SPINOLA DEVELOPMENT COMPANY LIMITED

Annual Report and Consolidated Financial Statements
31 December 2015

Company Registration Number: C331

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2015.

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 2015 amounted to €46.42 million, an increase of €3.12 million or 7.2% over 2014. Gross profit at €18.76 million was up by 9.8% resulting in a margin of 40.41% as opposed to 39.50% last year. This represents a record gross profit margin. Administration expenses net of other income reached a high of €7.72 million, up by 13.00% over 2014. This is mainly due to increases in operating costs and overheads which are directly linked to revenue levels

Operating profit thus topped to €11.20 million, approximately a million euro over the previous year, while net finance costs at €3.76million were down by approximately four hundred thousand from the year before. The resultant profit before tax reached €7.67million, €1.33million above the previous year. Taxation amounted to €1.95million, hence the net result of €5.72million.

Analysing revenue by segment the lion's share goes to the hotel and ancillary operations which continue to surpass previous performances reaching an all-time high of €35.51 million or 76.5% of total revenue. Once again the hotel's operation made further advances on the back of booming tourism arrivals to the Island. As in previous years the hotel's KPIs for the 5 star category continue to surpass average occupancy and room rates with both shying the peak of the relative indices as published by the MHRA. A particular reference needs to be made to the gradual improvements in room rates which the hospitality industry in Malta managed to achieve particularly at the 5 star category, with Hilton Malta itself growing its room rate above the average improvement for the year under review in this category. The strong performance needs to be seen against a background of stronger competition and a more discerning clientele base. During the year under review the owning company committed itself to a major refurbishment which commenced in 2015 with the objective of reaching a peak in 2016. The investment referred to in last year's review of business has itself been increased to a figure of €15 million. At the time of drafting this report much of this has taken place this year during a period of 10 weeks when the hotel was closed down for this purpose. It should be noted that since the hotel opened for business in 2000 this is the first time that operations were temporarily halted so as to undertake the works which extended much beyond bedrooms to all public areas.

Sale of property accounted for €4.06 million or 8.7% of total turnover. This represents a drop of 14.8% over last year despite the sale of additional apartment unit over the number sold in 2014, this as the current stock continues to ebb off. The units sold totalled 9 compared to last year's 7, in the majority smaller type units, hence a lower total sale price. The number of units still in stock now account for a handful of units excluding the Laguna Apartments which are still under construction. We can report a major success in the sale of these units as a high majority of these apartments were sold under a promise of sale agreement with deliveries forecasted to take place in 2017/2018.

Directors' report - continued

Review of business - continued

Revenue from rental activities and complex operations accounted for €6.85 million, virtually the same as last year as full occupancy is retained. The minimal variance from last year is due to an inflation adjustment on contracted rates. These two segments account for 14.8% of total revenue or 0.9% lower than last year due to the hotel and ancillary segment accounting for a higher share of the total revenue.

The Group's balance sheet reflects a total asset base of €176.00 million, an increase of 22.0% over the previous year following from a revaluation of the property on one hand amounting to €28.79 million made on the basis of fair market value after considering both the value of the real estate and the potential returns. It is worth noting that the last time the property was revalued was in 2012. The resultant surplus, net of deferred tax has been credited to revaluation reserve. This year deferred tax has also been adjusted downwards by €7.8 million due to the change in the tax regime applicable on immovable property within the Group's property portfolio. The total increase in assets was also influenced by the increase in value of assets in the course of commissioning and additions to furniture fittings and mechanical and electrical equipment totalling €6.35 million, offset by the depreciation charge amounting to €4.43 million. Investment property at €12.99 million resulted in a downward shift of €2.80 million from 2014 due to reclassification of property held for resale related to the Laguna project into inventories and the disposal of apartments which were recorded last year under this category.

Working capital amounted to €23.18 million, a drop of €6.79 million from the previous year masking an increase in inventories already referred to above, as work on these apartments gains pace and a drop in trade and other receivables of €7.12 million, mostly due to lower amounts due by parent and fellow subsidiaries, while trade debtor days in general were improved upon. The material increase in cash is the other highlight in current assets movement as a substantial improvement came about from clients' payment on account on the Laguna Apartment sales and the upbeat performance of the Group as a whole.

Group borrowings at €58.72 million were €5.21 million below 2014, the third consecutive drop as the Group pursues its policy to reduce the current outstanding debt in advance of what was forecasted when sanction letters were entered into. The reduction in debt was consciously made to create space for fresh loans concluded for the new investments at Portomaso. In line with our cash management and treasury operation we managed to maintain our cost of funding at an average of 5.6% totally skewed due to the 2017-2020 bond which was issued in July 2010.

The Group's equity base witnessed a substantial increase of approximately €28 million as a result of the revaluation reserve movements already referred to above, the year's results, and a favourable tax movement on deferred tax, partly offset by dividends paid of €11.2million. The gearing ratio which stood at 41% last year improved to 29% this year.

Outlook for the financial year ending 31 December 2016

The forecast for 2016 is in line with our long established objective for Portomaso, that of selling off all the apartments while retaining a sound and flourishing operating base, made up of the hotel and ancillary amenities together with the rental and management of the office and commercial areas. As already noted during the course of this year the hotel was temporarily closed during which period the major part of the refurbishment was carried out as the owners committed themselves to the €15 million overhaul in order to sustain the hotel's performance into the future and enable us to thrust an outstanding and consistent level of service to our clientele. This also falls squarely into the general tourism policy for the Island being one of a constant upgrading in the hotel fabric in order to refresh our product and entice higher yielding clients. The refurbishing will see all the rooms placed on the market in 2000 being overhauled together with the main public areas, particularly food and beverage outlets.

Directors' report - continued

Outlook for the financial year ending 31 December 2016 - continued

This lull in activity will obviously have an effect on this year's bottom line for the hotel, however, we forecast that for the rest of the year the hotel performance should compare favourably with last year's. On a long term basis the investment the Group is undertaking is forecasted to be rewarded with a commensurate return.

