



PLAZA  
CENTRES P.L.C.

ANNUAL  
**REPORT**  
& FINANCIAL  
STATEMENTS

2016



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# Board of Directors



**CHARLES J. FARRUGIA**  
**CHAIRMAN**

Mr Charles J. Farrugia was appointed Chairman of Plaza Centres p.l.c. in October 2015. He has been a non-Executive Director of the company since 25 April 2008. Mr Farrugia worked in the banking sector for 35 years and sat on a number of boards and committees within the HSBC Malta Group. Before retirement, in December 2009, he held the post of Head Global Banking & Markets and was a senior executive director of HSBC Malta p.l.c. for a number of years. Mr Farrugia holds the position of nonexecutive director with several other Maltese companies.



**DAVID G. CURMI ACII, CHARTERED INSURER**  
**CHIEF EXECUTIVE OFFICER – MAPFRE MSV LIFE P.L.C.**

Chief Executive Officer of MAPFRE MSV Life p.l.c., the leading provider of life insurance protection, long term savings, investments and retirement planning in Malta. MAPFRE MSV Life p.l.c. is a member of the MAPFRE Group, the leading insurance group in Spain. David is also Chief Executive Officer and Director of Growth Investments Ltd. a wholly owned subsidiary of MAPFRE MSV Life p.l.c., director of MAPFRE Middlesea p.l.c. (a MAPFRE company), director of Middlesea Assist (a MAPFRE company), director of Plaza Centres p.l.c., director of Midi p.l.c., Chairman of the National Development and Social Fund, Chairman of TradeMalta Ltd. and Chairman of L.B. Factors Ltd. Formerly David served as President of the Malta Chamber of Commerce, Enterprise and Industry, member of the Council of Presidents of Business Europe and President of the Malta Insurance Association. David started his career in the insurance industry over thirty five years ago. David is an Associate of the Chartered Insurance Institute of the United Kingdom and a Chartered Insurer.



**EMANUEL P. DELIA**

E. P. Delia held posts in academia, public sector institutions and private organisations. He was a Director of the Central Bank of Malta, Middle Sea Insurance and AON Malta Limited, Chairman of Mid-Med Bank Limited and is currently Chairman of APS Bank Limited, Amalgamated Investments SICAV p.l.c. and Mercury p.l.c.



### ALAN MIZZI

Mr. Alan Mizzi was appointed as a Non-Executive Director of Plaza Centres p.l.c. with effect from 23 September 2015. He is currently the Managing Director of Homemate and The Atrium, Chief Financial Officer of the Alf Mizzi Group and Director of Midi p.l.c. During the past 5 years, Mr. Mizzi held Directorships of various companies including Alf Mizzi & Sons, Alf Mizzi & Sons Marketing, Homemate Co. Ltd, Inspirations Ltd, Mizzi Associated Enterprises Ltd, Mellieha Bay Hotel, Systec Ltd and Strand Electronics Ltd.



### BRIAN R. MIZZI

Mr. Brian Mizzi sits on the Board of Directors of Mizzi Organisation and has over forty years of active service working within the organisation. He serves as Managing Director for The General Soft Drinks Co. Ltd., bottlers and distributors of Coca-Cola products in Malta, and has been actively involved since it was acquired by Mizzi Organisation. Mr. Mizzi is also Managing Director for Arkadia Marketing Ltd., one of Malta's leading shopping centres and a retail company. Mr. Mizzi is also heavily involved in the tourism industry; he is the Managing Director for The Waterfront Hotel, as well as being a Director representing Mizzi Organisation's interests, on the board for Mellieha Bay Hotel and Kemmuna Ltd., owner of the Comino Hotel. Also in Brian Mizzi's directorship portfolio is The Institute of English Language Studies Ltd. of which Mizzi Organisation is a substantial shareholder. One of the companies Mr Mizzi is Managing Director of, namely Arkadia Marketing Ltd., has recently won the government tender for the restoration and operation of the Valletta Market. This project commenced in the early part of 2016 and is scheduled to be completed in the last quarter of 2017.



### ETIENNE SCIBERRAS

Etienne Sciberras is the Chief Risk Officer of MAPFRE MSV Life p.l.c. Mr. Sciberras is also responsible for the risk function of MAPFRE Middlesea pl.c. Mr. Sciberras is a Fellow of the Chartered Certified Accountants and a Certified Public Accountant. He obtained an Honours Degree in Management from the University of Malta and is also a holder of the right to use the Chartered Financial Analyst® designation.



### GERALD J. ZAMMIT

Has been a Plaza Board member and an Executive Director since 2005. He forms parts of Plaza's Executive Management Team and in 2016 was appointed Acquisitions and Merger's Director. Until end of 2016, early 2017, he had served on Plaza's Marketing Committee since Plaza's inception in 1993 and until recently was also on Plaza's Audit Team. Mr. Zammit also serves as Chairman of ZTMV Holdings Ltd, CEO of LINK Petroleum Services Ltd, LINK Mineral Services Ltd., LINK Oil & Gas Ltd., Pearl Holdings Ltd, and Agopay Ltd. Managing Director of Creative Marketing Ltd. and Managing Partner at MG Wheels – Scooters & Motorcycles and Director of Heritage Motors Ltd.

# Executive Management



**LIONEL A. LAPIRA**  
*CHIEF EXECUTIVE OFFICER*

Mr. Lapira joined the Company on 1 July 1994 and occupied various positions over the years including Commercial Manager, Company Secretary, Compliance Officer and General Manager in 2000. He has served as a member of the Company's Executive Management Committee since 1994 and was appointed Chief Executive Officer on 1 January 2005, and Chairman of the Plaza Marketing Committee since this date. British Council of Shopping Centres since 1995 and was awarded accreditation by the ICSC as a Certified Marketing Director in 1999. His responsibilities include business development, finance, health and safety, human resource management and training, leasing, marketing, project management, operations management and security. With qualifications and experience in finance, diplomatic studies, management and marketing, Mr. Lapira obtained his Masters in Business Administration at Henley-Brunel University in 2005. Prior to joining the Company, he occupied a number of senior management positions in the local hospitality, entertainment and leisure industry. Between 1996 and 2004, Mr. Lapira served, on a voluntary basis, on the Board of Governors of a leading, private, not for profit school providing an educational service for 1,000 students and was appointed Chairman of the School Board between 1999 and 2002. In 2008, together with other leading business people in Sliema's Prime Commercial Area, he was a founding member of the Sliema Business Community serving the Business Community's interests until he resigned in 2011.

# Directors' Report

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

## **Principal activities**

The Group's principal activity, which is unchanged since last year, is to lease, manage and market its Shopping and Commercial centres. Up to the preceding financial year, the Group operated only the Plaza Shopping and Commercial Centre (owned by the parent Company), but in September 2016, the Group acquired the Tigne Place Commercial Property (through the company's newly formed subsidiary Tigne Place Limited).

## **Review of business**

During the year under review the Company invested in a fully rented Commercial Property in Sliema and set up a wholly owned subsidiary company for this purpose. The property acquisition was partly funded from the successful €8.5 million 3.9% Bond Issue and partly from Tigne Place Limited's new banking facilities obtained from a local banking institution. A portion of the bond proceeds was utilised by the Group to re-finance its old banking facilities.

Information relating to the Group's use of financial instruments is disclosed in Note 2 – "Financial risk management" to the financial statements.

## **Financial results**

The Group's revenue for the year was €2,729,343 (2015: €2,441,154) an increase of 11.8%, whilst profit before tax amounted to €1,648,408 (2015: €1,592,093). Profit after tax increased to €1,266,780 (2015: €1,010,891). Earnings before Interest, Taxation, Depreciation and Amortisation increased by 8.2% from €2,085,119 (2015) to €2,255,334 (2016). Taxation decreased from €581,202 (2015) to €381,628 (2016) in view of the fact that the parent Company is benefitting from a revised and more beneficial tax regime. The 2016 Group figures reflect the contribution of the newly acquired property for the relevant period.

## **Operating and other costs**

The Group's costs increased due to growth and increased administrative costs and the 2016 cost to income ratio increased to 30.8% (2015: 29.5%). The increase in the finance costs results from the new financing to acquire the Tigne Place Commercial Property (as noted above).

## **2016 review and outlook for 2017**

Occupancy during 2016 remained high at 99% throughout the year (December 2015: 96%).

Based on the successful acquisition in the third quarter of 2016 (referred to above) the Group will continue to consider further growth opportunities as they arise.

Subject to any unforeseen circumstances, in 2017 the Company envisages achieving slightly lower occupancy levels achieved in 2016.

## **Results and dividends**

The consolidated financial results are set out on page 27. The Directors recommend the payment of a final dividend of €829,650 (2015: €808,712).

## **Directors' report** - continued

### **Directors**

The Directors of the parent Company who held office during the year were:

Charles J. Farrugia  
David G. Curmi  
Emanuel P. Delia  
Alan Mizzi  
Brian R. Mizzi  
Etienne Sciberras  
Gerald J. Zammit

The Directors are required in terms of the Company's Articles of Association to retire at the forthcoming Annual General Meeting and may offer themselves for re-appointment or re-election.

A shareholder holding not less than 14 per cent of voting rights of the issued share capital or a number of shareholders who between them hold not less than 14 per cent, shall appoint one director for every such 14 per cent holding by letter addressed to the Company. All shares not utilised to make appointments in terms of the above shall be entitled to vote at the Annual General Meeting to elect the remaining directors. The Memorandum and Articles of the Company provide for a Board of Directors of not less than five and not more than seven members.

### **Share capital of the Company**

The Company has an authorised share capital of 75,000,000 ordinary shares of €0.20 each, and issued and fully paid share capital of 28,242,000 ordinary shares with a nominal value of €0.20 each. The Company's share capital consists of only one class of shares, and all shares in that class are admitted to trade on the Malta Stock Exchange. All shares in the Company are freely transferable. There are no shareholders having special control rights in the Company, nor are there any restrictions on voting rights in the Company.

The Company is authorised pursuant to its Memorandum and Articles of Association to purchase its own shares, provided that appropriate authority has been given to the Directors for that purpose. No such authority is currently outstanding.

The Company does not operate any employee share option schemes.

The Company is not aware of any agreements between shareholders with respect to the transfer of shares or the exercise of voting rights.

No disclosures are being made pursuant to Listing Rules 5.64.10 and 5.64.11 as these are not applicable to the Company.

**Directors' report** - continued

**Share capital of the Company** - continued

The following are the shareholders holding more than 5 per cent of the voting issued share capital of the Company:

|  | <b>% holding<br/>At 31.12.16</b> | <b>% holding<br/>At 09.03.17</b> |
|--|----------------------------------|----------------------------------|
| MAPFRE MSV Life p.l.c.   | 28.36                            | 28.36                            |
| Mizzi Holdings Limited   | 8.18                             | 8.18                             |
| Rizzo Farrugia & Co (Stockbrokers) Ltd – Nominee Account                                 | 8.05                             | 8.12                             |
| Alf. Mizzi & Sons Ltd  | 7.85                             | 7.85                             |
| Lombard Bank Malta p.l.c   | 5.07                             | 5.07                             |
| APS Funds SICAV p.l.c. - APS Income Fund, held under Custody of<br>BOV of Valletta p.l.c | 5.00                             | 5.00                             |

**Statement of Directors' responsibilities for the financial statements**

The Directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the Group and the parent Company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the Group and the parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Plaza Centres p.l.c. for the year ended 31 December 2016 are included in the Annual Report 2016, which is published in hard-copy printed form and made available on the parent 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.

The Directors further confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the Group and the parent Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the parent Company, together with a description of the principal risks and uncertainties that it faces.



**Directors' report** - continued

**Going concern basis**

After making due enquiries, the Directors have a reasonable expectation, at the time of approving the financial statements, that the Group and the parent Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

**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



Charles J. Farrugia  
Chairman

Registered office:  
The Plaza Commercial Centre  
Level 6, Bisazza Street  
Sliema SLM 1640  
Malta



Etienne Sciberras  
Director

Company secretary:  
Lionel A. Lapira

Telephone Number:  
+356 21343832

9 March 2017

# Corporate Governance - Statement of compliance

## 1. Introduction

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

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

The Board of Directors (the "Board") has carried out a review of Plaza's compliance with the Code for the financial year being reported upon.

