

PAOLA COMPLEX LIMITED

Annual Report and Financial Statements  
31 December 2015

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## **Directors' report**

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

### **Principal activity**

The company's principal activity, which remained unchanged since last year, is to lease and manage 'Main Street Complex', a shopping and entertainment mall in Paola, Malta.

### **Review of the business**

The company recorded a profit after tax of €115,228 compared to a profit after tax of €82,680 during 2014.

Although the company's current liabilities exceed its current assets by €281,128 (2014: €266,918), the statement of cash flows confirms that the company had a good mix of flows from operations, financing and investing leading to a positive cash movement. The shareholders have undertaken to continue to support the company in a manner that will enable it to meet its liabilities as and when they fall due.

### **Results and dividends**

The income statement is set out on page 6. The directors do not recommend the payment of a dividend.

### **Directors**

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

Bernard Gauci  
Mario Gauci  
Joseph A. Gasan  
Mark Gasan  
Bettina Azzopardi  
Mario Camilleri

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

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

The directors are required by the Companies Act, 1995 to prepare financial statements that 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.

## **Directors' report - continued**

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

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, 1995. 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 Paola Complex Limited for the year ended 31 December 2015 are included in the Annual Report 2015, which is published in hard-copy printed form and may be made available on the company'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 company'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



Joseph A. Gasan  
Director



Mario Gauci  
Director

Registered office:  
"Embassy"  
St. Lucia Street  
Valletta  
Malta

14 April 2016





## **Independent auditor's report**

To the Shareholders of Paola Complex Limited

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

We have audited the financial statements of Paola Complex Limited on pages 5 to 24 which comprise the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 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 pages 1 and 2, 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements

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



## **Independent auditor's report - continued**

To the Shareholders of Paola Complex Limited

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

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

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

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

### **PricewaterhouseCoopers**

78 Mill Street  
Qormi  
Malta

A handwritten signature in black ink, appearing to read 'Simon Flynn'.

Simon Flynn  
Partner

14 April 2016

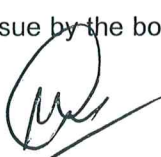
## Statement of financial position

		As at 31 December	
	Notes	2015 €	2014 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	8,380,564	8,500,000
<b>Current assets</b>			
Trade and other receivables	6	394,840	429,215
Cash and cash equivalents	7	50,188	45,056
Total current assets		445,028	474,271
<b>Total assets</b>		<b>8,825,592</b>	<b>8,974,271</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	8	1,395,487	1,395,487
Revaluation reserve	9	1,456,061	1,266,434
Retained earnings		294,683	179,455
Total equity		3,146,231	2,841,376
<b>Non-current liabilities</b>			
Deferred tax liability	5	820,639	999,591
Trade and other payables	11	745,356	653,921
Borrowings	10	3,387,210	3,738,194
Total non-current liabilities		4,953,205	5,391,706
<b>Current liabilities</b>			
Borrowings	10	350,984	350,984
Trade and other payables	11	309,321	319,892
Current tax liabilities		65,851	70,313
Total current liabilities		726,156	741,189
Total liabilities		5,679,361	6,132,895
<b>Total equity and liabilities</b>		<b>8,825,592</b>	<b>8,974,271</b>

The notes on pages 9 to 24 are an integral part of these financial statements.

The financial statements on pages 5 to 24 were authorised for issue by the board of directors on 14 April 2016 and were signed on its behalf by:

  
Joseph A. Gasan  
Director

  
Mario Gauci  
Director

## Income statement

		Year ended 31 December	
	Notes	2015 €	2014 €
<b>Revenue</b>	12	<b>689,356</b>	<b>677,278</b>
Operating expenses	13	(57,808)	(50,111)
Depreciation	13	(119,436)	(135,783)
Administrative expenses	13	(156,885)	(153,997)
<b>Operating profit</b>		<b>355,227</b>	<b>337,387</b>
Finance costs	14	(135,946)	(162,026)
Finance income		841	-
<b>Profit before tax</b>		<b>220,122</b>	<b>175,361</b>
Tax expense	15	(104,894)	(92,681)
<b>Profit for the year</b>		<b>115,228</b>	<b>82,680</b>

## Statement of comprehensive income

		Year ended 31 December	
	Note	2015 €	2014 €
<b>Profit for the year</b>		<b>115,228</b>	<b>82,680</b>
<b>Other comprehensive income</b>			
Revaluation of land and buildings			
- Movement in deferred tax	9	174,952	(1,001,967)
- Adjustment to revaluation reserve	9	14,675	2,268,401
<b>Total comprehensive income</b>		<b>304,855</b>	<b>1,349,114</b>

The notes on pages 9 to 24 are an integral part of these financial statements.



