SPINOLA DEVELOPMENT COMPANY LIMITED

Annual Report and Consolidated Financial Statements
31 December 2017

Company Registration Number: C331

Directors' report

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

Principal activities

The principal activities of the group are the development and the operation of the Portomaso Complex in St. Julians, Malta. This complex includes the Hilton (Malta) and its convention centre, the Portomaso Business Tower, residential apartments, a car park and commercial outlets.

Review of business

Turnover for the year under review reached €55.05 million, against last year's €41.90 million, an increase of 31.4%. On the other hand, gross profit increased to a larger extent, adding on €9.04 million to last year's figure to reach €25.52 million. The gross profit margin therefore reached an all-time high of 46.4% or seven percentage points over that of 2016. Administrative costs, partly off-set by other income amounted to €8.55 million, an increase of €1.47 million over last year. Operating profit for the year figured at €16.97 million, by far a record, increasing by around 80.5% over the previous year. Net finance costs at €2.25 million maintained their gradual downward trend commenced a few years back. Profit for the year after tax therefore reached €11.07 million, an increase of €5.88 million.

Reviewing the figures in more detail one notes an unparalleled increase in total turnover, this due to a robust performance across the various sectors of the company primarily hospitality and property which saw a marked increase over 2016. It is worth noting when comparing the current year to the previous one that the Hilton Malta was closed for business between February and April 2016 for a large scale refurbishment. As a percentage of total revenue hospitality income accounted for approximately 73.8% of total revenue, an increase of €8.06 million over last year. Property sales also saw a substantial increase, reaching €8.31 million or 15.1% of total turnover, while rental operations and complex management accounted for the rest with approximately 11.1%. When it comes to profitability by segment, the hospitality sector accounted for the larger share of the operating profit although, the profit margin with respect to the hotel and ancillary operations was second to that achieved through real estate sales. This was expected and follows past trends. The hotel's performance needs to be seen in the light of Malta's Presidency of the Council of the EU during the first six months of the year which by far boosted Malta's hospitality business and contributed to improving the hotel's room rates and occupancy figures when compared to the previous year; hence pushing up its rate of return. It should also be noted that the refurbishment project, the majority of which was carried out during 2016 bode well for the high rate type of business the Malta Hilton managed to achieve during the course of the year. Tourism in general extended its upward trend enabling the hotel to achieve record figures all year round. Better still when compared to the MHRA data we managed to perform highly above average topping the list with respect to the main industry KPIs. Comparatively, hospitality and ancillary operations direct costs were substantially above those of the previous year, however, fully in line with performance. Taking advantage of higher numbers led to a lower cost per unit and hence a higher contribution. The same can be said for indirect costs and administrative expenses which were only marginally higher as these in the main represent fixed expenditure. All in all, this led to a gross profit margin of 43.9% as opposed to 36.9% the previous year, and an operating profit margin of 25.1%, 7.2% over its counterpart figure for last year.

Property sales as already indicated above progressed to reach €8.31 million with a contribution of approximately 65.9%, substantially over last year, both in absolute terms and by way of margin. During the course of the year, the company achieved five property deliveries as opposed to two the previous year. It is worth noting that a much awaited milestone was achieved with the initial delivery of the first unit within the Laguna. This penthouse was delivered late in the year and others will follow during the course of 2018. As already reported forty Laguna Apartments are under a promise of sale leaving a stock of only a handful of units for sale. Currently, the bulk of the Laguna Apartments, their common areas and the laguna itself are in a state of advanced completion.

Directors' report - continued

Review of business - continued

Revenue from rental operations and complex management totalled €6.12 million, €695,846 less than last year. This movement emanates from periodical contracted rental revisions and to a much lesser extent other income, mainly management fees as these reflect higher outlays to maintain the whole of the Portomaso condominium. As from this year, utility revenue decreased as an agency agreement was concluded with Enemalta.

To conclude last year's income and expenditure review, the company's total expenditure base as a proportion of total revenue, displayed a reduction in unit cost as the cost component to total revenue decreased from 77.9% in 2016 to 70.06% during the year under review. Of course, in absolute terms, the total cost base has increased by €5.93 million, mainly in the form of higher employee costs flowing from the hotel and ancillary operations, together with increased cost of hotel supplies and utility bills. Increased property development costs were in line with sales progression.

The Group's balance sheet totalled €198.82 million, an increase of €17.40 million, over the previous year. Movement in property, plant and machinery totally due to the annual depreciation charge, this year amounting to €5.85 million. This was totally offset by additions to investment property amounting to €5.77 million, mainly due to the office block which is being constructed next to the Portomaso Business Tower taking the investment property figure to €19.12 million. It is worth noting that the fair open market value attributable by the directors to investment property is of €44.89 million. This is based on the present value of contracted and anticipated income streams from such property. Inventories were also on an upward trend, as works proceeded at an upbeat pace to finish off the Laguna Apartments. The increase in inventories amounted to €2.03 million. Trade and other receivables increased by €13.47 million, mainly due to funds within the company which were temporarily advanced to other group companies as part of the Tumas Group treasury function. It is worth noting that the companies borrowing these funds, do so on a short-term but revolving basis and cover their exposure through general banking facilities. Cash and cash equivalents, maintained an upward trend to reach €12.49 million, up by of 6.1% over the end 2016 figure. Working capital continued to improve, reaching an even healthier level of 1.78 against 1.46 the previous year.

Group borrowings at €58.67 million were practically at the same level as last year. This has been achieved despite capital expenditure incurred during the year within the Portomaso complex, namely, the recent and partly still ongoing hotel refurbishment, the Laguna Apartments, and the new office block. The company endeavour to maximise the use of its internal cash resources and hence minimise its interest cost outlay.

As part of the Tumas Group treasury operations, in mid-2017, the Group refinanced on the first opportunity possible the Tumas Investments plc 6.20% per annum bond maturing in 2017-2020 for the same amount of €25 million, reducing the cost of financing to 3.75% per annum in line with then current market bond yields. Our average cost of borrowing was therefore reduced from 6.1% to 5.2% Out of the total borrowings noted above, €49.75 million represents fixed rate funding indirectly through the local capital markets. As usual, we retain a healthy financing mix from both capital markets and banks, in line with operational requirements. The same can be said for the overall balance between fixed rate and floating rate borrowings. At the end of December 2017 fixed rate funding stood at 84.8% of total borrowings.

The Group's equity base has therefore made a significant leap forward reaching an all-time high of €89.24 million, up by €7.85 million or 9.6%, following from the very healthy performance during 2017, building upon the already consistent positive trend of results established in previous years.

Directors' report - continued

Review of business - continued

Deferred tax at €7.19 million decreased by €152,709 due to temporary differences on non-current assets. Dividends at €3.21 million were higher than what was declared in prior year, thus more in line with the group's performance.

The group recognises that the key risk and uncertainty of its business is the potential downturn in the local economy which can have a negative impact on both to the tourism and property development and rental industries.

Outlook for the financial year ending 2018

The estimated-all-year figures for 2018 show a further improvement on those achieved in 2017, mainly due to the property development segment. The results for this year should continue to consolidate the performance the company has delivered along the years and should witness the delivery of a substantial number of the Laguna Apartments towards the latter half of the year with the rest of the apartments being delivered the following year. This will obviously contribute towards a hefty increase in turnover due to this one-off event. Finishing works on these apartments at the laguna are progressing at a fast pace with the site taking shape as works reach an advanced stage. It is also expected that the hospitality and ancillary operations will deliver yet again another positive result, albeit below that of 2017 which was itself a record year for reasons already noted earlier. It is however still expected that both room rates and occupancy should be similar to those achieved in 2017 as the revenue which emanated from business travellers visiting to Malta in connection to the Island's Presidency of the Council of the EU would be to a high degree replaced by other business. Having said that, we will probably be witnessing a downward shift in F&B revenue as the number of conferences and functions forecast for this year will most likely not match those of last year, since quite a few were connected to the Presidency referred to above. As for capital investment, the greater part of this has been fully undertaken and is already returning results. There are other areas in the hotel which still need to be refurbished during the course of this year, these mainly relate to rooms which were added in 2008 and other areas which were not part of the major refurbishment that took place in 2016. The bulk is however done. The owners' objective is to deliver a fresh look all across the hotel so as to maintain high standards and support the hotel's reputation as a standard bearer in the industry.

