

PAOLA COMPLEX LIMITED

Annual Report and Financial Statements
31 December 2016

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2016.

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 €205,291 compared to a profit after tax of €115,228 during 2015, equivalent to an increase of 78%. The company's revenue reached €716,930, a growth of 4% over the previous financial year. EBITDA amounted to €594,942, an increase of €120,279 over the last year, in line with the decrease in administrative expenses.

Although the company's current liabilities exceed its current assets by €307,499 (2015: €281,128), the statement of cash flows confirms that the company had a good mix of flows from operations and financing 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.

The company's principal risks include financial risks as described in the notes to the financial statements, loss of market share as a result of other participants entering the market and negative developments in the economic or political environment.

Results and dividends

The income statement is set out on page 8. The directors do not recommend the payment of a dividend and propose that the balance of retained earnings amounting to €499,974 (2015: €294,683) be carried forward to the next financial year.

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 (Cap. 386) 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.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

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 (Cap. 386). 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 2016 are included in the Annual Report 2016, 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

22 May 2017



Independent auditor's report

To the Shareholders of Paola Complex Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Paola Complex Limited's financial statements give a true and fair view of the company's financial position as at 31 December 2016, and of the 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

Paola Complex Limited's financial statements, set out on pages 7 to 28, comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement 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 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 the IESBA Code.



Independent auditor's report - continued

To the Shareholders of Paola Complex Limited

Other information

The directors are responsible for the other information. The other information comprises 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.



Independent auditor's report - continued

To the Shareholders of Paola Complex Limited

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 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 company or to cease operations, or have no realistic alternative but to do so.

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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



Independent auditor's report - continued

To the Shareholders of Paola Complex Limited

- 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 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, future events or conditions may cause the company to cease to continue as a going concern.
- 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.

We communicate with directors 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.
- 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



Simon Flynn
Partner


22 May 2017

Statement of financial position

		As at 31 December	
	Notes	2016 €	2015 €
ASSETS			
Non-current assets			
Property, plant and equipment	4	12,000,000	8,380,564
Current assets			
Trade and other receivables	6	345,820	394,840
Cash and cash equivalents	7	58,187	50,188
Total current assets		404,007	445,028
Total assets		12,404,007	8,825,592
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	1,395,487	1,395,487
Revaluation reserve	9	4,826,197	1,456,061
Retained earnings		499,974	294,683
Total equity		6,721,658	3,146,231
Non-current liabilities			
Deferred tax liability	5	1,183,193	820,639
Trade and other payables	11	751,424	745,356
Borrowings	10	3,036,226	3,387,210
Total non-current liabilities		4,970,843	4,953,205
Current liabilities			
Borrowings	10	350,984	350,984
Trade and other payables	11	293,850	309,321
Current tax liabilities		66,672	65,851
Total current liabilities		711,506	726,156
Total liabilities		5,682,349	5,679,361
Total equity and liabilities		12,404,007	8,825,592

The notes on pages 11 to 28 are an integral part of these financial statements.

The financial statements on pages 7 to 28 were authorised for issue by the board of directors on 22 May 2017 and were signed on its behalf by:


Joseph A. Gasan
Director


Mario Gauci
Director

Income statement

		Year ended 31 December	
	Notes	2016 €	2015 €
Revenue	12	716,930	689,356
Operating expenses	13	(75,745)	(57,808)
Depreciation	13	(116,318)	(119,436)
Administrative expenses	13	(46,243)	(156,885)
Operating profit		478,624	355,227
Finance costs	14	(120,601)	(135,946)
Finance income		654	841
Profit before tax		358,677	220,122
Tax expense	15	(153,386)	(104,894)
Profit for the year		205,291	115,228

Statement of comprehensive income

		Year ended 31 December	
	Note	2016 €	2015 €
Profit for the year		205,291	115,228
Other comprehensive income			
Revaluation of land and buildings			
- Adjustment to revaluation reserve	9	3,735,754	14,675
- Movement in deferred tax	9	(365,618)	174,952
Total other comprehensive income		3,370,136	189,627
Total comprehensive income		3,575,427	304,855

