Company Registration No.: C 5067

Hal Mann Vella Group P.L.C.

Annual Report and Consolidated Financial Statements for the year ended 31 December 2019

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Hal Mann Vella Group P.L.C.

Chairman's Statement
for the year ended 31 December 2019

I am pleased to report that 2019 has been another successful year for Hal Mann Vella Group. Following the restructuring and reorganisation exercise that was implemented in the Group, the results for the financial year under review once again show that the Group is on course to continue benefitting from the resultant improvement in its profit margins. We remain committed to growth using our resources and technologies to their full potential.

Performance
With respect to the Group's performance, reference is to be made to page 3, the Directors' report.

Our work
The Hal Mann Vella Group's history is testament to our ability to adapt research and innovation in our field to the creation of beautiful living spaces. Over the years, the Hal Mann Vella Group has successfully upheld the industry's best practices. Our name has long been associated with natural stone and other surfacing materials, reflecting the company's success from sourcing the best quality surfacing materials to installation and project management both in residential as well as in projects of a much larger scale. We are proud to be one of the preferred partners of architects, interior designers as well as private home owners.

In 2019, the Hal Mann Vella Group was once again involved in many ambitious projects. These include the M.U.S.E.U.M. Auditorium at Blata l-Bajda, the Nubis Centre in Lija, the BDO Malta's headquarters, the Beefbar at St. Paul's Bay, and the Westin Dragonara Resort Malta. The Group also started and completed works in a number of private residences as well as hotels including the Phoenicia Hotel, the Marriott Hotel, and the Rosselli Hotel.

Our people
Our work is a reflection of our people, and we are proud of both our projects as well as our highly experienced and qualified human resources. I have always found the full support of all board members whom I must thank for the guidance and advice provided during the year. I also want to applaud our management team as well as all the staff for their hard work and dedication.

My sincere gratitude also extends to our clients who keep on entrusting us with the biggest projects of their lives – their homes and their largest investments.

Hal Mann Vella Group P.L.C.

Chairman's Statement
for the year ended 31 December 2019

Corporate Social Sustainability

As one of the largest Groups in Malta we want to make a real difference – for our customers and for the environment in which we operate. We have a responsibility to operate in a responsible and ethical manner. Climate change is one of the greatest challenges of our time and we are aware of the need to use natural resources more efficiently. Therefore, at Hal Mann Vella Group sustainability is an integral part of all our business activities.

With the final solar panel system on our factories installed in 2018, we currently generate over 1,320kWh of energy.

Water is also an important factor in the production process. The systems installed in both our factories make it possible to filter and reuse at least 200,000 litres of water per day.

We are also aware that the waste that results from the fabrication of marble is detrimental to the environment, especially if it is disposed. For this reason, we utilise marble trimmings and waste to produce recycled marble aggregates which are later used in flooring.

The local Industry

The local construction industry is still one of the main drivers of the Maltese economy in 2019, contributing €843.6 million in gross value added. Full-time employment in the sector grew by 16.5% or 1,842 in 2019.

Whilst the opportunities are ample, we need to keep on investing in research and development to enable us to take on these opportunities whilst remaining profitable and competitive both within the local and international markets.

Looking Forward

The year 2019 was another year of progress in Hal Mann Vella Group's journey towards sustainable growth. More work still needs to be done to achieve greater efficiency and growth, and the Group's transformation needs to maintain its momentum, without hesitation, and continue to be given priority by the Board of Directors and all the management team. We look at the future with optimism. We are a committed team that is ready to satisfy the needs of different stakeholders, from delivering an excellent business performance for the benefit of our shareholders to exceeding the expectations of our clients.

The global economy is currently experiencing a downturn brought about by the Coronavirus (COVID-19) pandemic. While the country's economy is projected to shrink by 2.8% in 2020, we are doing our utmost effort to smoothen the impact over this difficult period. Our goals for 2020 are to continue with our focus on growth and financial stability for the Group, as well as on the improvement of our productivity and processes to continually improve our service to our residential customers as well as developers and to continue investing in our human resources.

I am honoured to lead the company through this challenging times and confident that through our ambitious goal setting, the Group will continue going from strength to strength.

Mr. Martin Vella
Chairman

Hal Mann Vella Group P.L.C.

Directors' Report
for the year ended 31 December 2019

The Board of Directors are hereby presenting their annual report together with the audited financial statements of the Group and the Company for the year ended 31 December 2019.

Principal activities

The principal activity of the Company is to hold assets for the Group and also acts as the financing arm of the Group.

The principal activities of the Group relate to the manufacture and business of stone, marble and granite as well as the manufacture of patterned tiles, terrazzo and precast related products. The Group owns and leases a number of apartments and hotels including those at the North of Malta – Huli Hotel with an underlying Bistro and the Mavina Hotel; as well as commercial properties and offices, including the E-Pantar building at Lija. The Group is also involved in property development and resale.

Review of business

The Company registered a profit before tax of €2,675,096 during the year ended 31 December 2019 (2018: €167,792).

The Group registered a consolidated profit before tax of €4,338,707 during the year ended 31 December 2019 (2018: €4,973,040).

Given the Group's and Company's financing structure and the positive net assets position of the Group and the Company at the end of the financial year, the Directors consider the Group's and Company's state of affairs as at the close of the financial year to be satisfactory.

Performance

The decrease in the Group's profit before tax is primarily due to adoption of the new accounting standard on leases which resulted to lower rental income and higher finance costs reported during the current period. The rental income decreased as compared to prior year by €361,579, whereas finance cost for the year increased by €204,254. However, this was partially offset by the increase in revenue from contracts with customers of €192,943. The EBITDA margin decreased to 34.27% (2018: 35.21%).

The Group commissioned Messrs TBA Periti to carry out a thorough valuation exercise of a property owned by the Group. The fair value of the property was determined on the basis of open market values taking cognizance of the specific location, its size and development potential. Another method of fair value measurement was the discounted cash flow technique, whereby significant inputs were used, namely: long-term pre-tax rate, inflation rate, risk premium, gross profit rate, estimated rental value and extrapolated residual land value. The valuation report issued by TBA Periti is effective on 31 May 2019. While the other investment properties were not revalued during the year we believe that there were no conditions that would significantly increase or decrease their fair value determined in the prior year. All of the Group's properties are now measured at their fair values. This has resulted in the reporting of a change in fair value of investment property of €479,480 (2018: €2,821,933) in the statement of profit or loss and other comprehensive income.

Income Generation

The Group has for the last ten years focused on stone, marble and granite. The Group had sought to discontinue non-core and non-related businesses to strengthen and develop further complimentary and related business, in particular property development, trading and leasing.

Hal Mann Vella Group P.L.C.

Directors' Report
for the year ended 31 December 2019

The Bond Issue

In November 2014, the Company issued a Bond for €30,000,000. Out of the funds received, €12,000,000 were intended for two specific projects namely: the development of a 19,000 sqm property intended to be leased and the extension, deployment and commissioning of new equipment for its stone core business. Both projects together with an extra additional 14,000 sqm new factory installation in Hal-Far have been successfully commissioned by the end of 2017.

Risk Analysis

The Directors are aware of the various risks faced by the Group as a result of its well diversified business lines primarily on manufacturing and property development. A number of measures are in place to ensure that such risks and uncertainties are maintained at acceptable levels and are in line with the Group’s risk strategy of sustainable, long-term growth and profitability.

The key risks faced by the group include credit risk, strategic risk, operational risk and liquidity risk. Together with other risks and uncertainties inherent in the business, these require strong capital management as safeguard against competent authority requirements and unfavourable events. Given such, the Group regularly reviews operational and capital targets against actual and forecast business levels to minimise such risks if necessary, to the most considerable level possible in the interest of institutional stakeholders.

The main types of risk types are outlined hereunder:

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities and from its financing activities including deposits with banks.

Customer credit risk is managed by the Group's management subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on each customer's credit limits. Outstanding customer receivables are regularly monitored. An impairment analysis is performed on each reporting date in accordance with the guidelines set in IFRS 9 Financial Instruments Standard. The Group exercises a prudent credit control policy, and accordingly, it is not subject to any significant exposure or concentration of credit risk. The Group banks only with local financial institutions with high quality standard or rating. The Group's operations are principally carried out in Malta and most of the Group's revenue originates from clients based in Malta.

Strategic risk

This risk relates to the value of Group's assets and local property market in general.

The Group has strict guidelines and engages competent professionals on quality and valuation of its investment properties. The Group's properties are rented out to various tenants, except for those sites where development is in progress. The Group currently has long term lease agreements with in-substance fixed rental receivables in place, which will protect the Group from unforeseen circumstances and inflation. Although COVID-19 had an impact on deferral of rental collections from some of its tenants, the Group ensures to implement sound capital management policies and flexible cash flow as disclosed below under liquidity risk, to mitigate such risk.

Operational risk
Operational risk maybe defined as the risk of losses arising from defects or failures in its internal processes, people, systems or external events including risks related to fraud, technological and conduct risk.
Operational risk is inherent in all processes, systems and activities of the Group. As such, all employees are responsible for managing and controlling operational risks associated with their own activities and business processes where they are involved. Project management is carried out by competent professionals and surveyors in the field for each site with ongoing projects. The Group, in terms of operational risk management and control, continues to identify, evaluate and mitigate such risks, regardless if these actually occurred or not. The Group also assesses at each reporting date (unless immediate evaluation is necessary) areas of concern for improvement to minimise such operational risks, arising due to the volatile results of each year's operations.

Liquidity risk
The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities. 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.

Given the evolving nature of COVID-19, the Group’s immediate cash flow will be stretched. Through arrangements with bankers, the Group is seeking to smoothen the impact over this difficult period. Cost cut practices have also been implemented.

The Group may also be subject to reputation and litigation risk as a result of its course of actions and operations. This may pose significant effect on the Group’s and the various stakeholders’ wellbeing, if ignored. The Board of Directors exercises the highest levels of ethical behaviour possible through a number of appropriate policies, procedures and controls, implemented on its day to day operations.

Post-Balance Sheet Event
Subsequent to year-end 2019, the COVID-19 outbreak has expanded into a pandemic and has negatively impacted various industries across the business spectrum, causing a cutback in business operations across many sectors. In response to this pandemic outbreak, on March 2020, the Office of the Prime Minister of Malta has taken preventative and protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Following this, temporary closures of non-essential businesses have been ordered.

The impact of the COVID-19 crisis on the Group has resulted in temporary closure of hotel operations of its tenants. During the time of such closure, revenue from tenants has ceased and lease payments have been deferred. Showrooms were also closed while factory operations were significantly reduced. As a result of these developments, the measures taken by the Group were considered as a non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended 31 December 2019. It is still too early to gauge the full impact of the COVID-19 crisis on the Group's operations; though it could have a material impact on its 2020 financial results and even periods thereafter.

This situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration of the crisis and its disruptive effects. The ultimate impact of the pandemic on the Group’s results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time.

Hal Mann Vella Group P.L.C.

Directors' Report
for the year ended 31 December 2019

The Group continues to follow closely the recommendations and directions issued by the authorities both locally and overseas. In this regard, the Group is monitoring developments in connection with the spread and continues to evaluate the impact of the pandemic on the operations and financial performance as the 2020 financial year unfolds.

Dividends and Reserves

The results for the year are set in the Consolidated Statement of Comprehensive Income on page 25 and 26.

The Board of Directors does not propose the payment of a dividend in order to further strengthen the financial position of the Group. Retained profits carried forward at the reporting date amounted to €10,481,002 (2018: €8,955,896) for the Group and €3,066,780 (2018: €2,266,535) for the Company.

Directors

The Directors of the Company since the beginning of the year up to the date of this report were:

Mr. Martin Vella - Chairman
Mr. Mark Vella - Director and Chief Executive Officer (CEO)
Mr. Joseph Vella - Director
Mr. William Van Buren - Non-Executive Director
Dr. Arthur Galea Salomone - Non-Executive Director
Ms. Miriam Schembri - Non-Executive Director

Statement of Directors' Responsibilities for the financial statements

The Companies Act Cap. 386 of the Laws of Malta requires the Directors of Hal Mann Vella Group P.L.C. to prepare annual financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the profit or loss for the year in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

In preparing such financial statements, the Directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business;
- select suitable accounting policies and apply them consistently from one accounting year to another;
- make judgments and estimates that are reasonable and prudent; and
- account for income and charges relating to the accounting year on the accruals basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Group and the Company and enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, Cap. 386 of the Laws of Malta. The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of errors, fraud and other irregularities.

The financial statements of Hal Mann Vella Group P.L.C. for the year ended 31 December 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and is available on the Company's website.

Hal Mann Vella Group P.L.C.

Directors' Report
for the year ended 31 December 2019

The Directors confirm that, to the best of their knowledge:
• the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2019, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and

• in accordance with the Listing Rules, the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that the Group and the Company face.

Going Concern Basis
The Directors, as required by the Listing Rule 5.62, have considered the Company's operating performance, the balance sheet at year-end, as well as the business plan for the coming year, and they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, notwithstanding the impact of COVID-19. For this reason, in preparing the financial statements, they continue to adopt the going concern basis in preparing the financial statements.

Statement of responsibility pursuant to the Listing Rules issued by the Listing Authority
Information provided in accordance with Listing Rule 5.70.1
There were no material contracts to which the Company, or any of its subsidiaries was a party, and in which anyone of the Company's directors was directly or indirectly interested.

Shareholder register information pursuant to Listing Rule 5.64

- **Structure of Capital**

The Company has an authorised share capital of €5,000,000 Ordinary Shares of €1 each and issued and fully paid up share capital of €4,999,820 with a nominal value of €1 each. Each Ordinary Share is entitled to one vote. The Ordinary Shares in the Company shall rank pari passu for all intents and purposes at law. There are currently no different classes of Ordinary Shares in the Company and accordingly all Ordinary Shares have the same rights, voting rights and entitlements in connection with any distribution whether of dividends or capital.

- **Appointment and removal of Directors**

Article 55.1 of the Company's Memorandum and Articles of Association states that the Directors of the Company shall be appointed by the Members in the annual general meeting (AGM) of the Company. An election of the Directors shall take place every year. All Directors, except a managing director (if any), shall retire from office every 3 years, but shall be eligible for re-election. The Directors shall be elected as provided in Article 55.1.1 & 55.1.2 of the Memorandum and Articles of Association, that any Member or number of Members who in the aggregate hold not less than 200,000 shares having voting rights in the Company shall be entitled to nominate a fit and proper person for appointment as director of the Company. In addition to the nominations that may be made by Members pursuant to the provisions of Article 55.1.1, the Directors themselves or a committee appointed for the purpose by the Directors, may make recommendation and nominations to the Members for the appointment of Directors at the next following AGM.

- **Powers of Directors**

The powers and duties of Directors are outlined in the Company's Articles of Association.

Hal Mann Vella Group P.L.C.

Directors' Report
for the year ended 31 December 2019

- **General Meetings**

The Company shall in each year hold a General Meeting as its AGM in addition to any other meetings in that year. All general meetings other than annual general meetings shall be called extraordinary general meetings. The Directors may convene an extraordinary general meeting whenever they think fit. If at any time there are not sufficient Directors capable of acting to form a quorum for a meeting of the Directors, any Director, or any two Members of the Company holding at least 10% of the Equity Securities conferring a right to attend and vote at general meetings of the Company, may convene an extraordinary general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors and shall give notice thereof.

A General Meeting of the Company shall be called by not less than 14 days notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it was given and shall specify the place, the day and the hour of the meeting, and in case of special business, the general nature of that business, and shall be accompanied by a statement regarding the effect and scope of any proposed resolution in respect of such special business.

- **Auditors**

Pursuant to the Company's statutory obligations in terms of Companies Act and Listing Rules, the appointment of the auditors and the authorisation of the Directors to set their remuneration will be proposed and approved at the Company's AGM. HLB CA Falzon have expressed their willingness to continue in office.

By order of the Board:

Mr. Martin Vella - Chairman	Mr. Mark Vella - Director and CEO

Registered Office
The Factory,
Mosta Road,
Lija LJA 9016

28 April 2020

Hal Mann Vella Group P.L.C.

Corporate Governance Statement
for the year ended 31 December 2019

Pursuant to the Listing Rules as issued by the Listing Authority of the Malta Financial Services Authority, Hal Mann Vella Group P.L.C. ("the Company") is hereby reporting on the extent of its own adoption of the Code of Principles of Good Corporate Governance ("the Code") contained with the Listing Rules.

Introduction

Pursuant to the Listing Rules issued by the Malta Financial Services Authority, Hal Mann Vella Group P.L.C. ("the Company") is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance ("the Principles") with respect to the financial year under review.

The Company became subject to the principles when its bonds were admitted to listing and subsequent trading on the Malta Stock Exchange. Accordingly this report of the Company on this matter covers the whole year.

The Company acknowledges that although the Code does not dictate or prescribe mandatory rules, compliance with the principles of good corporate governance recommended in the Code is in the best interests of the Company, its shareholders and other stakeholders.

The Company has only issued debt securities which have been admitted to trading on the Malta Stock Exchange accordingly it is exempt from reporting on the matters prescribed in Listing Rules 5.97.1 to 5.97.3, 5.97.6 and 5.97.7 in this corporate governance statement ("the Statement"). It is in the light of this exemption afforded to the Company that the Directors are herein reporting on the corporate governance of the Company.

General

Good corporate governance is the responsibility of the Board of Directors of the Company ("the Board") as a whole, and has been and remains a priority for the Company. In deciding on the most appropriate manner in which to implement the Code, the Board took cognisance of the Company's size, nature and operations, and formulated the view that the adoption of certain mechanisms and structures which may be suitable for companies with extensive operations may not be appropriate for the Company. The limitations of size and scope of operations inevitably impact on the structures required to implement the Code, without however diluting the effectiveness thereof.

The Board considers that, to the extent otherwise disclosed herein, the Company has generally been in compliance with the Principles throughout the year under review.

This Statement shall now set out the structures and processes in place within the Company and how these effectively achieve the goals set out in the Code for the year under review. For this purpose, this Statement will make reference to the pertinent principles of the Code and then set out the manner in which the Board considers that these have been adhered to.

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.

Corporate Governance Statement
for the year ended 31 December 2019

Compliance with the Code

The Directors believe that for the financial year under review the Company has generally complied with the requirements for each of these principles. Further information in this respect is provided hereunder.

