Exalco Finance p.l.c. (C-87384)
'Cornerstone Business Centre', Level 4, 16 September Square, Mosta MST1180, Malta

EXALCO

COMPANY ANNOUNCEMENT

Exalco Finance p.l.c.

Approval of the Company's Financial Statements for the financial period ended 31 December 2018

Date of Announcement	8 April 2019
Reference No:	04/2019
Listing Rule:	5.16, 5.61, 5.16.24

QUOTE

During the meeting of the Board of Directors of Exalco Finance p.l.c. (the "Company"), held today the 8th April 2019, the Company's audited financial statements for the financial period ended 31st December 2018 were approved.

The audited financial statements of the Company are attached herewith and are also available for viewing on the Company's website at http://www.exalcogroup.com/investor-relations/.

Furthermore, it is hereby announced that: the audited financial statements of Exalco Properties Limited (C-11273, the guarantor of the €15,000,000 4% Secured Bonds 2028 issued by the Company in terms of a prospectus dated 31 July 2018) as at 31st December 2018 have been approved by its board on 8th April 2019 and have been made available for viewing on the webpage referred to above, in accordance with Listing Rule 5.61; and the audited consolidated financial statements of Exalco Holdings Limited (C—86836, the parent company of Exalco Finance p.l.c. and Exalco Properties Limited) as at 31st December 2018 have been approved by its board on 8th April 2019 and have been made available for viewing on the webpage referred to above, in accordance with the undertaking made in section 5.2 of the registration document forming part of the Prospectus dated 31 July 2018.

For the purposes of Listing Rule 5.16.24, the Board of Directors of the Company reports that during the period under review, the Company's net profit was lower than that envisaged in the Financial Analysis Summary (FAS) published on 31st July 2018, however such shortfall is considered marginal taking into consideration the overall performance of the Exalco Group as highlighted in the abovementioned consolidated audited financial statements.

UNQUOTE

By order of the Board.

Dr. Malcolm Falzon
COMPANY SECRETARY

EXALCO FINANCE p.l.c.

Annual Report and Financial Statements
31 December 2018

Company Registration Number: C87384

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Directors' report

The directors present their first annual report and the audited financial statements for the period 31 December 2018.

Incorporation

The company was incorporated on 17 July 2018 under the terms of the Maltese Companies Act, 1995. Accordingly the financial statements of the company reflect the period from the date of incorporation to 31 December 2018.

Principal activities

The company's principal activity is to carry on the business of an investment company, by raising funds to finance the operations and capital projects of Exalco Properties Limited, a main operating company forming part of Exalco Group.

Review of business

During the period ended 31 December 2018, the company issued €15million worth of secured bonds with a face value of €100 each and having a coupon interest rate of 4%. The bonds were admitted for listing on the Malta Stock Exchange on the 21 August 2018, and were successfully over-subscribed.

In accordance with the provisions of the prospectus, the proceeds from the bond issue have been advanced to the guarantor within the group to refinance banking facilities originally utilised by the guarantor to acquire and/or develop various investment properties and to finance general financing requirements including but not limited to financing of future acquisitions and development of other immovable property in pursuance of the guarantor's business development strategy.

Financial performance

During the period under review, the company registered a profit before taxation amounting to €17,977. After allowing for taxation, the profit for the period amounted to €1,710.

Finance income amounting to €330,778 is generated from a facility fee and interest charged on the loan advanced to Exalco Properties Limited. Financial costs comprise interest payable on the outstanding bond issue and amortisation of the issued costs thereof amounting to €232,774.

Administrative expenses representing listing, compliance costs, together with directors' and professional fees amounted to €51,527.

The directors do not expect any significant changes in the company's activities in the short-term period and expect that the company will continue to register a surplus based on projections for the foreseeable future.

Financial position

The company's balance sheet is in the main, made up of the 4% secured bonds in issue of €15 million and corresponding loan of a similar amount advanced to Exalco Properties Limited, the guarantor of the bond issue. The loan receivable and the bond issued during 2018 are classified in Exalco Finance plc's balance sheet under non-current assets and non-current liabilities respectively as at 31 December 2018. Exalco Finance plc's equity amounted to €251,710.

The company recognises that the key risk and uncertainty of its business is that of the potential non-fulfilment by the borrower (that is, Exalco Properties Limited) of its loan obligations and obligations set in the bond prospectus.

Directors' report - continued

Guarantor's performance for 2018 and outlook for 2019

The financial statements of Exalco Properties Limited, the guarantor of the bonds issued by Exalco Finance plc show a net asset position of €36.6million as at 31 December, 2018.

The guarantor generated revenue of €3,806,838, an increase of €1,075,452 over the comparative year. This increase is mainly attributable to a full twelve months of rental income receivable from the building named "@GiG Beach" as well as rental income generated from the property acquisition mentioned below. This contributed to a profit after tax of €1,379,892.

On 26 September, 2018, Exalco Properties Limited acquired the "Phoenix Building" situated in St. Venera which is to be renamed the "Phoenix Business Centre" on completion. External façade works and internal finishing works to Levels 2 and 3 of the building commenced in October 2018 and are expected to be completed by June 2019 in preparation to receive potential tenants in Quarter 3 2019. The directors are confident that Phoenix Business Centre will achieve 100% occupancy by the end of the year. Bond proceeds are being utilised to part-finance the above mentioned internal finishes. As the building was acquired with two levels already occupied and leased to retail and commercial tenants, income from rental contracts started to accrue to Exalco Properties Limited as from 1 October, 2018.