Revenue from rental operations should be similar to that of 2017 as the area which has been temporarily closed off to undertake the office development next to the Business Tower will only be operational towards the end of the year, otherwise all available commercial space is rented out. The new office block is still under construction and should be fully completed and operational by the end of next year , and therefore, no rental income has been envisaged in 2018. This development will complement the other premises within the complex and should satisfy the unrelenting demand for first class office space within Portomaso.

Complex management operations should follow from previous years probably with a breakeven position. As the complex reaches a stage of maturity, endeavours by the complex management team proceed to retain the current high standards which the company prides itself of, for the benefit of all stakeholders at Portomaso.

With this in mind, we aim to reach year end with a superior profit to that of recent years particularly due to the one-off sale of apartments. Other construction works taking place at Portomaso includes a cluster residential block and works at the Marina. The next major development connected to Portomaso should be the Halland residential development which is a subsidiary of the company and as reported last year is still at planning stage. One must however, underline that substantial progress has been registered with the construction and engineering plans. Development permits have been applied for and are currently under consideration.

Directors' report - continued

Review of business - continued

Outlook for the financial year ending 2018 - continued

The Tumas Group strategy with respect to Portomaso is one of consolidation as we manage this first-class property in line with our business strategy, retaining the required financial stability and a healthy balance between equity and external funding bearing in mind that the company is a significant component in the Group's balance sheet.

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 income statements are set out on page 12. During the year the directors declared a net dividend of €3,214,500 (2016: €2,014,500).

Directors

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

Raymond Fenech
Emmanuel Fenech
Yorgen Fenech

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

Statement of directors' responsibilities for the financial statements

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

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

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

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable 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 Companies Act, 1995. They are also responsible for safeguarding the assets of the group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

The financial statements of Spinola Development Company Limited for the year ended 31 December 2017 are included in the Annual Report 2017, which is published in hard-copy printed form and may be made available on the Tumas Group's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the 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

Raymond Fenech
Director

Yorgen Fenech
Director

Registered office:
Tumas Group Corporate Office
Level 3
Portomaso Business Tower
Portomaso
St. Julians
Malta

27 April 2018

Independent auditor's report

To the Shareholders of Spinola Development Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

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

What we have audited

Spinola Development Company Limited's financial statements, set out on pages 10 to 55, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2017;
- the Consolidated and Parent Company income statements for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Independent auditor's report *- continued*

To the Shareholders of Spinola Development Company Limited

Other information

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

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

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

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Independent auditor's report - continued

To the Shareholders of Spinola Development Company Limited - continued

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditor's report - continued

To the Shareholders of Spinola Development Company Limited

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

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

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

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

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

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Stefan Bonello
Partner

27 April 2018

Statements of financial position

		As at 31 December			
		Group		Company	
	Notes	**2017**	2016	**2017**	2016
		€	€	**€**	€
ASSETS					
Non-current assets					
Property, plant and equipment	4	**103,871,564**	108,390,747	**103,871,564**	108,390,747
Investment property	5	**19,122,753**	13,735,195	**19,122,753**	13,735,195
Investments in subsidiaries	6	**-**	-	**118,791**	118,791
Trade and other receivables	7	**845,248**	3,192,487	**861,949**	4,191,601
Total non-current assets		**123,839,565**	125,318,429	**123,975,057**	126,436,334
Current assets					
Inventories	8	**23,806,888**	21,779,851	**13,423,150**	11,457,577
Trade and other receivables	7	**38,033,232**	22,212,498	**35,510,829**	20,360,105
Current tax assets		**650,373**	331,993	**650,373**	331,993
Cash and cash equivalents	9	**12,488,541**	11,772,842	**12,461,303**	11,722,315
Total current assets		**74,979,034**	56,097,184	**62,045,655**	43,871,990
Total assets		**198,818,599**	181,415,613	**186,020,712**	170,308,324

Statements of financial position - continued

		As at 31 December			
		Group		Company	
	Notes	**2017**	2016	**2017**	2016
		€	€	**€**	€
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	10	**13,652,805**	13,652,805	**13,652,805**	13,652,805
Revaluation reserves	11	**51,157,893**	51,378,300	**51,157,893**	51,378,300
Retained earnings		**24,427,290**	16,355,781	**14,685,722**	8,297,844
Total equity		**89,237,988**	81,386,886	**79,496,420**	73,328,949
Non-current liabilities					
Borrowings	12	**56,010,287**	54,085,396	**56,010,287**	54,085,396
Trade and other payables	13	**163,239**	211,329	**33,639**	38,529
Deferred tax liabilities	14	**7,191,032**	7,343,741	**6,355,076**	6,507,785
Total non-current liabilities		**63,364,558**	61,640,466	**62,399,002**	60,631,710
Current liabilities					
Borrowings	12	**2,660,715**	4,204,898	**2,660,715**	4,204,898
Trade and other payables	13	**42,326,105**	33,790,685	**40,583,106**	32,142,767
Current taxation		**1,229,233**	392,678	**881,469**	-
Total current liabilities		**46,216,053**	38,388,261	**44,125,290**	36,347,665
Total liabilities		**109,580,611**	100,028,727	**106,524,292**	96,979,375
Total equity and liabilities		**198,818,599**	181,415,613	**186,020,712**	170,308,324

The notes on pages 16 to 55 are an integral part of these financial statements.

The financial statements on pages 10 to 55 were authorised for issue by the board of directors on 27 April 2018 and were signed on its behalf by:

Raymond Fenech
Director

Yorgen Fenech
Director

Income statements

		Year ended 31 December			
		Group		**Company**	
	Notes	**2017** **€**	2016 €	**2017** **€**	2016 €
Revenue	15	**55,052,592**	41,899,415	**52,738,261**	39,787,864
Cost of sales	16	**(29,536,443)**	(25,420,669)	**(29,536,443)**	(25,420,669)
Gross profit		**25,516,149**	16,478,746	**23,201,818**	14,367,195
Administrative expenses	16	**(9,032,108)**	(7,220,478)	**(8,889,182)**	(7,017,830)
Other income		**486,357**	145,729	**486,357**	145,729
Operating profit		**16,970,398**	9,403,997	**14,798,993**	7,495,094
Finance income	18	**800,940**	255,395	**800,940**	255,363
Finance costs	18	**(3,053,976)**	(3,567,730)	**(3,053,976)**	(3,567,730)
Profit before tax		**14,717,362**	6,091,662	**12,545,957**	4,182,727
Tax expense	19	**(3,651,760)**	(908,055)	**(3,163,986)**	(422,993)
Profit for the year		**11,065,602**	5,183,607	**9,381,971**	3,759,734
Earnings per share	20	**1.36**	0.64		

The notes on pages 16 to 55 are an integral part of these financial statements

Statements of changes in equity

Group	Notes	Share capital €	Revaluation reserves €	Retained earnings €	Total equity €
Balance at 31 December 2015		13,652,805	51,598,706	12,966,268	78,217,779
Comprehensive income					
Profit for the year		-	-	5,183,607	5,183,607
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of property stock	11,14	-	(220,406)	220,406	-
Total comprehensive income		-	(220,406)	5,404,013	5,183,607
Transactions with owners					
Dividends for 2016	21	-	-	(2,014,500)	(2,014,500)
Balance at 31 December 2016		13,652,805	51,378,300	16,355,781	81,386,886
Comprehensive income					
Profit for the year		-	-	11,065,602	11,065,602
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of property stock	11,14	-	(220,407)	220,407	-
Total comprehensive income		-	(220,407)	11,286,009	11,065,602
Transactions with owners					
Dividends for 2017	21	-	-	(3,214,500)	(3,214,500)
Balance at 31 December 2017		**13,652,805**	**51,157,893**	**24,427,290**	**89,237,988**

The notes on pages 16 to 55 are an integral part of these financial statements.

Statements of changes in equity - continued

Company	Notes	Share capital €	Revaluation reserves €	Retained earnings €	Total equity €
Balance at 31 December 2015		13,652,805	51,598,706	6,332,204	71,583,715
Comprehensive income					
Profit for the year		-	-	3,759,734	3,759,734
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of property stock	11,14	-	(220,406)	220,406	-
Total comprehensive income		-	(220,406)	3,980,140	3,759,734
Transactions with owners					
Dividends for 2016	21	-	-	(2,014,500)	(2,014,500)
Balance at 31 December 2016		13,652,805	51,378,300	8,297,844	73,328,949
Comprehensive income					
Profit for the year		-	-	9,381,971	9,381,971
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of property stock	11,14	-	(220,407)	220,407	-
Total comprehensive income		-	(220,407)	9,602,378	9,381,971
Transactions with owners					
Dividends for 2017	21	-	-	(3,214,500)	(3,214,500)
Balance at 31 December 2017		**13,652,805**	**51,157,893**	**14,685,722**	**79,496,420**

The notes on pages 16 to 55 are an integral part of these financial statements.