Principle One - The Board

The Directors report that for the financial year under review, the Directors have provided the necessary leadership in the overall direction of the Company and have performed their responsibilities for the efficient and smooth running of the Company with honesty, competence and integrity. The Board is composed of members who are competent and proper to direct the business of the Company with honesty, competence and integrity. All the members of the Board are fully aware of, and conversant with, the statutory and regulatory requirements connected to the business of the Company. The Board is accountable for its performance and that of its delegates to shareholders and other relevant stakeholders.

The Board has throughout the period under review provided the necessary leadership in the overall direction of the Company, and has adopted prudent and effective systems which ensure an open dialogue between the Board and Senior Management.

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

Principle Two - Chairman and CEO

The position of the Chairman and that of the CEO are occupied by different individuals. There is a clear division of responsibilities between the running of the Board and the CEO's responsibility in managing the Group's business. This separation of roles of the Chairman and CEO avoids concentration of authority and power in one individual and differentiates leadership of the Board from the running of the business.

The Chairman exercises independent judgement and is responsible to lead the Board and set its agenda, whilst also ensuring that the Directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the Company. The Chairman is also responsible for ensuring effective communication with shareholders and encouraging active engagement by all members of the Board for discussion of complex or contentious issues. The CEO is then accountable to the Board for all business operations of the Company.

Principle Three - Composition of the Board

The Board is composed of 6 members, with 3 Executive and 3 Non-Executive Directors, two of whom are independent from the Group. It is responsible for the overall long term strategy and general policies of the Company, of monitoring the Company's systems of control and financial reporting and that it communicates effectively with the market as and when necessary.

The CEO provides the rest of the Directors with access to the information on the Company's financial position and systems. He acts as the main point of communication between the Board and overall corporate operations as he is responsible for proper implementation of sustainable business solutions, effective framework of internal controls over risk in relation to the business and strategic goals devised by the Board.

The Board of Directors consists of the following:

Mr. Martin Vella - Chairman
Mr. Mark Vella - Director and CEO
Mr. Joseph Vella - Director
Mr. William Van Buren - Non-Executive Director
Dr. Arthur Galea Salomone - Non-Executive Director
Ms. Miriam Schembri - Non-Executive Director

In accordance with the provisions of the Company's Articles of Association, the appointment of Directors to the Board is exclusively reserved to the Company's shareholders, except in so far as appointment is made by the Board to fill a casual vacancy, which appointment would be valid until the conclusion of the next AGM of the Company following such an appointment. In terms of the Articles of Association a director shall hold office for a period of three years from the date of his appointment. Dr. Arthur Galea Salomone and Mr. William Van Buren are considered by the Board to be independent non-executive members of the Board. Ms. Miriam Schembri is non-executive member of the Vella family.

None of the independent Non-Executive Directors:

a) are or have been employed in any capacity with the Company and/or the Group;
b) have or had a significant business relationship with the Company and/or the Group;
c) has received or receives significant additional remuneration from the Company and/or the Group;
d) has close family ties with any of the Company's executive Directors or senior employees;
e) has served on the board for more than twelve consecutive years; or
f) is or has been within the last three years an engagement partner or a member of the audit team of the present or former external auditor of the Company and/or the Group.

Each Non-Executive Director has declared in writing to the Board that he/she undertakes:

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

Principle Four - The Responsibilities of the Board

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for the Company's strategy and decisions with respect to the issue, servicing and redemption of its bonds in issue, and for monitoring that its operations are in conformity with its commitments towards bondholders, shareholders, and all relevant laws and regulations. The Board is also responsible for ensuring that the Company establishes and operates effective internal control and management information systems and that it communicates effectively with the market.

The Executive Officers of the Company may be asked to attend board meetings or general meetings of the Company, although they do not have the right to vote thereat until such time as they are also appointed to the Board. The rest of the Directors may entrust to and confer upon the CEO any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

In fulfilling its mandate, the Board:

a) has a clearly-defined Company strategy, policies, management performance criteria and business policies which can be measured in a precise and tangible manner;
b) has established a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information such that the Board can discharge its duties, exercise objective judgment on corporate affairs and take pertinent decisions to ensure that an informed assessment can be made of all issues facing the board;
c) establishes an Audit Committee in terms of Listing Rules 5.117 – 5.134;
d) continuously assesses and monitors the Company`s present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
e) evaluates management's implementation of corporate strategy and financial objectives, and regularly reviews the strategy, processes and policies adopted for implementation using key performance indicators so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the Company; and
f) ensures that the Company has appropriate policies and procedures in place to assure that the Company and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards.

As part of succession planning, the Board ensure that the Company implements appropriate schemes to recruit, retain and motivate employees and Senior Management. Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the Company's expense.

During the course of the year under review the board has held one extended training session on the legal responsibilities of Directors as part of on-going training and professional development with respect to the proper discharge of their duties as Directors.

Principle Five - Board meetings

The Directors meet regularly to dispatch the business of the Board. The Directors are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting board papers, which are circulated in advance of the meeting. Minutes are prepared during Board meetings recording faithfully attendance, and resolutions taken at the meeting. These minutes are subsequently circulated to all Directors as soon as practicable after the meeting. 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 seeks to achieve a balance between long-term strategic and short-term performance issues.

Corporate Governance Statement
for the year ended 31 December 2019

The Board meets as often and as frequently required in line with the nature and demands of the business of the Company. Directors attend meetings on a frequent and regular basis and dedicate the necessary time and attention to their duties as Directors of the Company. The Board met 5 times during the financial year under review. The following Directors attended meetings as follows:

Mr. Martin Vella – Chairman - 5 meetings
Mr. Mark Vella – Director and CEO - 5 meetings
Mr. Joseph Vella – Director - 5 meetings
Mr. William Van Buren - Non-Executive Director - 4 meetings
Dr. Arthur Galea Salomone - Non-Executive Director - 4 meetings
Ms. Miriam Schembri - Non-Executive Director - 5 meetings

Principle Six - Information and Professional Development

The Directors believe that for the financial year under review they conducted sufficient professional development for its officers. The Company will continue with this commendable practice. As part of succession planning and employee retention, the Board ensure that the Company implements appropriate schemes to recruit, retain and motivate employees and Senior Management and keep a high morale amongst employees.

Principle Seven - Evaluation of the Board's performance

The current composition of the Board allows for 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 the Company's corporate governance structure.

Principle Eight - Committees

Principle Eight A of the Code deals with the establishment of a remuneration committee for the Company aimed at developing policies on remuneration for Directors and Senior Executives and devising appropriate remuneration packages.

In view of the size and type of operation of the Company, the Board does not consider the Company to require the setting up of a remuneration committee, and the Board itself carries out the functions of the remuneration committee specified in, and in accordance with, Principle Eight A of the Code, given that the remuneration of Directors is not performance-related.

The Board has established a remuneration policy for Directors and Senior Executives, underpinned by formal and transparent procedures for the development of such a policy and the establishment of the remuneration packages of individual Directors.

The Board confirms that there have been no changes in the Company's remuneration policy during the year under review and the Company does not intend to effect any changes in its remuneration policy for the following financial year.

The maximum annual aggregate emoluments that may be paid to the Directors is, pursuant to the Company's Memorandum and Articles of Association, approved by the shareholders in general meeting.

During the financial year under review, Mr. Martin Vella, Mr. Mark Vella and Mr. Joseph Vella each held an indefinite full-time contract of service with Sudvel Limited and Hal Mann Vella Limited.

Corporate Governance Statement
for the year ended 31 December 2019

The remuneration policy for Directors has been consistent since inception; no Director (including the Chairman) is entitled to profit sharing, share options or pension benefits. There is no linkage between the remuneration and the performance of Directors. A fixed honorarium is payable at each financial year to the Non-Executive Directors.

For the financial year under review the aggregate remuneration of the Directors of the Company was as follows:

Fixed remuneration from Company	€13,705
Fixed remuneration from Subsidiaries	€126,146

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

In view of the size and type of operation of the Company, the Board does not consider the Company to require the setting up of a nomination committee. Reference is also made to the information provided under the subheading 'Principle Three' above, which provides for a formal and transparent procedure for the appointment of new Directors to the Board.

Principle Nine - Relations with shareholders and with the market

Pursuant to the Company's statutory obligations in terms of the Companies Act (Cap. 386 of the Laws of Malta) and the Listing Rules issued by the Malta Financial Services Authority, the Annual Report and Financial Statements, the election of Directors and approval of Directors' fees, the appointment of the auditors and the authorisation of the Directors to set the auditors' fees, and other special business, are proposed and approved at the Company's AGM.

With respect to the Company's bondholders and the market in general, during the financial year under review, there was no need to issue any Company announcements to the market.

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

Principle Ten - Relations with Institutional shareholders

The Directors are of the view that this Principle is not applicable to the Company.

Principle Eleven - Conflicts of Interest

Principle Eleven deals with conflicts of interest and the principle that Directors should always act in the best interests of the Company

All of the Directors of the Company, except for Ms. Miriam Schembri, Dr. Arthur Galea Salomone and Mr. William Van Buren are Executive Officers of the Company. The other Executive Directors have a direct beneficial interest in the share capital of the Company, and as such are susceptible to conflicts arising between the potentially diverging interests of the shareholders and the Company. During the financial year under review, no private interests or duties unrelated to the Company were disclosed by the Directors which were or could have been likely to place any of them in conflict with any interests in, or duties towards, the Company.

The Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the Company. Furthermore, in accordance with the provisions of article 145 of the Companies Act (Cap. 386 of the Laws of Malta), every Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company is under the duty to fully declare his interest in the relevant transaction to the Board at the first possible opportunity and he will not be entitled to vote on matters relating to the proposed transaction and only parties who do not have any conflict in considering the matter will participate in the consideration of the proposed transaction .

Principle Twelve - Corporate Social Responsibility

Principle Twelve encourages Directors of listed companies to adhere to accepted principles of corporate social responsibility

The Company seeks to adhere to sound Principles of Corporate Social Responsibility in its management practices, and is committed to enhance the quality of life of all stakeholders and of the employees of the Company and the Group.

The Board is mindful of the environment and its responsibility within the community in which it operates. To this end the Group has taken initiatives such as; investment in renewable energy; implementation of water management systems within its operations and manufacturing companies to curtail waste and better manage the use of water.

Furthermore, the Group also seeks to minimise waste by seeking to deploy what are by products of its manufacturing, in its terrazzo line ensuring a cheaper product complimentary to its social policy of reducing waste.

In carrying on its business the Group is fully aware and at the forefront to preserving the environment and continuously review its policies aimed at respecting the environment and encouraging social responsibility and accountability.

The Audit Committee

The Audit Committee's primary objective is to assist the Board in fulfilling its responsibilities: in dealing with issues of risk, control and governance; and review the financial reporting processes, financial policies and internal control structure. During the financial year under review, the Audit Committee met four times.

Although the Audit Committee is set up at the level of the Company its main tasks are also related to the activities of the subsidiaries and operational companies.

The Board has set formal terms of establishment and the terms of reference of the Audit Committee that establish its composition, role and function, the parameters of its remit as well as the basis for the processes that it is required to comply with. The Audit Committee is a sub-committee of the Board and is directly responsible and accountable to the Board. The Board reserves the right to change these terms of reference from time to time.

Furthermore, the Audit Committee has the role and function of scrutinising and evaluating any proposed transaction to be entered into by the Company and a related party, to ensure that the execution of any such transaction was at arm's length and on a commercial basis and ultimately in the best interests of the Company.

The Audit Committee is composed of 3 independent, Non-Executive Directors:

- Dr. Arthur Galea Salomone – Member
- Mr. William Van Buren – Member
- Ms. Miriam Schembri – Member

Mr. William Van Buren is a Non-Executive Director and a qualified accountant, who the Board considers as independent and competent in accounting as required in terms of the Listing Rules.

Internal Control

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. The Directors are aware that internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against normal business risks.

During the financial year under review the Company operated a system of internal controls which provided reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing the Company.

Other key features of the system of internal control adopted by the Company in respect of its own internal control as well as the control of its subsidiaries and affiliates are as follows:

Risk identification
The Board of Directors, with the assistance of the Management team, is responsible for the identification and evaluation of key risks applicable to the areas of business in which the Company and its subsidiaries are involved. These risks are assessed on a continual basis.

Information and communication
Periodic strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives are regularly convened by the Board. Regular budgets are prepared and performance against these plans is actively monitored and reported to the Board.

In conclusion, the Board considers that the Company has generally been in compliance with the Principles throughout the period under review as befits a company of this size and nature.

Corporate Governance Statement
for the year ended 31 December 2019

Non-compliance with the principles and the reasons therefor have been identified below.

Code Provision	Explanation
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 are actively engaged in succession planning and involved in ensuring that appropriate schemes to recruit, retain and motivate employees and Senior Management are in place.
7.1	The Board has not appointed a committee for the purpose of undertaking an evaluation of the Board's performance. The Board believes that the size of the Company and the Board itself does not warrant the establishment of a committee specifically for the purpose of carrying out a performance evaluation of its role. The size of the Board is such that it should enable it to evaluate its own performance without the requirement of setting up an ad-hoc 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, particularly of the appointment process being specifically set out in 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.

Approved by the Board on 28 April 2020 and signed on its behalf by:

Mr. Martin Vella - Chairman

Mr. Mark Vella - Director and CEO

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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report
to the shareholders of Hal Mann Vella Group P.L.C.

Report on the Financial Statements for the year ended 31 December 2019

Opinion

We have audited the individual financial statements of Hal Mann Vella Group P.L.C. ("the Company") and the consolidated financial statements of the Company and its subsidiaries (together, "the Group"), set out on pages 25 to 106, which comprise the statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2019, and of the Group's and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

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 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 that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap.281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that in our professional judgement were of most significance in our audit of the financial statements of the current period. These matters where addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon.

We do not provide a separate opinion on these matters.

1. **Investment property valuations**

   Risk description

   The Group carries its investment property at fair value, with changes in fair value being recognised in the profit or loss. Fair value is based on market valuation performed by independent professional architects. The last market valuation was performed on 31 May 2019. Investment property amounted to €45,004,343 as at 31 December 2019 and is deemed material to the financial statements.

   Estimating the fair value is a complex process involving a number of judgements and estimates regarding various inputs. Consequently, we have determined the valuation of the investment property to be a key audit matter.

Relevant references in the annual report and financial statements:
- Accounting policy: notes 2.7 and 2.21
- Note on Investment Property: note 17
- Judgements in applying accounting policies and key sources of estimation uncertainty: Note 3

How the scope of our audit responded to the risk

We obtained an understanding of the Group's process for determining fair value measurements and disclosures and the relevant control procedures. We assessed inherent and control risk related to the fair value measurements and disclosures and evaluated whether the fair value measurements and disclosures are in accordance with the Group's financial reporting framework and are consistently applied.

We evaluated the professional competence and independence of the architects employed by the Group. We assessed whether the scope of the architects' work was adequate for the purpose of our audit. We evaluated the assumptions and the basis of valuation and the completeness of information used by the architects. We assessed whether the architects' report is complete and reasonable and whether all pertinent information therein is properly reflected in the financial statements.

Findings

The result of our testing was satisfactory and we concur that the valuation of the investment property is appropriate.

2. Recoverability of deferred tax asset

Risk description

As at 31 December 2019, the Group has recognised a deferred tax asset amounting to €1,321,733 arising primarily from deductible temporary differences in respect of unabsorbed capital allowances and unutilized tax losses and investment tax credit that it believes are recoverable. The recoverability of recognised deferred tax asset is in part dependent on the Group's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses. We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary difference.

Relevant references in the annual report and financial statements:
- Accounting policy: notes 2.19
- Note on Deferred Tax: note 25
- Judgements in applying accounting policies and key sources of estimation uncertainty: Note 3

Independent Auditor's Report
to the shareholders of Hal Mann Vella Group P.L.C.

2. **Recoverability of deferred tax asset (*continued*)**

How the scope of our audit responded to the risk

We ensured that IAS 12 Income Taxes has been correctly applied in respect of deferred tax, paying particular attention to the following situations: (a) the revaluation of an asset; (b) the disposal of an asset and (c) unabsorbed capital allowances and unutilized tax losses and (d) investment tax credits.

We assessed the accuracy of forecast future taxable profits by evaluating historical forecasting accuracy and comparing assumptions with our expectations of those assumptions derived from our knowledge of the industry and our understanding obtained during the audit.

Findings

We are satisfied that the deferred tax asset has been properly recognised and measured in view of the fact that taxable profits will be available against which the deductible temporary differences can be utilized.

3. **Impact of new accounting standards**

Risk description

Significant changes in accounting standards relevant to the Company and the Group came into effect for the financial year ended 31 December 2019. In particular, IFRS 16 *Leases* supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position. Given the significance of the Group's leasing transactions, the application of this standard is expected to result in significant adjustments in the financial statements as at and for the year ended 31 December 2019.

Relevant references in the Annual Report and Financial Statements:

- Accounting policy: note 2.17
- Changes in Accounting polices and disclosures: note 4.2
- Note on Leases: note 24

How the scope of our audit responded to the risk

Our audit procedures included use of IFRS expertise to assess in particular (a) the manner in which the Group implemented the new standard on leases for the financial year ended 31 December 2019, including the revision of applicable accounting policies and the inclusion of the required additional disclosures.

Independent Auditor's Report
to the shareholders of Hal Mann Vella Group P.L.C.

3. **Impact of new accounting standards (*continued*)**

   Findings

   We are satisfied that the impact of new accounting standards been properly implemented and disclosed.

Other Matter - The impact of uncertainties due to the global Coronavirus (COVID-19) pandemic on our audit

Uncertainties related to the consequential economic effects of the COVID-19 pandemic are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Directors, such as recoverability of accounts due from customers and loans to related undertaking, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

The COVID-19 outbreak is one of the most significant economic events for the world, and at the date of this report, its effects are subject to unprecedented levels of uncertainty of outcomes consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to the economic effects of the pandemic.

Other Information

The Directors are responsible for the other information. The other information comprises of the Chairman's Statement, Directors' Report and Corporate Governance Statement of Compliance. Our opinion on the financial statements does not cover this information. Except for our opinion on the Directors' Report in accordance with the Companies Act, Cap. 386 of the Laws of Malta and on the Corporate Governance Statement of Compliance in accordance with the Listing Rules issued by the Malta Listing Authority, our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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 of the Laws of Malta. Based on the work we have performed, in our opinion:

- the information given in the Directors' Report for the year ended 31 December 2019 is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with the Companies Act, Cap. 386 of the Laws of Malta.