The notes on pages 11 to 28 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 2015		1,395,487	1,266,434	179,455	2,841,376
Comprehensive income					
Profit for the year		-	-	115,228	115,228
Other comprehensive income					
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
Balance at 31 December 2015		1,395,487	1,456,061	294,683	3,146,231
Balance at 1 January 2016		1,395,487	1,456,061	294,683	3,146,231
Comprehensive income					
Profit for the year		-	-	205,291	205,291
Other comprehensive income					
Revaluation of land and buildings					
- Adjustment to carrying amounts	9	-	3,735,754	-	3,735,754
- Movement in deferred tax	9	-	(365,618)	-	(365,618)
		-	3,370,136	205,291	3,575,427
Balance at 31 December 2016		1,395,487	4,826,197	499,974	6,721,658

The notes on pages 11 to 28 are an integral part of these financial statements.

Statement of cash flows

		Year ended 31 December	
	Notes	2016 €	2015 €
Cash flows from operating activities			
Cash generated from operations	16	654,509	499,175
Interest paid		(120,601)	(135,946)
Interest received		654	841
Tax paid		(155,629)	(113,356)
Net cash generated from operating activities		378,933	250,714
Cash flows from investing activities			
Cash refund in respect of over payment of property, plant and equipment		-	14,675
Net cash generated from investing activities		-	14,675
Cash flows from financing activities			
Decrease in bank borrowings	10	(350,984)	(350,984)
Movement in group balances	6,11	235	759,354
Movement in related party balances	6,11	(20,185)	(668,627)
Net cash used in financing activities		(370,934)	(260,257)
Net movement in cash and cash equivalents		7,999	5,132
Cash and cash equivalents at beginning of year		50,188	45,056
Cash and cash equivalents at end of year	7	58,187	50,188

The notes on pages 11 to 28 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 (Cap. 386). The financial statements have been prepared under the historical cost convention.

As at 31 December 2016 the company's current liabilities exceeded current assets by €307,499 (2015: €281,128). 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 2016

In 2016, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting year beginning on 1 January 2016. 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 but are mandatory for the Company's accounting periods beginning after 1 January 2016. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that there are no requirements with the possible exception of the IFRSs below that will have a possible significant impact on the Company's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Under IFRS 9 there is a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

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

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, subject to endorsement by the EU. The Company is yet to assess IFRS 9's full impact.

Under IFRS 16, 'Leases', a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to endorsement by the EU, and subject to the Company also adopting IFRS 15. The Company is yet to assess IFRS 16's full impact.

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.

1.3 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.

1. Summary of significant accounting policies - continued

1.3 Property, plant and equipment - continued

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).

1.4.2 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.

1. Summary of significant accounting policies - continued

1.4.2 Recognition and measurement - continued

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:

	2016 €	2015 €
Loans and receivables category		
Trade and other receivables (note 6)	341,278	390,298
Cash and cash equivalents (note 7)	58,187	50,188
	399,465	440,486

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 €Nil (2015: €7,115) 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 €30,660 (2015: €32,688). The company holds no security against these debts.

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 €
31 December 2016					
Bank borrowings	3,387,210	3,957,624	461,674	1,727,362	1,768,588
Trade and other payables	1,045,274	1,045,274	1,045,274	-	-
	4,432,484	5,002,898	1,506,948	1,727,362	1,768,588
31 December 2015					
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	-	-
	4,792,871	5,485,909	1,528,285	1,775,096	2,182,528

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 2016 and 2015 were as follows:

	2016 €	2015 €
Total borrowings (note 10)	3,387,210	3,738,194
Total equity	4,921,658	3,146,231
Total capital	8,308,868	6,884,425
Gearing	41%	54%

2.3 Fair value estimation

At 2016 and 2015 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 €
At 1 January 2015				
Cost or valuation	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
Year ended 31 December 2015				
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
At 31 December 2015				
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
Year ended 31 December 2016				
Opening net book value	8,270,152	95,865	14,547	8,380,564
Revaluation (note 9)	3,735,754	-	-	3,735,754
Depreciation charge	(79,574)	(22,197)	(14,547)	(116,318)
Closing net book amount	11,926,332	73,668	-	12,000,000
At 31 December 2016				
Cost or valuation	12,576,706	536,573	349,047	13,462,326
Accumulated depreciation	(650,374)	(462,905)	(349,047)	(1,462,326)
Net book amount	11,926,332	73,668	-	12,000,000

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

Fair value of land and buildings

The Company's land and buildings were last revalued at 31 December 2016. The book values of the land and buildings were adjusted to the revaluations and the resultant surplus net of deferred income taxes was credited to the revaluation reserve in the shareholders' equity (note 9). The directors are of the opinion that the carrying amount of the Company's land and buildings as at the end of current financial period, is an appropriate estimate of its fair value.