## Statement of changes in equity

	Note	Share capital €	Revaluation reserve €	Retained earnings €	Total Equity €
Balance at 1 January 2014		1,395,487	-	96,775	1,492,262
<b>Comprehensive income</b>					
Profit for the year		-	-	82,680	82,680
<b>Other comprehensive income</b>					
Revaluation of land and buildings					
- Adjustment to carrying amounts	9	-	2,268,401	-	2,268,401
- Movement in deferred tax	9	-	(1,001,967)	-	(1,001,967)
		-	1,266,434	82,680	1,349,114
<b>Balance at 31 December 2014</b>		<b>1,395,487</b>	<b>1,266,434</b>	<b>179,455</b>	<b>2,841,376</b>
Balance at 1 January 2015		1,395,487	1,266,434	179,455	2,841,376
<b>Comprehensive income</b>					
Profit for the year		-	-	115,228	115,228
<b>Other comprehensive income</b>					
Revaluation of land and buildings					
- Adjustment to carrying amounts	9	-	14,675	-	14,675
- Movement in deferred tax	9	-	174,952	-	174,952
		-	189,627	115,228	304,855
<b>Balance at 31 December 2015</b>		<b>1,395,487</b>	<b>1,456,061</b>	<b>294,683</b>	<b>3,146,231</b>

The notes on pages 9 to 24 are an integral part of these financial statements.

## Statement of cash flows

		Year ended 31 December	
	Notes	2015 €	2014 €
<b>Cash flows from operating activities</b>			
Cash generated from operations	16	499,175	540,773
Interest paid		(135,946)	(162,026)
Interest received		841	-
Tax paid		(113,356)	(11,323)
Net cash generated from operating activities		250,714	367,424
<b>Cash flows from investing activities</b>			
Cash refund in respect of over payment of property, plant and equipment		14,675	-
Net cash generated from investing activities		14,675	-
<b>Cash flows from financing activities</b>			
Decrease in bank borrowings	10	(350,984)	(338,599)
Movement in group balances		759,354	-
Movement in related party balances		(668,627)	-
Net cash used in financing activities		(260,257)	(338,599)
<b>Net movement in cash and cash equivalents</b>		<b>5,132</b>	<b>28,825</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>45,056</b>	<b>16,231</b>
<b>Cash and cash equivalents at end of year</b>	7	<b>50,188</b>	<b>45,056</b>

The notes on pages 9 to 24 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act, 1995. The financial statements have been prepared under the historical cost convention.

As at 31 December 2015 the company's current liabilities exceeded current assets by €281,128' (2014: €266,918). The company's shareholders have undertaken to continue to support the company in a manner that will enable it to meet its liabilities as and when they fall due.

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 company's accounting policies (see note 3 - Critical accounting estimates and judgements).

#### *Standards, interpretations and amendments to published standards effective in 2015*

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

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

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

#### 1.2 Foreign currency translation

##### *(a) Functional and presentation 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 euro is the 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. 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

### 1.3 Property, plant and equipment

All property, plant and equipment, is initially recorded at cost. Land and buildings are subsequently stated at market value, based on valuations by external independent valuers, less depreciation. Valuations of land and buildings are carried out regularly, 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. All other property, plant and equipment are stated at historical cost less depreciation. 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 company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve in 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 (the depreciation charged to the profit or loss) and depreciation based on the asset's original cost, net of any related deferred income taxes, is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

	%
Land and buildings	1
Improvements to premises	5
Plant, machinery and equipment	5 - 25
Furniture, fixtures and fittings	10 - 20

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 (see note 1.4).

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with carrying amount and are recognised within 'administrative expenses' in the statement of comprehensive income.

### 1.4 Financial assets

#### 1.4.1 Classification

The company classifies its financial assets 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 company 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 reporting period. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (notes 1.5 and 1.6).



