

VBL LIMITED

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

VBL LIMITED

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 DECEMBER 2018

Contents

	Page
Directors' report	1
Statement of directors' responsibilities	3
Consolidated statement of comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated statement of changes in cash flow	8
Notes to the financial statements	9 to 31
Independent auditor's report	33 to 35

VBL LIMITED
DIRECTORS' REPORT
for the year ended 31 DECEMBER 2018

Accounts

The directors present their report and consolidated financial statements for the year ended 31 December 2018

Principal activity

The Group is involved in the full process of real estate acquisitions, integrated real estate development, property management, operations, utilization (rental) and disposal of properties.

Business Review

The profit on the Group's activities for the year after tax amounted to €5,115,966.

Dividends

A final dividend of €120,000 is proposed by the directors.

Future Developments

The Group plans to continue its dynamic growth, focus on new acquisitions and development of already acquired assets, as well as utilization of developed assets.

Directors

The directors of the Company during the year were:

Dr. Andrei Imbroll
Dr. Geza Szephalmi
Mr. Julian Tzvetkov

Under the provisions of the Company's Memorandum and Articles of Association, the present directors continue in office.

Auditors

A proposal will be submitted to the Annual General Meeting to re-appoint BDO Malta as auditor to the Group for the next year.

By order of the Board



Mr. Julian Tzvetkov
Director

54, Marsamxett Road
Valletta
Malta

16 May 2019



Dr. Geza Szephalmi
Director

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VBL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
for the year ended 31 DECEMBER 2018

The Directors are required by the Companies Act, 1995 to prepare consolidated financial statements which give a true and fair view of the state of affairs of the Group at the end of each financial period and of its 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 European Union
- 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 will continue in business as a going concern.

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

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VBL LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

		2018	2017
	Notes	EUR	EUR
Revenue	3	1,272,729	1,037,241
Cost of sales	8	<u>(361,259)</u>	<u>(404,989)</u>
Gross profit		911,470	632,252
Other operating income/ (expenses)	4	28,020	220,626
Administrative expenses	8	<u>(602,321)</u>	<u>(539,610)</u>
Earnings before interest, tax, depreciation and amortisation		337,169	313,268
Depreciation and amortisation	8	<u>(296,788)</u>	<u>(189,248)</u>
Operating profit		40,381	124,019
Investment income	5	5,976,334	11,368,742
Interest receivable	6	664	727
Finance cost	7	(252,112)	(219,738)
Intra- group expenses		<u>-</u>	<u>-</u>
Profit before income tax		5,765,267	11,273,750
Income tax expense	9	<u>(649,301)</u>	<u>(1,308,824)</u>
Total comprehensive income for the year		<u><u>5,115,966</u></u>	<u><u>9,964,926</u></u>

The accounting policies and explanatory notes on pages 9 to 31 form an integral part of the financial statements.

Audit report on pages 33 to 35.

VBL LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

		2018	2017	2016
	Notes	EUR	EUR	EUR
ASSETS				
Non-Current Assets				
Intangible assets	12	175	210	246
Property, plant and equipment	13	1,037,978	1,091,393	1,097,393
Investment properties	14	51,579,805	44,672,623	30,860,184
Investment in subsidiaries		1,200	-	-
Deferred tax asset	10	155,401	174,890	150,090
		<u>52,774,559</u>	<u>45,939,116</u>	<u>32,107,913</u>
Current Assets				
Inventories		-	-	943,708
Trade and other receivables	15	386,601	266,336	180,626
Cash and cash equivalents	16	89,678	927,262	525,914
		<u>476,278</u>	<u>1,193,598</u>	<u>1,650,248</u>
Total Assets		<u>53,250,837</u>	<u>47,132,714</u>	<u>33,758,161</u>
EQUITY				
Capital and Reserves				
Share capital	17	609,198	609,198	609,198
Share premium account	17	802	802	802
Other reserves	17	443,650	441,900	476,902
Retained earnings	17	41,377,198	36,226,235	24,928,893
Total Equity		<u>42,430,848</u>	<u>37,278,135</u>	<u>26,015,795</u>
Non-Current Liabilities				
Long-term borrowings	19	6,403,864	5,816,521	5,073,094
Deferred tax liabilities	11	3,639,420	3,046,360	1,789,909
Trade and other payables	18	540,784	717,661	494,685
		<u>10,584,068</u>	<u>9,580,542</u>	<u>7,357,688</u>
Current Liabilities				
Trade and other payables	18	235,921	274,037	384,678
Total Liabilities		<u>10,819,989</u>	<u>9,854,579</u>	<u>7,742,366</u>
Total Equity and Liabilities		<u>53,250,837</u>	<u>47,132,714</u>	<u>33,758,161</u>

