# EXALCO HOLDINGS LIMITED

## Annual Report and Consolidated Financial Statements
## 31 December 2019

Company Registration Number: C 86836

# Directors' report

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

### Principal activities

The group's main business comprises the acquisition, development, managing and leasing of commercial property in Malta. All properties are retained by the group to generate rental and management revenues.

Exalco Finance plc, a subsidiary company, was incorporated on 17 July 2018, to carry on the business of a finance company, and the financing or re-financing of the funding requirements of the business of the group.

Exalco Properties Limited, also a subsidiary company of Exalco Holdings Limited, owns and manages six business centres in prime locations across Malta. Its primary activity is the acquisition and development of high-quality business centres and the leasing and management of office and retail space to third parties.

### Financial Position of the Group

The group's total asset base stands at €68.2 million (2018: €68.3 million). The group's asset base is 58.3% (2018: 55.5%) funded through equity. Non-current assets comprises mainly investment property amounting to €62.3 million (2018: €61.5 million).

The group's main liabilities are borrowings consisting of bank loans amounting to €5.9 million (2018: €7.9 million) and €14.7million in bonds.

As at 31 December 2019, the group's current assets amounted to €3.0 million (2018: €4.4 million) and are represented by trade and other receivables of €1.0 million (2018: 0.7 million) and cash of €2.0 million (2018: €3.7million).

Current liabilities amounted to €2.8 million (2018: €3.2 million) consisting mainly of trade and other payables of €1.9million (2018: €2.0 million).

### Financial Performance of the Group

The group's financial results for the year ended 31 December, 2019 show a profit before tax of €2.5 million compared to a profit before tax of €2.3 million registered during the 2018 financial year.

The group generated revenue of €4.3million (2018: €3.8 million). 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 in Santa Venera. 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 group's finance costs amounting to €0.8million (2018: €0.6million) comprise interest payable on bank loans and interest payable on the outstanding bond issue and amortisation of the issued costs thereof.

## Directors' report - continued

### Developments in 2019

As planned, the remaining two levels of the Phoenix Business Centre were completed and finished in June 19, 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 for a large portion of the final remaining level, with rent starting to accrue as from 1 January 2020.

### Outlook for 2020

Due to the outbreak of the COVID-19 pandemic in recent months, the group's focus is now firmly on monitoring the situation on an ongoing basis, with a view primarily to mitigating as far as possible the negative impact this event will undoubtedly have on the group's operations throughout 2020 and possibly beyond. Using the best judgment at the time of approving these financial statements, an impact assessment has been carried out by the group, including the review of different scenarios. Cashflows have been reviewed and measures have been put in place to sustain the business over the next 12 months. Reference is also made to Note 28, Events after the end of the reporting period to these financial statements.

### Financial risk management

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. Further information on these risks is included in Note 2 to the financial statements.

### Results and dividends

The income statements are set out on page 10. During the year, the directors declared a net dividend of €100,000 (2018: €90,001).

### Directors

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

Alexander Montanaro
Jean Marc Montanaro
Michael Montanaro

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

### Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese 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.

## Directors' report - continued

**Statement of directors' responsibilities for the financial statements** - continued

The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, 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.

**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:
Cornerstone Business Centre
Level 4
16 September Square
Mosta MST1180

29 April 2020

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# *Independent auditor's report*

To the Shareholders of Exalco Holdings Limited

## *Report on the audit of the financial statements*

### *Our opinion*

In our opinion:

- Exalco Holdings Limited's Group and the Parent Company, financial statements (the ' financial statements') give a true and fair view of the Group's and the Parent Company's financial position as at 31 December 2019, and of the Group's and Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

**What we have audited**

Exalco Holdings Limited's financial statements, set out on pages 8 to 46, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2019;
- the Consolidated and Parent Company income statements for the year ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies.

### *Basis for opinion*

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

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

**Independence**

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

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# *Independent auditor's report - continued*

To the Shareholders of Exalco Holdings Limited

## *Emphasis of matter*

We draw attention to Note 28 to these financial statements in which management has described the uncertainties associated with the impact of the COVID-19 pandemic on the group's operation with particular reference to the group investment properties. This matter is considered to be of fundamental importance to the understanding of the financial statements due to its nature and significance. Our opinion is not modified in respect of this matter.

## *Other information*

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

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

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

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

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

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

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

## *Responsibilities of the directors for the financial statements*

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

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

# *Independent auditor's report - continued*

To the Shareholders of Exalco Holdings Limited

## *Auditor's responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group and company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the group and company's trade, customers and suppliers, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# *Independent auditor's report - continued*

To the Shareholders of Exalco Holdings Limited

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

## *Report on other legal and regulatory requirements*

### *Other matters on which we are required to report by exception*

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

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.