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

### **1.4.2 Recognition and measurement**

The company 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 settlement date, which is the date on which an asset is delivered to or by the company. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

Loans and receivables are initially recognised at fair value plus transaction costs. They 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 company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

### **1.4.3 Impairment**

The company 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 company first assesses whether objective evidence of impairment exists. The criteria that the company 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.

### **1.5 Trade and other receivables**

Trade receivables comprise amounts due from customers for merchandise sold or services performed in the ordinary course of 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 (see note 1.4). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit or loss within '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 'administrative expenses' in profit or loss.

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

**1.6 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 includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

**1.7 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.

**1.8 Financial liabilities**

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The company'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 company 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.

**1.9 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.

**1.10 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 the 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 company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

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

**1.12 Current and deferred tax**

The tax expense for the year comprises current and deferred tax. Tax is recognised in 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, respectively.

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, the 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 substantively 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.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes 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.

**1.13 Provisions**

Provisions are recognised when the company 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 a reliable estimate of the amount of the obligation can be made.

**1.14 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 company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The company 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 company's company activities as described below.

*(a) Sales of services*

Revenue from services is generally recognised in the period in which the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

*(b) Property related income*

Rentals receivable, short term lets receivable and premia charged to tenants of investment property are recognised in the period when the property is occupied. Premia is charged to profit or loss over the period of the leases to which they relate.

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

**1.14 Revenue recognition - continued**

*(c) Interest income*

Interest income is recognised for all interest-bearing instruments on a time-proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

**1.15 Leases**

*(a) Where the company is a lessee*

Leases of assets where a significant portion of the risk and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

*(b) Where the company is a lessor*

Assets leased out under operating leases are mainly being leased from related parties, with other assets being included in property, plant and equipment in the statement of financial position. The latter are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised as it accrues, unless collectability is in doubt.

**1.16 Finance costs**

Finance costs are recognised in profit or loss for all interest-bearing instruments on an accruals basis using the effective yield method. Finance costs includes the effects of amortising any difference between net proceeds and redemption value in respect of the company's borrowings. Finance costs are charged against income without restrictions. No borrowing costs have been capitalised.

**2. Financial risk management**

**2.1 Financial risk factors**

The company's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company does not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

The board of directors provides principles for overall company risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

*(a) Market risk*

*(i) Foreign exchange risk*

All the assets and liabilities of the Company are denominated in the functional currency and accordingly, the Company is not exposed to foreign exchange risk.



## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (a) Market risk - continued

##### (ii) Cash flow and fair value interest rate risk

The company does not have significant interest-bearing assets, and its income and operating cash flows are substantially independent of changes in market interest rates. The company's interest rate risk arises from short term and long term borrowings. Borrowings issued at variable rates, comprising bank borrowings (refer to note 10), expose the company to cash flow interest rate risk. The company'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.

#### (b) Credit risk

Credit risk arises from cash and cash equivalents, receivables, intra-group receivables as well as credit exposures to customers, including outstanding receivables and committed transactions. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2015 €	2014 €
<b>Loans and receivables category</b>		
Trade and other receivables (note 6)	390,298	424,715
Cash and cash equivalents (note 7)	50,188	45,056
	440,486	469,771

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

The company assesses the credit quality of its customers taking into account past experience and other factors. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. The company monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the company's receivables taking into account historical experience in collection of accounts receivable.

The company'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 of €7,115 (2014: €9,867) were present at year end in respect of trade receivables that were overdue and that were not expected to be recovered. Other overdue trade debts that were not impaired amounted to €379,388 (2014: €271,051). The company holds no security against these debts. The unsecured overdue amounts consisted of €300,219 (2014: €200,913) that were less than three months overdue and €79,169 (2014: €70,138) that were greater than three months.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (b) Credit risk - continued

The company's receivables include significant amounts due from related parties mainly forming part of the Big Bon Group of Companies (refer to note 6). The company's treasury monitors related party credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall liquidity management. The company assesses the credit quality of these related parties taking into account financial position, performance and other factors. The company takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

#### (c) Liquidity risk

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally borrowings and trade and other payables (refer to notes 10 and 11). 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 company'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 company's 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 company manages its liquidity risk through this continuous assessment, coupled with the company's committed borrowing facilities (that it can access) to meet liquidity needs as referred to previously.

