SPINOLA DEVELOPMENT COMPANY LIMITED

Annual Report and Consolidated Financial Statements
31 December 2013

Company Registration Number: C331

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2013.

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 2013 reached €38.3 million a decrease of €6.1 million or 13.7% from the level of the previous year. Gross profit at €12.8 million was €2.1 million below that of 2012, resulting in a gross profit margin of 33.4%, virtually at the same level of the previous year. Administrative costs, net of other income reached €6.4 million, marginally below that of the previous year. In fact these costs have stabilized at this level reflecting in the main the company's fixed cost base.

Operating profit at €6.4 million was €2.0 million below that of 2012, while net finance costs at €4.2 million were virtually at the same level as last year, making for a profit before tax of €2.2 million; itself €2.1 million below its counterpart figure for last year.

Reviewing revenue by segment the hotel and ancillary operations continued to improve reaching an all-time high of €29.9 million; practically representing three quarters of the total revenue for the year under review. The hotel performance was as expected in line with an improved tourism inflow to the Island, recording a similar occupancy to the previous year while edging up its room rate. This enabled the hotel to once again breach the MHRA's average KPIs for the five-star category. The continuous investment in upgrades of the hotel facilities prove to be a firm backup factor in our efforts to sustain its return to the company which return accounted for to 71% of total segment profit for the year. During the course of 2013 the Group has also managed to conclude a new hotel management agreement with Hilton International which should see our association with this premium brand strengthened for the foreseeable future. Continuous upgrades in hotel standards have also enabled the hotel to attract more affluent clients.

Property sales which account in full for the lower turnover of the company and hence the lower profit before tax. Having said that these lower sales are a direct consequence of a dwindling stock of apartments which now numbers a handful and hence this sector will continue to record a lower turnover until such time that further real estate units are added to the development. Total revenue for this sector was in fact only 6.0% against the previous year's 24%. Once again purely as a result of the lower units sold, as the average price per unit this year was similar to the previous year's.

Rental operations and complex management costs continued to improve in line with expectations as further areas are placed on the market and management complex costs reach a plateau within a well entrenched condominium system. Rental rates for both commercial and office space continue to command the premium rates attained at Portomaso together with a full occupancy position. Both the latter segments taken together account for 28% of profit, an improvement when compared to 18% in previous year.

Reviewing on to the company's balance sheet, total assets at €142 million reflect a reduction of €5.3 million over the previous year, following on one hand the depreciation charge of €5.3 million and an increase in the hotel's assets of €1.2 million. In addition, there was also an increase in investment property amounting to €1.9 million, out of which €850,950 related to a transfer of property to this category, previously classified as held for resale.

Directors' report - continued

Review of business - continued

Trade and other receivables reached €30.9 million, an increase of €2.1 million. This in the main is due to short term treasury operations involving sister companies of the Group, otherwise external trade receivables were in line with the figure reported in 2012. As noted above inventories of real estate units continue to follow a downward trend as sales of the remaining few apartments progress. Cash and bank balances, although lower than last year are very much in line with the Group's established operational requirements allowing for a healthy flow of funds in order to meet current and future commitments.

Bank borrowings at €68.4 million decreased in line with our commitments with the financing banks and taking into consideration the fact that during the year under review there was no fresh intake of external funding. The level of borrowings is also in line with the long term business term projections in order to retain an appropriate debt/equity position. Equity was at €48.3 million following the year's results and dividends distributed amounting to €2.2 million.

The prospects for 2014 are encouraging particularly with respect to the operating arm of the company namely the hotel and ancillary operations, which in total should return an even better performance than the year under review. The forecast for property sales should reflect a position similar to 2013. At the time of writing the company has just embarked on yet another real estate extension to the development namely the Laguna Apartments. These should prove to be a unique investment opportunity and continue to enhance the whole development and its intrinsic real estate value. During the course of this year we will also be undertaking the first of two stages of refurbishment at the Hilton. This represents a major capital injection upgrading the whole of the room stock. From a financing perspective we shall also be reviewing our long term borrowings position in line with our financial strategies. The overall projected performance should augur well, and compliment past endeavours in order to deliver further growth strengthening the company's equity base. This should lead to enhance sustainable developments for the ultimate benefit of our various stakeholders.

Results and dividends

The income statements are set out on page 8. During the year the directors declared a net dividend of €2,214,500 (2012: €3,214,500).

Directors

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

George Fenech
Raymond 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 2013 are included in the Annual Report 2013, 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

George Fenech
Director

Raymond Fenech
Director

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

30 April 2014

Independent auditor's report

To the Shareholders of Spinola Development Company Limited

Report on the Financial Statements for the year ended 31 December 2013

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 2013 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 3, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

Independent auditor's report - continued

Report on the Financial Statements for the year ended 31 December 2013 - continued

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 2013, 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.