The financial statements have been authorised for issue by the Board of Directors on 16 May 2019 and were signed on its behalf by:

Mr. Julian Tzvetkov
Director

Dr. Geza Szephalmi
Director

The accounting policies and explanatory notes on pages 9 to 31 form an integral part of the financial statements. Audit report on pages 33 to 35.

VBL LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
as at 31 December 2018

	Share Capital	Share Premium Account	Other Reserves	Retained Earnings	Total
	EUR	EUR	EUR	EUR	EUR
At 31 December 2016	609,198	802	476,902	24,928,893	26,015,795
Transition to IFRS 16	-	-	-	1,297,414	1,297,414
At 1 January 2017	609,198	802	476,902	26,226,307	27,313,209
Total comprehensive income for the year					
Depreciation of revaluation reserve	-	-	(35,002)	35,002	-
Profit for the year	-	-	-	9,964,926	9,964,926
At 31 December 2017	609,198	802	441,900	36,226,235	37,278,135
At 1 January 2018	609,198	802	441,900	36,226,235	37,278,135
Total comprehensive income for the year					
Revaluation reserve	-	-	1,750	34,997	36,747
Profit for the year	-	-	-	5,115,966	5,115,966
At 31 December 2018	609,198	802	443,650	41,377,198	42,430,848

VBL LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOW
as at 31 December 2018

Note	2018 EUR	2017 EUR
Cash flows from operating activities:		
Profit before tax		
<i>Reconciliation to cash generated from operations</i>	5,765,267	11,273,750
- Depreciation	296,753	189,213
- Amortisation	35	35
- Fair value movement on investment property	(5,976,334)	(12,048,256)
- Profit on sale of investment property	-	(207,732)
- Interest received	(664)	(727)
- Interest payable	252,112	219,378
Operating profit before working capital changes	<u>337,169</u>	<u>(574,339)</u>
- Movement in inventory	-	943,708
- Movement in trade and other receivables	(120,264)	(85,710)
- Movement in trade and other payables	(214,994)	112,335
- Income tax paid	-	(77,173)
Net cash generated from operating activities	<u>1,911</u>	<u>318,821</u>
Cash flows from investing activities:		
- Interest received	664	727
- Interest paid	(252,112)	(219,738)
- Purchase of tangible fixed assets	(35,063)	(75,245)
- Purchase of investment property	(1,139,124)	(1,687,004)
- Proceeds from sale of investment property	-	1,320,000
Net cash used in investing activities	<u>(1,425,635)</u>	<u>(661,260)</u>
Cash flows from financing activities:		
Movements in related party balances and other borrowings	586,140	743,787
Net cash generated from financing activities	<u>586,140</u>	<u>743,787</u>
Net movement in cash and cash equivalents	(837,584)	401,348
Cash and cash equivalents at beginning of year	<u>927,262</u>	<u>525,914</u>
Cash and cash equivalents at the end of the year	<u>89,678</u>	<u>927,262</u>

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

NOTE.....	PAGE
1. ACCOUNTING POLICIES.....	10
2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS	16
3. REVENUE.....	17
4. OTHER OPERATING INCOME / (EXPENSE)	17
5. INCOME FROM INVESTMENTS	17
6. INTEREST RECEIVABLE AND SIMILAR INCOME	17
7. FINANCE COSTS.....	18
8. EXPENSES BY NATURE.....	18
9. INCOME TAX EXPENSE	19
10. DEFERRED TAX ASSET	20
11. DEFERRED TAX LIABILITY	21
12. INTANGIBLE NON-CURRENT ASSETS.....	22
13. PROPERTY, PLANT AND EQUIPMENT	23
14. INVESTMENT PROPERTY	24
15. TRADE AND OTHER RECEIVABLES.....	27
16. CASH AND CASH EQUIVALENTS.....	27
17. SHARE CAPITAL AND RESERVES	28
18. TRADE AND OTHER PAYABLES	29
19. BORROWINGS	29
20. FINANCIAL RISK MANAGEMENT	30
21. FAIR VALUE ESTIMATION	31
22. STATUTORY INFORMATION	31
23. RELATED PARTY TRANSACTIONS.....	31