## 2. General

Plaza's governance principally lies with its Board which is responsible for the overall determination of Plaza's policies and business strategies. Plaza's principal activity is to lease, manage and market its Shopping and Commercial Centres.

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

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

For the avoidance of doubt, reference in this Statement to compliance with the principles of the Code means compliance with the Code's main principles and the Code Provisions.

## 3. Compliance with the Code

### *Principles One to Five*

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

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

**3.Compliance with the Code** - continued

**Principle One: The Board**

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

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

The Board has throughout the period under review provided the necessary leadership in the overall direction of Plaza, and has adopted prudent and effective systems whereby it obtains timely information from the Chief Executive Officer (the "CEO"). This ensures an open dialogue between the CEO and Directors at regular intervals, and not only at meetings of the Board. The Directors believe that the attendance of the CEO at Directors' meetings as well as regular reporting and ongoing communication through the Executive Committee has improved the communication between the Board and the CEO.

Plaza has a structure that ensures a mix of executive and Non-Executive Directors that enables the Board, and particularly the Non-Executive Directors to have direct information about Plaza's performance and business activities.

**Principle Two: Chairman and Chief Executive**

In line with the requirements of Principle Two, Plaza has segregated the functions of the CEO and the Chairman. Whilst the CEO heads the Executive Committee and management, the Chairman's main function is to lead the Board and set its agenda, a function which the Board believes has been conducted in compliance with the dictates of Code Provision 2.2. The Chairman is also responsible to ensure that the Board receives precise, timely and objective information so that the directors can take sound decisions and effectively monitor the performance of Plaza. The Chairman exercises independent judgement and ensures that, during Board meetings, there is effective communication with stakeholders as well as active engagement by all directors for the discussion of complex and / or contentious issues.

The CEO is accountable to the Board of Plaza for all business operations. He has the power and authority to appoint the persons to fill in the post of each member of the Executive Committee. He also has the discretion to ask any one or more of such members, from time to time, to address the Board on matters relating to the operations of Plaza.

**Principle Three: Composition of the Board**

The composition of the Board, in line with the requirements of Principle Three, is composed of executive and non-executive Directors. During 2016, the Board was composed of two directors having an executive role as part of the Executive Committee and five other Directors acting in a non-executive capacity. The members of the Board for the year under review were Mr. Charles J. Farrugia (Chairman), Mr. David G. Curmi, Prof. Emanuel P. Delia, Mr. Alan Mizzi, Mr. Brian R. Mizzi, Mr Etienne Sciberras and Mr. Gerald J. Zammit. Pursuant to generally accepted practices, as well as Plaza's Articles of Association, the appointment of Directors to the Board is reserved exclusively to Plaza's shareholders, except in so far as an appointment is made to fill a vacancy on the Board.

The Board usually meets every month. Board meetings usually focus on strategy, operational performance and financial performance. The Board also delegates specific responsibilities to the CEO and *ad-hoc* Committees as may be required from time to time.

## **Corporate Governance - Statement of compliance** - continued

### **3. Compliance with the Code** - continued

For the purposes of Code Provision 3.2, the Board considers each of the non-executive Directors as independent within the meaning of the Code, notwithstanding the relationships disclosed hereunder. The non-executive Directors who held office at 31 December 2016 were the following:

- i) David G. Curmi – is the chief executive officer of MAPFRE MSV Life p.l.c., which company is a share holder of Plaza;
- ii) Prof. Emanuel P. Delia – is the chairman of APS Bank Limited. APS Funds SICAV p.l.c. is a related party of the bank and is a shareholder of Plaza;
- iii) Alan Mizzi – is a director of Alf. Mizzi & Sons Ltd, which company is a shareholder of Plaza;
- iv) Brian R. Mizzi – is a director of Mizzi Holdings Limited, which company is a shareholder of Plaza;
- v) Etienne Sciberras – is a senior officer of MAPFRE MSV Life p.l.c., which company is a shareholder of Plaza.

The only relationship that could impact the independence of non-executive Directors refers to their status as directors or senior officers of other entities that are shareholders of Plaza.

None of the non-executive Directors:

1. are or have been employed in any capacity by Plaza;
2. receive significant additional remuneration from Plaza;
3. have close family ties with any of the executive members of the Board;
4. have been within the last three years an engagement partner or a member of the audit team of the present or past external auditor of Plaza; and
5. have a significant business relationship with Plaza.

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

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

#### **Principle Four: The Responsibilities of the Board**

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

#### **The Executive Committee**

Whilst these are matters which are reserved for the Board to determine, the Board believes that this responsibility includes the appropriate delegation of authority, and accountability for Plaza's day to day business, to the Executive Committee in a manner that is designed to provide high levels of comfort to the Directors that there is proper monitoring and accountability apart from the appropriate implementation of policy. The Executive Committee operates under its formal Terms of Reference. Matters relating to administration, finance and strategy are, however, discussed at Board level.

During 2016, the Executive Committee was composed of the following members:

- Mr. Charles J. Farrugia – the Chairman of Plaza and of the Committee;
- Mr. Lionel A. Lapira – the CEO; and
- Mr. Gerald J. Zammit – Director.

The Executive Committee has met 4 times during the year under review (2015: 1).

**3. Compliance with the Code** - continued

**The Audit Committee**

Plaza has established an Audit Committee in line with the requirements of the Listing Rules whose principal role is the monitoring of internal systems and control. Unlike the provisions of the Code, which are not mandatory in nature, the Directors acknowledge that the requirement of having an Audit Committee in place is an obligation under the Listing Rules. The members of the Audit Committee for the year under review were Mr. Etienne Sciberras (Chairman of the Audit Committee), Prof. Emanuel P. Delia and Mr. Gerald J. Zammit. The Directors believe that Mr. Etienne Sciberras is independent and competent in accounting and/or auditing in terms of Listing Rule 5.117. The Directors believe that Mr. Etienne Sciberras satisfies the independence criteria as he is independent within the meaning of the Code as explained above in this Statement. Furthermore, Mr. Sciberras is also competent in accounting/auditing given his extensive experience in the financial services sector and has the necessary skills to undertake the responsibilities required of him.

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

They include, inter alia, the responsibility of reviewing the financial reporting process and policies, the system of internal control and management of financial risk, the audit process, any transactions with related parties and Plaza's process for monitoring compliance with laws and regulations. The external auditors are invited to attend specific meetings of the Audit Committee and are entitled to convene a meeting if they consider that it is necessary.

When the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on the action needed to address the issue or make improvements.

In the period under review, the Audit Committee met 4 times (2015: 4).

The role of the Board is exercised in a manner designed to ensure that it can function independently of management and effectively supervises the operations of Plaza. Each Board meeting is presented with a report by the CEO. Such report regularly includes: (i) Plaza's management accounts circulated monthly to each Director; (ii) a management commentary on the results and on relevant events and decisions; and (iii) background information on any matter requiring the approval of the Board.

In fulfilling its mandate, the Board assumes responsibility to:

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

The Board does not consider it necessary to constitute separate committees to deal, inter alia, with item (h) above, as might be appropriate in a larger company. In ensuring compliance with other statutory requirements and with continuing listing obligations, the Board is advised directly, as appropriate, by its appointed broker, legal advisor and other advisors.

As part of succession planning, the Board and CEO ensure that Plaza implements appropriate schemes to recruit, retain and motivate employees and senior management.

## **Corporate Governance - Statement of compliance** - continued

### **3. Compliance with the Code** - continued

Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at Plaza's expense.

During the financial year under review, the Board held 11 meetings (2015: 11).

#### **Principle Five: Board Meetings**

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

The Board meets as often and as frequently required in line with the nature and demands of the business of Plaza. Directors attend meetings on a frequent and regular basis and dedicate the necessary time and attention to their duties as directors of Plaza.

The following is the attendance at board meetings of each of the Directors during 2016:

|                                    |    |
|------------------------------------|----|
| Mr. Charles J. Farrugia - Chairman | 11 |
| Mr. David G. Curmi                 | 9  |
| Prof. Emanuel P. Delia             | 10 |
| Mr. Alan Mizzi                     | 8  |
| Mr. Brian R. Mizzi                 | 10 |
| Mr. Etienne Sciberras              | 11 |
| Mr. Gerald J. Zammit               | 11 |

The Chairman ensures that all relevant issues are on the agenda supported by all available information, whilst encouraging the presentation of views pertinent to the subject matter and giving all directors every opportunity to contribute to relevant issues on the agenda. The agenda on the Board strikes a balance between long-term strategic and short-term performance issues.

#### **Principle Six: Information and Professional Development**

The Board believes that this principle has been duly complied with for the period under review. The CEO is appointed by the Directors and enjoys the full confidence of the Board. The Board actively participates in the appointment of senior management and ensures that there is adequate training in Plaza for directors, management and employees. The Board ensures that all directors are supplied with precise, timely and clear information so that they can effectively contribute to board decisions and in line with the high standards expected of them.

As part of succession planning and employee retention, the Board and CEO ensure that Plaza implements appropriate schemes to recruit, retain and motivate employees and senior management and keep a high morale amongst employees.

**3. Compliance with the Code** - continued

**Principle Seven: Evaluation of the Board's performance**

Over the period under review it is the Board's opinion that all members of the Board, individually and collectively, have contributed in line with the required levels of diligence and skill. In addition, the Board believes that its current composition endows the Board with a cross-section of skills and experience and achieves the appropriate balance required for it to function effectively. During the year, the Directors carried out a self evaluation performance analysis, including the Chairman and the CEO. The results of this analysis did not require any material changes in Plaza's corporate governance structure.

**Principle Eight: Committees**

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

Plaza has no performance related remuneration payable to its Directors and accordingly, as allowed by Code Provision 8.A.2, it has not appointed a Remuneration Committee, but rather establishes itself the remuneration policies of Plaza.

The Board notes that the organisational set-up of Plaza consists of 11 employees, of whom 1 is considered to be a senior officer. The size of its human resource does not, in the opinion of the Directors, warrant the establishment of an *ad hoc* Remuneration Committee. Remuneration policies have therefore been retained within the remit of the Board itself. The senior officer is entitled to a cash performance bonus, which varies in line with improvements in Plaza's profitability. This performance incentive, and its underlying basis, is subject to the review of the Board. No such bonus was paid during the year under review.

The aggregate amount of remuneration paid to all Directors of Plaza was €70,012 during 2016 and each Director received an annual remuneration of €7,200. The aggregate amount of remuneration paid to all Directors also includes the amount of €3,900, received by each of the three directors who sit on the Audit Committee, amounting in total to €11,700 as an annual Audit Committee remuneration. The aggregate amount of remuneration paid to all Directors also includes the amount of €3,900 received by each of the two directors who sit on the Executive Committee, amounting in total to €7,800 as an annual Executive Committee remuneration. The Board deems the disclosure of the total emoluments received by the senior officer as commercially sensitive and is hence availing itself of the exemption pursuant to Code Provision 8.A.6.

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

The Board believes that the main principle has been duly complied with, in that it is the Articles of Association themselves that establish a formal and transparent procedure for the appointment of Directors. The Company has however not established a Nominations Committee as suggested by the Code.

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

The Board serves the legitimate interests of Plaza, accounts to shareholders fully and ensures that Plaza communicates with the market effectively through a number of company announcements that it published, informing the market of significant events happening within Plaza. The Board notes that the reaction of market participants to Plaza's communication strategy of important events has been positive.

Plaza will soon be holding its 17th Annual General Meeting where the Board intends to communicate directly with shareholders on the performance of Plaza over the last financial year and to inform shareholders of the challenges that lie ahead.

Business at Plaza's Annual General Meeting covers the approval of the Annual Report and Audited Financial Statements, the declaration of a dividend, if any, the election of Directors, the determination of the maximum aggregate emoluments that may be paid to Directors, the appointment of auditors and the authorisation of the

## **Corporate Governance - Statement of compliance** - continued

### **3. Compliance with the Code** - continued

Directors to set the auditors' remuneration.

Apart from the Annual General Meeting, Plaza intends to continue with its active communication strategy in the market, and shall accordingly continue to communicate with its shareholders and the market by way of the Annual Report and Audited Financial Statements, by publishing its results on a six-monthly basis during the year, and by way of company announcements to the market in general. Plaza recognises the importance of maintaining a dialogue with the market to ensure that its strategies and performance are well understood and disclosed to the market in a timely manner. Plaza's website ([www.plaza-shopping.com](http://www.plaza-shopping.com)) also contains information about Plaza and its business, which is a source of further information to the market.

