

EXALCO FINANCE p.l.c.

Annual Report and Financial Statements
31 December 2019

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Directors' report

The directors present their annual report and the audited financial statements for the period 31 December 2019.

Principal activities

The company's principal activity is to carry on the business of an investment company, by raising funds to finance the operations and capital projects of Exalco Properties Limited, an operating company forming part of Exalco Group.

Review of business

During the period under review, the company registered a profit before taxation amounting to €35,842 (2018: €17,977). After allowing for taxation, the profit for the period amounted to €23,297 (2018: €1,710). Comparative amounts for 2018 cover the period 17 July to 31 December 2018.

Financial performance

Finance income amounting to €731,204 (2018: €330,778) is generated from a facility fee and interest charged on the loan advanced to the company's fellow subsidiary, Exalco Properties Limited. Financial costs comprise interest payable on the outstanding bond issue and amortisation of the issue costs thereof amounting to €630,000 (2018: €232,774). Administrative expenses mainly representing compliance costs, together with directors' and professional fees amounted to €65,362 (2018: €51,527).

Financial position

The company's balance sheet is primarily made up of the 4% secured bonds in issue of €15 million and a corresponding loan advanced to Exalco Properties Limited, the guarantor of this bond. The loan receivable and the bond issued during 2018 are classified in the company's balance sheet under non-current assets and non-current liabilities respectively as at 31 December 2019 and 2018. The company's equity as at the end of the financial year amounted to €275,007 (2018: €251,710).

Guarantor's performance for 2019

The financial statements of Exalco Properties Limited, the guarantor of the bonds issued by the company show a net asset position of €38.1million as at 31 December, 2019 (2018: €36.6 million).

The Guarantor's financial results for the year ended 31 December, 2019 show a profit after tax of €1.6 million compared to a profit after tax of €1.4 million registered during the 2018 financial year.

The 2019 financial results are positively impacted by revenue generated of €4.3 million compared to €3.8 million generated in 2018. The increase in revenue is mainly attributable to a number of revised rental contracts in line with market rates as well as rental income receivable from the Phoenix Business Centre.

The Phoenix Business Centre was acquired on 26 September, 2018 with three levels from five already in a finished state and leased to retail and commercial tenants, thus a full twelve months of rental income was received from these three particular levels during the year under review compared to only 3 months in 2018. The remaining two levels were completed and finished in June 2019, with rental income starting to accrue for one of these levels as from 1 October 2019. A rental contract was also agreed during the latter part of the year under review for a large portion of the final remaining level, with rent starting to accrue as from 1 January 2020.

Directors' report - continued

Outlook for 2020

Despite the emergence of the COVID-19 pandemic, the directors expect that the company will be able to honour its obligations with particular reference to the interest payable on its listed bonds. This assessment takes into account a detailed assessment made by its guarantor when assessing its ability to operate as a going concern in the coming year. Reference is also made to Note 17 to these financial statements - "Events after the end of the reporting period".

Financial risk management

The company's activities expose it to a variety of financial risks, including credit risk and liquidity risk. Refer to Note 2 to these financial statements.

Results and dividends

The statement of comprehensive income is set out on page 27. The directors do not recommend the payment of a dividend. Profits carried forward at the reporting date amounted to €25,007.

Directors

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

Alexander Montanaro
Jean Marc Montanaro
Michael Montanaro
Mario P. Galea
Kevin Valenzia
Lawrence Zammit

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

Directors' report - continued

Statement of directors' responsibilities for the financial statements

The directors are required by the Companies Act, to prepare financial statements which give a true and fair view of the state of affairs of the 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 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 of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Exalco Finance p.l.c. for the period ended 31 December 2019 are included in the Annual Report 2019, which may be accessed on the Exalco 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.

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

- the financial statements give a true and fair view of the financial position of the company as at 31 December 2019, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that the company and the guarantor face.