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.

Based on the work we have performed, we have nothing to report in this regard.

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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report
to the shareholders of Hal Mann Vella Group P.L.C.

Responsibilities of the Directors and the Audit Committee for the financial statements
The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal controls as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group'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 to do so. 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.

The Directors have delegated the responsibility for overseeing the Company's financial reporting process to the Audit Committee.

Auditors' 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.

In terms of article 179A(4) of the Companies Act (Cap.386), the scope of our audit does not include assurance on the future viability of the audited entity or on the efficiency or effectiveness with which the Directors have conducted or will conduct the affairs of the entity.

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

- Identify and assess the risk 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.

Independent Auditor's Report
to the shareholders of Hal Mann Vella Group P.L.C.

- 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 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 the Audit Committee 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.

We also provide the Audit Committee 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 our independence, and where applicable related safeguards.

From the matters communicated with the Audit Committee, 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 auditors' 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

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 Corporate Governance Statement providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that have taken to ensure compliance with those Principles.

The Listing Rules also require the auditor to include a report on the Corporate Governance Statement prepared by the Directors. We read the Corporate Governance Statement 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.

Independent Auditor's Report
to the shareholders of Hal Mann Vella Group P.L.C.

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

In our opinion, the Corporate Governance Statement set out on pages 9 to 17 has been properly prepared in accordance with the requirements of the Listing Rules 5.94 and 5.97.

Other matters on which we are required to report by exception under the Companies Act

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; and
  - certain disclosures of Directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- under the Listing Rules to review the statement of made by the Directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

Audit Tenure

We were first appointed as auditors of the Group on 18 April 2017. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years. The Company became listed on a regulated market on 11 November 2014.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee in accordance with the provisions of article 11 of the EU Audit Regulation No. 537/2014.

This copy of the audit report has been signed by:

Jozef Wallace Galea (Partner)
for and on behalf of HLB CA Falzon
Registered Auditors

28 April 2020

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PARTNERS: Jozef Wallace Galea, Alfred Falzon, Patrizio Prospero, Fiona Buttigieg.

Hal Mann Vella Group P.L.C.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019

		The Group		The Company	
		2019	**2018**	**2019**	**2018**
	Note	**€**	**€**	**€**	**€**
Revenue from contracts with customers	6	20,094,316	19,901,373	-	-
Rental income	17,24	2,300,226	2,661,805	1,001,111	671,082
Revenue		22,394,542	22,563,178	1,001,111	671,082
Cost of sales and services	7	(14,290,625)	(14,335,211)	-	-
Gross profit		8,103,917	8,227,967	1,001,111	671,082
Distribution and selling costs	7	(215,136)	(260,325)	-	-
Administrative expenses	7	(3,605,898)	(3,828,157)	(412,111)	(203,776)
Profit on sale of quoted equity securities	16	46,506	-	46,506	-
Profit on sale of investment property	17	82,200	39,568	-	-
Other operating income	8	206,759	103,885	9,488	9,436
Operating profit		4,618,348	4,282,938	644,994	476,742
Change in fair value of investment properties	17	479,480	2,821,933	479,480	278,907
Share in profit of joint ventures	15	1,391,457	22,791	-	-
Dividends income		3,904	3,779	1,926,981	3,779
Profit on joint venture operations		-	47,000	-	-
Loss on loan to joint venture	16	(77,195)	-	(77,195)	-
Finance and similar income	9	333,540	1,172	1,412,266	1,077,047
Finance costs	10	(2,410,827)	(2,206,573)	(1,711,430)	(1,668,683)
Profit before tax		4,338,707	4,973,040	2,675,096	167,792
Income tax expense	12	(1,453,235)	(1,382,081)	(1,022,510)	(72,352)
Profit for the year		2,885,472	3,590,959	1,652,586	95,440

The notes on page 35–106 form part of these financial statements.

Hal Mann Vella Group P.L.C.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2019

		The Group		The Company	
		2019	**2018**	**2019**	**2018**
	Note	**€**	**€**	**€**	**€**
Profit for the year		2,885,472	3,590,959	1,652,586	95,440
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Equity-accounted investees - share of OCI	15	2,046	(4,509)	-	-
Debt instruments at fair value through other comprehensive income:					
- change in fair value, net of deferred tax	29	55,973	105,144	55,973	105,144
Total comprehensive income for the year		2,943,491	3,691,594	1,708,559	200,584
Earnings per share (cents)					
- Basic profit for year attributable to ordinary equity holders of the parent	**27**	**0.58**	**0.72**	**0.33**	**0.02**

The notes on page 35–106 form part of these financial statements.

Hal Mann Vella Group P.L.C.

Consolidated Statement of Financial Position
as at 31 December 2019

	Note	The Group 2019	The Group 2018	The Company 2019	The Company 2018
		€	€	€	€
ASSETS					
Non-current assets					
Property, plant & equipment	13	31,476,468	33,387,522	-	-
Investment in subsidiaries	14	-	-	8,255,143	8,055,141
Investment in joint ventures	15	1,876,499	1,732,996	165,720	165,720
Other non-current financial assets	16	833,236	1,313,342	19,867,261	20,107,657
Trade and other receivables	21	3,754,304	-	-	-
Investment property	17	45,004,343	46,689,617	29,937,712	29,334,211
Right-of-use assets	24	4,777,632	-	-	-
Deferred taxation	25	1,321,733	3,645,397	1,024,661	987,913
Goodwill	18	62,888	62,888	-	-
Total non-current assets		89,107,103	86,831,762	59,250,497	58,650,642
Current assets					
Inventories	19	4,093,251	3,613,067	-	-
Property held-for-sale	20	6,226,151	4,514,335	-	-
Trade and other receivables	21	12,692,261	13,185,027	3,167,172	2,349,264
Contract assets	22	2,886,456	2,241,170	-	-
Current tax recoverable	12	-	-	241	241
Other current financial assets	16	91,000	91,000	-	-
Cash and cash equivalents	34	2,528,826	1,529,593	1,080,074	94,910
Total current assets		28,517,945	25,174,192	4,247,487	2,444,415
Total assets		117,625,048	112,005,954	63,497,984	61,095,057

The notes on page 35–106 form part of these financial statements.

Hal Mann Vella Group P.L.C.

Consolidated Statement of Financial Position
as at 31 December 2019

	Note	The Group		The Company	
		2019	2018	2019	2018
		€	€	€	€
EQUITY AND LIABILITIES					
Equity					
Issued capital	26	4,999,820	4,999,820	4,999,820	4,999,820
Revaluation reserve on property, plant and equipment	28	24,043,828	24,043,828	-	-
Fair value reserve	29	56,760	110,456	55,973	111,715
Revaluation reserve on investment property	31	4,912,271	4,751,591	15,960,338	15,529,138
Capital redemption reserve	32	47,852	47,852	-	-
Incentives and benefits reserves	33	604,060	604,060	-	-
Retained earnings		10,481,002	8,955,896	3,066,780	2,266,535
Total equity		45,145,593	43,513,503	24,082,911	22,907,208
Non-current liabilities					
Interest bearing loans and borrowings	16	40,736,915	41,835,403	31,875,917	31,815,389
Finance lease liability	17, 37	3,488,652	2,336,538	796,386	-
Trade and other payables	23	26,197	42,775	-	-
Deferred taxation	25	4,043,910	5,796,315	2,477,394	2,403,353
Total non-current liabilities		48,295,674	50,011,031	35,149,697	34,218,742
Current liabilities					
Current borrowings	16	5,781,568	4,140,807	2,805,312	2,742,700
Finance lease liability	16,17, 37	5,039,119	38,462	29,869	-
Trade and other payables	23	12,915,194	13,919,846	1,430,195	1,226,407
Current tax due	12	447,900	382,305	-	-
Total current liabilities		24,183,781	18,481,420	4,265,376	3,969,107
Total liabilities		72,479,455	68,492,451	39,415,073	38,187,849
Total equity and liabilities		117,625,048	112,005,954	63,497,984	61,095,057

The notes on page 35–106 form part of these financial statements.

The financial statements set out on pages 25 to 106 were approved and authorized for issue by the Board of Directors and signed on its behalf by:

Mr. Martin Vella - Chairman

Mr. Mark Vella - Director and CEO

28 April 2020

Hal Mann Vella Group P.L.C.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2019

	The Group								
	Issued capital	**Revaluation reserve on property, plant and equipment**	**Revaluation reserve on investment property**	**Revaluation reserve on financial assets**	**Other Equity**	**Retained earnings**	**Incentives and benefits reserves**	**Capital redemption reserve**	**Total Equity**
	€	**€**	**€**	**€**		**€**	**€**	**€**	**€**
Balance as at 1 January 2018	4,999,820	24,043,828	7,134,712	9,821	12,236	2,960,983	604,060	47,852	39,813,312
Effect of adoption of new accounting standard	-	-	-	-	-	20,833	-	-	20,833
Balance as at 1 January 2018 (adjusted)	4,999,820	24,043,828	7,134,712	9,821	12,236	2,981,816	604,060	47,852	39,834,145
Profit for the year	-	-	-	-	-	3,590,959	-	-	3,590,959
Other comprehensive income (note 29)	-	-	-	100,635	-	-	-	-	100,635
Total comprehensive income for the year	-	-	-	100,635	-	3,590,959	-	-	3,691,594
Capital contribution arising from discounting of government grants (note 24)	-	-	-	-	(12,236)	-	-	-	(12,236)
Transfer of fair value gain on investment property, net of deferred tax	-	-	(2,383,121)	-	-	2,383,121	-	-	-
Balance as at 31 December 2018	4,999,820	24,043,828	4,751,591	110,456	-	8,955,896	604,060	47,852	43,513,503

The notes on page 35–106 form part of these financial statements.

Hal Mann Vella Group P.L.C.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	The Group								
	Issued capital	**Revaluation reserve on property, plant and equipment**	**Revaluation reserve on investment property**	**Revaluation reserve on financial assets**	**Other Equity**	**Retained earnings**	**Incentives and benefits reserves**	**Capital redemption reserve**	**Total Equity**
	€	**€**	**€**	**€**		**€**	**€**	**€**	**€**
Balance as at 1 January 2019	4,999,820	24,043,828	4,751,591	110,456	-	8,955,896	604,060	47,852	43,513,503
Underprovision of expected credit losses (note 21)	-	-	-	-	-	(22,758)	-	-	(22,758)
Effect of adoption of new accounting standard (note 4)	-	-	-	-	-	(1,288,643)	-	-	(1,288,643)
Balance as at 1 January 2019 (adjusted)	4,999,820	24,043,828	4,751,591	110,456	-	7,644,495	604,060	47,852	42,202,102
Profit for the year	-	-	-	-		2,885,472	-	-	2,885,472
Other comprehensive income/loss (note 29)	-	-	-	58,019	-	-	-	-	58,019
Total comprehensive income for the year	-	-	-	58,019		2,885,472	-	-	2,943,491
Transfer (from) to retained earnings (note 16)	-	-	-	(111,715)	-	111,715	-	-	-
Transfer of fair value gain on investment property, net of deferred tax (note 31)	-	-	160,680	-	-	(160,680)	-	-	-
Balance as at 31 December 2019	4,999,820	24,043,828	4,912,271	56,760	-	10,481,002	604,060	47,852	45,145,593

The notes on page 35–106 form part of these financial statements.

Hal Mann Vella Group P.L.C.

Statement of Changes in Equity
for the year ended 31 December 2019

	The Company				
	Issued capital	**Revaluation reserve on financial assets**	**Revaluation reserve on investment property**	**Retained earnings**	**Total Equity**
	€	**€**	**€**	**€**	**€**
Balance as at 1 January 2018	4,999,820	6,571	15,269,240	2,638,655	22,914,286
Effect of adoption of new accounting standard	-	-	-	(207,662)	(207,662)
Balance as at 1 January 2018 (adjusted)	4,999,820	6,571	15,269,240	2,430,993	22,706,624
Profit for the year	-	-	-	95,440	95,440
Other comprehensive income	-	105,144	-	-	105,144
Total comprehensive income for the year	-	105,144	-	95,440	200,584
Transfer of fair value gain on investment property, net of deferred tax	-	-	259,898	(259,898)	-
Balance as at 31 December 2018	4,999,820	111,715	15,529,138	2,266,535	22,907,208

The notes on page 35–106 form part of these financial statements.

Hal Mann Vella Group P.L.C.

Statement of Changes in Equity
for the year ended 31 December 2019

	The Company				
	Issued capital	**Revaluation reserve on financial assets**	**Revaluation reserve on investment property**	**Retained earnings**	**Total Equity**
	€	**€**	**€**	**€**	**€**
Balance as at 1 January 2019	4,999,820	111,715	15,529,138	2,266,535	22,907,208
Effect of adoption of new accounting standard (note 4)	-	-	-	(532,856)	(532,856)
Balance as at 1 January 2019 (adjusted)	4,999,820	111,715	15,529,138	1,733,679	22,374,352
Profit for the year	-	-	-	1,652,586	1,652,586
Other comprehensive income	-	55,973	-	-	55,973
Total comprehensive income for the year	-	55,973	-	1,652,586	1,708,559
Transfer (from) to retained earnings (note 16)	-	(111,715)	-	111,715	-
Transfer of fair value gain on investment property, net of deferred tax (note 31)	-	-	431,200	(431,200)	-
Balance as at 31 December 2019	4,999,820	55,973	15,960,338	3,066,780	24,082,911

The notes on page 35–106 form part of these financial statements.

Hal Mann Vella Group P.L.C.

Consolidated Statement of Cash Flows
for the year ended 31 December 2019

	Note	The Group		The Company	
		2019	2018	2019	2018
		€	€	€	€
Cash flows from operating activities					
Profit before tax		4,338,707	4,973,040	2,675,096	167,792
Adjustments for:					
properties		(479,480)	(2,821,933)	(479,480)	(278,907)
Share in profit of joint ventures		(1,391,457)	(22,791)	-	-
Depreciation of right-of-use assets and property, plant and equipment		921,616	763,762	-	-
Loss on loans to joint venture		77,195	-	77,195	-
Profit on sale of quoted equity securities		(46,506)	-	(46,506)	-
Provision for expected credit losses (ECL)		43,320	43,100	108,789	50,471
Overprovision of expenses in the prior years		(54,900)	-	-	-
Income from government grants		(16,578)	(14,200)	-	-
Profit on sale of investment properties		(82,200)	(39,568)	-	-
Dividends income		(3,904)	(3,779)	(1,926,981)	(3,779)
Finance and similar income		(333,540)	(1,172)	(1,412,266)	(1,077,047)
Finance costs		2,410,827	2,206,573	1,711,430	1,668,683
Working capital changes:					
Increase in inventories		(480,184)	(96,167)	-	-
Increase in property held-for-sale		(1,711,816)	(119,523)	-	-
Increase in contract assets		(689,743)	-	-	-
Decrease / (increase) in receivables		856,308	386,387	161,444	(368,222)
(Decrease) / increase in payables		(1,004,537)	(1,000,948)	48,510	(47,264)
Receipts from/(advances to) related undertakings		74,459	(13,585)	-	-
Interest received from banks		701	1,070	-	-
Interest paid on overdraft		(25,814)	(17,869)	(63)	(56)
Other interest paid		-	(83,586)	-	-
Taxation paid		(464,417)	(508,711)	(673,077)	(241)
Net cash generated from operating activities		1,938,057	3,630,100	244,091	111,430

The notes on page 35–106 form part of these financial statements.

Hal Mann Vella Group P.L.C.

Consolidated Statement of Cash Flows
for the year ended 31 December 2019

	Note	The Group		The Company	
		2019	2018	2019	2018
		€	€	€	€
Cash flows from investing activities					
Payments to acquire property, plant and equipment		(1,316,190)	(1,674,878)	-	-
Payments to acquire investment property		(1,340,246)	(659,134)	(124,021)	(2,945)
Capitalised borrowing cost of investment property		-	(30,800)	-	-
Payments to acquire financial assets		-	-	(200,002)	-
Receipts from sale of equity instruments		328,575	-	328,575	-
Dividends received		1,253,904	3,779	1,926,981	3,779
(Advances to)/receipts from group companies		-	-	(324,979)	1,873,164
Receipts from/(advances to) joint venture		1,000	(317,618)	150,053	(317,618)
Advances to other parties		-	(12,236)	-	-
(Advances to)/receipts from related companies		-	(4,877)	6,977	(4,877)
Receipts from sale of investment properties		1,387,200	1,139,568	-	-
Finance income		-	-	1,412,266	1,077,047
Net cash generated from/(used in) investing activities		314,243	(1,556,196)	3,175,850	2,628,550
Cash flows from financing activities					
Advances from banks loans		513,690	1,707,771	-	-
Advances from other advances		-	20,000	-	20,000
Repayment to group companies		-	-	(1,023,336)	(387,175)
(Repayment to)/advances from related companies		(3,001)	113,823	75,229	(263,759)
Advances from joint ventures		363,579	70,860	124,881	75,958
Repayment of principal portion of lease liability		(495,257)	-	(29,869)	-
Repayment to other companies		-	(38,462)	-	-
(Repayment to)/advances from shareholders		-	(78,749)	-	209,000
Receipt of principal portion of finance lease receivable		473,138	-	-	-
Interest paid on bonds		(1,372,838)	(1,503,176)	(1,372,838)	(1,503,176)
Interest paid on bank loans		(496,587)	(375,712)	(82,783)	(4,416)
Net cash used in financing activities		(1,017,276)	(83,645)	(2,308,716)	(1,853,568)
Effect of ECL on cash in banks		(299)	-	(299)	-
Net movement in cash and cash equivalents		1,235,024	1,990,259	1,111,225	886,412
Cash and cash equivalents at beginning of year		767,522	(1,222,737)	(39,501)	(925,913)
Cash and cash equivalents at end of year	34	2,002,247	767,522	1,071,425	(39,501)

The notes on page 35–106 form part of these financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2019

1. Corporate information

The consolidated financial statements of Hal Mann Vella Group plc and its subsidiaries ("the Group") for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Directors on 28 April 2020.

Hal Mann Vella Group P.L.C. ("the Company") is a public limited liability company incorporated in Malta, under the Companies Act, Cap. 386 of the Laws of Malta.