Plaza's Articles of Association allow minority shareholders to call special meetings on matters of importance to Plaza, provided that the minimum threshold of ownership established in the Articles of Association is met.

#### **Principle Eleven: Conflicts of Interest**

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

Commercial relationships between Plaza and other companies with common Directors and shareholders may include the purchase of supplies and services, and the letting of outlets. Such contracts are entered into in the ordinary course of business and terms and conditions of new contracts negotiated are reviewed by Plaza's Audit Committee. During the financial year, these contracts included: supplies and services of €36,543 (2015: €130,730) and income from lettings and premia of €168,834 (2015: €167,757). Furthermore during 2016 Plaza obtained new banking facilities with APS Bank Limited who share a common non-executive direction.

As at the date of this Statement, the interests of the Directors in the shares of Plaza, including indirect shareholdings through other companies, were as follows:

- Mr. Alan Mizzi has an indirect interest in the share capital of Plaza by virtue of his ultimate effective holding of 16.18% shares in Alf. Mizzi & Sons Ltd that holds a 7.85% shareholding in Plaza Centres p.l.c.
- Brian Mizzi has an indirect interest in the share capital of Plaza by virtue of his ultimate effective holding of 8.33% shares in Mizzi Holdings Limited that holds an 8.18% shareholding in Plaza Centres p.l.c.
- Gerald J. Zammit has a direct interest in the share capital of Plaza by virtue of his holding of 0.01% shares in Plaza Centres p.l.c.

#### **Principle Twelve: Corporate Social Responsibility**

The Directors are committed to high standards of ethical conduct and to contribute to the development of the well-being of employees and their families as well as the local community and society at large.



#### **4. Non-Compliance with the Code**

The Directors set out below the Code Provisions with which they do not comply and an explanation as to the reasons for such non-compliance:

| <b>Code Provision</b> | <b>Explanation</b>  |
|-----------------------|---|
| 2.1                   | Although the posts of the Chairman and the Chief Executive Officer are occupied by different individuals in line with Code Provision 2.1, the division of their responsibilities has not been set out in writing. Nevertheless, the Board feels that there is significant experience and practice that determines the two roles.  |
| 2.3                   | With respect to Code Provision 2.3, the Board notes that the Chairman is also a member of the Executive Committee. However, the Board is of the view that this function of the Chairman does not impinge on his ability to bring to bear independent judgement to the Board.  |
| 4.2                   | The Board has not formally developed a succession policy for the future composition of the Board of Directors as recommended by Code Provision 4.2.7. In practice, however, the Board and CEO are actively involved in ensuring that appropriate schemes to recruit, retain and motivate employees and senior management are in place.  |
| 4.3                   | For the purposes of Code Provision 4.3, the Board reports that although information sessions were not organised for Directors within the period under review, during its meetings the Board regularly discusses Plaza's operations and prospects, the skills and competence of senior management, the general business environment and the Board's expectations.  |
| 6.4                   | With respect to Code Provision 6.4, the Board notes that professional development sessions were not organised for the period under review.  |
| 7.1                   | The Board has not appointed a committee for the purpose of undertaking an evaluation of the Board's performance in accordance with the requirements of Code Provision 7.1. The Board believes that the size of Plaza and the Board itself does not warrant the proliferation of several committees. Whilst the requirement under Code Provision 7.1 might be useful in the context of larger companies having a more complex set-up and a larger Board, the size of Plaza's Board is such that it should enable it to evaluate its own performance without the requirement of setting up an <i>ad-hoc</i> committee for this purpose. The Board shall retain this matter under review over the coming year.   |
| 8B                    | The Board has not appointed a Nominations Committee in line with Code Provision 8B, particularly in the light of the specific manner in which the Articles of Association require that Directors be appointed by a shareholding qualification to the Board. The Board believes that the current Articles of Association do not allow the Board itself to make any recommendations to the shareholders for appointments of Directors and that if this function were to be undertaken by the Board itself or a Nominations Committee, they would only be able to make a non-binding recommendation to the shareholders having the necessary qualification to appoint Directors pursuant to the Articles of Association. The Board, however, intends to keep under review the utility and possible advantages of having a Nominations Committee and following an evaluation may, if the need arises, make recommendations to the shareholders for a change to the Articles of Association. |
| 9.3                   | There are no procedures in place within Plaza for the resolution of conflicts between minority and controlling shareholders, nor does the Memorandum and Articles of Association contemplate any mechanism for arbitration in these instances. This is mitigated by ongoing open dialogue between executive management and non-executive directors of Plaza, to ensure that such conflicts do not arise.  |
| 9.4                   | Plaza does not have a policy in place to allow minority shareholders to present an issue to the Board.  |

## **Corporate Governance - Statement of compliance** - continued

### **4. Non-Compliance with the Code** - continued

The Directors also note that with effect from August 2016 the listing rules were amended and the requirements under the revised rules, no longer allow executive directors to be members of the Audit Committee. Since August 2016, the composition of the Plaza Audit Committee did not reflect the requirements of listing rule 5.117 as amended. With effect from 9 March 2017, the Board has replaced the only executive director on the Audit Committee (Mr Gerald J. Zammit) by Mr Brian R. Mizzi, a non-executive director, with a view to compliance with the code.

### **5. Internal control**

The Board is ultimately responsible for Plaza's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk to achieve business objectives, and can provide only reasonable, and not absolute, assurance against normal business risks or loss.

Through the Audit Committee, the Board reviews the effectiveness of Plaza's system of internal controls.

The key features of Plaza's system of internal control are as follows:

#### **Organisation**

Plaza operates through the CEO and Executive Committee with clear reporting lines and delegation of powers.

#### **Control Environment**

Plaza is committed to the highest standards of business conduct and seeks to maintain these standards across all its operations. Company policies and employee procedures are in place for the reporting and resolution of improper activities.

Plaza has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives.

#### **Risk Identification**

Management is responsible for the identification and evaluation of key risks applicable to their respective areas of business.

### **6. General meetings**

The general meeting is the highest decision making body of Plaza and is regulated by Plaza's Articles of Association. All shareholders registered on the register of members of Plaza on a particular record date are entitled to attend and vote at general meetings. A general meeting is called by twenty-one (21) days' notice.

At an Annual General Meeting what is termed as "ordinary business" is transacted, namely, the declaration of a dividend, the consideration of the financial statements and the reports of the Directors and the auditors, the election of Directors, the appointment of auditors and the fixing of remuneration of Directors and auditors. Other business which may be transacted at a general meeting (including at the Annual General Meeting) will be dealt with as "Special Business".

Voting at any general meeting takes place by a show of hands or a poll where this is demanded. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands each shareholder is entitled to one vote and on a poll each shareholder is entitled to one vote for each share carrying voting rights of which he is a holder. Shareholders who cannot participate in the general meeting may appoint a proxy by written or electronic notification to Plaza. Appointed proxy holders enjoy the same rights to participate in the general meeting as those to which the shareholder they represent is entitled. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to the items on the agenda of the general meeting and to have such questions answered by the Directors or such persons as the Directors may delegate for such person.

**Corporate Governance - Statement of compliance** - continued

**6.General meetings** - continued

The Directors' statement of responsibilities for preparing the financial statements is set out on pages 7 and 8.

The information required by Listing Rule 5.97.5 does not apply to Plaza.

Approved by the Board of Directors on 9 March 2017 and signed on its behalf by:



Charles J. Farrugia  
Chairman



Etienne Sciberras  
Director



## *Independent auditor's report*

To the Shareholders of Plaza Centres p.l.c.

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

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#### *Our opinion*

In our opinion:

- Plaza Centres p.l.c.'s Group and Parent Company financial statements (the "financial statements") give a true and fair view of the Group's and the Parent Company's financial position as at 31 December 2016, and of the Group's and the Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

#### **What we have audited**

Plaza Centres p.l.c.'s financial statements, set out on pages 26 to 55, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2016;
- the Consolidated and Parent Company income statements and statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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#### *Basis for opinion*

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

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

#### **Independence**

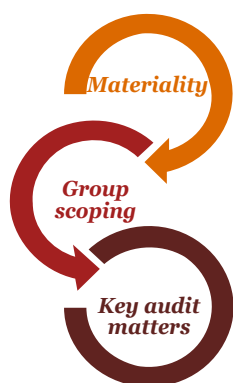
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of 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 Plaza Centres p.l.c.

### Our audit approach

#### Overview



Overall Group materiality: €83,000, which represents 5% of profit before tax.

The audit carried out by the group engagement team covered the two components within the Group (being the parent and its only wholly owned subsidiary).

Valuation of property, plant and equipment

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

|  |  |
|--|--|
| <b>Overall group materiality</b>                       | €83,000  |
| <b>How we determined it</b>                            | 5% of profit before tax  |
| <b>Rationale for the materiality benchmark applied</b> | We chose profit before tax as the benchmark because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards. |



## Independent auditor's report - continued

To the Shareholders of Plaza Centres p.l.c.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €8,500 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter  | How our audit addressed the Key audit matter   |
|---|--|
| <b>Valuation of property, plant and equipment (Note 4)</b>  |  |
| <p>As at 31 December 2016, the Group's property comprises of two sites, the Plaza Shopping and Commercial Centre and the Tigne Place Commercial Property, having an aggregate value of €42.67 million.</p>  | <p>We reviewed the valuation report and discussed the report with the valuer and confirmed that the valuation approach was in accordance with professional valuation standards.</p>  |
| <p>The Plaza Shopping and Commercial Centre, which leases units both for office and retail activity, was valued at 31 December 2016 at €33 million by an independent professionally qualified valuer. As explained in Note 4 to the financial statements, the valuation was determined using the discounted cash flow approach. The most significant estimates and judgements affecting this valuation include the projected pre-tax cash flows, the growth rates and the discount rates.</p> | <p>We agreed the property information in the valuation to the underlying property records held by the Group.</p>   |
| <p>The Tigne Place Commercial Property was acquired during the current financial year, close to the end of the reporting period. As at 31 December 2016, this property is carried at a value of €9.67 million, being the acquisition cost. This value was substantiated by a full valuation by an independent professionally qualified valuer. The directors consider this value to represent the fair value of this property at 31 December 2016.</p>  | <p>We tested the data inputs, including the rental income streams and the contracted rental inflation adjustments by agreeing them to supporting rental agreements.</p>  |
| <p>We focused on this area because of the significance of the carrying value of the properties in the consolidated and parent company statements of financial position and the judgemental nature of the assumptions used in the valuation model.</p>   | <p>We also engaged our in-house valuation specialists to assess the appropriateness of the fair values, particularly by understanding the methodology and assumptions being used, testing the accuracy of the workings within the valuation model, and challenging the assumptions used by the valuer.</p> |
|   | <p>We also reviewed the purchase agreement of the property complex acquired towards the end of September.</p>  |
|   | <p>We discussed the valuations with the Audit Committee and concluded, based on our audit work, that the Group's property valuation was within an acceptable range of values.</p>  |



## *Independent auditor's report - continued*

To the Shareholders of Plaza Centres p.l.c.

### **How we tailored our group audit scope**

The Group is composed of two components: Plaza Centres p.l.c. (the parent company) and Tigne Place Limited (its wholly owned subsidiary). Tigne Place Limited was set up on 8 July 2016 and the underlying property of this subsidiary was acquired towards the end of September 2016. We tailored the scope of our audit in order to perform sufficient work on both components to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The group audit team performed all of this work by applying the overall Group materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

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### *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 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 Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the Group 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.

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### *Responsibilities of the directors and those charged with governance 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.



## *Independent auditor's report - continued*

To the Shareholders of Plaza Centres p.l.c.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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### *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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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





## *Independent auditor's report - continued*

To the Shareholders of Plaza Centres p.l.c.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### *Report on other legal and regulatory requirements*

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#### *Report on the statement of compliance with the Principles of Good Corporate Governance*

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 9 to 18 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.



*Independent auditor's report - continued*

To the Shareholders of Plaza Centres p.l.c.