Statements of cash flows

	Notes	Group 2017 €	Group 2016 €	Company 2017 €	Company 2016 €
		Year ended 31 December			
Cash flows from operating activities					
Cash generated from operations	22	**13,479,378**	19,549,516	**11,944,366**	17,132,155
Interest received		**800,940**	255,395	**800,940**	255,363
Interest paid		**(3,053,976)**	(3,608,874)	**(3,053,976)**	(3,608,874)
Net income tax paid		**(3,286,294)**	(2,349,177)	**(2,753,606)**	(2,115,731)
Net cash generated from operating activities		**7,940,048**	13,846,860	**6,937,724**	11,662,913
Cash flows from investing activities					
Purchase of property, plant and equipment and investment property		**(6,657,517)**	(10,151,671)	**(6,657,517)**	(10,151,671)
Proceeds from disposals of property, plant and equipment and investment property		**5,960**	174,851	**5,960**	174,851
Movement in non-current receivables		**2,347,239**	583,636	**3,329,652**	2,750,020
Movement in non-current payables		**(48,090)**	(2,255,254)	**(4,890)**	(2,212,054)
Net cash used in investing activities		**(4,352,408)**	(11,648,438)	**(3,326,795)**	(9,438,854)
Cash flows from financing activities					
Repayments of bank borrowings		**(5,379,842)**	(5,035,898)	**(5,379,842)**	(5,035,898)
Proceeds from bank borrowings		**5,655,525**	4,573,182	**5,655,525**	4,573,182
Repayments of loans from fellow subsidiary		**(24,661,081)**	-	**(24,661,081)**	-
Proceeds of loans from fellow subsidiary		**25,281,486**	-	**25,281,486**	-
Issue costs		**(129,998)**	-	**(129,998)**	-
Dividends paid	21	**(3,214,500)**	(2,014,500)	**(3,214,500)**	(2,014,500)
Net cash used in financing activities		**(2,448,410)**	(2,477,216)	**(2,448,410)**	(2,477,216)
Net movement in cash and cash equivalents		**1,139,230**	(278,794)	**1,162,519**	(253,157)
Cash and cash equivalents at beginning of year		**11,349,311**	11,628,105	**11,298,784**	11,551,941
Cash and cash equivalents at end of year	9	**12,488,541**	11,349,311	**12,461,303**	11,298,784

The notes on pages 16 to 55 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 Spinola Development Company Limited and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, as modified by the fair valuation of the non-current asset category of property, plant and equipment except as disclosed in the accounting policies below.

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

Standards, interpretations and amendments to published standards effective in 2017

In 2017, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2017. 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, that are mandatory for the Group's accounting periods beginning after 1 January 2017. 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, with the possible exception of IFRS 9, IFRS 15 and IFRS 16, there are no requirements that will have possible significant impact on the Group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and is effective for accounting periods commencing on or after 1 January 2018. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The Group's financial assets are limited to amounts due from related parties, trade and other receivables and cash at bank which continue to be measured at amortised cost, consistently with IAS 39. The standard also introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. This generally results in accelerating provisions for impairment as compared to IAS 39.

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

1.1 **Basis of preparation** - continued

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

Notwithstanding this change in recognising impairment, the Group qualifies for the simplifications afforded in IFRS 9 in recognising impairment losses for its trade receivables, by estimating the expected credit loss using a provisions matrix. The directors have concluded that the resultant provision after the application of the provisions matrix would be immaterial given the short-term nature of the Group's receivables and a low occurrence of past default. The Group and the Company will avail of the low credit risk exemption under IFRS 9 for the balances held with banks, and hence calculate their provision using 12-month expected credit losses. The provision emanating from this calculation is expected to be immaterial.

With respect to its amounts due from related parties, IFRS 9’s three-stage impairment model (“the general model”) applies. The first step of the general model is to determine which impairment ‘stage’ the loans sit within. At initial recognition, loans are generally within ‘stage 1’, which requires a 12-month expected credit loss to be calculated for each balance. The model then requires monitoring of the credit risk associated with the loan to consider if there has been a significant increase since initial recognition. If there has been a significant increase in credit risk (the loan is now in ‘stage 2’), or the asset has become credit impaired (the loan is now in ‘stage 3’), a lifetime expected credit loss must be recognised.

In determining whether a significant increase in credit risk has occurred, the group takes into account the related parties’ performance and financial position, as well as expected future cash flows and support given by the ultimate parent of the group (Tumas Group Company Limited). With respect to these loans, the Directors are not expecting a significant increase in the credit risk since initial recognition.

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 customer obtains control of 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. After taking cognisance of the short-term nature of the Group's contracts with customers, the directors do not anticipate a significant impact on the group's results and financial position on adoption of IFRS 15.

Under IFRS 16, ‘Leases’, a contract is, or contains, lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and ‘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. The group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group’s profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. At this stage, the group is still in the process of assessing and evaluating the impact of IFRS 16

1. Summary of significant accounting policies - continued

1.2 Consolidation

Subsidiaries

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

The group applies the acquisition method of accounting 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 acquire 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as 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 group's share of the identifiable net assets acquired. If this is less than the fair value of the net identifiable assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 1.6)

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, that is at cost less impairment. Cost includes directly attributable costs of the investments. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment 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.

A listing of the subsidiaries is set out in Note 6 to the consolidated financial statements.

1.3 Foreign currency translation

(a) Functional and presentation currency

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

1. Summary of significant accounting policies - continued

1.3 Foreign currency translation - continued

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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.

All foreign exchange gains and losses are presented in the income statements within 'administrative expenses'.

1.4 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings, are shown at fair value based on periodic valuations by qualified 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 stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Land is shown at market value, based on valuations by qualified valuers. Valuations are carried out periodically when the directors consider it appropriate to do so such that the carrying amount of land does not differ materially from that which would be determined using fair values at the statement of financial position date. Office, hotel and ancillary operational buildings, mechanical and electrical equipment, furniture, fixtures and operational equipment are stated at historical cost less depreciation. Assets in course of construction are not depreciated.

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

Long-term leases are defined as those having a remaining term of more than 50 years. In view of the group's policy of continuous refurbishment of long-term leasehold property, the long estimated useful life of such property and its high residual value, the depreciation charge of such property would in any event, be immaterial.

Increases in the carrying amount arising on revaluation 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 against the revaluation reserve directly in equity. All other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment - continued

Freehold land and land held on perpetual emphyteusis are not depreciated as they are deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	%
Buildings	2 - 14
Mechanical and electrical equipment	5 - 25
Furniture, fixtures and operational equipment	7 - 50

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.6).

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are recognised in profit or loss. When a revalued asset is sold, the amount is included in the revaluation reserve relating to the asset and is transferred to retained earnings.

1.5 Investment property

Investment property, principally comprising floors in the Portomaso Business Tower, a New tower adjacent to Portomaso Business Tower and commercial outlets, are held for long-term rental yields and are not occupied by the group.

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.

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

Land is not depreciated as it is deemed to have an indefinite life. The capitalised costs of buildings is depreciated using the straight-line method over a maximum of one hundred years at most, in accordance with their useful lives. Useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The fair value of these properties is disclosed in the financial statements and is based on active market prices, taking into consideration the nature, location or condition of the specific asset. These valuations are revised annually by the directors. A property's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Note 1.6).

1. Summary of significant accounting policies - continued

1.5 Investment property - continued

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 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 inventories is its carrying amount at the date of change in use

1.6 Impairment of non-financial assets

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

1.7 Financial assets

1.7.1 Classification

The group classifies its financial assets (other than in the company's case, investments in subsidiaries) in the loans and receivables category. 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 asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 1.9 and 1.10).

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.2 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 are recognised on the trade date, which is the date on which the company commits to purchase or sell the asset.

Financial assets 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 financial 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.