4. Property, plant and equipment - continued

The Company is required to disclose fair value measurements by level of the following fair value measurement hierarchy for non-financial assets carried at fair value:

- Quoted prices (unadjusted) in active markets for identical assets (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (level 3).

The Company's recurring fair value measurements are categorised as level 3 as they are based on significant unobservable inputs. The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. During the current financial year there were no transfers between the fair value levels.

The Company's land and buildings represent only the Main Street Complex and their current use equates to the highest and best use. A reconciliation between the opening balance and the closing balance of the property's carrying amount is presented in the table above.

Valuation process and techniques

The Company's property is valued on periodic valuation by the directors after seeking professional advice from independent professionally qualified valuers who holds a recognised relevant professional qualification and have the necessary experience in the location and segments of the property being valued. When external valuations are carried out in accordance with this policy, the valuer reports directly to the board of directors and discussions on the valuation technique and its results, including an evaluation of the inputs to the valuation, are held between these parties.

At the end of every reporting period during which an external valuation is not carried out, the directors also assesses whether any significant changes in actual circumstances, income streams, results and developments have been experienced since the last external valuation. An adjustment to the carrying amount of the property is only reflected if it has been determined that there has been significant change.

The valuation was determined using discounted cash flow projections considering, *inter alia*, the projected future earnings from the Main Street Complex, in the main based on current rental contracts, its ongoing maintenance needs, and other relevant market factors. Accordingly, the significant unobservable inputs applied in the Company's valuation are the following:

- Earnings before interest, tax, depreciation and amortisation (EBITDA): which is based on the Company's existing rental income streams less operating costs (before depreciation) which include marketing and maintenance expenses. The EBITDA for 2016 is estimated at €594,942.
- Growth rate, at an average of 2.5%: represents the estimated average growth of the Company's rentals.
- A discount rate of 6% to 7% was applied in estimating the net present value of the projected operating future cash flows of the property. This discount rate is principally based on the weighted average of the cost of debt, current market risk free rates, an equity market risk premium and other risk premiums attached to an investment in the property being valued including any element of projection risk inherent in the projected future cash flows.

Generally, an increase in the EBITDA and the growth rate will result in an increase to the fair value of the property. Conversely, a lower discount rate will give a higher fair value.

4. Property, plant and equipment - continued

Historical cost of land and buildings

The carrying value of land and buildings would have been as follows had these assets been included in the financial statements at cost less depreciation:

	2016 €	2015 €
Cost	5,200,548	5,200,548
Accumulated depreciation	(535,497)	(469,643)
	<u>4,665,051</u>	<u>4,730,905</u>

5. Deferred taxation

	2016 €	2015 €
At beginning of year	(820,639)	(999,591)
Credit for the year (note 15)	3,064	4,000
Tax effect on revaluation (note 9)	(365,618)	174,952
At end of year	<u>(1,183,193)</u>	<u>(820,639)</u>

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2015: 35%), except for deferred taxation on the fair valuation of property which is computed on the basis applicable to disposals of immovable property, i.e. tax rate of 10% of the transfer value.

The balance at 31 December represents temporary differences attributable to:

	2016 €	2015 €
Property, plant and equipment	9,440	6,376
Revaluation of property	(1,192,633)	(827,015)
Deferred tax liability	<u>(1,183,193)</u>	<u>(820,639)</u>

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 the fair valuation of the company's property was a decrease amounting to €166,995, which was recognised in other comprehensive income in 2015.