Going concern statement pursuant to Listing rule 5.62

After making the enquiries considered necessary and appropriate, the directors, at the time of approving the financial statements, have determined that it is reasonable to assume that the company has adequate resources to continue operating for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

Directors' report - continued

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



Alexander Montanaro
Director



Jean Marc Montanaro
Director

Registered office:
Exalco Finance p.l.c.
Cornerstone Business Centre
Level 4
16 September Square
Mosta MST 1180
Malta

Telephone (+356) 2142 4430

Malcolm Falzon
Company secretary

29 April 2020

Corporate governance - Statement of compliance

1. Introduction

Pursuant to the Listing Rules issued by the Listing Authority, Exalco Finance p.l.c. should endeavour to adopt the Code of Principles of Good Corporate Governance contained in Appendix 5.1 to Chapter 5 of the Listing Rules (the “**Code**”). In terms of Listing Rule 5.94, the company hereby reports on the extent of its adoption of the principles of the Code for the financial period being reported upon.

The company acknowledges that the Code does not dictate or prescribe mandatory rules, but recommends principles of good practice. However, the directors strongly believe that such practices are generally in the best interests of the company and its shareholders and that compliance with the principles of good corporate governance is not only expected by investors but also evidences the directors’ and the company’s commitment to a high standard of good governance.

Good corporate governance is the responsibility of the board of directors of the company (the “**Board of Directors**” or the “**Board**”), and in this regard the Board has carried out a review of the company’s compliance with the Code for the financial period being reported upon.

2. General

The company’s governance lies principally with its Board, which is responsible for the overall determination of the company’s policies and business strategies. The company’s principal activity is the carrying on the business of a finance company; the company does not itself carry on any trading activities apart from the raising of capital and advancing thereof to Exalco Properties Limited, a private limited liability company registered in Malta with company number C11273 having its registered office at Cornerstone Business Centre, Level 4, 16th September Square, Mosta, MST 1180, Malta, in its capacity as the guarantor (the “**Guarantor**”) of the €15,000,000 4% secured bonds of a nominal value of €100 (the “**Bonds**”), as and when the demands of its business so requires. The Guarantor’s principal activity, in turn, revolves around the acquisition of real estate for long-term investment purposes, the development and re-development of those properties and their conversion into commercial properties, and thereafter, the provision of property management services.

The company has adopted a corporate decision-making and supervisory structure that is tailored to suit its requirements and designed to ensure the existence of adequate controls and procedures within the company, whilst retaining an element of flexibility essential to allow the company to react promptly and efficiently to circumstances arising in respect of its business, taking into account its size and the economic conditions in which it operates. The directors are of the view that it has employed structures which are most suitable and complementary for the size, nature and operations of the company. Accordingly, in general the directors believe that the company has adopted appropriate structures to achieve an adequate level of good corporate governance, together with an adequate system of control in line with the company’s requirements.

This corporate governance statement (the “**Statement**”) will now set out the structures and processes in place within the company and explains how these effectively achieve the goals set out in the Code. For this purpose, this Statement will make reference to the pertinent principles of the Code and then set out the manners in which the directors believe that these have been adhered to. Where the company has not complied with any of the principles of the Code, this Statement will provide an explanation for the non-compliance.

It is to be noted that reference in this Statement to compliance with the principles of the Code means compliance with the Code’s main principles and provisions.

Corporate governance - Statement of compliance - continued

3. Compliance with the Code

Principles One to Five

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

The directors believe that for the period under review the company has generally complied with the requirements for each of these principles.

Principle One: The Board

The Board is composed of members who are fit and proper to direct the business of the company with honesty, competence and integrity. All the members of the Board are fully aware of, and conversant with, the statutory and regulatory requirements connected to the business of the company. The Board is accountable to shareholders and other relevant stakeholders for its performance and that of its delegates.

The Board is responsible for determining the company's strategic aims and organisational structure, whilst ensuring that the company has the appropriate mix of financial and human resources to meet its objectives and improve its performance.

The Board consists of a mix of executive and non-executive directors that enables the Board, and particularly the non-executive directors, to have direct information about the company's performance and business activities.