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

**PricewaterhouseCoopers**
78, Mill Street
Qormi
Malta

Stefan Bonello
Partner

29 April 2020

## Statements of financial position

| | | As at 31 December | | | |
|---|---|---|---|---|---|
| | | Group | | Company | |
| | | **2019** | 2018 | **2019** | 2018 |
| | Notes | **€** | € | **€** | € |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 4 | **448,554** | 451,838 | **-** | - |
| Investment property | 5 | **62,282,092** | 61,450,857 | **-** | - |
| Investments in subsidiaries | 6 | **-** | - | **36,832,366** | 36,832,366 |
| Loan receivable from related party | 7 | **2,482,061** | 2,032,980 | **-** | - |
| Total non-current assets | | **65,212,707** | 63,935,675 | **36,832,366** | 36,832,366 |
| **Current assets** | | | | | |
| Trade and other receivables | 8 | **1,015,705** | 667,661 | **92,225** | - |
| Cash and cash equivalents | 9 | **1,951,594** | 3,701,557 | **432** | 1,165 |
| Total current assets | | **2,967,299** | 4,369,218 | **92,657** | 1,165 |
| **Total assets** | | **68,180,006** | 68,304,893 | **36,925,023** | 36,833,531 |

## Statements of financial position - continued

| | | As at 31 December | | | |
|---|---|---|---|---|---|
| | | Group | | Company | |
| | Notes | 2019 € | 2018 € | 2019 € | 2018 € |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | 10 | **10,000** | 10,000 | **10,000** | 10,000 |
| Capital reserve | 11 | **2,831,165** | 2,831,165 | **36,573,532** | 36,573,532 |
| Valuation reserves | 13 | **30,322,095** | 30,328,032 | **-** | - |
| Retained earnings | | **6,560,656** | 4,724,382 | **235,341** | 249,214 |
| Total equity | | **39,723,916** | 37,893,579 | **36,818,873** | 36,832,746 |
| **Non-current liabilities** | | | | | |
| Borrowings | 14 | **20,280,033** | 21,879,607 | **-** | - |
| Deferred tax liabilities | 15 | **4,684,590** | 4,685,790 | **-** | - |
| Trade and other payables | 16 | **645,387** | 678,364 | **-** | - |
| Total non-current liabilities | | **25,610,010** | 27,243,761 | **-** | - |
| **Current liabilities** | | | | | |
| Borrowings | 14 | **379,419** | 732,893 | **-** | - |
| Trade and other payables | 16 | **1,907,174** | 1,970,394 | **106,150** | 785 |
| Current tax liability | | **559,487** | 464,266 | **-** | - |
| Total current liabilities | | **2,846,080** | 3,167,553 | **106,150** | 785 |
| Total liabilities | | **28,456,090** | 30,411,314 | **106,150** | 785 |
| **Total equity and liabilities** | | **68,180,006** | 68,304,893 | **36,925,023** | 36,833,531 |

The notes on pages 14 to 46 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 8 to 46 were authorised for issue by the board of directors on 29 April 2020 and were signed on its behalf by:

Alexander Montanaro
Director

Jean Marc Montanaro
Director

## Income statements

| | | Year/Period ended 31 December | | | |
|---|---|---|---|---|---|
| | | Group | | Company | |
| | | **2019** | 2018 | **2019** | 2018 |
| | Notes | **€** | € | **€** | € |
| Revenue | 17 | **4,334,597** | 3,806,838 | **100,000** | 340,000 |
| Direct operating expenses | 18 | **(631,704)** | (515,926) | **-** | - |
| Administrative expenses | 18 | **(440,224)** | (414,429) | **(13,567)** | (785) |
| **Operating profit** | | **3,262,669** | 2,876,483 | **86,433** | 339,215 |
| Investment income | 20 | **-** | 92,500 | **-** | - |
| Finance income | | **76,192** | 26 | **-** | - |
| Finance costs | 21 | **(845,116)** | (634,950) | **(306)** | - |
| **Profit before tax** | | **2,493,745** | 2,334,059 | **86,127** | 339,215 |
| Tax expense | 23 | **(557,471)** | (536,072) | **-** | - |
| **Profit for the year/period** | | **1,936,274** | 1,797,987 | **86,127** | 339,215 |

The notes on pages 14 to 46 are an integral part of these consolidated financial statements.