Works on the other side of the Portomaso estate, in the form of the Laguna Apartments continue to progress at a steady pace with deliveries earmarked as from 2017. Property sales during the course of 2016 will be few due to the dwindling remaining stock of apartments excluding the Laguna Apartments which are within majority sold. Revenue from rental operations is envisaged to be on the same basis as that of 2015.

While dual works activity on the hotel and Laguna Apartments follow plan, we envisage that within the next twelve months we reach near full project completion rendering Portomaso a more holistic multipurpose development. Within this Group other avenues are being explored, particularly through our subsidiary companies as we outgrow the Portomaso perimeter. Despite this, there could still be other areas within the current territory which can on evaluation be better exploited, a matter which is currently under consideration. Strategically the Group will continue to manage its finances so as to meet its commitments in line with both its liquidity and development alternatives.

Results and dividends

The income statements are set out on page 8. During the year the directors declared a net dividend of €11,214,500 (2014: €2,214,500).

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.

Directors' report - continued

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.

The financial statements of Spinola Development Company Limited for the year ended 31 December 2015 are included in the Annual Report 2015, 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	Yorgen Fenech
Director	Director

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

29 April 2016

Independent auditor’s report

To the Shareholders of Spinola Development Company Limited

Report on the Financial Statements for the year ended 31 December 2015

We have audited the financial statements of Spinola Development Company Limited on pages 6 to 53 which comprise the consolidated and the parent company statements of financial position as at 31 December 2015 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors’ Responsibility for the Financial Statements
As explained more comprehensively in the Statement of directors’ responsibilities for the financial statements on page 4, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995 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.

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

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

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

Opinion
In our opinion the financial statements

- give a true and fair view of the financial position of the group and the parent company as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

Independent auditor's report - continued

To the Shareholders of Spinola Development Company Limited

Report on Other Legal and Regulatory Requirements for the year ended 31 December 2015

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- The information given in the directors' report is not consistent with the financial statements.
- Adequate accounting records have not been kept, 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

29 April 2016

Statements of financial position

		As at 31 December			
		Group		Company	
	Notes	**2015**	2014	**2015**	2014
		€	€	**€**	€
ASSETS					
Non-current assets					
Property, plant and equipment	5	**105,000,000**	74,616,138	**105,000,000**	74,616,138
Investment property	6	**12,992,319**	15,794,397	**12,992,319**	15,794,397
Investments in subsidiaries	7	**-**	-	**118,791**	118,791
Trade and other receivables	8	**3,776,123**	3,921,097	**6,941,621**	7,742,423
Total non-current assets		**121,768,442**	94,331,632	**125,052,731**	98,271,749
Current assets					
Inventories	9	**18,832,257**	15,051,750	**8,567,882**	4,780,317
Trade and other receivables	8	**23,137,478**	30,258,689	**20,839,405**	28,946,925
Current tax assets		**236,695**	-	**236,695**	-
Cash and cash equivalents	10	**12,021,784**	4,577,071	**11,945,620**	4,421,336
Total current assets		**54,228,214**	49,887,510	**41,589,602**	38,148,578
Total assets		**175,996,656**	144,219,142	**166,642,333**	136,420,327

Statements of financial position - continued

		As at 31 December			
		Group		Company	
	Notes	**2015**	2014	**2015**	2014
		€	€	**€**	€
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	11	**13,652,805**	13,652,805	**13,652,805**	13,652,805
Revaluation reserves	12	**51,598,706**	19,028,067	**51,598,706**	19,028,067
Retained earnings		**12,966,268**	17,326,890	**6,332,204**	13,019,734
Total equity		**78,217,779**	50,007,762	**71,583,715**	45,700,606
Non-current liabilities					
Borrowings	13	**57,079,479**	59,604,094	**57,079,479**	59,604,094
Trade and other payables	14	**2,466,583**	2,295,473	**2,250,583**	2,255,473
Deferred tax liabilities	15	**7,182,787**	12,393,129	**6,337,251**	10,542,474
Total non-current liabilities		**66,728,849**	74,292,696	**65,667,313**	72,402,041
Current liabilities					
Borrowings	13	**1,643,679**	4,329,942	**1,643,679**	4,329,942
Trade and other payables	14	**27,506,893**	14,578,329	**25,979,652**	13,123,345
Current taxation		**1,899,456**	1,010,413	**1,767,974**	864,393
Total current liabilities		**31,050,028**	19,918,684	**29,391,305**	18,317,680
Total liabilities		**97,778,877**	94,211,380	**95,058,618**	90,719,721
Total equity and liabilities		**175,996,656**	144,219,142	**166,642,333**	136,420,327

The notes on pages 12 to 53 are an integral part of these financial statements.

The financial statements on pages 6 to 53 were authorised for issue by the board of directors on 29 April 2016 and were signed on its behalf by:

Raymond Fenech
Director

Yorgen Fenech
Director

Income statements

		Year ended 31 December			
		Group		Company	
	Notes	**2015**	2014	**2015**	2014
		€	€	**€**	€
Revenue	4	**46,416,178**	43,294,873	**44,358,402**	41,310,199
Cost of sales	16	**(27,658,710)**	(26,208,585)	**(27,651,652)**	(26,208,585)
Gross profit		**18,757,468**	17,086,288	**16,706,750**	15,101,614
Administrative expenses	16	**(7,947,843)**	(6,992,213)	**(7,754,438)**	(6,725,683)
Other income	16	**389,197**	160,074	**389,197**	160,074
Operating profit		**11,198,822**	10,254,149	**9,341,509**	8,536,005
Finance income	18	**227,577**	245,337	**227,200**	245,337
Finance costs	18	**(3,757,708)**	(4,157,961)	**(3,757,708)**	(4,157,961)
Profit before tax		**7,668,691**	6,341,525	**5,811,001**	4,623,381
Tax expense	19	**(1,952,417)**	(2,480,360)	**(1,428,413)**	(2,009,039)
Profit for the year		**5,716,274**	3,861,165	**4,382,588**	2,614,342
Earnings per share	20	**0.70**	0.47		

Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
	Notes	**2015**	2014	**2015**	2014
		€	€	**€**	€
Profit for the year		**5,716,274**	3,861,165	**4,382,588**	2,614,342
Other comprehensive income:					
Movement in deferred tax determined on the basis applicable to capital gains	15	**-**	(5,549)	**-**	(5,549)
Movement in deferred tax due to change in tax rates on immovable property	15	**7,800,864**	-	**6,807,642**	-
Revaluation surplus on land, net of deferred tax	6,15	**25,907,379**	-	**25,907,379**	-
Other comprehensive income for the year		**33,708,243**	(5,549)	**32,715,021**	(5,549)
Total comprehensive income for the year		**39,424,517**	3,855,616	**37,097,609**	2,608,793

The notes on pages 12 to 53 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 1 January 2014		13,652,805	19,159,620	15,554,221	48,366,646
Comprehensive income					
Profit for the year		-	-	3,861,165	3,861,165
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of investment property	12,15	-	(126,004)	126,004	-
Movement in deferred tax determined on the basis applicable to capital gains	15	-	(5,549)	-	(5,549)
Total comprehensive income		-	(131,553)	3,987,169	3,855,616
Transactions with owners					
Dividends for 2014	21	-	-	(2,214,500)	(2,214,500)
Balance at 31 December 2014		**13,652,805**	**19,028,067**	**17,326,890**	**50,007,762**
Comprehensive income					
Profit for the year		-	-	5,716,274	5,716,274
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of property stock	12,15	-	(144,382)	144,382	-
Movement in deferred tax due to change in tax rates on immovable property	15	-	6,807,642	993,222	7,800,864
Revaluation surplus on land, net of deferred tax	6,15	-	25,907,379	-	25,907,379
Total comprehensive income		-	32,570,639	6,853,878	39,424,517
Transactions with owners					
Dividends for 2015	21	-	-	(11,214,500)	(11,214,500)
Balance at 31 December 2015		**13,652,805**	**51,598,706**	**12,966,268**	**78,217,779**

The notes on pages 12 to 53 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 1 January 2014		13,652,805	19,159,620	12,493,888	45,306,313
Comprehensive income					
Profit for the year		-	-	2,614,342	2,614,342
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of investment property	12,15	-	(126,004)	126,004	-
Movement in deferred tax determined on the basis applicable to capital gains	15	-	(5,549)	-	(5,549)
Total comprehensive income		-	(131,553)	2,740,346	2,608,793
Transactions with owners					
Dividends for 2014	21	-	-	(2,214,500)	(2,214,500)
Balance at 31 December 2014		**13,652,805**	**19,028,067**	**13,019,734**	**45,700,606**
Comprehensive income					
Profit for the year		-	-	4,382,588	4,382,588
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of property stock	12,15	-	(144,382)	144,382	-
Movement in deferred tax due to change in tax rates on immovable property	15	-	6,807,642	-	6,807,642
Revaluation surplus on land, net of deferred tax	6,15	-	25,907,379	-	25,907,379
Total comprehensive income		-	32,570,639	4,526,970	37,097,609
Transactions with owners					
Dividends for 2015	21	-	-	(11,214,500)	(11,214,500)
Balance at 31 December 2015		**13,652,805**	**51,598,706**	**6,332,204**	**71,583,715**

The notes on pages 12 to 53 are an integral part of these financial statements.

Statements of cash flows

		Year ended 31 December			
		Group		Company	
	Notes	**2015**	2014	**2015**	2014
		€	€	**€**	€
Cash flows from operating activities					
Cash generated from operations	22	**34,658,382**	13,310,717	**33,708,060**	11,033,433
Interest received		**227,577**	245,337	**227,200**	245,337
Interest paid		**(3,721,281)**	(4,112,326)	**(3,721,281)**	(4,112,326)
Income tax paid		**(1,588,148)**	(848,316)	**(1,037,706)**	(375,153)
Net cash generated from operating activities		**29,576,530**	8,595,412	**29,176,273**	6,791,291
Cash flows from investing activities					
Purchase of property, plant and equipment and investment property		**(6,731,523)**	(4,558,034)	**(6,731,523)**	(4,558,034)
Disposals of investment property		**709,000**	224,000	**709,000**	224,000
Movement in non-current receivables		**144,974**	3,037,157	**800,802**	4,654,771
Movement in non-current payables		**171,110**	(49,928)	**(4,890)**	(9,928)
Net cash (used in)/generated from investing activities		**(5,706,439)**	(1,346,805)	**(5,226,611)**	310,809
Cash flows from financing activities					
Repayments of borrowings		**(1,765,878)**	(10,500,000)	**(1,765,878)**	(10,500,000)
Proceeds from bank borrowings		**1,454,168**	10,000,000	**1,454,168**	10,000,000
Proceeds of loans from fellow subsidiary		**-**	24,718,514	**-**	24,718,514
Repayments of loans from fellow subsidiary		**(5,124,622)**	(27,675,528)	**(5,124,622)**	(27,675,528)
Issue costs		**-**	(188,432)	**-**	(188,432)
Dividends paid	21	**(11,214,500)**	(2,214,500)	**(11,214,500)**	(2,214,500)
Net cash used in financing activities		**(16,650,832)**	(5,859,946)	**(16,650,832)**	(5,859,946)
Net movement in cash and cash equivalents		**7,219,259**	1,388,661	**7,298,830**	1,242,154
Cash and cash equivalents at beginning of year		**4,408,846**	3,020,185	**4,253,111**	3,010,957
Cash and cash equivalents at end of year	10	**11,628,105**	4,408,846	**11,551,941**	4,253,111

The notes on pages 12 to 53 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 2015

In 2015, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2015. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the group's accounting periods beginning after 1 January 2015. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the group's directors are of the opinion that there are no requirements with the possible exception of IFRS 15 that will have a possible significant impact on the group's financial statements in the period of initial application.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group and the company are presently assessing the impact of IFRS 15.