Principle Two: Chairman and Chief Executive

Alexander Montanaro was appointed as the Chairman of the Board for the period under review. The Chairman's main function is to lead the Board and set its agenda, a function which the Board believes has been conducted in compliance with the dictates of Code Provision 2.2. The Chairman is also responsible to ensure that the Board receives precise, timely and objective information in order for the directors to take sound decisions and effectively monitor the performance of the company. The Chairman ensures that there is effective communication with stakeholders and, during board meetings, that there is active engagement by all directors for the discussion of complex and/or contentious issues. The Board considers that notwithstanding that the Chairman is not an independent director as recommended by the Code, the means for addressing potential conflicts of interest are suitably addressed in statute of the company and terms of reference of the Audit Committee of the Company. Furthermore, the Board considers the present Chairman to be fit and proper to occupy the role.

In terms of Article 74.1 of the Articles of Association of the company, the Board of Directors may from time to time appoint one or more executive directors to the office of Chief Executive Officer of the company, and on such terms as they think fit. As at the end of the period under review, the Board has not appointed a Chief Executive Officer.

Principle Three: Composition of the Board

The composition of the Board, in line with the requirements of Principle Three of the Code, is composed of executive and non-executive directors, including independent non-executives, as follows:

Alexander Montanaro	Executive Director & Chairman
Jean Marc Montanaro	Executive Director
Michael Montanaro	Executive Director
Lawrence Zammit	Independent Non-Executive Director
Mario P. Galea	Independent Non-Executive Director
Kevin Valenzia	Independent Non-Executive Director

Corporate governance - Statement of compliance - continued

Appointment and Removal of Directors

Pursuant to generally accepted practices, as well as the company's Articles of Association, the appointment of directors to the Board is reserved exclusively to the company's shareholders, except in so far as an appointment is made to fill a vacancy on the Board, which may be filled, by co-option, made by the Board on the recommendation of the Nominations Committee.

The Articles of Association regulate the appointment of directors. Any one or more shareholders who in aggregate hold not less than 100,000 shares having voting rights in the company are entitled to nominate fit and proper persons having the appropriate level and mix of skills, knowledge and experience required for appointment to the Board, for appointment as directors of the company, such nominations being subject to the approval of the Nominations Committee. In addition, nominations may be made by the Board or the Nominations Committee itself for consideration by the shareholders at the annual general meeting of the company.

As referred to in Principle Eight B of this Statement hereunder, notwithstanding the aforesaid, the Board believes that the setting up of a Nominations Committee is not required at this point in time in view of the fact that the Board itself has the authority to recommend and nominate directors. The Board however intends to keep under review the possibility of having a Nominations Committee in due course.

A director may be removed at any time by the ordinary resolution of the shareholders of the company, or in any of the specific instances set out in the Articles of Association of the company.

Independence of Non-Executive Directors

In line with supporting principle 3 (iii) of main Principle Three, at least one third of the Board consists of non-executive directors. These non-executive directors play an important role in overseeing executive directors and management, ensuring a system of checks and balances and contributing to the strategic direction of the company in an objective manner.

For the purposes of Code Provision 3.2, the Board considers each of the non-executive directors as independent within the meaning of the Code.

None of the non-executive directors:

- (a) are or have been employed in any capacity by the company;
- (b) receive significant additional remuneration from the company;
- (c) have close family ties with any of the executive members of the Board;
- (d) have been within the last three years an engagement partner or a member of the audit team of the present or past external auditor of the company; and
- (e) have a significant business relationship with the company.

In terms of Code Provision 3.4, each non-executive director has declared in writing to the Board that he undertakes:

- to maintain in all circumstances his independence of analysis, decision and action;
- not to seek or accept any unreasonable advantages that could be considered as compromising his independence; and
- to clearly express his opposition in the event that he finds that a decision of the Board may harm the company.

Corporate governance - Statement of compliance - continued

Principle Four: The Responsibilities of the Board

In terms of Principle Four, it is the Board's responsibility to ensure a system of accountability, monitoring, strategy formulation and policy development.