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*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

Lucienne Pace Ross

Partner

9 March 2017

# Statements of financial position

As at 31 December

|                                |       | Group             |            | Company           |            |
|--------------------------------|-------|-------------------|------------|-------------------|------------|
|                                | Notes | 2016<br>€         | 2015<br>€  | 2016<br>€         | 2015<br>€  |
| <b>ASSETS</b>                  |       |                   |            |                   |            |
| <b>Non-current assets</b>      |       |                   |            |                   |            |
| Property, plant and equipment  | 4     | <b>42,667,266</b> | 31,952,944 | <b>33,000,000</b> | 31,952,944 |
| Investment in subsidiary       | 5     | -                 | -          | <b>100,000</b>    | -          |
| Loans receivable               | 6     | -                 | -          | <b>5,063,754</b>  | -          |
| Total non-current assets       |       | <b>42,667,266</b> | 31,952,944 | <b>38,163,754</b> | 31,952,944 |
| <b>Current assets</b>          |       |                   |            |                   |            |
| Trade and other receivables    | 7     | <b>310,270</b>    | 303,667    | <b>329,656</b>    | 303,667    |
| Current tax assets             |       | <b>181,013</b>    | -          | <b>181,013</b>    | -          |
| Cash and cash equivalents      | 8     | <b>265,644</b>    | 14,682     | <b>210,523</b>    | 14,682     |
| Total current assets           |       | <b>756,927</b>    | 318,349    | <b>721,192</b>    | 318,349    |
| <b>Total assets</b>            |       | <b>43,424,193</b> | 32,271,293 | <b>38,884,946</b> | 32,271,293 |
| <b>EQUITY AND LIABILITIES</b>  |       |                   |            |                   |            |
| <b>Capital and reserves</b>    |       |                   |            |                   |            |
| Share capital                  | 9     | <b>5,648,400</b>  | 5,648,400  | <b>5,648,400</b>  | 5,648,400  |
| Share premium                  | 10    | <b>3,094,868</b>  | 3,094,868  | <b>3,094,868</b>  | 3,094,868  |
| Revaluation reserve            | 11    | <b>15,056,600</b> | 14,012,908 | <b>15,056,600</b> | 14,012,908 |
| Retained earnings              |       | <b>2,380,214</b>  | 1,910,898  | <b>2,399,360</b>  | 1,910,898  |
| Total equity                   |       | <b>26,180,082</b> | 24,667,074 | <b>26,199,228</b> | 24,667,074 |
| <b>Non-current liabilities</b> |       |                   |            |                   |            |
| Trade and other payables       | 12    | <b>309,827</b>    | 345,964    | <b>309,827</b>    | 345,964    |
| Borrowings                     | 13    | <b>12,323,635</b> | 1,787,740  | <b>8,320,490</b>  | 1,787,740  |
| Deferred tax liabilities       | 14    | <b>3,366,719</b>  | 3,249,291  | <b>3,366,719</b>  | 3,249,291  |
| Total non-current liabilities  |       | <b>16,000,181</b> | 5,382,995  | <b>11,997,036</b> | 5,382,995  |
| <b>Current liabilities</b>     |       |                   |            |                   |            |
| Trade and other payables       | 12    | <b>842,310</b>    | 696,710    | <b>688,682</b>    | 696,710    |
| Current tax liabilities        |       | <b>1,409</b>      | 95,702     | -                 | 95,702     |
| Borrowings                     | 13    | <b>400,211</b>    | 1,428,812  | -                 | 1,428,812  |
| Total current liabilities      |       | <b>1,243,930</b>  | 2,221,224  | <b>688,682</b>    | 2,221,224  |
| Total liabilities              |       | <b>17,244,111</b> | 7,604,219  | <b>12,685,718</b> | 7,604,219  |
| Total equity and liabilities   |       | <b>43,424,193</b> | 32,271,293 | <b>38,884,946</b> | 32,271,293 |

The notes on pages 32 to 55 are an integral part of these financial statements.

The financial statements on pages 26 to 55 were authorised for issue by the Board on 9 March 2017 and were signed on its behalf by:



Charles J. Farrugia  
Chairman



Etienne Sciberras  
Director

# Income statements

Year ended 31 December

|   |       | Group            |           | Company          |           |
|---|-------|------------------|-----------|------------------|-----------|
|   | Notes | 2016<br>€        | 2015<br>€ | 2016<br>€        | 2015<br>€ |
| <b>Revenue</b>                              | 15    | <b>2,729,343</b> | 2,441,154 | <b>2,588,751</b> | 2,441,154 |
| Marketing and maintenance costs             | 16    | <b>(58,279)</b>  | (49,987)  | <b>(50,975)</b>  | (49,987)  |
| Administrative expenses                     | 16    | <b>(415,730)</b> | (306,048) | <b>(399,682)</b> | (306,048) |
| <b>Operating profit before depreciation</b> |       | <b>2,255,334</b> | 2,085,119 | <b>2,138,094</b> | 2,085,119 |
| Depreciation                                | 16    | <b>(366,401)</b> | (364,095) | <b>(341,838)</b> | (364,095) |
| <b>Operating profit</b>                     |       | <b>1,888,933</b> | 1,721,024 | <b>1,796,256</b> | 1,721,024 |
| Finance income                              | 18    | <b>9,660</b>     | 11,917    | <b>66,180</b>    | 11,917    |
| Finance costs                               | 19    | <b>(250,185)</b> | (140,848) | <b>(196,291)</b> | (140,848) |
| <b>Profit before tax</b>                    |       | <b>1,648,408</b> | 1,592,093 | <b>1,666,145</b> | 1,592,093 |
| Tax expense                                 | 20    | <b>(381,628)</b> | (581,202) | <b>(380,219)</b> | (581,202) |
| <b>Profit for the year</b>                  |       | <b>1,266,780</b> | 1,010,891 | <b>1,285,926</b> | 1,010,891 |
| <b>Earnings per share (cents)</b>           | 22    | <b>4c49</b>      | 3c58      |                  |           |

The notes on pages 33 to 56 are an integral part of these financial statements.

# Statements of comprehensive income

|  | Note | Year ended 31 December |           |                  |           |
|--|------|------------------------|-----------|------------------|-----------|
|  |      | Group                  |           | Company          |           |
|  |      | 2016<br>€              | 2015<br>€ | 2016<br>€        | 2015<br>€ |
| <b>Profit for the year</b>   |      | <b>1,266,780</b>       | 1,010,891 | <b>1,285,926</b> | 1,010,891 |
| <b>Other comprehensive:</b><br><i>Items that will not be reclassified to profit on loss</i>                                |      |                        |           |                  |           |
| Revaluation surplus on land and buildings arising during year, net of deferred tax   | 11   | <b>1,054,135</b>       | -         | <b>1,054,135</b> | -         |
| Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals | 11   | <b>805</b>             | 620,496   | <b>805</b>       | 620,496   |
| Total other comprehensive income   |      | <b>1,054,940</b>       | 620,496   | <b>1,054,940</b> | 620,496   |
| <b>Total comprehensive income for the year</b>   |      | <b>2,321,720</b>       | 1,631,387 | <b>2,340,866</b> | 1,631,387 |

The notes on pages 33 to 56 are an integral part of these financial statements.

# Statements of changes in equity

| Group   | Notes | Share capital<br>€ | Share premium<br>€ | Revaluation reserve<br>€ | Retained earnings<br>€ | Total equity<br>€ |
|---|-------|--------------------|--------------------|--------------------------|------------------------|-------------------|
| Balance at 1 January 2015   |       | 5,648,400          | 3,094,868          | 13,403,660               | 1,646,390              | 23,793,318        |
| <b>Comprehensive income</b>   |       |                    |                    |                          |                        |                   |
| Profit for the year   |       | -                  | -                  | -                        | 1,010,891              | 1,010,891         |
| <b>Other comprehensive income:</b>  |       |                    |                    |                          |                        |                   |
| Movement in deferred tax liability determined on the basis applicable to property disposals | 11    | -                  | -                  | 620,496                  | -                      | 620,496           |
| Depreciation transfer through asset use, net of deferred tax                                | 11    | -                  | -                  | (11,248)                 | 11,248                 | -                 |
| Total other comprehensive income  |       | -                  | -                  | 609,248                  | 11,248                 | 620,496           |
| <b>Total comprehensive income</b>   |       | -                  | -                  | 609,248                  | 1,022,139              | 1,631,387         |
| <b>Transactions with owners</b>   |       |                    |                    |                          |                        |                   |
| Dividends for 2014  | 23    | -                  | -                  | -                        | (757,631)              | (757,631)         |
| Balance at 31 December 2015   |       | 5,648,400          | 3,094,868          | 14,012,908               | 1,910,898              | 24,667,074        |
| <b>Comprehensive income</b>   |       |                    |                    |                          |                        |                   |
| Profit for the year   |       | -                  | -                  | -                        | 1,266,780              | 1,266,780         |
| <b>Other comprehensive income:</b>  |       |                    |                    |                          |                        |                   |
| Revaluation surplus on land and buildings arising during year, net of deferred tax          | 11    | -                  | -                  | 1,054,135                | -                      | 1,054,135         |
| Movement in deferred tax liability determined on the basis applicable to property disposals | 11    | -                  | -                  | 805                      | -                      | 805               |
| Depreciation transfer through asset use, net of deferred tax                                | 11    | -                  | -                  | (11,248)                 | 11,248                 | -                 |
| Total other comprehensive income  |       | -                  | -                  | 1,043,692                | 11,248                 | 1,054,940         |
| <b>Total comprehensive income</b>   |       | -                  | -                  | 1,043,692                | 1,278,028              | 2,321,720         |
| <b>Transactions with owners</b>   |       |                    |                    |                          |                        |                   |
| Dividends for 2015  | 23    | -                  | -                  | -                        | (808,712)              | (808,712)         |
| <b>Balance at 31 December 2016</b>  |       | 5,648,400          | 3,094,868          | 15,056,600               | 2,380,214              | 26,180,082        |

**Statements of changes in equity** - continued

| <b>Company</b>  | Notes | <b>Share capital</b><br>€ | <b>Share premium</b><br>€ | <b>Revaluation reserve</b><br>€ | <b>Retained earnings</b><br>€ | <b>Total equity</b><br>€ |
|---|-------|---------------------------|---------------------------|---------------------------------|-------------------------------|--------------------------|
| Balance at 1 January 2015   |       | 5,648,400                 | 3,094,868                 | 13,403,660                      | 1,646,390                     | 23,793,318               |
| <b>Comprehensive income</b>   |       | -                         | -                         | -                               | 1,010,891                     | 1,010,891                |
| Profit for the year   |       |                           |                           |                                 |                               |                          |
| <b>Other comprehensive income:</b>  |       |                           |                           |                                 |                               |                          |
| Movement in deferred tax liability determined on the basis applicable to property disposals | 11    | -                         | -                         | 620,496                         | -                             | 620,496                  |
| Depreciation transfer through asset use, net of deferred tax                                | 11    | -                         | -                         | (11,248)                        | 11,248                        | -                        |
| Total other comprehensive income  |       | -                         | -                         | 609,248                         | 11,248                        | 620,496                  |
| <b>Total comprehensive income</b>   |       | -                         | -                         | 609,248                         | 1,022,139                     | 1,631,387                |
| <b>Transactions with owners</b>   |       |                           |                           |                                 |                               |                          |
| Dividends for 2014  | 23    | -                         | -                         | -                               | (757,631)                     | (757,631)                |
| Balance at 31 December 2015   |       | 5,648,400                 | 3,094,868                 | 14,012,908                      | 1,910,898                     | 24,667,074               |
| <b>Comprehensive income</b>   |       | -                         | -                         | -                               | 1,285,926                     | 1,285,926                |
| Profit for the year   |       |                           |                           |                                 |                               |                          |
| <b>Other comprehensive income:</b>  |       |                           |                           |                                 |                               |                          |
| Revaluation surplus on land and buildings arising during year, net of deferred tax          | 11    | -                         | -                         | 1,054,135                       | -                             | 1,054,135                |
| Movement in deferred tax liability determined on the basis applicable to property disposals | 11    | -                         | -                         | 805                             | -                             | 805                      |
| Depreciation transfer through asset use, net of deferred tax                                | 11    | -                         | -                         | (11,248)                        | 11,248                        | -                        |
| Total other comprehensive income  |       | -                         | -                         | 1,043,692                       | 11,248                        | 1,054,940                |
| <b>Total comprehensive income</b>   |       | -                         | -                         | 1,043,692                       | 1,297,174                     | 2,340,866                |
| <b>Transactions with owners</b>   |       |                           |                           |                                 |                               |                          |
| Dividends for 2015  | 23    | -                         | -                         | -                               | (808,712)                     | (808,712)                |
| <b>Balance at 31 December 2016</b>  |       | <b>5,648,400</b>          | <b>3,094,868</b>          | <b>15,056,600</b>               | <b>2,399,360</b>              | <b>26,199,228</b>        |

The notes on pages 33 to 56 are an integral part of these financial statements.

