

**SPINOLA DEVELOPMENT COMPANY
LIMITED**

**Annual Report and Consolidated Financial
Statements
31 December 2023**

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Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2023.

Principal activities

The principal activities of the group are the development and the operation of the Portomaso Complex in St. Julians, Malta. This complex includes the Hilton (Malta) and its convention centre, the Portomaso Business Tower, residential apartments, a car park and commercial outlets.

Review of business

2023 was the first full year of operations following the COVID-19 years. We are glad to report that the performance was definitely a positive one, particularly when it comes to the hospitality sector. The general geo-political scenario was one that underlined global uncertainties which actually still dominate today in view of the ongoing Russian invasion of Ukraine and later on in October 2023, the eruption of hostilities in the Middle East. This situation further fuelled a level of regional insecurity which itself led to a bout of higher inflation and the pursuant tighter monetary policies applied across the board. Purchasing power therefore continued to be generally impacted, however the local Government maintained subsidies on energy thus cushioning inflationary pressures. In addition to this, the supply of labour was tight as a number of expatriate employees relocated during the COVID-19 period. This of course meant higher payroll in order to improve staff retention.

The tourism sector which is by far the predominant segment for the Group's operations accelerated further in part due to the pent-up demand for vacation travel created during the COVID-19 years and strengthened the on-going upward travel trend to the Island which had actually commenced a few years back. During the course of 2023, the stock markets also improved despite successive interest rate hikes by the major central banks, while indications that rates will drop in the near future created a bullish sentiment particular very late in 2023.

Following this background, we now give a high-level overview of the actual performance of the Group. Total revenue for the year reached €52.10 million an increase of €8.57 million over the previous year. This was mainly due to a bumper performance of the hospitality and ancillary segment which saw revenues reaching €44.11 million an increase of 26.8% over 2022. It should however be noted that certain KPIs did not reach the pre-pandemic level. The percentage of cost of sales to revenue improved by four percentage points to just over 50.2% such that gross profit shot up to €25.96 million or 49.8% of turnover against 46.0% last year. The superior trend in hospitality enabled us to restrain the percentage cost of administrative expenses to revenue so that the fixed cost ratio to turnover remained the same as in 2022 at 19.9% although in absolute terms it increased by €1.73 million to €10.36 million.

On the other hand, property development for the Group, which over the recent past has been on a downward trend due to low level of inventory for sale, continued to dwindle to a mere €0.20 million from €1.58 million the previous year. Rental income and management complex operations improved slightly on 2022.

This led to an operating profit for the year of €15.93 million up by 36.4%, to reach a margin over revenue of 30.6% versus last year's 26.9%. Net finance cost amounted to €2.32 million down by €0.41 million totally due to higher finance income. Profit before tax therefore reached €13.61 million, up by 46.8% over 2022.

Directors' report - continued

Review of business - continued

Going through the various revenue components for the Group as briefly noted above, revenue from hospitality and ancillary services continued to march forward shifting back to the pre-COVID-19 era, indeed turnover was for the first time since 2019 higher than pre-COVID-19 days as noted earlier. Hospitality and ancillary services stood at 84.7% of total revenue as opposed to 80.1% in 2022. This increase demonstrates higher absolute revenues at the hotel while also lower revenues from the real estate segment. Rental income and complex management operations moved on from the previous year to account for 14.9% of total revenue versus 16.2% in 2022.

Reviewing the hotel's performance in detail, one notes the appreciable swing in numbers from the bleak COVID-19 years as both room occupancy and average room rate climbed up. The former by about 18.2% while the room rate improved by approximately 8.3% over 2022. One should note that the average room rate now exceeded the 2019 level by quite a mark although room occupancy was still below the average for 2019. Despite this, the consistent improvement in the hotel's KPIs provided the necessary impetus to pursue our strategic objective of aiming to exceed pre-pandemic performance in a relatively shorter period of time than originally anticipated by the market. In fact, during the year under review we were able to surpass the pre-pandemic revenue and GOP figures, two key milestones for any operation. This performance is very much reflective of the increasing number of passengers travelling to Malta as reported in national statistics. The average length of stay was 3.2 days when compared to last year's 2.9 days. Reviewing industry figures as reported by MHRA, the hotel's occupancy was over by eleven percentage points the annual average as reported for 5-star properties, while average room rate exceeded the MHRA average for the same property category by 12%.

In line with the better room performance the F&B outlets also registered a marked advance surpassing both 2022 and 2019 figures. The increased occupancy and a higher walk-ins contributed across all the outlets while banqueting revenue increased over last year as conference business picked up. Overall, this augurs well towards future performance. In line with increased human traffic to Portomaso, the performance of the car park improved as did the marina, while the tower bar experienced a much better return following the period that it was closed during the pandemic.

Property development as already noted above underwent a lean performance compared to previous years, hence the Group's day-to-day core operation in the form of hospitality and ancillary activities together with rental income took a more significant role. During the course of the year under review the company sold one commercial outlet and retained in stock only two apartments as at year end.

Revenue from rental and complex management reached €7.79 million, an addition of 10.6% mainly coming from increased rental space as an area which had been withdrawn from the market for development purposes was reinstated as from mid-year. Additionally, another substantial area which was vacant for a while has been rented out. The increased revenue is also attributable to contractual inflationary increases which kick in on an annual basis. This increase was however, partly offset by a few empty spaces which have either remained unoccupied or have reverted back to being unoccupied at the end of the applicable lease period.

Recharged complex management revenue was around 10.0% over last year as new tasks undertaken to upgrade the complex were concluded. These mainly included the Spanish steps renovation and other annual ongoing maintenance to maintain the complex in its prime condition and upkeep.

Another key statistic, namely the total overall costs to revenue ratio when compared to 2022 improved by another 4 percentage points over and above the 5 percentage points improvement noted last year as revenue surged on, while efforts persevered to mitigate inflationary cost increases.

Directors' report - continued

Review of business - continued

Direct costs at €26.14 million increased by 11.5% with administrative expenses also facing an increase of 20.1% so that the total costs for the Group reached €36.50 million, up by 13.8%. Wages and salaries, being the main single cost item reached €11.41 million or 31.3% of the total expense base. This is due to both an increase in head count as operations continue to ramp up to meet demand and higher average payroll per capita. The fact that in 2022 the Group still secured the COVID-19 Wage Supplement from Government up till May 2022, accounted for some of the variance. The average head count for the year under review increased substantially to 471 from 393 the previous year. The second single largest expense item was depreciation which was slightly below than 2022 reflecting the lower investment in property plant and equipment in the previous few years, particularly the COVID-19 years and disposal of assets taking place over the same period. The third item on the list is operators charges, operating supplies and utilities which increased by 17.8% in line with wider operations. This category of expense as with payroll underlines the inflationary pressures suffered during the course of the year with higher food costs, setting in. However, it must be pointed out that our purchasing department made substantial headway with a number of suppliers to mitigate inflationary pressures without compromising quality.

Other costs which include a large number of categories also increased to €11.96 million up by €2.31 million predominantly hotel related.

Net finance costs at €2.32 million were down by 14.8% totally due to higher finance income as finance costs remained practically in line with last year. The improved interest income emanated from a higher liquid position as funds were accumulated towards the Group's commitment to pay off a fellow subsidiary which in turn will meet its commitment to redeem the 2024 public bond. At this junction it is worth noting that the Group will be meeting this commitment partly through internally generated funds and through sanctioned bank financing. The additional funds accumulated by the Group were partly placed with the fellow subsidiary for investments purposes while other funds were placed directly by the Group in short term monetary investments. The general increase in interest rates came right at a time when the Group is enjoying a very liquid position while on the other hand being able to improve its gearing substantially. This performance led to a profit before tax of €13.61 million, an increase of 46.8% over the previous year. EBITDA for 2023 was at €21.35 million versus 2022 at €17.33 million which once again reflected a healthy increase from the previous year while interest cover stood at 5.5 compared to 4.2 in 2022.

Reviewing the Statement of financial position, total assets at €240.67 million were up by €10.03 million or 4.4% over 2022. Non-current assets at €164.70 million were €5.61 million lower than the corresponding December 2022 figure, out of which €147.37 million represent property, plant and equipment which is €3.34 million below the previous year. This is mainly due to the fact that as happened last year the reduction to the total asset figure outweighed the increase in commissioned assets. This has been the case for a number of years as depreciation is a substantial charge, while investment was curtailed during the pandemic period in order to safeguard the Group's liquidity and hence add-ons to fixed assets took a dip. During 2023, additions to assets were mainly in the form of mechanical and electrical equipment and furniture and fittings amounting to just over a million euro, mainly hotel fixed assets while assets in course of commissioning were €203,000. Investment property stood at €14.78 million, up by 3.4%, with additions of €1.25 million mainly relating to office and commercial areas improvements mainly referring to the co-working spaces area commissioned in mid-2023 while depreciation amounted to €763,000. Non-current trade and other receivables figured at €2.55 million, a drop of €2.76 million from the previous year totally due to amounts previously owed by the parent company having been paid during the course of the year under review. Other non-current trade receivables of €573,000 represent amounts due on the sale of property to a third party.

Directors' report - continued

Review of business - continued

Current assets increased substantially to €75.98 million, an addition of 26.0%. Inventories added €5.80 million to €31.45 million due to the investment of funds which went into a real estate project earmarked to be placed on the market in the near future. The bulk of this represent works in progress at the Halland Residences, an apartments complex which is fully owned by a subsidiary of Spinola Development Company Limited. As at the end of December 2023, construction works were quite advanced. Current trade and other receivables increased substantially by slightly over 32.0%. While amounts owed by the parent company increased to €1.53 million, amounts owed by a fellow subsidiary were up by €3.72 million to €17.96 million predominantly in the form of advances to Tumas Investments p.l.c. and prepayments and accrued income reached €1.69 million. The amounts owed by the parent and fellow subsidiary in the main, represent liquid funds which have been advanced to these companies and put on investment in short term instruments so that such funds together with external generated funds would be available to use in order to redeem the 2024 bond. These funds were placed in monetary investments mainly Malta treasury bills, as part of our treasury operation, reducing the overall cost of capital to the Group as such funds bear interest accordingly. Advance payment and prepayments continued to accumulate to reach €3.25 million more than double the figure of 2022 as commitments regarding the Halland project were entered into.