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. Accounting policies

1.1. Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2018

The following new standards, amendments and interpretations are effective for the first time in these financial statements, but none have had a material effect on the Group:

- Improvements to IFRSs 2014-2016 (issued on 08/12/2016, effective from year beginning on 01/01/2018)
- IFRS 9 Financial Instruments (issued on 24/07/2014, effective from year beginning on 01/01/2018)
- IFRS 15 Revenue from Contracts with Customers (issued on 28/05/2014, effective from the year beginning 01/01/2018)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration (issued on 08/12/2016, effective from the year beginning on 01/01/2018)
- Clarification to IFRS 15: Revenue from Contracts with Customers (issued on 12/04/2016, effective from the year beginning on 01/01/2018)
- Amendments to IAS 40: Transfers to Investment Property (issued on 08/12/2016, effective from the year beginning on 01/01/2018)
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20/06/2016, effective for the year beginning on 01/01/2018)
- Amendments to IFRS 4: Applying IFRS 9 with IFRS 4 (issued on 12/07/2016, effective for the year beginning on 01/01/2018)

The applications of these new standards and amendments has had no impact on the disclosures or amounts recognized in the Group's financial statements, although an initial application of IFRS 9 would have resulted in a recognition of expected credit losses.

b) New standards, interpretations and amendments as adopted by EU but not yet effective

The following new standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Group's future financial statements:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12/10/2017, effective for the year beginning on 01/01/2019)
- Amendments to IAS 28: Long-term Interest in Associates and Joint Ventures (issued on 12/10/2017, effective from the year beginning on 01/01/2019)
- IFRIC 23: Uncertainty over the Income Tax Treatments (issued on 07/07/2017, effective from year beginning on 01/01/2019)

c) New standards, interpretations and amendments issued by IASB but not yet adopted by EU

- Improvements to IFRSs 2015-2017 (issued on 12/12/2017, effective from year beginning on 01/01/2019)
- IFRS 17 Insurance Contracts (issued on 18/05/2017, effective from the year beginning on 01/01/2021)

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

Accounting policies (*continued*)

1.1. Changes in accounting policies (*continued*)

c) *New standards, interpretations and amendments issued by IASB but not yet adopted by EU (continued)*

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 07/02/2018, effective from the year beginning on 01/01/2019)
- Amendments to References to the Conceptual Frameworks in IFRS Standards (issued on 29/03/2018, effective from the year beginning on 01/01/2020)
- Amendments to IFRS 3: Business Combinations (issued on 22/10/2018, effective from the year beginning on 01/01/2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31/10/2018, effective from the year beginning on 01/01/2020)

The Group has not early adopted all these revisions to the requirements of IFRSs and the Group's management is 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.

d) *New standards, interpretations and amendments issued by IASB but not adopted by EU*

- IFRS 14 Regulatory Deferral Accounts (issued on 30/01/2014, effective from the year beginning 01/01/2016) - European Commission has decided not to endorse the standard
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between Investor and its Associate or Joint Venture (issued on 11/09/2014, effective from the year beginning 01/01/2016) - postponed indefinitely by European Commission

1.2. Basis of preparation

These consolidated financial statements ('financial statements') are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Companies Act, 1995 enacted in Malta and with the requirements of International Financial Reporting Standards as adopted by the EU, with the exception of the full adoption of IFRS 9 "Financial instruments". Due to the nature of the group's business, the directors believe the proposed adjustment for expected credit losses would be trivial. The group also has no any complex or unusual financial instruments required reclassification in accordance with new standard IFRS 9.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 inputs are unobservable inputs for the asset or liability.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. Accounting policies (continued)

1.2. Basis of preparation (continued)

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

1.3. Intangible Fixed Assets

Trademarks and Licenses

Trademarks and licenses are valued at cost. Trademarks have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 10 years.

1.4. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Cost includes expenditure directly attributable to the acquisition of the items as well as transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Depreciation is provided on all items of property, plant and equipment, except freehold land and assets under construction, at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Buildings and improvements	-	2% Straight Line
Plant, machinery and equipment	-	20% Straight Line
Furniture, fixtures and fittings	-	20% Straight Line
Other assets	-	20% Straight Line

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

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

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. Accounting policies (continued)

1.5. Impairment of 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 carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

1.6. Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably.