The following table analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period 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.

	Carrying amount €	Contractual cash flows €	Within one year €	One to five years €	Over five years €
<b>31 December 2015</b>					
Bank borrowings	3,738,194	4,431,232	473,608	1,775,096	2,182,528
Trade and other payables	1,054,677	1,054,677	1,054,677	-	-
	<b>4,792,871</b>	<b>5,485,909</b>	<b>1,528,285</b>	<b>1,775,096</b>	<b>2,182,528</b>
<b>31 December 2014</b>					
Bank borrowings	4,089,178	3,747,085	397,353	1,453,076	1,896,656
Trade and other payables	973,813	973,813	973,813	-	-
	<b>5,062,991</b>	<b>4,720,898</b>	<b>1,371,166</b>	<b>1,453,076</b>	<b>1,896,656</b>



## 2. Financial risk management - continued

### 2.2 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to ensure that borrowings are adequately serviced and repaid on their contractual maturity date. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The company's equity, as disclosed in the statement of financial position, constitutes its capital. The company maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the company's activities and the extent of borrowings or debt, the capital level as at the end of the reporting period is deemed adequate by the directors.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Structural borrowings include all interest bearing borrowings, less cash at bank and in hand.

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

	2015 €	2014 €
Total borrowings (note 10)	3,738,194	4,089,178
Total equity	3,146,231	2,841,376
<b>Total capital</b>	<b>6,884,425</b>	<b>6,930,554</b>
<b>Gearing</b>	<b>54%</b>	<b>59%</b>

### 2.3 Fair value estimation

At 2015 and 2014 the carrying amounts of cash and cash equivalents, receivables, payables and short term borrowings statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

## 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 company 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.

**4. Property, plant and equipment**

	Land and buildings including improvements to premises €	Plant, machinery and equipment €	Furniture, fixtures and fittings €	Total €
<b>At 1 January 2014</b>				
Cost	6,572,551	536,573	349,047	7,458,171
Accumulated depreciation	(411,652)	(396,316)	(275,617)	(1,083,585)
Net book amount	6,160,899	140,257	73,430	6,374,586
<b>Year ended 31 December 2014</b>				
Opening net book value	6,160,899	140,257	73,430	6,374,586
Revaluation (note 9)	2,268,401	-	-	2,268,401
Depreciation charge	(79,574)	(22,196)	(41,217)	(142,987)
Closing net book amount	8,349,726	118,061	32,213	8,500,000
<b>At 31 December 2014</b>				
Cost	8,840,952	536,573	349,047	9,726,572
Accumulated depreciation	(491,226)	(418,512)	(316,834)	(1,226,572)
Net book amount	8,349,726	118,061	32,213	8,500,000
<b>Year ended 31 December 2015</b>				
Opening net book value	8,349,726	118,061	32,213	8,500,000
Depreciation charge	(79,574)	(22,196)	(17,666)	(119,436)
Closing net book amount	8,270,152	95,865	14,547	8,380,564
<b>At 31 December 2015</b>				
Cost or valuation	8,840,952	536,573	349,047	9,726,572
Accumulated depreciation	(570,800)	(440,708)	(334,500)	(1,346,008)
Net book amount	8,270,152	95,865	14,547	8,380,564

Bank borrowings are secured by the company's property, plant and equipment (note 10).

Land and buildings are shown at fair value. As at 31 December 2015 and 2014, the fair value of the land and buildings is not significantly different as compared to its historical cost and carrying amount.

## 5. Deferred taxation

	2015 €	2014 €
At beginning of year	(999,591)	4,378
Credit/(charge) for the year (note 15)	4,000	(2,002)
Tax effect on revaluation (note 9)	174,952	(1,001,967)
At end of year	(820,639)	(999,591)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2014: 35%).

The balance at 31 December represents temporary differences attributable to:

	2015 €	2014 €
Property, plant and equipment	6,376	2,376
Revaluation of property	(827,015)	(1,001,967)
Deferred tax liability	(820,639)	(999,591)

Deferred taxation is principally composed of deferred tax assets and liabilities which are to be mainly recovered and settled after more than twelve months.