# Statements of cash flows

| Year ended 31 December                                 |       |                    |             |                    |             |
|--|-------|--------------------|-------------|--------------------|-------------|
| Group  |       |                    |             |                    |             |
| Company  |       |                    |             |                    |             |
|  | Notes | 2016<br>€          | 2015<br>€   | 2016<br>€          | 2015<br>€   |
| <b>Cash flows from operating activities</b>            |       |                    |             |                    |             |
| Cash generated from operations                         | 24    | <b>2,343,840</b>   | 2,140,998   | <b>2,110,106</b>   | 2,140,998   |
| Interest received                                      |       | <b>9,660</b>       | 11,917      | <b>9,660</b>       | 11,917      |
| Interest paid  |       | <b>(190,361)</b>   | (143,244)   | <b>(136,467)</b>   | (143,244)   |
| Income tax paid  |       | <b>(655,827)</b>   | (525,384)   | <b>(655,827)</b>   | (525,384)   |
| Net cash generated from operating activities           |       | <b>1,507,312</b>   | 1,484,287   | <b>1,327,472</b>   | 1,484,287   |
| <b>Cash flows from investing activities</b>            |       |                    |             |                    |             |
| Purchase of property, plant and equipment              |       | <b>(9,948,742)</b> | (341,844)   | <b>(256,913)</b>   | (341,844)   |
| Investment in subsidiary                               | 5     | -                  | -           | <b>(100,000)</b>   | -           |
| Loans advanced to subsidiary                           | 6     | -                  | -           | <b>(5,063,754)</b> | -           |
| Net cash used in investing activities                  |       | <b>(9,948,742)</b> | (341,844)   | <b>(5,420,667)</b> | (341,844)   |
| <b>Cash flows from financing activities</b>            |       |                    |             |                    |             |
| Proceeds from bank borrowings                          | 13    | <b>4,500,000</b>   | -           | -                  | -           |
| Repayments of bank borrowings                          | 13    | <b>(2,165,816)</b> | (281,432)   | <b>(2,069,172)</b> | (281,432)   |
| Net proceeds from issuance of bonds                    | 13    | <b>8,314,300</b>   | -           | <b>8,314,300</b>   | -           |
| Dividends paid   | 23    | <b>(808,712)</b>   | (757,631)   | <b>(808,712)</b>   | (757,631)   |
| Net cash generated from/(used in) financing activities |       | <b>9,839,772</b>   | (1,039,063) | <b>5,436,416</b>   | (1,039,063) |
| <b>Net movement in cash and cash equivalents</b>       |       | <b>1,398,342</b>   | 103,380     | <b>1,343,221</b>   | 103,380     |
| <b>Cash and cash equivalents at beginning of year</b>  |       | <b>(1,132,698)</b> | (1,236,078) | <b>(1,132,698)</b> | (1,236,078) |
| <b>Cash and cash equivalents at end of year</b>        | 8     | <b>265,644</b>     | (1,132,698) | <b>210,523</b>     | (1,132,698) |

The notes on pages 33 to 56 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

The consolidated financial statements include the financial statements of Plaza Centres p.l.c. and its subsidiary. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386). They have been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings class of property, plant and equipment.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies (see Note 3 - Critical accounting estimates and judgements).

The Group financial statements include the results of the newly incorporated subsidiary (refer to Note 5) which commenced its operational activity on 27 September 2016. The comparative amounts for the year ended 31 December 2015 for the Group's statements of income, comprehensive income, changes in equity and cash flows and their related notes, include only the Company's results.

#### *Standards, interpretations and amendments to published standards effective in 2016*

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

### 1.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the parent Company's Board of Directors that makes strategic decisions. The Board of Directors considers the Group to be made up of one segment, that is to lease, manage and market commercial property.

## **Notes to the financial statements** - continued

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

#### **1.3 Consolidation**

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the group.

In the company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

#### **1.4 Foreign currency translation**

##### *(a) Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Company's functional currency and the Group's presentation currency.

##### *(b) Transactions and balances*

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

#### **1.5 Property, plant and equipment**

The Group owns and operates commercial property that is fully serviced and which activity extends beyond the mere leasing out of retail space. The extent of the services provided by the Group is deemed to be significant to the arrangement with the tenants as a whole. Accordingly, the commercial property owned and managed by the Group is treated as property, plant and equipment under the requirements of IAS 16 rather than investment property under IAS 40.

Property, plant and equipment, comprising land and buildings, electrical installations, plant, machinery and equipment, and furniture and fittings are initially recorded at cost. Land and buildings are

## Notes to the financial statements - continued

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

#### 1.5 Property, plant and equipment - continued

subsequently shown at market value, based on periodic, but at least triennial valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost (Note 1.19).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. 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 of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of any related deferred income taxes, is transferred from the revaluation reserve to retained earnings.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful lives, as follows:

|                                | %            |
|--------------------------------|--------------|
| Buildings                      | 1 - 10       |
| Electrical installations       | 4            |
| Plant, machinery and equipment | 5 - 20       |
| Furniture and fittings         | 3.33 - 33.33 |

Assets in the course of construction are not depreciated.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.6).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

#### 1.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## **Notes to the financial statements** - continued

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

#### **1.7 Financial assets**

##### **Classification**

The Group 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 group undertakings provide money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.9 and 1.10). The parent Company's statement of financial position also includes loans receivable (Note 1.8).

##### **Recognition and measurement**

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, which is the date on which the Group commits to purchase or sell the asset. 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.

Financial assets are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

##### **Impairment**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group first assesses whether objective evidence of impairment exists. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

## **Notes to the financial statements** - continued

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

#### **1.8 Loans receivable**

Under the requirements of IAS 39, the parent Company's loans receivable, which consist of advances to the subsidiary, are classified as loans and receivables, unless the Company has the intention of trading the asset immediately or in the short-term, in which case the loans receivable are categorised as instruments held-for-trading.

All loans receivable are recognised when cash is advanced to the borrowers. Loans receivable are initially recognised at the fair value of cash consideration given or proceeds advanced, plus transaction costs. These financial assets are subsequently carried at amortised cost using the effective interest method. The Company assesses at the end of each reporting period whether there is objective evidence that loans receivable are impaired.

#### **1.9 Trade and other receivables**

Trade receivables comprise amounts due from customers for services rendered 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 (Note 1.7). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

#### **1.10 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents 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.

#### **1.11 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown as a deduction in equity from the proceeds.

#### **1.12 Financial liabilities**

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

#### **1.13 Trade and other payables**

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Deferred income comprises advance payments for rent receivable relating to subsequent periods and rental premises that are credited to profit or loss on a straight-line basis over the lease term.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## **Notes to the financial statements** - continued

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

#### **1.14 Borrowings**

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between 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 Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

#### **1.15 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### **1.16 Current and deferred tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in 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, 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 nor 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.

Under this method the Group is required to make a provision for deferred taxes on the revaluation of property, plant and equipment. Such deferred tax is charged or credited directly to the revaluation reserve. Deferred tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property is realised through profit or loss.

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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### **1.17 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is recognised upon performance of services, and is stated net of sales tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below:

##### *(a) Rental income*

Rents receivable and premia charged to clients are included in the financial statements as revenue. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments received under operating leases are credited to profit or loss on a straight-line basis over the period of the lease.

## **Notes to the financial statements** - continued

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

#### *(b) Finance income*

Interest income is recognised in profit or loss as it accrues, unless collectability is in doubt.

#### **1.18 Operating leases**

##### *(a) A group undertaking is the lessor*

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with accounting policy 1.5. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term.

##### *(b) A group undertaking is the lessee*

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

#### **1.19 Borrowing costs**

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment, are capitalised as part of its cost. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially ready for their intended use or sale and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of interest-bearing borrowings.

#### **1.20 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

## 2. Financial risk management

### 2.1 Financial risk factors

The Group's activities potentially expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group did not make use of derivative financial instruments to hedge risk exposures during the current and preceding financial years. The Board provides principles for overall risk management, as well as policies covering risks referred to above.

#### (a) Market risk

##### (i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. The Group's transactions and recognised assets and liabilities are all denominated in euro and hence the Group is not exposed to foreign exchange risk.

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

The Group's significant interest-bearing assets and liabilities, and related interest rate and maturity information, are disclosed in Notes 6, 7 and 13.

The Group's instruments which are subject to fixed interest rates comprise the bonds issued to the general public (Note 13) and overdue receivables (Note 7). The Company's fixed interest instruments also comprise loans receivable from subsidiary (Note 6). In this respect, the Group and the Company are potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

The Group's cash flow interest rate risk principally arises from bank borrowings issued at variable rates (Note 13), which exposes the Group to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. The Group's operating cash flows are substantially independent of changes in market interest rates. Based on the above, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial.

#### (b) Credit risk

Financial assets that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents and credit exposure to customers, including outstanding receivables and committed transactions. The Company is also exposed to credit risk with respect to loans to its subsidiary.

The Group's and the Company's exposures to credit risk as at the end of each reporting period are analysed as follows:

|  | Group          |         | Company          |         |
|--|----------------|---------|------------------|---------|
|  | 2016           | 2015    | 2016             | 2015    |
|  | €              | €       | €                | €       |
| <b>Loans and receivables category:</b> |                |         |                  |         |
| Loans receivable (Note 6)              | -              | -       | <b>5,063,754</b> | -       |
| Trade and other receivables (Note 7)   | <b>310,270</b> | 303,667 | <b>329,656</b>   | 303,667 |
| Cash and cash equivalents (Note 8)     | <b>265,644</b> | 14,682  | <b>210,523</b>   | 14,682  |
|  | <b>575,914</b> | 318,349 | <b>5,603,933</b> | 318,349 |



## Notes to the financial statements - continued

### 2. Financial risk management - continued

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount. The Group does not hold any collateral as security in this respect.

Credit risk with respect to cash and cash equivalents is not considered to be significant since the Group's cash is placed with quality financial institutions. Concentration of credit risk with respect to trade receivables is limited due to the number of customers comprising the Group's debtor base. The Group assesses the credit quality of its tenants taking into account financial position, past experience and other factors. The Group manages credit limits and exposures actively in a practicable manner such that there are no material past due amounts receivable from tenants as at the end of the reporting period. Other than impaired receivables disclosed below, the Group's debtors are principally in respect of transactions with tenants for whom there is no recent history of default. Management does not expect any material losses from non-performance by these tenants.

The Company's loans receivable referred to in the table above consist of advances to subsidiary which have been effected out of the bond issue proceeds. Management monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The Company assesses the credit quality of the subsidiary taking into account financial position, performance and other factors. The Company takes cognisance of the related party relationship with this entity and management does not expect any losses from non-performance or default.

At 31 December 2016 and 2015, no trade receivables were considered to be impaired. However, at the end of the current and preceding financial years, certain trade receivables were past due but not impaired. These mainly relate to a number of independent customers for whom there is no recent history of default. Categorisation of trade receivables as past due is determined by the Group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers. The ageing analysis of these past due but not impaired trade receivables is disclosed below:

|                         | Group and Company |        |
|-------------------------|-------------------|--------|
|                         | 2016              | 2015   |
|                         | €                 | €      |
| Past due up to 2 months | <b>13,936</b>     | 41,801 |
| Past due over 2 months  | <b>11,948</b>     | 5,233  |
|                         | <b>25,884</b>     | 47,034 |

#### (c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally interest-bearing borrowings and trade and other payables (refer to Notes 13 and 12 respectively). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations.

The Group's liquidity risk is actively managed by ensuring that net cash inflows from the Group's trading operations are monitored in relation to cash outflows and arising from the Group's borrowings, principally bonds and bank loans, covering principle and interest payments as reflected in more detail in Note 13. Such note gives an analysis of the Group's borrowings into relevant maturity groupings based on the remaining term at the end of the reporting period to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows and when applicable are inclusive of interest.

