissions	1,153,791	925,199	-	-
Franchise royalties	652,122	679,254	-	-
Operating lease rentals – property	494,191	408,823	-	-
Ground rents payable	6,198	6,198	-	-
Other expenses	3,063,565	2,607,458	21,813	2,246
Total cost of sales, selling and administrative expenses	34,668,827	31,203,250	21,813	2,246

Auditor's fees

Fees charged by the auditor for services rendered during the current and the preceding financial years relate to the following:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Annual statutory audit				
- parent company auditors	42,745	34,700	750	750
- other auditors	14,250	12,750	-	-
Tax advisory and compliance services				
- parent company auditors	4,725	1,810	325	325
Other non-audit services				
- parent company auditors	5,750	15,460	750	-
- other auditors	6,135	875	-	-
	73,605	65,595	1,825	1,075

26. Employee benefit expense

	Group	
	2017	2016
	€	€
Wages and salaries (including directors' remuneration)	8,435,450	7,832,766
Social security costs	636,523	663,552
	9,071,973	8,496,318
Recharged from/(to) associates	267,094	(55,022)
Recharged to third parties	-	(14,908)
	9,339,067	8,426,388

Average number of persons employed by the group during the year:

	Group	
	2017	2016
Direct Administration	507	450
	70	68
	577	518

27. Other operating income

	Group	
	2017	2016
	€	€
Amortisation of deferred Government grants (Note 21)	8,821	8,821
Operating lease income	256,740	225,724
Other income	48,586	31,841
	314,147	266,386

28. Finance income and finance costs

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Finance income				
Interest on amounts owed by subsidiary	-	-	71,896	70,895
Finance income arising from finance lease arrangement	3,241	3,319	-	-
	3,241	3,319	71,896	70,895

28. Finance income and finance costs - continued

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Finance costs				
Interest on bank borrowings and other loans	3,350,612	3,602,083	71,896	70,929
Other finance charges	80,480	95,040	-	-
	3,431,092	3,697,123	71,896	70,929

29. Tax expense

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Current taxation	295,998	190,418	-	-
Deferred taxation (Note 9)	2,935,832	2,623,209	-	-
Tax expense	3,231,830	2,813,627	-	-

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

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Profit/(loss) before tax	9,986,543	8,440,573	(19,355)	(480)
Tax on profit/(loss) at 35%	3,495,290	2,954,201	(6,774)	(168)
Tax effect of:				
Share of results of associates	(400,951)	(148,331)	-	-
Expenses not deductible for tax purposes	168,894	149,150	6,774	168
Income not subject to tax	(3,568)	(11,465)	-	-
Movement in temporary differences	(29,680)	(128,716)	-	-
Investment tax credits claimed during the year	-	(8,226)	-	-
Other differences	1,845	7,014	-	-
Tax charge in the accounts	3,231,830	2,813,627	-	-

30. Directors' remuneration

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Salaries and other emoluments	254,627	175,570	-	-

31. Cash generated from operations

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

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Operating profit/(loss)	12,268,820	11,710,573	(19,355)	(446)
Adjustments for:				
Depreciation of property, plant and equipment (Note 4)	6,197,970	5,851,895	-	-
Amortisation of intangible assets (Note 6)	241,756	241,756	-	-
Deferred Government grants (Note 21)	(8,821)	(8,821)	-	-
Gain on disposal of property, plant and equipment	(3,000)	-	-	-
Changes in working capital:				
Inventories	(248,748)	(84,586)	-	-
Trade and other receivables	515,213	(2,157,159)	(181,365)	(502,066)
Trade and other payables	6,297,836	4,253,240	1,562,071	914,565
Cash generated from operations	25,261,026	19,806,898	1,361,351	412,053

32. Commitments

Capital commitments

Commitments for capital expenditure not provided for in these financial statements are as follows:

	Group	
	2017 €	2016 €
Contracted but not provided for	-	550,000

The above commitments were entered into by Hotel San Antonio Limited with respect to the extension of the hotel and refurbishment of its hotel rooms.