2. Significant accounting policies

2.1 Basis of preparation and consolidation

These financial statements are prepared under the historical cost convention, as modified by the measurement of investment property, land and buildings classified as property, plant and equipment and financial assets at fair value and are in accordance with the requirements of the International Financial Reporting Standards (IFRS) as adopted by the European Union and comply with the Companies Act, Cap. 386 of the Laws of Malta. The consolidated financial statements are presented in Euro (€), which is the functional currency of the Group.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests 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. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.2 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting date; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3 Investment in joint venture

The Group has an interest in joint ventures. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group recognises its interest in the joint-venture using the equity method. Investments in joint ventures are included in the Group's statement of financial position at cost and adjusted thereafter for the post-acquisition change in the share of net assets. The statement of profit or loss and other comprehensive income includes the share of profit or loss in joint venture.

2.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets measured at amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.16 (Revenue from contracts with customers).

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets in these financial statements are classified in four categories:

- financial assets at amortised cost (debt instruments)
- financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- financial assets at FVTPL

<u>Financial assets at amortised cost (debt instruments)</u>

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include bank term deposits, trade receivables, and receivables from joint ventures and other related undertakings which are included both under current and non-current financial assets.

Financial assets at FVOCI (debt instruments)

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

As at 31 December 2019 and 2018, the Group has no debt instruments at FVOCI.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under *IAS 32 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

As at 31 December 2019 and 2018, this category consists of investment in quoted and unquoted equity shares.

Financial assets at FVTPL

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

As at 31 December 2019 and 2018, the Group has no financial assets at FVTPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

Further disclosures relating to impairment of financial assets are also provided in notes 3 and 35 to the consolidated financial statements.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For lease receivables and majority of trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash in bank, contract assets and amounts due from joint ventures and other related undertakings, the Group applies a general approach in calculating ECLs. Therefore, the Group tracks changes in credit risk, and recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. This is being done by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The following are the key elements in the calculation of ECLs:

a. Probability of Default (PD)	The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognised.
b. Exposure at Default (EAD)	The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
c. Loss Given Default (LGD)	The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

The mechanics of the ECL method are summarised below:

Stage 1:	The 12-month ECL is calculated as the portion of lifetime ECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD.
Stage 2:	When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECL. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument.
Stage 3:	For financial asset considered as credit-impaired, the Group recognises the lifetime ECL. The method is similar to that for Stage 2 financial assets, with the PD set at 100%.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- financial liabilities at FVTPL
- financial liabilities at amortised cost (loans and borrowings)

<u>Financial liabilities at FVTPL</u>

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability at FVTPL as at 31 December 2019 and 2018.

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 35 to the consolidated financial statements.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.5 Property, plant and equipment

Land and buildings are stated in the statement of financial position at its revalued amount, being the fair value at the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from those that would be determined using fair values at each reporting date.

A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in statement of comprehensive income to the extent that it exceeds the balance, if any, held in the revaluation reserve on property, plant and equipment relating to a previous revaluation of that asset.

Freehold land is not depreciated.

Property, plant and equipment, except for revalued land and buildings, are stated at cost less accumulated depreciation. Depreciation charge is provided from the month of acquisition until the month in which the asset is disposed of or scrapped.

Depreciation is calculated using the reducing balance method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

Buildings	2%
Electrical installations and fittings	6.67% and 20%
Renewable energy equipment	6.67%
Plant and machinery	10%
Furniture and fittings	10%
Improvements to premises	10%
Air-conditioning equipment	16.67%
Tools	20%
Exhibits	20%
Exhibition stand and site offices	20% and 25%
Motor vehicles	20%
Computer equipment and software	25%
Office equipment	25%
Telecommunications equipment	25%

Depreciation methods, useful life and residual values are reassessed at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised.

2.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in statement of profit or loss and other comprehensive income when the asset is derecognised.

2.7 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and is not occupied by the Group, is classified as investment property. Investment property comprises freehold and leasehold land and buildings held under long-term operating leases.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. After initial recognition, investment property is carried at fair value representing open market value determined periodically. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

These valuations are reviewed on a regular basis (usually every two years). Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from its future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair value are recognised in profit or loss and tranferred to "Revaluation reserve on investment property" under equity. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the Group decides to dispose of an investment property without development, the Group continues to treat the property as an investment property. Similarly, if the Group begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment.

If an item of property, plant and equipment and property held-for-sale becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in statement of comprehensive income to the extent that it reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus with equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to the profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through statement of comprehensive income.

2.8 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is determined on the weighted average cost method. The cost of finished goods comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.9 Property held-for-sale

Property held-for-sale is included in the financial statements at the lower of cost and net realisable value. Cost comprises the purchase price of acquiring the property and other costs incurred to develop the property. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cashflows, cash and cash equivalents consist of cash on hand and bank as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

2.11 Share capital

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

2.12 Dividend distribution

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

2.13 Trade payables

Trade payables are 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. If not, they are presented as non-current liabilities.

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

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.15 Foreign currencies

Translations denominated in foreign currencies are translated at the exchange rate ruling on the date of the transactions. Monetary receivables and payables denominated in foreign currencies are translated at the rates of exchange prevailing at each reporting date. Translation differences are dealt with in the statement of comprehensive income.

2.16 Revenue recognition

Revenue from contracts with customers (under IFRS 15)

The Group's principal activies relate to the manufacture and business of stones, marbles, granites, patterned tiles, terrazzo and precast related products, as well as supply, installation, operation and maintenance of photovoltaic (PV) systems. The Group is also involved in property development and resale. Revenue from contracts is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer. Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Group and these can be measured reliably.

The Group's revenue recognition is straight-forward, hence no significant accounting judgement, estimates and assumptions (i.e., in terms of estimating variable considerations and stand-alone selling price) are involved.

Sale of stones, marbles, granites, patterned tiles, terrazzo and precast related products

Revenue from sale of manufactured construction materials is recognised at the point in time when control of asset is transferred to the customer, generally on delivery of products at the customer's location. The normal credit term is 30 to 90 days upon delivery.

Sale of electricity generated from PV panels

Revenue from sale of electricity is recognised at the point in time when control of the asset is transferred to the sole customer (i.e., Enemalta Plc), generally upon exportation of the generated electricity to the solar grid. Enemalta Plc pays the Group feed-in tariff (i.e., a tariff which is paid to a producer of electricity for the amount of electricity generated and exported to the electricity grid) based on the actual meter readings. In the case where the amount due to the Group from the electricity exported by the PV system exceeds the invoiced amount for the consumption of electricity for a particular billing period that is due to Enemalta Plc, such amount will be carried forward in the form of a credit note. When two consecutive scheduled bills based on actual meter readings are shown to be in credit, Enemalta P.L.C. is obliged to pay the Group the credit within 60 days of the date of the second scheduled bill.

Sale of properties

Revenue from sale of real properties is recognised at the point in time when control of asset is transferred to the customer, generally upon signing of deed of sale where the customer obtains legal title to the property. The normal credit term is 30 to 90 days from date of deed.

Rendering of general construction and other services

The Group recognises revenue from construction and other services over time because the Group's performance creates or enhances an asset that the customer controls as the asset is enhanced or created. On some cases, the customer simultaneously receives and consumes the benefits provided to them as the Group performs. The Group uses an input method in measuring progress of the services since there is a direct relationship between the Group’s effort (i.e., based on the costs incurred to date) and the transfer of service to the customer. The input method is implemented by first estimating the inputs required such as labor and other overheads, etc. to complete the service. The Group recognises revenue on the basis of the efforts expended to date relative to the total expected inputs to complete the service. The normal credit term is 30 to 90 days upon issuance of invoice.

Further, the Group provides services that are either sold separately or bundled together with the sale of tiles, marble stones and granites to a customer. Contracts for bundled sales of tiles, marble stones, granites and services are comprised of two performance obligations because the promise to transfer tiles, marbles, granites and provide services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transcation price based on the relative stand-alone selling prices of tiles, marbles, granites and services.

In determining the transaction price, the Group considers the effects of variable consideration, existence of significant financing component, non-cash consideration, and consideration payable to the customer.

i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. In general, contracts for the sale of tiles, marble stones and granites do not provide customers with a right to return the goods; hence, no refund liability is recognised. In cases of discounts and/or price concessions for good and services, such are already established with the customer at the inception of the contract, thus, are not considered contingents as the amounts agreed are fixed and unavoidable. As at and for the years ended 31 December 2019 and 2018, there are no known factors or events which could make the consideration to be variable. The validity of this assessment is reassessed at each reporting date.

ii) Significant financing component

In most cases, the Group has contract assets wherein payment for goods and services rendered is not due from the customer until the full services agreed upon are completed. A contract asset is recognised over the period in which the services are performed to represent the Company's right to consideration for the services performed to date. Generally, it is the customer's preference to withhold payments to ensure that all performance obligations are performed as specified in the contract. This falls under one of the exemptions of 'significant financing component' - *i.e.,* the difference between the promised consideration and the cash selling price of the goods or services is due to something other than financing.

Further, the Group applies the practical expedient for short-term advances received from customers - *i.e.,* the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised goods or service and the payment is one year or less. As at and for the years ended 31 December 2019 and 2018, the contract liabilities are subsequently recognised as revenue within one year.

iii) Non-cash consideration

The Group does not receive non-cash considerations from customers for the sale of goods and services.

iv) Consideration payable to customer

The Group exports solar energy generated from PV panels to a customer who also supplies electricity to the Group for consumption. The consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment to the customer is in exchange for a distint good or service that the customer transfers to the Group.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the company performs under the contract (*i.e.*, transfers control of the related goods or services to the customer).

Cost to obtain a contract

The Group applies the optional practical expedient to immediately expense costs to obtain a contract if the amortisation period of the asset that would have been recognised is one year or less. As such, payments for designers which constitute a relatively small amounts are immediately recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

Other revenue sources (not within the scope of IFRS 15)

The following recognition criteria must also be met before revenue is recognised:

Rental income

This relates to the rental income from the rental of immovable property in the ordinary couse of the Group's activities. For operating leases, it is recognised at profit or loss on a straight-line basis over the term of the lease and is stated net of value added tax. For finance leases, it is recognised at balance sheet as a lease receivable and amortised using effective interest method over the lease term.

Dividend income

Revenue from dividend income is recognised on the date the Group's right to receive payment is established.

Interest income

Interest income is accounted for when it is probable that the economic benefits associated with the transaction will flow to the Group and these can be measured reliably. Interest income is recognised on an accrual or time proportion basis.

Other operating income

Other operating income are accounted for when it is probable that the economic benefits associated with the transaction will flow to the Group and these can be measured reliably.

2.17 Leases

Upon adoption of IFRS 16 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Hotel	15 years
Industrial buildings	15 years
Offices	3 to 15 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.22 (Impairment of non-financial assets).

ii) Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see note 16).

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value. Lease payments on short-term leases and leases of lowvalue assets are recognised as expense on a straight-line basis over the lease term.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss and other comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Prior to adoption of IFRS 16 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains a lease if fulfillment of the arrangement is dependent on the use of a specific asset(s) and the arrangement conveys a right to use the asset(s), even if that right is not explicitly specified in an arrangement.

The Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date at fair value of the leased property or, if lower, at the present value of the minimum lease payment.

Operating lease payments are recognised as an operating expense in the profit or loss on a straight-line basis over the lease term.

The Group as a lessor

Leases in which the Group does not transfer all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Rental income from investment property is recognised in the profit or loss on a straight line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

2.18 Government grants

Government grants are recognised where there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in their period in which they become receivable.

2.19 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity, in which case it is also dealt with in other comprehensive income or in equity, as appropriate.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recongised for all temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at each reporting date.

Value Added Tax

Revenue, expenses and assets are recognised net of Value Added Tax, except:
- where the Value Added Tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case Value Added Tax is recognised as part of the acquisition of the asset or as part of the expense item, as applicable;
- where receivables and payables that are stated with the amount of Value Added Tax included.

The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.20 Borrowing cost

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs which are incurred for the purpose of acquiring or contructing qualifying property, plant and equipment or investment property, are capitalised as part of its cost. 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 used. Capitalisation of borrowing costs is ceased once the asset is substantially complete 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 the initial net proceeds and redemption value in respect of interest-bearing borrowings.

2.21 Fair value measurements and valuation processes

The Group measures non-financial assets such as land and buildings and investment property at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure at fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Information about the valuation techniques and inputs used in determining the fair value of the equity at FVOCI, land and building and investment property is disclosed in notes 13, 16 and 17, respectively.

2.22 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

3. Critical accounting estimates and judgements

In preparing the financial statements, the Directors are required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the changes become known. The most significant judgement and estimates are as follows:

Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group includes the renewal period as part of the lease term for leases of assets with shorter non-cancellable period (i.e., three to five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of assets with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

Property lease classification – Group as intermediate lessor

The Group has entered into property leases on its right of use asset meeting the definition of investment property. Based on an evaluation of the terms and conditions of the arrangements, the Group has determined that it has the right to use the underlying asset for a period of time which is long term, and the sublease is not for all of the remaining term of the head lease. Then, the intermediate lessor, in effect has not transferred that right to another party and accounts for the contracts as operating leases. During the term of the sublease, the intermediate lessor recognises a depreciation charge for the right-of-use asset, interest on the lease liability and lease income from the sublease.

Fair value of investment property

The Group carries its investment property at fair value, with changes being recognised in profit or loss. This is based on market valuations performed by independent professional architect at least every two years. In a year when market valuations are not performed by the independent professional architect, an internal assessment of the fair value of investment property is performed to reflect market conditions at the year-end date.

Fair value of equity instruments designated at FVOCI

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using other valuation techniques including the net value asset method. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See note 35 for further disclosures.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forward can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Estimates and assumptions

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill recognised by the Group.

Provision for ECL on trade receivables and lease receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and lease receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Provision for ECL on other financial assets

The measurement of the Group's ECL on cash in banks, coontracts assets, and amounts due from joint ventures and other related undertakings is a function of the PD, LGD and the EAD. These financial assets are measured under Stage 1 of the impairment model, and therefore ECLs are calculated on 12-month basis.

Elements of the ECL model which are considered accounting judgments and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances should be measured on a liftetime ECL basis and the qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It is the Group's policy to regularly review its model in the context of actual loss experience and adjust when necessary.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

In the opinion of the management, except for the above, the accounting estimates, assumptions 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 significant in terms of the requirements of IAS 1 (revised) – 'Presentation of Financial Statements'.

4. Changes in Accounting policies and disclosures

4.1 Measurement of ECL on contract assets and other financial assets

The Group reassessed its ECL model with respect to contract assets and other financial assets. The Company had previously applied the simplified approach whereby a loss allowance based on lifetime ECLs was recognised. The Group had established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

On 1 January 2019, the Group elected to change the said approach as the Group believes that the general approach provides a better estimate of ECL on contracts assets and other financial assets. Therefore, the Group tracks changes in credit risk, and recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition.

The Group applied the general approach prospectively. While IAS 8 *Changes in Accounting Policies* requires changes in accounting policies to be applied retrospectively, the Group assessed that the effect of retrospective application of the general approach is immaterial.

4.2 New and amended standards and interpretations

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 ***Leases***

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

In accordance with the transitional provisions of IFRS 16, comparative figures have not been restated, thereby resulting in the following impact:

a. Comparative information for prior periods are not restated. The classification and measurement requirements previously applies, as well as disclosures required in accordance with IAS 17 are retained for the comparative periods.

b. The accounting policies for both the current period and the comparative periods, one applying IFRS 16 and one applying IAS 17, are disclosed in the notes to the consolidated financial statements.

c. As comparative information are not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with IAS 1 *Presentation of Financial Statements*.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	The Group	The Company
	€	€
Assets		
Right-of-use assets (note 24)	2,800,828	-
Property, plant and equipment (note 13)	(2,413,461)	-
Investment properties (note 17)	(2,200,000)	-
Lease receivables (included in Trade and other receivables) (note 24)	4,426,354	-
Deferred tax asset (note 25)	351,112	285,664
Prepayments (included in Trade and other receivables)	(64,736)	(2,336)
Total assets	2,900,097	283,328
Liabilities		
Lease liabilities (included in Interest bearing loans and borrowings) (note 24)	4,198,116	816,184
Deferred tax liability (note 25)	25,624	-
Deferred revenue (included in Trade and other payables)	(35,000)	-
Total liabilities	4,188,740	816,184
Total adjustment on equity:		
Retained earnings	(1,288,643)	(532,856)

The Group has lease contracts for various items of industrial buildings, offices and hotel. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right-of -use assets of €2,800,828 were recognised and presented separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of €2,413,461 and €2,200,000 that were reclassified from Property, plant and equipment and Investment properties, respectively.
- Lease receivables of €4,426,354 and Lease liabilities of €4,198,116 were recognised. The Group acts as a lessee and an intermediate lessor for some leased assets. The sublease covers the rest of the remaining term of the headlease and there is no difference in the amount charged to/by the Group as a lessee and intermediate lessor, respectively.
- Prepayments of €64,736 and deferred revenue of €35,000 related to previous operating leases were derecognised.
- Deferred tax assets and deferred tax liabilities increased by €351,112 and €25,624, respectively, due to deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings (decrease by €1,288,643).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2019

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	The Group	The Company
	€	€
Assets		
Operating lease commitments as at 31 December 2018	2,006,325	2,006,325
Weighted average incremental borrowing rate as at 1 January 2019	4.89%	4.89%
Discounted operating lease commitments as at 1 January 2019	816,184	816,184

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance, that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at FVOCI provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements as the Group does not have longterm interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

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

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Description	*Effective for annual periods beginning on or after*
Amendments to IFRS 3: Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
IFRS 17 Insurance Contracts	1 January 2020

5. Segment information

For management purposes, the Group is organised into business units based on its products and services and has two reportable segments, as follows:

Property Development and Letting	This segment carries works in the building industry, including construction works, plumbing and electrical and to operate as turnkey contractors. Also in this segment, the Group leases out offices and residential building to third parties. The Group owns two hotels namely the Mavina Holiday Complex and the Huli Hotel with an underlying Bistro Restaurant. Both hotels as well as the restaurant were leased out to thirds parties.
Manufacturing, Products and General Contracting Services	This segment includes the companies responsible for manufacturing and exports. This segment includes specialising in the manufacture of stone elements, arranging logistics, plant hire, deliveries, and supplies and subcontracting work. Also, coordination of orders for customers for products and services is done.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

5. Segment information (continued)

Inter-segment transactions, assets and liabilites are eliminated upon consolidation and reflected in the 'eliminations' column.