Same as every year, in 2019 Exalco Properties Limited will continue to renovate and upgrade its existing property portfolio to ensure the buildings remain competitive and attractive in line with new market standards and demands.

The local positive economic situation is expected to continue to drive demand for quality commercial premises and subject to any unforeseen circumstances, the guarantor envisages occupancy levels in 2019 to remain at 100% in all its buildings.

Financial risk management

The company's activities expose it to a variety of financial risks, including credit risk and liquidity risk. Refer to Note 2 to these financial statements.

Results and dividends

The statement of comprehensive income is set out on page 25. The directors do not recommend the payment of a dividend. Profits carried forward at the reporting date amounted to €1,710.

Directors

The directors of the company who held office during the period since incorporation were:

Alexander Montanaro
Jean Marc Montanaro
Michael Montanaro
Mario P. Galea
Kevin J. Valenzia
Lawrence Zammit

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

Directors' report - continued

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 company as at the end of each reporting period and of the profit or loss for that period.

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

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

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

The financial statements of Exalco Finance p.l.c. for the period ended 31 December 2018 are included in the Annual Report 2018, which may be made available on the Exalco 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.

The directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the company as at 31 December 2018, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- the Annual Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that the company and the guarantor face.

Going concern statement pursuant to Listing rule 5.62

After making enquiries, the directors, at the time of approving the financial statements, have determined that it is reasonable to assume that the company has adequate resources to continue operating for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

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

Alexander Montanaro
Director

Jean Marc Montanaro
Director

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Malcolm Falzon
Company secretary

8 April 2019

Corporate governance - Statement of compliance

1. Introduction

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

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

Good corporate governance is the responsibility of the board of directors of the company (the "**Board of Directors**" or the "**Board**"), and in this regard the Board has carried out a review of the company's compliance with the Code for the financial period being reported upon.

2. General

The company's governance lies principally with its Board, which is responsible for the overall determination of the company's policies and business strategies. The company's principal activity is the carrying on the business of a finance company; the company does not itself carry on any trading activities apart from the raising of capital and advancing thereof to Exalco Properties Limited, a private limited liability company registered in Malta with company number C11273 having its registered office at Cornerstone Business Centre, Level 4, 16th September Square, Mosta, MST 1180, Malta, in its capacity as the guarantor (the "Guarantor") of the €15,000,000 4% secured bonds of a nominal value of €100 (the "Bonds"), as and when the demands of its business so requires. The Guarantor's principal activity, in turn, revolves around the acquisition of real estate for long-term investment purposes, the development and re-development of those properties and their conversion into commercial properties, and thereafter, the provision of property management services.

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

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

It is to be noted that reference in this Statement to compliance with the principles of the Code means compliance with the Code's main principles and provisions.

Corporate governance - Statement of compliance – continued

3. Compliance with the Code

Principles One to Five

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

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

Principle One: The Board

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

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

The Board consists of a mix of executive and non-executive directors that enables the Board, and particularly the non-executive directors, to have direct information about the company's performance and business activities.

Principle Two: Chairman and Chief Executive

Alexander Montanaro was appointed as the Chairman of the Board for the period under review. The Chairman's main function is to lead the Board and set its agenda, a function which the Board believes has been conducted in compliance with the dictates of Code Provision 2.2. The Chairman is also responsible to ensure that the Board receives precise, timely and objective information in order for the directors to take sound decisions and effectively monitor the performance of the company. The Chairman ensures that there is effective communication with stakeholders and, during board meetings, that there is active engagement by all directors for the discussion of complex and/or contentious issues. The Board considers that notwithstanding that the Chairman is not an independent director as recommended by the Code, the means for addressing potential conflicts of interest are suitably addressed in statute of the company and terms of reference of the Audit Committee of the Company. Furthermore, the Board considers the present Chairman to be fit and proper to occupy the role.

In terms of Article 74.1 of the Articles of Association of the company, the Board of Directors may from time to time appoint one or more executive directors to the office of Chief Executive Officer of the company, and on such terms as they think fit. As at the end of the period under review, the Board has not appointed a Chief Executive Officer.

Principle Three: Composition of the Board

The composition of the Board, in line with the requirements of Principle Three of the Code, is composed of executive and non-executive directors, including independent non-executives, as follows:

Alexander Montanaro	Executive Director & Chairman
Jean Marc Montanaro	Executive Director
Michael Montanaro	Executive Director
Lawrence Zammit	Non-Executive Director
Mario P. Galea	Non-Executive Director
Kevin Valenzia	Non-Executive Director

Corporate governance - Statement of compliance – continued

Appointment and Removal of Directors

Pursuant to generally accepted practices, as well as the company's Articles of Association, the appointment of directors to the Board is reserved exclusively to the company's shareholders, except in so far as an appointment is made to fill a vacancy on the Board, which may be filled by co-option, made by the Board on the recommendation of the Nominations Committee.