33. Commitments - continued

Operating lease commitments – where group undertakings act as lessee

Future minimum lease payments payable under non-cancellable operating lease rentals are as follows:

	Group	
	2017	2016
	€	€
Less than one year	99,992	96,974
Between one and five years	193,942	298,089
More than five years	2,460,860	2,511,471
	2,754,794	2,906,534

Operating lease payments mainly represent rentals payable by group undertakings for property concessions.

Operating lease commitments – where a group undertaking is a lessor

A subsidiary undertaking had outstanding receivables under non-cancellable operating leases, as follows:

	Group	
	2017	2016
	€	€
Less than one year	82,847	79,347
Between one and five years	99,541	48,065
More than five years	290,987	-
	473,375	127,412

Operating lease receivables relate to property concessions.

33. Contingencies

At 31 March 2017, the group's and the company's major contingent liabilities were:

- (a) Undertakings given by the parent company to provide the necessary financial support to group undertakings and associates so as to enable these entities to meet their liabilities and any other obligations as they fall due and to continue as a going concern.
- (b) Uncalled share capital amounting to €5,590 (2016: €5,590) relating to shares subscribed in associates by a group undertaking and uncalled share capital amounting to €1,920 (2016: €1,920) relating to shares subscribed in subsidiaries by the parent company.
- (c) A special hypothec granted by a group undertaking to a third party in respect of certain units allocated to timeshare amounting to €10,000,000 (2016: €3,000,000).
- (d) Guarantees of up to a maximum of €60,106 (2016: €54,076) issued by a group undertaking to various third parties for a beach concession.

33. Contingencies - continued

- (e) Guarantees of €18,650 (2016: €18,650) and €1,500,000 (2016: €1,500,000) issued by the group's bankers, on behalf of group undertakings in favour of the Planning Authority and Projects Malta Limited respectively, in the ordinary course of business.
- (f) Guarantees given by the parent company in respect of bank facilities of group undertakings for an amount of €56,750,000 (2016: €46,750,000).
- (g) Guarantees given by a group undertaking in respect of bank facilities of an associate for an amount of €3,650,000 (2016: €3,650,000).
- (h) Guarantees and performance bond amounting to €350,000 (2016: nil) given to third parties and to the Government of Malta with respect to the acquisition of the land title.

34. Related party transactions

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

The entities constituting the db Group are ultimately owned by members of the Debono family. Accordingly, the members of the Debono family, all entities owned or controlled by the members of the Debono family, the associates of the group and the group's key management personnel are the principal related parties of the db Group.

In the ordinary course of their operations, group entities provide services to associates and other related parties mentioned above for trading services and in turn group entities also purchase services from such related parties. The group's related party transactions also include financing transactions, principally advances with associates and other related parties.

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

Except for transactions disclosed or referred to previously, no further significant operating transactions have a material effect on the operating results and financial position of the group and the company.

Year-end balances with related parties are disclosed in Notes 10, 18 and 20 to these financial statements. Such balances are unsecured, interest free and repayable on demand unless otherwise stated in the respective notes.

Key management personnel comprise the directors of the parent company and the directors of the other group undertakings. Key management personnel compensation, consisting of the parent directors' remuneration has been disclosed in Note 30.

35. Events after reporting period

On 25 April 2017, SD Finance plc (the “issuer”), which is a subsidiary of SD Holdings Limited, issued an aggregate of €65,000,000 in bonds having a face value of €100 per bond, subject to minimum holding of €2,000 in bonds. The bonds have a coupon interest rate of 4.35% per annum as stated in the prospectus dated 27 March 2017. These bonds were eventually admitted for listing on the Malta Stock Exchange on 4 May 2017. SD Holdings Limited is the guarantor of these bonds.

In accordance with the provisions of the above noted prospectus, the proceeds from the bond issue have been advanced by the issuer to undertakings forming part of the db Group for the purpose of re-financing existing bank facilities within the group, financing the redemption of redeemable preference shares of a fellow subsidiary of the issuer and for the general corporate funding purposes of the group.

36. Statutory information

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

37. Comparative information

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year’s presentation format for the purpose of fairer presentation.