Other financial assets at €11.77 million representing AAA foreign securities similar to the amounts owed by parent and fellow subsidiaries these financial assets were utilised as part of the built-up towards the above-mentioned bond redemption. This meant that cash and cash equivalents were reduced to €7.33 million, still a remarkable figure to have which in the main represented funds accumulated within our hospitality segment after an excellent performance in 2023.

Despite the positive performance indicated above the working capital position necessarily deteriorated from €46.71 million to €32.92 million despite the substantial increase in current assets as the bond maturing in 2024 has now been classified as a current liability. If we were to eliminate this figure then the working capital would be substantially superior. This addition to current liabilities represented a reduction of a similar amount in the non-current liabilities which decreased to €50.71 million from €76.33 million. It is worth noting that the liquid ratio declined from last year by 1.51 points due to the reclassification of the bond.

The overall working capital position reached 1.76:1, much lower than last year due to the above noted reclassification of the upcoming maturing bond.

Liabilities edged slightly higher in total to €93.76 million out of which 54.1% were classified as long term. Current liabilities made up of the usual trade and other payables, namely liabilities dealing purely with operations such as trade payables which increased in line with performance. Capital and other payables increased as a result of hotel guest advances while accruals and deferred income represent the bulk of total trade and other payables stood at €5.51 million up by 4.67% mainly due to invoices in advance on rental income.

Group borrowings stood at practically last year's level of €49.93 million noting that apart from the two outstanding bonds reflected in loans from fellow subsidiary there was no external debt for the Group. Prepayments of bank debts were actually undertaken in 2022 from internally generated liquidity in order to cut down on bank interest cost. Capital loan instalments were actually prepaid, although due in 2023 and 2024. No new facilities were entered into during the course of the year. The outstanding borrowings are being repaid in line with the Group long-term business plan and the covenants undertaken by sister company Tumas Investments p.l.c. to its meet obligations with bondholders.

Directors' report - continued

Review of business - continued

Deferred tax liabilities classified as non-current stood at €25.76 million, once again marginally below last year's figure and represented tax allocated on revalued Group property, mainly the hotel, in addition to timing differences.

The Group's equity position maintained its consistent upward trend reaching higher strengths and totalling €146.91 million, another all-time high and up by 4.4% over last year. This obviously reflected the strong performance of the year under review. This is net of dividends of €3.21 million paid during the course of 2023. As in the previous years the hotel's value has been reassessed on the basis of discounted cashflows and it was determined that no revaluation will be undertaken as we see through the hospitality's segment resurgence from the COVID-19 period. The minor change in revaluation reserves is reflective of the depreciation charge appropriation out of revaluation portion applicable to the building. Total liabilities to equity stood at once again to 0.64. This in itself underscores the accretion in value the Group enjoys following successive healthy operations across its various sectors particularly the hospitality and ancillary business despite, the hit sustained during the pandemic. The diversified nature of the operating base spanning various economic sectors continues to provide excellent back-up.

Reviewing the statement of cashflows this mirrors the further progress registered from the previous years as operating profit increased, although this is not reflected in the cash generated in operations which stood at €11.83 million, €3.85 million below last year mainly because of changes in working capital as inventories and trade and other receivables increased and hence capturing part of the liquidity generated during the year. This is fully understandable as the hotel business picked up and therefore debtors shot up while additions to our stock of real estate at the Halland increased. This led to net cashflow from operating activities of €6.66 million which together with previous year's closing cash and cash equivalents were applied towards investment in property, plant and equipment mainly in hotel fixed assets and investment in monetary assets as already noted above. While receipts from the parent company reduced previous intercompany outstanding amounts, this and the payment of a dividend of €3.21 million led to a closing cash and cash equivalents figure of €7.33 million.

Outlook for financial year 2024 and events after the financial reporting date

Our review for 2024 is one of cautious optimism as we proceed from the previous year which was a highly successful one particularly when compared to the prior few years which were dominated by the pandemic. As we prepare this report the geo-political situation has not improved at all as further escalation of hostilities persist in both Ukraine and the Middle East and may have actually taken a turn for the worse with recent hostilities between Israel and Iran. With respect to the economic situation, while overall Malta continues to perform very well even when compared to the rest of the EU, inflation and the tight labour supply is very evident. Lately, the Government has also stepped in to encourage a level of stability and direct certain staple food prices lower. In the meantime, energy subsidies have been maintained and therefore cushioned the inflationary hit which would otherwise have been more severe. Interest rates are still persistently high as monetary authorities are trading carefully before giving any substantive indication that they will actually cut down on key interest rates. In fact, even this month the governing council of the European Central Bank retained rates as they were despite indications that inflation may be dipping. These high rates are disinflationary and thus effect general spending power. However, there are indications that the dynamics of inflation and the strength of monetary policies are increasing the confidence towards inflation-conversion to lower traditional rates.

Directors' report - continued

Outlook for financial year 2023 and Events after the financial reporting date - continued

The travelling pattern this year is forecast to be similar to last year with numbers increasing further, re-establishing a higher level of business travel. In Q1 we have witnessed challenging pressures on the average room rate as transient traffic has proved to be somewhat fickle. On the other hand, we need to remain vigilant as a number of new hotels will be entering the market in the following two years, which will tension market supply. Although, still early during the course of the year, we are optimistic that we will make budget with respect to hospitality and ancillary segment in total as we target a slightly higher room occupancy rate than last year and a similar average room rate. Figures from the airport and from local tourism authorities are encouraging with higher flight capacity to the main airports being reported and superior seat load factors, these building on an already positive momentum.

The other operating sectors namely, car park, marina and tower bar are in total performing on target during the first quarter and should not be very different from last year's figures. When it comes to capital investment, following the COVID-19 years, a number of projects have been initiated both with respect to the hotel and Portomaso complex in general as we undertake new initiative within the Hilton footprint and upgrades in various areas of the complex. We are in the process of upgrading one of the F&B areas, and various IT and communications facilities. It is also worth noting our efforts to improve environmental sustainability as we embark on the installation of a sizeable solar panel system at the complex. We are also planning an upgrade of certain office and commercial areas.

When it comes to property development within Portomaso, there are two apartments for sale, however, these are not targeted for this year and our efforts towards this segment are fully geared towards the Halland Residences. It is being envisaged that structural construction works should be concluded by the end of Summer, and we should be well placed to offer this upscale residential complex to the market. It is encouraging to note that there is substantial interest from both the general public and also from the industry specialists. We maintain our objective towards the highest level of finish and of course environmental sustainability, reducing our carbon footprint.

With respect to rental income, both commercial and office space should perform better than last year as an area which had been taken off the market and developed as co-working offices and flexible workstations is now a start-up operation. While further space has been converted to be leased out and therefore attracting further rental income.

As in the past, the Group continues to position itself so as to provide a diverse footprint of business segments directly and through its subsidiary companies. Therefore, the Group can provide its stakeholders with a consistent return on a holistic basis. In so doing, Spinola Development Company Limited continues to provide the necessary attention to environment and governance formalities while sustaining its already robust financial standing.

Financial risk management

The group's and company's activities expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Refer to Note 2 in these financial statements.

Conduct review

Reference is made to past reports linking a former director to alleged irregularities following events which occurred since late 2019. The directors together with the Board of Tumas Group continue to monitor the situation. Should relevant matters come to its attention that merit its action this will be taken as appropriate and necessary.

Directors' report - continued

Results and dividends

The income statements are set out on page 17. During the year the directors declared a net dividend of €3,214,500 (2022: €5,214,500).

Directors

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

Raymond Fenech
Emmanuel Fenech
Raymond Sladden

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

Statement of directors' responsibilities for the financial statements

The directors are required by the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the group and the parent company as at the end of each reporting period and of the profit or loss for that period.

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

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

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Spinola Development Company Limited for the year ended 31 December 2023 are included in the Annual Report 2023, which is published in hard-copy printed form and may be made available on the Tumas Group's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the group's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Directors' report - continued

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board



Raymond Fenech
Director



Ermanuel Fenech
Director

Registered office:
Tumas Group Corporate Office
Level 3
Portomaso Business Tower
Portomaso
St. Jullians
Malta

29 April 2024



Independent auditor's report

To the Shareholders of Spinola Development Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and the Parent Company financial statements (the "financial statements") of Spinola Development Company Limited give a true and fair view of the Group and the Parent Company's financial position as at 31 December 2023, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

Spinola Development Company Limited's financial statements, set out on pages 15 to 63, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2023;
- the Consolidated and Parent Company income statements for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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



Independent auditor's report - continued

To the Shareholders of Spinola Development Company Limited

Other information

The directors are responsible for the other information. The other information comprises of the Directors' report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

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

If, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



Independent auditor's report - continued

To the Shareholders of Spinola Development Company Limited

- 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 and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group or the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or the Parent company's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2023* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Independent auditor's report - continued

To the Shareholders of Spinola Development Company Limited

Area of the Annual Report and Financial Statements 2023 and the related Directors' responsibilities	Our responsibilities	Our reporting
<p>Directors' report (on pages 1 to 8)</p> <p>The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.</p>	<p>We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>

Independent auditor's report - continued

To the Shareholders of Spinola Development Company Limited

Area of the Annual Report and Financial Statements 2023 and the related Directors' responsibilities	Our responsibilities	Our reporting
	<p>Other matters on which we are required to report by exception</p> <p>We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept, or 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 which, to the best of our knowledge and belief, we require for our audit. 	<p>We have nothing to report to you in respect of these responsibilities.</p>



Independent auditor's report - continued

To the Shareholders of Spinola Development Company Limited

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Parent Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

A handwritten signature in blue ink, appearing to read 'Stefan Bonello', is written over the printed name and title.

