EXALCO HOLDINGS LIMITED

Annual Report and Consolidated
Financial Statements
31 December 2023

Company Registration Number: C 86836

Directors' report

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

Principal activities

The group's main business comprises the acquisition, development, managing and leasing of commercial property in Malta. All properties are retained by the group to generate rental and management revenues.

Exalco Finance plc, a subsidiary company, whose principal activity is to carry on the business of a finance company, and the financing or re-financing of the funding requirements of the business of the group.

Exalco Properties Limited, also a subsidiary company of Exalco Holdings Limited, owns and manages six business centres in prime locations across Malta. Its primary activity is the acquisition and development of high-quality business centres and the leasing and management of office and retail space to third parties.

Financial Position of the Group

The group's total asset base stands at €80.6 million (2022: €80.6 million). The group's asset base is 70% (2022: 67%) funded through equity. Non-current assets comprise mainly investment property amounting to €78.0 million (2022: €72.2 million). The increase is mainly due to the acquisition of the 'Savoy Hotel' or 'Savoy Guest house' from a related party.

The group's main liabilities are €14.8 million in bonds for both 2023 and 2022, and bank loans amounting to €2.0 million for 2022.

As at 31 December 2023, the group's current assets amounted to €2.1 million (2022: €7.9 million) and are represented by trade and other receivables of €0.9 million (2022: €6.6 million) and bank balances of €1.2 million (2022: €1.3 million).

Current liabilities amounted to €3.2 million (2022: €3.8 million) consisting mainly of trade and other payables of €2.5 million (2022: €2.6 million).

Financial Performance of the Group

The group's financial results for the year ended 31 December 2023 show a profit before tax of €3.2 million compared to a profit before tax of €12.2 million registered during the 2022 financial year. The decrease is mainly due to the fair value gains made upon the fair valuation assessment of the group's investment properties carried out during the 2022 financial year and thus if this fair value gain is eliminated operating profit remained consistent with prior year at €3.9 million.

The group generated revenue of €5.3 million (2022: €5.1 million). The increase in revenue is mainly attributable to a number of revised rental contracts in line with market rates.

The group's finance costs amounting to €0.7 million (2022: €0.7 million) which comprises interest payable on bank loans and interest payable on the outstanding bond issue and amortisation of the issued costs thereof.

Directors' report - continued

Outlook for 2024

Although 2024 is expected to be another challenging year, it has been determined by management that the group is well-positioned at the time of approving these financial statements to honour its financial obligations as they fall due with particular reference to the interest payable on its listed bonds and other related obligations. This assessment takes into account an annual detailed cash flow assessment carried out by the group's management when assessing its ability to operate as a going concern in the coming year, and management expects the group to register a surplus based on its projections for the foreseeable future.

The group will continue to take all necessary measures to protect the long-term sustainability of its operations and financial performance and to attentively monitor ongoing developments.

Following the acquisition of the property known as the "Savoy Hotel" or "Savoy Guest House", situated in Sliema in 2023, An application to the Planning Authority has since been submitted for a proposal to convert the building into a prestigious business centre that will revitalise the now derelict site, enhance the locality and re-establish the Savoy as a landmark building. The application process is still on-going and is expected to be concluded in 2024.

Furthermore, same as every year, the group 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 proposal includes, a commitment to fully restore the Grade II scheduled Savoy building and it's boundary wall, a catering establishment on the ground floor, an underground car park to provide adequate car parking for the business centre and a terraced garden area that will be landscaped, maintained and open for the enjoyment of the general public during the business centre's opening hours.

Financial risk management

The group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, and cash flow interest rate risk), credit risk and liquidity risk. Further information on these risks is included in Note 2 to the financial statements.

Results and dividends

The income statements are set out on page 11. During the year, the directors declared a net dividend of €400,000 (2022: €609,149).

Directors

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

Alexander Montanaro
Jean Marc Montanaro
Michael Montanaro

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

Directors' report - continued

Statement of directors' responsibilities for the financial statements

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

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

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

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

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

Registered office:
Cornerstone Business Centre
Level 4
16 September Square
Mosta MST1180

9 April 2024

Independent auditor's report

To the Shareholders of Exalco Holdings Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

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

What we have audited

Exalco Holdings Limited's financial statements, set out on pages 9 to 43, comprise:

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

Basis for opinion

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

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

Independence

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

Independent auditor's report - continued

To the Shareholders of Exalco Holdings Limited

Other information

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Independent auditor's report - continued

To the Shareholders of Exalco Holdings Limited

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 Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditor's report - continued

To the Shareholders of Exalco Holdings Limited

Report on other legal and regulatory requirements

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

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

Area of the *Annual Report and Financial Statements 2023* and the related Directors' responsibilities	**Our responsibilities**	**Our reporting**
Directors' report (on pages 1 to 3) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Independent auditor's report - continued