Year ended 31 December 2019	Property development	Manufacturing and general contracting services	Total segments	Eliminations	Consolidated
	€	€	€	€	€
External customers	3,256,226	19,138,316	22,394,542	-	22,394,542
Inter-segment	637,414	6,923,128	7,560,542	(7,560,542)	-
Total revenue	3,893,640	26,061,444	29,955,084	(7,560,542)	22,394,542
Income/(expenses)					
Finance and similar income	1,719,357	86,750	1,806,107	(1,472,567)	333,540
Finance cost	(2,650,335)	(1,515,340)	(4,165,675)	1,754,848	(2,410,827)
Depreciation and amortisation	(988)	(812,795)	(813,783)	-	(813,783)
Share in profit of joint ventures	1,391,458	-	1,391,458	-	1,391,458
Income tax expense	(1,586,159)	(305,809)	(1,891,968)	438,733	(1,453,235)
Segment profit before tax	**5,397,180**	**563,547**	**5,960,727**	**(1,622,019)**	**4,338,708**
Total assets	**117,002,083**	**45,706,436**	**162,708,519**	**(45,083,470)**	**117,625,049**
Total liabilities	**69,821,555**	**41,494,080**	**111,315,635**	**(38,836,180)**	**72,479,455**
Other disclosures					
Interest in joint ventures	165,720	-	165,720	1,710,780	1,876,500
Capital expenditure	-	1,316,190	1,316,190	-	1,316,190

5. Segment information (continued)

Year ended 31 December 2018	Property development	Manufacturing and general contracting services	Total segments	Eliminations	Consolidated
	€	€	€	€	€
External customers	7,283,098	15,280,080	22,563,178	-	22,563,178
Inter-segment	501,581	6,708,359	7,209,940	(7,209,940)	-
Total revenue	7,784,679	21,988,439	29,773,118	(7,209,940)	22,563,178
Income/(expenses)					
Finance and similar income	1,078,209	7	1,078,216	(1,077,044)	1,172
Finance cost	(2,489,509)	(794,108)	(3,283,617)	1,077,044	(2,206,573)
Depreciation and amortisation	(1,081)	(762,681)	(763,762)	-	(763,762)
Share in net profit of joint ventures	22,791	-	22,791	-	22,791
Income tax expense	(912,799)	(88,650)	(1,001,449)	(380,632)	(1,382,081)
Segment profit before tax	**4,093,519**	**797,463**	**4,890,982**	**82,058**	**4,973,040**
Total assets	**109,412,364**	**36,071,137**	**145,483,501**	**(33,477,547)**	**112,005,954**
Total liabilities	**63,748,689**	**31,977,862**	**95,726,551**	**(27,234,100)**	**68,492,451**
Other disclosures					
Interest in joint ventures	165,720	-	165,720	1,567,276	1,732,996
Capital expenditure	-	1,661,231	1,661,231	13,647	1,674,878

5. Segment information (continued)

Capital expenditure consists of additions of property, plant and equipment, and investment properties.

6. Revenue from contracts with customers

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the year ended 31 December 2019		
	Manufacturing and general contracting services	Property development	Total
	€	€	€
Type of goods or service			
Sale of stones, marbles, granites, patterned tiles, terrazzo and precast related products	592,218	-	592,218
Sale of electricity generated from PV panels	300,641	-	300,641
Rendering of general construction and other services	18,245,456	-	18,245,456
Sale of properties	-	956,000	956,000
	19,138,316	956,000	20,094,316
Geographical markets			
Local	19,034,834	956,000	19,990,834
Foreign	103,482	-	103,482
	19,138,316	956,000	20,094,316
Timing of revenue recognition			
Goods transferred at a point in time	892,859	956,000	1,848,859
Services transferred over time	18,245,456	-	18,245,456
	19,138,316	956,000	20,094,316

6. Revenue from contracts with customers (*continued*)

	For the year ended 31 December 2018		
	Manufacturing and general contracting services	Property development	Total
	€	€	€
Type of goods or service			
Sale of stones, marbles, granites, patterned tiles, terrazzo and precast related products	163,902	-	163,902
Sale of electricity generated from PV panels	279,971	-	279,971
Rendering of general construction and other services	15,464,612	-	15,464,612
Sale of properties	-	3,992,888	3,992,888
	15,908,485	3,992,888	19,901,373
Geographical markets			
Local	15,744,583	3,992,888	19,737,471
Foreign	163,902	-	163,902
	15,908,485	3,992,888	19,901,373
Timing of revenue recognition			
Goods transferred at a point in time	14,572,165	3,992,888	18,565,053
Services transferred over time	1,336,320	-	1,336,320
	15,908,485	3,992,888	19,901,373

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information (see note 5):

	For the years ended 31 December			
	2019	2019	2018	2018
	Manufacturing and general contracting services	Property development	Manufacturing and general contracting services	Property development
	€	€	€	€
Revenue				
External customer	19,138,316	956,000	15,908,485	3,992,888
Inter-segment	6,923,128	-	6,708,359	-
	26,061,444	956,000	22,616,844	3,992,888
Inter-segment adjustments and eliminations	(6,923,128)	-	(6,708,359)	-
Total revenue from contracts with customers	19,138,316	956,000	15,908,485	3,992,888

6. Revenue from contracts with customers (*continued*)

Contract balances

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Trade receivables - net of ECL (note 21)	7,903,081	10,812,002	-	-
Contract assets - net of ECL (note 22)	2,886,456	2,615,594	-	374,424
Contract liabilities (note 23)	95,000	95,000	-	-

The subsequent collection of trade receivables outstanding in 2018 resulted to the net decrease. In 2019, €11,724 (2018: €39,585) was recognised as provision expense for ECL on trade receivables.

Contract assets relate to revenue earned from ongoing construction services and finishing works. As such, the balances of this account vary and depend on the number of ongoing construction services at the end of the year. In 2019, €40,675 was recognised as provision expense for ECL on contract assets (2018: allowance for ECL decreased by €1,819) .

Contract liabilities include short term advances received under construction contracts. There was no movement in the balance in 2019 (2018: nil) since the related performance obligations of which have not yet been satisfied.

Performance obligations

Information about the Group's performance obligations are summarised below:

Stones, marbles, granites, patterned tiles, terrazzo and precast related products

The performance obligation is satisfied upon delivery of stones, marbles, granites, patterned tiles, terrazzo and precast related products; and payment is generally due within 30 to 90 days from delivery.

The performance obligation to deliver stones, marbles, granites, patterned tiles, terrazzo and precast related products with a manufacturing lead time of one month has only one payment option. The customer pays the transaction price equal to the cash selling price within 30 to days upon delivery of the goods. This results to no significant financing component for those contracts.

The Group assesses that there are no other promises in the contract of sale of stones, marbles, granites, patterned tiles, terrazzo and precast related products that are separate performance obligations to which a portion of the transaction price needs to be allocated, such as warranties and customer loyalty points. The transaction price, which is equal to the selling price indicated in the sales invoices issued, is therefore allocated to only one performance obligation. The Group assesses that there exist no variable considerations, noncash consideration and consideration payable to the customer relating to the sale of stones, marbles, granites, patterned tiles, terrazzo and precast related products.

Electricity generated from PV panels

The performance obligation is satisfied upon exportation of the generated electricity to the solar grid.

In the case where the amount due to the Group from the electricity exported by the PV system exceeds the invoiced amount for the consumption of electricity for a particular billing period that is due to the customer, such amount will be carried forward in the form of a credit note. When two consecutive scheduled bills based on actual meter readings are shown to be in credit, Enemalta plc is obliged to pay the Group the credit within 60 days of the date of the second scheduled bill.

The Group assesses that there are no other promises in the contract of sale of electricity that are separate performance obligations to which a portion of the transaction price needs to be allocated. The transaction price, which is equal to the selling price indicated in the sales invoices issued, is therefore allocated to only one performance obligation. The Group assesses that there exist no variable considerations, and noncash consideration payable to the customer relating to the sale of electricity. The consideration payable to a customer who also supplies electricity to the Group for consumption is accounted for as a reduction of the transaction price unless the payment to the customer is in exchange for a distint good or service that the customer transfers to the Group.

General construction and other services

The performance obligation is satisfied over-time and payment is generally due upon completion of projects and acceptance of the customer. In some contracts, short-term advances are required before the construction is provided.

The Group uses an input method in measuring progress of the services since there is a direct relationship between the Group's effort (i.e., based on the costs incurred to date) and the transfer of service to the customer. The input method is implemented by first estimating the inputs required such as labor and other overheads, etc. to complete the service. The Group recognises revenue on the basis of the efforts expended to date relative to the total expected inputs to complete the service. The normal credit term is 30 to 90 days upon issuance of invoice.

Further, the Group provides services that are either sold separately or bundled together with the sale of tiles, marble stones and granites to a customer. Contracts for bundled sales of tiles, marble stones, granites and services are comprised of two performance obligations because the promise to transfer tiles, marbles, granites and provide services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transcation price based on the relative stand-alone selling prices of tiles, marbles, granites and services.

Properties held-for-sale

The performance obligation is satisfied at the point in time when control of the asset is transferred to the customer, generally upon signing of deed of sale where the customer obtains legal title to the property. The normal credit term is 30 to 90 days from date of deed.

The Group assesses that there are no other promises in the contract of sale of properties held-for-sale that are separate performance obligations to which a portion of the transaction price needs to be allocated. The transaction price, which is equal to the selling price indicated in the deed of sale signed by both parties, is therefore allocated to only one performance obligation. The Group assesses that there exist no variable considerations, noncash consideration and consideration payable to the customer relating to the sale of properties held-for-sale.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Within one year	95,000	-	-	-
More than one year	-	95,000	-	-
	95,000	95,000	-	-

The remaining performance obligations are expected to be recognised within one year.

Hal Mann Vella Group P.L.C.

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7. Expenses by nature

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Cost of sales				
Depreciation (note 13)	327,449	353,903	-	-
Direct wages (note 11)	3,298,431	2,535,686	-	-
Social security contributions (note 11)	245,131	180,366	-	-
Cost of property sold (note 20)	585,629	3,701,802	-	-
Cost of rent (note 24)	10,909	193,810	-	-
Onsite expenditure	133,316	276,967	-	-
Cost of goods sold (note 19)	9,444,566	6,868,611	-	-
Other direct costs	245,194	224,066	-	-
	14,290,625	14,335,211	-	-
Distribution and selling costs				
Depreciation (note 13)	54,330	56,166	-	-
Advertising and promotions	151,126	193,742	-	-
Other distribution costs	9,680	10,417	-	-
	215,136	260,325	-	-
Administrative expenses				
Depreciation (notes 13 and 24)	539,837	353,693	-	-
Directors' remuneration (note 11)	139,851	139,359	13,705	13,532
Office salaries (note 11)	679,526	1,200,537	-	-
Social security contributions and maternity (note 11)	65,464	99,592	55	55
Auditors' remuneration	35,772	35,311	3,000	3,000
Provision for ECL (notes 16, 21, 22 and 34)	43,320	43,100	108,789	50,471
Legal and professional fees	458,216	285,590	229,496	86,009
Repairs and maintenance	414,321	257,833	-	2,146
Rent (note 24)	13,182	105,001	-	-
Utilities	94,189	144,906	11,483	9,538
Information and communication technology fees	340,045	437,433	-	-
Insurance	145,604	154,056	-	3,529
Motor vehicle expenses	109,419	89,406	-	-
Other administrative expenses	527,152	482,340	45,583	35,496
	3,605,898	3,828,157	412,111	203,776

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2019 and 2018 relate to the following:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Annual statutory audit	35,772	35,311	3,000	3,000

Other non-audit fees

Fees charged by the auditor for non-audit services rendered are included in Legal and Professional fees, and are the following:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Tax advisory and compliance	1,600	1,600	200	200
Other non-assurance services	15,240	15,240	15,240	15,240
	16,840	16,840	15,440	15,440

8. Other operating income

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Other income from construction works	97,211	29,969	9,488	9,436
Income from government grants	16,578	14,200	-	-
Exchange fluctuation	18,384	18,340	-	-
Income from insurance claims received	3,518	8,525	-	-
Income tax refund	-	1,464	-	-
Consideration for cancellation of promise of sale	-	1,500	-	-
Interest received on tax refund	-	354	-	-
Overprovision of expenses in the prior years	54,900	-	-	-
Others	16,168	29,533	-	-
	206,759	103,885	9,488	9,436

9. Finance and similar income

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Interest from banks	701	1,172	-	3
Interest on finance lease receivables (note 24)	332,839	-	-	-
Interest from related and subsidiary undertakings	-	-	1,412,266	1,077,044
	333,540	1,172	1,412,266	1,077,047

10. Finance costs

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Bank overdraft interest	25,794	22,423	71	43
Interest on bonds and amortisation of bond issue cost	1,560,528	1,557,428	1,560,528	1,557,428
Bank loan interest	496,587	547,602	110,891	111,212
Interest on finance lease liability (note 24)	326,800	71,138	39,940	-
Other interest	1,118	7,982	-	-
	2,410,827	2,206,573	1,711,430	1,668,683

11. Staff costs and employee information

Staff costs for the year comprised the following:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Wages and salaries (including Directors' remuneration) (note 7)	4,117,938	3,875,582	13,705	13,532
Social security contributions (note 7)	310,465	279,958	55	55
	4,428,403	4,155,540	13,760	13,587

The average number of persons (including Directors) employed by the company during the year was as follows:

	The Group		The Company	
	2019	2018	2019	2018
	No.	No.	No.	No.
Operational	118	111	-	-
Administration	67	61	2	2
Distribution	11	10	-	-
	196	182	2	2

12. Income tax

Tax expense on profit on ordinary activities

Provision for income tax has been made at the rate of 35% on the chargeable income for the year except for investment income which is charged at the rates of 15% and 35% and for proceeds from sale of property taxable at 8% and 5% final withholding tax.

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
Income tax expense:				
Tax at source	-	-	(673,077)	-
Current tax charge	(355,643)	(333,775)	-	-
Final withholding tax at 15%	(24,822)	(25,162)	-	-
Final withholding tax at 10%	-	(311,989)	-	-
Final withholding tax at 8%	(100,544)	(92,042)	-	-
Final withholding tax at 5%	(45,000)	(31,000)	-	-
Underprovision of tax in prior years	(4,003)	(21,820)	-	(21,820)
Total current tax expense	(530,012)	(815,788)	(673,077)	(21,820)
Deferred taxation (note 25):				
Charge for the year	(923,223)	(566,293)	(349,433)	(50,532)
Income tax expense for the year	(1,453,235)	(1,382,081)	(1,022,510)	(72,352)

Tax reconciliation

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
Profit before tax	4,338,707	4,973,040	2,675,096	167,792
Taxation charge thereon	1,518,548	1,740,564	936,284	58,727
Tax effect of:				
- excess of carrying amount of property, plant and equipment over tax base	140,094	(46,661)	-	-
- expenses not allowed for tax purposes	1,362,204	856,781	759,803	655,360
- income not allowed for tax purposes	(626,614)	(7,977)	-	-
- income taxed at different rates	(789,801)	(304,131)	(634,252)	(425,264)
- unabsorbed capital allowances	131,547	27,193	-	-
- investment tax credit	-	(217,982)	-	-
- unabsorbed tax losses	(333,696)	(220,296)	(220,940)	(191,206)
- change in the fair value of	(271,498)	(884,552)	(167,818)	(97,617)
- effect of adoption of IFRS 16	(30,985)	-	-	-
- deferred tax charge	349,433	439,142	349,433	50,532
- under provision of prior year tax charge	4,003	-	-	21,820
Income tax expense for the year	1,453,235	1,382,081	1,022,510	72,352

12. Income tax (*continued*)

Current taxation

Taxation due/recoverable is made up as follows:

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
As at 1 January	382,305	75,228	(241)	(21,820)
Underprovision of tax in prior years	4,003	21,820	-	21,820
Income tax expense	526,009	793,968	673,077	-
	912,317	891,016	672,836	-
Payments:				
Provisional tax	-	(11,328)	-	-
Settlement tax	(290,131)	(27,429)	-	-
Final withholding tax	(170,366)	(460,193)	-	-
Tax at source	(3,920)	(9,761)	(673,077)	(241)
	(464,417)	(508,711)	(673,077)	(241)
As at 31 December	447,900	382,305	(241)	(241)

13. Property, plant and equipment

The Group

Fair value

Freehold land and buildings were last revalued on 31 December 2017. An independent valuation of the freehold land and buildings was performed by independent professional architects. The valuation for this commercial building was determined by the market comparison method. It has been categorised to fall within Level 2 of the fair value hierarchy. There were no transfers between levels during the year. The different levels in fair value hierarchy have been defined in note 35.

While the fair value of the freehold land and buildings was not determined as at 31 December 2019, the Group believes that there were no conditions that would significantly increase or decrease the fair value of the assets determined on 31 December 2017.

If these assets were included in the financial statements at cost, their carrying amounts would have been €4,948,562 (2018: €4,960,397).

Owner-occupied property is disclosed in property, plant and equipment as leasehold industrial buildings.

Transfer of property, plant and equipment

In 2019, industrial buildings with carrying amount of €2,413,461 were reclassified as effect of adoption of IFRS 16 (note 4).