Investment property is measured initially at cost, including related transaction costs. 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. The fair value of investment property reflects, among other factors, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflows that could be expected in respect of the property. Changes in fair values are recorded in the income statement.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount and are recognised in profit or loss in the period of derecognition.

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the fair valued amount, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Improvements	-	2% Straight Line
Furniture, fixtures and fittings	-	20% Straight Line

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its cost or fair value at the reclassification date becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until development is complete. Thereafter it is classified and accounted for as an investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. Accounting policies (*continued*)

1.7. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

(i) Trade and other receivables

Trade receivables are classified with current assets and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

(ii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Bank loans are carried at face value due to their market rate of interest.

(iii) Other borrowings

Subsequent to initial recognition, other borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial.

(iv) Trade and other payables

Trade payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

(v) Ordinary shares issued by the Company

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

1.8. Related parties

Related parties are those persons or bodies of persons having relationships with the Group as defined in International Accounting Standard No. 24.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. Accounting policies (*continued*)

1.9. Taxation

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profits, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.10. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for value of goods sold and services provided, net of sales rebates and taxes in the normal course of business, net of value added tax and discounts where applicable. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Group and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

- Sale of investment property

Revenue is normally recognised when legal title passes to the buyer. However, in some jurisdictions the equitable interest in a property may vest in the buyer before legal title passes and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognised as the acts are performed. An example is a building or other facility on which construction has not been completed.

- Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. Accounting policies (*continued*)

1.11. Revenue recognition (*continued*)

- Interest income

Interest income is accrued on a time basis, by reference to the principle outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimate future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Introduction of IFRS 15 provided no changes to the Group revenue recognition process. Due to the nature of rental business, and after the internal analysis, the directors are in the opinion that no restatements should be done on initial application of IFRS 15.

1.12. Profits and losses

Only profits that were realised at the balance sheet date are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements is approved.

1.13. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at face value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

2. 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's directors, except as follows, 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 IAS1 (revised).

Fair value of investment property

Determining the fair value of investment property requires an estimation of the value in use of the cash-generating units. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. As fair value of the investment property the Group uses a conservative approach and is established based on the adjusted valuations of various independent valuers. The fair value of investment property of the Group at the end of the reporting period was €51,579,805 (2017: €44,672,623) as detailed in note 14.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

3. Revenue

	2018	2017
	EUR	EUR
Rental Income	1,256,649	882,277
Assignment of Rights	-	45,000
Exclusivity Rights	16,080	109,964
	<u>1,272,729</u>	<u>1,037,241</u>

Exclusivity Rights is a lease agreement with third parties in relation to the future renting out of commercial outlets.

4. Other operating income / (expense)

	2018	2017
	EUR	EUR
Proceeds from sale of investment property	-	1,320,000
Commissions on sales	-	(85,432)
Carrying amount of investment property sold	-	(1,026,836)
Net gain on sale of investment property	-	207,732
Miscellaneous Income	<u>28,020</u>	<u>12,894</u>
	<u>28,020</u>	<u>220,626</u>

5. Income from investments

	2018	2017
	EUR	EUR
Increase in fair value of investment property	<u>5,976,334</u>	<u>11,368,742</u>

6. Interest receivable and similar income

	2018	2017
	EUR	EUR
Bank interest	<u>664</u>	<u>727</u>

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

7. Finance costs

	2018	2017
	EUR	EUR
Interest on related party borrowings	169,021	135,904
Interest on convertible loan	60,000	60,000
Interest on lease liability	23,091	23,834
	<u>252,112</u>	<u>219,738</u>

8. Expenses by nature

	EUR	EUR
Direct costs	361,259	404,989
Staff costs (note i)	269,435	74,394
Audit fee	5,000	2,513
Depreciation and amortisation	296,788	189,248
Other Administrative expenses	327,886	462,703
	<u>1,260,368</u>	<u>1,133,847</u>

(Note i) Staff costs

	2018	2017
	EUR	EUR
Wages and salaries	316,757	101,530
Social security costs	24,768	25,638
Capitalised salaries	(72,090)	(52,774)
	<u>269,435</u>	<u>74,394</u>
Average number of employees	<u>16</u>	<u>18</u>

During the year 2018, staff salaries of €72,090 have been capitalised to Investment Property (2017: €52,744)

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

9. Income tax expense

Tax is provided for at the rate of 35% for Group profits, except for certain bank interest receivable which is taxed at 15% and sale of property taxed at 5%.