The Articles of Association regulate the appointment of directors. Any one or more shareholders who in aggregate hold not less than 100,000 shares having voting rights in the company are entitled to nominate fit and proper persons having the appropriate level and mix of skills, knowledge and experience required for appointment to the Board, for appointment as directors of the company, such nominations being subject to the approval of the Nominations Committee. In addition, nominations may be made by the Board or the Nominations Committee itself for consideration by the shareholders at the annual general meeting of the company.

As referred to in Principle Eight B of this Statement hereunder, notwithstanding the aforesaid, the Board believes that the setting up of a Nominations Committee is not required at this point in time in view of the fact that the Board itself has the authority to recommend and nominate directors. The Board however intends to keep under review the possibility of having a Nominations Committee in due course.

A director may be removed at any time by the ordinary resolution of the shareholders of the company, or in any of the specific instances set out in the Articles of Association of the company.

Independence of Non-Executive Directors

In line with supporting principle 3 (iii) of main Principle Three, at least one third of the Board consists of non-executive directors. These non-executive directors play an important role in overseeing executive directors and management, ensuring a system of checks and balances and contributing to the strategic direction of the company in an objective manner.

For the purposes of Code Provision 3.2, the Board considers each of the non-executive directors as independent within the meaning of the Code.

None of the non-executive directors:

(a) are or have been employed in any capacity by the company;
(b) receive significant additional remuneration from the company;
(c) have close family ties with any of the executive members of the Board;
(d) have been within the last three years an engagement partner or a member of the audit team of the present or past external auditor of the company; and
(e) have a significant business relationship with the company.

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

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

Corporate governance - Statement of compliance – continued

Principle Four: The Responsibilities of the Board

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

The Board of the company is entrusted with the overall direction, administration and management of the company and meets on a regular basis to discuss and take decisions on matters concerning the strategy, operational performance and financial performance of the company. The Board may also delegate specific responsibilities to *ad-hoc* Committees as may be required from time to time, and in the period under review, the Board has established and maintained an Audit Committee.

Role and Responsibilities of the Board

The role of the Board is exercised in a manner designed to ensure that it can function independently of management and effectively supervises the operations of the company. At each of its meetings, the Board is presented with monthly or quarterly (as applicable) management accounts covering the period since the preceding board meeting.

In fulfilling its mandate, the Board assumes responsibility to:

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

In fulfilling its responsibilities, the Board continuously assesses and monitors the company's present and future operations, opportunities, threats and risks in the external environment, and its current and future strengths and weaknesses. The Board evaluates and reviews the implementation of the business and financial strategy of the company.

In ensuring compliance with other statutory requirements and with continuing listing obligations, the Board is advised directly, as appropriate, by its appointed legal and other advisors. Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the company's expense.

The Board does not consider it necessary to constitute separate committees to deal, *inter alia*, with item (h) above, as might be appropriate in a larger company. The Board believes that the size of the company and the Board itself does not warrant the setting up of an *ad hoc* committee to establish the remuneration packages of individual directors and relies on the constant scrutiny of the Board itself, the company's shareholders, the market and the rules by which the company is regulated as a listed company. The Board shall retain this matter under review over the coming year.

During the financial period under review, the Board held three (3) meetings.

Corporate governance - Statement of compliance – continued

The Audit Committee

In line with the requirements of the Listing Rules, the company has established an Audit Committee whose principal role is the monitoring of internal systems and control. Unlike the provisions of the Code, which are not mandatory in nature, the Directors acknowledge that the requirement of having an Audit Committee in place is an obligation under the Listing Rules.

The members of the Audit Committee for the period under review were Mario P. Galea, Kevin Valenzia and Lawrence Zammit, all occupying a non-executive director role within the Company. Mario P. Galea occupies the post of Chairman of the Audit Committee, which role is subject to rotation between the members on an annual basis. Mario P. Galea and Kevin Valenzia are the Audit Committee members who are considered to be competent in accounting and/or auditing in terms of Listing Rule 5.117. The Directors believe that all three Audit Committee members satisfy the independence criteria as they are independent within the meaning of the Code as explained above in this Statement.

The Audit Committee's primary objective is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structure. The Audit Committee reports directly to the Board. Briefly, the Audit Committee is expected to deal with and advise the Board on:

a. its monitoring responsibility over the financial reporting processes, financial policies and internal control structures;
b. maintaining communications on such matters between the Board, management and the external auditors; and
c. preserving the company's assets by assessing the company's risk environment and determining how to deal with those risks.

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

The Audit Committee of the company has a crucial role in monitoring the activities and conduct of business of the Guarantor, insofar as these may affect the ability of the company to fulfil its obligations in terms of the Bonds. Such role is specified in the Audit Committee's Terms of Reference and also forms the subject of a contractual undertaking by the company in favour of the Guarantor in terms of the loan agreement relative to the bond proceeds, pursuant to which the Guarantor has vested the Audit Committee of the company with certain monitoring functions in light of the company's economic dependence on the Guarantor.

Furthermore, the Audit Committee is vested with the task of ensuring that any potential conflicts of interest between the duties of the directors and their respective private interests or duties unrelated to the company are resolved in the best interests of the company.

The Audit Committee also oversees the conduct of the external audit and facilitates communication between the Company's Board, management and external auditors. When the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on the action needed to address the issue or make improvements.

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

In the period under review, the Audit Committee met twice (2).