## Statements of changes in equity

**Group**

| | Notes | Share capital € | Capital reserve € | Other reserves € | Retained earnings € | Total € |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2018** | | 2,840,000 | - | 30,270,332 | 3,074,096 | 36,184,428 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | - | 1,797,987 | 1,797,987 |
| **Other comprehensive income** | | | | | | |
| Fair value of investment property (net of deferred tax) | 5,15 | - | - | 57,700 | (57,700) | - |
| **Transactions with owners** | | | | | | |
| Issue of share capital (before group restructuring) | | 1,165 | - | - | - | 1,165 |
| Increase of share capital (after group restructuring) | | 8,835 | (8,835) | - | - | - |
| Impact of group restructuring on share capital | 10,11 | (2,840,000) | 2,840,000 | - | - | - |
| Dividends paid | 24 | - | - | - | (90,001) | (90,001) |
| Total transactions with owners | | (2,830,000) | 2,831,165 | - | (90,001) | (88,836) |
| **Balance at 31 December 2018** | | **10,000** | **2,831,165** | **30,328,032** | **4,724,382** | **37,893,579** |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | - | 1,936,274 | 1,936,274 |
| **Other comprehensive income** | | | | | | |
| Fair value of investment property (net of deferred tax) | 13 | - | - | (5,937) | - | (5,937) |
| **Transactions with owners** | | | | | | |
| Dividends | 24 | - | - | - | (100,000) | (100,000) |
| **Balance at 31 December 2019** | | **10,000** | **2,831,165** | **30,322,095** | **6,560,656** | **39,723,916** |

The notes on pages 14 to 46 are an integral part of these consolidated financial statements.

## Statements of changes in equity - continued

| | Notes | Share capital € | Share premium € | Retained earnings € | Total equity € |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **Balance at 27 June 2018** | | - | - | - | - |
| **Comprehensive income** | | | | | |
| Profit for the period | | - | - | 339,215 | 339,215 |
| **Transactions with owners** | | | | | |
| Issue of share capital | 10 | 1,165 | - | - | 1,165 |
| Increase in share capital (due to share exchange) | 10,11 | 8,835 | 36,573,532 | - | 36,582,367 |
| Dividends paid | 24 | - | - | (90,001) | (90,001) |
| Total transactions with owners | | 10,000 | 36,573,532 | (90,001) | 36,493,531 |
| **Balance at 31 December 2018** | | **10,000** | **36,573,532** | **249,214** | **36,832,746** |
| **Comprehensive income** | | | | | |
| Profit for the year | | - | - | 86,127 | 86,127 |
| **Transactions with owners** | | | | | |
| Dividends | 24 | - | - | (100,000) | (100,000) |
| **Balance at 31 December 2019** | | **10,000** | **36,573,532** | **235,341** | **36,818,873** |

The notes on pages 14 to 46 are an integral part of these consolidated financial statements.

## Statements of cash flows

| | Notes | Group 2019 € | Group 2018 € | Company 2019 € | Company 2018 € |
|---|---|---|---|---|---|
| | | As at 31 December | | | |
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(used in) operations | 25 | **2,744,175** | 3,178,831 | **(100,427)** | - |
| Dividends received | | **-** | - | **100,000** | 340,000 |
| Interest paid | | **(845,116)** | (634,950) | **(306)** | - |
| Interest received | | **76,192** | 26 | **-** | - |
| Income tax paid | | **(462,250)** | (334,976) | **-** | - |
| Net cash generated from/(used in) operating activities | | **1,513,001** | 2,208,931 | **(733)** | 340,000 |
| **Cash flows from investing activities** | | | | | |
| Purchases of property, plant and equipment | | **-** | (2,059) | **-** | - |
| Purchases of investment property | | **(843,235)** | (6,926,549) | **-** | - |
| Proceeds from disposal of investment property | | **12,400** | - | **-** | - |
| Additions in investment in subsidiaries | | **-** | - | **-** | (249,999) |
| Advances of loan to a related party | | **(449,081)** | (2,032,980) | **-** | - |
| Net cash used in investing activities | | **(1,279,916)** | (8,961,588) | **-** | (249,999) |
| **Cash flows (used in)/from financing activities** | | | | | |
| Issue of share capital | | **-** | 1,165 | **-** | 1,165 |
| Issue of €15,000,000 4% bonds | | **-** | 15,000,000 | **-** | - |
| Issue costs | | **-** | (300,000) | **-** | - |
| Repayment of bank borrowings | | **(2,099,313)** | (10,952,957) | **-** | - |
| Proceeds from bank borrowings | | **116,265** | 7,900,000 | **-** | - |
| Repayment of advances from shareholders | | **-** | (582,694) | **-** | - |
| Dividends paid to company's shareholders | | **-** | (90,001) | **-** | (90,001) |
| Net cash (used in)/generated from financing activities | | **(1,983,048)** | 10,975,513 | **-** | (88,836) |
| **Net movement in cash and cash equivalents** | | **(1,749,963)** | 4,222,856 | **(733)** | 1,165 |
| **Cash and cash equivalents at beginning of year/period** | | **3,701,557** | (521,299) | **1,165** | - |
| **Cash and cash equivalents at end of year/period** | 9 | **1,951,594** | 3,701,557 | **432** | 1,165 |