	2018	2017
	EUR	EUR
Current year tax		
Income tax on the taxable income for the year	-	77,173
Deferred tax		
Movement in deferred tax asset (Note 10)	19,489	(24,800)
Movement in deferred tax liability (Note 11)	629,812	1,256,451
	<u>649,301</u>	<u>1,308,824</u>

Tax applying the statutory domestic income tax rate and the income tax expense for the year are reconciled as follows:

	2018	2017
	EUR	EUR
Profit on ordinary activities before tax	<u>5,765,267</u>	<u>11,273,750</u>
Theoretical taxation expense at 35%	<u>2,017,843</u>	<u>3,945,813</u>
<i>Tax effect of:</i>		
- Provisions disallowable for tax purposes	(2,017,843)	(3,979,820)
- Property subject to 5% FWT	-	77,173
- Previous year deferred tax not recognised	-	-
- Movement in the effect of fair value gain on investment property	649,301	1,265,658
Tax expense for the year	<u>649,301</u>	<u>1,308,824</u>

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

10. Deferred tax asset

	2018	2017
	EUR	EUR
Excess of capital allowances over depreciation	(11,141)	(18,065)
Unabsorbed tax losses and capital allowances	107,972	192,955
Deferred interest expenditure	58,570	-
Deferred tax asset	<u>155,401</u>	<u>174,890</u>

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Provision was made for deferred tax for all temporary differences, except of fair value adjustment for investment property, on the basis of the balance sheet liability method using a principal tax rate of 35%.

The deferred tax asset movement is made up of:

Balance at beginning of the year	174,890	150,090
Movement in the excess of capital allowances over depreciation	6,924	(4,827)
Movement in unabsorbed tax losses and capital allowances	(84,983)	29,627
Movement in deferred interest expense	58,570	-
	<u>155,401</u>	<u>174,890</u>

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

11. Deferred tax liability

	2018	2017
	EUR	EUR
Effect of fair value movement on investment property	<u>3,639,420</u>	<u>3,046,360</u>
Deferred tax liability	<u><u>3,639,420</u></u>	<u><u>3,046,360</u></u>

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Provision was made for deferred tax for all temporary differences on the basis of the balance sheet liability method using a principal tax rate at 35%/5%.

The deferred liability movement is made up of:

	2018	2017
	EUR	EUR
Balance at beginning of the year	3,046,360	1,789,909
Movement of office building fair value	36,752	275,641
Movement of investment property fair value	<u>629,812</u>	<u>980,810</u>
Balance at end of year	<u><u>3,639,420</u></u>	<u><u>3,046,360</u></u>

The Group is calculating its deferred tax liability on investment property at 5%, being the rate applied if it had to sell its properties within 5 years of acquisition.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

12. Intangible non-current assets

	Licences	Total
	EUR	EUR
Cost		
At 31 December 2016	349	349
At 31 December 2017	349	349
At 31 December 2018	-	-
Provision for diminution value		
At 1 January 2016	68	68
Amortisation for the year	35	35
At 31 December 2016	103	103
At 1 January 2017	103	103
Amortisation for the year	35	35
At 31 December 2017	138	138
At 1 January 2018	138	138
Amortisation for the year	35	35
At 31 December 2018	173	173
Net book value		
At 31 December 2016	246	246
At 31 December 2017	210	210
At 31 December 2018	175	175