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

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9, 'Financial instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to adoption by the EU, IFRS 9 is effective for financial periods beginning on, or after, 1 January 2018. The group is considering the implications of the standard and its impact on the group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission, and will also consider the impact of the remaining phases of IFRS 9 when completed.

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.

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

Subsidiaries - continued

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 7 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.

(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. Summary of significant accounting policies - continued

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.

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

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment - continued

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 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).

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.

1. Summary of significant accounting policies - continued

1.5 Investment property - continued

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).

1.7.2 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.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.2 Recognition and measurement - continued

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.

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.

1. Summary of significant accounting policies - continued

1.8 Inventories - continued

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.

1.25 Segment reporting

The group determines and presents operating segments based on the information that internally is provided to the Board of directors, which is the group's chief operating decision maker in accordance with the requirements of IFRS 8 'Operating Segments'.

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the Board of directors to make decisions about resources to be allocated to the segment and to assess its performance executing the function of the chief operating decision maker.

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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(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.

(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 13), 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 13) 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

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

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Carrying amounts				
Trade and other receivables (Note 8)	**24,965,765**	31,153,151	**25,908,461**	33,738,333
Cash and cash equivalents (Note 10)	**11,628,105**	4,408,846	**11,551,941**	4,253,111
	36,593,870	35,561,997	**37,460,402**	37,991,444

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	
	2015	2014	**2015**	2014
	€	€	**€**	€
Property development and management	**1,679,689**	2,974,388	**496,318**	1,833,533
Hospitality	**2,104,999**	1,946,724	**2,104,999**	1,946,724
	3,784,668	4,921,112	**2,601,317**	3,780,257

The group and the company holds collateral as security for the receivables within the property related sector for an amount of €65,862 (2014: €1,373,351).

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 €578,065 (2014: €600,357) and €422,454 (2014: €478,736) 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 €65,862 (2014: €1,373,351) against the respective debts.

2. Financial risk management - continued

2.1 Financial risk factors - continued

b) Credit risk - continued

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

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
At 1 January	**600,357**	437,166	**478,736**	419,566
(Decrease)/increase in impairment provision for the year	**(22,292)**	163,191	**(56,282)**	59,170
	578,065	600,357	**422,454**	478,736

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 8). 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.

(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 14 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

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 2015					
Bank borrowings	9,545,541	10,623,176	1,981,807	6,060,809	2,580,560
Loans from fellow subsidiary	49,177,617	67,191,037	2,814,292	35,140,635	29,236,110
Trade and other payables	18,430,974	20,748,495	18,541,332	2,207,163	-
	77,154,132	**98,562,708**	**23,337,431**	**43,668,607**	**31,816,670**
31 December 2014					
Bank borrowings	9,668,225	11,147,598	1,774,839	5,972,266	3,400,493
Loans from fellow subsidiary	54,265,811	79,570,012	5,935,734	13,565,118	60,069,160
Trade and other payables	14,576,148	14,598,196	12,391,033	2,207,163	-
	78,510,184	**105,315,806**	**20,101,606**	**21,744,547**	**63,469,653**

Company	Carrying amount €	Contractual cash flows €	Within one year €	One to five years €	Over five years €
31 December 2015					
Bank borrowings	9,545,541	10,623,176	1,981,807	6,060,809	2,580,560
Loans from fellow subsidiary	49,177,617	67,191,037	2,814,292	35,140,635	29,236,110
Trade and other payables	16,897,521	19,215,042	17,007,879	2,207,163	-
	75,620,679	**97,029,255**	**21,803,978**	**43,408,607**	**31,816,670**
31 December 2014					
Bank borrowings	9,668,225	11,147,598	1,774,839	5,972,266	3,400,493
Loans from fellow subsidiary	54,265,811	79,570,012	5,935,734	13,565,118	60,069,160
Trade and other payables	13,279,954	13,342,002	11,134,839	2,207,163	-
	77,213,990	**104,059,612**	**18,845,412**	**21,744,547**	**63,469,653**

2. Financial risk management - continued

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.

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.

2. Financial risk management - continued

2.2 Capital risk management - continued

The gearing ratios at 31 December 2015 and 2014 were as follows:

	Group	
	2015	2014
	€	€
Total borrowings (Note 13)	**58,723,158**	63,934,036
Less: Cash and cash equivalents (Note 10)	**(12,021,784)**	(4,577,071)
Less: Group treasury funds (Note 8)	**(5,887,909)**	(14,601,336)
Less: Advances to Tumas Investments p.l.c	**(549,186)**	(200,000)
Net borrowings	**40,264,279**	44,555,629
Reported equity	**78,217,779**	50,007,762
Adjustment for fair value on investment property	**19,038,154**	15,348,659
Total equity	**97,255,933**	65,356,421
Total capital	**137,520,212**	109,912,050
Gearing	**29%**	41%

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 5 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. Segmental information

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

The board of directors considers the group's business mainly from an operations perspective as geographically operations are primarily carried out on the local market.

The group's operations are segregated primarily into hotel and ancillary operations, property development, rental operations and complex management operations.

The board of directors assesses the performance of the operating segments based on operating results. This measurement basis includes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and impairments and non-recurring events.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the board of directors is measured in a manner consistent with that in the income statement.

The amounts provided to the board of directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Segment assets consist primarily of land and buildings, investment property, plant, machinery and equipment, inventories, trade and other receivables and cash and cash equivalents. Taxation is not considered to be a segment asset but is rather managed by the treasury function.

The amounts provided to the board of directors with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. Segment liabilities comprise trade and other payables and exclude tax and borrowings. The group's interest-bearing liabilities and taxation are not considered to be segment liabilities but are rather managed by the treasury function.