13. Property, plant and equipment (*continued*)

	The Group								
	Freehold land and buildings	**Plant and machinery**	**Tools**	**Computer equipment and software**	**Office equipment**	**Air-conditioning equipment**	**Tele-communications**	**Furniture and fittings**	**Motor vehicles**
	€	**€**	**€**	**€**	**€**	**€**	**€**	**€**	**€**
Cost / Valuation									
As at 1 January 2018	23,303,092	4,742,405	198,571	580,538	205,706	26,445	4,686	409,792	621,869
Transfer to investment property (note 17)	-	-	-	-	-	-	-	-	-
Additions		492,741	38,029	7,683	15,258	3,704	-	5,318	107,305
As at 31 December 2018	23,303,092	5,235,146	236,600	588,221	220,964	30,149	4,686	415,110	729,174
Additions	-	196,559	-	26,480	6,960	5,208	-	298,860	39,950
Transfers (note 4)	-	-	-	-	-	-	-	-	-
As at 31 December 2019	23,303,092	5,431,705	236,600	614,701	227,924	35,357	4,686	713,970	769,124
Depreciation									
As at 1 January 2018	19,422	1,700,455	154,095	504,506	120,707	19,602	4,271	253,710	441,279
Charge for the year	-	312,681	17,820	20,119	23,552	2,277	-	28,558	50,621
As at 31 December 2018	19,422	2,013,136	171,915	524,625	144,259	21,879	4,271	282,268	491,900
Charge for the year	-	325,241	2,208	18,199	19,571	2,614	-	49,698	48,776
Transfers (note 4)	-	-	-	-	-	-	-	-	-
As at 31 December 2019	19,422	2,338,377	174,123	542,824	163,830	24,493	4,271	331,966	540,676
Net book amount									
As at 31 December 2018	23,283,670	3,222,010	64,685	63,596	76,705	8,270	415	132,842	237,274
As at 31 December 2019	23,283,670	3,093,328	62,477	71,877	64,094	10,864	415	382,004	228,448

13. Property, plant and equipment (*continued*)

	The Group						
	Leasehold industrial buildings	Improvements to premises	Exhibition stand and site offices	Renewable energy	Electrical installations and fittings	Exhibits	Total
	€	€	€	€	€	€	€
Cost / Valuation							
As at 1 January 2018	2,500,000	2,167,448	65,852	1,728,276	32,769	357,406	36,944,855
Transfer to investment property (note 17)	-	(13,647)	-	-	-	-	(13,647)
Additions	-	1,004,454	-	386	-	-	1,674,878
As at 31 December 2018	2,500,000	3,158,255	65,852	1,728,662	32,769	357,406	38,606,086
Additions	-	642,184	52,431	47,558	-	-	1,316,190
Transfers (note 4)	(2,500,000)	-	-	-	-	-	(2,500,000)
As at 31 December 2019	-	3,800,439	118,283	1,776,220	32,769	357,406	37,422,276
Depreciation							
As at 1 January 2018	86,539	515,428	53,475	267,573	32,769	280,971	4,454,802
Charge for the year	-	164,652	-	128,195	-	15,287	763,762
As at 31 December 2018	86,539	680,080	53,475	395,768	32,769	296,258	5,218,564
Charge for the year	-	200,877	17,893	128,706	-	-	813,783
Transfers (note 4)	(86,539)	-	-	-	-	-	(86,539)
As at 31 December 2019	-	880,957	71,368	524,474	32,769	296,258	5,945,808
Net book amount							
As at 31 December 2018	2,413,461	2,478,175	12,377	1,332,894	-	61,148	33,387,522
As at 31 December 2019	-	2,919,482	46,915	1,251,746	-	61,148	31,476,468

14. Investment in subsidiaries

The Company

	2019 €	2018 €
Cost		
As at 1 January	8,055,141	8,055,141
Additions	200,002	-
As at 31 December	8,255,143	8,055,141

As at 31 December 2019, the Company held the following equity interests:

Undertaking / Registered Office	Number, class and nominal value of shares held	Percentage of issued shares held 2019 (2018)
Mavina Holiday Complex Ltd The Factory Mosta Road Lija LJA 9016	2,998 Ordinary shares of €2.329373 each fully paid up	99.93%

The subsidiary was engaged in the operation of two hotels.

Undertaking / Registered Office	Number, class and nominal value of shares held	Percentage of issued shares held 2019 (2018)
Sudvel Limited Hal Mann Vella, The Factory, Mosta Road, Lija LJA 9016	214,650 Ordinary shares of €2.329373 each fully paid up	100%

The subsidiary is principally engaged in the finance and holding of immovable property. The company also acts as a guarantor to the bond issued by Hal Mann Vella Group P.L.C..

Undertaking / Registered Office	Number, class and nominal value of shares held	Percentage of issued shares held 2019 (2018)
Hal Mann International Limited Hal Mann, The Factory Mosta Road, Lija, LJA 9016	5,000,000 Ordinary shares of €1 each fully paid up	100%

The subsidiary is engaged in manufacturing and assembling marble and stone related products and the purchase of materials required for the manufacturing activity of the company.

Undertaking / Registered Office	Number, class and nominal value of shares held	Percentage of issued shares held 2019 (2018)
Hal Mann Properties Ltd Mosta Road, Lija, LJA 9016	101,000 Ordinary shares of €2.329373 each fully paid up	99.99%

The subsidiary is engaged in dealing in immovable property.

Undertaking / Registered Office	Number, class and nominal value of shares held	Percentage of issued shares held 2019 (2018)
Halmann Solar Limited The Factory, Mosta Road, Lija LJA 9016	150,000 Ordinary shares of €1 each fully paid up	100%

The subsidiary is engaged in the supply, installation, operation and maintenance of photovoltaic systems in Malta.

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14. Investment in subsidiaries (*continued*)

Hal Mann (Letting) Ltd Hal Mann, The Factory, Mosta Road, Lija, LJA 9016	300,000 Ordinary shares of €1 each fully paid up	100%

The subsidiary is engaged in letting of movable and immovable property. In 2019, the Company purchased additional shares from the subsidiary amounting to €200,002 in consideration for the 200,000 increase in the latter's issued capital. The purchase did not result to change in the Company's interest over the subsidiary.

Hal Mann Vella Limited Hal Mann, The Factory, Mosta Road, Lija, LJA 9016	2,000,000 Ordinary shares of €1 each, fully paid up	100%

The subsidiary is engaged in transportation on land and delivery of all matters relating to the construction industry and retail of terrazzo, marble, granite, tiles, parquet and turnkey projects and related activities.

15. Investment in joint ventures

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
Cost				
As at 1 January	1,732,996	1,714,714	165,720	165,720
Share in profit	1,391,457	22,791	-	-
Share in other comprehensive income/(loss)	2,046	(4,509)	-	-
Dividends received	(1,250,000)	-	-	-
As at 31 December	1,876,499	1,732,996	165,720	165,720

As at 31 December 2019, the Company held the following equity interests:

Undertaking / Registered Office	Number, class and nominal value of shares held	Percentage of issued shares held 2018 (2018)
Madliena Ridge Limited 36/38, Triq l-Ispiera, Swieqi	3,000 Ordinary shares of €50 each fully paid	50%

The joint venture is engaged in dealing in immovable properties.

15. Investment in joint ventures (*continued*)

Hal Mann Holdings Ltd Hal Mann Showroom, Naxxar Road, Lija IKL 9020	600 'Y' Ordinary shares of €2.329373 each 20% paid up	50%

The joint venture is engaged in subscribing for, purchase or otherwise acquire and hold shares or other interests in, or securities of any other company. It was also involved in leasing or renting buildings and any other works in the building industry. The joint venture has been non-trading after the demerger of the Group.

HMK International Ltd, Mosta Road, Lija LJA 9016	15,000 'B' Ordinary shares of €1 each fully paid	50%

The joint venture is mainly engaged in the importation, supply, selling and/or assembly of prefabricated structures and material relating to prefabricated structures and supply of raised flooring. The joint venture also trades in building materials and acts as a turnkey contractor.

Zokrija Limited Hal Mann, The Factory, Mosta Road, Mosta Road,	600 Ordinary shares, of €1 each, fully paid up	50%

The joint venture has been principally engaged in purchasing and selling, developing and improving land and building for investment purposes or otherwise, and to charge and grant rights and interests of any kind in or over such land or building or any part thereof.

Summarised financial information of the joint ventures, based on their latest IFRS audited financial statements, and reconciliation with the carrying amount of the investments in the consolidated financial statements are set out below. The amounts presented are extracted from the most updated and available financial statements of the joint ventures as at and for the year ended:

Undertaking	**Accounting period**
Madliena Ridge Limited	31 December 2016
Hal Mann Holdings Ltd	31 December 2016
HMK International Ltd	31 December 2019
Zokrija Limited	31 December 2019

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15. Investment in joint ventures (*continued*)

The aggregate capital and reserves as at the end of the under mentioned accounting period and the results for the said period of the Company were as follows:

	Madliena Ridge Limited		Hal Mann Holdings Ltd		HMK International Ltd		Zokrija Limited		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Percentage owenrship interest	50%	50%	50%	50%	50%	50%	50.00%	50.00%		
Non-current assets	-	-	364,915	396,915	253,575	253,122	-	-	618,490	650,037
Current asset	1,107,216	1,107,216	2,255,538	2,140,849	1,387,897	893,731	203,799	2,226,438	4,954,450	6,368,234
Non-current liabilities	-	-	-	(78,912)	-	-	-	-	-	(78,912)
Current liabilities	(5,008)	(5,008)	(95,526)	(2,258)	(1,129,596)	(659,663)	(1,456)	(2,228,684)	(1,231,586)	(2,895,613)
Net Asset (100%)	1,102,208	1,102,208	2,524,927	2,456,594	511,876	487,190	202,343	(2,246)	4,341,354	4,043,746
Group's share on net asset	551,104	551,104	1,262,464	1,228,297	255,938	243,595	101,171	(1,124)	2,170,677	2,021,872
Adjustments	-	-	(296,573)	(291,269)	2,393	2,393	-	-	(294,180)	(288,876)
Group's carrying amount of the investment	551,104	551,104	965,891	937,028	258,331	245,988	101,171	(1,124)	1,876,497	1,732,996
Net assets include (100%):										
Cash and cash equivalent	157,485	157,485	131,760	31,184	562,458	403,311	203,799	355,320	1,055,502	947,300
Non-current financial assets	-	-	113,875	113,875	-	-	-	-	113,875	113,875
Dividend declaration	-	-	-	-	-	-	2,500,000	-	2,500,000	-
Dividend received by the Group	-	-	-	-	-	-	1,250,000	-	1,250,000	-
Revenue and other income	-	-	91,854	-	808,059	569,428	5,000,000	-	5,899,913	569,428
Cost of sale	-	-	-	-	(695,295)	(432,739)	(1,843,923)	-	(2,539,218)	(432,739)
Depreciation	-	-	-	-	(465)	(620)	-	-	(465)	(620)
Interest expense	-	-	-	-	(18)	(3)	-	-	(18)	(3)
Other expense	-	-	(1,980)	-	(83,514)	(68,973)	(1,488)	(1,135)	(86,982)	(70,108)
Profit before tax	-	-	89,874	-	28,767	67,093	3,154,589	(1,135)	3,273,230	65,958
Income tax expense	-	-	(32,149)	-	(8,173)	(20,375)	(450,000)	-	(490,322)	(20,375)
Other comprehensive income (OCI)	-	-	-	-	4,092	(9,017)	-	-	4,092	(9,017)
Total comprehensive income (100%)	-	-	57,725	-	24,686	37,701	2,704,589	(1,135)	2,787,000	36,566
Group's share of profit for the year	-	-	28,864	-	10,297	23,359	1,352,296	(568)	1,391,457	22,791
Group's share of OCI	-	-	-	-	2,046	(4,509)	-	-	2,046	(4,509)
Group's share of profit for the year	-	-	28,864	-	12,343	18,850	1,352,296	(568)	1,393,503	18,282

16. Financial assets and financial liabilities

16.1 Financial assets

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Debt instruments at amortised cost:				
Bank term deposit	91,000	91,000	-	-
Trade receivables - net of ECL (note 21)	7,903,081	10,395,342	78,322	36,407
Amounts owed by subsidiary undertakings - net of ECL (note 21)	-	-	2,702,488	1,646,469
Amounts owed by joint ventures - net of ECL (note 21)	17,568	18,568	-	-
Amounts owed by other related undertakings - net of ECL (note 21)	323,800	385,097	187,943	263,759
Loans to subsidiary undertakings - net	-	-	19,034,025	18,794,315
Loans to joint ventures - net of ECL	249,787	470,344	249,787	470,344
Loans to other related undertakings - net of ECL	-	6,977	-	6,977
Total debt instuments at amortised cost	8,585,236	11,367,328	22,252,565	21,218,271
Equity instruments designated at FVOCI				
Listed equity investments	-	338,685	-	338,685
Non-listed equity investments	583,449	497,336	583,449	497,336
Total equity instruments at FVOCI	583,449	836,021	583,449	836,021
Total financial assets	9,168,685	12,203,349	22,836,014	22,054,292
Total current	8,335,449	10,890,007	2,968,753	1,946,635
Total non-current	833,236	1,313,342	19,867,261	20,107,657

Current portion of debt instruments at amortised cost include bank term deposit, trade receivables and amounts owed by subsidiary undertakings, joint ventures and other related undertakings which are interest free, unsecured and payable on demand.

Loans to subsidiary undertakings classified as debt instruments at amortised cost bear interest of 5.3% per annum, unsecured and have no fixed repayment date.

Loans to joint ventures and other related undertakings classified as debt instruments at amortised cost are interest free, unsecured and have no fixed repayment date. Allowance for ECL on loans to joint ventures amounted to €677 (2018: €7,369). Decrease in the allowance of €6,692 forms part of the total provision for ECL reported as administrative expenses in the statement of profit or loss and other comprehensive income.

In 2019, the Group incurred a loss on loan to joint venture of €77,195 being the residual amount determined not to be recoverable after final settlement. The loss was calculated from the excess of loan to joint venture amounting to €227,712 over the proceeds from joint venture amounting to €150,517.

Equity instruments designated at FVOCI consist of investments in shares of a listed and non-listed companies, the carrying amounts of which are assessed to be reasonable approximations of their fair values.

In 2019, the Group sold its equity interest in Medirect Bank (Malta) P.L.C. as this investment no longer coincides with the Group's investment strategy. The fair value on the date of sale is €328,575 and the accumulated gain recognised in OCI of €111,715 was transferred to retained earnings.

16. Financial assets and financial liabilities (*continued*)

16.2 Financial liabilities: Loans and borrowings

	Interest rate	Maturity	The Group 2019	The Group 2018	The Company 2019	The Company 2018
Current loans and borrowings			€	€	€	€
Bank overdrafts (note 34)	2.35%-9.25%	on demand	526,579	762,071	8,649	134,411
Bank loans	2.5%-6%	2020-2028	1,986,292	1,122,267	-	-
Amounts due to subsidiary undertakings	no interest	on demand	-	-	524,245	460,752
Amounts due to joint ventures	no interest	on demand	1,573,918	1,367,370	1,407,804	1,282,923
Amount due to other related undertakings	no interest	on demand	21,484	24,485	-	-
Shareholders' loans	no interest	on demand	1,673,295	864,614	864,614	864,614
Finance lease liability (note 24)	4.41%-4.89%	2080	5,039,119	38,462	29,869	-
			10,820,687	4,179,269	2,835,181	2,742,700
Non-current loans and borrowings						
300,000 (€100 face value) secured bonds 2014 – 2024	5.27%	2024	29,658,101	29,597,573	29,658,101	29,597,573
Bank loans	2.5%-6%	2020-2028	8,860,998	9,211,333	-	-
Shareholders' loan	5%	indefinite	2,117,816	2,926,497	2,117,816	2,117,816
Loans due to other parties	5%	indefinite	100,000	100,000	100,000	100,000
Finance lease liability (note 24)	4.89%	2080	3,488,652	2,336,538	796,386	-
			44,225,567	44,171,941	32,672,303	31,815,389
Other Financial Liabilities at amortised cost, other than loans and borrowings						
Trade and other payables (note 23)			12,941,391	13,962,621	1,430,195	1,226,407
Total current (note 23)			12,915,194	13,919,846	1,430,195	1,226,407
Total non-current (note 23)			26,197	42,775	-	-

16. Financial assets and financial liabilities (*continued*)

16.2 Financial liabilities: Loans and borrowings (continued)

The Company

The bank overdrafts bear interest rate of 2.35% (2018: 2.35%) per annum and is payable on demand.

The amounts owed to subsidiary undertakings and joint ventures are unsecured, interest free and have no fixed repayment date.

The shareholders' loans amounting to €2,117,816 (2018: €2,117,816) and loans from other parties of €100,000 (2018: €100,000) bear interest at 5%, are unsecured and have no fixed repayment date. The rest of the shareholders' loans amounting to €864,614 (2018: €864,614) are unsecured, interest free and have no fixed repayment date.

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

	2019	2018
	€	€
Face value of the secured bonds	30,000,000	30,000,000
Unamortised bond issue cost	(341,899)	(402,427)
Amortised cost	29,658,101	29,597,573

By virtue of the prospectus dated 6 October 2014, the Company issued 300,000 secured bonds with a face value of €100 each. The secured bonds are redeemable at par (€100 for each bond) and are due for redemption on 6 November 2024. The bonds are secured by a first-ranking special hypothec over the Company's property, which comprises the Hal Mann factory, showroom and adjacent land and by property owned by a subsidiary company (notes 13 and 17), pursuant to and subject to the terms and conditions in the prospectus.

The bond bear interest rate of 5.27% per annum on the nominal value payable annually in arrears every 6th of November.

The secured bonds have been admitted on the Official List of the Malta Stock Exchange on 11 November 2014. The quoted market price as at 31 December 2019 for the secured bonds was €107.95 (2018: €109), which in the opinion of the Directors fairly represents the fair value of these financial liabilities and which is considered to be a Level 1 valuation within the fair value hierarchy.

The Group

The bank overdraft and bank loans bear interest ranging between 2.35% to 9.25% per annum (2018: 2.35% to 7.7%). These facilities are secured by a general hypothec over the Group's present and future assets, special hypothecs and guarantees over the Group's immovable properties and by joint and several personal guarantees, by pledge over the Group's receivables and over insurance policies in the name of the subsidiary covering the equipment and product performance and pledges given by the Directors and their spouses.

The bank overdrafts are repayable on demand. Information about the contractual terms of the Group's loans including interest are disclosed in note 35.

The amounts due to joint venture and other related undertakings are unsecured, interest-free and payable on demand.

16. Financial assets and financial liabilities (*continued*)

16.2 Financial liabilities: Loans and borrowings (continued)

Shareholders' loans of €2,117,816 (2018: €2,926,497) and loans due to other parties of €100,000 (2018: €100,000) bear interest at 5%, unsecured and have no fixed repayment date. The remaining portion of shareholders' loans of €1,673,295 (2018: €864,614) are interest free, unsecured and payable on demand.