Report on Other Legal and Regulatory Requirements

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

30 April 2014

Statements of financial position

		As at 31 December			
		Group		Company	
	Notes	**2013**	2012	**2013**	2012
		€	€	**€**	€
ASSETS					
Non-current assets					
Property, plant and equipment	5	**76,659,795**	80,000,000	**76,659,795**	80,000,000
Investment property	6	**14,196,587**	13,532,463	**14,196,587**	13,532,463
Investments in subsidiaries	7	**-**	-	**118,791**	118,791
Trade and other receivables	8	**6,958,254**	5,534,391	**12,397,194**	12,736,353
Total non-current assets		**97,814,636**	99,066,854	**103,372,367**	106,387,607
Current assets					
Inventories	9	**16,360,573**	18,086,405	**6,121,000**	7,878,571
Trade and other receivables	8	**23,937,338**	23,276,724	**22,000,495**	20,997,077
Current tax assets		**172,789**	260,281	**172,789**	260,281
Cash and cash equivalents	10	**4,149,156**	7,012,005	**4,139,928**	6,878,878
Total current assets		**44,619,856**	48,635,415	**32,434,212**	36,014,807
Total assets		**142,434,492**	147,702,269	**135,806,579**	142,402,414

Statements of financial position - continued

		As at 31 December			
		Group		Company	
	Notes	**2013**	2012	**2013**	2012
		€	€	**€**	€
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	11	**13,652,805**	13,652,805	**13,652,805**	13,652,805
Revaluation reserves	12	**19,159,620**	19,223,821	**19,159,620**	19,223,821
Retained earnings		**15,554,221**	16,404,857	**12,493,888**	14,477,196
Total equity		**48,366,646**	49,281,483	**45,306,313**	47,353,822
Non-current liabilities					
Borrowings	13	**64,408,271**	69,838,858	**64,408,271**	69,838,858
Trade and other payables	14	**2,345,401**	2,663,751	**2,265,401**	2,543,751
Deferred tax liabilities	15	**11,827,282**	11,378,178	**9,940,220**	9,540,584
Total non-current liabilities		**78,580,954**	83,880,787	**76,613,892**	81,923,193
Current liabilities					
Borrowings	13	**4,040,688**	779,040	**4,040,688**	779,040
Trade and other payables	14	**11,334,749**	13,117,097	**9,845,686**	11,879,190
Current taxation		**111,455**	643,862	**-**	467,169
Total current liabilities		**15,486,892**	14,539,999	**13,886,374**	13,125,399
Total liabilities		**94,067,846**	98,420,786	**90,500,266**	95,048,592
Total equity and liabilities		**142,434,492**	147,702,269	**135,806,579**	142,402,414

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 30 April 2014 and were signed on its behalf by:

George Fenech
Director

Raymond Fenech
Director

Income statements

		Year ended 31 December			
		Group		Company	
	Notes	**2013**	2012	**2013**	2012
		€	€	**€**	€
Revenue	4	**38,323,479**	44,413,647	**36,693,915**	44,109,963
Cost of sales	16	**(25,540,471)**	(29,481,464)	**(25,540,471)**	(30,652,792)
Gross profit		**12,783,008**	14,932,183	**11,153,444**	13,457,171
Administrative expenses	16	**(6,503,038)**	(6,559,920)	**(6,450,638)**	(6,325,387)
Other income and expenses	16	**74,209**	73,488	**74,209**	73,488
Operating profit		**6,354,179**	8,445,751	**4,777,015**	7,205,272
Finance income	18	**290,121**	346,259	**290,121**	346,259
Finance costs	18	**(4,475,320)**	(4,558,413)	**(4,475,320)**	(4,558,413)
Profit before tax		**2,168,980**	4,233,597	**591,816**	2,993,118
Tax expense	19	**(859,614)**	(1,573,731)	**(415,122)**	(1,228,155)
Profit for the year		**1,309,366**	2,659,866	**176,694**	1,764,963
Earnings per share	20	**0.16**	0.33		

Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
	Notes	**2013**	2012	**2013**	2012
		€	€	**€**	€
Profit for the year		**1,309,366**	2,659,866	**176,694**	1,764,963
Other comprehensive income:					
Revaluation surplus on land and buildings arising during the year, net of deferred tax	5,15	**-**	12,089,437	**-**	12,089,437
Movement in deferred tax determined on the basis applicable to capital gains	15	**(9,703)**	10,622	**(9,703)**	10,622
Other comprehensive income for the year		**(9,703)**	12,100,059	**(9,703)**	12,100,059
Total comprehensive income for the year		**1,299,663**	14,759,925	**166,991**	13,865,022