1.7.3 Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The 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 asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1.8 Inventories

Inventories are stated at the lower of cost and net realisable value, and include transport and handling costs, determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Property held for development and resale

When the main object of a property project is the development for resale purposes, the asset is classified in the financial statements as inventory. Any elements of the project which are identified for business operation or long-term investments properties are transferred at their carrying amount or fair value to property, plant and equipment or investment property when such identification is made and the cost thereof can be reliably segregated.

1. Summary of significant accounting policies - continued

1.8 Inventories - continued

The development property is carried at the lower of cost and net realisable value. The purchase cost of acquiring the property represents the cash equivalent value of the contracted price. In case of land previously held as tangible non-current assets, the transfer value is the carrying value of the land as last revalued prior to its transfer to inventories.

Cost comprises the purchase cost of acquiring the property together with other costs incurred during its subsequent development by specifically identifying the cost of individual items including:

- The costs incurred on development works and construction works in progress, including demolition, site clearance, excavation, construction and acquisition costs, together with the expenses incidental to acquisition and costs of ancillary activities such as site security;
- The cost of various design and other studies conducted in connection with the project, together with all other expenses incurred in connection therewith;
- Any borrowing costs, including imputed interests, attributable to the development phases of the property project;
- Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Gains and losses on disposal of property inventories are determined by reference to their carrying amount and are taken into account in determining gross profit. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

1.9 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.7.3). 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 within cost of sales and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1.10 Cash and cash equivalents

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

1.11 Share capital

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

1. Summary of significant accounting policies - continued

1.12 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.

1.13 Trade and other payables

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

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

1.14 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between 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 end of the reporting period.

Issue costs incurred in connection with the issue of the secured bonds and loans from fellow subsidiaries include mainly arraignment, manager fees and professional fees.

1.15 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.

1.16 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the 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.

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

1. Summary of significant accounting policies - continued

1.16 Current and deferred tax - continued

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

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

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

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

1.17 Provisions

Provisions for legal claims are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

1.18 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. Revenue is shown net of value-added tax or other sales taxes, returns, rebates and discounts.

The group recognises revenue when the amount of revenue can be reliably measured, when 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.

1. Summary of significant accounting policies - continued

1.18 Revenue recognition - continued

Sales are recognised upon delivery of products or performance of services, and are included in the financial statements as revenue. Revenue is recognised as follows:

(a) Property sales

Property sales are recognised when the significant risks and rewards of ownership of the property being sold are effectively transferred to the buyer. This is generally considered to occur at the later of the contract of sale and the date when all the group's obligations relating to the property are completed and the possession of the property can be transferred in the manner stipulated by the contract of sale. Amounts received in respect of sales that have not yet been recognised in the financial statements, due to the fact that the significant risks and rewards of ownership still rest with the group, are treated as advance deposits received and included with current payables.

(b) Sales of services in the hospitality activity

Revenue from services is generally recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue arising on hospitality activities are recognised when the service is performed and goods are supplied. Revenue is usually in cash, credit card or on credit. The recorded revenue, includes credit card fees payable for the transaction.

(c) Sales of goods - retail

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. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in finance costs. Restaurant and bar sales are recognised upon performance of the service.

(d) Sales of services

Sales of services including income from marina, car park and complex management are recognised in the accounting period in which the services are provided, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(e) Property rentals and related income

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

(f) Dividend income

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

1. Summary of significant accounting policies - continued

1.19 Institutional grants

Grants that compensate the company for expenses incurred are recognised in the income statement on a systematic basis in the same reporting periods in which the expenses are incurred. This compensation is disclosed in the same reporting line as the related expense.

Institutional grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the company will comply with the conditions attaching to them.

Grants that compensate the company for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge. Capital grants are recorded as deferred income and released to the income statement over the estimated life of the related assets.

1.20 Finance income and costs

Finance income and costs are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method.

When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate. Finance costs includes the effect of amortising any difference between net proceeds and redemption value in respect of the group's borrowings.

1.21 Operating leases

Where the group is a lessor

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

1.22 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment, investment property or property held for development and resale are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the group's interest-bearing borrowings.

1. Summary of significant accounting policies - continued

1.23 Dividend distribution

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

1.24 Earnings per share

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

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 board of directors provides principles for overall group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. The group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective group's functional currency.

The group is exposed to foreign exchange risk arising primarily from the group's purchases, a part of which are denominated in the US dollar. Management does not consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions to be significant since balances 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 manages the risk by reflecting, as far as is practicable, the impact of exchange rate movements registered with respect to purchases in the respective sales prices.

All the group's loans and receivables, cash and cash equivalent and borrowings are denominated in euro.

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

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(ii) Cash flow and fair value interest rate risk

The group does not have significant interest-bearing assets, and its income and operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates, comprising bank borrowings (Note 12), expose the group to cash flow interest rate risk. The group's borrowings are subject to an interest rate that varies according to revisions made to the Bank's Base Rate. Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Borrowings issued at fixed rates, consisting primarily of loans from fellow subsidiaries which are carried at amortised cost (Note 12) and therefore do not expose the group to cash flow and fair value interest rate risk.

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

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, loans and receivables, intra-group receivables as well as credit exposures to customers, including outstanding receivables and committed transactions. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the end of the reporting period was:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Carrying amounts				
Trade and other receivables (Note 7)	**35,968,902**	23,029,052	**33,613,114**	22,266,456
Cash and cash equivalents (Note 9)	**12,488,541**	11,349,311	**12,461,303**	11,298,784
	48,457,443	34,378,368	**46,074,417**	33,565,240

The maximum exposure to credit risk at the end of the reporting period in respect of the trade receivables by type of customer was:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Property development and management	**3,379,502**	1,243,517	**2,170,456**	488,852
Hospitality	**1,798,704**	1,660,270	**1,798,704**	1,660,270
	5,178,206	2,903,787	**3,969,160**	2,149,122

The group and the company holds collateral as security for the receivables within the property related sector for an amount of €1,215,000 (2016: €65,000).

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The group only banks with local financial institutions with high quality standing or rating. The group's operations are carried out in Malta. The group has no concentration of credit risk that could materially impact the sustainability of its operations.

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 products and services are effected to customers with an appropriate credit history in the case of credit sales. Sales to retail customers are made in cash or via major credit cards. The group monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the group's receivables taking into account historical experience in collection of accounts receivable.

The group's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any material losses from non-performance by these customers.

Impairment provisions for the group and company of €468,338 (2016: €564,812) and €370,989 (2016: €381,828) respectively were made at the year-end in respect of receivables that were overdue and that were not expected to be recovered. Other overdue debts that were not impaired were in large part settled since the year end. Moreover the group holds security of €1,215,000 (2016: €65,000) against the respective debts.

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	Group		**Company**	
	2017	2016	**2017**	2016
	€	€	**€**	€
At 1 January	**564,812**	578,065	**381,828**	422,454
Decrease in impairment provision for the year	**(96,474)**	(13,253)	**(10,839)**	(40,626)
	468,338	564,812	**370,989**	381,828

The allowance accounts in respect of trade receivables are used to record impairment losses unless the group is satisfied that no recovery of the amount owing is possible; at this point the amounts considered irrecoverable are written off against trade receivables directly.

The group's receivables include significant amounts due from related parties forming part of the Tumas Group of companies (Note 7). The group's treasury monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall group 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 losses from non-performance or default.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk

The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally 'trade and other payables' and 'interest-bearing borrowings' (Notes 12 and 13). 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.

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period detailed by the group segments to ensure that no additional financing facilities are expected to be required over the coming year.

Moreover, annual detailed cash flow projections are prepared to assess the matching of cash inflows and outflows arising from expected maturities of financial instruments. The group manages its liquidity risk through this continuous assessment, coupled with the group's committed borrowing facilities (that it can access) to meet liquidity needs as referred to previously.

The carrying amounts of the group's assets and liabilities are analysed into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date in the respective notes to the financial statements.