The interest rate exposures of borrowings are as follows:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Total borrowings:				
At fixed rates	40,579,932	35,761,141	32,710,821	31,949,800
Effective interest rates:				
300,000 (€100 face value) secured bonds 2014 – 2024	5.27%	5.27%	5.27%	5.27%
Other loan (subrogated) and shareholders' loans	5%	5%	5%	5%
Lease liability	4.41%-4.89%	5%	4.89%	-

This note provides information about the Company's borrowings. For more information about the Company's exposure to interest rate and liquidity risk, see note 35.

17. Investment property

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Valuation				
As at 1 January	46,689,617	44,442,152	29,334,211	29,052,359
Additions	1,340,246	525,532	124,021	2,945
Change in fair value	479,480	2,821,933	479,480	278,907
Reclassification as effect of adoption of IFRS 16 (note 4)	(2,200,000)	-	-	-
Disposals	(1,305,000)	(1,100,000)	-	-
As at 31 December	45,004,343	46,689,617	29,937,712	29,334,211
Rental income derived from investment properties	2,300,226	2,661,805	1,001,111	671,082

Disposal of investment properties

In 2019, the Group sold a property with carrying amount of €1,305,000 (2018: €1,100,000) for a total consideration of €1,445,000 (2018: €1,187,050). The gains on disposals (net of direct selling costs) amounting to €82,200 (2018: €39,568) were recognised as part of other operating income in the statement of profit or loss and other comprehensive income.

17. Investment property (*continued*)

Fair value

Market valuations are performed by independent professional architects every two years or earlier whenever their fair values differ materially from their carrying amounts. In the year when a market valuation is not performed, an assessment of the fair value is performed to reflect market conditions at the year-end date.

An independent valuation of the investment properties was performed by independent external valuers having experience in the location and type of property being valued to determine the fair value as at 31 December 2019. The fair value movement were credited to profit or loss and subsequently transferred to other reserves under equity. As at 31 December 2019, management also assessed whether there are any significant changes to the significant inputs of the valuation.

The investment properties have been categorised to fall within levels 2 and 3 of the fair value hierarchy. The different levels in the fair value hierarchy have been defined in note 35. The Group policy is to recognise transfers into and out of fair value hierarchy levels as of date of the event of change in circumstances that caused the transfer. There were transfers between levels during the year, some reclassifications occured from level 3 to level 2. For all properties, their current use equates to the highest and best use.

Reconciliation of fair value:

	Land	Office properties	Commercial buildings	Residential properties	Hotel properties
	€	€	€	€	€
As at 1 January 2018	1,408,931	4,765,000	25,108,995	6,797,859	6,361,367
Purchases	8,000	-	498,009	19,523	-
Disposals	-	-	-	(1,100,000)	-
Fair value change recognised in profit or loss	215,200	459,999	1,195,483	512,618	438,633
As at 31 December 2018	1,632,131	5,224,999	26,802,487	6,230,000	6,800,000
Purchases	103,425	24,206	1,196,929	13,931	1,755
Disposals	-	-	-	(1,305,000)	-
Fair value change recognised in profit or loss	-	-	479,480	-	-
Reclassification (note 4)	-	-	(2,200,000)	-	-
As at 31 December 2019	1,735,556	5,249,205	26,278,896	4,938,931	6,801,755

Valuation techniques and inputs

The valuation was determined primarily by using the market comparison method for residential properties, and the discounted cash flow (DCF) method for commercial properties.

<u>Comparison method:</u>

Market prices based on database of valuations and of sales of properties in the relevant area.

17. Investment property (*continued*)

Discounted cash flow (DCF) method:

Using the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long-term vacancy rate.

Description of valuation techniques used and key inputs to valuation of investment properties:

	Valuation technique	**Significant inputs**	**Range (weighted average)**	
			2019	**2018**
Commercial properties	DCF	Long-term pre-tax rate	2%	4%
		Inflation rate	1.9%	0.64%-2.09%
		Risk premium	4.5%	4.5%
		DCF	8.4%	8.5%
		Gross profit rate	97.5%	95%
Office properties	DCF	Estimated rental value	6.5%-8.5%	6.5%-8.5%
Hotel	DCF	Estimated rental value and extrapolated residual land value	7.5%	7.5%

For the other types of investment properties, the significant inputs used in the fair value measurement are pricing information provided by the independent valuers based on the property size and outlook, location and communal facilities.

The carrying amount of investment properties that would have been included in the finanial statements had these assets been carried at cost less accumulated depreciation is €23,022,121 (2018: €25,696,861).

18. Goodwill

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January and 31 December	62,888	62,888	-	-

Goodwill arose from acquisition of Mavina Holiday Complex Ltd.

19. Inventories

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Raw materials	3,561,754	3,088,530	-	-
Finished good	529,693	523,562	-	-
Showroom items	1,804	975	-	-
	4,093,251	3,613,067	-	-

During 2019, €9,444,566 (2018: €6,868,611) was recognised as an expense during the year and included in cost of sales (note 7).

20. Property held-for-sale

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Cost				
As at 1 January	4,514,335	4,398,303	-	-
Additions	2,297,445	3,774,574	-	-
Capitalisation of borrowing costs	-	43,260	-	-
Disposals (note 7)	(585,629)	(3,701,802)	-	-
As at 31 December	6,226,151	4,514,335	-	-

In 2019, the Group sold properties for a total consideration of €956,000 (2018: €3,991,888) recognised as part of revenue from contracts with customers in the statement of profit or loss and other comprehensive income. Net profit amounted to €71,905 (2018: €290,086). The carrying amount of the disposed properties amounting to €585,629 (2018: €3,701,802) formed part of cost of sales and services in the statement of profit or loss and other comprehensive income.

21. Trade and other receivables

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
Current				
Trade receivables	8,390,998	10,848,777	79,121	36,775
Lease receivables (note 24)	531,751	-	-	-
Amounts owed by subsidiary undertakings	-	-	2,749,239	1,662,410
Amounts owed by joint ventures	17,568	18,568	-	-
Amounts owed by related undertakings	329,963	404,422	191,194	266,423
Other receivables	703	700	-	-
Other advances	3,522,636	1,737,588	1,181	-
Accrued rental income	243,556	378,206	186,562	378,206
Indirect taxation	128,309	104,114	-	23,819
Prepayments	31,509	169,370	12,542	4,386
	13,196,993	13,661,745	3,219,839	2,372,019
Allowance for ECL on (note 35):				
Trade receivables	(487,917)	(453,435)	(799)	(368)
Amounts owed by joint ventures	-	(176)	-	-
Accrued rental income	(1,866)	(3,782)	(1,866)	(3,782)
Lease receivables (note 24)	(8,786)	-	-	-
Amounts owed by subsidiary undertakings	-	-	(46,751)	(15,941)
Amounts owed by related undertakings	(6,163)	(19,325)	(3,251)	(2,664)
	(504,732)	(476,718)	(52,667)	(22,755)
Total current trade and other receivables	12,692,261	13,185,027	3,167,172	2,349,264
Non-current				
Lease receivables (note 24)	3,754,304	-	-	-
Total trade and other receivables	16,446,565	13,185,027	3,167,172	2,349,264

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

The amounts owed by joint venture, related and other companies are unsecured, interest free and repayable on demand. The amounts owed by shareholders are unsecured, interest free and repayable on demand.

The amounts owed by joint venture, related and other companies are unsecured, interest free and repayable on demand.

Other advances include cumulative costs incurred to date airising from construction contracts.

21. Trade and other receivables (*continued*)

Set out below is the movement in the allowance for ECL on trade and other receivables:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	476,718	-	22,755	-
Prior year adjustment	22,758	-	-	-
Provision for ECL (note 7)	5,256	476,718	29,912	22,755
As at 31 December	504,732	476,718	52,667	22,755
	-	-		

22. Contract assets

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	2,241,170	-	-	-
Additions	707,617	2,259,044	-	-
Allowance for ECL	(62,331)	(17,874)	-	-
As at 31 December	2,886,456	2,241,170	-	-

Payment for goods and services rendered is not due from the customer until the services are completed and therefore a contract asset is recognised over the period in which the services are performed to represent the Company's right to consideration for the services performed to date.

Contract assets arise from construction and finishing works.

Set out below is the movement in the allowance for ECL on contract assets:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	17,874	-	-	-
Provision for ECL (note 7)	44,457	17,874	-	-
As at 31 December	62,331	17,874	-	-

23. Trade and other payables

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Current				
Amount received in advance	965,439	2,099,474	15,918	14,633
Trade payables	4,766,965	4,524,775	204,157	172,848
Amounts due to subsidiary undertakings	-	-	68,400	68,340
Amounts due to joint ventures	225,375	225,375	225,375	225,375
Other payables	159,057	255,398	-	-
Indirect taxes and Social Security Contributions	2,699,423	2,387,723	13,810	610
Contract liabilities (note 6)	95,000	95,000	-	-
Accruals	3,912,664	4,256,525	902,535	744,601
Deferred rental income	74,695	59,000	-	
Deferred income from government grants	16,576	16,576	-	-
	12,915,194	13,919,846	1,430,195	1,226,407
Non-current				
Deferred income from government grants	26,197	42,775	-	-
Total trade and other payables	12,941,391	13,962,621	1,430,195	1,226,407

Trade payables are non-interest bearing and are normally settled between 60 to 90 days. Other payables are non-interest bearing. The amount due to the Company by subsidiary undertakings are unsecured, interest-fee and repayable on demand.

Amount due to joint ventures are unsecured, interest-free and repayable on demand.

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 35.

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

As at the current financial year ended 31 December 2019, the amount of €42,773 will be fully amortised within two years.

Contract liabilities include short-term advances received under construction contracts. These arise when payments from customers are received in advance for on-going and fragmented construction projects.

24. Leases

24.1 The Group as a lessee

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of the Group's right-of-use assets recognised and the movements during the period:

	Hotel	Industrial buildings	Offices	Total
	€	€	€	€
As at 1 January 2019 (note 4)	-	2,800,828	-	2,800,828
Additions	2,194,870	-	36,990	2,231,860
Adjustment to beginning retained earnings (note 4)	-	(147,223)	-	(147,223)
Depreciation expense (note 7)	(61,654)	(43,094)	(3,085)	(107,833)
As at 31 December 2019	2,133,216	2,610,511	33,905	4,777,632

Since the Group adopted the modified retrospective approach in applying IFRS 16, no information about right-of-use assets related to the comparative year is presented.

Set out below are the carrying amounts of lease liabilities included under interest-bearing loans and borrowings (note 16) and the movements during the period:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	2,375,000	2,413,462	-	-
Prior year adjustment (note 4)	4,198,116	-	816,184	-
Additions	2,123,112	-	-	-
Accretion of interest (note 10)	326,800	71,138	39,940	-
Payments	(495,257)	(109,600)	(29,869)	-
As at 31 December	8,527,771	2,375,000	826,255	-
Current	5,039,119	38,462	-	-
Non-current	3,488,652	2,336,538	-	-

24. Leases (*continued*)

24.1 The Group as a lessee (*continued*)

The maturity analysis of lease liabilities are disclosed in note 35.

The following are the amounts reconised in profit or loss:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Upon adoption of IFRS 16				
Depreciation expense of right-of-use assets	107,833	-	-	-
Interest expense on lease liabilities	326,800	-	39,940	-
Expense relating to short-term leases and leases of low-value assets (included in cost of sales and administrative expenses) (note 7)	24,091	-	-	-
	458,724	-	39,940	-
Prior to adoption of IFRS 16				
Interest expense on lease liabilities	-	71,138	-	-
Rental expense (included in cost of sales and administrative expenses) (note 7)	-	298,811	-	-
	-	369,949	-	-
Total amount recognised in profit or loss	458,724	369,949	39,940	-

The Group had total cash outflows for leases of €495,257 in 2019 (€109,600 in 2018). In 2019, the Group also had non-cash additions to right-of-use assets and lease liabilities of €2,231,860 and €2,123,112, respectively.

24.2 The Group as a lessor

The Group has entered into operating leases on its investment property portfolio consisting of certain office and industrial buildings (see note 17). These leases have terms of between five and 20 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Group during the year is €2,300,226 (2018: €2,661,805).

24. Leases (*continued*)

24.2 The Group as a lessor (*continued*)

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Within one year	1,181,232	2,351,678	821,432	304,699
After one year but not more than five years	5,072,829	11,319,765	3,415,191	1,279,457
More than five years	4,697,048	8,157,556	7,619,093	2,633,211
	10,951,109	21,828,999	11,855,716	4,217,367

Set out below are the carrying amounts of finance lease receivables (included under trade and other receivables) and the movements during the period:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	-	-	-	-
Prior year adjustment (note 4)	4,426,354	-	-	-
Accretion of interest (note 9)	332,839	-	-	-
Payments of principal	(473,138)	-	-	-
	4,286,055	-	-	-
Allowance for ECL (note 21)	(8,786)	-	-	-
As at 31 December	4,277,269	-	-	-
Current (note 21)	522,965	-	-	-
Non-current (note 21)	3,754,304	-	-	-

Set out below is the movement in the allowance for ECL on lease receivables:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	-	-	-	-
Provision for ECL (note 7)	8,786	-	-	-
As at 31 December	8,786	-	-	-

25. Deferred taxation

Deferred tax liability

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
As at 1 January	(5,796,315)	(5,500,478)	(2,403,353)	(2,327,728)
Charge in profit or loss (note 12)	(406,461)	(239,221)	(100,517)	(19,009)
Tax effect on change in fair value of equity instrument at FVOCI	26,476	(56,616)	26,476	(56,616)
Reclassification	2,158,014	-	-	-
Effect of adoption of IFRS 16 (note 4)	(25,624)	-	-	-
As at 31 December	(4,043,910)	(5,796,315)	(2,477,394)	(2,403,353)

The balance represents:

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
Tax effect of temporary differences relating to:				
Excess of capital allowances over depreciation	(15,143)	-	-	-
Provision for ECL	299	-	-	-
Asset revaluations	(3,881,050)	(5,827,699)	(2,395,017)	(2,346,737)
Leases	(117,876)		(52,237)	
Fixed asset revaluation	-	88,000	-	-
Change in fair value of equity instruments at FVOCI	(30,140)	(56,616)	(30,140)	(56,616)
	(4,043,910)	(5,796,315)	(2,477,394)	(2,403,353)

Deferred tax asset

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
As at 1 January	3,645,397	3,972,468	987,913	1,019,435
Charge in profit or loss (note 12)	(516,762)	(327,071)	(248,916)	(31,522)
Reclassification	(2,158,014)	-	-	-
Effect of adoption of IFRS 16 (note 4)	351,112	-	285,664	-
As at 31 December	1,321,733	3,645,397	1,024,661	987,913

25. Deferred taxation (*continued*)

Deferred tax asset (*continued*)

The balance represents:

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
Tax effect of temporary differences relating to:				
Excess of capital allowances over depreciation	(471,865)	(302,421)	-	-
Unabsorbed capital allowances	467,359	598,906	-	-
Unabsorbed capital lossses	378,956	378,956	378,956	378,956
Unrelieved tax losses	848,440	1,038,888	356,516	608,957
Leases	(1,818,618)	-	289,189	-
Fixed asset revaluation	223,851	237,457	-	-
Investment tax credit	1,693,611	1,693,611	-	-
	1,321,733	3,645,397	1,024,661	987,913

Deferred income taxes are calculated on all 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 realized 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 used is 35% (2018: 35%) with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property that is tax effect of 5% and 8% (2018: 8%) of the transfer value.

26. Share capital

	The Group		The Company	
	2019	**2018**	**2019**	**2018**
	€	**€**	**€**	**€**
Authorised:				
5,000,000 Ordinary shares of €1 each	5,000,000	5,000,000	5,000,000	5,000,000
Issued and fully paid up:				
4,999,820 Ordinary shares of €1 each	4,999,820	4,999,820	4,999,820	4,999,820

27. Earnings per share

Earnings per share is based on the profit for the year attributable to the owners of the Group divided by the weighted average number of ordinary shares in issue during the year.

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Profit for the year attributable to shareholders:				
- Basic profit for year attributable to ordinary equity holders of the parent	2,885,472	3,590,959	1,652,586	95,440
Weighted average number of ordinary shares in issue (note 26)	4,999,820	4,999,820	4,999,820	4,999,820
Earnings per share (cents)				
- Basic profit for year attributable to ordinary equity holders of the parent	0.58	0.72	0.33	0.02

There is no difference between the basic and diluted earnings per share as the Group and Company has no potential dilutive ordinary shares.

28. Revaluation reserve on property, plant and equipment

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January and 31 December	24,043,828	24,043,828	-	-

The revaluation reserve comprises the revaluation of property, plant and equipment, net of deferred taxation due to change in fair market value. This reserve is not available for distribution.

29. Revaluation reserve on financial assets

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	110,456	9,821	111,715	6,571
Change in fair value	55,973	161,760	55,973	161,760
Deferred taxation thereon	-	(56,616)	-	(56,616)
Recycled to retained earnings (note 16)	(111,715)	-	(111,715)	-
Share in OCI of joint ventures (note 15)	2,046	(4,509)	-	-
As at 31 December	56,760	110,456	55,973	111,715

The fair value reserve arises from the change in the fair value of financial assets. This reserve is not available for distribution.

30. Other equity

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	-	12,236	-	-
Arising during the year	-	(12,236)	-	-
As at 31 December	-	-	-	-

31. Revaluation reserve on investment property

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	4,751,591	7,134,712	15,529,138	15,269,240
Transfer from retained earnings	160,680	(2,383,121)	431,200	259,898
As at 31 December	4,912,271	4,751,591	15,960,338	15,529,138

This reserve represents changes in fair value of investment property, net of deferred tax movements, which are unrealised at the reporting date. These amounts are transferred from retained earnings to this reserve since these gains are not considered by the Directors to be available for distribution. Upon disposal of the respective investment property, realised fair value gains are transferred to the retained earnings. The unrealised gain reserve is a non-distributable reserve.

32. Capital redemption reserve

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January and 31 December	47,852	47,852	-	-

This reserve represents tax benefits related to industrial activities.

33. Incentives and benefits reserves

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January and 31 December	604,060	604,060	-	-

The incentives and benefits reserve represents profits set aside for re-investment in terms of Section 6(1) and 36(2) of the Business Promotion Act. Amounts included in this reserve can only be distributed by way of capitalization of profits.