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

13. Property, plant and equipment

	Land and Buildings	Plant, machinery and Equipment	Furniture and Fixtures	Other Assets	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
At 1 January 2016	87,813	11,147	36,686	4,865	140,511
Additions	212,929	1,305	1,515	36,730	252,479
Fair value	787,545	-	-	-	787,545
At 31 December 2016	<u>1,088,287</u>	<u>12,452</u>	<u>38,201</u>	<u>41,595</u>	<u>1,180,535</u>
At 1 January 2017	1,088,287	12,452	38,201	41,595	1,180,535
Additions	-	2,100	-	73,145	75,245
Fair value	-	-	-	-	-
At 31 December 2017	<u>1,088,287</u>	<u>14,552</u>	<u>38,201</u>	<u>114,740</u>	<u>1,255,780</u>
At 1 January 2018	1,088,287	14,552	38,201	114,740	1,255,780
Additions	-	4,642	84	30,337	35,063
Fair value	-	-	-	-	-
At 31 December 2018	<u>1,088,287</u>	<u>19,194</u>	<u>38,285</u>	<u>145,077</u>	<u>1,290,843</u>
Depreciation					
At 1 January 2016	6,725	3,783	7,087	2,919	20,514
Charge for the year	45,904	2,491	4,090	10,143	62,628
At 31 December 2016	<u>52,629</u>	<u>6,274</u>	<u>11,177</u>	<u>13,062</u>	<u>83,142</u>
At 1 January 2017	52,629	6,274	11,177	13,062	83,142
Charge for the year	45,902	2,825	4,089	28,430	81,246
At 31 December 2017	<u>98,531</u>	<u>9,099</u>	<u>15,266</u>	<u>41,492</u>	<u>164,388</u>
At 1 January 2018	98,531	9,099	15,266	41,492	164,388
Charge for the year	45,904	3,745	3,788	35,040	88,477
At 31 December 2018	<u>144,435</u>	<u>12,844</u>	<u>19,054</u>	<u>76,532</u>	<u>252,865</u>
Net book value					
At 31 December 2016	<u>1,035,658</u>	<u>6,178</u>	<u>27,024</u>	<u>28,533</u>	<u>1,097,393</u>
At 31 December 2017	<u>989,756</u>	<u>5,453</u>	<u>22,935</u>	<u>73,248</u>	<u>1,091,393</u>
At 31 December 2018	<u>943,852</u>	<u>6,350</u>	<u>19,231</u>	<u>68,545</u>	<u>1,037,978</u>

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

14. Investment property

	2018 EUR	2017 EUR
Fair Value		
At beginning of the year	44,941,927	31,036,309
Additions	1,139,124	1,687,004
Disposals	-	(134,900)
Reclassification to inventory	-	-
Transition to IFRS 16	-	1,297,415
FV released on disposal	-	(312,643)
Fair value movements	<u>5,976,334</u>	<u>11,368,742</u>
At end of the year	<u>52,057,385</u>	<u>44,941,927</u>
Provisions		
At beginning of the year	269,304	176,125
Release on disposal	-	(14,789)
Depreciation	<u>208,276</u>	<u>107,968</u>
At end of year	<u>477,580</u>	<u>269,304</u>
Net book value at 31 December	<u><u>51,579,805</u></u>	<u><u>44,672,623</u></u>

Fair value of investment property

The Group has revalued its investment property as at 31 December 2018, the basis of which was by using different valuation methods, including an independent third-party professional valuation carried out by qualified Maltese architects and civil engineers, Forward Architects.

In addition to Forward Architects who applied mainly a comparable asset methodology, the Group has also retained Mr. Szabolcs Soós, other third party valuer, for discount cash flow valuation assessments, of the owned, rented and managed asset portfolio of the Group.

Based on these independent valuations the board of directors has established a fair value estimate of its investment property by consistently applying a conservative approach and proposing a fair value estimate, below the valuation conclusions of the third-party valuers.

The Group assumes that when it identifies, acquires, or constructs an investment property, along the lines of its investment strategy, the fair value of the investment property is not always reliably determinable on a continuing basis and therefore in such cases it values the investment property at cost until its fair value becomes reliably determinable, or until certain critical parameters are met (e.g. clean ownership title, fully paid purchase price and related costs, established ownership of a development-size property, etc.). As this process is often lengthy (might take even several years), the recognition of value at cost in the Annual Financial Statements represents a conservative but fair picture of the asset value, at that stage of the acquisition process.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

14. Investment property (continued)

Fair value of investment property (continued)

The book value of the property held by the Group has been increased by €6,907,182 to reflect the established fair value as at 31 December 2018.

The property fair value measurement at 31 December 2018 in relation to the Group's investment property uses Level 3 of the fair value valuation hierarchy. It is essential to note that the Group has used its own factual data from operation of properties as a key driver for the model assumptions where possible and available.

Valuation processes

The valuation of the property is performed on the basis of valuation reports prepared by an independent and professional valuer and valuation estimates calculated by the directors as described below.

When an external valuation report is prepared, the information provided to the valuer, and the assumptions and the valuation models used by the valuer is considered by the directors as this represents an independent valuer's professional opinion. The directors consider the independent valuation report as one of the approaches used, in order to revalue the Group's property.