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 2012		13,652,805	7,231,144	16,852,109	37,736,058
Comprehensive income					
Profit for the year		-	-	2,659,866	2,659,866
Other comprehensive income:					
Revaluation surplus on land and buildings arising during the year, net of deferred tax	5,15	-	12,089,437	-	12,089,437
Transfer of revaluation surplus arising upon transfer of investment property	12,15	-	(107,382)	107,382	-
Movement in deferred tax determined on the basis applicable to capital gains	15	-	10,622	-	10,622
Total comprehensive income		-	11,992,677	2,767,248	14,759,925
Transactions with owners					
Dividends for 2012	21	-	-	(3,214,500)	(3,214,500)
Balance at 31 December 2012		13,652,805	19,223,821	16,404,857	49,281,483
Comprehensive income					
Profit for the year		-	-	1,309,366	1,309,366
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of investment property	12,15	-	(54,498)	54,498	-
Movement in deferred tax determined on the basis applicable to capital gains	15	-	(9,703)	-	(9,703)
Total comprehensive income		-	(64,201)	1,363,864	1,299,663
Transactions with owners					
Dividends for 2013	21	-	-	(2,214,500)	(2,214,500)
Balance at 31 December 2013		**13,652,805**	**19,159,620**	**15,554,221**	**48,366,646**

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 2012		13,652,805	7,231,144	15,819,351	36,703,300
Comprehensive income					
Profit for the year		-	-	1,764,963	1,764,963
Other comprehensive income:					
Revaluation surplus on land and buildings arising during the year, net of deferred tax	5,15	-	12,089,437	-	12,089,437
Transfer of revaluation surplus arising upon transfer of investment property	12,15	-	(107,382)	107,382	-
Movement in deferred tax determined on the basis applicable to capital gains	15	-	10,622	-	10,622
Total comprehensive income		-	11,992,677	1,872,345	13,865,022
Transactions with owners					
Dividends for 2012	21	-	-	(3,214,500)	(3,214,500)
Balance at 31 December 2012		**13,652,805**	**19,223,821**	**14,477,196**	**47,353,822**
Comprehensive income					
Profit for the year		-	-	176,694	176,694
Other comprehensive income:					
Transfer of revaluation surplus arising upon transfer of investment property	12,15	-	(54,498)	54,498	-
Movement in deferred tax determined on the basis applicable to capital gains	15	-	(9,703)	-	(9,703)
Total comprehensive income		-	(64,201)	231,192	166,991
Transactions with owners					
Dividends for 2013	21	-	-	(2,214,500)	(2,214,500)
Balance at 31 December 2013		**13,652,805**	**19,159,620**	**12,493,888**	**45,306,313**

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	**2013**	2012	**2013**	2012
		€	€	**€**	€
Cash flows from operating activities					
Cash generated from operations	22	**10,128,058**	7,997,315	**7,988,673**	8,935,434
Interest received		**290,121**	346,259	**290,121**	346,259
Interest paid		**(4,383,414)**	(4,472,507)	**(4,383,414)**	(4,472,507)
Income tax paid		**(865,128)**	(683,716)	**(404,866)**	(462,889)
Net cash generated from operating activities		**5,169,637**	3,187,351	**3,490,514**	4,346,297
Cash flows from investing activities					
Purchase of property, plant and equipment and investment property		**(2,280,231)**	(1,796,965)	**(2,280,231)**	(1,796,965)
Disposals of investment property		**520,234**	1,926,773	**520,234**	1,926,773
Movement in advance payments		**(54,931)**	41,536	**(54,931)**	41,536
Movement in non-current receivables		**(1,423,863)**	1,853,020	**339,159**	679,668
Movement in non-current payables		**(318,350)**	-	**(278,350)**	-
Net cash (used in)/generated from investing activities		**(3,557,141)**	2,024,364	**(1,754,119)**	851,012
Cash flows from financing activities					
Repayments of borrowings		**(2,610,776)**	-	**(2,610,776)**	-
Dividends paid	21	**(2,214,500)**	(3,214,500)	**(2,214,500)**	(3,214,500)
Net cash used in financing activities		**(4,825,276)**	(3,214,500)	**(4,825,276)**	(3,214,500)
Net movement in cash and cash equivalents		**(3,212,780)**	1,997,215	**(3,088,881)**	1,982,809
Cash and cash equivalents at beginning of year		**6,232,965**	4,235,750	**6,099,838**	4,117,029
Cash and cash equivalents at end of year	10	**3,020,185**	6,232,965	**3,010,957**	6,099,838

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 2013

In 2013, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2013. 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.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

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 2013. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the group and company's financial statements in the period of initial application.

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 2015. 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 external independent 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 external independent 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 its 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 are 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 depreciation 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 depreciation 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 investments in associates, and, only 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, net of bank overdrafts. In the statement of financial position, the bank overdrafts are included under 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 income 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, 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. Interest rates on these financial instruments are linked with the Central Intervention Rate issued by the European Central Bank. 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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Carrying amounts				
Trade and other receivables (Note 8)	**30,895,592**	28,811,115	**34,397,689**	33,733,430
Cash and cash equivalents (Note 10)	**3,020,185**	6,232,965	**3,010,957**	6,099,838
	33,915,777	35,044,080	**37,408,646**	39,833,268

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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Property development and management	**1,794,208**	1,763,424	**765,147**	891,190
Hospitality	**1,950,785**	1,978,427	**1,950,785**	1,978,427
	3,744,993	3,741,851	**2,715,932**	2,869,617

The group and the company holds collateral as security for the receivables within the property related sector for an amount of €224,253 (2012: €243,285).