4. **Segmental information** - continued

	Hotel and ancillary operations €	Property development €	Rental operations €	Complex management operations €	**Total €**
Group					
Year ended 31 December 2015					
Revenue	35,507,420	4,056,364	4,571,333	4,106,470	**48,241,587**
Less: inter-segmental sales	-	-	(1,300,000)	(525,409)	**(1,825,409)**
	35,507,420	4,056,364	3,271,333	3,581,061	**46,416,178**
Segment profit	7,261,008	1,299,685	2,442,848	195,281	**11,198,822**
Finance income					**227,577**
Finance costs					**(3,757,708)**
Profit before tax					**7,668,691**
Tax expense					**(1,952,417)**
Net profit for the year					**5,716,274**
Total segment assets	105,419,333	50,916,329	18,748,370	912,625	**175,996,656**
Segment liabilities	6,975,668	20,247,278	1,740,901	1,009,629	**29,973,476**
Unallocated liabilities					**67,805,401**
Total liabilities					**97,778,877**
Additions to non-current assets	6,322,339	27,685	381,499	-	**6,731,523**
Depreciation	(4,353,240)	(23,954)	(689,272)	(50,556)	**(5,117,022)**
Movement in provision for impairment of receivables	(86,370)	-	(33,465)	30,613	**(22,292)**

4. Segmental information - continued

	Hotel and Ancillary Operations €	Property development €	Rental operations €	Complex management operations €	**Total €**
Group					
Year ended 31 December 2014					
Revenue	31,700,581	4,761,002	4,506,459	4,140,205	45,108,247
Less: inter-segmental sales	-	-	(1,300,000)	(513,374)	(1,813,374)
	31,700,581	4,761,002	3,206,459	3,626,831	43,294,873
Segment profit/(loss)	4,989,236	2,694,440	2,309,629	260,844	10,254,149
Finance income					245,337
Finance costs					(4,157,961)
Profit before tax					6,341,525
Tax expense					(2,480,360)
Net profit for the year					3,861,165
Total segment assets	74,491,021	47,288,494	21,519,747	919,880	144,219,142
Segment liabilities	6,487,931	5,564,373	1,482,195	1,083,816	14,618,315
Unallocated liabilities					79,593,065
Total liabilities					94,211,380
Additions to non-current assets	2,293,078	112,669	2,152,287	-	4,558,034
Depreciation	(4,382,618)	(31,830)	(699,195)	(31,830)	(5,145,473)
Movement in provision for impairment of receivables	80,213	-	94,169	(11,191)	163,191

5. Property, plant and equipment

Group and Company	Land and buildings €	Assets not yet commissioned €	Advance payments on contracts €	Mechanical and electrical equipment €	Furniture, fixtures and operational equipment €	Total €
At 1 January 2014						
Cost or valuation	58,581,022	(206)	36,645	30,479,420	21,332,979	110,429,860
Accumulated depreciation	(1,742,322)	-	-	(16,994,975)	(15,032,768)	(33,770,065)
Net book amount	56,838,700	(206)	36,645	13,484,445	6,300,211	76,659,795
Year ended 31 December 2014						
Opening net book amount	56,838,700	(206)	36,645	13,484,445	6,300,211	76,659,795
Commissioned assets and additions	95,643	880,763	-	612,613	813,602	2,402,621
Depreciation charge	(1,672,058)	-	-	(1,654,019)	(1,120,201)	(4,446,278)
Closing net book amount	55,262,285	880,557	36,645	12,443,039	5,993,612	74,616,138
At 31 December 2014						
Cost or valuation	58,676,665	880,557	36,645	31,092,033	22,146,581	112,832,481
Accumulated depreciation	(3,414,380)	-	-	(18,648,994)	(16,152,969)	(38,216,343)
Net book amount	55,262,285	880,557	36,645	12,443,039	5,993,612	74,616,138
Year ended 31 December 2015						
Opening net book amount	55,262,285	880,557	36,645	12,443,039	5,993,612	74,616,138
Commissioned assets and additions	298,601	2,016,861	(3,519)	1,216,481	2,821,600	6,350,024
Disposals	(997,136)	-	-	(2,512,945)	(6,118,450)	(9,628,531)
Net transfers	-	-	-	318,551	(318,551)	-
Depreciation charge	(1,430,741)	-	-	(1,671,103)	(1,325,906)	(4,427,750)
Revaluation surplus	28,785,977	-	-	-	-	28,785,977
Depreciation released on disposal	956,409	-	-	2,237,575	6,110,158	9,304,142
Closing net book amount	**82,875,395**	**2,897,418**	**33,126**	**12,031,598**	**7,162,463**	**105,000,000**
At 31 December 2015						
Cost or valuation	82,875,395	2,897,418	33,126	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**	**2,897,418**	**33,126**	**12,031,598**	**7,162,463**	**105,000,000**

5. **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 12).

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 6) comprises principally the Portomaso Business Tower 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 2015 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

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 2015.

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. Besides the above noted revaluation surplus, the other movements reflect additions, disposals and depreciation for the year ended 31 December 2015.

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

- 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.

5. Property, plant and equipment - continued

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 a ten year period. These cash flows take into consideration the announced refurbishment project in 2016 and other 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 €9 million (2014: €7 million) with an average growth rate of 1% (2014: 2%) discounted at an average rate of 7%

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.

5. Property, plant and equipment - continued

As at 31 December 2015, the carrying amount of land within property, plant and equipment amounts to €55,922,218 (2014: €27,136,240). The carrying amount of land would have been €863,468 (2014: €863,468) had the assets been included in the financial statements at cost.

Depreciation charge of €4,427,750 (2014: €4,446,278) is included in the group's and company's income statements as follows: €4,377,194 (2014: €4,414,448) in cost of sales and €50,556 (2014: €31,830) in administrative expenses.

Borrowings are secured by the group's property, plant and equipment (Note 13).

6. Investment property

	Group and Company	
	2015	2014
	€	€
Year ended 31 December		
Opening net book amount	**15,794,397**	14,196,587
Additions	**381,499**	2,155,413
Transfer (to)/from property held for resale	**(2,011,596)**	297,203
Disposals	**(1,327,890)**	(155,611)
Depreciation charge	**(689,272)**	(699,195)
Depreciation released on disposal	**845,181**	-
Closing net book amount	**12,992,319**	15,794,397
At 31 December		
Cost or valuation	**20,278,972**	23,236,959
Accumulated depreciation	**(7,286,653)**	(7,442,562)
Net book amount	**12,992,319**	15,794,397

As at 1 January 2014, the cost and accumulated depreciation of the group's and company's investment property amounted to €20,939,954 and €6,743,367 respectively.

