

SD FINANCE plc

Annual Report and Financial Statements  
31 March 2018

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## Directors' report

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

### Principal activities

The company's principal activity is to carry on the business of an investment company, by raising funds to finance the operations and capital projects of the companies forming part of the dB Group.

### Review of business

The company was incorporated on 20 January 2017 and these financial statements cover the 14 month period from the date of incorporation to 31 March 2018.

During the period under review, the Company issued a €65 million unsecured bond. This issue was successfully oversubscribed and the proceeds were applied to various Group entities with the exception of €2.2 million which was retained by the Company. This use of proceeds followed the allocation policy set in the respective prospectus.

During the current period, finance income on loans and ancillary revenue from SD Holdings Limited, the guarantor of the Company's bonds and Seabank Hotel and Catering Limited and Hotel San Antonio Limited (Group companies), amounted to €2.77 million, whilst interest payable on bonds totalled €2.72 million. Administrative expenses representing listing, compliance costs together with directors' and professional fees reached €38,362. Profit for the period after tax was €8,199. Earnings per share based on profit after taxation, divided by the weighted average number of ordinary shares stood at €0.32,8.

The Company's balance sheet is primarily made up the bond issue for €65 million and corresponding loans to SD Holdings Limited, Seabank Hotel and Catering Limited and Hotel San Antonio Limited. As noted above, SD Holdings Limited guarantees this bond. The bonds and advances are classified in SD Finance plc's statement of financial position as non-current liabilities and non-current assets respectively. SD Finance plc's equity as at year end is stated at €258,199 primarily made up of the initial share capital funds.

The Company recognises that the key risk and uncertainty of its business is that of the potential non-fulfilment by the borrowers (that is SD Holdings Ltd, Seabank Hotel and Catering Ltd and Hotel San Antonio Ltd) of their obligations.

### Guarantor's and dB Group's performance for 2018 and outlook for 2019

The dB Group owned by SD Holdings Limited, as guarantor to the Bond Issue, experienced another stellar performance in line with its recent financial track record. Group turnover advanced by 7.8% to hit the €50.26 million mark (2017 €46.62 million) resulting in a Profit before tax of €11.38 million (2017 €€9.99 million), up by nearly 14%. The entire Group portfolio exceeded previous year's performance as a result of better performances in the hospitality and leisure business, health care segment and contract catering. Leveraging better economies of scale on increased business volumes together with a healthy economic environment at a macro level have been instrumental in the Group achieving better margins of return, which now factor in at 22.64% as against 21.42% for the corresponding previous 12 months.

## **Directors' report** - continued

### **Guarantor's and db Group's performance for 2018 and outlook for 2019** - continued

Better room rates contributed to better results from the Group's Hotel portfolio. Increased tourism volumes were a key factor in securing improved performances in the restaurant business segment.

From a contract catering perspective, managed through various associates, the Group secured a long term agreement for the provision of in-house resident meals at one of the major old people residential homes on the island. This agreement led to a major investment by the Group of a €4 million state of the art kitchen at Saint Vincent de Paule Residence, which will increase and better serve the Group's operational ability in terms of flexibility to serve one of its major clients in this sector. This was complemented in landing a major deal for the development of 500 bed home for the elderly on a public private partnership basis which should be completed by not later than early 2021.

The outlook for 2019 is again a positive one and early results for the year are extremely encouraging showing further improvement in business results for the Group. The hospitality and leisure industry continues to thrive on strong tourism numbers. One of the Group's main eatery complexes in Ghadira, namely the Tunny Net complex (now restyled as Adeera), underwent a major refurbishment programme to the tune of circa €3 million, fully funded from the Group's cash-flows. This is now back in full operation with new concepts and indications from the first months' results are upbeat. Negotiations on a revised business concept in the airline industry were also successfully concluded with Air Malta p.l.c. The Group's next business milestone is the development of the City Centre in St. George's Bay, St. Julians. This development is still subject to Planning Authority review and its outcome will define the Group's way forward over the next couple of years.