To the Shareholders of Exalco Holdings Limited

Area of the *Annual Report and Financial Statements 2023* and the related Directors' responsibilities	Our responsibilities	Our reporting
	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 returns adequate for our audit have not been received from branches not visited by us. • the financial statements are not in agreement with the accounting records and returns. • we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

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

Stefan Bonello
Principal

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

9 April 2024

Statements of financial position

		As at 31 December			
		Group		Company	
		2023	2022	**2023**	2022
	Notes	**€**	€	**€**	€
ASSETS					
Non-current assets					
Property, plant and equipment	4	**440,768**	442,098	**-**	-
Investment property	5	**78,011,440**	72,164,833	**-**	-
Investment in debt & equity securities		**35,886**	17,975	**-**	-
Investments in subsidiaries	6	**-**	-	**36,832,366**	36,832,366
Total non-current assets		**78,488,094**	72,624,906	**36,832,366**	36,832,366
Current assets					
Trade and other receivables	8	**917,425**	6,601,411	**-**	-
Cash and cash equivalents	9	**1,167,342**	1,337,233	**658**	536
Total current assets		**2,084,767**	7,938,644	**658**	536
Total assets		**80,572,861**	80,563,550	**36,833,024**	36,832,902

Statements of financial position - continued

		As at 31 December			
		Group		Company	
	Notes	**2023**	2022	**2023**	2022
		€	€	**€**	€
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	10	**10,000**	10,000	**10,000**	10,000
Capital reserve	11	**2,831,165**	2,831,165	**36,573,532**	36,573,532
Valuation reserves	12	**37,959,905**	37,959,905	**-**	-
Retained earnings		**15,220,791**	13,103,307	**217,137**	221,579
Total equity		**56,021,861**	53,904,377	**36,800,669**	36,805,111
Non-current liabilities					
Borrowings	13	**14,862,500**	16,367,580	**-**	-
Deferred tax liabilities	14	**5,970,000**	5,970,000	**-**	-
Trade and other payables	15	**507,993**	517,290	**-**	-
Total non-current liabilities		**21,340,493**	22,854,870	**-**	-
Current liabilities					
Borrowings	13	**-**	503,447	**-**	-
Trade and other payables	15	**2,508,315**	2,641,169	**32,355**	27,791
Current tax liability		**702,192**	659,687	**-**	-
Total current liabilities		**3,210,507**	3,804,303	**32,355**	27,791
Total liabilities		**24,551,000**	26,659,173	**32,355**	27,791
Total equity and liabilities		**80,572,861**	80,563,550	**36,833,024**	36,832,902

The notes on pages 15 to 43 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 9 to 43 were authorised for issue by the board of directors on 9 April 2024 and were signed on its behalf by:

Alexander Montanaro
Director

Jean Marc Montanaro
Director

Income statements

		Year ended 31 December			
		Group		Company	
		2023	2022	**2023**	2022
	Notes	**€**	€	**€**	€
Revenue	16	**5,283,260**	5,106,820	**400,000**	609,149
Direct operating expenses	17	**(733,750)**	(614,455)	**-**	-
Administrative expenses	17	**(634,001)**	(537,668)	**(4,064)**	(5,140)
Operating profit		**3,915,509**	3,954,697	**395,936**	604,009
Investment income		**-**	8,923,220	**-**	-
Finance costs	19	**(695,833)**	(709,652)	**(378)**	(377)
Profit before tax		**3,219,676**	12,168,265	**395,558**	603,632
Tax expense	21	**(702,192)**	(1,945,099)	**-**	-
Profit for the year		**2,517,484**	10,223,166	**395,558**	603,632

The notes on pages 15 to 43 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group	Notes	Share capital €	Capital reserve €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2022		10,000	2,831,165	30,322,095	11,127,100	44,290,360
Comprehensive income						
Profit for the year		-	-	-	10,223,166	10,223,166
Other comprehensive income						
Fair value of investment property (net of deferred tax)	5,14	-	-	7,637,810	(7,637,810)	-
Transactions with owners						
Dividends paid	22	-	-	-	(609,149)	(609,149)
Balance at 31 December 2022		**10,000**	**2,831,165**	**37,959,905**	**13,103,307**	**53,904,377**
Comprehensive income						
Profit for the year		-	-	-	2,517,484	2,517,484
Transactions with owners						
Dividends paid	22	-	-	-	(400,000)	(400,000)
Balance at 31 December 2023		**10,000**	**2,831,165**	**37,959,905**	**15,220,791**	**56,021,861**

The notes on pages 15 to 43 are an integral part of these consolidated financial statements.