The Board of the company is entrusted with the overall direction, administration and management of the company and meets on a regular basis to discuss and take decisions on matters concerning the strategy, operational performance and financial performance of the company. The Board may also delegate specific responsibilities to *ad-hoc* Committees as may be required from time to time, and in the period under review, the Board has maintained an Audit Committee.

Role and Responsibilities of the Board

The role of the Board is exercised in a manner designed to ensure that it can function independently of management and effectively supervises the operations of the company. At each of its meetings, the Board is presented with monthly or quarterly (as applicable) management accounts covering the period since the preceding board meeting.

In fulfilling its mandate, the Board assumes responsibility to:

- a) Establish appropriate corporate governance standards;
- b) Review, evaluate and approve, on a regular basis, long-term plans for the company;
- c) Review, evaluate and approve the company's budgets and forecasts;
- d) Review, evaluate and approve major resource allocations and capital investments;
- e) Review the financial and operating results of the company;
- f) Ensure appropriate policies and procedures are in place to manage risks and internal control;
- g) Review, evaluate and approve the overall corporate organisation structure, the assignment of management responsibilities and plans for senior management development including succession;
- h) Review, evaluate and approve compensation to senior management; and
- i) Review periodically the company's objectives and policies relating to social, health and safety and environmental responsibilities.

In fulfilling its responsibilities, the Board continuously assesses and monitors the company's present and future operations, opportunities, threats and risks in the external environment, and its current and future strengths and weaknesses. The Board evaluates and reviews the implementation of the business and financial strategy of the company.

In ensuring compliance with other statutory requirements and with continuing listing obligations, the Board is advised directly, as appropriate, by its appointed legal and other advisors. Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the company's expense.

The Board does not consider it necessary to constitute separate committees to deal, *inter alia*, with item (h) above, as might be appropriate in a larger company. The Board believes that the size of the company and the Board itself does not warrant the setting up of an *ad hoc* committee to establish the remuneration packages of individual directors and relies on the constant scrutiny of the Board itself, the company's shareholders, the market and the rules by which the company is regulated as a listed company. The Board shall retain this matter under review over the coming year.

During the financial year under review, the Board held four (4) meetings.

Corporate governance - Statement of compliance - continued

The Audit Committee

In line with the requirements of the Listing Rules, the company has established an Audit Committee whose principal role is the monitoring of internal systems and control.

Composition of the committee

The members of the Audit Committee for the period under review were Mario P. Galea, Kevin Valenzia and Lawrence Zammit, all occupying a non-executive director role within the Company. Mario P. Galea occupied the post of Chairman of the Audit Committee during the financial year under review. Such role, which is subject to rotation between the members on an annual basis is vested in Kevin Valenzia in the financial year ending 31 December 2020. Mario P. Galea and Kevin Valenzia are the Audit Committee members who are considered to be competent in accounting and/or auditing in terms of Listing Rule 5.117. The Directors believe that all three Audit Committee members satisfy the independence criteria as they are independent within the meaning of the Code as explained above in this Statement.

Duties and responsibilities

The Audit Committee's primary objective is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structure. The Audit Committee reports directly to the Board. Briefly, the Audit Committee is expected to deal with and advise the Board on:

- a. its monitoring responsibility over the financial reporting processes, financial policies and internal control structures;
- b. maintaining communications on such matters between the Board, management and the external auditors; and
- c. preserving the company's assets by assessing the company's risk environment and determining how to deal with those risks.

Related party transactions

In addition, the Audit Committee has the role and function of evaluating any proposed transaction to be entered into by the company and a related party (which term shall have the same meaning as in the International accounting standards adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council) to ensure that the execution of any such transaction is at arm's length, on a commercial basis and ultimately in the best interests of the company.

Any proposed transaction which the company wishes to enter into and which satisfies either of the following conditions shall be referred to the Audit Committee for its consideration and approval:

- (i) transactions which clearly fall within the ambit of the Listing Rules as related party transactions and which are not the subject of an exemption therefrom;
- (ii) transactions in respect of which management is not certain as to whether they fall within the ambits of the Listing Rules as related party transactions or in respect of which there is uncertainty as to whether any one or more exemptions should apply to the proposed transactions.