The following table analyses the group's and company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

Group	Carrying amount	Contractual cash flows	Within one year	One to five years	Over five years
	€	€	€	€	€
31 December 2017					
Bank borrowings	8,923,685	9,863,603	2,976,588	5,868,812	1,018,203
Loans from fellow subsidiary	49,747,317	68,294,144	2,237,500	8,956,130	57,100,514
Trade and other payables	17,851,337	17,851,337	17,851,337	-	-
	76,522,339	**96,009,084**	**23,065,425**	**14,824,942**	**58,118,717**
31 December 2016					
Bank borrowings	9,071,533	9,483,961	4,365,471	4,770,850	347,640
Loans from fellow subsidiary	49,218,761	64,378,862	2,814,292	33,589,104	27,975,466
Trade and other payables	14,523,358	14,523,358	14,523,358	-	-
	72,813,652	**88,386,181**	**21,703,121**	**38,359,954**	**28,323,106**

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

Company	Carrying amount €	Contractual cash flows €	Within one year €	One to five years €	Over five years €
31 December 2017					
Bank borrowings	8,923,685	9,863,603	2,976,588	5,868,812	1,018,203
Loans from fellow subsidiary	49,747,317	68,294,144	2,237,500	8,956,130	57,100,514
Trade and other payables	16,385,509	16,385,509	16,385,509	-	-
	75,056,511	**94,543,256**	**21,599,597**	**14,824,942**	**58,118,717**
31 December 2016					
Bank borrowings	9,071,533	9,483,961	4,365,471	4,770,850	347,640
Loans from fellow subsidiary	49,218,761	64,378,862	2,814,292	33,589,104	27,975,466
Trade and other payables	13,111,253	13,111,253	13,111,253	-	-
	71,401,547	**86,974,076**	**20,291,016**	**38,359,954**	**28,323,106**

2.2 Capital risk management

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

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

Total capital is measured by reference to the amounts reflected in the consolidated financial statements where the property, plant and equipment are stated at revalued amounts that are regularly assessed and updated as necessary.

Equity includes a portion of revaluation surplus on property not yet released dating back to 1994 when property inventory was reclassified from non-current assets. Reported equity is adjusted for fair value surplus (net of deferred tax) over the notional carrying amount of investment property. No account is taken of further fair value surplus on trading property inventory within the Portomaso development since that date.

Furthermore, the group has not taken account of potential fair value surpluses related to a number of undeveloped properties within its inventory portfolio. These properties comprise namely, the Halland land, the directium dominium related to the Portomaso land as well as the land utilised for the Laguna Apartments project. The directors consider the potential increase over the recorded base cost from the respective revaluations as latent equity which will be realized when the respective property earning potential is crystalized.

2. Financial risk management - continued

2.2 Capital risk management - continued

Structural borrowings include all interest bearing borrowings stated net of any funds made available for the repayment of such liabilities. Borrowings include loans from a fellow subsidiary (Tumas Investments p.l.c.) whose unsecured bonds and bank borrowings are secured and guaranteed by the company.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	Group	
	2017	2016
	€	€
Total borrowings (Note 12)	**58,671,002**	58,290,294
Less: Cash and cash equivalents (Note 9)	**(12,488,541)**	(11,772,842)
Less: Group treasury funds (Note 7)	**(16,530,562)**	(7,317,048)
Less: Advances to Tumas Investments p.l.c	**-**	(932,137)
Net borrowings	**29,651,899**	38,268,267
Reported equity	**89,237,988**	81,386,886
Adjustment for fair value on investment property	**17,315,600**	18,639,004
Total equity	**106,553,588**	100,025,890
Total capital	**136,205,487**	138,294,157
Gearing	**22%**	28%

2.3 Fair values of financial instruments

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

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

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

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 and company’s land and buildings category of property, plant and equipment was re-valued on 31 December 2015 by the directors on the basis of professional advice, which considers forecasted net potential returns for the property.

4. Property, plant and equipment

Group and Company	Land and buildings €	Assets not yet commissioned €	Mechanical and electrical equipment €	Furniture, fixtures and operational equipment €	Total €
At 1 January 2015					
Cost or valuation	82,875,395	2,930,544	30,150,808	18,494,491	134,451,238
Accumulated depreciation	-	-	(18,119,210)	(11,332,028)	(29,451,238)
Net book amount	82,875,395	2,930,544	12,031,598	7,162,463	105,000,000
Year ended 31 December 2016					
Opening net book amount	82,875,395	2,930,544	12,031,598	7,162,463	105,000,000
Commissioned assets and additions	1,502,694	(1,762,181)	1,724,026	7,332,953	8,797,492
Disposals	(1,112,995)	-	(2,118,077)	(3,418,819)	(6,649,891)
Depreciation charge	(1,517,852)	-	(1,661,156)	(2,036,579)	(5,215,587)
Depreciation released on disposal	1,112,995	-	1,961,670	3,384,068	6,458,733
Closing net book amount	82,860,237	1,168,363	11,938,061	12,424,086	108,390,747
At 31 December 2016					
Cost or valuation	83,265,094	1,168,363	29,756,757	22,408,625	136,598,839
Accumulated depreciation	(404,857)	-	(17,818,696)	(9,984,539)	(28,208,092)
Net book amount	82,860,237	1,168,363	11,938,061	12,424,086	108,390,747
Year ended 31 December 2017					
Opening net book amount	82,860,237	1,168,363	11,938,061	12,424,086	108,390,747
Commissioned assets and additions	178,922	(878,779)	777,608	812,801	890,552
Disposals	(22,892)	(13,210)	(402,248)	(114,602)	(552,952)
Depreciation charge	(1,523,561)	-	(1,656,165)	(2,056,722)	(5,236,448)
Depreciation released on disposal	6,600	-	339,557	33,508	379,665
Closing net book amount	**81,499,306**	**276,374**	**10,996,813**	**11,099,071**	**103,871,564**
At 31 December 2017					
Cost or valuation	83,421,124	276,374	30,132,117	23,106,824	136,936,439
Accumulated depreciation	(1,921,818)	-	(19,135,304)	(12,007,753)	(33,064,875)
Net book amount	**81,499,306**	**276,374**	**10,996,813**	**11,099,071**	**103,871,564**

4. **Property, plant and equipment** - continued

Fair valuation of property

On 31 December 2015, the directors approved the revaluation of the group's and company's property, plant and equipment, which comprises the Hilton Hotel, the Portomaso car park and related ancillary operations, after assessing the valuations prepared by professionally qualified valuers. The valuation was made on the basis on fair market value after considering the intrinsic value of the property and net potential returns. The book value of the property has been adjusted to the revaluation and the resultant surplus, net of applicable deferred income taxes, has been credited to the revaluation reserve in other comprehensive income within shareholders' equity (Note 11). The directors are of the opinion that the carrying amount of property, plant and equipment as at 31 December 2017, does not differ materially from that which would be determined using fair values that take account of the above considerations.

The group and the company are 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 and the company's land and buildings, within property, plant and equipment, comprises the properties described above; investment property (Note 5) comprises principally the Portomaso Business Towers and commercial outlets leased out principally to third parties. Certain areas within this portfolio are also rented out to fellow subsidiaries within the Tumas group. All the recurring property fair value measurements at 31 December 2017 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The directors assessed the valuation in respect of the company's investment property on valuation reports prepared by a professionally qualified valuer issued for 2015. Valuations were made on the basis of open market value after considering the returns being attained by the property and its intrinsic value.

The group's and the company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2017.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above. The movements reflect additions, disposals and depreciation for the year ended 31 December 2017.

Valuation processes

The valuations of the properties are performed regularly taking into consideration valuation reports prepared by qualified valuers. These reports are based on both:

- information provided by the group which is derived from the group's financial systems and is subject to the group's overall control environment; and

4. Property, plant and equipment - continued

Valuation processes - continued

- assumptions and valuation models used by the valuers – the assumptions are typically market related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the board of directors and top officials within the group's finance function. This includes a review of fair value movements over the period.

Valuation techniques

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

- in the case of the Hilton Hotel, the Portomaso car park and related ancillary operations classified as property, plant and equipment, the property, plant and equipment's discounted projected cash flows; and

- in the case of the Portomaso Business Tower and commercial outlets leased out and classified as investment property, the annual rental value earned, capitalised at a rate ranging from 6% to 12% that reflects the risks inherent in the utilisation of the specific properties.

The future cash flows from operating the Hilton Hotel and related ancillary operations (including the Portomaso car park) have been derived from financial forecasts assessed in relation to past performance and the industry's general outlook. The significant inputs to this approach include:

Net cash inflows	based on the actual operating net cash inflows generated and projected forwards for an eight year period. These cash flows take into consideration periodic capital expenditure based on expected refurbishment costs that will be incurred over the period of projections.
Growth rate	based on management's estimated average growth in the hotel's operating cash flows; and
Discount rate	reflecting current market assessments of the uncertainty in the amount and timing of cash flows, and based on current market risk free rates, an equity market risk premium and other risk premiums attached to an investment in the property being valued including any element of projection risk inherent in the projected future cash flows;
Terminal value	based on the properties' net operating cash flows at the end of the ten year projection period, and capitalised at a capitalisation rate that reflects the properties' actual location, size and quality and taking into account market data at the valuation date.