34. Cash and cash equivalents

The cash and cash equivalents comprise the following statement of financial position amount:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
Cash at banks and in hand	2,529,125	1,529,593	1,080,373	94,910
Allowance for ECL	(299)	-	(299)	-
Bank overdrafts (note 16)	(526,579)	(762,071)	(8,649)	(134,411)
As at 31 December	2,002,247	767,522	1,071,425	(39,501)

Set out below is the movement in the allowance for ECL on cash in banks:

	The Group		The Company	
	2019	2018	2019	2018
	€	€	€	€
As at 1 January	-	-	-	-
Provision for ECL (note 7)	299	-	299	-
As at 31 December	299	-	299	-

35. Financial risk management objectives and policies

The Group's principal financial assets comprise trade and other receivables, contract assets, loans receivable, cash and cash equivalents and equity instruments at FVOCI. Its principal financial liabilities comprise trade and other payables, borrowings and financial lease liability.

The Group is exposed to market risk, credit risk, liquidity risk, fair value risk and capital risk management.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk. Financial instruments affected by market risk include borrowings. The Group is only exposed to interest rate risk and other market price risk.

a. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Except as disclosed in note 16, the Group's borrowings are non-interest bearing. Borrowings issued at fixed rates consist primarily of bank loans, 5% secured bonds, shareholders' loan and other loans which are carried at amortised cost, and therefore do not expose the Group to cash flow and fair value interest rate risk.

Exposure to cashflow interest rate risk arises in respect of interest payments relating to bank loans amounting to €496,587 (2018: €375,712) that is subject to interest at floating rates linked to Euribor.

b. Other market price risk - Equity price risk

The Group is exposed to equity price risk, which arises from equity securities measured at FVOCI held in response to needs for liquidity. The management of the Group monitors the proportion of equity securities in its investment portfolio based on market indices. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to unlisted equity investments at fair value was €583,449. The Group disposed all its listed equity investments in 2019 (note 16).

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables and contract assets) and from its financing activities including deposits with banks and loans to related undertakings.

Customer credit risk is managed by the Group's management subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on each individual's credit limits. Outstanding customer receivables are regularly monitored. An impairment analysis is performed at the reporting date on an individual basis. The Group exercises a prudent credit control policy, and accordingly, it is not subject to any significant exposure or concentration of credit risk.

The Group banks only with local financial institutions with high quality standard or rating. The Group's operations are principally carried out in Malta and most of the Group's revenue originates from clients based in Malta.

35. Financial risk management objectives and policies (*continued*)

Set out below is the information about the credit risk exposure on the Group and Company's financial assets and contract assets subject to ECL under IFRS 9.

31 December 2019

	The Group								
	Trade receivables (notes 16 and 21)		**Lease receivables (notes 16 and 21)**	**Accrued rental income (note 21)**	**Contract assets (note 22)**	**Amounts owed by related undertakings (notes 16 and 21)**	**Loans to joint ventures (note 16)**	**Cash and cash equivalents (note 34)**	**Total**
Approach in measuring ECL	*General*	*Simplified*	*Simplified*	*Simplified*	*General*	*General*	*General*	*General*	
Probability of default	0.36% - 2.30%	2.49% - 40%	0.50%	0.77% - 1%	0.36% - 2.49%	0.36% - 2.67%	0.36% - 2.67%	0.067%	
Loss given default	0.75	N/A	N/A	N/A	0.75	0.75	0.75	0.45	
Estimated gross carrying amount at default	990,961	7,400,037	1,757,148	243,556	2,941,451	917,914	250,464	1,080,373	
Allowance for ECL	26,408	461,509	8,786	1,866	62,331	6,163	677	299	568,039
Increase / (decrease) in provision for ECL (note 7)	3,650	8,074	8,786	(1,916)	44,457	(13,162)	(6,868)	299	43,320

31 December 2018

	The Group								
	Trade receivables (notes 16 and 21)		**Lease receivables (notes 16 and 21)**	**Accrued rental income (note 21)**	**Contract assets (note 22)**	**Amounts owed by related undertakings (notes 16 and 21)**	**Loans to joint ventures (note 16)**	**Cash and cash equivalents (note 34)**	**Total**
Approach in measuring ECL	*General*	*Simplified*	*Simplified*	*Simplified*	*Simplified*	*General*	*General*	*General*	
Probability of default	-	1%	-	1%	1%	0.57%-3.19%	0.04% - 3.19%	-	
Loss given default	-	N/A	-	N/A	N/A	41.46%	99.60% - 100%	-	
Estimated gross carrying amount at default	-	10,848,779	-	378,206	2,269,738	772,142	484,689	-	
Allowance for ECL	-	453,435	-	3,782	17,874	19,325	7,545	-	501,961
Increase / (decrease) in provision for ECL (note 7)	-	39,585	-	3,782	(5,601)	18,241	(12,907)	-	43,100

35. Financial risk management objectives and policies (*continued*)

31 December 2019	The Company								
	Trade receivables (notes 16 and 21)		**Lease receivables (notes 16 and 21)**	**Accrued rental income (note 21)**	**Contract assets (note 22)**	**Amounts owed by subsidiary and related undertakings (notes 16 and 21)**	**Loans to joint ventures (note 16)**	**Cash and cash equivalents (note 34)**	**Total**
Approach in measuring ECL	*General*	*Simplified*	*Simplified*	*Simplified*	*General*	*General*	*General*	*General*	
Probability of default	0.36% - 2.27%	-	-	1%	-	0.36% - 2.27%	0.36% - 2.27%	0.067%	
Loss given default	0.75	-	-	N/A	-	0.75	0.75	0.45	
Estimated gross carrying amount at default	56,154	-	-	186,562	-	22,491,632	250,464	988,820	23,973,632
Allowance for ECL	799	-	-	1,866	-	363,281	677	299	366,922
Increase / (decrease) in provision for ECL (note 7)	799	(368)	-	(1,916)	-	116,667	(6,692)	299	108,789

31 December 2018	The Company								
	Trade receivables (notes 16 and 21)		**Lease receivables (notes 16 and 21)**	**Accrued rental income (note 21)**	**Contract assets (note 22)**	**Amounts owed by subsidiary and related undertakings (notes 16 and 21)**	**Loans to joint ventures (note 16)**	**Cash and cash equivalents (note 34)**	**Total**
Approach in measuring ECL	*General*	*Simplified*	*Simplified*	*Simplified*	*Simplified*	*General*	*General*	*General*	
Probability of default	-	1%	-	1%	-	0.57%-3.19%	0.04% - 3.19%	-	
Loss given default	-	N/A	-	N/A	-	26.09%-65.53%	99.60% - 100%	-	
Estimated gross carrying amount at default	-	36,775	-	378,206	-	20,951,158	484,689	-	
Allowance for ECL	-	368	-	3,782	-	246,615	7,369	-	258,134
Increase / (decrease) in provision for ECL (note 7)	-	(102)	-	3,782	-	44,531	2,260	-	50,471

35. Financial risk management objectives and policies (*continued*)

Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities. 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 table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2019

	The Group			
	Less than 1 year	**1 to 5 years**	**> 5 years**	**Total**
	€	**€**	**€**	**€**
Bank overdrafts and loans	526,579	-	-	526,579
Finance lease liabilities	374,118	1,567,963	6,101,168	8,043,249
5% secured bonds and interest	1,500,000	34,250,000	1,500,000	37,250,000
Trade and other payables	12,915,194	26,197	-	12,941,391
Shareholders' loans	1,673,295	-	2,117,816	3,791,111
Other financial liabilities	1,595,402	-	3,588,652	5,184,054
	18,584,588	35,844,160	13,307,636	67,736,384

Year ended 31 December 2018

	The Group			
	Less than 1 year	**1 to 5 years**	**> 5 years**	**Total**
	€	**€**	**€**	**€**
Interest-bearing loans and borrowings	3,276,193	2,957,306	3,681,873	9,915,372
5% secured bonds and interest	1,500,000	34,250,000	3,000,000	38,750,000
Trade and other payables	11,361,547	-	-	11,361,547
Shareholders' loans	864,614	-	2,926,497	3,791,111
Other financial liabilities	-	-	2,436,538	2,436,538
	17,002,354	37,207,306	12,044,908	66,254,568

Year ended 31 December 2019

	The Company			
	Less than 1 year	**1 to 5 years**	**> 5 years**	**Total**
	€	**€**	**€**	**€**
Finance lease liabilities	29,869	158,000	1,788,589	1,976,458
5% secured bonds and interest	1,500,000	34,250,000	1,500,000	37,250,000
Trade and other payables	1,416,385	-	-	1,416,385
Shareholders' loans	864,614	-	2,117,816	2,982,430
Other financial liabilities	-	100,000	1,932,049	2,032,049
	3,810,868	34,508,000	7,338,454	45,657,322

35. Financial risk management objectives and policies (*continued*)

Liquidity risk (continued)

Year ended 31 December 2018

	The Company			
	Less than 1 year	1 to 5 years	> 5 years	Total
	€	€	€	€
Interest-bearing loans and borrowings	-	100,000	-	100,000
5% secured bonds and interest	1,500,000	34,250,000	3,000,000	38,750,000
Trade and other payables	1,225,797	-	-	1,225,797
Shareholders' loans	864,614	-	2,117,816	2,982,430
Other financial liabilities	-	-	1,743,675	1,743,675
	3,590,411	34,350,000	6,861,491	44,801,902

Fair value risk

As at 31 December 2019 and 2018, the carrying amounts of trade and other receivables, cash and cash equivalents and trade and other payables and current 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 values of loans and receivables and non-current borrowings are not materially different from their carrying amounts in the statement of financial position.

The Group used the following hierarchy for determining and disclosing the fair value of investment property.

Level 1: quoted(unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value measurement hierarchy:

	The Group			
	Level 1	Level 2	Level 3	Total
	€	€	€	€
As at 31 December 2019				
Investment property	-	10,342,990	34,661,353	45,004,343
Property, plant and equipment	-	23,186,561	-	23,186,561
Equity instrument at FVOCI	-	-	583,449	583,449
	-	33,529,551	35,244,802	68,774,353
As at 31 December 2018				
Investment property	-	12,157,650	34,531,967	46,689,617
Property, plant and equipment	-	23,186,561	-	23,186,561
Equity instrument at FVPL	338,685	-	497,336	836,021
	338,685	35,344,211	35,029,303	70,712,199

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35. Financial risk management objectives and policies (*continued*)

Fair value risk (continued)

	The Company			
	Level 1	Level 2	Level 3	Total
	€	€	€	€
As at 31 December 2019				
Investment property	-	29,937,712	-	29,937,712
Equity instrument at FVOCI	-	-	583,449	583,449
	-	29,937,712	583,449	30,521,161
As at 31 December 2018				
Investment property	-	29,334,211	-	29,334,211
Equity instrument at FVOCI	338,685	-	497,336	836,021
	338,685	29,334,211	497,336	30,170,232

Capital Risk management

Capital includes the equity attributable to the ultimate shareholders of the Group.

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

	The Group		The Company	
	2019	2018	2,019	2,018
	€	€	€	€
Interest-bearing loans and other borrowings	46,518,483	45,976,210	31,884,566	31,949,800
Trade and other payables (note 23)	12,941,391	13,962,621	1,430,195	1,226,407
Finance lease liability (note 24)	8,527,771	2,375,000	826,255	-
Less: cash and cash equivalents	(2,528,826)	(1,529,593)	(1,080,074)	(94,910)
Net debt	65,458,819	60,784,238	33,060,942	33,081,297
Equity	45,145,593	43,513,503	24,082,911	22,907,208
Net debt to equity ratio	1.5:1	1.4:1	1.4:1	1.4:1

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

36. Events after the reporting date

Subsequent to year-end 2019, the COVID-19 outbreak has expanded into a pandemic and has negatively impacted various industries across the business spectrum, causing a cutback in business operations across many sectors. In response to this pandemic outbreak, on March 2020, the Office of the Prime Minister of Malta has taken preventative and protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Following this, temporary closures of non-essential businesses have been ordered.

The impact of the COVID-19 crisis on the Group has resulted in temporary closure of hotel operations of its tenants. During the time of such closure, revenue from tenants has ceased and lease payments have been deferred. Showrooms were also closed while factory operations were significantly reduced. As a result of these developments, the measures taken by the Group were considered as a non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended 31 December 2019. It is still too early to gauge the full impact of the COVID-19 crisis on the Group's operations; though it could have a material impact on its 2020 financial results and even periods thereafter.

This situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration of the crisis and its disruptive effects. The ultimate impact of the pandemic on the Group's results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time.

The Group continues to follow closely the recommendations and directions issued by the authorities both locally and overseas. In this regard, the Group is monitoring developments in connection with the spread and continues to evaluate the impact of the pandemic on the operations and financial performance as the 2020 financial year unfolds.

37. Supplemental cash flow information

Changes in liabilities arising from financing activities

The Group

	1 January 2019	**Cash flows**	**Non-cash changes**	**31 December 2019**
	€	**€**	**€**	**€**
Bank overdrafts (note 34)	762,071	(235,492)	-	526,579
Bank loans	10,333,600	513,690	-	10,847,290
5% secured bonds	29,597,573	-	60,528	29,658,101
Amount due to joint ventures	1,367,370	206,548	-	1,573,918
Shareholders' loans	3,791,111		-	3,791,111
Amount due to related undetakings	24,485	(3,001)	-	21,484
Other loan	100,000	-	-	100,000
Finance lease liability (note 24)	2,375,000	(495,257)	6,648,028	8,527,771
Total liabilities from financing activities	48,351,210	(13,512)	(178,064)	55,046,254

37. Supplemental cash flow information (*continued*)

Changes in liabilities arising from financing activities (*continued*)
The Group (*continued*)

	1 January 2018	Cash flows	Non-cash changes	31 December 2018
	€	€	€	€
Bank overdrafts (note 34)	1,814,751	(1,052,680)	-	762,071
Bank loans	8,646,720	1,686,880	-	10,333,600
5% secured bonds	29,540,145	-	57,428	29,597,573
Amount due to joint ventures	1,266,808	100,562	-	1,367,370
Shareholders' loans	3,582,110	209,001	(864,614)	2,926,497
Amount due to related companies	1,626	22,859	-	24,485
Finance lease liability (note 24)	2,413,462	(38,462)	-	2,375,000
Other loan	80,000	20,000	-	100,000
Total liabilities from financing activities	47,345,622	948,160	(807,186)	47,486,596

Non-cash changes refer to accumulated amortization of bond issue cost and adjustment made as at 1 January 2019 upon adoption of IFRS 16, as well as accretion of interest expense on finance lease liability.

The Company

	1 January 2019	Cash flows	Non-cash changes	31 December 2019
	€	€	€	€
Bank overdraft	134,411	(125,762)	-	8,649
5% secured bonds	29,597,573	-	60,528	29,658,101
Loans from related party	100,000	-	-	100,000
Loans from subsidiaries	460,752	63,493	-	524,245
Loans from joint ventures	1,282,923	124,881	-	1,407,804
Shareholders' loans	2,982,430	-	-	2,982,430
Lease liability (as restated through through opening retained earnings	816,184	(29,869)	39,940	826,255
Total liabilities from financing activities	35,374,273	32,743	100,468	35,507,484

	1 January 2018	Cash flows	Non-cash changes	31 December 2018
	€	€	€	€
Bank overdraft	1,003,470	(869,059)	-	134,411
5% secured bonds	29,540,145	-	57,428	29,597,573
Loans from related party	80,000	20,000	-	100,000
Loans from subsidiaries	718,285	(387,175)	129,642	460,752
Loans from joint ventures	1,206,965	75,958	-	1,282,923
Shareholders' loans	2,773,430	209,000		2,982,430
Total liabilities from financing activities	36,155,531	(951,276)	187,070	35,391,325

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38. Related party transactions

The Company

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Rental income	Interest income	Amount owed by related parties	Amount owed to related parties
		€	€	€	€
Subsidiaries of the the Company:					
Mavina Holiday Complex Ltd	Current	-	-	-	243,996
	2018	-	-	-	556,706
Sudvel Limited	Current	-	230,575	3,484,332	-
	2018	-	258,130	6,088,795	-
Hal Mann International Limited	Current	198,000	775,892	11,729,945	-
	2018	198,000	476,049	7,639,053	-
Hal Mann Properties Ltd	Current	3,000	161,133	3,158,879	-
	2018	-	85,896	2,111,678	-
Halmann Solar Limited	Current	-	-	-	280,249
	2018	-	-	111,600	-
Hal Mann (Letting) Ltd	Current	-	70,203	1,114,499	-
	2018	-	89,040	1,695,947	-
Hal Mann Vella Limited	Current	436,414	174,463	2,608,888	68,400
	2018	303,581	167,929	4,765,243	56,865

		Sales to related parties	Purchases from related parties	Amount owed by related parties	Amount owed to related parties
		€	€	€	€
Joint venture in which the Company is a venturer:					
Madliena Ridge Limited	Current	-	-	-	591,174
	2018	-	-	-	570,335
Hal Mann Holdings Ltd	Current	-	-	-	816,630
	2018	-	-	-	636,630

38. Related party transactions (*continued*)

		Sales to related parties	Purchases from related parties	Amount owed by related parties	Amount owed to related parties
		€	€	€	€
Joint venture in which the Company is a venturer:					
HMK International Ltd	Current	55,514	1,087	250,464	-
	2018	1,570,720	304,138	16,741	57,475
Zokrija Limited	Current	-	-	-	-
	2018	-	-	160,094	-

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group recorded impairment of receivables relating to amounts owed by related parties disclosed in notes 21 and 35, in compliance with IFRS 9. This assessment will be undertaken each financial year through examining the financial position of the related party and the market in which the related party operates together with other historical data on recovery of amounts due.

39. Ultimate controlling parties

Hal Mann Vella Group P.L.C., the parent Company, is a public limited company incorporated in Malta.

The ultimate controlling parties of the company are Ms. Mary Vella, who has 11.97% ownership of the issued share capital, and Mr. Joseph Vella, Mr. Paul Vella, Ms. Miriam Schembri, Mr. Mark Vella, Mr. Martin Vella, Mr. Simon Vella and Ms. Veronica Ciappara, who each own 12.575% of the issued share capital.

40. Comparative information

Certain amounts from previously reported financial statements have been reclassified to bring them in line with the current year's presentation. Management believes that the above reclassifications would reflect the nature of the transactions and did not have any impact on prior year's profit or loss and financial position.