During 2014, the company commenced construction works on the Laguna units. In line the Group's intention to retain portions of this complex for rental purposes, the related construction costs were categorised within investment property. This project was reclassified under property held for resale in 2015 following the change in intended use decided by management (Note 9).

Borrowings are secured by the group's investment property (Note 13).

Depreciation charge of €689,272 (2014: €699,195) is included in cost of sales.

The fair open market value of investment property as at 31 December 2015 is estimated by the directors at €34,145,823 (2014: €35,247,651) 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.

6. Investment property - continued

The following amounts have been recognised in the income statements:

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Rental income	**3,267,164**	3,204,906	**1,300,000**	1,300,000
Direct operating and administrative expenses	**(828,701)**	(897,855)	**(734,119)**	(729,893)

7. Investments in subsidiaries

	Company	
	2015	2014
	€	€
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	
			2015	2014
			%	%
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

8. Trade and other receivables

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Non-current				
Amounts owed by parents	**3,226,937**	3,699,688	**3,226,937**	3,699,688
Amounts owed by subsidiaries	**-**	-	**3,165,498**	3,821,326
Amounts owed by fellow subsidiary	**549,186**	221,409	**549,186**	221,409
	3,776,123	3,921,097	**6,941,621**	7,742,423
Current				
Trade receivables	**3,784,688**	4,921,112	**2,601,317**	3,780,257
Amounts owed by parent	**4,830,685**	7,670,896	**4,830,685**	7,670,896
Amounts owed by subsidiaries	**-**	-	**-**	872,576
Amounts owed by fellow subsidiaries	**11,101,114**	13,257,739	**10,065,796**	12,289,874
Amounts owed by other related parties	**1,286,987**	1,044,684	**1,286,987**	1,044,684
Other receivables	**186,168**	337,623	**182,055**	337,623
Advance payments on projects	**1,254,922**	2,351,520	**1,254,922**	2,351,520
Prepayments and accrued income	**692,914**	675,115	**617,643**	599,495
	23,137,478	30,258,689	**20,839,405**	28,946,925
Total trade and other receivables	**26,913,601**	34,179,786	**27,781,026**	36,689,348

Amounts owed by parents, subsidiaries, fellow subsidiaries and related parties are unsecured, interest free and are repayable on demand except for amounts disclosed as non-current. 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 €5,887,909 (2014: €14,601,336) 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	
	2015	2014	**2015**	2014
	€	€	**€**	€
Trade receivables	**578,065**	600,357	**422,454**	478,736

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.

8. 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	
	2015	2014	**2015**	2014
	€	€	**€**	€
Cost of sales	**(525)**	(9,852)	**(525)**	(9,852)
Administrative expenses	**(21,767)**	173,043	**(55,757)**	69,022
	(22,292)	163,191	**(56,282)**	59,170

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.

9. Inventories

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Property held for resale	**17,995,729**	14,196,905	**7,731,354**	3,925,472
Food and beverage	**247,946**	287,610	**247,946**	287,610
Consumables	**588,582**	567,235	**588,582**	567,235
	18,832,257	15,051,750	**8,567,882**	4,780,317

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

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Transferred from/to investment property (Note 6)	**2,011,596**	(297,203)	**2,011,596**	(297,203)

Borrowings are secured by the group's property held for resale (Note 13).

10. 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	
	2015	2014	**2015**	2014
	€	€	**€**	€
Cash at bank and in hand	**12,021,784**	4,577,071	**11,945,620**	4,421,336
Bank overdrafts (Note 13)	**(393,679)**	(168,225)	**(393,679)**	(168,225)
	11,628,105	4,408,846	**11,551,941**	4,253,111

11. Share capital

	Group and Company	
	2015	2014
	€	€
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

12. Revaluation reserves

	Group and Company	
	2015	2014
	€	€
Surplus arising on revaluation of land within:		
Property, plant and equipment	**49,558,649**	17,328,633
Investment property	**1,191,185**	899,347
Property held for resale	**848,872**	800,087
Revaluation reserves at end of year	**51,598,706**	19,028,067

Revaluation of property, plant and equipment		
At the beginning of year, before deferred taxation	**26,272,770**	26,272,770
Revaluation surplus arising during the year (Note 5)	**28,785,977**	-
	55,058,747	26,272,770
Deferred taxation (Note 15)	**(5,500,098)**	(8,944,137)
At 31 December	**49,558,649**	17,328,633

Revaluation of investment property		
At the beginning of year, before deferred taxation	**1,339,584**	1,339,584
Deferred taxation (Note 15)	**(148,399)**	(440,237)
At 31 December	**1,191,185**	899,347

Revaluation of property held for resale		
At the beginning of year, before deferred taxation	**1,070,518**	1,264,370
Disposals of property stock	**(160,424)**	(193,852)
	910,094	1,070,518
Deferred taxation (Note 15)	**(61,222)**	(270,431)
At 31 December	**848,872**	800,087

The revaluation reserves are non-distributable reserves.

13. Borrowings

	Group and Company	
	2015	2014
	€	€
Non-current		
Bank loans	**7,901,862**	8,250,000
Loans from fellow subsidiary	**49,177,617**	51,354,094
	57,079,479	59,604,094
Current		
Bank overdrafts	**393,679**	168,225
Bank loans	**1,250,000**	1,250,000
Loans from fellow subsidiary	**-**	2,911,717
	1,643,679	4,329,942
Total borrowings	**58,723,158**	63,934,036

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 2015 amounted to €21,944,560 (2014: €31,329,350).

A number of 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	
	2015	2014
	€	€
Face value of loans from fellow subsidiary	**49,379,595**	49,379,595
Issue costs	**325,514**	325,514
Accumulated amortisation	**(123,536)**	(87,109)
Closing net book amount	**201,978**	238,405
Amortised cost at 31 December	**49,177,617**	49,141,190

13. Borrowings - continued

During the year ended 31 December 2009, the Tumas Group issued 6.25% bonds maturing between 2014 and 2016 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 bank borrowings and its general financing needs. The company has guaranteed payment of all interest and capital relating thereto. These bonds were redeemed in 2014 through the issue of a new bond referred to below.