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 €437,166 (2012: €602,015) and €419,566 (2012: €443,077) 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 €224,253 (2012: €243,285) 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**	
	2013	2012	**2013**	2012
	€	€	**€**	€
At 1 January	**602,015**	473,098	**443,077**	356,306
(Decrease)/increase in impairment provision	**(164,849)**	128,917	**(23,511)**	86,771
	437,166	602,015	**419,566**	443,077

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 2013					
Bank borrowings	11,128,971	12,099,804	1,635,915	10,463,889	-
Loans from fellow subsidiary	57,319,988	75,247,447	6,394,638	38,883,785	29,969,024
Trade and other payables	12,565,974	12,786,690	10,469,169	2,317,521	-
	81,014,933	**100,133,941**	**18,499,722**	**51,665,195**	**29,969,024**
31 December 2012					
Bank borrowings	12,425,816	14,146,951	1,369,467	12,777,484	-
Loans from fellow subsidiary	58,192,082	79,742,582	4,495,135	43,724,775	31,522,672
Trade and other payables	13,764,279	14,018,654	11,347,716	2,670,938	-
	84,382,177	107,908,187	17,212,318	59,173,197	31,522,672

Company	Carrying Amount €	Contractual cash flows €	Within one year €	One to five years €	Over five years €
31 December 2013					
Bank borrowings	11,128,971	12,099,804	1,635,915	10,463,889	-
Loans from fellow subsidiary	57,319,988	75,247,447	6,394,638	38,883,785	29,969,024
Trade and other payables	11,293,944	11,514,660	9,138,901	2,375,759	-
	79,742,903	**98,861,911**	**17,169,454**	**51,723,433**	**29,969,024**
31 December 2012					
Bank borrowings	12,425,816	14,146,951	1,369,467	12,777,484	-
Loans from fellow subsidiary	58,192,082	79,742,582	4,495,135	43,724,775	31,522,672
Trade and other payables	12,720,159	12,974,534	10,303,596	2,670,938	-
	83,338,057	106,864,067	16,168,198	59,173,197	31,522,672

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 undeveloped land earmarked for the proposed new project within the Portomaso parameter. 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 2013 and 2012 were as follows:

	Group	
	2013	2012
	€	€
Total borrowings (Note 13)	**68,448,959**	70,617,898
Less: Cash and cash equivalents (Note 10)	**(4,149,156)**	(7,012,005)
Less: Group treasury funds (Note 6)	**(9,470,069)**	(11,474,716)
Less: Advances to Tumas Investments p.l.c (Note 8)	**(3,808,891)**	(1,156,026)
Net borrowings	**51,020,843**	50,975,151
Reported equity	**48,366,646**	49,281,483
Adjustment for fair value on investment property	**14,395,020**	13,611,433
Total equity	**62,761,666**	62,892,916
Total capital	**113,782,509**	113,868,067
Gearing	**45%**	45%

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 2012 by the directors on the basis of independent 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, intangible assets, 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 2013					
Revenue	29,942,392	2,306,183	4,151,428	3,743,413	**40,143,416**
Less: inter-segmental sales	-	-	(1,300,000)	(519,937)	**(1,819,937)**
	29,942,392	2,306,183	2,851,428	3,223,476	**38,323,479**
Segment profit/(loss)	4,502,666	70,956	2,076,479	(295,922)	**6,354,179**
Finance income					**290,121**
Finance costs					**(4,475,320)**
Profit before tax					**2,168,980**
Tax expense					**(859,614)**
Net profit for the year					**1,309,366**
Segment assets	79,625,624	44,266,450	17,375,617	994,012	**142,261,703**
Unallocated assets					**172,789**
Total assets					**142,434,492**
Segment liabilities	5,202,741	3,714,598	1,566,575	930,835	**11,414,749**
Unallocated liabilities					**82,653,097**
Total liabilities					**94,067,846**
Additions to non-current assets	1,186,102	53,425	1,095,635	-	**2,335,162**
Depreciation	4,527,703	26,087	762,236	25,942	**5,341,968**
Movement in provision for impairment of receivables	12,583	-	7,295	(43,389)	**(23,511)**

4. **Segmental information** - continued

	Hotel and ancillary operations €	Property development €	Rental operations €	Complex management operations €	**Total €**
Group					
Year ended 31 December 2012					
Revenue	28,577,042	11,163,454	4,007,425	3,586,354	47,334,275
Less: inter-segmental sales	-	(1,171,328)	(1,300,000)	(449,300)	(2,920,628)
	28,577,042	9,992,126	2,707,425	3,137,054	44,413,647
Segment profit/(loss)	3,386,702	3,572,357	1,765,319	(278,627)	8,445,751
Finance income					346,259
Finance costs					(4,558,413)
Profit before tax					4,233,597
Tax expense					(1,573,731)
Net profit for the year					2,659,866
Segment assets	83,562,022	46,237,914	16,487,486	1,154,566	147,441,988
Unallocated assets					260,281
Total assets					147,702,269
Segment liabilities	5,521,269	5,548,902	1,356,278	810,649	13,237,098
Unallocated liabilities					85,183,688
Total liabilities					98,420,786
Additions to non-current assets	1,670,085	60,693	24,651	-	1,755,429
Depreciation	4,290,380	31,240	752,515	31,240	5,105,375
Movement in provision for impairment of receivables	78,414	-	45,360	5,143	128,917