Corporate governance - Statement of compliance – continued

Principle Five: Board Meetings

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

The Board meets as often and as frequently required in line with the nature and demands of the business of the company. Directors attend meetings on a frequent and regular basis and dedicate the necessary time and attention to their duties as directors of the company. The following reports the attendance at board meetings of each of the Directors during the period under review:

Alexander Montanaro	Executive Director & Chairman	[3]
Jean Marc Montanaro	Executive Director	[3]
Michael Montanaro	Executive Director	[3]
Lawrence Zammit	Non-Executive Director	[3]
Mario P. Galea	Non-Executive Director	[3]
Kevin Valenzia	Non-Executive Director	[3]

The Chairman ensures that all issues relevant to long-term strategic and short-term performance of the company are placed on the agenda of Board meetings and, for the purpose of discussion thereon, are supported by all available information, whilst encouraging the presentation of views pertinent to the subject matter and giving all directors every opportunity to contribute to the discussion.

Principle Six: Information and Professional Development

The Board believes that this principle has been duly complied with for the period under review. The Board actively engages with the Guarantor's management team, which is effectively composed of the three executive directors of the Company, in the review of their and the Guarantor's performance. The Board ensures that all directors are supplied with precise, timely and clear information so as to enable them to effectively contribute to board decisions in line with the high standards expected of them.

Directors have access to the advice and services of the Company Secretary who is also the legal counsel to the Board and the company, in order to ensure that each director is aware of his/her legal and fiduciary obligations. The company is also prepared to bear the expense incurred by the directors requiring independent professional advice should they judge it necessary to discharge their responsibilities as directors. The Company pledges to make available to the directors all training and advice as required.

Principle Seven: Evaluation of the Board's performance

The Board is of the view that over the period under review, all members of the Board, individually and collectively, have contributed to proceedings in line with the required levels of diligence and skill. In addition, the Board believes that its current composition endows the Board with a cross-section of skills and experience and achieves the appropriate balance required for it to function effectively. The Board considers its own performance, and that of the Audit Committee having oversight of the underlying business conducted by the Guarantor, as satisfactory and not meriting a revision to the company's corporate governance structures.

Corporate governance - Statement of compliance – continued

Principle Eight: Committees

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

The size and structure of the company and its management are such that, in the opinion of the directors, the establishment of an *ad hoc* Remuneration Committee is not warranted. Remuneration policies have therefore been retained within the remit of the Board itself.

Remuneration Statement

In terms of Article 63 of the Articles of Association of the company, the aggregate emoluments of all directors in any one financial year, and any increases thereto, shall be such amount as may from time to time be determined by the company in general meeting. The maximum aggregate annual directors' emoluments currently approved by the shareholders, including salaries due in respect of executive roles, amount to €30,000.

The aggregate amount of remuneration paid to all directors of the company for the period under review was €30,000. Each director received an annual remuneration of €5,000.

All of the directors are party to a service contract with the company, setting out their respective roles and responsibilities, and applicable remuneration.

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

Nominations Committee

The Board believes that the main principle has been duly complied with to the extent that the Articles of Association establish a formal and transparent procedure for the appointment and nomination of Directors, and provide for the establishment of the Nominations Committee. The company has however so far not established a Nominations Committee as suggested by the Code.

The Board takes on the role of periodically assessing the skills, knowledge and experience of individual directors necessary for the board to have the appropriate level of skill, competence and experience that would endow the board with the requisite collective knowledge and skill necessary for the proper functioning of the company and its oversight by the Board of Directors.

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

The Company is highly committed to having an open and communicative relationship with its investors. The publication of interim and annual financial statements and ongoing company announcements keep bondholders informed on developments relevant to their investment. The Board serves the legitimate interests of the company, and ensures that the company communicates with the market effectively and in a timely manner through a number of company announcements that it publishes, informing the market of significant events relevant to the company and its business. The company recognises the importance of maintaining a dialogue with the market to ensure that its strategies and performance are well understood and disclosed to the market in a timely manner.

As a source of further information to the market, the company's website (http://www.exalcogroup.com/investor-relations/) also contains information about the company and its business and developments.

Corporate governance - Statement of compliance – continued

Principle Eleven: Conflicts of Interest

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

In situations giving rise to potential conflicts of interest, the conflicted Directors are to act in accordance with the majority decision of those Directors who are not conflicted in the proposed contract, transaction or arrangement, and in line with the advice of outside legal counsel where such is solicited.

Related Party Transactions

Other than what is disclosed on page 40 Note 16 , the Directors are not aware of any related party transactions having been entered into by the company up until the period under review.

Principle Twelve: Corporate Social Responsibility

The Directors are committed to high standards of ethical conduct and to contribute to the development of the local community and society at large. The company recognises the importance of its role in the corporate social responsibility arena and seeks to ensure that in its operations the environment is respected. The Directors are also aware of the importance of having good relations with stakeholders and strive to work together with them in order to invest in human capital and safety issues and to adopt environmentally friendly responsible practices.