Stefan Bonello
Principal

For and on behalf of
PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

29 April 2024

Statements of financial position

		As at 31 December			
		Group		Company	
Notes	2023	2022	2023	2022	
	€	€	€	€	
ASSETS					
Non-current assets					
Property, plant and equipment	4	147,367,269	150,705,322	147,367,269	150,705,322
Investment property	5	14,777,863	14,288,759	14,777,863	14,288,759
Investments in subsidiaries	6	-	-	118,791	118,791
Trade and other receivables	7	2,550,379	5,306,869	18,714,539	18,164,909
Total non-current assets		164,695,511	170,300,750	180,976,462	183,277,781
Current assets					
Inventories	8	31,452,329	25,649,048	7,764,591	7,593,923
Trade and other receivables	7	25,429,212	19,223,052	23,570,004	17,263,283
Other financial assets at amortised cost	9	11,765,877	-	11,765,877	-
Cash and cash equivalents	10	7,327,931	15,471,309	6,210,706	13,569,380
Total current assets		75,975,349	60,343,409	49,311,178	38,426,586
Total assets		240,670,860	230,644,159	230,289,640	221,704,367

Statements of financial position - continued

	Notes	As at 31 December			
		Group		Company	
		2023	2022	2023	2022
		€	€	€	€
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	11	13,652,805	13,652,805	13,652,805	13,652,805
Revaluation reserves	12	86,234,334	87,059,834	86,234,334	87,059,834
Retained earnings		47,021,484	39,966,740	40,324,648	33,707,985
Total equity		146,908,623	140,679,379	140,211,787	134,420,624
Non-current liabilities					
Borrowings	13	24,940,669	49,891,283	24,940,669	49,891,283
Deferred tax liabilities	15	25,764,929	26,437,801	24,779,335	25,603,069
Total non-current liabilities		50,705,598	76,328,884	49,720,004	75,494,352
Current liabilities					
Borrowings	13	24,986,438	-	24,986,438	-
Trade and other payables	14	14,128,682	11,979,834	11,964,962	10,658,082
Current taxation		3,941,519	1,656,062	3,406,449	1,131,309
Total current liabilities		43,056,639	13,635,896	40,357,849	11,789,391
Total liabilities		93,762,237	89,964,780	90,077,853	87,283,743
Total equity and liabilities		240,670,860	230,644,159	230,289,640	221,704,367

The notes on pages 21 to 63 are an integral part of these financial statements.

The financial statements on pages 15 to 63 were authorised for issue by the board of directors on 29 April 2024 and were signed on its behalf by:


Raymond Fenech
Director


Emmanuel Fenech
Director

Income statements

	Notes	Year ended 31 December			
		Group		Company	
		2023	2022	2023	2022
		€	€	€	€
Revenue	16	52,097,304	43,423,731	48,847,122	40,608,132
Cost of sales	17	(26,141,625)	(23,444,585)	(26,141,625)	(23,444,585)
Gross profit		25,955,679	19,979,146	22,705,497	17,163,547
Administrative expenses	17	(10,357,441)	(8,624,615)	(10,275,644)	(8,444,502)
Other income		328,740	321,082	328,740	321,082
Operating profit		15,926,978	11,675,613	12,758,593	9,040,127
Finance income	19	518,224	105,740	518,224	105,740
Finance costs	19	(2,840,128)	(2,833,772)	(2,840,128)	(2,833,772)
Investment income	20	-	322,871	1,900,000	3,622,671
Profit before tax		13,605,074	9,270,452	12,336,689	9,934,966
Tax expense	21	(4,161,330)	(2,598,263)	(3,331,026)	(1,978,459)
Profit for the year		9,443,744	6,672,189	9,005,663	7,956,507

The notes on pages 21 to 63 are an integral part of these financial statements.

Statements of changes in equity

Group	Notes	Share capital €	Revaluation reserves €	Retained earnings €	Total equity €
Balance at 1 January 2022		13,652,805	87,885,334	37,683,551	139,221,690
Comprehensive income					
Profit for the year		-	-	6,672,189	6,672,189
Other comprehensive income:					
Transfer of depreciation through asset use (net of deferred tax)	12,15	-	(825,500)	825,500	-
Total comprehensive income		-	(825,500)	7,497,689	6,672,189
Transactions with owners					
Dividends for 2022	22	-	-	(5,214,500)	(5,214,500)
Balance at 31 December 2022		13,652,805	87,059,834	39,966,740	140,679,379
Balance at 1 January 2023		13,652,805	87,059,834	39,966,740	140,679,379
Comprehensive income					
Profit for the year		-	-	9,443,744	9,443,744
Other comprehensive income:					
Transfer of depreciation through asset use (net of deferred tax)	12,15	-	(825,500)	825,500	-
Total comprehensive income		-	(825,500)	10,269,244	9,443,744
Transactions with owners					
Dividends for 2023	22	-	-	(3,214,500)	(3,214,500)
Balance at 31 December 2023		13,652,805	86,234,334	47,021,484	146,908,623

The notes on pages 21 to 63 are an integral part of these financial statements.

Statements of changes in equity - continued

Company	Notes	Share capital €	Revaluation reserves €	Retained earnings €	Total equity €
Balance at 1 January 2022		13,652,805	87,885,334	30,140,478	131,678,617
Comprehensive income					
Profit for the year		-	-	7,956,507	7,956,507
Other comprehensive income:					
Transfer of depreciation through asset use (net of deferred tax)	12,15	-	(825,500)	825,500	-
Total comprehensive income		-	(825,500)	8,782,007	7,956,507
Transactions with owners					
Dividends for 2022	22	-	-	(5,214,500)	(5,214,500)
Balance at 31 December 2022		13,652,805	87,059,834	33,707,985	134,420,624
Balance at 1 January 2023		13,652,805	87,059,834	33,707,985	134,420,624
Comprehensive income					
Profit for the year		-	-	9,005,663	9,005,663
Other comprehensive income:					
Transfer of depreciation through asset use (net of deferred tax)	12,15	-	(825,500)	825,500	-
Total comprehensive income		-	(825,500)	9,831,163	9,005,663
Transactions with owners					
Dividends for 2023	22	-	-	(3,214,500)	(3,214,500)
Balance at 31 December 2023		13,652,805	86,234,334	40,324,648	140,211,787

The notes on pages 21 to 63 are an integral part of these financial statements.

Statements of cash flows

	Notes	Year ended 31 December			
		Group		Company	
		2023	2022	2023	2022
		€	€	€	€
Cash flows from operating activities					
Cash generated from operations	23	11,826,961	15,676,776	13,348,660	18,457,001
Dividend received		-	-	1,900,000	3,300,000
Interest received		220,856	94,595	220,856	94,595
Interest paid		(2,840,128)	(2,799,568)	(2,840,128)	(2,799,568)
Net income tax paid		(2,548,545)	(959,958)	(1,879,620)	(311,753)
Net cash generated from operating activities		6,659,144	12,011,845	10,749,768	18,740,275
Cash flows from investing activities					
Purchase of property, plant and equipment and investment property		(2,578,435)	(3,125,584)	(2,578,435)	(3,125,584)
Proceeds from disposals of property, plant and equipment and investment property		-	540,000	-	540,000
Movement in non-current receivables		2,758,290	(4,354,381)	(549,630)	(7,541,373)
Investment in treasury bills		(11,765,877)	-	(11,765,877)	-
Net cash used in investing activities		(11,588,022)	(6,939,965)	(14,893,942)	(10,125,957)
Cash flows from financing activities					
Repayments of bank borrowings		-	(3,285,710)	-	(3,285,710)
Dividends paid		(3,214,500)	(5,214,500)	(3,214,500)	(5,214,500)
Net cash used in financing activities		(3,214,500)	(8,500,210)	(3,214,500)	(8,500,210)
Net movement in cash and cash equivalents		(8,143,378)	(3,428,330)	(7,358,674)	113,108
Cash and cash equivalents at beginning of year		15,471,309	18,899,639	13,569,380	13,456,272
Cash and cash equivalents at end of year	10	7,327,931	15,471,309	6,210,706	13,569,380

The notes on pages 21 to 63 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of material accounting policy information

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

These consolidated financial statements include the financial statements of Spinola Development Company Limited and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, as modified by the fair valuation of the non-current asset category of property, plant and equipment except as disclosed in the accounting policies below.

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

Standards, interpretations and amendments to published standards effective in 2023

In 2023, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2023. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies impacting the group's financial performance and position.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the group's accounting periods beginning after 1 January 2023. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU.

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

1. Summary of material accounting policy information - continued

1.2 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

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

Goodwill is initially measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired. If this is less than the fair value of the net identifiable assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 1.6)

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

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

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

1.3 Foreign currency translation

(a) Functional and presentation currency

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

1. Summary of material accounting policy information - continued

1.3 Foreign currency translation - continued

(b) Transactions and balances

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

All foreign exchange gains and losses are presented in the income statements within 'administrative expenses'.

1.4 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings, are shown at fair value based on periodic valuations by qualified valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Land and buildings is shown at market value, based on valuations by qualified valuers. Valuations are carried out periodically when the directors consider it appropriate to do so such that the carrying amount of land does not differ materially from that which would be determined using fair values at the statement of financial position date. Office, hotel and ancillary operational mechanical and electrical equipment, furniture, fixtures and operational equipment are stated at historical cost less depreciation. Assets in course of construction are not depreciated.

Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group, and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity. All other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

1. Summary of material accounting policy information - continued

1.4 Property, plant and equipment - continued

Freehold land is not depreciated as they are deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	%
Buildings	0 - 7
Mechanical and electrical equipment	5 - 25
Furniture, fixtures and operational equipment	7 - 25

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

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

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are recognised in profit or loss. When a revalued asset is sold, the amount is included in the revaluation reserve relating to the asset and is transferred to retained earnings.

1.5 Investment property

Investment property, principally comprising floors in the Portomaso Business Tower and commercial outlets, are held for long-term rental yields and are not occupied by the group.

The group adopts the cost model under IAS 40, 'Investment property', whereby investment property is stated in the statement of financial position at historical cost less accumulated depreciation and impairment losses. 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.

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.

Land is not depreciated as it is deemed to have an indefinite life. The capitalised costs of buildings is depreciated using the straight-line method over a maximum of one hundred years at most, in accordance with their useful lives. Useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The fair value of these properties is disclosed in the financial statements and is based on active market prices, taking into consideration the nature, location or condition of the specific asset. These valuations are revised annually by the directors. A property's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Note 1.6).

1. Summary of material accounting policy information - continued

1.5 Investment property - continued

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. Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its cost and accumulated amortisation at the date of the reclassification becomes its cost and accumulated depreciation 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 becomes an investment property because its use has changed, its cost and accumulated depreciation at the date of reclassification becomes its cost and accumulated amortisation for subsequent accounting purposes.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting inventories is its carrying amount at the date of change in use.

1.6 Impairment of non-financial assets

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

1.7 Financial assets

(a) Trade and other receivables

Trade receivables comprise amounts due from customers for property sold or services performed and rendered in the ordinary course of the group's business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit loss allowance (Note 1.7.3).

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within cost of sales and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1. Summary of material accounting policy information - continued

1.7 Financial assets - continued

(b) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks and bank overdrafts. In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

(c) Other financial assets

Other financial assets represent monetary investments held to maturity.

1.7.1 Classification

The group classifies its financial assets as financial assets measured at amortised costs. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The group classifies its financial assets at amortised cost only if both the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Assessment whether contractual cash flows are solely payments of principal and interest.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

1.7.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Interest income on debt instruments measured at amortised cost from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition of these instruments is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated statement of profit or loss.

1. Summary of material accounting policy information - continued

1.7 Financial assets - continued

1.7.3 Impairment - continued

The group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The group's financial assets are subject to the expected credit loss model.

Expected credit loss model

The group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. The group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and it considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data such as significant financial difficulty of the borrower or issuer, or a breach of contract such as a default or being more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

1. Summary of material accounting policy information - continued

1.7 Financial assets - continued

1.7.3 Impairment - continued

Simplified approach model

For trade receivables, the group applies the simplified approach required by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the liability of the customers to settle the receivable. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

1.8 Inventories

Inventories are stated at the lower of cost and net realisable value, and include transport and handling costs, determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Property held for development and resale

When the main object of a property project is the development for resale purposes, the asset is classified in the financial statements as inventory. Any elements of the project which are identified for business operation or long-term investments properties are transferred at their carrying amount or fair value to property, plant and equipment or investment property when such identification is made and the cost thereof can be reliably segregated.

The development property is carried at the lower of cost and net realisable value. The purchase cost of acquiring the property represents the cash equivalent value of the contracted price. In case of land previously held as tangible non-current assets, the transfer value is the carrying value of the land as last revalued prior to its transfer to inventories.

Cost comprises the purchase cost of acquiring the property together with other costs incurred during its subsequent development by specifically identifying the cost of individual items including:

- The costs incurred on development works and construction works in progress, including demolition, site clearance, excavation, construction and acquisition costs, together with the expenses incidental to acquisition and costs of ancillary activities such as site security;
- The cost of various design and other studies conducted in connection with the project, together with all other expenses incurred in connection therewith;
- Any borrowing costs, including imputed interests, attributable to the development phases of the property project;
- Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

1. Summary of material accounting policy information - continued

1.8 Inventories - continued

Property held for development and resale - continued

Gains and losses on disposal of property inventories are determined by reference to their carrying amount and are taken into account in determining gross profit. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

1.9 Financial liabilities

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative contracts, are classified as financial liabilities measured at amortised cost, i.e. not at fair value through profit or loss under IFRS 9. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

(a) Trade and other payables

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

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

(b) Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Issue costs incurred in connection with the issue of the secured bonds and loans from fellow subsidiaries include mainly arraignment, manager fees and professional fees.

1. Summary of material accounting policy information - continued

1.10 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Under this method the group is required to make provision for deferred income taxes on the revaluation of certain property assets on the difference between the carrying values or financial reporting purposes and their tax base. Such deferred tax is charged or credited directly to the reserve.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.11 Provisions

Provisions for legal claims 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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 passage of time is recognised as finance costs.

1. Summary of material accounting policy information - continued

1.12 Revenue recognition

Revenues include all revenues from the ordinary business activities of the group. Ordinary activities do not only refer to the core business but also to other recurring sales of goods or rendering of services. Revenues are recorded net of value added tax. The group's business includes property sales, property rentals and sales of services in the hospitality industry, carpark, marina, tower bar and complex management operations.

(a) Sale of goods and services

Revenues are recognised in accordance with the provision of goods or services, provided that collectability of the consideration is probable.

IFRS 15 requires that at contract inception the goods or services promised in a contract with a customer are assessed and each promise to transfer to the customer the good or service is identified as a performance obligation. Promises in a contract can be explicit or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

A contract asset must be recognised if the group's recorded revenue for fulfilment of a contractual performance obligation before the customer paid consideration or before – irrespective of when payment is due – the requirements for billing and thus the recognition of a receivable exist. The group classifies a contract asset as accrued income.

A contract liability must be recognised when the customer paid consideration or a receivable from the customer is due before the group fulfilled a contractual performance obligation and thus recognised revenue. The group classifies the contract liabilities as advanced deposits or deferred income.

IFRS 15 provides more detailed guidance on how to account for contract modifications. Changes must be accounted for either as a retrospective charge (creating either a catch up or deferral of previously recorded revenues), prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts which will not require any reallocation.

Property sales

The group develops and sells properties for commercial and residential purposes. Revenue is recognised when control over the property has been transferred to the client. The properties have generally no alternative use for the group after legal title has passed to the customer due to contractual restrictions. An enforceable right to payment does not arise until legal title has passed to the customer. These transactions generally relate to property delivered in a finished state. The period for execution of these transaction generally exceeds 12 months but rarely goes beyond 24 months. The group considers the conditions set in the property transfer contract which includes the transfer of the title of the property and all the related building and finishes as one performance obligation. This is because the goods or services provided by the group are not separately identifiable from other promises in the contract. In effect, the customer expects and has contracted to receive the property in a finished state. Although the goods or services received by the customer from the group are capable of being distinct (for e.g. the overall management of the project, site preparation, construction, plumbing, electrical services and other finishing), these are all be combined into one performance obligation.

1. Summary of material accounting policy information - continued

1.12 Revenue recognition - continued

(a) Sale of goods and services - continued

Property sales - continued

The group recognises revenue from the point in time when the legal title has passed to the customer until all the contractual performance obligation are executed and delivered. Generally, the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The client controls the asset upon the transfer of property title. Therefore, as the finishing works are being performed by the group, it is the customer who controls the assets being created from such works. In measuring revenue over time, management measures its progress towards complete satisfaction of that performance obligation, in order to determine the timing of revenue recognition. The purpose of measuring progress towards satisfaction of a performance obligation is to recognise revenue in a pattern that reflects the transfer of control of the promised good or service to the customer.

On the allocation of the total contract transaction price to identified portions of performance obligations, a portion of the total transaction price can be allocated to performance obligations portions that are unsatisfied or partially satisfied at the end of the reporting period. These are referred to as unfulfilled performance obligations and are the goods or services that the group is obliged to provide to clients and customers during the remaining fixed term of the contract.

The revenue is measured at the transaction price agreed under the contract and the consideration is due when legal title has been transferred. In most cases, this give rise to contract liabilities in the form of advance deposits for portion of the performance obligations not yet executed by the group at the date of the contract. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

The group does not consider costs to fulfil contracts to be significant as costs in connection with property sales will generally fall within the scope of IAS 2 – Inventories until disposal of the asset, at which stage the asset recognised from capitalising the costs to obtain or fulfil a contract is amortised on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates. Since the performance obligation will be satisfied over time, the group release these costs using a method consistent with the method used to measure progress and recognise revenue. The assumptions underlying the period over which the costs are expensed are periodically reviewed and adjusted in line with observations. Termination of the contractual relationship with the customer results in the immediate expensing of the remaining deferred costs. Where the carrying amount of deferred costs exceeds the remaining consideration expected to be received for the transfer of the related goods and services, less expected costs relating directly to the transfer of these goods and services still to be incurred, the excess amount is similarly immediately expensed.

Sales of services in the hospitality activity

Revenue from services is generally recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue arising on hospitality activities are recognised when the service is performed and goods are supplied. Revenue is usually in cash, credit card or on credit. The recorded revenue includes credit card fees payable for the transaction.

1. Summary of material accounting policy information - continued

1.12 Revenue recognition - continued

(a) Sale of goods and services - continued

Sales of goods - retail

Sales of goods are recognised when the group has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in finance costs. Restaurant and bar sales are recognised upon performance of the service.

Sales of services

Sales of services including income from marina, car park and complex management are recognised in the accounting period in which the services are provided, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Financing

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

(b) Property rentals and related income

Rentals receivable, short-term lets receivable and premia charged to tenants of immovable property are recognised in the period when the property is occupied. Premia are taken to the income statement over the period of the leases to which they relate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

1.13 Contract assets and liabilities

The timing of revenue recognition may differ from customer invoicing. Trade receivables presented in the statement of financial position represent an unconditional right to receive consideration (primarily cash), i.e. the services and goods promised to the customer have been transferred.