5. Property, plant and equipment

Group and Company	Land and buildings €	Assets in course of construction €	Advance payments on contracts €	Mechanical and electrical equipment €	Furniture, fixtures and operational equipment €	Total €
At 1 January 2012						
Cost or valuation	55,993,422	83,514	50,040	28,731,239	20,451,958	105,310,173
Accumulated depreciation	(14,741,449)	-	-	(13,656,823)	(12,725,509)	(41,123,781)
Net book amount	41,251,973	83,514	50,040	15,074,416	7,726,449	64,186,392
Year ended 31 December 2012						
Opening net book amount	41,251,973	83,514	50,040	15,074,416	7,726,449	64,186,392
Commissioned assets and additions	138,422	(51,671)	41,536	1,075,707	363,355	1,567,349
Revaluation surplus arising during the year	18,599,119	-	-	-	-	18,599,119
Depreciation charge	(1,544,859)	-	-	(1,653,913)	(1,154,088)	(4,352,860)
Closing net book amount	58,444,655	31,843	91,576	14,496,210	6,935,716	80,000,000
At 31 December 2012						
Cost or valuation	58,444,655	31,843	91,576	29,806,946	20,815,313	109,190,333
Accumulated depreciation	-	-	-	(15,310,736)	(13,879,597)	(29,190,333)
Net book amount	58,444,655	31,843	91,576	14,496,210	6,935,716	80,000,000
Year ended 31 December 2013						
Opening net book amount	58,444,655	31,843	91,576	14,496,210	6,935,716	80,000,000
Commissioned assets and additions	136,367	(32,049)	(54,931)	672,474	517,666	1,239,527
Depreciation charge	(1,742,322)	-	-	(1,684,239)	(1,153,171)	(4,579,732)
Closing net book amount	**56,838,700**	**(206)**	**36,645**	**13,484,445**	**6,300,211**	**76,659,795**
At 31 December 2013						
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

5. Property, plant and equipment - continued

Fair valuation of property

On 31 December 2012, 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 independent 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 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 2013 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 2013.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above. The only movement reflects additions and depreciation charge for the year ended 31 December 2013.

Valuation processes

The valuations of the properties are performed regularly taking into consideration valuation reports prepared by independent and 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 years, 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:

Pre-tax 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 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 operating cash flows of €7million with an average growth rate of 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 2013, the carrying amount of land within property, plant and equipment amounts to €27,136,240 (2012: €27,136,240). The carrying amount of land would have been €863,468 (2012: €863,468) had the assets been included in the financial statements at cost.

Depreciation charge of €4,579,732 (2012: €4,352,860) is included in the group's and company's income statements as follows: €4,553,790 (2012: €4,321,620) in cost of sales and €25,942 (2012: €31,240) in administrative expenses.

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

6. Investment property

	Group and Company	
	2013	2012
	€	€
Year ended 31 December		
Opening net book amount	**13,532,463**	16,023,671
Additions	**1,095,635**	188,080
Transfer from property held for resale	**850,959**	-
Disposals	**(520,234)**	(1,926,773)
Depreciation charge	**(762,236)**	(752,515)
Closing net book amount	**14,196,587**	13,532,463
At 31 December		
Cost or valuation	**20,939,954**	19,513,594
Accumulated depreciation	**(6,743,367)**	(5,981,131)
Net book amount	**14,196,587**	13,532,463

As at 1 January 2012, the cost and accumulated depreciation of the group's and company's investment property amounted to €21,252,287 and €5,228,616 respectively.

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

Depreciation charge of €762,236 (2012: €752,515) is included in cost of sales.

The fair open market value of investment property as at 31 December 2013 is estimated by the directors at €30,554,567 (2012: €29,000,000) 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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Rental income	**2,851,428**	2,707,425	**1,300,000**	1,300,000
Direct operating expenses	**(1,537,158)**	(1,694,621)	**(821,243)**	(790,894)

7. Investments in subsidiaries

	Company	
	2013	2012
	€	€
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	
			2013	2012
			%	%
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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Non-current				
Amounts owed by parents	**3,149,363**	4,378,365	**3,149,363**	4,378,365
Amounts owed by subsidiaries	**-**	-	**5,438,940**	7,201,962
Amounts owed by fellow subsidiary	**3,808,891**	1,156,026	**3,808,891**	1,156,026
	6,958,254	5,534,391	**12,397,194**	12,736,353
Current				
Trade receivables	**3,744,993**	3,741,851	**2,715,932**	2,869,617
Amounts owed by parent	**5,622,879**	3,466,415	**5,622,879**	3,466,415
Amounts owed by subsidiaries	**-**	-	**-**	406,068
Amounts owed by fellow subsidiaries	**12,988,446**	14,508,062	**12,155,659**	12,757,001
Amounts owed by other related parties	**950,494**	838,202	**950,494**	838,202
Other receivables	**54,940**	55,055	**54,940**	55,055
Prepayments and accrued income	**575,586**	667,139	**500,591**	604,719
	23,937,338	23,276,724	**22,000,495**	20,997,077
Total trade and other receivables	**30,895,592**	28,811,115	**34,397,689**	33,733,430