Corporate governance - Statement of compliance – continued

4. Non-Compliance with the Code

The directors set out below the Code Provisions with which the company does not comply and an explanation as to the reasons for such non-compliance:

Code Provision	Explanation
2.1	Although the Articles of Association of the company allow for the appointment of a Chief Executive Officer, no such officer has been appointed for the period under review. In addition, the division of their responsibilities has not been set out in writing.
2.3	With respect to Code Provision 2.3, the Board notes that the Chairman is also an executive member of the Board. However, the Board is of the view that this function of the Chairman does not impinge on his ability to bring to bear independent judgement to the Board.
4.2	The Board has not formally developed a succession policy for the future composition of the Board of Directors as recommended by Code Provision 4.2.7.
7.1	The Board has not appointed a committee for the purpose of undertaking an evaluation of the Board's performance in accordance with the requirements of Code Provision 7.1. The Board believes that the size of the company and the Board itself does not warrant the establishment of a committee specifically for the purpose of carrying out a performance evaluation of its role. Whilst the requirement under Code Provision 7.1 might be useful in the context of larger companies having a more complex set-up and a larger Board, the size of the company's Board is such that it should enable it to evaluate its own performance without the requirement of setting up an *ad-hoc* committee for this purpose. The Board shall retain this matter under review over the coming year.
8A	The Board has not appointed a Remuneration Committee in line with Code Provision 8A. The Board believes that the size of the company and the Board itself does not warrant the setting up of an ad hoc committee to establish the remuneration packages of individual directors, and relies on the constant scrutiny of the Board itself, the company's shareholders, the market and the rules by which the company is regulated as a listed company. In addition, the Board took into consideration the fact that the remuneration of the Board is not performance related. The Board intends to keep under review the utility and possible benefits of having a Remuneration Committee in due course.

Corporate governance - Statement of compliance – continued

4. Non-Compliance with the Code – continued

Code Provision	Explanation
8B	The Board has not appointed a Nominations Committee in line with Code Provision 8B. Pursuant to the Company's Articles of Association, the appointment of directors to the Board may be made by nominations made by any one or more shareholders who in aggregate hold not less than 100,000 shares having voting rights in the Company or the Board (or Nominations Committee) itself may make recommendations and nominations of fit and proper persons to the shareholders for the appointment of directors at the annual general meeting. Within this context, the Board believes that the setting up of a Nominations Committee is not required since the Board itself has the authority to recommend and nominate directors. Notwithstanding this, the Board intends to keep under review the matter relating to the setting up of a Nominations Committee.
9.3	There are no formal procedures in place within the company for the resolution of conflicts between minority and controlling shareholders, nor does the Memorandum and Articles of Association of the company contemplate any mechanism for arbitration in these instances.
9.4	The company does not have a policy in place to allow minority shareholders to present an issue to the Board. In practice, however, the open channel of communication between the company and minority shareholders via the Office of the Company Secretary is such that any issue that may merit bringing to the attention of the Board may be transmitted via the Company Secretary, who is in attendance at all meetings of the Board of Directors.

Corporate governance - Statement of compliance – continued

5. Internal control

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

Through the Audit Committee, the Board reviews the effectiveness of the company's system of internal controls. The key features of the company's system of internal control are as follows:

Organisation

The company operates through the Board with clear reporting lines and delegation of powers.

Control Environment

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

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

Risk Identification

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

6. General meetings

The general meeting is the highest decision making body of the company and is regulated by its Articles of Association. All shareholders registered on the register of members of the company on a particular record date are entitled to attend and vote at general meetings. A general meeting is called by twenty-one (21) days' notice, which notice must specify the place, day and hour of the meeting, and in case of special business, the general nature of that business, and shall be accompanied by a statement regarding the effect and scope of such special business. The notice period may be reduced to 14 days if certain conditions are satisfied.

The quorum of shareholders required is not less than fifty-one (51%) of the nominal value of the issued share capital in respect of which holders thereof are entitled to attend and vote at the meeting. Voting at any general meeting takes place by a show of hands or a poll where this is demanded. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands each shareholder is entitled to one vote and on a poll each shareholder is entitled to one vote for each share carrying voting rights of which he is a holder. Shareholders who cannot participate in the general meeting may appoint a proxy by written or electronic notification to the company. Appointed proxy holders enjoy the same rights to participate in the general meeting as those to which the shareholder they represent is entitled. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to the items on the agenda of the general meeting and to have such questions answered by the directors or such persons as the directors may delegate for such person.

The directors' statement of responsibilities for preparing the financial statements is set out on page 3.

Approved by the Board of Directors on 8 April 2019 and signed on its behalf by:

Alexander Montanaro
Director

Jean Marc Montanaro
Director

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Independent auditor's report

To the Shareholders of Exalco Finance p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- Exalco Finance p.l.c.'s financial statements give a true and fair view of the company's financial position as at 31 December 2018, and of the company's financial performance and cash flows for the period 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).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

Exalco Finance p.l.c.'s financial statements set out on pages 23 to 41, comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended;
- the statement of cash flows for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

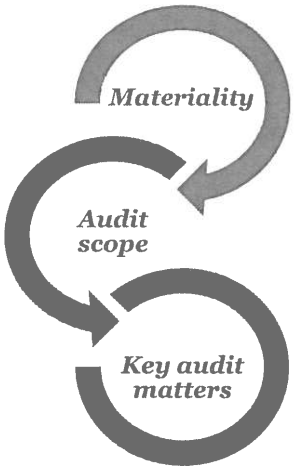
We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the company, in the period from 17 July 2018 to 31 December 2018 are disclosed in Note 12 to the financial statements.