By contrast, contract assets mainly refer to amounts allocated per IFRS 15 as compensation for goods or services provided to customers for which the right to collect payment is subject to providing other services or goods under that same contract. These assets are classified and disclosed as accrued income.

Contract liabilities represent amounts paid by customers before receiving the goods and/or services promised in the contract. This is typically the case for advances received from clients or amounts invoiced and paid for goods or services not transferred yet, such as contracts payable in advance. These liabilities are classified and disclosed as advanced deposits or deferred income.

1. Summary of material accounting policy information - continued

1.14 Deferred Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants related to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants related to assets, i.e. in respect of the purchase of property, plant and equipment, are included in liabilities as deferred government grants, and are credited to profit or loss on a straight-line basis over the expected lives of the related assets, presented within 'Other operating income'.

Grants related to income are presented as a deduction in reporting the related expense.

1.15 Finance income and costs

Finance income and costs are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method.

When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate. Finance costs includes the effect of amortising any difference between net proceeds and redemption value in respect of the group's borrowings.

1.16 Leases

Where the group is a lessor

Assets leased out under operating leases are included in investment property in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned investment property. Rental income is recognised as it accrues, unless collectability is in doubt. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of the adoption of the new leasing standard.

1.17 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment, investment property or property held for development and resale 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 use. 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 initial net proceeds and redemption value in respect of the group's interest-bearing borrowings.

1.18 Dividend distribution

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

2. Financial risk management

2.1 Financial risk factors

The group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management, covering risk exposures for all subsidiaries focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

The board of directors provides principles for overall group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. The group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective group's functional currency.

The group is exposed to foreign exchange risk arising primarily from the group's purchases, a part of which are denominated in the US dollar. Management does not consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions to be significant since balances are settled within very short periods in accordance with the negotiated credit terms. Also foreign exchange risk attributable to future transactions is not deemed to be material since the group manages the risk by reflecting, as far as is practicable, the impact of exchange rate movements registered with respect to purchases in the respective sales prices.

All the group's loans and receivables, cash and cash equivalent and borrowings are denominated in euro.

Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of reporting year is not deemed necessary.

(ii) Cash flow and fair value interest rate risk

The group does not have significant interest-bearing assets, and its income and operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates, comprising bank borrowings (Note 13), expose the group to cash flow interest rate risk. The group's borrowings are subject to an interest rate that varies according to revisions made to the Bank's Base Rate. Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Borrowings issued at fixed rates, consisting primarily of loans from fellow subsidiaries which are carried at amortised cost (Note 13) and therefore do not expose the group to cash flow and fair value interest rate risk. As at 31 December 2023 the group did not have any bank borrowings.

Based on the above, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial. As at 31 December 2023, the group did not have any borrowings subject to floating rates.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk

Credit risk principally arises from cash and cash equivalents comprising deposits with financial institutions, and loans and advances to related parties, as well as credit exposures to clients and customers, including outstanding receivables and committed transactions. The group's and the company's principal exposures to credit risk as at the end of the reporting period are analysed as follows and is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The figures disclosed in the table below in respect of trade and other receivables exclude prepayments and advance payments on projects:

The maximum exposure to credit risk at the end of the reporting period was:

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Carrying amounts				
Financial assets measured at amortised cost				
Trade and other receivables (Note 7)	24,727,321	22,785,293	40,742,774	34,999,660
Other financial assets at amortised cost (Note 9)	11,765,877	-	11,765,877	-
Cash and cash equivalents (Note 10)	7,327,831	15,471,309	6,210,706	13,569,380
	43,821,129	38,256,602	58,719,357	48,569,040

The maximum exposure to credit risk at the end of the reporting period in respect of the trade receivables by type of customer was:

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Property development and management	2,281,492	1,814,247	659,785	1,120,887
Hospitality	805,188	1,319,540	805,188	1,319,540
	3,086,680	3,133,787	1,464,973	2,440,427

The group and the company holds collateral as security for the receivables within the property related sector for an amount of €573,000 (2022: €573,000).

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Trade and other receivables (including contract assets)

The group assesses the credit quality of its trade customers, the majority of which are unrated, taking into account financial position, past experience and other factors. The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. It has policies in place to ensure that sales of goods and services are effected to customers with an appropriate credit history. Standard credit terms are in place for individual clients, however, wherever possible, new corporate customers are analysed individually for creditworthiness before the group's standard payment and service delivery terms and conditions are offered. The creditworthiness analysis for new customers includes a review through external sources when available. The group monitors the performance of its trade and other receivables on a regular basis to identify incurred collection losses, which are inherent in the group's debtors, taking into account historical experience in collection of accounts receivable.

In view of the nature of the group's activities and the market in which it operates, a limited number of customers account for a certain percentage of the group's trade and other receivables. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk with respect to contractual debts, these exposures are monitored and reported more frequently and rigorously. These customers trade frequently with the respective group undertakings and are deemed by management to have positive credit standing, usually taking cognisance of the performance history without defaults.

The group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The group's trade and other receivables, which are not credit impaired financial assets, are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any significant losses from non-performance by these customers.

Impairment of trade and other receivables (including contract assets)

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Impairment of trade and other receivables (including contract assets) - continued

The expected loss rates are based on the payment profiles of sales over a period of time before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group adjusts the historical loss rates based on expected changes in these factors. On that basis, the loss allowance for the group and the company as at 31 December 2023 amounted to €306,828 and €255,736 and 1 January 2023 amounted to €490,707 and €303,655. This assessment did not give rise to material difference upon the adoption of IFRS 9. No further analysis of these loss allowances have been disclosed in these financial statements as the overall allowances are not deemed material in the context of the group's financial position and performance.

The group established an allowance for impairment that represented its estimate of expected credit losses in respect of trade and other receivables. The individually credit impaired trade receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Hence, provisions for impairment in respect of credit impaired balances with corporate trade customers relate to entities which are in adverse trading and operational circumstances. Reversals of provisions for impairment of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The group and the company do not hold any significant collateral as security in respect of the credit impaired assets.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts written off are credited against the same line item.

Cash and cash equivalents

The group principally banks with local and European financial institutions with high-quality standing or rating.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is insignificant.

Other financial assets at amortised cost

In 2023, the company started to invest in short-term treasury bills issued by the German government. The government's debt instruments are sovereign in nature and rated AAA, therefore the expected credit loss provision is considered to be minimal.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Loans receivable from subsidiaries and amounts due from subsidiaries

The group and the company's receivables include loans receivable from subsidiaries and fellow subsidiaries (Notes 7 and 14). The group monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any significant losses from non-performance or default.

Loans receivable from subsidiary are categorised as Stage 1 for IFRS 9 purposes (i.e. performing) in view of the factors highlighted above. The expected credit loss allowances on such loans are based on the 12-month probability of default, capturing 12-month expected losses and hence are considered insignificant.

(c) Liquidity risk

The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally 'trade and other payables' and 'interest-bearing borrowings' (Notes 14 and 13). 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.

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a 12-month period detailed by the group segments to ensure that no additional financing facilities are expected to be required over the coming year.

Moreover, annual detailed cash flow projections are prepared to assess the matching of cash inflows and outflows arising from expected maturities of financial instruments. The group manages its liquidity risk through this continuous assessment, coupled with the group's committed borrowing facilities (that it can access) to meet liquidity needs as referred to previously.

The carrying amounts of the group's assets and liabilities are analysed into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date in the respective notes to the financial statements.

The following table analyses the group's and company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

Group	Carrying amount €	Contractual cash flows €	Within one year €	One to five years €
31 December 2023				
Loans from fellow subsidiary	49,927,107	54,137,842	26,709,178	27,428,664
Trade and other payables	13,647,342	13,647,342	13,647,342	-
	63,574,449	67,785,184	40,356,520	27,428,664
31 December 2022				
Loans from fellow subsidiary	49,891,283	56,375,342	2,237,500	54,137,842
Trade and other payables	11,684,287	11,684,287	11,684,287	-
	61,575,570	68,059,629	13,921,787	54,137,842
Company				
	Carrying amount €	Contractual cash flows €	Within one year €	One to five years €
31 December 2023				
Loans from fellow subsidiary	49,927,107	54,137,842	26,709,178	27,428,664
Trade and other payables	11,740,473	11,740,473	11,740,473	-
	61,667,580	65,878,315	38,449,651	27,428,664
31 December 2022				
Loans from fellow subsidiary	49,891,283	56,375,342	2,237,500	54,137,842
Trade and other payables	10,637,957	10,637,957	10,637,957	-
	60,529,240	67,013,299	12,875,457	54,137,842

2. Financial risk management - continued

2.2 Capital risk management

The capital of the group is managed with a view of maintaining a controlled relationship between capital and structural borrowings in order to maintain an optimal capital structure which reduces the cost of capital. To maintain or adjust its capital structure, the group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as structural borrowings divided by total capital.

Total capital is measured by reference to the amounts reflected in the consolidated financial statements where the property, plant and equipment are stated at revalued amounts that are regularly assessed and updated as necessary. Reported equity is adjusted for fair value surplus (net of deferred tax) over the notional carrying amount of investment property.

Furthermore, the group has not taken account of potential fair value surpluses related to a number of undeveloped properties within its inventory portfolio. These properties comprise namely, the Halland land and the directum dominium related to the Portomaso land. The directors consider the potential increase over the recorded base cost from the respective revaluations as latent equity which will be realized when the respective property earning potential is crystallized.

Structural borrowings include all interest bearing borrowings stated net of any funds made available for the repayment of such liabilities. Borrowings include loans from a fellow subsidiary (Tumas Investments p.l.c.) whose unsecured bonds and bank borrowings are secured and guaranteed by the company.