The key objective of the Group's liquidity management process is that of channelling a regular stream of net cash flows to fund bond and other interest and capital repayment obligations, and strengthening the Group's reserves with the residual amounts. Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period and ensures that no additional financing facilities are expected to be required over the coming year.

## **Notes to the financial statements** - continued

### **2. Financial risk management** - continued

The Group's current liabilities exceeded its current assets as at the end of the financial year by €194,818 (2015: €1,587,683), after adjusting for deferred income amounting to €292,185 (2015: €315,192). However, the directors are of the opinion that the Group's liquidity risk is not deemed to be material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments, expectations for future income streams from existing and new contracts, coupled with the Group's committed borrowing facilities that it can access to meet liquidity needs as disclosed further in Note 13.

Balances due within twelve months are stated at their carrying amount, as the impact of discounting is not significant.

#### **2.2 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the parent Company may issue new shares or adjust the amount of dividends paid to shareholders.

The Group's equity, as disclosed in the statement of financial position, constitutes its capital. The Group maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Group'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.

#### **2.3 Fair values of financial instruments**

At 31 December 2016 and 2015 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial 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.

The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The carrying amount of the Company's non-current loans to subsidiary fairly approximates the estimated fair value of these assets based on discounted cash flows. The fair value of the Group's non-current floating interest rate bank borrowings at the end of the reporting period is not significantly different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as level 2 within the fair value measurement hierarchy required by IFRS 7, 'Financial Instruments: Disclosures'. Information on the fair value of the bonds issued to the public is disclosed in Note 13 to the financial statements. The fair value estimate in this respect is deemed Level 1 as it constitutes a quoted price in an active market.

### **3. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Directors, except as disclosed in Note 4, 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

| Group   | Land and buildings<br>€ | Electrical installations<br>€ | Plant, machinery and equipment<br>€ | Furniture, fixtures and fittings<br>€ | Total<br>€        |
|---|-------------------------|-------------------------------|-------------------------------------|---------------------------------------|-------------------|
| <b>At 1 January 2015</b>                          |                         |                               |                                     |                                       |                   |
| Cost or valuation                                 | 29,993,970              | 1,113,014                     | 3,895,854                           | 1,936,626                             | 36,939,464        |
| Accumulated depreciation                          | -                       | (672,672)                     | (3,196,975)                         |                                       | (4,939,464)       |
| Net book amount                                   | 29,993,970              | 440,342                       | 698,879                             | 866,809                               | 32,000,000        |
| <b>Year ended 31 December 2015</b>                |                         |                               |                                     |                                       |                   |
| Opening net book amount                           | 29,993,970              | 440,342                       | 698,879                             | 866,809                               | 32,000,000        |
| Additions   | 88,059                  | 12,963                        | 189,430                             | 26,587                                | 317,039           |
| Reclassifications                                 | (244,144)               | -                             | 244,144                             | -                                     | -                 |
| Depreciation charge                               | (110,660)               | (45,039)                      | (140,951)                           | (67,445)                              | (364,095)         |
| Closing net book amount                           | 29,727,225              | 408,266                       | 991,502                             | 825,951                               | 31,952,944        |
| <b>At 31 December 2015</b>                        |                         |                               |                                     |                                       |                   |
| Cost or valuation                                 | 29,837,885              | 1,125,977                     | 4,329,428                           | 1,963,213                             | 37,256,503        |
| Accumulated depreciation                          | (110,660)               | (717,711)                     | (3,337,926)                         | (1,137,262)                           | (5,303,559)       |
| Net book amount                                   | 29,727,225              | 408,266                       | 991,502                             | 825,951                               | 31,952,944        |
| <b>Year ended 31 December 2016</b>                |                         |                               |                                     |                                       |                   |
| Opening net book amount                           | 29,727,225              | 408,266                       | 991,502                             | 825,951                               | 31,952,944        |
| Additions   | 9,688,912               | 10,006                        | 182,103                             | 28,441                                | 9,909,462         |
| Revaluation surplus arising during year (Note 11) | 1,171,261               | -                             | -                                   | -                                     | 1,171,261         |
| Depreciation charge                               | (112,060)               | (45,439)                      | (140,433)                           | (68,469)                              | (366,401)         |
| Closing net book amount                           | <b>40,475,338</b>       | <b>372,833</b>                | <b>1,033,172</b>                    | <b>785,923</b>                        | <b>42,667,266</b> |
| <b>At 31 December 2016</b>                        |                         |                               |                                     |                                       |                   |
| Cost or valuation                                 | 40,475,338              | 1,135,983                     | 4,511,531                           | 1,991,654                             | 48,114,506        |
| Accumulated depreciation                          | -                       | (763,150)                     | (3,478,359)                         | (1,205,731)                           | (5,447,240)       |
| <b>Net book amount</b>                            | <b>40,475,338</b>       | <b>372,833</b>                | <b>1,033,172</b>                    | <b>785,923</b>                        | <b>42,667,266</b> |

Notes to the financial statements - continued

4. Property, plant and equipment - continued

| Company   | Land and buildings<br>€ | Electrical installations<br>€ | Plant, machinery and equipment<br>€ | Furniture, fixtures and fittings<br>€ | Total<br>€        |
|---|-------------------------|-------------------------------|-------------------------------------|---------------------------------------|-------------------|
| <b>At 1 January 2015</b>                          |                         |                               |                                     |                                       |                   |
| Cost or valuation                                 | 29,993,970              | 1,113,014                     | 3,895,854                           | 1,936,626                             | 36,939,464        |
| Accumulated depreciation                          | -                       | (672,672)                     | (3,196,975)                         |                                       | (4,939,464)       |
| Net book amount                                   | 29,993,970              | 440,342                       | 698,879                             | 866,809                               | 32,000,000        |
| <b>Year ended 31 December 2015</b>                |                         |                               |                                     |                                       |                   |
| Opening net book amount                           | 29,993,970              | 440,342                       | 698,879                             | 866,809                               | 32,000,000        |
| Additions   | 88,059                  | 12,963                        | 189,430                             | 26,587                                | 317,039           |
| Reclassifications                                 | (244,144)               | -                             | 244,144                             | -                                     | -                 |
| Depreciation charge                               | (110,660)               | (45,039)                      | (140,951)                           | (67,445)                              | (364,095)         |
| Closing net book amount                           | 29,727,225              | 408,266                       | 991,502                             | 825,951                               | 31,952,944        |
| <b>At 31 December 2015</b>                        |                         |                               |                                     |                                       |                   |
| Cost or valuation                                 | 29,837,885              | 1,125,977                     | 4,329,428                           | 1,963,213                             | 37,256,503        |
| Accumulated depreciation                          | (110,660)               | (717,711)                     | (3,337,926)                         | (1,137,262)                           | (5,303,559)       |
| Net book amount                                   | 29,727,225              | 408,266                       | 991,502                             | 825,951                               | 31,952,944        |
| <b>Year ended 31 December 2016</b>                |                         |                               |                                     |                                       |                   |
| Opening net book amount                           | 29,727,225              | 408,266                       | 991,502                             | 825,951                               | 31,952,944        |
| Additions   | 19,266                  | 10,006                        | 160,650                             | 27,711                                | 217,633           |
| Revaluation surplus arising during year (Note 11) | 1,171,261               | -                             | -                                   | -                                     | 1,171,261         |
| Depreciation charge                               | (87,886)                | (45,439)                      | (140,105)                           | (68,408)                              | (341,838)         |
| Closing net book amount                           | <b>30,829,866</b>       | <b>372,833</b>                | <b>1,012,047</b>                    | <b>785,254</b>                        | <b>33,000,000</b> |
| <b>At 31 December 2016</b>                        |                         |                               |                                     |                                       |                   |
| Cost or valuation                                 | 30,829,866              | 1,135,983                     | 4,490,078                           | 1,990,924                             | 38,446,851        |
| Accumulated depreciation                          | -                       | (763,150)                     | (3,478,031)                         | (1,205,670)                           | (5,446,851)       |
| <b>Net book amount</b>                            | <b>30,829,866</b>       | <b>372,833</b>                | <b>1,012,047</b>                    | <b>785,254</b>                        | <b>33,000,000</b> |

Fully depreciated assets which were still in use at 31 December 2016 amounted to €2,897,549 (2015: €2,082,592).

Bank borrowings are secured on the Group's land and buildings (refer to Note 13).

## **Notes to the financial statements** - continued

### **4. Property, plant and equipment** - continued

#### **Fair value of land and buildings**

The Company's land and buildings, comprising the Plaza Shopping and Commercial Centre, was revalued by an independent valuer on 31 December 2016 at €33 million. The arising revaluation surplus, net of applicable deferred taxes, has been credited to the revaluation reserve in shareholders' equity (Note 11).

The other property of the Group represents the Tigne Place Commercial Property which was acquired during the current financial year, towards the end of September. As at 31 December 2016, this property is carried at a value of €9.67 million, being the acquisition cost. At the point of acquisition, the directors commissioned a full valuation by an independent professionally qualified valuer to substantiate the property's cost.

The directors are of the opinion that the carrying amounts of all the Group's properties as at the end of current financial period, is an appropriate estimate of its fair value and that their current use equates to the highest and best use.

The Group 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 Group's recurring fair value measurements are categorised as level 3 as they are based on significant unobservable inputs. The Group'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 and the preceding financial years there were no transfers between the fair value levels. A reconciliation from the opening balance to the closing balance of property for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, for the current and preceding financial years, is reflected in the table above.

#### *Valuation process and techniques*

The Group's property is valued on periodic basis, but at least every three years, by an independent professionally qualified valuer who holds a recognised relevant professional qualification and has 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 Audit Committee 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 in which an external valuation is not carried out, the CEO also assesses whether any significant changes in actual circumstances, income streams, results and developments have been experienced from the date of the last external valuation. Findings are discussed with the Audit Committee, and an adjustment to the carrying amount of the property is only reflected if it has been determined that there has been significant change. Any changes to the carrying amount are ultimately approved by the Board.

As noted above, an external valuation on the Company's property, the Plaza Shopping and Commercial Centre, has been carried out at the end of the current reporting period. The valuation was determined using the Discounted Cash Flow approach. This approach is based on the projected future cash flows from the continued operation of the Plaza Shopping and Commercial Centre in its remaining useful life, which are discounted to present value at a rate of return that reflects what an investor should fairly expect from an investment of this type. At the end of the expected useful life of the property, the residual value reflects the underlying land value. Accordingly, the significant unobservable inputs applied in the property's valuation are the following:

- *Projected pre-tax cash flows:* The projected cash-flows are initially based on the existing rental income streams less operating costs that reflect the existing cost structure. The aggregated projected net cash generation in 2017 from the rentals relating to the retail activity and from the office rentals amounts to €2 million. Going forward, all the rental streams are adjusted to reflect contracted rental adjustments and, subsequent to the expiry of the current term, increase at an average rate of 4% per annum.

## Notes to the financial statements - continued

### 4. Property, plant and equipment - continued

- Discount Rates:** The discount rates applied are based on current market interest rates and a risk premium that reflects the valuer's assessment of the specific risk attached to the property being valued and its underlying activity. In view of the different risk premium between the rental agreements for the retail and office areas, a different pre-tax discount rate was applied to the respective income streams. Accordingly, the pre-tax discount rates applied were as follows: 7.5% for the retail rentals and 9.3% for the office rentals.

The significant unobservable inputs applied in the property's valuation as at 31 December 2015 were: projected pre-tax cash flows for 2016 estimated at €2.09 million; an average annual growth rate of 4% in the Company's rental income streams; and a discount rate of 8.1%.

The fair value of the Tigne Place Commercial Property as at 31 December 2016, is based on a recent sales transaction.

Generally, an increase in the projected cash flows will result in an increase to the fair value of the property. Conversely, a lower discount rate will give a higher fair value.

### 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:

|                          | Group             |            | Company           |            |
|--------------------------|-------------------|------------|-------------------|------------|
|                          | 2016              | 2015       | 2016              | 2015       |
|                          | €                 | €          | €                 | €          |
| Cost                     | <b>22,272,998</b> | 12,584,086 | <b>12,603,352</b> | 12,584,086 |
| Accumulated depreciation | <b>(963,201)</b>  | (868,465)  | <b>(939,046)</b>  | (868,465)  |
| Net book amount          | <b>21,309,797</b> | 11,715,621 | <b>11,664,306</b> | 11,715,621 |

### 5. Investment in subsidiary

|                                  | Company        |      |
|----------------------------------|----------------|------|
|                                  | 2016           | 2015 |
|                                  | €              | €    |
| <b>Year ended 31 December</b>    |                |      |
| Additions                        | <b>100,000</b> | -    |
| Closing cost and carrying amount | <b>100,000</b> | -    |

During the current financial year, the company was allotted 100% of the ordinary shares of a newly incorporated entity, Tigne Place Limited, which was set up on 8 July 2016. The registered address of this subsidiary is The Plaza Commercial Centre, Level 6, Bisazza Street, Sliema, SLM 1640, Malta.