The notes on pages 14 to 46 are an integral part of these consolidated 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**

Exalco Holdings Limited was incorporated on 27 June 2018 under the terms of the Maltese Companies Act, 1995. On 6 July 2018, Exalco Holdings Limited acquired a 100% shareholding in Exalco Properties Limited in exchange for the issue of shares to the shareholders of this company, which are the same shareholders of the holding company. On 17 July 2018, the company incorporated Exalco Finance p.l.c, which in turn issued a bond to the general public of €15,000,000.

The substance of this transaction was that of a group restructuring and accordingly the provisions in respect of business combinations set out in IFRS 3 are not applicable. In accordance with generally accepted accounting principles, the transaction has been accounted for in the consolidated financial statements as a restructuring, and these accounts have been compiled as if the company, was the parent company of the group from incorporation.

These consolidated financial statements include the financial statements of Exalco Holdings Limited and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial information has been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category within property, plant and equipment and investment property, and 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 the directors to exercise their judgement in the process of applying the group's accounting policies (see note 3 – Critical accounting estimates and judgements). These accounting policies have been applied to the books of accounts of the entity acquired by Exalco Holdings Limited except for the reorganisation between the group entities under common control which is accounted for using the reorganisation method of accounting. Under this method, assets and liabilities are incorporated at the predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entity as recognised and measured in this entity's pre-organisation financial statements. No goodwill arises in reorganisation accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity, is included in equity.

The directors have concluded that at the time of approving these financials statements the group's business is considered to be a going concern and the group is able meet its obligations as they fall due (Note 28).

*Standards, interpretations and amendments to published standards effective in 2019*

In 2019, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2019. 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 impacting the group's financial performance and position.

## 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*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the group's accounting periods beginning after 1 January 2019. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU.

The directors are of the opinion that there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application.

### 1.2 Consolidation

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible 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 except as disclosed in Note 1.4. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed 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 acquiree's net assets.

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

Intercompany 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.

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

### 1.3 Foreign currency translation

(a) Functional currency

Items included in these financial statements 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 presentation currency.

(b) Transactions and balances

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

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

### 1.4 Business combinations involving entities under common control

As disclosed in the basis of preparation Note 1.1 above, Exalco Holdings Limited acquired a 100% shareholding in Exalco Properties Limited, in exchange for the issue of shares to the previous ultimate shareholders of this entity which are the same shareholders of the holding company. In accordance with generally accepted accounting principles, the pooling of interest basis of accounting has been adopted and this transaction has been recorded as if it had occurred at the beginning of the earliest period reported.

Business combinations involving entities under common control are transactions in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. The key feature of a transaction among entities under common control is that there is no change in the ultimate control of the combining entities as a result of the transaction. Control could be exercised by a group of individuals that are all part of the same close family group when they have the collective power to govern the financial and operating policies of the entity.

The group has chosen to apply the pooling of interests method to account for transactions involving entities under common control. The group accounts for business combinations involving entities under common control by recording:

(a) the transaction as if it had taken place at the beginning of the earliest period presented;
(b) the assets and liabilities of the acquired entity using predecessor book values from the consolidated financial statements of the controlling party, and
(c) the difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity as an adjustment to equity.

When the controlling party does not prepare financial statements, the book values from the financial statements of the acquired entity are used.

### 1.5 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 furniture, fixtures, fittings and office equipment, and motor vehicles are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 year in which they are incurred.

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.

## 1. Summary of significant accounting policies - continued

### 1.5 Property, plant and equipment - continued

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

Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation on assets other than land, is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life as follows:

| | % |
|---|---|
| Buildings | 1 |
| Lifts and escalators | 15 |
| Furniture, fixtures, fittings and office equipment | 10 |
| Motor vehicles | 20 |
| Computer and equipment | 25 |

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognised in profit and loss. These are taken into account in determining operating profit when revalued assets are sold, the amounts included in the valuation reserve relating to the assets are transferred to retained earnings.

### 1.6 Investment property

Investment property comprising freehold commercial property is held for long-term rental yields or for capital appreciation or both, and is not occupied by the group. Investment property comprises freehold land and buildings.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed periodically by the group's directors.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measured.

The fair value of investment property reflects, among other factors, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.