The gearing ratios at 31 December 2023 and 2022 were as follows:

	Group	
	2023	2022
	€	€
Total borrowings (Note 13)	49,927,107	49,891,283
Less: Cash and cash equivalents (Note 10)	(7,327,931)	(15,471,309)
Net borrowings	42,599,176	34,419,974
Reported equity	146,908,623	140,679,379
Adjustment for fair value on investment property	26,459,423	24,191,899
Total equity	173,368,046	164,871,278
Total capital	215,967,222	199,291,252
Gearing	20%	17%

2. Financial risk management - continued

2.3 Fair values of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses as a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Refer to Note 4 for details of such techniques.

Financial instruments not carried at fair values

The carrying amounts of cash at bank, trade receivables (net of impairment provisions), payables and borrowings are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

As at the end of the reporting period, the fair values of financial assets and liabilities, approximate the carrying amounts shown in the statement of financial position.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

As referred to in Note 4 to the financial statements, the group's and company's land and buildings category of property, plant and equipment was re-valued on 31 December 2018 by the directors on the basis of professional advice, which considers forecasted net potential returns for the property.

4. Property, plant and equipment

Group and Company	Land and buildings €	Assets not yet commissioned €	Mechanical and electrical equipment €	Furniture, fixtures and operational equipment €	Total €
At 1 January 2022					
Cost or valuation	143,734,058	42,849	29,772,266	22,154,400	195,703,573
Accumulated depreciation	(5,401,285)	-	(23,450,487)	(13,657,290)	(42,509,062)
Net book amount	138,332,773	42,849	6,321,779	8,497,110	153,194,511
Year ended 31 December 2022					
Opening net book amount	138,332,773	42,849	6,321,779	8,497,110	153,194,511
Commissioned assets and additions	401,344	449,191	616,653	650,040	2,117,228
Disposals	(748,356)	-	(44,520)	(487,489)	(1,280,365)
Depreciation charge	(2,398,258)	-	(891,690)	(1,713,074)	(5,003,022)
Depreciation released on disposal	748,356	-	44,520	477,917	1,270,793
Net transfers from investment property	406,177	-	-	-	406,177
Closing net book amount	136,742,036	492,040	6,046,742	7,424,504	150,705,322
At 31 December 2022					
Cost or valuation	143,698,401	492,040	30,344,399	22,316,951	196,851,791
Accumulated depreciation	(6,956,365)	-	(24,297,657)	(14,892,447)	(46,146,469)
Net book amount	136,742,036	492,040	6,046,742	7,424,504	150,705,322
Year ended 31 December 2023					
Opening net book amount	136,742,036	492,040	6,046,742	7,424,504	150,705,322
Commissioned assets and additions	14,955	203,210	654,491	451,981	1,324,637
Disposals	(2,027)	-	-	(39,601)	(41,628)
Depreciation charge	(2,386,202)	-	(750,118)	(1,519,261)	(4,655,581)
Depreciation released on disposal	2,027	-	-	32,492	34,519
Closing net book amount	134,370,789	695,250	5,951,115	6,350,115	147,367,269
At 31 December 2023					
Cost or valuation	143,711,329	695,250	30,998,890	22,729,331	198,134,800
Accumulated depreciation	(9,340,540)	-	(25,047,775)	(16,379,216)	(50,767,531)
Net book amount	134,370,789	695,250	5,951,115	6,350,115	147,367,269

4. Property, plant and equipment - continued

Fair valuation of property

On 31 December 2018, the directors approved the revaluation of the group's and company's property, plant and equipment, which comprises the Hilton Hotel, the Portomaso car park and related ancillary operations, after assessing the valuations prepared by professionally qualified valuers. The valuation is based on the discounted cash flow methodology. The book value of the property has been adjusted to the revaluation and the resultant surplus, net of applicable deferred income taxes, has been credited to the revaluation reserve in other comprehensive income within shareholders' equity (Note 12). The directors are of the opinion that the carrying amount of property, plant and equipment as at 31 December 2023, does not differ materially from that which would be determined using fair values that take account of the above considerations.

The group and the company are required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

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

The group's and the company's land and buildings, within property, plant and equipment, comprises the properties described above; investment property (Note 5) comprises principally the Portomaso Business Towers and commercial outlets leased out principally to third parties. Certain areas within this portfolio are also rented out to fellow subsidiaries within the Tumas group. All the recurring property fair value measurements at 31 December 2023 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The group's and the company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2023.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy is reflected in the table above. Movements reflect additions, disposals and depreciation for the year ended 31 December 2023.

4. Property, plant and equipment - continued

Valuation processes

The valuations of the properties are performed regularly taking into consideration valuation reports prepared by qualified valuers. These reports are based on both:

- information provided by the group which is derived from the group's financial systems and is subject to the group's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the board of directors and top officials within the group's finance function. This includes a review of fair value movements over the period.

Valuation techniques

Given the specific nature of these assets, the valuations of the Level 3 property have been performed by reference to valuation models. These valuation models include:

- in the case of the Hilton Hotel, the Portomaso car park and related ancillary operations classified as property, plant and equipment, the property, plant and equipment's discounted projected cash flows; and
- in the case of the Portomaso Business Tower and commercial outlets leased out and classified as investment property, three years average rental value earned, capitalised at a rate ranging from 6% to 12% that reflects the risks inherent in the utilisation of the specific properties.

The future cash flows from operating the Hilton Hotel and related ancillary operations (including the Portomaso car park) have been derived from financial forecasts assessed in relation to past performance and the industry's general outlook. The significant inputs to this approach include:

Net cash inflows	based on the actual operating net cash inflows generated and projected forwards for a ten year period. These cash flows take into consideration periodic capital expenditure based on expected refurbishment costs that will be incurred over the period of projections.
Growth rate	based on management's estimated average growth in the hotel's operating cash flows; and
Discount rate	reflecting current market assessments of the uncertainty in the amount and timing of cash flows, and based on current market risk free rates, an equity market risk premium and other risk premiums attached to an investment in the property being valued including any element of projection risk inherent in the projected future cash flows;
Terminal value	based on the properties' net operating cash flows at the end of the ten year projection period, and capitalised at a capitalisation rate that reflects the properties' actual location, size and quality and taking into account market data at the valuation date.

4. Property, plant and equipment - continued

Valuation techniques - continued

The significant unobservable inputs in the valuation of the Portomaso Business Tower and commercial outlets leased out include the average annual rental value of the properties, and a capitalisation rate that reflects the properties' actual location, size and quality and taking into account market data at the valuation date.

Information about fair value measurements of property, plant and equipment using significant unobservable inputs (Level 3) include average post-tax net cash flows of €7.5 million (2022: pre-tax net cash flows of €13 million) in the explicit period with an average growth rate of 2% (2022: 2%) in the residual value and a post-tax average of 7.46% (2022: pre-tax average of 10.5%).

In respect of these valuations, the higher the post-tax operating cash inflows, growth rate, and terminal value, the higher the fair value. Conversely, the lower the discount rate, the estimated refurbishment costs, and capitalisation rate used in calculating the terminal value, the higher the fair value.

As at 31 December 2023, the carrying amount of land within property, plant and equipment amounts to €67,400,000 (2022: €67,400,000). The carrying amount of land would have been €863,468 (2022: €863,468) had the assets been included in the financial statements at cost.

Depreciation charge of €4,655,581 (2022: €5,003,022) is included in the group's and company's income statements as follows: €4,618,917 (2022: €4,969,007) in cost of sales and €36,664 (2022: €34,015) in administrative expenses.

Borrowings are secured by the group's property, plant and equipment (Note 13).

5. Investment property

	Group and Company	
	2023	2022
	€	€
Year ended 31 December		
Opening net book amount	14,288,759	14,425,515
Transfers from property held for resale	-	178,339
Net transfers to property, plant and equipment	-	(406,177)
Additions	1,253,798	1,008,356
Disposals	(1,379)	(1,472,342)
Depreciation charge	(763,315)	(651,600)
Depreciation released on disposal	-	1,206,668
Closing net book amount	14,777,863	14,288,759
At 31 December		
Cost or valuation	24,244,993	22,992,574
Accumulated depreciation	(9,467,130)	(8,703,815)
Net book amount	14,777,863	14,288,759

As at 1 January 2022, the cost and accumulated depreciation of the group's and company's investment property amounted to €23,589,578 and €9,164,061 respectively. Depreciation charge of €763,315 (2022: €651,600) is included in cost of sales.

Borrowings are secured by the group's investment property (Note 13).

5. Investment property - continued

The fair open market value of investment property as at 31 December 2023 is estimated by the directors at €44,177,222 (2022: €41,168,647) on the basis of the present value of contracted and anticipated income streams from the property concerned.

The vast majority of the above noted investment property is presently leased out under operating leases to third parties and related parties within the Tumas Group.

The following amounts have been recognised in the income statements:

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Rental income	4,220,259	4,060,128	1,300,000	1,300,000
Direct operating and administrative expenses	(969,019)	(865,326)	(864,263)	(738,995)

6. Investments in subsidiaries

	Company	
	2023	2022
	€	€
At 31 December		
Opening and closing cost and net book amount	118,791	118,791

Details of the above investments held in subsidiaries at 31 December is shown below:

	Registered office	Class of shares held	Percentage of shares held	
			2023	2022
			%	%
Portomaso Leasing Company Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	100	100
Holland Developments Company Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	100	100
Premium Real Estate Investment Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	99	99

7. Trade and other receivables

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Non-current				
Trade receivables	573,000	-	573,000	-
Amounts owed by parents	952,288	4,281,575	952,288	4,281,575
Amounts owed by subsidiaries	-	-	16,164,160	12,858,240
Amounts owed by fellow subsidiaries	1,025,091	1,025,094	1,025,091	1,025,094
	2,550,379	5,306,669	18,714,539	18,164,909
Current				
Trade receivables	2,513,680	3,133,787	1,464,973	2,440,427
Amounts owed by parent	1,533,655	5,925	1,527,730	-
Amounts owed by subsidiary	-	-	1,624,649	282,990
Amounts owed by fellow subsidiaries	17,963,764	14,244,640	17,363,109	14,017,451
Amounts owed by related parties	117,455	30,487	-	30,487
Other receivables	48,388	63,785	47,774	63,398
Advance payments on projects	1,563,677	1,282,307	318,703	234,020
Prepayments and accrued income	1,688,593	462,121	1,223,066	194,512
	25,429,212	19,223,052	23,570,004	17,263,283
Total trade and other receivables	27,979,591	24,529,721	42,284,543	35,428,192

Amounts owed by parents, subsidiaries, fellow subsidiaries and related parties are unsecured, and are repayable on demand. Included in these amounts, there are funds advanced to a fellow subsidiary amounting to €17,642,124 (2022: €14,600,000) which bears interest at 1.8% (2022: 1%). The directors do not expect that related amounts disclosed as non-current are settled within the next twelve months. The company's exposure to liquidity risk related to trade and other receivables is disclosed in Note 2.