Statements of changes in equity - continued

	Note	Share capital €	Share premium €	Retained earnings €	Total equity €
Company					
Balance at 1 January 2022		10,000	36,573,532	227,096	36,810,628
Comprehensive income					
Profit for the year		-	-	603,632	603,632
Transactions with owners					
Dividends paid	22	-	-	(609,149)	(609,149)
Balance at 31 December 2022		**10,000**	**36,573,532**	**221,579**	**36,805,111**
Comprehensive income					
Profit for the year		-	-	395,558	395,558
Transactions with owners					
Dividends paid	22	-	-	(400,000)	(400,000)
Balance at 31 December 2023		**10,000**	**36,573,532**	**217,137**	**36,800,669**

The notes on pages 15 to 43 are an integral part of these consolidated financial statements.

Statements of cash flows

	Notes	Group 2023 €	Group 2022 €	Company 2023 €	Company 2022 €
		As at 31 December			
Cash flows from operating activities					
Cash generated from operations	23	**3,842,554**	3,635,814	**500**	100
Interest paid		**(695,833)**	(679,652)	**(378)**	(377)
Income tax paid		**(659,687)**	(635,522)	**-**	-
Net cash generated from/(used in) operating activities		**2,487,034**	2,320,640	**122**	(277)
Cash flows from investing activities					
Purchases of investment property		**(200,487)**	(406,597)	**-**	-
Purchases of financial asset		**(17,911)**	(17,975)	**-**	-
Advances of loan to a related party		**-**	(2,952,077)	**-**	-
Net cash used in investing activities		**(218,398)**	(3,376,649)	**-**	-
Cash flows used in financing activities					
Repayment of bank borrowings		**(2,038,527)**	(485,815)	**-**	-
Dividend paid		**(400,000)**	(609,149)	**-**	-
Net cash used in financing activities		**(2,438,527)**	(1,094,964)	**-**	-
Net movement in cash and cash equivalents		**(169,891)**	(2,150,973)	**122**	(277)
Cash and cash equivalents at beginning of year		**1,337,233**	3,488,206	**536**	813
Cash and cash equivalents at end of year	9	**1,167,342**	1,337,233	**658**	536

The notes on pages 15 to 43 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Summary of material accounting policies

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

1.1 Basis of preparation

These consolidated financial statements include the financial statements of Exalco Holdings Limited and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial information has been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category within property, plant and equipment and investment property, and except as disclosed in the accounting policies below.

As at the end of this reporting period the group has net current liabilities amounting to €1,125,740 (2022: net current assets of €4,134,341). These accounts have been prepared on a going concern basis, which assumes that the group will continue in operational existence for the foreseeable future. The validity of this assumption depends on the fact that this net current liability position is substantially covered by unutilised banking facilities amounting to €1,000,000 (Note 13).

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

Standards, interpretations and amendments to published standards effective in 2023

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

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

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

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

1.2 Consolidation

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

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

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

1. **Summary of material accounting policies** - continued

1.3 Property, plant and equipment

All property, plant and equipment, is initially recorded at historical cost. Land and buildings are shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis, such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other furniture, fixtures, fittings and office equipment, and motor vehicles are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve and shown in the valuation reserves within shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of any related deferred income taxes, is transferred from the valuation reserve to retained earnings.

Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation on assets other than land, is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life as follows:

	%
Buildings	1
Lifts and escalators	15
Furniture, fixtures, fittings and office equipment	10
Motor vehicles	20
Computer and equipment	25

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.5).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognised in profit and loss. These are taken into account in determining operating profit when revalued assets are sold, the amounts included in the valuation reserve relating to the assets are transferred to retained earnings

1. Summary of material accounting policies - continued

1.4 Investment property

Investment property comprising freehold commercial property is held for long-term rental yields or for capital appreciation or both, and is not occupied by the group. Investment property comprises freehold land and buildings.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed periodically by the group's directors.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measured.

The fair value of investment property reflects, among other factors, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

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

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

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

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

If an item of property, plant and equipment becomes an investment property because its use has changed, its cost and accumulated depreciation at the date of reclassification becomes its cost and accumulated amortisation for subsequent accounting purposes.

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

1. Summary of material accounting policies - continued

1.5 Impairment of non-financial assets

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

1.6 Investments in subsidiaries

Subsidiaries are all entities over which the company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

In the company's financial statements, investments in subsidiaries, which represent shares in subsidiaries, are accounted for by the cost method of accounting. The dividend income from such investments is included in profit or loss in the financial year in which the company's rights to receive payment of dividends is established. The company gathers objective evidence that an investment is impaired using the same process disclosed in Note 1.5. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.7 Financial assets

(a) Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.7.3). Details about the group's impairment policies and the calculation of loss allowance are provided in Note 1.7.3.

(b) Cash and cash equivalents

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

1.7.1 Classification

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