Amounts owed by parents, subsidiaries, related parties and fellow subsidiaries, are unsecured, interest free and are repayable on demand except for amounts disclosed as non-current. Included in the non-current asset is an amount of €3,808,891 (2012: €1,156,026) which bears an average interest rate of 3% with no fixed date of repayment but is not expected to be repaid within the next twelve months. The company's exposure to liquidity risk related to trade and other receivables is disclosed in Note 2.

Included within the company's amounts owed by fellow subsidiaries and parents are funds of €9,470,069 (2012: €11,474,716) 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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Trade receivables	**437,166**	602,015	**419,566**	443,077

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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Cost of sales	**7,295**	3,214	**7,295**	3,214
Administrative expenses	**(172,144)**	125,703	**(30,806)**	83,557
	(164,849)	128,917	**(23,511)**	86,771

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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Property held for resale	**15,440,285**	17,166,620	**5,200,712**	6,958,786
Food and beverage	**271,254**	338,766	**271,254**	338,766
Consumables	**649,034**	581,019	**649,034**	581,019
	16,360,573	18,086,405	**6,121,000**	7,878,571

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

	Group		Company	
	2013	2012	**2013**	2012
	€	€	**€**	€
Transferred to investment property (Note 6)	**850,959**	-	**850,959**	-

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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Cash at bank and in hand	**4,149,156**	7,012,005	**4,139,928**	6,878,878
Bank overdrafts (Note 13)	**(1,128,971)**	(779,040)	**(1,128,971)**	(779,040)
	3,020,185	6,232,965	**3,010,957**	6,099,838

11. Share capital

	Group and Company	
	2013	2012
	€	€
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	
	2013	2012
	€	€
Surplus arising on revaluation of land utilised for construction of:		
property, plant and equipment	**17,328,633**	17,328,633
investment property	**904,896**	969,097
property held for resale	**926,091**	926,091
Revaluation reserves at end of year	**19,159,620**	19,223,821

Revaluation of property, plant and equipment		
At the beginning of year, before deferred taxation	**26,272,770**	7,673,651
Revaluation surplus arising during the year	**-**	18,599,119
	26,272,770	26,272,770
Deferred taxation (Note 15)	**(8,944,137)**	(8,944,137)
At 31 December	**17,328,633**	17,328,633

Revaluation of investment property		
At the beginning of year, before deferred taxation	**1,423,427**	1,588,630
Disposals	**(83,843)**	(165,203)
	1,339,584	1,423,427
Deferred taxation (Note 15)	**(434,688)**	(454,330)
At 31 December	**904,896**	969,097

Revaluation of property held for resale		
At the beginning of year, before deferred taxation	**1,264,370**	1,264,370
Deferred taxation (Note 15)	**(338,279)**	(338,279)
At 31 December	**926,091**	926,091

The revaluation reserves are non-distributable reserves.

13. Borrowings

	Group and Company 2013 €	2012 €
Non-current		
Bank loans	**10,000,000**	11,646,776
Loans from fellow subsidiary	**54,408,271**	58,192,082
	64,408,271	69,838,858
Current		
Bank overdrafts	**1,128,971**	779,040
Loans from fellow subsidiary	**2,911,717**	-
	4,040,688	779,040
Total borrowings	**68,448,959**	70,617,898

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 2013 amounted to €22,028,170 (2012: €14,675,037).

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 2013 €	2012 €
Face value of loans from fellow subsidiary	**49,379,595**	49,379,595
Issue costs	**449,324**	449,324
Accumulated amortisation	**(353,717)**	(261,811)
Closing net book amount	**95,607**	187,513
Amortised cost at 31 December	**49,283,988**	49,192,082

13. Borrowings - continued

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

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.

The interest rate exposure of borrowings was as follows:

	Group and Company	
	2013	2012
	€	€
Total borrowings:		
At fixed rates	**49,283,988**	49,192,082
At floating rates	**19,164,971**	21,425,816
	68,448,959	70,617,898

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

	Group and Company	
	2013	2012
Bank overdrafts	**4.6%**	5.1%
Bank loans	**5.0%**	5.0%
Loans from fellow subsidiaries	**6.1%**	6.1%