Receivables above are stated net of provision for impairment of receivables:

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Trade receivables	306,828	490,707	255,736	303,655

Advanced payments on projects relate to funds advanced to suppliers not yet utilised for development works as at year end. These mainly relate to new projects entered into by the group.

7. Trade and other receivables - continued

As disclosed in accounting policy 1.12 and 1.13 the group classifies contract assets as accrued income.

The provision for impairment of receivables for the year is disclosed in Note 17 and is included in the income statement as follows:

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Cost of sales	-	40,000	-	40,000
Administrative expenses	(181,695)	23,446	(45,735)	52,534
	(181,695)	83,446	(45,735)	92,534

The group's exposure to credit and currency risks and impairment losses relating to trade receivables are disclosed in Note 2.

The amount of expected loss to be provided for in accordance with IFRS 9 was not deemed material and thus it was not reflected in the group's financial assets.

8. Inventories

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Property held for resale	30,616,300	24,827,823	6,928,462	6,772,698
Food and beverage	267,850	249,916	267,850	249,916
Consumables	568,279	571,309	568,279	571,309
	31,452,329	25,649,048	7,764,591	7,593,923

Borrowings are secured by the group's property held for resale (Note 13).

9. Other financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	Group and Company	
	2023	2022
	€	€
Current		
Treasury bills	11,765,877	-

The company's exposure to credit risk related to other financial assets at amortised cost is disclosed in Note 2.

10. Cash and cash equivalents:

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

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Cash at bank and in hand	7,327,931	15,471,309	6,210,706	13,569,380

The amount of expected loss to be provided for in accordance with IFRS 9 was not deemed material and thus it was not reflected in the group's financial assets.

11. Share capital

	Group and Company	
	2023	2022
	€	€
Authorised, issued and fully paid		
1,164,687 ordinary "A" shares of €1 each	1,164,687	1,164,687
6,988,119 ordinary "B" shares of €1 each	6,988,119	6,988,119
5,499,999 redeemable 6% preference shares of €1 each	5,499,999	5,499,999
	13,652,805	13,652,805

Each ordinary share entitles the holder thereof to one vote at general meeting of the company. The ordinary shares shall rank pari passu in all respects independently of the letter by which they are denoted. Redeemable preference shares shall not carry any voting rights.

12. Revaluation reserves

	Group and Company	
	2023	2022
	€	€
Surplus arising on revaluation of land within:		
Property, plant and equipment	85,043,149	85,868,649
Investment property	1,191,185	1,191,185
Revaluation reserves at end of year	86,234,334	87,059,834
Revaluation of property, plant and equipment		
At the beginning of year, before deferred taxation	112,967,747	114,237,747
Transfer of depreciation to retained profits through asset use	(1,270,000)	(1,270,000)
	111,697,747	112,967,747
Deferred taxation (Note 15)	(26,654,598)	(27,099,098)
At 31 December	85,043,149	85,868,649
Revaluation of investment property		
At the beginning of year, before deferred taxation	1,339,584	1,339,584
Deferred taxation (Note 15)	(148,399)	(148,399)
At 31 December	1,191,185	1,191,185

The revaluation reserves are non-distributable reserves.

13. Borrowings

	Group and Company	
	2023	2022
	€	€
Non-current		
Loans from fellow subsidiary	24,940,669	49,891,283
	24,940,669	49,891,283
Current		
Loans from fellow subsidiary	24,986,438	-
	24,986,438	-
Total borrowings	49,927,107	49,891,283

The bank loans and overdrafts are secured by:

- (a) general and special hypothecs over the group's assets;
- (b) general hypothecs and guarantees provided by fellow subsidiaries;
- (c) pledges on the group's insurance policies;
- (d) letters of undertaking.

The group's and company's banking facilities as at 31 December 2023 amounted to € 2,445,589 and €2,345,589 respectively (2022: €2,438,599 and €2,338,599).

Loans from fellow subsidiary are disclosed at the value of the proceeds less the net book amount of the issue costs, as follows:

	Group and Company	
	2023	2022
	€	€
Face value of loans from fellow subsidiary	50,000,000	50,000,000
Issue costs	(318,430)	(318,430)
Accumulated amortisation	245,537	209,713
Closing net book amount	(72,893)	(106,717)
Amortised cost at 31 December	49,927,107	49,891,283

13. Borrowings - continued

By virtue of an offering memorandum dated 7 July 2014, the group issued 5% bonds maturing in 2024 for an amount of €25,000,000 through Tumas Investments plc. The bonds are guaranteed by the company, which has bound itself jointly and severally liable for the payment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum. The bond is due for redemption on 31 July 2024. It is being fully redeemed out of funds already generated by the company amounting to €17 million, and sanctioned bank financing amounting to €18 million.

By virtue of an offering memorandum dated 29 May 2017, the group issued 3.75% bonds maturing in 2027 for an amount of €25,000,000 through Tumas Investments plc. The bonds are guaranteed by the company, which has bound itself jointly and severally liable for the payment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum.

Proceeds for these bonds have been advanced to the company through loans from fellow subsidiary.

The interest rate exposure of borrowings was as follows:

	Group and Company	
	2023	2022
	€	€
Total borrowings:		
At fixed rates	49,927,107	49,891,283

Weighted average effective interest rates at the end of the reporting period date:

	Group and Company	
	2023	2022
Loans from fellow subsidiaries	4.5%	4.5%

This note provides information about the contractual terms of the group's and company's interest-bearing loans and borrowings. For more information about the group's and company's exposure to interest rate and liquidity risk, see Note 2.

14. Trade and other payables

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Current				
Trade payables	3,617,172	2,532,132	2,876,973	2,408,510
Advance deposits	464,090	275,422	207,239	-
Capital and other payables	3,649,557	3,095,712	3,649,557	3,095,712
Deferred institutional grant	17,250	20,125	17,250	20,125
Amounts owed to related parties	247,832	232,112	247,832	232,112
Indirect and other taxation	621,917	559,298	511,281	455,982
Accruals and deferred income	5,510,864	5,265,033	4,454,830	4,445,641
Total trade and other payables	14,128,882	11,979,834	11,964,962	10,658,082

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

Institutional grants relate to funds advanced directly by the Government of Malta or other institutions to the company, co-financing its capital expenditure on the property, plant and equipment. Such funds are treated as deferred income and are credited to the profit and loss account on a systematic basis over the useful lives of the assets. The closing amount relates to the deferred portion of these grants to be credited to the profit and loss account on a systematic basis over the remaining useful life of the property, plant and equipment owned by the company.

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 2.

15. Deferred taxation

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
At beginning of year	26,437,601	26,441,365	25,603,069	25,617,014
Deferred tax on transfer of depreciation through asset use (Note 21)	(444,500)	(444,500)	(444,500)	(444,500)
Deferred tax on temporary differences arising on depreciation of non-current assets (Note 21)	(396,005)	(393,358)	(396,005)	(393,358)
Deferred tax on temporary differences arising on capital allowances (Note 21)	-	540,690	-	540,690
Deferred tax on temporary differences arising on provisions (Note 21)	64,357	(22,206)	16,771	(32,387)
Deferred tax on unutilised investment tax credits (Note 21)	-	315,610	-	315,610
Deferred tax on temporary differences arising on rental income	103,476	-	-	-
At 31 December	25,764,929	26,437,601	24,779,335	25,603,069

The balance at 31 December represents temporary differences on:

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Revaluation of property, plant and equipment (Note 12)	26,654,598	27,099,098	26,654,598	27,099,098
Revaluation of investment property (Note 12)	148,399	148,399	148,399	148,399
Revaluation of property held for resale	900,000	900,000	-	-
Depreciation of non-current assets	(1,934,175)	(1,538,170)	(1,934,175)	(1,538,170)
Rental income	103,476	-	-	-
Provisions	(107,369)	(171,728)	(89,487)	(106,258)
	25,764,929	26,437,601	24,779,335	25,603,069

Deferred 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 realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2022: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property which as from 2015 is computed on the basis applicable to disposals of immovable property, that is, tax effect of 10% of the transfer value.

The hospitality arm of the group has been availing itself of investment aid under the various investment tax credit schemes that were applicable for hotels during 2018.

16. Revenue

The group's operations consist of the ownership of prime tourism and leisure properties, which include the operation of a hotel, the development of residential, rental and commercial property for trading and renting purposes and the provision of ancillary services to this industry. All these operations are conducted locally.