Our audit approach

Overview



Overall materiality: €152,000 which represents 1% of total assets

Recoverability of loans issued to the Guarantor of the bonds

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

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

Materiality

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

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

Overall materiality	€152,000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark, because, in our view it is an appropriate measure for this type of entity. We considered that this provides us with a consistent year-on-year basis for determining materiality. We chose 1%, which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €15,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Recoverability of loans issued to the Guarantor of the bonds	
Loans and receivables include funds advanced to a fellow subsidiary, Exalco Properties Limited, who is the guarantor of the bonds issued by the Company. The loan balance with this related party as at 31 December 2018 amounted to €14.7 million. As explained in accounting policy note 1.3, the recoverability of the loan is assessed at the end of each financial period. The loan is the principal asset of the company, which is why we have given additional attention to this area.	We have agreed the terms of this loan to supporting loan agreement. We have assessed the financial soundness of the fellow subsidiary, Exalco Properties Limited, which is also the guarantor of the company's bonds. In doing this, we made reference to the latest audited financial statements, management accounts, cash flows projections, forecasts and other prospective information made available to us. Based on evidence and explanations obtained, we concur with management's view with respect to the recoverability of this loan.

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Independent auditor's report - continued

To the Shareholders of Exalco Finance p.l.c.

Other information

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

Our opinion on the financial statements does not cover the other information, including the directors' report.

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

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- The directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

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

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

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

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Independent auditor's report - continued

To the Shareholders of Exalco Finance p.l.c.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

pwc

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

In our opinion, the Statement of Compliance set out on pages 5 to 15 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

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Independent auditor's report - continued

To the Shareholders of Exalco Finance p.l.c.

Other matters on which we are required to report by exception

We also have responsibilities:

- under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:
  - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
  - The financial statements are not in agreement with the accounting records and returns.
  - We have not received all the information and explanations we require for our audit.
  - Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

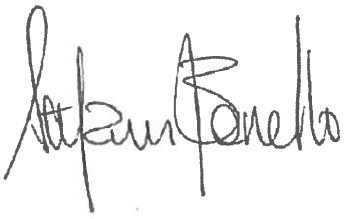
- under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

Appointment

We were first appointed as auditors of the Company on 17 July 2018. The company was listed on a regulated market on 21 August 2018.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta



Stefan Bonello
Partner
8 April 2019

Statement of financial position

	Notes	As at 31 December 2018 €
ASSETS		
Non-current assets		
Loan receivable from fellow subsidiary	4	**14,671,500**
Total non-current assets		**14,671,500**
Current assets		
Trade and other receivables	5	**287,712**
Cash and cash equivalents	6	**250,337**
Total current assets		**538,049**
Total assets		**15,209,549**

Statement of financial position - continued

	Notes	As at 31 December 2018 €
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	7	**250,000**
Retained earnings		**1,710**
Total equity		**251,710**
Non-current liabilities		
Borrowings	8	**14,712,500**
Total non-current liabilities		**14,712,500**
Current liabilities		
Trade and other payables	9	**229,072**
Current tax liability		**16,267**
Total current liabilities		**245,339**
Total liabilities		**14,957,839**
Total equity and liabilities		**15,209,549**

The notes on pages 28 to 41 are an integral part of these financial statements.

The financial statements on pages 23 to 41 were authorised for issue by the board of directors on 8 April 2019 and were signed on its behalf by:

Alexander Montanaro
Director

Jean Marc Montanaro
Director

Statement of comprehensive income

	Notes	Period from 17 July to 31 December 2018 €
Finance income	10	**330,778**
Finance costs	11	**(232,774)**
Net interest income		**98,004**
Loss allowance on financial assets	4	**(28,500)**
Administrative expenses	12	**(51,527)**
Profit before tax		**17,977**
Tax expense	13	**(16,267)**
Profit for the period - total comprehensive income		**1,710**

The notes on pages 28 to 41 are an integral part of these financial statements.

Statement of changes in equity

	Note	Share capital €	Retained earnings €	Total €
Balance at 17 July 2018		-	-	-
Comprehensive income				
Profit for the period - total comprehensive income		-	1,710	1,710
Transactions with owners				
Issue of share capital	7	250,000	-	250,000
Balance at 31 December 2018		**250,000**	**1,710**	**251,710**

The notes on pages 28 to 41 are an integral part of these financial statements.

Statement of cash flows

	Notes	Period from 17 July 2018 to 31 December 2018 €
Cash flows from operating activities		
Cash used in operations	15	**(97,667)**
Interest received		**330,778**
Interest paid		**(232,774)**
Net cash generated from operating activities		**337**
Cash flows from investing activities		
Advances of loan to fellow subsidiary		**(14,700,000)**
Net cash used in investing activities		**(14,700,000)**
Cash flows from financing activities		
Issue of share capital		**250,000**
Issue of €15,000,000 of 4% bond		**15,000,000**
Issue costs		**(300,000)**
Net cash generated from financing activities		**14,950,000**
Net movement in cash and cash equivalents		**250,337**
Cash and cash equivalents at beginning of period		**-**
Cash and cash equivalents at end of period	6	**250,337**

The notes on pages 28 to 41 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

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

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

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 17 July 2018.

1.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements 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 company's functional and presentation currency.

(b) Transactions and balances

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

All foreign exchange gains and losses are presented in the statement of comprehensive income within 'administrative expenses'. No exchange differences were recognised for the period ending 31 December 2018.