Corporate governance - Statement of compliance - continued

The Audit Committee - continued

Related party transactions - continued

At the meeting convened for this purpose, the Audit Committee shall consider the proposed transaction and first determine whether it is a transaction that falls within the ambit of the applicable Listing Rules and, if it so determines, shall then consider the merits of the proposed transaction.

In its evaluation of the proposed transaction, the Audit Committee is at all times guided by the best interests of the company and its general body of shareholders taken as a whole. The Audit Committee reports to the Board on its findings and makes its recommendations to the Board as to whether the transaction should be entered into in the first place and to make such further recommendations as to any matters that, in the opinion of the Audit Committee, need to be reviewed or improved in the proposed transaction or any of its terms so as to ensure that the best interests of the Company are properly safeguarded.

Oversight role

The Audit Committee of the company has a crucial role in monitoring the activities and conduct of business of the Guarantor, insofar as these may affect the ability of the company to fulfil its obligations in terms of the Bonds. Such role is specified in the Audit Committee's Terms of Reference and also forms the subject of a contractual undertaking by the company in favour of the Guarantor in terms of the loan agreement relative to the bond proceeds, pursuant to which the Guarantor has vested the Audit Committee of the company with certain monitoring functions in light of the company's economic dependence on the Guarantor.

The Audit Committee also oversees the conduct of the external audit and facilitates communication between the Company's Board, management and external auditors. When the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on the action needed to address the issue or make improvements.

Conflicts of interest

Furthermore, the Audit Committee is vested with the task of ensuring that any potential conflicts of interest between the duties of the directors and their respective private interests or duties unrelated to the company are resolved in the best interests of the company.

Terms of reference

The terms of reference of the Audit Committee, approved by the Board, are modelled on the recommendations of the Listing Rules.

Committee meetings

The Audit Committee shall meet at least four (4) times a year, with additional meetings to be called upon at the discretion of the Chairman of the Audit Committee. In the period under review, the Audit Committee met four (4) times.

Corporate governance - Statement of compliance - continued

Principle Five: Board Meetings

The Board believes that it complies fully with the requirements of this principle and the relative Code Provisions, in that it has systems in place to ensure the reasonable notice of meetings of the Board and the circulation of discussion papers in advance of meetings so as to provide adequate time to Directors to prepare themselves for such meetings. Minutes of Board meetings record attendance, discussions and resolutions. These minutes are circulated to all Directors as soon as practicable after the meeting, for approval.

The Board meets as often and as frequently required in line with the nature and demands of the business of the company. Directors attend meetings on a frequent and regular basis and dedicate the necessary time and attention to their duties as directors of the company. The following reports the attendance at board meetings of each of the Directors during the period under review:

Alexander Montanaro	Executive Director & Chairman	[4]
Jean Marc Montanaro	Executive Director	[4]
Michael Montanaro	Executive Director	[3]
Lawrence Zammit	Non-Executive Director	[4]
Mario P. Galea	Non-Executive Director	[4]
Kevin Valenzia	Non-Executive Director	[4]

The Chairman ensures that all issues relevant to long-term strategic and short-term performance of the company are placed on the agenda of Board meetings and, for the purpose of discussion thereon, are supported by all available information, whilst encouraging the presentation of views pertinent to the subject matter and giving all directors every opportunity to contribute to the discussion.

Principle Six: Information and Professional Development

The Board believes that this principle has been duly complied with for the period under review. The Board actively engages with the Guarantor's management team, which is effectively composed of the three executive directors of the Company, in the review of their and the Guarantor's performance. The Board ensures that all directors are supplied with precise, timely and clear information so as to enable them to effectively contribute to board decisions in line with the high standards expected of them.