The significant unobservable inputs in the valuation of the Portomaso Business Tower and commercial outlets leased out include the average annual rental value of the properties, and a capitalisation rate that reflects the properties' actual location, size and quality and taking into account market data at the valuation date. Information about fair value measurements of property, plant and equipment using significant unobservable inputs (Level 3) include pre tax net cash flows of €10 million with an average growth rate of 1% discounted at an average rate of 7%

4. Property, plant and equipment - continued

In respect of these valuations, the higher the pre-tax operating cash inflows, growth rate, and terminal value, the higher the fair value. Conversely, the lower the discount rate, the estimated refurbishment costs, and capitalisation rate used in calculating the terminal value, the higher the fair value.

As at 31 December 2017, the carrying amount of land within property, plant and equipment amounts to €55,922,218 (2016: €55,922,218). The carrying amount of land would have been €863,468 (2016: €863,468) had the assets been included in the financial statements at cost.

Depreciation charge of €5,236,448 (2016: €5,215,587) is included in the group's and company's income statements as follows: €5,215,924 (2016: €5,196,802) in cost of sales and €20,524 (2016: €18,785) in administrative expenses.

Borrowings are secured by the group's property, plant and equipment (Note 12).

5. Investment property

	Group and Company	
	2017	2016
	€	€
Year ended 31 December		
Opening net book amount	**13,735,195**	12,992,319
Additions	**5,766,965**	1,354,179
Transfer from property held for resale	**245,004**	-
Disposals	**(6,391)**	(36,747)
Depreciation charge	**(618,343)**	(608,934)
Depreciation released on disposal	**323**	34,378
Closing net book amount	**19,122,753**	13,735,195
At 31 December		
Cost or valuation	**27,601,982**	21,596,404
Accumulated depreciation	**(8,479,229)**	(7,861,209)
Net book amount	**19,122,753**	13,735,195

As at 1 January 2016, the cost and accumulated depreciation of the group's and company's investment property amounted to €20,278,972 and €7,286,653 respectively.

Borrowings are secured by the group's investment property (Note 12).

Depreciation charge of €618,343 (2016: €608,934) is included in cost of sales.

The fair open market value of investment property as at 31 December 2017 is estimated by the directors at €44,894,672 (2016: €34,445,199) on the basis of the present value of contracted and anticipated income streams from the property concerned.

The vast majority of the above noted investment property is presently leased out under operating leases to third parties and related parties within the Tumas Group.

Additions amounting to €5,766,965 related to the construction costs for the new tower adjacent to the Portomaso Business tower.

5. Investment property - continued

The following amounts have been recognised in the income statements:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Rental income	**3,372,245**	3,310,056	**1,300,000**	1,300,000
Direct operating and administrative expenses	**(689,692)**	(739,485)	**(662,864)**	(649,363)

6. Investments in subsidiaries

	Company	
	2017	2016
	€	€
At 31 December		
Opening and closing cost and net book amount	**118,791**	118,791

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

	Registered office	Class of shares held	Percentage of shares held	
			2017	2016
			%	%
Portomaso Leasing Company Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	**100**	100
Halland Developments Company Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	**100**	100
Premium Real Estate Investment Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	**99**	99

7. Trade and other receivables

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Non-current				
Amounts owed by parents	**845,248**	2,260,350	**845,248**	2,260,350
Amounts owed by subsidiaries	**-**	-	**16,701**	999,114
Amounts owed by fellow subsidiary	**-**	932,137	**-**	932,137
	845,248	3,192,487	**861,949**	4,191,601
Current				
Trade receivables	**5,178,206**	2,903,787	**3,969,160**	2,149,122
Amounts owed by parent	**5,219,850**	5,076,374	**5,219,850**	5,076,374
Amounts owed by subsidiaries	**-**	-	**87,201**	70,623
Amounts owed by fellow subsidiaries	**24,062,414**	11,276,027	**22,811,864**	10,198,793
Amounts owed by related parties	**430,374**	515,160	**430,374**	515,160
Other receivables	**232,810**	65,217	**232,716**	64,783
Advance payments on projects	**656,837**	1,320,624	**656,837**	1,320,633
Prepayments and accrued income	**2,252,741**	1,055,309	**2,102,827**	964,617
	38,033,232	22,212,498	**35,510,829**	20,360,105
Total trade and other receivables	**38,878,480**	25,404,985	**36,372,778**	24,551,706

Amounts owed by parents, subsidiaries, fellow subsidiaries and related parties are unsecured, and are repayable on demand. Certain advances bear interest at an average rate of 2%. The directors do not expect that related amounts disclosed as non-current are settled within the next twelve months. The company's exposure to liquidity risk related to trade and other receivables is disclosed in Note 2.

Included within amounts owed by fellow subsidiaries and parents are funds of €16,530,562 (2016: €7,317,048) which have been advanced as part of the Tumas Group treasury function. These amounts can be re-allocated to the company’s banking accounts after year end at the company’s request.

Receivables above are stated net of provision for impairment of receivables:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Trade receivables	**468,338**	564,812	**370,989**	381,828

Other receivables include funds utilised for projects on property owned by fellow subsidiaries which is still not commissioned. Upon commissioning, these assets will be recovered by the company from the respective fellow subsidiary. Advanced payments on projects relate to funds advanced to suppliers not yet utilised for development works as at year end. These mainly relate to the refurbishment of the Hilton Malta, the Laguna Development and the New Office Block next to Portomaso Business Tower.

7. Trade and other receivables - continued

The provision for impairment of receivables for the year is disclosed in Note 16 and is included in the income statement as follows:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Cost of sales	**-**	(132)	**-**	(132)
Administrative expenses	**(96,474)**	(13,121)	**(10,839)**	(40,494)
	(96,474)	(13,253)	**(10,839)**	(40,626)

The group's exposure to credit and currency risks and impairment losses relating to trade receivables are disclosed in Note 2. The other classes within receivables do not contain impaired assets.

8. Inventories

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Property held for resale	**23,002,897**	20,928,694	**12,619,159**	10,606,420
Food and beverage	**242,061**	240,601	**242,061**	240,601
Consumables	**561,930**	610,556	**561,930**	610,556
	23,806,888	21,779,851	**13,423,150**	11,457,577

Assets transferred from property held for resale upon change in intended use was as follows:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Transferred from investment property (Note 5)	**245,004**	-	**245,004**	-

Borrowings are secured by the group's property held for resale (Note 12).

9. Cash and cash equivalents

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

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Cash at bank and in hand	**12,488,541**	11,772,842	**12,461,303**	11,722,315
Bank overdrafts (Note 12)	**-**	(423,531)	**-**	(423,531)
	12,488,541	11,349,311	**12,461,303**	11,298,784

10. Share capital

	Group and Company	
	2017	2016
	€	€
Authorised, Issued and fully paid		
1,164,687 ordinary "A" shares of €1 each	**1,164,687**	1,164,687
6,988,119 ordinary "B" shares of €1 each	**6,988,119**	6,988,119
5,499,999 redeemable 6% preference shares of €1 each	**5,499,999**	5,499,999
	13,652,805	13,652,805

Each ordinary share entitles the holder thereof to one vote at general meeting of the company. The ordinary shares shall rank pari passu in all respects independently of the letter by which they are denoted. Redeemable preference shares shall not carry any voting rights.

11. Revaluation reserves

	Group and Company	
	2017	2016
	€	€
Surplus arising on revaluation of land within:		
Property, plant and equipment	**49,558,649**	49,558,649
Investment property	**1,191,185**	1,191,185
Property held for resale	**408,059**	628,466
Revaluation reserves at end of year	**51,157,893**	51,378,300

Revaluation of property, plant and equipment		
At the beginning of year, before deferred taxation	**55,058,747**	55,058,747
Deferred taxation (Note 14)	**(5,500,098)**	(5,500,098)
At 31 December	**49,558,649**	49,558,649

Revaluation of investment property		
At the beginning of year, before deferred taxation	**1,339,584**	1,339,584
Deferred taxation (Note 14)	**(148,399)**	(148,399)
At 31 December	**1,191,185**	1,191,185

Revaluation of property held for resale		
At the beginning of year, before deferred taxation	**665,198**	910,094
Disposals of property stock	**(244,897)**	(244,896)
	420,301	665,198
Deferred taxation (Note 14)	**(12,242)**	(36,732)
At 31 December	**408,059**	628,446

The revaluation reserves are non-distributable reserves.