1. Summary of significant accounting policies - continued

1.3 Financial assets

Classification

The company 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 company classifies its financial assets as 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 company 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.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the company 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 company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the company 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 statement of profit or loss.

Impairment

The company 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 company's financial assets are subject to the expected credit loss model.

1. Summary of significant accounting policies - continued

1.3 Financial assets - continued

Expected credit loss model

The company 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 company considers reasonable and supportable information that is relevant and available without undue cost or effort. The company 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 company in full, without recourse by the company 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 company 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 company 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.

1.4 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Details about the company's impairments policies and the calculation of loan allowance are provided in Note 1.3.

1. Summary of significant accounting policies - continued

1.5 Cash and cash equivalents

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

1.6 Share capital

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

1.7 Financial liabilities

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

1.8 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Issue costs incurred in connection with the issue of the bond include professional fees, publicity, printing, listing, registration, underwriting, management fees, selling costs and other miscellaneous costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

1.9 Trade and other payables

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

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

1. Summary of significant accounting policies - continued

1.10 Offsetting financial instruments

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

1.11 Current and deferred tax

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

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

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

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

1.12 Finance income and costs

Finance income and costs are recognised in profit or loss for all interest-bearing instruments on a time-proportion basis using the effective interest method. Finance costs include the effect of amortising any difference between net proceeds and redemption value in respect of the company's borrowings. Finance income and costs are recognised as they accrue, unless collectability is in doubt.

2. Financial risk management

2.1 Financial risk factors

The company constitutes a financing special purpose vehicle whose bond is matched by equivalent amounts due from, and guaranteed by, Exalco Properties Limited (a fellow subsidiary). The company's principal risk exposures relate to credit risk and liquidity risk. The company is not exposed to currency risk and the directors deem interest rate risk exposure to be minimal due to matching of its interest costs on borrowings with finance income from its loan receivable from fellow subsidiary referred to above.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk

The company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward-looking information in determining any expected credit loss.

The company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below. The company's exposures to credit risk as at the end of the reporting period are analysed as follows:

Financial assets measured at amortised cost	**2018**
	€
Loan receivable from fellow subsidiary (Note 4)	**14,671,500**
Cash and cash equivalents (Note 6)	**250,337**
	14,921,837

The company does not hold collateral as security on its loan from fellow subsidiary. Yet as disclosed in Note 8, Exalco Properties Limited has issued corporate guarantees with respect to the company's bond. Furthermore, the guarantor has investment property with a carrying amount of €25,484,630 secured by special hypothec in favour of the trustee of the corporate bonds. These borrowings have been loaned to Exalco Properties Limited through the issue of a loan.

In 2018, the company had to assess on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. These instruments are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management consider 'low credit risk' for instruments, which have a low risk of default, and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. In case of the loans issues to the guarantor, the assessment takes into consideration the financial positon, performance and other factors of the guarantor of the bonds. Management monitors intra-group credit exposures on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The company take cognisance of the related party relationship with this entity and management does not expect any losses from non-performance or default. The application of the expected credit risk model of IFRS 9, resulted in the recognition of a loss allowance of €28,500 on the issuance of the loan receivable from fellow subsidiary.

At 31 December 2018, cash and short-term deposits are held with counterparties with a credit rating of BB or higher and are due to be settled within 1 week. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses, as any such impairment would be wholly insignificant to the company.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Liquidity risk

The company is exposed to liquidity risk arising primarily from its ability to satisfy liability commitments depending on cash inflows receivable in turn from Exalco Properties Limited.

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period to ensure that no additional financing facilities are expected to be required over the coming year. This process is performed through a rigorous assessment of detailed cash flow projections of the fellow subsidiary where matching of cash inflows and outflows arising from expected maturities of financial instruments are assessed on an annual basis.

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

The following table analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount €	Contractual cash flows €	Within one year €	One to five years €	Over five years €
31 December 2018					
Bonds 2018 – 2028	14,712,500	20,753,425	600,000	2,401,644	17,751,781
Trade and other payables	229,072	229,072	229,072	-	-
	14,941,572	**20,982,497**	**829,072**	**2,401,644**	**17,751,781**

2.2 Capital risk management

The company's bond is guaranteed by Exalco Properties Limited (a fellow subsidiary) and secured by two of its properties. Related finance costs are also guaranteed by this fellow subsidiary. The capital management of the company therefore consists of a process of regularly monitoring the financial position of the guarantor (Note 2.1).

2.3 Fair values of financial instruments

Financial instruments not carried at fair values

At 31 December 2018 the carrying amounts of receivables (net of impairment provisions if any) and payables 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 company 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.

The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments. The fair value of the company's non-current trade and other payables at the end of the reporting period is not significantly different from the carrying amounts.

3. Critical accounting estimates and judgements

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

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

4. Loan receivable from fellow subsidiary

	2018 €
Loan receivable from fellow subsidiary	
At beginning of period	-
Additions	**14,700,000**
Loss allowance	**(28,500)**
At end of period	**14,671,500**
At 31 December	
Cost	**14,700,000**
Loss allowance	**(28,500)**
Net book amount	**14,671,500**

Loan receivable from fellow subsidiary reflect the transfer of funds to Exalco Properties Limited generated by the company from its bonds. The loan allowance of €28,500 represents the amount that the company recognised as an expected credit loss provided under IFRS 9.