6. Trade and other receivables

	2016 €	2015 €
Current		
Trade receivables	186,649	256,944
Amounts owed by related parties	138,116	122,674
Amounts owed by parent company	5,833	-
Other receivables	10,680	10,680
Prepayments and accrued income	4,542	4,542
	345,820	394,840

Trade receivables amounting to €20,170 (2015: €5,876) are subject to interest at 8% (2015: 8%).

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:

	2016 €	2015 €
Trade receivables	-	7,115

7. Cash and cash equivalents

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

	2016 €	2015 €
Cash at bank	58,187	50,188

8. Share capital

	2016 €	2015 €
Authorised share capital		
1,400,000 ordinary shares of €1 each	1,400,000	1,400,000
Issued and fully paid share capital		
1,395,487 ordinary shares of €1 each	1,395,487	1,395,487

9. Revaluation reserve

	2016 €	2015 €
Year ended 31 December		
At beginning of year	1,456,061	1,266,434
Adjustment to carrying amounts (note 4)	3,735,754	14,675
Deferred taxation (note 5)	(365,618)	174,952
At end of year	<u>4,826,197</u>	<u>1,456,061</u>

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

10. Borrowings

	2016 €	2015 €
Current		
Bank loan	<u>350,984</u>	<u>350,984</u>
Non-current		
Bank loan	<u>3,036,226</u>	<u>3,387,210</u>
Total borrowings	<u>3,387,210</u>	<u>3,738,194</u>

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 2016 amounted to €3,387,875 (2015: €3,750,859). The interest rate exposure of borrowings was as follows:

	2016 €	2015 €
Total borrowings:		
At floating rates	<u>3,387,210</u>	<u>3,738,194</u>

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

	2016	2015
Bank loan	<u>3.4%</u>	<u>3.4%</u>

Maturity of non-current bank borrowings:

	2016 €	2015 €
Between 1 and 2 years	350,984	350,984
Between 2 and 5 years	1,052,952	1,052,952
Over 5 years	1,632,290	1,983,274
	<u>3,036,226</u>	<u>3,387,210</u>

11. Trade and other payables

	2016 €	2015 €
Current		
Trade payables	16,829	29,537
Amounts owed to related parties	10,220	14,963
Other payables	-	742
Accruals and deferred income	242,936	241,193
Indirect taxes and social security	23,865	22,886
	293,850	309,321
Non-current		
Amounts owed to fellow subsidiary	751,424	745,356
	1,045,274	1,054,677

Amounts owed to related parties and fellow subsidiary 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

	2016 €	2015 €
Depreciation on property, plant and equipment (note 4)	116,318	119,436
Administrative and management fees	30,000	150,000
Other expenses	91,988	64,693
Total operating expenses, depreciation, and administrative expenses	238,306	334,129

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 2016 and 2015. These relate to the following:

	2016 €	2015 €
Annual statutory audit	2,355	2,355
Tax advisory and compliance services	695	370
Other non-audit services	3,155	130
	6,205	2,855

14. Finance costs

	2016 €	2015 €
Bank charges and interest	120,601	135,946

15. Tax expense

	2016 €	2015 €
Current tax expense	156,450	108,894
Deferred tax credit (note 5)	(3,064)	(4,000)
Tax expense	153,386	104,894

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

	2016 €	2015 €
Profit before tax	358,677	220,122
Tax at 35%	125,537	77,044
Tax effect of: Depreciation of non qualifying assets	27,849	27,850
Tax expense	153,386	104,894

16. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2016 €	2015 €
Operating profit	478,624	355,227
Adjustment for: Depreciation of property, plant and equipment (note 4)	116,318	119,436
Changes in working capital: Trade and other receivables	70,295	35,645
Trade and other payables	(10,728)	(11,133)
Cash generated from operations	654,509	499,175

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:

	2016 €	2015 €
Not later than 1 year	589,105	555,276
Later than 1 year and not later than 5 years	2,376,698	2,256,218
Later than 5 years	2,375,768	2,895,730
	5,341,571	5,707,224

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:

	2016 €	2015 €
Income from services		
Rental income	189,535	202,722
Common area maintenance and water and electricity charges recovered	39,240	51,165
	228,775	253,887
Expenditure for services		
Management and administration fees	30,000	150,000
Other expenses	20,551	20,000
	50,551	170,000

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.