12. Borrowings

	Group and Company	
	2017	2016
	€	€
Non-current		
Bank loans	**6,262,970**	4,866,635
Loans from fellow subsidiary	**49,747,317**	49,218,761
	56,010,287	54,085,396
Current		
Bank overdrafts	**-**	423,531
Bank loans	**2,660,715**	3,781,367
	2,660,715	4,204,898
Total borrowings	**58,671,002**	58,290,294

The bank loans and overdrafts are secured by:

(a) general and special hypothecs over the group's assets;
(b) general hypothecs and guarantees provided by fellow subsidiaries;
(c) pledges on the group's insurance policies;
(d) letters of undertaking.

The group's and company's banking facilities as at 31 December 2017 amounted to €26,268,979 (2016: €22,423,728).

Loans from fellow subsidiary are disclosed at the value of the proceeds less the net book amount of the issue costs, as follows:

	Group and Company	
	2017	2016
	€	€
Face value of loans from fellow subsidiary	**50,000,000**	49,379,595
Issue costs	**318,430**	325,514
Accumulated amortisation	**(65,747)**	(164,680)
Closing net book amount	**252,683**	160,834
Amortised cost at 31 December	**49,747,317**	49,218,761

12. **Borrowings** - continued

During the year ended 31 December 2010, the Tumas Group issued 6.2% bonds maturing between 2017 and 2020 for an amount of €25,000,000 through Tumas Investments p.l.c. The net proceeds have been utilised by the company for the repayment of the loan granted by Tumas Investments p.l.c. in 2002, for the repayment of the private placement issued by the company in 2004 and its general financing needs. The company has guaranteed payment of all interest and capital relating thereto. On 10 July 2017, the directors exercised the early redemption of the bond and redeemed €25,000,000 6.2% bonds through the issue of a new bond referred to below.

By virtue of an offering memorandum dated 7 July 2014, the group issued 5% bonds maturing in 2024 for an amount of €25,000,000 through Tumas Investments plc. The bonds are guaranteed by the company, which has bound itself jointly and severally liable for the payment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum.

By virtue of an offering memorandum dated 29 May 2017, the group issued 3.75% bonds maturing in 2027 for an amount of €25,000,000 through Tumas Investments plc. The bonds are guaranteed by the company, which has bound itself jointly and severally liable for the payment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum.

Proceeds for these bonds have been advanced to the company through loans from fellow subsidiary.

The interest rate exposure of borrowings was as follows:

	Group and Company	
	2017	2016
	€	€
Total borrowings:		
At fixed rates	**49,747,317**	49,218,761
At floating rates	**8,923,685**	9,071,533
	58,671,002	58,290,294

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

	Group and Company	
	2017	2016
Bank overdrafts	**-**	4.4%
Bank loans	**4.2%**	4.2%
Loans from fellow subsidiaries	**4.5%**	5.7%

This note provides information about the contractual terms of the group's and company's interest-bearing loans and borrowings. For more information about the groups' and company's exposure to interest rate and liquidity risk, see Note 2.

13. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Non-current				
Deferred income	**129,600**	172,800	**-**	-
Deferred institutional grant	**33,639**	38,529	**33,639**	38,529
	163,239	211,329	**33,639**	38,529
Current				
Trade payables	**1,500,698**	2,728,037	**1,459,728**	2,695,245
Advance deposits	**24,470,285**	19,267,327	**24,193,114**	19,031,514
Capital and other payables	**9,044,067**	3,816,463	**9,044,067**	3,816,463
Deferred institutional grant	**4,483**	4,890	**4,483**	4,890
Amounts owed to related parties	**95,360**	490,244	**95,360**	490,244
Indirect and other taxation	**249,273**	590,674	**123,908**	480,556
Accruals and deferred income	**6,961,939**	6,893,050	**5,662,446**	5,623,855
	42,326,105	33,790,685	**40,583,106**	32,142,767
Total trade and other payables	**42,489,344**	34,002,014	**40,616,745**	32,181,296

Amounts owed to related parties are unsecured, interest free and are repayable on demand.

Institutional grants relate to funds advanced directly by the Government of Malta or other institutions to the company, co-financing its capital expenditure on the property, plant and equipment. Such funds are treated as deferred income and are credited to the profit and loss account on a systematic basis over the useful lives of the assets. The closing amount relates to the deferred portion of these grants to be credited to the profit and loss account on a systematic basis over the remaining useful life of the property, plant and equipment owned by the company.

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

14. Deferred taxation

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
At beginning of year	**7,343,741**	7,182,787	**6,507,785**	6,337,251
Deferred tax on temporary differences arising on depreciation of non-current assets (Note 19)	**(132,013)**	180,805	**(132,013)**	180,805
Deferred tax on disposal of property stock (Notes 11,19)	**(24,490)**	(24,490)	**(24,490)**	(24,490)
Deferred tax on temporary differences arising on provisions (Note 19)	**3,794**	4,639	**3,794**	14,219
At 31 December	**7,191,032**	7,343,741	**6,355,076**	6,507,785

The balance at 31 December represents temporary differences on:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Revaluation of property, plant and equipment (Note 11)	**5,500,098**	5,500,098	**5,500,098**	5,500,098
Revaluation of investment property (Note 11)	**148,399**	148,399	**148,399**	148,399
Revaluation of property held for resale (Note 11)	**912,253**	936,732	**12,242**	36,732
Depreciation of non-current assets	**854,413**	986,426	**854,413**	986,426
Provisions	**(224,131)**	(227,914)	**(160,076)**	(163,870)
	7,191,032	7,343,741	**6,355,076**	6,507,785

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is 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% (2016: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property which as from 2015 is computed on the basis applicable to disposals of immovable property, that is, tax effect of 10% of the transfer value.

The hospitality arm of the group has been availing itself of investment aid under the various investment tax credit schemes that were applicable for hotels during 2015, 2016 and 2017.

15. Revenue

The group's operations consists of the ownership of prime tourism and leisure properties, which include the operation of a hotel, the development of residential, rental and commercial property for trading and renting purposes and the provision of ancillary services to this industry. All these operations are conducted locally.

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Hospitality and ancillary services	**40,616,124**	32,554,183	**40,616,124**	32,554,183
Property development	**8,311,668**	2,524,585	**8,311,668**	2,524,585
Rental operations	**3,524,295**	3,317,893	**1,300,000**	1,300,000
Complex management operations	**2,600,505**	3,502,754	**2,510,469**	3,409,096
	55,052,592	41,899,415	**52,738,261**	39,787,864

16. Expenses by nature

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Employee benefit expense (Note 17)	**11,203,916**	10,519,925	**11,203,916**	10,519,925
Depreciation on:				
- Property, plant and equipment (Note 4)	**5,236,448**	5,215,587	**5,236,448**	5,215,587
- Investment property (Note 5)	**618,343**	608,934	**618,343**	608,934
Property development costs	**2,837,533**	735,994	**2,837,533**	735,994
Operating supplies and related expenses	**1,930,433**	1,911,199	**1,930,433**	1,991,199
Utilities	**2,034,501**	2,428,352	**2,034,501**	2,428,352
Operators charges	**2,412,520**	1,544,945	**2,412,520**	1,544,945
Decrease in provisions for impairment of receivables (Note 7)	**(96,474)**	(13,253)	**(10,839)**	(40,626)
Management fees	**515,842**	440,004	**515,842**	440,004
Loss on disposal of property, plant and equipment	**46,841**	15,520	**46,841**	15,520
Other expenses	**11,828,648**	9,233,940	**11,600,087**	8,978,665
Total cost of sales, administrative expenses	**38,568,551**	32,641,147	**38,425,625**	32,438,499

16. Expenses by nature - continued

Auditor's fees

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

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Annual statutory audit	**41,950**	41,950	**37,700**	37,700
Other assurance services	**9,280**	9,280	**9,280**	9,280
Tax advisory services	**3,000**	3,000	**2,000**	2,000
Other non-audit services	**45,960**	6,000	**45,960**	6,000
	100,190	60,230	**94,940**	54,980