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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Non-current				
Amounts owed to fellow subsidiary	**2,207,163**	2,543,751	**2,207,163**	2,543,751
Deferred income	**80,000**	120,000	**-**	-
Deferred institutional grant	**58,238**	-	**58,238**	-
	2,345,401	2,663,751	**2,265,401**	2,543,751
Current				
Trade payables	**2,606,880**	2,686,958	**2,594,353**	2,658,742
Advance deposits	**1,034,176**	1,896,569	**817,143**	1,702,782
Capital and other payables	**1,880,643**	2,559,860	**1,880,643**	2,559,860
Deferred institutional grant	**3,883**	-	**3,883**	-
Amounts owed to related parties	**439,439**	450,317	**439,439**	450,317
Indirect and other taxation	**441,842**	389,744	**341,683**	360,145
Accruals and deferred income	**4,927,886**	5,133,649	**3,768,542**	4,147,344
	11,334,749	13,117,097	**9,845,686**	11,879,190
Total trade and other payables	**13,680,150**	15,780,848	**12,111,087**	14,422,941

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 (2012 : €2,543,751) which bears interest at 5% (2012: 5%) and is not expected to be repaid within the next twelve months. The lender has the right to waive this interest of each financial year. During 2013, the interest was not waived.

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		Company	
	2013	2012	**2013**	2012
	€	€	**€**	€
At beginning of year	**11,378,178**	4,814,357	**9,540,584**	2,962,012
Movement in deferred tax determined on the basis applicable to capital gains (Note 12)	**9,703**	(10,622)	**9,703**	(10,622)
Deferred tax on temporary differences arising on depreciation of non-current assets (Note 19)	**397,179**	167,703	**397,179**	167,703
Deferred tax on disposal on investment property (Note 12)	**(29,345)**	(57,821)	**(29,345)**	(57,821)
Deferred tax on revaluation surplus arising during the year (Note 12)	**-**	6,509,682	**-**	6,509,682
Deferred tax on temporary differences arising on provisions (Note 19)	**71,567**	(45,121)	**22,099**	(30,370)
At 31 December	**11,827,282**	11,378,178	**9,940,220**	9,540,584

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2012: 35%).

The balance at 31 December represents temporary differences on:

	Group		Company	
	2013	2012	**2013**	2012
	€	€	**€**	€
Revaluation of property, plant and equipment (Note 12)	**8,944,137**	8,944,137	**8,944,137**	8,944,137
Revaluation of investment property (Note 12)	**434,688**	454,330	**434,688**	454,330
Revaluation of property held for resale (Note 12)	**2,231,490**	2,231,490	**338,279**	338,279
Depreciation of non-current assets	**369,964**	(27,215)	**369,964**	(27,215)
Provisions	**(152,997)**	(224,564)	**(146,848)**	(168,947)
	11,827,282	11,378,178	**9,940,220**	9,540,584

16. Expenses by nature

	Group		Company	
	2013	2012	**2013**	2012
	€	€	**€**	€
Employee benefit expense (Note 17)	**9,548,640**	9,303,703	**9,548,640**	9,303,703
Depreciation on:				
- Property, plant and equipment (Note 5)	**4,579,732**	4,352,860	**4,579,732**	4,352,860
- Investment property (Note 6)	**762,236**	752,515	**762,236**	752,515
Property development costs	**1,162,395**	6,303,307	**1,162,395**	6,303,307
Operating supplies and related expenses	**1,909,875**	1,892,957	**1,909,875**	1,892,957
Utilities	**3,466,895**	3,432,672	**3,466,895**	3,432,672
Operators charges	**1,562,595**	1,486,330	**1,562,595**	1,486,330
Increase in provisions for impairment of receivables (Note 8)	**(164,849)**	128,917	**(23,511)**	86,771
Management fees	**440,020**	440,004	**440,020**	440,004
Other expenses	**8,701,761**	7,874,631	**8,508,023**	8,853,572
Total cost of sales and administrative expenses and other expenses	**31,969,300**	35,967,896	**31,916,900**	36,904,691

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2013 and 2012 relate to the following:

	Group		Company	
	2013	2012	**2013**	2012
	€	€	**€**	€
Annual statutory audit	**41,950**	41,950	**37,700**	37,700
Other assurance services	**9,280**	11,720	**9,250**	11,720
Tax advisory services	**1,500**	2,000	**1,500**	1,500
Other non-audit services	**20,500**	6,800	**20,500**	6,800
	73,230	62,470	**68,950**	57,720

17. Employee benefit expense

	Group and Company 2013 €	2012 €
Wages and salaries	**9,196,196**	8,947,456
Social security costs	**671,098**	673,505
	9,867,294	9,620,961
Recharged to fellow subsidiaries	**(318,654)**	(317,258)
	9,548,640	9,303,703

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

	Group and Company 2013	2012
Direct	**376**	376
Indirect	**105**	100
Administration	**58**	58
	539	534

18. Investment and finance income and costs

	Group and Company 2013 €	2012 €
Finance income		
Interest from fellow subsidiaries	**209,471**	185,775
Interest from parent	**80,650**	138,529
Bank interest	**-**	21,955
	290,121	346,259

	Group and Company 2013 €	2012 €
Finance costs and similar charges		
Bank loans and overdrafts	**556,785**	595,658
Loans from fellow subsidiaries	**3,624,795**	3,670,997
Amortisation of issue transaction costs	**91,906**	85,906
Other finance charges	**201,834**	205,852
	4,475,320	4,558,413