Directors have access to the advice and services of the Company Secretary who is also the legal counsel to the Board and the company, in order to ensure that each director is aware of his legal and fiduciary obligations. The company is also prepared to bear the expense incurred by the directors requiring independent professional advice should they judge it necessary to discharge their responsibilities as directors. The Company pledges to make available to the directors all training and advice as required.

Principle Seven: Evaluation of the Board's performance

The Board is of the view that over the period under review, all members of the Board, individually and collectively, have contributed to proceedings in line with the required levels of diligence and skill. In addition, the Board believes that its current composition endows the Board with a cross-section of skills and experience and achieves the appropriate balance required for it to function effectively. The Board considers its own performance, and that of the Audit Committee having oversight of the underlying business conducted by the Guarantor, as satisfactory and not meriting a revision to the company's corporate governance structures.

Corporate governance - Statement of compliance - continued

Principle Eight: Committees

Principle Eight A of the Code deals with the establishment of a Remuneration Committee for the company aimed at developing policies on remuneration for Directors and senior executives and devising appropriate remuneration packages.

The size and structure of the company and its management are such that, in the opinion of the directors, the establishment of an *ad hoc* Remuneration Committee is not warranted. Remuneration policies have therefore been retained within the remit of the Board itself.

Remuneration Statement

In terms of Article 63 of the Articles of Association of the company, the aggregate emoluments of all directors in any one financial year, and any increases thereto, shall be such amount as may from time to time be determined by the company in general meeting. The maximum aggregate annual directors' emoluments currently approved by the shareholders, including salaries due in respect of executive roles, amount to €30,000.

The aggregate amount of remuneration paid to all directors of the company for the period under review was €30,000. Each director received an annual remuneration of €5,000.

All of the directors are party to a service contract with the company, setting out their respective roles and responsibilities, and applicable remuneration.

Principle Eight B of the Code deals with the requirement of a formal and transparent procedure for the appointment of Directors.

Nominations Committee

The Board believes that the main principle has been duly complied with to the extent that the Articles of Association establish a formal and transparent procedure for the appointment and nomination of Directors, and provide for the establishment of the Nominations Committee. The company has however so far not established a Nominations Committee as suggested by the Code.

The Board takes on the role of periodically assessing the skills, knowledge and experience of individual directors necessary for the board to have the appropriate level of skill, competence and experience that would endow the board with the requisite collective knowledge and skill necessary for the proper functioning of the company and its oversight by the Board of Directors.

Principles Nine and Ten: Relations with Shareholders and with the Market, and Institutional Shareholders

The Company is highly committed to having an open and communicative relationship with its investors. The publication of interim and annual financial statements and ongoing company announcements keep bondholders informed on developments relevant to their investment. Specifically with respect to the latter, the Board serves the legitimate interests of the company, and ensures that the company communicates with the market effectively and in a timely manner through a number of company announcements that it publishes, informing the market of significant events relevant to the company and its business. The company recognises the importance of maintaining a dialogue with the market to ensure that its strategies and performance are well understood and disclosed to the market in a timely manner.

As a source of further information to the market, the company's website (<http://www.exalco.com/investor-relations/>) also contains information about the company and its business and developments.

Corporate governance - Statement of compliance - continued

Principle Eleven: Conflicts of Interest

It is the practice of the Board that when a potential conflict of interest arises in connection with any transaction or other matter, the potential conflict of interest is declared so that steps may be taken to ensure that such items are appropriately addressed. The steps taken will depend on the circumstances of the particular case, and may include the setting up of *ad-hoc* committees of independent Directors that would assist and monitor management as appropriate in the execution of specific transactions. By virtue of the Memorandum and Articles of Association, the Directors are obliged to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with that of the company. The Board member concerned shall not take part in the assessment by the Board as to whether a conflict of interest exists. A director shall not vote in respect of any contract, arrangement, transaction or proposal in which he has material interest in accordance with the Memorandum and Articles of Association. The Board believes that this is a procedure that achieves compliance with both the letter and rationale of principle eleven.