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.

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.

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	
	2015	2014
	€	€
Total borrowings:		
At fixed rates	**49,177,617**	49,141,190
At floating rates	**9,545,541**	14,792,846
	58,723,158	63,934,036

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

	Group and Company	
	2015	2014
Bank overdrafts	**5.4%**	3.2%
Bank loans	**4.3%**	4.6%
Loans from fellow subsidiaries	**5.7%**	5.6%

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.

14. Trade and other payables

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Non-current				
Amounts owed to fellow subsidiary	**2,207,163**	2,207,163	**2,207,163**	2,207,163
Deferred income	**216,000**	40,000	**-**	-
Deferred institutional grant	**43,420**	48,310	**43,420**	48,310
	2,466,583	2,295,473	**2,250,583**	2,255,473
Current				
Trade payables	**2,550,234**	2,725,902	**2,538,598**	2,687,159
Advance deposits	**11,542,502**	2,297,654	**11,332,714**	2,098,864
Capital and other payables	**2,938,676**	3,309,517	**2,938,676**	3,309,517
Deferred institutional grant	**4,890**	4,890	**4,890**	4,890
Amounts owed to parent	**3,000,000**	-	**3,000,000**	-
Amounts owed to related parties	**407,095**	424,907	**407,095**	424,907
Indirect and other taxation	**603,061**	431,570	**513,988**	326,298
Accruals and deferred income	**6,460,435**	5,383,889	**5,243,541**	4,271,710
	27,506,893	14,578,329	**25,979,652**	13,123,345
Total trade and other payables	**29,973,476**	16,873,802	**28,230,235**	15,378,818

Amounts owed to a fellow subsidiary and related parties are unsecured, interest free and are repayable on demand except for an amount of €2,207,163 (2014 : €2,207,163) which bears interest at 5% (2014: 5%) and is not expected to be repaid within the next twelve months. The lender has the right to waive this interest for each financial year.

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.

15. Deferred taxation

	Group 2015 €	Group 2014 €	Company 2015 €	Company 2014 €
At beginning of year	**12,393,129**	11,827,282	**10,542,474**	9,940,220
Movement in deferred tax determined on the basis applicable to capital gains (Note 12)	**-**	5,549	**-**	5,549
Deferred tax on temporary differences arising on depreciation of non-current assets (Note 19)	**(249,606)**	685,263	**(249,606)**	685,263
Deferred tax on disposal of property stock (Notes 12,19)	**(16,042)**	(67,848)	**(16,042)**	(67,848)
Deferred tax on temporary differences arising on provisions (Note 19)	**(22,428)**	(57,117)	**(10,531)**	(20,710)
Deferred tax on revaluation surplus arising during the year	**2,878,598**	-	**2,878,598**	-
Release of deferred tax due to change in property tax rules	**(7,800,864)**	-	**(6,807,642)**	-
At 31 December	**7,182,787**	12,393,129	**6,337,251**	10,542,474

The balance at 31 December represents temporary differences on:

	Group 2015 €	Group 2014 €	Company 2015 €	Company 2014 €
Revaluation of property, plant and equipment (Note 12)	**5,500,098**	8,944,137	**5,500,098**	8,944,137
Revaluation of investment property (Note 12)	**148,399**	440,237	**148,399**	440,237
Revaluation of property held for resale (Note 12)	**961,222**	2,163,642	**61,222**	270,431
Depreciation of non-current assets	**805,621**	1,055,227	**805,621**	1,055,227
Provisions	**(232,553)**	(210,114)	**(178,089)**	(167,558)
	7,182,787	12,393,129	**6,337,251**	10,542,474

15. Deferred taxation - continued

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% (2014: 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 2014 and 2015.

Changes to the taxation rules on capital gains arising on transfer of immovable property were announced by the Minister for Finance during the 2015 Budget Speech. With effect from 1 January 2015, the final tax on transfers of immovable property was reduced to 10% of the transfer value for property acquired before 1 January 2004. The net impact of the application of the changed tax regime on the deferred tax liability attributable to fair valuation of property amounted to €7,800,864 for the group and €6,807,642 for the company.

16. Expenses by nature

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Employee benefit expense (Note 17)	**10,134,955**	9,862,509	**10,134,955**	9,862,509
Depreciation on:				
- Property, plant and equipment (Note 5)	**4,427,750**	4,446,278	**4,427,750**	4,446,278
- Investment property (Note 6)	**689,272**	699,195	**689,272**	699,195
Property development costs	**1,881,215**	947,628	**1,881,215**	947,628
Operating supplies and related expenses	**2,063,048**	2,066,203	**2,063,048**	2,066,203
Utilities	**2,732,491**	3,076,352	**2,732,491**	3,076,352
Operators charges	**2,319,258**	1,793,169	**2,319,258**	1,793,169
(Decrease)/increase in provisions for impairment of receivables (Note 8)	**(22,292)**	163,191	**(56,282)**	59,170
Management fees	**446,604**	440,004	**446,604**	440,004
Gain on disposal of investments property	**(365,903)**	110,118	**(365,903)**	110,118
Loss on disposal of property, plant and equipment	**263,383**	-	**263,383**	-
Other expenses	**10,481,102**	9,436,077	**10,647,575**	9,273,568
Total cost of sales, administrative expenses and other income	**35,217,356**	33,040,724	**35,016,893**	32,774,194

16. Expenses by nature - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2015 and 2014 relate to the following:

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
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	**6,000**	50,750	**6,000**	50,750
	60,230	104,980	**54,980**	99,730

17. Employee benefit expense

	Group and Company	
	2015	2014
	€	€
Wages and salaries	**9,818,018**	9,519,137
Social security costs	**702,852**	702,489
	10,520,870	10,221,626
Recharged to fellow subsidiaries	**(385,915)**	(359,117)
	10,134,955	9,862,509