Valuation techniques

The valuation techniques used by Forward Architects is based on various models of redevelopment for the different properties, namely development for use as offices, mixed use, residential or for another complex use as leisure/retail outlets. Comparable transaction prices - where available - have also been used, as well as rental values and prices being requested for similar properties in Valletta. These valuations constitute a comprehensive exercise comprising the valuation of a portfolio of properties all in Valletta.

It should be noted, that the actual price (liquidation value) which the Group might obtain if forced to sell all properties in the short term might be lower than the estimated figures shown in the valuation, as this is usual in similar cases. In addition, there are several risks and discount factors associated specifically with VBL and its line of business, which were considered in establishing the fair market value of the properties by the independent valuer, namely:

- Ability to match the forecasted schedule and development budgets
- Securing the necessary finance for all development related expenses (beyond the currently available funds) for all the projects within a short time frame might prove difficult
- Securing the necessary development and operational permits within a relatively short time frame for all the projects might not materialise, resulting in undue strain on resources and finance and increased development costs
- Finding prospective buyers or partners or operators for some or all the projects within a short time frame might not be possible at the forecasted terms and conditions
- The development finance required to make some of these properties operational (particularly the Strait Street properties and the properties at St Christopher Street) is rather high. Securing this finance (either if carried out directly by owner or a prospective buyer) is a risk in itself.

Considering these, Forward Architects estimated the value of the investment property as at 31 December 2018 to be €57,215,000 (including managed, leased and presale).

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

14. Investment property (continued)

Directors' assessment using Discounted Cash flows

VBL's directors have carried out its own internal valuation estimates based on their 5-year comprehensive, bottom-up built DCF projections (from its mid-term business plan) and also based on comparative pricing method, from publicly available comparable or similar market transactions. In all these cases VBL directors have made adjustments to show the particularities of each property in question.

The Directors' independent assessment of the value of the investment property has considered various different methods, including the DCF model. Directors have decided to accept a valuation of the investment property which is based on the Valuer's Valuation Report, which is considered conservative but fair and represents a total value, which is close to that achieved through the other valuation methods. The Directors assessment of the fair property value however also includes the long-term rental portfolio, which is utilised in the short-let business and is generating revenues for the Group.

Besides the Forward Architects valuation assessment, on the same basis, Mr. Soos Szabolcs' DCF valuation conclusion was €4,396,705. Based on that the property values as per the Directors' report for the 2018 year-end financials are well below the third-party valuations.

Given the above, as of 31 December 2018 the Directors approved a total value of the properties of the Group amounting to €51,579,805. It is to be noted that the directors accepted the assessment of Forward Architects €57,215,000 as the fair market value of the Group's own properties. The Group has received a DCF based valuation prepared by an independent expert related to all rented and leased properties which was applied at first time within the Book Value for year 2018. The Group has used modified retrospective method for early application of IFRS 16 which permit the recognition of leased properties in the statement of financial position. Also, the Group considers managed properties at the same approach as leased, based on the long-term contracts with owners and *de facto* control of these properties.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

15. Trade and other receivables

	2018	2017
	EUR	EUR
Trade receivables (note i)	66,081	54,383
Tax refundable	3,150	3,150
VAT refundable	202,320	114,492
Deposit on property and guarantees	104,520	48,491
Other receivables		32,915
Prepayments and accrued income	10,529	12,905
	<u>386,601</u>	<u>266,336</u>

i) Trade receivables are non-interest bearing and are generally on a 30-day term.

ii) These loans are interest-free, unsecured and no date of repayment has been set.

16. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2018	2017
	EUR	EUR
Cash at bank and in hand	79,678	917,262
Fixed deposit	-	-
Restricted deposit	10,000	10,000
	<u>89,678</u>	<u>927,262</u>

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

17. Share capital and reserves

	2018	2017
	EUR	EUR
Share Capital		
<i>Authorised:</i>		
607,980 Ordinary A shares of EUR 1 each	607,980	607,980
1,218 Ordinary B Shares of EUR 1 each	<u>1,218</u>	<u>1,218</u>
	<u>609,198</u>	<u>609,198</u>
<i>Issued and fully paid:</i>		
607,980 Ordinary A shares of EUR 1 each	607,980	607,980
1,218 Ordinary B Shares of EUR 1 each	<u>1,218</u>	<u>1,218</u>
	<u>609,198</u>	<u>609,198</u>

Holders of ordinary 'A' shares are entitled to receive 80% of the distribution of any dividends distributed and return of Capital, as defined in the M&A of the Group.