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Hospitality and ancillary services	44,112,263	34,801,693	44,112,263	34,801,693
Property development	197,690	1,580,000	197,690	1,580,000
Rental operations	4,517,163	4,069,570	1,300,000	1,300,000
Complex management operations	3,270,188	2,972,488	3,237,169	2,928,439
	52,097,304	43,423,731	48,847,122	40,608,132

17. Expenses by nature

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Employee benefit expense (Note 18)	11,413,977	8,997,701	11,413,977	8,997,701
Depreciation on:				
- Property, plant and equipment (Note 4)	4,655,581	5,003,022	4,655,581	5,003,022
- Investment property (Note 5)	763,315	651,600	763,315	651,600
Property development costs	(89,192)	742,005	(89,192)	742,005
Operating supplies and related expenses	2,721,520	2,302,765	2,721,520	2,302,765
Water, electricity and fuel costs	1,809,041	1,728,373	1,809,041	1,728,373
Operators charges	2,743,822	2,143,983	2,743,822	2,143,983
(Decrease)/increase in provisions for impairment of receivables (Note 7)	(181,695)	63,448	(45,735)	92,534
Management fees	700,000	700,000	700,000	700,000
Commissions payable	2,085	45,504	2,085	45,504
Other expenses	11,960,612	9,690,801	11,742,855	9,481,600
Total cost of sales, administrative expenses	36,409,066	32,069,200	36,417,269	31,889,087

17. Expenses by nature - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2023 and 2022 relate to the following:

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Annual statutory audit	64,490	62,219	58,170	58,200
Other assurance services	11,088	9,920	11,088	9,920
Tax advisory services	2,970	2,020	900	895
Other non-assurance services	2,150	2,000	2,150	2,000
	80,698	76,159	72,308	69,015

18. Employee benefit expense

	Group and Company	
	2023	2022
	€	€
Wages and salaries	11,525,102	8,990,780
Social security costs	865,767	731,023
	12,390,869	9,721,803
Recharged to fellow subsidiaries	(976,892)	(724,102)
	11,413,977	8,997,701

The average number of persons employed by the group and company during the year were:

	Group and Company	
	2023	2022
Direct	291	235
Indirect	112	109
Administration	68	49
	471	393

Wages and salaries are presented net wage supplement from the Government amounting to €Nil (2022: €1,129,225) in view of the COVID-19 pandemic. Grants related to income are presented as a deduction in reporting the related expenses.

19. Finance income and costs

	Group and Company	
	2023	2022
	€	€
Finance income		
Bank interest	46,341	94,595
Interest from fellow subsidiary	364,832	11,145
Interest from parent	29,510	-
Interest in treasury bills	50,005	-
Interest receivable	27,536	-
	518,224	105,740

	Group and Company	
	2023	2022
	€	€
Finance costs and similar charges		
Bank loans and overdrafts	28,904	131,019
Interest to parent	3,563	-
Loans from fellow subsidiaries	2,237,500	2,237,500
Amortisation of issue transaction costs	35,824	34,204
Other finance charges	534,337	431,049
	2,840,128	2,833,772

20. Investment income

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Dividend received from subsidiary	-	-	1,900,000	3,300,000
Gain on sale of investment property	-	322,871	-	322,871
	-	322,871	1,900,000	3,622,871

21. Tax expense

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Current tax expense:				
on taxable profit subject to tax at 35%	4,390,316	1,986,352	4,129,481	1,789,637
on taxable profit subject to tax at 15%	425,186	427,097	6,779	14,189
on taxable income subject to tax at 10%	18,500	168,578	18,500	168,578
on taxable income subject to tax at 5%	-	20,000	-	20,000
Deferred tax (Note 15)	(672,672)	(3,764)	(823,734)	(13,945)
Tax expense	4,161,330	2,598,263	3,331,026	1,978,459

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

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Profit before tax	13,605,074	9,270,452	12,336,889	9,934,968
Tax on profit at 35%	4,761,776	3,244,658	4,317,841	3,477,238
Tax effect of:				
Maintenance allowance on rental income attributable to immovable property	(152,919)	(138,592)	(91,000)	(91,000)
Expenses not allowable for tax purposes	260,596	231,914	241,925	211,099
Over provision of current tax	(82,966)	(45,918)	(92,334)	(40,913)
Impact of change in tax rules on property sales	64,094	25,504	64,094	25,504
Dividend income	-	-	(665,000)	(1,155,000)
Unrecognised deferred tax in prior year	-	(3,969)	-	(3,969)
Property tax rules on rental income	(244,751)	(270,834)	-	-
Temporary differences attributed to property, plant and equipment	(444,500)	(444,500)	(444,500)	(444,500)
Tax expense	4,161,330	2,598,263	3,331,026	1,978,459

22. Dividends

	Group and Company	
	2023	2022
	€	€
<i>Dividends on ordinary shares:</i>		
<i>Distribution from Final Tax account</i>		
Gross and net dividend on ordinary shares	3,000,000	5,000,000
Dividends per share	€0.37	€0.61
<i>Dividend on preference shares:</i>		
<i>Distribution from Final Tax account</i>		
Gross and net dividend on redeemable 8% preference shares	214,500	214,500
Total net dividends	3,214,500	5,214,500

23. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Operating profit	15,926,978	11,675,613	12,758,593	9,040,127
Adjustments for:				
Depreciation on:				
- Property, plant and equipment (Note 4)	4,655,581	5,003,022	4,655,581	5,003,022
- Investment property (Note 5)	763,315	651,600	763,315	651,600
Net gain on disposal of investment property and property, plant and equipment	8,488	58,117	8,488	58,117
Amortisation of issue costs	35,824	-	35,824	-
Movement in provision for impairment of trade and other receivables (Note 7)	(181,695)	63,446	(45,735)	92,534
Changes in working capital:				
Inventories	(5,803,281)	(3,535,866)	(170,668)	(511,027)
Trade and other receivables	(5,727,097)	2,499,863	(5,963,618)	4,350,643
Trade and other payables	2,148,848	(739,019)	1,306,880	(228,215)
Cash generated from operations	11,826,961	15,676,776	13,348,660	18,457,001

Net debt reconciliation

All the movements in the company's net debt related only to cash flow movements and disclosed as part of the financing activities in the statement of cash flows on page 20.

24. Commitments

Capital commitments

At 31 December the group had capital commitments not provided for in these financial statements as follows:

Group	Contracted	Authorised not contracted	Contracted	Authorised not Contracted
	€	2023 €	€	2022 €
Inventory (property development)	5,880,581	24,301,802	8,843,566	25,428,064
Non-current assets	922,220	972,862	666,208	1,074,254
	6,802,801	25,274,664	9,509,774	26,502,318

24. Commitments - continued

Capital commitments - continued

At 31 December the company had capital commitments not provided for in these financial statements as follows:

Company	Contracted	Authorised not contracted	Contracted	Authorised not Contracted
	2023	2023	2022	2022
	€	€	€	€
Inventory (property development)	26,090	236,821	26,963	256,528
Non-current assets	922,220	972,862	686,208	1,074,254
	948,310	1,209,683	693,171	1,330,782

Operating lease commitments - where the group and the company are lessors

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

	Group		Company	
	2023	2022	2023	2022
	€	€	€	€
Not later than 1 year	2,148,463	1,647,435	1,300,000	1,300,000
Later than 1 year and not later than 5 years	5,114,974	3,113,678	-	1,300,000
Later than 5 years	3,724,012	2,365,845	-	-
	10,987,449	7,126,958	1,300,000	2,600,000

The company's leases relate to an operating lease with a subsidiary. Refer to Note 5.

25. Contingencies

At the end of the reporting period, the parent company's major contingent liabilities were:

- Guarantees of €23,922,359 (2022: €26,145,202) issued on behalf of other fellow subsidiaries' bank facilities. The guarantees are supported by general and special hypothecs over the company's assets.
- Guarantees amounting to €123,419 (2022: €116,429) in favour of third parties.

26. Related party transactions

The company forms part of the Tumas Group of Companies. All companies forming part of the Tumas Group are related parties since these companies are all ultimately owned by Tumas Group Company Limited which is considered by the directors to be the ultimate controlling party. Trading transactions between these companies include items which are normally encountered in a group context. The group is ultimately fully owned by members of the Fenech family, who are therefore considered to be related parties.

Related parties also include foreign Hilton hotels and related affiliates. Trading transactions with these related parties are entered into on a regular basis as a result of normal trading transactions, and mainly relate to corporate costs, management fees and operators' charges.

26. Related party transactions - continued

The following transactions were carried out with related parties:

	Group		Company	
	2023 €	2022 €	2023 €	2022 €
Income from services				
Rents receivable from subsidiary	-	-	1,300,000	1,300,000
Rents receivable from fellow subsidiary	1,487,841	1,339,169	-	-
Maintenance fees receivable from subsidiary	-	-	895,978	831,527
Interest receivable from related parties	394,342	11,145	394,342	11,145
Expenditure for goods and services				
Net interest and similar charges payable to related parties	2,241,063	2,237,500	2,241,063	2,237,500
Management fees charged by fellow subsidiaries	700,000	700,000	700,000	700,000
Operators' charges and other fees payable to other related parties	2,743,822	2,143,983	2,743,822	2,143,983
Payroll recharges	976,892	724,102	976,892	724,102

Year end balances arising from related party transactions are disclosed in Notes 7, 14 and 18 to the financial statements.

27. Statutory information

Spinola Development Company Limited is a limited liability company and is incorporated in Malta.

The immediate parent company of Spinola Development Company Limited is Spinola Investments Limited, a company registered in Malta, with its registered address at Tumas Group Corporate Office, Level 3, Portomaso Business Tower, Portomaso, St. Julians, Malta. Spinola Investments Limited is exempt from the preparation of consolidated accounts by virtue of section 174(1)(a) of the Companies Act, 1995.

The ultimate parent company of Spinola Development Company Limited is Tumas Group Company Limited, a company registered in Malta, with its registered address at Tumas Group Corporate Office, Level 3, Portomaso Business Tower, Portomaso, St. Julians, Malta.

Raymond Fenech, a director on all Tumas companies and part shareholder of the Tumas Group, has acted as the executive chairman of the board of Tumas Group Company Limited and as Chief Executive Officer of the Tumas Group generally. All decisions taken by the board of the ultimate parent were executed by the chairman in his role as chief executive officer of the group.

28. Comparative information

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's presentation format for the purpose of fairer presentation.