Following changes to the taxation rules on capital gains arising on transfer of immovable property as announced by the Ministry of Finance during the Budget Speech for the financial year 2015, and in respect of which a Bill entitled 'An Act to implement Budget measures for the financial year 2015 and other administrative measures' came into effect on 30 April 2015, the final tax on transfers of immovable property acquired on 1 January 2004 was reduced to 8% of the transfer value while the rate in respect of transfers of property acquired before 1 January 2004 was reduced to 10%. The net impact of the application of the changed tax regime on the deferred tax liability attributable to ait valuation of the company's property was decrease amounting to €166,995, which was recognised in other comprehensive income.

## 6. Trade and other receivables

	2015 €	2014 €
<b>Current</b>		
Trade receivables	256,944	261,185
Amounts owed by related parties	122,674	107,406
Amounts owed by parent company	-	13,998
Other receivables	10,680	42,126
Prepayments and accrued income	4,542	4,500
	394,840	429,215

Trade receivables amounting to €5,876 are subject to interest at 8%.

**6. Trade and other receivables - continued**

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

Trade and other receivables are stated net of provision for impairment charges as follows:

	2015 €	2014 €
Trade receivables	7,115	9,867

**7. Cash and cash equivalents**

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

	2015 €	2014 €
Cash at bank	50,188	45,056

**8. Share capital**

	2015 €	2014 €
<b>Authorised share capital</b>		
1,400,000 ordinary shares of €1 each	1,400,000	1,400,000
<b>Issued and fully paid share capital</b>		
1,395,487 ordinary shares of €1 each	1,395,487	1,395,487

**9. Revaluation reserve**

	2015 €	2014 €
<b>Year ended 31 December</b>		
At beginning of year	1,266,434	-
Adjustment to carrying amounts (note 4)	14,675	2,268,401
Deferred taxation (note 5)	174,952	(1,001,967)
At end of year	1,456,061	1,266,434

In the opinion of the directors, the revaluation reserve is non-distributable.



## 10. Borrowings

	2015 €	2014 €
<b>Current</b>		
Bank loan	350,984	350,984
<b>Non-current</b>		
Bank loan	3,387,210	3,738,194
<b>Total borrowings</b>	<b>3,738,194</b>	<b>4,089,178</b>

The bank borrowings are secured by a general hypothec over the company's assets and special hypothec over Main Street Complex. Bank borrowings are also secured by guarantees and a letter of undertaking given by the parent.

The company's banking facilities as at 31 December 2015 amounted to €3,750,859 (2014: €4,391,867). The interest rate exposure of borrowings was as follows:

	2015 €	2014 €
Total borrowings:		
At floating rates	3,738,194	4,089,178

The effective interest rates on the closing balance at the reporting date was as follows:

	2015	2014
Bank loan	3.4%	3.87%

Maturity of non-current bank borrowings:

	2015 €	2014 €
Between 1 and 2 years	350,984	350,984
Between 2 and 5 years	1,052,952	1,052,952
Over 5 years	1,983,274	2,334,258
	<b>3,387,210</b>	<b>3,738,194</b>

## 11. Trade and other payables

	2015 €	2014 €
<b>Current</b>		
Trade payables	29,537	61,614
Amounts owed to related parties	14,963	14,401
Other payables	742	3,560
Accruals and deferred income	241,193	220,564
Indirect taxes and social security	22,886	19,753
	<b>309,321</b>	<b>319,892</b>
<b>Non-current</b>		
Amounts owed to related parties	-	653,921
Amounts owed to fellow subsidiary	745,356	-
	<b>1,054,677</b>	<b>973,813</b>

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

## 12. Revenue

All the company's revenue relates to income charged to tenants for the management and short term lets of the Main Street Complex in Paola, Malta.