Holders of ordinary 'B' shall be entitled to receive 20% of the distribution of any dividends distributed and return of capital, as defined in the M&A of the Group.

Reserves

The following describes the nature and purpose of each reserve within equity:

Share Premium Account	Amount subscribed for share capital in excess of normal value.
Other reserves	Non-distributable reserves for fair value revaluation on the office building.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

18. Trade and other payables

	2018	2017
	EUR	EUR
Non-current		
Amounts due to third parties (note i)	209,385	347,885
Lease liability	331,399	369,776
	540,784	717,661
Current		
Trade payables (note ii)	63,479	151,485
Accruals and other payables	172,442	122,553
	235,921	274,037

- i) Non-current amounts due to third parties represent balances due arising from purchase of properties. The payment terms are disclosed in the contract of sale.
- ii) Trade payables are non-interest bearing and are normally on 30-day term.
- iii) Current amounts due to third parties represent balances due arising from purchase of properties. The payment terms are disclosed in the contract of sale.

19. Borrowings

	2018	2017
	EUR	EUR
Non-current		
Related party borrowings	4,403,864	3,576,521
Third party borrowings	2,000,000	2,240,000
	6,403,864	5,816,521

Related party borrowings

These amounts are intra-group borrowings from VBLH Limited, accrues interest at 3.95%, unsecured and repayable upon request by the lender.

Third party borrowings

€2,000,000 of the total third-party borrowings bear an interest rate of 4% p.a., are fully secured by a special hypothec and are repayable in 4 years from 1st January 2019.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

20. **Financial risk management**

The Group's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash at bank and debtors. The Group's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Group has appropriate policies to ensure that sales of products are made to customers with appropriate credit history. In this respect, credit risk with respect to debtors is monitored continuously and the Group places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and, in this respect, the Group has no significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity by maintaining adequate reserves and banking facilities to meet its liabilities when due, under both normal and stressed conditions. The directors do not foresee and are unaware of any circumstances whereby the Group would not honour its commitment.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents as disclosed in note 16, items presented within equity in the statement of financial position and borrowings as disclosed in note 19.

The Group's directors manage the Group's capital structure and make adjustments to it, in the light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the directors, the Group balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall strategy remains unchanged from the prior year.

VBL LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

21. Fair value estimation

The nominal values less estimated credit adjustments of cash, trade receivable and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values. Fair value of investment property is disclosed in Note 14.

22. Statutory information

VBLH Limited is a limited liability Company and is incorporated in Malta.

The directors are of the opinion that there is no ultimate controlling party since no shareholders have more than 35% of shareholding.

23. Related party transactions

The Directors consider VBLH Ltd as the ultimate parent Company, who holds the Ordinary A shares of the Company. VBLM Ltd holds the Ordinary B shares of the Company and has the operational management rights.

In the opinion of the Directors, there is no ultimate controlling party of the group, since no shareholder of VBLH Ltd has more than 35% of voting rights.

During the year ended 31 December 2018 transactions related to VBLM Limited are included in the related party transactions as detailed below.

During the course of the year, the Company entered into transactions with related parties as set below.

	EUR
Revenue	54,000
Property related expenses	(37,342)
Interest on borrowings	(135,904)
Management fees expenses	(175,000)
Capitalized property development expenses	(226,900)

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VBL LIMITED & VREM LIMITED

Report on the Audit of the Financial Statements

We have audited the consolidated financial statements ('financial statements') of VBL Limited with its subsidiary ('the Group') set out on pages 5 to 31, which comprise the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group as at 31st December 2018, and of its financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRSs) and have been prepared in accordance with the requirements of the Companies Act (Cap. 386)

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosures required by Article 177 of the 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 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).

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report. We have nothing to report in this regard.



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
VBL LIMITED & VREM LIMITED
(continued)**

Responsibilities of the Directors

As explained more fully in the Statements of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
VBL LIMITED & VREM LIMITED
(continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 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.

Report on Other Legal and Regulatory Requirements

Under the Maltese Companies Act (Cap. 386) we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit.
- 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.
- The information given in the directors' report is not consistent with the financial statements.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

BDO Malta
Certified Public Accountants
Registered Audit Firm

Triq-It-Torri
Msida MSD 1824
Malta

16th May 2019



This report has been signed
for and on behalf of
BDO MALTA
by Sam Spiridonov (Partner)