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

	Group and Company	
	2015	2014
Direct	**374**	378
Indirect	**102**	98
Administration	**74**	68
	550	544

18. Investment and finance income and costs

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Finance income				
Interest from fellow subsidiaries	**227,200**	158,426	**227,200**	158,426
Interest from parent	**-**	86,911	**-**	86,911
Other finance income	**377**	-	**-**	-
	227,577	245,337	**227,200**	245,337

	Group and Company	
	2015	2014
	€	€
Finance costs and similar charges		
Bank loans and overdrafts	**402,055**	468,845
Loans from fellow subsidiaries	**3,052,645**	3,416,160
Amortisation of issue transaction costs	**36,427**	45,635
Other finance charges	**266,581**	227,321
	3,757,708	4,157,961

No borrowing costs incurred during the year have been capitalised in property, plant and equipment or within property held for development and resale or investment property.

19. Tax expense

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Current tax expense:				
on taxable profit subject to tax at 35%	**2,610,285**	1,920,062	**2,074,379**	1,412,334
over provision in current tax related to prior year	**(369,787)**	-	**(369,787)**	-
deferred tax expense (Note 15)	**(288,079)**	560,298	**(276,179)**	596,705
Tax expense	**1,952,417**	2,480,360	**1,428,413**	2,009,039

19. Tax expense - continued

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	
	2015	2014	**2015**	2014
	€	€	**€**	€
Profit before tax	**7,668,691**	6,341,525	**5,811,001**	4,623,381
Tax on profit at 35%	**2,684,042**	2,219,534	**2,033,850**	1,618,183
Tax effect of:				
Maintenance allowance on rental income attributable to immovable property	**(224,803)**	(220,851)	**(91,000)**	(91,000)
Expenses not allowable for tax purposes	**233,952**	281,859	**233,537**	281,031
Under provision in deferred tax	**6,285**	136,165	**-**	137,172
Over provision of current tax	**(93,369)**	63,653	**(93,369)**	63,653
Impact of change in tax rules on property sales	**58,054**	-	**58,054**	-
Investment tax credits for the year	**(448,273)**	-	**(448,273)**	-
Tax rules on release of revaluation on property stock	**12,032**	-	**12,032**	-
Investment tax credits related to prior year not accounted for	**(276,418)**	-	**(276,418)**	-
Unrecognised deferred tax movement in current year	**915**	-	**-**	-
Tax expense	**1,952,417**	2,480,360	**1,428,413**	2,009,039

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	
	2015	2014
Net profit attributable to owners of the company	**€5,716,274**	€3,861,165
Weighted average number of ordinary shares in issue	**8,152,806**	8,152,806
Earnings per share	**0.70**	0.47

21. Dividends

	Group and Company	
	2015	2014
	€	€
Dividends on ordinary shares:		
Distribution from Immovable Property account		
Gross dividend on ordinary shares	**16,923,077**	3,076,923
Tax at source at 35%	**(5,923,077)**	(1,076,923)
Net dividends	**11,000,000**	2,000,000
Dividends per share	**€1.35**	€0.25
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	**11,214,500**	2,214,500

22. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Operating profit	**11,198,822**	10,254,149	**9,341,509**	8,536,005
Adjustments for:				
Depreciation on:				
- Property, plant and equipment (Note 5)	**4,427,750**	4,446,278	**4,427,750**	4,446,278
- Investment property (Note 6)	**689,272**	699,195	**689,272**	699,195
Net loss on disposal of investment property and property, plant and equipment	**98,098**	(68,389)	**98,098**	(68,389)
Amortisation of issue costs	**(36,427)**	45,635	**(36,427)**	45,635
Movement in provision for impairment of trade and other receivables (Note 8)	**(22,292)**	163,191	**(56,282)**	59,170
Changes in working capital:				
Inventories	**(1,768,908)**	1,011,620	**(1,775,969)**	1,043,480
Trade and other receivables	**7,143,503**	(6,484,542)	**8,163,802**	(7,005,600)
Trade and other payables	**12,928,564**	3,243,580	**12,856,307**	3,277,659
Cash generated from operations	**34,658,382**	13,310,717	**33,708,060**	11,033,433

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	
	2015	2014
	€	€
Authorised and contracted	**8,127,171**	7,787,786
Authorised but not contracted	**15,889,564**	14,389,079
	24,016,735	22,176,865

23. Commitments - continued

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

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

	Group		Company	
	2015	2014	**2015**	2014
	€	€	**€**	€
Not later than 1 year	**2,319,804**	2,425,066	**1,300,000**	1,300,000
Later than 1 year and not later than 5 years	**1,629,165**	2,490,449	**-**	-
Later than 5 years	**594,022**	749,159	**-**	-
	4,542,991	5,664,674	**1,300,000**	1,300,000

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

24. Contingencies

At 31 December 2015, the company had guarantees of €8,209,935 (2014: €8,209,935) 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	
	2015	2014	**2015**	2014
	€	€	**€**	€
Income from services				
Rents receivable from subsidiary	**-**	-	**1,300,000**	1,300,000
Rents receivable from fellow subsidiary	**594,103**	594,103	**-**	-
Maintenance fees receivable from subsidiary	**-**	-	**525,409**	513,374
Expenditure for goods and services				
Net interest and similar charges payable to related parties	**2,825,445**	3,170,823	**2,825,455**	3,170,823
Management fees charged by fellow subsidiaries	**446,604**	440,004	**446,604**	440,004
Operators' charges and other fees payable to other related parties	**2,234,250**	1,708,161	**2,234,250**	1,708,161
Payroll recharges	**385,915**	359,117	**385,915**	359,117

Year end balances arising from related party transactions are disclosed in Notes 8, 13 and 14 to the financial statements.

During the year ended 31 December 2015, property with carrying value of €438,728 was transferred to a fellow subsidiary within Tumas Group as part of an internal restructuring programme between the group and other fellow subsidiaries forming part of the Tumas group.

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.