17. Employee benefit expense

	Group and Company	
	2017	2016
	€	€
Wages and salaries	**10,835,170**	10,201,486
Social security costs	**755,998**	719,483
	11,591,168	10,920,969
Recharged to fellow subsidiaries	**(387,252)**	(401,044)
	11,203,916	10,519,925

The average number of persons employed by the group and company during the year were:

	Group and Company	
	2017	2016
Direct	**371**	354
Indirect	**102**	103
Administration	**73**	74
	546	531

18. Finance income and costs

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Finance income				
Interest from fellow subsidiaries	**247,620**	49,754	**247,620**	49,754
Interest from parent	**130,529**	99,501	**130,529**	99,501
Bank interest	**393,197**	106,108	**393,197**	106,108
Other finance income	**29,594**	32	**29,594**	-
	800,940	255,395	**800,940**	255,363

	Group and Company	
	2017	2016
	€	€
Finance costs and similar charges		
Bank loans and overdrafts	**178,058**	399,126
Loans from fellow subsidiaries	**2,526,636**	2,868,325
Amortisation of issue transaction costs	**38,149**	41,144
Other finance charges	**311,133**	259,135
	3,053,976	3,567,730

Finance costs relating to bank interest amounting to €44,825 (2016: €68,225) have been capitalised within the property, plant and equipment in accordance to the group's accounting policy on borrowing costs.

19. Tax expense

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Current tax expense:				
on taxable profit subject to tax at 35%	**2,576,991**	-	**2,485,528**	-
on taxable profit subject to tax at 15%	**396,311**	494,642	**-**	-
on taxable income subject to tax at 10%	**831,167**	252,459	**831,167**	252,459
Deferred tax expense (Note 14)	**(152,709)**	160,954	**(152,709)**	170,534
Tax expense	**3,651,760**	908,055	**3,163,986**	422,993

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

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Profit before tax	**14,717,362**	6,091,662	**12,545,957**	4,182,727
Tax on profit at 35%	**5,151,077**	2,132,082	**4,391,085**	1,463,954
Tax effect of:				
Maintenance allowance on rental income attributable to immovable property	**(118,018)**	(107,984)	**(91,000)**	(91,000)
Expenses not allowable for tax purposes	**178,505**	227,915	**234,088**	227,058
Under provision in deferred tax	**62,448**	83,850	**62,448**	83,350
Over provision of current tax	**-**	(6,708)	**-**	-
Impact of change in tax rules on property sales	**(659,471)**	(33,866)	**(659,471)**	(33,866)
Investment tax credits for the year	**(748,674)**	(1,202,013)	**(748,674)**	(1,202,013)
Tax rules on release of revaluation on property stock	**(24,490)**	(24,490)	**(24,490)**	(24,490)
Property tax rules on rental income	**(189,617)**	(160,731)	**-**	-
Tax expense	**3,651,760**	908,055	**3,163,986**	422,993

20. Earnings per share

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

	Group	
	2017	2016
Net profit attributable to owners of the company	**€11,065,602**	€5,183,607
Weighted average number of ordinary shares in issue	**8,152,806**	8,152,806
Earnings per share	**1.36**	0.64

21. Dividends

	Group and Company	
	2017	2016
	€	€
Dividends on ordinary shares:		
Distribution from Immovable Property account		
Gross dividend on ordinary shares	**4,615,385**	2,769,231
Tax at source at 35%	**(1,615,385)**	(969,231)
Net dividends	**3,000,000**	1,800,000
Dividends per share	**€0.37**	€0.22
Dividend on preference shares:		
Distribution from Immovable Property account		
Gross dividend on redeemable 6% preference shares	**330,000**	330,000
Tax at source at 35%	**(115,500)**	(115,500)
Net dividends	**214,500**	214,500
Total net dividends	**3,214,500**	2,014,500

22. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Operating profit	**16,970,398**	9,403,997	**14,798,993**	7,495,094
Adjustments for:				
Depreciation on:				
- Property, plant and equipment (Note 4)	**5,236,448**	5,215,587	**5,236,448**	5,215,587
- Investment property (Note 5)	**618,343**	608,934	**618,343**	608,934
Net loss on disposal of investment property and property, plant and equipment	**46,841**	18,676	**46,841**	18,676
Amortisation of issue costs	**38,149**	41,144	**38,149**	41,144
Movement in provision for impairment of trade and other receivables (Note 7)	**(96,474)**	(13,253)	**(10,839)**	(40,626)
Changes in working capital:				
Inventories	**(2,272,041)**	(2,947,594)	**(2,210,577)**	(2,889,695)
Trade and other receivables	**(15,724,260)**	938,233	**(15,139,885)**	519,926
Trade and other payables	**8,661,974**	6,283,792	**8,566,893**	6,163,115
Cash generated from operations	**13,479,378**	19,549,516	**11,944,366**	17,132,155

23. Commitments

Capital commitments

At 31 December the group and company had capital commitments not provided for in these financial statements as follows:

	Group and Company			
	Contracted	**Not contracted**	Contracted	Not Contracted
	2017		2016	
	€	**€**	€	€
Inventory (property development)	**1,104,552**	**4,454,785**	-	7,843,729
Non-current assets	**149,617**	**10,405,986**	3,685,624	7,124,490
	1,254,169	**14,860,771**	3,685,624	14,968,219

23. **Commitments** - continued

Operating lease commitments – where the group and the company are lessors

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

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Not later than 1 year	**2,876,747**	2,103,237	**1,300,000**	1,300,000
Later than 1 year and not later than 5 years	**7,350,852**	3,288,586	**2,600,000**	3,900,000
Later than 5 years	**2,557,374**	539,642	**-**	-
	12,784,973	5,931,465	**3,900,000**	5,200,000

The company's leases relate to an operating lease with a subsidiary. Refer to Note 5.

24. **Contingencies**

At 31 December 2017, the company had guarantees of €65,098,000 (2016: €54,000,000) issued on behalf of other fellow subsidiaries' bank facilities. The guarantees are supported by general and special hypothecs over the company's assets.

25. **Related party transactions**

The company forms part of the Tumas Group of Companies. All companies forming part of the Tumas Group are related parties since these companies are all ultimately owned by Tumas Group Company Limited which is considered by the directors to be the ultimate controlling party. Trading transactions between these companies include items which are normally encountered in a group context. The group is ultimately fully owned by members of the Fenech family, who are therefore considered to be related parties.

Related parties also include foreign Hilton hotels and related affiliates. Trading transactions with these related parties are entered into on a regular basis as a result of normal trading transactions, and mainly relate to corporate costs, management fees and operators' charges.

25. Related party transactions - continued

The following transactions were carried out with related parties:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Income from services				
Property sales	**939,012**	-	**939,012**	-
Rents receivable from subsidiary	**-**	-	**1,150,000**	1,300,000
Rents receivable from fellow subsidiary	**699,430**	595,122	**-**	-
Maintenance fees receivable from subsidiary	**-**	-	**602,137**	623,673
Expenditure for goods and services				
Net interest and similar charges payable to related parties	**2,148,487**	2,719,070	**2,148,487**	2,719,070
Management fees charged by fellow subsidiaries	**515,842**	440,004	**515,842**	440,004
Operators' charges and other fees payable to other related parties	**2,327,512**	1,459,937	**2,327,512**	1,459,937
Payroll recharges	**387,252**	401,044	**387,252**	401,044

Year end balances arising from related party transactions are disclosed in Notes 7, 13 and 17 to the financial statements.

26. Statutory information

Spinola Development Company Limited is a limited liability company and is incorporated in Malta.

The immediate parent company of Spinola Development Company Limited is Spinola Investments Limited, a company registered in Malta, with its registered address at Tumas Group Corporate Office, Level 3, Portomaso Business Tower, Portomaso, St. Julians, Malta. Spinola Investments Limited is exempt from the preparation of consolidated accounts by virtue of section 174(1)(a) of the Companies Act, 1995.

The ultimate parent company of Spinola Development Company Limited is Tumas Group Company Limited, a company registered in Malta, with its registered address at Tumas Group Corporate Office, Level 3, Portomaso Business Tower, Portomaso, St. Julians, Malta.

The ultimate controlling parties of Spinola Development Company Limited are the spouse and descendents of the group's deceased founder, Mr. Thomas Fenech.

27. 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.