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

19. Tax expense

	Group		Company	
	2013	2012	**2013**	2012
	€	€	**€**	€
Current tax expense:				
on taxable profit subject to tax at 35%	**390,868**	1,451,149	**(4,156)**	1,090,822
deferred tax expense (Note 15)	**468,746**	122,582	**419,278**	137,333
Tax expense	**859,614**	1,573,731	**415,122**	1,228,155

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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Profit before tax	**2,168,980**	4,233,597	**591,816**	2,993,118
Tax on profit at 35%	**759,143**	1,481,759	**207,136**	1,047,591
Tax effect of:				
Income subject to tax at different rates	**-**	(4,773)	**-**	(4,773)
Maintenance allowance on rental income attributable to immovable property	**(195,299)**	(184,156)	**(91,000)**	(91,000)
Expenses not allowable for tax purposes	**303,934**	298,675	**303,143**	298,118
Under provision in deferred tax	**(8,164)**	(17,774)	**(4,157)**	(21,781)
Tax expense	**859,614**	1,573,731	**415,122**	1,228,155

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	
	2013	2012
Net profit attributable to owners of the company	**€1,309,366**	€2,659,866
Weighted average number of ordinary shares in issue	**8,152,806**	8,152,806
Earnings per share	**€0.16**	€0.33

21. Dividends

	Group and Company	
	2013	2012
	€	€
Dividends on ordinary shares:		
Distribution from Immovable Property account		
Gross dividend on ordinary shares	**3,076,923**	4,615,385
Tax at source at 35%	**(1,076,923)**	(1,615,385)
Net dividends	**2,000,000**	3,000,000
Dividends per share	**€0.25**	€0.37
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	**2,214,500**	3,214,500

22. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group		Company	
	2013	2012	**2013**	2012
	€	€	**€**	€
Operating profit	**6,354,179**	8,445,751	**4,777,015**	7,205,272
Adjustments for:				
Depreciation on:				
- Property, plant and equipment (Note 5)	**4,579,732**	4,352,860	**4,579,732**	4,352,860
- Investment property (Note 6)	**762,236**	752,515	**762,236**	752,515
Movement in provision for impairment of trade and other receivables (Note 8)	**(164,849)**	128,917	**(23,511)**	86,771
Changes in working capital:				
Inventories	**874,873**	3,173,315	**906,612**	4,344,643
Trade and other receivables	**(495,765)**	(4,214,752)	**(979,907)**	(3,267,264)
Trade and other payables	**(1,782,348)**	(4,641,291)	**(2,033,504)**	(4,539,363)
Cash generated from operations	**10,128,058**	7,997,315	**7,988,673**	8,935,434

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	
	2013	2012
	€	€
Authorised and contracted	**1,766,709**	671,873
Authorised but not contracted	**3,710,986**	2,801,576
	5,477,695	3,473,449

During the first quarter of 2014, the company commenced development works related to the extension of its inventory property stock namely the Laguna Apartments.

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	
	2013	2012	**2013**	2012
	€	€	**€**	€
Not later than 1 year	**2,378,637**	2,118,527	**1,300,000**	1,300,000
Later than 1 year and not later than 5 years	**2,661,469**	2,559,662	**1,300,000**	2,600,000
Later than 5 years	**902,918**	1,083,969	**-**	-
	5,943,024	5,762,158	**2,600,000**	3,900,000

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

24. Contingencies

At 31 December 2013, the company had guarantees of €5,709,935 (2012: €3,959,935) issued on behalf of other fellow subsidiaries' bank facilities. The guarantees are supported by general and special hypothecs over the company's assets.

During the year ended 31 December 2000, the group issued secured notes for an amount of €9,783,368 through Tumas Investments p.l.c. The secured notes were redeemed during 2006 from the proceeds of a bank loan. The loan is repayable over a 10 year period and is secured over the floors of the Portomaso Business Tower, which have been retained by the company for long term rental purposes.

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.

The following transactions were carried out with related parties:

	Group		**Company**	
	2013	2012	**2013**	2012
	€	€	**€**	€
Income from services				
Rents receivable from subsidiary	**-**	-	**1,300,000**	1,300,000
Rents receivable from fellow subsidiary	**601,507**	610,933	**-**	-
Maintenance fees receivable from subsidiary	**-**	-	**519,937**	449,300
Transfer of property title	**-**	-	**-**	1,107,873
Expenditure for goods and services				
Net interest and similar charges payable to related parties	**3,426,580**	3,432,599	**3,426,580**	3,432,599
Management fees charged by fellow subsidiaries	**440,020**	440,004	**440,020**	440,004
Operators' charges and other fees payable to other related parties	**1,562,595**	1,486,330	**1,562,595**	1,486,330
Payroll recharges	**318,654**	317,258	**318,654**	317,258

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 2013, investment property with carrying value of €520,234 was transferred to a fellow subsidiary within Tumas Group as part of a property exchange programme between the group and other fellow subsidiaries within the Tumas group (Note 6).

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.