In situations giving rise to potential conflicts of interest, the conflicted Directors are to act in accordance with the majority decision of those Directors who are not conflicted in the proposed contract, transaction or arrangement, and in line with the advice of outside legal counsel where such is solicited.

Related Party Transactions

Other than what is disclosed on page 42 Note 16, the Directors are not aware of any related party transactions having been entered into by the company up until the period under review.

Principle Twelve: Corporate Social Responsibility

The Directors are committed to high standards of ethical conduct and to contribute to the development of the local community and society at large. The company recognises the importance of its role in the corporate social responsibility arena and seeks to ensure that in its operations the environment is respected. The Directors are also aware of the importance of having good relations with stakeholders and strive to work together with them in order to invest in human capital and safety issues and to adopt environmentally friendly responsible practices.

Corporate governance - Statement of compliance - continued

4. Non-Compliance with the Code

The directors set out below the Code Provisions with which the company does not comply and an explanation as to the reasons for such non-compliance:

Code Provision	Explanation
2.1	Although the Articles of Association of the company allow for the appointment of a Chief Executive Officer, no such officer has been appointed for the period under review. In addition, the division of their responsibilities has not been set out in writing.
2.3	With respect to Code Provision 2.3, the Board notes that the Chairman is also an executive member of the Board. However, the Board is of the view that this function of the Chairman does not impinge on his ability to bring to bear independent judgement to the Board.
4.2	The Board has not formally developed a succession policy for the future composition of the Board of Directors as recommended by Code Provision 4.2.7.
7.1	The Board has not appointed a committee for the purpose of undertaking an evaluation of the Board's performance in accordance with the requirements of Code Provision 7.1. The Board believes that the size of the company and the Board itself does not warrant the establishment of a committee specifically for the purpose of carrying out a performance evaluation of its role. Whilst the requirement under Code Provision 7.1 might be useful in the context of larger companies having a more complex set-up and a larger Board, the size of the company's Board is such that it should enable it to evaluate its own performance without the requirement of setting up an <i>ad-hoc</i> committee for this purpose. The Board shall retain this matter under review over the coming year.
8A	The Board has not appointed a Remuneration Committee in line with Code Provision 8A. The Board believes that the size of the company and the Board itself does not warrant the setting up of an ad hoc committee to establish the remuneration packages of individual directors, and relies on the constant scrutiny of the Board itself, the company's shareholders, the market and the rules by which the company is regulated as a listed company. In addition, the Board took into consideration the fact that the remuneration of the Board is not performance related. The Board intends to keep under review the utility and possible benefits of having a Remuneration Committee in due course.

Corporate governance - Statement of compliance - continued

4. Non-Compliance with the Code - continued

Code Provision	Explanation
8B	<p>The Board has not appointed a Nominations Committee in line with Code Provision 8B. Pursuant to the Company's Articles of Association, the appointment of directors to the Board may be made by nominations made by any one or more shareholders who in aggregate hold not less than 100,000 shares having voting rights in the Company or the Board (or Nominations Committee) itself may make recommendations and nominations of fit and proper persons to the shareholders for the appointment of directors at the annual general meeting. Within this context, the Board believes that the setting up of a Nominations Committee is not required since the Board itself has the authority to recommend and nominate directors. Notwithstanding this, the Board intends to keep under review the matter relating to the setting up of a Nominations Committee.</p>
9.3	<p>There are no formal procedures in place within the company for the resolution of conflicts between minority and controlling shareholders, nor does the Memorandum and Articles of Association of the company contemplate any mechanism for arbitration in these instances.</p>
9.4	<p>The company does not have a policy in place to allow minority shareholders to present an issue to the Board. In practice, however, the open channel of communication between the company and minority shareholders via the Office of the Company Secretary is such that any issue that may merit bringing to the attention of the Board may be transmitted via the Company Secretary, who is in attendance at all meetings of the Board of Directors. Notwithstanding the aforesaid, the company considers that in light of both its present shareholding structure and the fact that the minority shareholder is represented on the Board of Directors of the company, the concerns sought to be addressed by this particular policy are, in practice, duly addressed.</p>