Weighted average effective interest rate as at 31 December 2018:

	2018
Loan to fellow subsidiary	**4.1%**

The company's exposure to credit and interest rate risks related to investments is disclosed in Note 2.

Maturity of loan receivable from fellow subsidiary:

	2018 €
Over 5 years	**14,671,500**

5. Trade and other receivables

	2018 €
Current	
Prepayments and accrued income	**287,712**

Accrued income includes interest due and accrued as at the end of the reporting period on the loan advanced by the company.

The company's exposure to credit and liquidity risk related to trade and other receivables is disclosed in Note 2.

6. Cash and cash equivalents

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

	2018 €
Cash and cash equivalents	**250,337**

7. Share capital

	2018 €
Authorised, issued and fully paid up	
250,000 ordinary shares of €1 each	**250,000**

8. Borrowings

	2018 €
Non-current	
150,000 4.0% bonds 2018 - 2028	**14,712,500**

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

	2018 €
Face value	
150,000 4.0% bonds 2018 - 2028	**15,000,000**
Issue costs	**(300,000)**
Accumulated amortisation	**12,500**
Closing net book amount	**(287,500)**
Amortised cost at 31 December	**14,712,500**

8. Borrowings - continued

The interest rate exposure of the borrowings of the company was as follows:

	2018 €
Total borrowings:	
At fixed rates	**14,712,000**

The effective interest rates as at the end of the reporting period were as follows:

	2018 €
Bonds 2018 - 2020	**4%**

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

By virtue of an offering memorandum dated 31 July 2018 the company issued €150,000 bonds with a face value of €100 each. The bond's interest is payable annually on 20 August, starting from 20 August 2019. The bonds are redeemable at par and are due for redemption on 20 August 2028. The bonds are guaranteed by Exalco Properties Limited, 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. Furthermore, the guarantor has investment property with a carrying amount of €25,484,630 secured by special hypothec in favour of the trustee of the corporate bonds. The bonds have been admitted on the Official List of the Malta Stock Exchange on 21 August 2018. The quoted market price as at 31 December 2018 for the bonds was €105. In the opinion of the directors, these market prices fairly represent the fair value of these financial liabilities.

9. Trade and other payables

	2018 €
Current	
Other payables	**6,173**
Accruals and deferred income	**222,899**
Trade and other payables	**229,072**

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

10. Finance income

	Period from 17 July to 31 December 2018 €
Interest on loan to fellow subsidiary	**237,778**
Facility fee receivable	**93,000**
	330,778

11. Finance cost

	Period from 17 July to 31 December 2018 €
Coupon interest payable on bonds	**232,774**

12. Expenses by nature

Administrative expenses are classified by their nature as follows:

	Period from 17 July to 31 December 2018 €
Listing and related compliance costs	**33,679**
Directors' fees (Note 14)	**15,000**
Other expenses	**2,848**
	51,527

Auditor's fees

Fees charged by the auditor for services rendered during the financial period from ended to 31 December 2018 relate to the following:

	Period from 17 July to 31 December 2018 €
Annual statutory audit	**7,500**
Tax advisory and compliance services	**650**
	8,150

Advisory services amounting to €57,500 in relation to the issue of the bonds are included within the bond issue costs (Note 8).

13. Tax expense

	Period from 17 July to 31 December 2018 €
Current tax expense:	
on taxable profit subject to tax at 35%	**16,267**

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

	Period from 17 July to 31 December 2018 €
Profit before tax	**17,977**
Tax on profit at 35%	**6,292**
Tax effect of:	
Expenses not allowable for tax purposes	**9,975**
Tax expense	**16,267**

14. Directors' emoluments

	Period from 17 July to 31 December 2018 €
Directors' fees	**15,000**

15. Cash used in operations

Reconciliation of profit before tax to cash used in operations:

	Period from 17 July to 31 December 2018 €
Profit before tax	**17,977**
Adjustment for:	
Amortisation of bond issue costs	**12,500**
Finance income	**(330,778)**
Finance costs	**232,774**
Loss allowance	**28,500**
Changes in working capital:	
Trade and other receivables	**(287,712)**
Trade and other payables	**229,072**
Cash used in operations	**(97,667)**

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.

16. Related party transactions

The company forms part of the Exalco Group of Companies. All companies forming part of the Exalco Group are related parties since these companies are all ultimately owned by Exalco Holdings 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 Montanaro family, who are therefore considered to be related parties. The main related party with whom transactions are entered into is Exalco Properties Limited, the guarantor of the borrowings (Note 8).

The following are the principal transactions that were carried out with related parties:

	Period from 17 July to 31 December 2018 €
Finance income from fellow subsidiary (Note 10)	**237,778**
Facility fee from fellow subsidiary (Note 10)	**93,000**

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 14 to the financial statements.

Year end balances arising from related party transactions are disclosed in Note 4 to the financial statements.

17. Statutory information

Exalco Finance p.l.c. is a public limited liability company and is incorporated in Malta.

The ultimate and immediate parent company of Exalco Finance p.l.c. is Exalco Holdings Limited, a company registered in Malta, with its registered address at Cornerstone Business Centre, Level 4, 16 September Square, Mosta, Malta.

The ultimate controlling parties of Exalco Holdings Limited are the members of the Montanaro family.