### 6. Loans receivable

The loans receivable amounting to €5,063,754 (2015: nil) represent advances by the parent Company to its subsidiary, from the proceeds of the bond issue that was effected during the current financial year (refer to Note 13). The loans to subsidiary are subject to a fixed interest of 4.2% per annum and are repayable by 2041, in accordance with the terms of the loan agreement.

**Notes to the financial statements** - continued

**7. Trade and other receivables**

|  | Group          |         | Company        |         |
|--|----------------|---------|----------------|---------|
|  | 2016           | 2015    | 2016           | 2015    |
|  | €              | €       | €              | €       |
| <b>Current</b>                               |                |         |                |         |
| Trade receivables on rental and other income | <b>199,142</b> | 237,550 | <b>169,730</b> | 237,550 |
| Prepayments and accrued income               | <b>111,128</b> | 66,117  | <b>159,926</b> | 66,117  |
|  | <b>310,270</b> | 303,667 | <b>329,656</b> | 303,667 |

As at 31 December 2016, interest on overdue receivables is charged at the rate of 5% (2015: 5.25%).

Accrued income for the Company includes accrued interest on the loan to subsidiary amounting to €56,520 (2015: nil).

**8. Cash and cash equivalents**

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

|                          | Group          |             | Company        |             |
|--------------------------|----------------|-------------|----------------|-------------|
|                          | 2016           | 2015        | 2016           | 2015        |
|                          | €              | €           | €              | €           |
| Cash at bank and in hand | <b>265,644</b> | 14,682      | <b>210,523</b> | 14,682      |
| Bank overdraft (Note 13) | -              | (1,147,380) | -              | (1,147,380) |
|                          | <b>265,644</b> | (1,132,698) | <b>210,523</b> | (1,132,698) |

**9. Share capital**

|  | Group and Company |            |
|--|-------------------|------------|
|  | 2016              | 2015       |
|  | €                 | €          |
| <b>Authorised</b>                        |                   |            |
| 75,000,000 ordinary shares of €0.20 each | <b>15,000,000</b> | 15,000,000 |
| <b>Issued and fully paid</b>             |                   |            |
| 28,242,000 ordinary shares of €0.20 each | <b>5,648,400</b>  | 5,648,400  |

**10. Share premium**

|                              | Group and Company |           |
|------------------------------|-------------------|-----------|
|                              | 2016              | 2015      |
|                              | €                 | €         |
| At beginning and end of year | <b>3,094,868</b>  | 3,094,868 |

The share premium arose in previous financial years on the issue of 2,050,000 ordinary shares at a premium of €1.509691 per share.

**Notes to the financial statements** - continued

**11. Revaluation reserve**

|  | <b>Group and Company</b> |             |
|--|--------------------------|-------------|
|  | <b>2016</b>              | <b>2015</b> |
|  | <b>€</b>                 | <b>€</b>    |
| <b>Revaluation surplus of land and buildings</b>     |                          |             |
| At beginning of year, before deferred tax            | <b>16,985,631</b>        | 17,002,936  |
| Revaluation surplus arising during the year (Note 4) | <b>1,171,261</b>         | -           |
| Transfer upon realisation through asset use          | <b>(17,305)</b>          | (17,305)    |
| At end of year, before deferred tax                  | <b>18,139,587</b>        | 16,985,631  |
| Deferred taxation (Note 14)                          | <b>(3,082,987)</b>       | (2,972,723) |
| At end of year                                       | <b>15,056,600</b>        | 14,012,908  |

The tax impact relating to components of other comprehensive income is presented in the above table and in Note 14. The revaluation reserve is non-distributable.

**12. Trade and other payables**

|                    | <b>Group</b>   |             | <b>Company</b> |             |
|--------------------|----------------|-------------|----------------|-------------|
|                    | <b>2016</b>    | <b>2015</b> | <b>2016</b>    | <b>2015</b> |
|                    | <b>€</b>       | <b>€</b>    | <b>€</b>       | <b>€</b>    |
| <b>Current</b>     |                |             |                |             |
| Trade payables     | <b>105,143</b> | 68,107      | <b>100,806</b> | 68,107      |
| Indirect taxation  | <b>8,686</b>   | 24,237      | <b>5,701</b>   | 24,237      |
| Other payables     | <b>258,858</b> | 130,841     | <b>165,581</b> | 130,841     |
| Accruals           | <b>177,438</b> | 158,333     | <b>169,048</b> | 158,333     |
| Deferred income    | <b>292,185</b> | 315,192     | <b>247,546</b> | 315,192     |
|                    | <b>842,310</b> | 696,710     | <b>688,682</b> | 696,710     |
| <b>Non-current</b> |                |             |                |             |
| Deferred income    | <b>309,827</b> | 345,964     | <b>309,827</b> | 345,964     |

**13. Borrowings**

|                                  | <b>Group</b>      |             | <b>Company</b>   |             |
|----------------------------------|-------------------|-------------|------------------|-------------|
|                                  | <b>2016</b>       | <b>2015</b> | <b>2016</b>      | <b>2015</b> |
|                                  | <b>€</b>          | <b>€</b>    | <b>€</b>         | <b>€</b>    |
| <b>Current</b>                   |                   |             |                  |             |
| Bank overdraft                   | -                 | 1,147,380   | -                | 1,147,380   |
| Bank loans                       | <b>400,211</b>    | 281,432     | -                | 281,432     |
|                                  | <b>400,211</b>    | 1,428,812   | -                | 1,428,812   |
| <b>Non-current</b>               |                   |             |                  |             |
| 85,000 3.9% unsecured bonds 2026 | <b>8,320,490</b>  | -           | <b>8,320,490</b> | -           |
| Bank loans                       | <b>4,003,145</b>  | 1,787,740   | -                | 1,787,740   |
|                                  | <b>12,323,635</b> | 1,787,740   | <b>8,320,490</b> | 1,787,740   |
| Total borrowings                 | <b>12,723,846</b> | 3,216,552   | <b>8,320,490</b> | 3,216,552   |



## Notes to the financial statements - continued

### 13. Borrowings - continued

#### Unsecured bonds

By virtue of the Prospectus dated 11 August 2016, the parent Company issued for subscription by the general public 85,000 unsecured bonds for an amount of €8,500,000. The bonds have a nominal value of €100 per bond and have been issued at par.

The bonds are subject to a fixed interest rate of 3.9% per annum payable annually in arrears on 19 September of each year. All bonds are redeemable at par (€100 for each bond) on the 22 September 2026 unless they are previously re-purchased and cancelled.

The proceeds from the bond issue were used by the issuer to grant a loan to the subsidiary for the purpose of the acquisition of the Tigne Place Commercial Property (refer to Notes 4 and 6); and to refinance its bank facilities.

The bonds have been admitted to the Official List of the Malta Stock Exchange. The quoted market price of the bonds at 31 December 2016 was €104.00, which in the opinion of the directors fairly represented the fair value of these financial liabilities.

The bonds are measured at the amount of net proceeds adjusted for the amortisation of the difference between net proceeds and the redemption value of the bonds using the effective interest method as follows:

|   | 2016<br>€        |
|---|------------------|
| <b>3.9% unsecured bonds 2026</b>  |                  |
| Original face value of bonds issued   | 8,500,000        |
| Gross amount of bond issue costs  | (185,700)        |
| Amortisation of gross amount of bond issue costs:<br>Amortisation charge for the current year | 6,190            |
| Unamortised bond issue costs  | (179,510)        |
| <b>Amortised cost and closing carrying amount of the bonds</b>                                | <b>8,320,490</b> |

The following are the contracted undiscounted cash flows of the bonds analysed into relevant maturity groupings based on the remaining term at the end of the reporting period to the maturity date:

|                       | Group and<br>Company<br>2016<br>€ |
|-----------------------|-----------------------------------|
| Within 1 year         | 331,500                           |
| Between 1 and 2 years | 331,500                           |
| Between 2 and 5 years | 995,408                           |
| Later than 5 years    | 10,067,586                        |
|                       | <b>11,725,994</b>                 |

**Notes to the financial statements** - continued

**13. Borrowings** - continued

**Bank facilities**

The Group's loan facilities as at 31 December 2016 amounted to €4,403,356 (2015: €2,069,172). The Company also avails itself of a general facility amounting to €1,500,000 (2015: €1,200,000 which could be increased to €1,500,000 should it be necessary).

The bank facilities of the Group as at 31 December 2016 are mainly secured by:

- (a) a general hypothec on the Group's assets for €6,000,000;
- (b) a special hypothec and guarantee for the amount of €6,000,000 over property; and
- (c) a pledge over the insurance policy covering the specific property.

The bank facilities of the parent Company as at 31 December 2015 were mainly secured by:

- (a) a general hypothec on the Company's assets for €4,000,000;
- (b) a special hypothec for the amount of €4,000,000 over property; and
- (c) a pledge over the Company's insurance policies.

Bank borrowings are entirely subject to variable rates of interest and as at 31 December 2016 the interest rates are linked to the Euribor. The weighted average effective interest rates for bank borrowings at the end of the reporting period are as follows:

|                | Group       |           | Company   |           |
|----------------|-------------|-----------|-----------|-----------|
|                | 2016<br>%   | 2015<br>% | 2016<br>% | 2015<br>% |
| Bank overdraft | -           | 4.3       | -         | 4.3       |
| Bank loans     | <b>2.75</b> | 4.3       | -         | 4.3       |

The following are the contracted undiscounted cash flows of the Group's bank loans analysed into relevant maturity groupings based on the remaining term at the end of the reporting period to the maturity date:

|                       | Group            |           | Company   |           |
|-----------------------|------------------|-----------|-----------|-----------|
|                       | 2016<br>€        | 2015<br>€ | 2016<br>€ | 2015<br>€ |
| Within 1 year         | <b>517,200</b>   | 369,340   | -         | 369,340   |
| Between 1 and 2 years | <b>517,200</b>   | 356,616   | -         | 356,616   |
| Between 2 and 5 years | <b>1,551,600</b> | 995,031   | -         | 995,031   |
| Later than 5 years    | <b>2,447,971</b> | 724,311   | -         | 724,311   |
|                       | <b>5,033,971</b> | 2,445,298 | -         | 2,445,298 |
| Carrying amount       | <b>4,403,356</b> | 2,069,172 | -         | 2,069,172 |

#### 14. Deferred taxation

Deferred taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2015: 35%), with the exception of deferred tax on the fair valuation of property which is computed on the basis applicable to disposals of immovable property, that is, tax effect of 10% (2015: 10%) of the transfer value.

The movement on the deferred tax account is as follows:

|  | <b>Group and Company</b> |             |
|--|--------------------------|-------------|
|  | <b>2016</b>              | <b>2015</b> |
|  | <b>€</b>                 | <b>€</b>    |
| At beginning of year   | <b>3,249,291</b>         | 3,846,698   |
| Deferred tax on revaluation surplus arising during the year (Note 11)  | <b>117,126</b>           | -           |
| Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals (Note 11) | <b>(805)</b>             | (620,496)   |
| Realisation through asset use (Notes 11, 20)   | <b>(6,057)</b>           | (6,057)     |
| Deferred tax on other temporary differences (Note 20)  | <b>7,164</b>             | 29,146      |
| At end of year   | <b>3,366,719</b>         | 3,249,291   |

The amounts referenced to Note 20 as disclosed in the table above, are recognised in profit or loss, whilst the other amount, referenced to Note 11, has been recognised directly in equity in other comprehensive income.

The balance at 31 December represents:

|  | <b>Group and Company</b> |             |
|--|--------------------------|-------------|
|  | <b>2016</b>              | <b>2015</b> |
|  | <b>€</b>                 | <b>€</b>    |
| Temporary differences attributable to deferred premium income                  | <b>(121,087)</b>         | (134,498)   |
| Temporary differences arising on depreciation of property, plant and equipment | <b>404,819</b>           | 411,066     |
| Temporary differences on fair valuation of property                            | <b>3,082,987</b>         | 2,972,723   |
|  | <b>3,366,719</b>         | 3,249,291   |

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months.