## 13. Expenses by nature

	2015 €	2014 €
Depreciation on property, plant and equipment (note 4)	119,436	142,987
Administrative and management fees	150,000	150,000
Other expenses	64,693	46,904
Total operating expenses, depreciation, and administrative expenses	<b>334,129</b>	<b>339,891</b>

Auditor's fees:

Included in other expenses are fees charged by the auditor to the Company for services rendered during the financial periods ended 31 December 2015 and 2014. These relate to the following:

	2015 €	2014 €
Annual statutory audit	2,355	2,355
Tax advisory and compliance services	370	370
Other non-audit services	130	130
	<b>2,855</b>	<b>2,855</b>

**14. Finance costs**

	2015 €	2014 €
Bank charges and interest	135,946	162,026

**15. Tax expense**

	2015 €	2014 €
Current tax expense	108,894	90,679
Deferred tax charge (note 5)	(4,000)	2,002
Tax expense	104,894	92,681

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

	2015 €	2014 €
Profit before tax	220,122	175,361
Tax at 35%	77,044	61,376
Tax effect of:		
Depreciation of non qualifying assets	27,850	27,850
Unrecognised deferred tax in prior year	-	3,455
Tax expense	104,894	92,681

**16. Cash generated from operations**

Reconciliation of operating profit to cash generated from operations:

	2015 €	2014 €
Operating profit	355,227	337,387
Adjustment for:		
Depreciation of property, plant and equipment (note 4)	119,436	142,987
Changes in working capital:		
Trade and other receivables	35,645	72,980
Trade and other payables	(11,133)	(12,581)
Cash generated from operations	499,175	540,773

## 17. Commitments

*Operating lease commitments - where the company is the lessor*

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

	2015 €	2014 €
Not later than 1 year	555,276	541,885
Later than 1 year and not later than 5 years	2,256,218	2,365,834
Later than 5 years	2,895,730	3,674,384
	<b>5,707,224</b>	<b>6,582,103</b>

## 18. Related party transactions

The companies considered as related parties include subsidiaries and associates of Maui Investments Limited and GMJ Limited, together with companies forming part of the Embassy Group and the Gasan Group.

The following significant operating transactions were carried out with related parties:

	2015 €	2014 €
<b>Income from services</b>		
Rental income	202,722	171,840
Common area maintenance and water and electricity charges recovered	51,165	39,240
<b>Expenditure for services</b>		
Management and administration fees	150,000	150,000
Other expenses	20,000	14,482

Year-end balances with related parties, arising principally from transactions referred to previously, are disclosed in notes 6 and 11 to these financial statements.

## 19. Statutory information

Paola Complex Limited is a limited liability company and is incorporated in Malta.

The parent company of Paola Complex Limited is Embassy Limited, a company registered in Malta, with its registered address at Embassy, St Lucia Street, Valletta, Malta. The financial statements of Paola Complex Limited are included in the consolidated financial statements prepared by Embassy Limited.

## Detailed accounts

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## Income statement

	Year ended 31 December	
	2015 €	2014 €
<b>Revenue</b>	<b>689,356</b>	<b>677,278</b>
Operating expenses (page 27)	(65,012)	(50,111)
Depreciation on property, plant and equipment	(112,232)	(135,783)
Administrative expenses (page 28)	(156,885)	(153,997)
	<b>(334,129)</b>	<b>(339,891)</b>
<b>Operating profit</b>	<b>355,227</b>	<b>337,387</b>
Interest payable and similar charges	(135,946)	(162,026)
Interest receivable	841	-
<b>Profit for the year before tax</b>	<b>220,122</b>	<b>175,361</b>



## Operating expenses

	Year ended 31 December	
	2015 €	2014 €
Advertising and promotion expenses	57,954	50,393
Security services	36,505	32,297
Cleaning expenses	19,691	18,871
Repairs and maintenance costs	26,836	39,082
Insurance payable	5,408	5,104
Depreciation	7,204	7,204
	<b>153,598</b>	<b>152,951</b>
Water and electricity consumption	122,708	131,296
	<b>276,306</b>	<b>284,247</b>
<b>Total costs</b>	<b>276,306</b>	<b>284,247</b>
Amounts recovered from tenants	(211,294)	(234,136)
	<b>65,012</b>	<b>50,111</b>
<b>Total operating expenses (page 26)</b>	<b>65,012</b>	<b>50,111</b>

## Administrative expenses

	Year ended 31 December	
	2015 €	2014 €
Administrative and management fees	150,000	150,000
Auditors' remuneration	2,355	1,155
Legal and professional fees	495	316
Registration and license fees	1,187	1,532
General expenses	2,568	684
Telecommunication expenses	280	310
<b>Total administrative expenses (page 26)</b>	<b>156,885</b>	<b>153,997</b>