The decrease in deferred tax liability on revalued land and buildings for the preceding financial year includes an amount of €599,879 resulting from the net impact of the application of the changed tax regime on the deferred tax liability attributable to fair valuation of property, which was recognised in other comprehensive income. Such decrease followed the changes to the taxation rules on capital gains arising on transfer of immovable property as announced by the Minister for 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 bill contemplated that the final tax on transfers of immovable property acquired after 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%.

**Notes to the financial statements** - continued

**15. Revenue**

The Group's revenue is principally derived from rental income attributable to retail outlets and office space in its commercial property.

**16. Expenses by nature**

|   | Group          |           | Company        |           |
|---|----------------|-----------|----------------|-----------|
|   | 2016<br>€      | 2015<br>€ | 2016<br>€      | 2015<br>€ |
| Employee benefit expense (Note 17)                        | <b>306,210</b> | 296,400   | <b>301,383</b> | 296,400   |
| Depreciation of property, plant and equipment (Note 4)    | <b>366,401</b> | 364,095   | <b>341,838</b> | 364,095   |
| Motor vehicle operating lease rentals payable             | <b>12,000</b>  | 12,000    | <b>12,000</b>  | 12,000    |
| Directors' emoluments (Note 21)                           | <b>70,012</b>  | 44,023    | <b>70,012</b>  | 44,023    |
| Movement in provision for impairment of trade receivables | -              | (40,793)  | -              | (40,793)  |
| Bad debts written off                                     | <b>21,352</b>  | -         | <b>21,352</b>  | -         |
| Other expenses  | <b>64,435</b>  | 44,405    | <b>45,910</b>  | 44,405    |
| <b>Total operating costs</b>                              | <b>840,410</b> | 720,130   | <b>792,495</b> | 720,130   |

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2016 and 2015 relate to the following:

|                                      | Group and Company |           |
|--------------------------------------|-------------------|-----------|
|                                      | 2016<br>€         | 2015<br>€ |
| Annual statutory audit               | <b>8,000</b>      | 7,700     |
| Tax advisory and compliance services | <b>3,205</b>      | 2,123     |
| Other non-audit services             | <b>28,030</b>     | 8,700     |
|                                      | <b>39,235</b>     | 18,523    |

**17. Employee benefit expense**

|                       | Group          |           | Company        |           |
|-----------------------|----------------|-----------|----------------|-----------|
|                       | 2016<br>€      | 2015<br>€ | 2016<br>€      | 2015<br>€ |
| Wages and salaries    | <b>288,361</b> | 278,438   | <b>283,932</b> | 278,438   |
| Social security costs | <b>17,849</b>  | 17,962    | <b>17,451</b>  | 17,962    |
|                       | <b>306,210</b> | 296,400   | <b>301,383</b> | 296,400   |

**Notes to the financial statements** - continued

**17. Employee benefit expense** - continued

Average number of persons employed during the year:

|                | Group     |      | Company   |      |
|----------------|-----------|------|-----------|------|
|                | 2016      | 2015 | 2016      | 2015 |
| Administration | 6         | 4    | 6         | 4    |
| Maintenance    | 10        | 6    | 9         | 6    |
| Security       | 1         | 1    | 1         | 1    |
|                | <b>17</b> | 11   | <b>16</b> | 11   |

**18. Finance income**

|   | Group        |           | Company       |           |
|---|--------------|-----------|---------------|-----------|
|   | 2016<br>€    | 2015<br>€ | 2016<br>€     | 2015<br>€ |
| Interest income on trade receivables    | 9,660        | 11,917    | 9,660         | 11,917    |
| Interest income from loan to subsidiary | -            | -         | 56,520        | -         |
|   | <b>9,660</b> | 11,917    | <b>66,180</b> | 11,917    |

**19. Finance costs**

|   | Group          |           | Company        |           |
|---|----------------|-----------|----------------|-----------|
|   | 2016<br>€      | 2015<br>€ | 2016<br>€      | 2015<br>€ |
| Interest on loans and overdrafts  | 155,898        | 140,848   | 102,004        | 140,848   |
| Coupon interest payable on bonds  | 88,097         | -         | 88,097         | -         |
| Amortisation of difference between initial net proceeds and redemption value of bonds | 6,190          | -         | 6,190          | -         |
|   | <b>250,185</b> | 140,848   | <b>196,291</b> | 140,848   |

**20. Tax expense**

|  | Group          |           | Company        |           |
|--|----------------|-----------|----------------|-----------|
|  | 2016<br>€      | 2015<br>€ | 2016<br>€      | 2015<br>€ |
| Current taxation:  |                |           |                |           |
| Current tax expense  | 381,349        | 568,925   | 379,940        | 568,925   |
| Adjustment recognised in financial period for current tax of prior periods | (828)          | (10,812)  | (828)          | (10,812)  |
| Deferred taxation (Note 14)  | 1,107          | 23,089    | 1,107          | 23,089    |
|  | <b>381,628</b> | 581,202   | <b>380,219</b> | 581,202   |

## Notes to the financial statements - continued

### 20. Tax expense - continued

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

|  | Group            |           | Company          |           |
|--|------------------|-----------|------------------|-----------|
|  | 2016<br>€        | 2015<br>€ | 2016<br>€        | 2015<br>€ |
| Profit before tax  | <b>1,648,408</b> | 1,592,093 | <b>1,666,145</b> | 1,592,093 |
| Tax on profit at 35%   | <b>576,943</b>   | 557,233   | <b>583,151</b>   | 557,233   |
| Tax effect of:   |                  |           |                  |           |
| - rental income charged at 15% final with holding tax (see note below) | <b>(192,023)</b> | -         | <b>(192,023)</b> | -         |
| - non-deductible depreciation and expenses                             | <b>17,630</b>    | 38,001    | -                | 38,001    |
| - maintenance allowance claimed on rented property                     | <b>(10,013)</b>  | -         | -                | -         |
| - adjustments to current and deferred tax in previous years            | <b>(10,909)</b>  | (14,032)  | <b>(10,909)</b>  | (14,032)  |
| Tax charge in the accounts   | <b>381,628</b>   | 581,202   | <b>380,219</b>   | 581,202   |

During March 2016, the Budget Measures Implementation Act, 2016 (ACT No. XV of 2016) came into effect. Through this legislation, landlords were granted the option of taxing rental income, derived from the leasing of any tenement including commercial and clubs, at a final withholding tax of 15%. Such option can be elected as from year of assessment 2017 and the Company has accordingly opted for this tax regime for the financial year ending 31 December 2016.

### 21. Directors' emoluments

|  | Group and Company |           |
|--|-------------------|-----------|
|  | 2016<br>€         | 2015<br>€ |
| Directors' fees - short term employment benefits | <b>70,012</b>     | 44,023    |

The Company has paid insurance premiums of €2,770 (2015: €1,704) during the year in respect of professional indemnity in favour of its Directors and senior officers.

### 22. Earnings per share

Earnings per share is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year. The diluted earnings per share is equal to the basic earnings per share.

|   | Group             |            |
|---|-------------------|------------|
|   | 2016<br>€         | 2015<br>€  |
| Net profit attributable to shareholders             | <b>1,266,780</b>  | 1,010,891  |
| Weighted average number of ordinary shares in issue | <b>28,242,000</b> | 28,242,000 |
| Earnings per share (€ cents)                        | <b>4c49</b>       | 3c58       |

## Notes to the financial statements - continued

### 23. Dividend

At the forthcoming Annual General Meeting a final net dividend in respect of 2016 of €0.0294 per share, amounting to a total net dividend of €829,650 is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2017. The net dividends declared in respect of 2015 and 2014 were €808,712 (€0.0286 per share) and €757,631 (€0.0268 per share) respectively.

### 24. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

|  | Group            |           | Company          |           |
|--|------------------|-----------|------------------|-----------|
|  | 2016             | 2015      | 2016             | 2015      |
|  | €                | €         | €                | €         |
| Operating profit   | <b>1,888,933</b> | 1,721,024 | <b>1,796,256</b> | 1,721,024 |
| Adjustments for:   |                  |           |                  |           |
| Depreciation of property, plant and equipment (Note 4)             | <b>366,401</b>   | 364,095   | <b>341,838</b>   | 364,095   |
| Deferred premium income  | <b>(38,316)</b>  | (42,589)  | <b>(38,316)</b>  | (42,589)  |
| Movement in provision for impairment of trade receivables (Note 7) | -                | (40,793)  | -                | (40,793)  |
| Bad debts written off  | <b>21,352</b>    | -         | <b>21,352</b>    | -         |
| Changes in working capital:  |                  |           |                  |           |
| Trade and other receivables  | <b>(27,955)</b>  | 65,002    | <b>9,179</b>     | 65,002    |
| Trade and other payables   | <b>133,425</b>   | 74,259    | <b>(20,203)</b>  | 74,259    |
| Cash generated from operations                                     | <b>2,343,840</b> | 2,140,998 | <b>2,110,106</b> | 2,140,998 |

### 25. Capital commitments

Commitments for capital expenditure not provided for in these financial statements are as follows:

|                                 | Group          |         | Company        |         |
|---------------------------------|----------------|---------|----------------|---------|
|                                 | 2016           | 2015    | 2016           | 2015    |
|                                 | €              | €       | €              | €       |
| Authorised but not contracted   | <b>400,000</b> | 230,000 | <b>200,000</b> | 230,000 |
| Contracted but not provided for | <b>34,000</b>  | -       | <b>34,000</b>  | -       |
|                                 | <b>434,000</b> | 230,000 | <b>234,000</b> | 230,000 |

### 26. Operating lease commitments

(a) Where Group undertakings are the lessor

Future minimum lease payments due to the Group under non-cancellable operating leases are as set out below. They are determined by reference to the point in time in the rental contract when the tenant is given the option to cancel a lease without the requirement of any additional payment thereon.

Group undertakings lease units both for office and retail activity under operating lease arrangements. As at 31 December 2016, the leases run for fixed periods ranging from 6 months to 4 years. After ever expiry period, the lease may be renewed for further periods, in accordance with the respective lease agreements, unless the lessee gives the lessor a minimum of 6 months notice of termination prior to renewal, as specified in the same agreement.

**Notes to the financial statements** - continued

**26. Operating lease commitments** - continued

|  | <b>Group</b>     |           | <b>Company</b>   |           |
|--|------------------|-----------|------------------|-----------|
|  | <b>2016</b>      | 2015      | <b>2016</b>      | 2015      |
|  | <b>€</b>         | €         | <b>€</b>         | €         |
| Not later than 1 year                        | <b>2,374,075</b> | 2,091,264 | <b>1,945,254</b> | 2,091,264 |
| Later than 1 year and not later than 5 years | <b>2,475,250</b> | 1,791,390 | <b>1,951,689</b> | 1,791,390 |
|  | <b>4,849,325</b> | 3,882,654 | <b>3,896,943</b> | 3,882,654 |
| Rental income derived from operating leases  | <b>2,633,784</b> | 2,410,137 | <b>2,509,578</b> | 2,410,137 |

*(b) Where the Company is the lessee*

The future minimum lease payments payable under non-cancellable motor-vehicle operating leases are as follows:

|  | <b>Group and Company</b> |        |
|--|--------------------------|--------|
|  | <b>2016</b>              | 2015   |
|  | <b>€</b>                 | €      |
| Not later than 1 year                        | <b>12,000</b>            | 12,000 |
| Later than 1 year and not later than 5 years | <b>13,000</b>            | 25,000 |
|  | <b>25,000</b>            | 37,000 |

**27. Related party transactions**

No transactions with related parties as defined by IAS 24 were carried out by the Group during the current and the preceding financial years.

With respect to the Company, the only transactions entered into with a related party as defined by IAS 24 relate to advances to subsidiary, as disclosed in Note 6 to the financial statements, and interest income from such loans receivable (Note 18). Year end balances with subsidiary are disclosed separately in Notes 6 and 7 to the financial statements.

Key management personnel compensation, consisting of Directors' remuneration is disclosed in Note 21 to these financial statements.

**28. Statutory information**

Plaza Centres p.l.c. is a limited liability company and is incorporated in Malta.



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