### **Financial risk management**

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

### **Results and dividends**

The company's financial results are set out on page 19. The directors do not recommend the payment of a dividend.

Retained profits carried forward as at 31 March 2018 amounted to €8,199.

### **Directors**

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

Silvio Debono – appointed upon incorporation of the company  
Robert Debono – appointed upon incorporation of the company  
Arthur Gauci – appointed upon incorporation of the company  
Philip Micallef – appointed 17 February 2017  
Vincent Micallef – appointed 17 February 2017  
Stephen Muscat – appointed 17 February 2017

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

## **Directors' report** - continued

### **Statement of directors' responsibilities for the financial statements**

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of each reporting period and of the profit or loss for that period.

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

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

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of SD Finance plc for the year ended 31 March 2018 are included in the Annual Report 2018, which is made available on the db Group website.

The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the group's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

- the financial statements give a true and fair view of the financial position of the company as at 31 March 2018, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that the company and the guarantor face.

### **Going concern statement pursuant to Listing rule 5.62**

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

**Directors' report** - continued

**Auditors**

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

On behalf of the board



Arthur Gauci  
Director



Stephen Muscat  
Director

Registered office:  
Seabank Hotel  
Marfa Road  
Mellieha  
MLH 9064  
Malta

Telephone (+356) 2289 1000

Dr Shaheryar Ghaznavi  
Company secretary

26 July 2018

## Corporate Governance - Statement of Compliance

### Introduction

Pursuant to the requirements of the Listing Rules issued by the Listing Authority of the Malta Financial Services Authority, SD Finance plc (the "Company" or the "Issuer" - a fully owned subsidiary of SD Holdings Limited) hereby reports on the extent to which the company has adopted The Code of Principles of Good Corporate Governance (the "Code") appended to Chapter 5 of the Listing Rules as well as the measures adopted to ensure compliance with these same Principles.

Since its incorporation, the company's principal activity was to raise funds from the capital market to finance the operations of other group companies forming part of the db Group (the "Group").

The Company acknowledges that although the Code does not dictate or prescribe mandatory rules, compliance with the principles of good corporate governance recommended in the Code is in the best interests of the Company, its shareholders and other stakeholders. In deciding on the most appropriate manner in which to implement the Principles, the Board of SD Finance plc (the "Board") has taken cognisance of its size, which inevitably impacts on the structures required to implement the Principles without diluting the effectiveness thereof. The Company does not have any employees.

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

### Roles and Responsibilities

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for:

- the Company's strategy and decisions with respect to the issue, servicing and redemption of its bonds; and
- monitoring that its operations are in conformity with its commitments towards bondholders, shareholders and all relevant laws and regulations.

The Board is also responsible for ensuring that the Company installs and operates effective internal control and management information systems and that it communicates effectively with the market.

### The Board of Directors

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

Since February 2017, the Board is composed of six members, with three executive and three non-executive directors. The non-executive directors are independent from the Group.

The three executive directors, Mr Silvio Debono, Mr Robert Debono and Mr Arthur Gauci occupy various senior executive and directorship positions within the Group.

The three non-executive directors are Mr Philip Micallef, Dr Vince Micallef and Mr Stephen Muscat. Dr Vince Micallef is also the Company secretary of a number of entities within the Group.

## **Corporate Governance - Statement of Compliance** - continued

The three non-executive directors are considered by the Board as independent directors since they are free of any significant business relationship, family or other relationships with the Issuer, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair their judgement. The activities of the Board are exercised in a manner designed to ensure that it can effectively supervise the operations of the Company and protect the interests of bondholders and the shareholders. During the current financial period, meetings of the Board were held as frequently as considered necessary.

The Board members are notified of forthcoming meetings by the Company secretary (Dr Shaheryar Ghaznavi) with the issue of an agenda and supporting documents as necessary which are then discussed during the Board meetings.

The Board does not consider it necessary to institute separate committees for remuneration and nomination, as would be appropriate in an operating company. During the financial year, the Board met five times and was always attended by more than 75% of the Officers of the Company. During this year, the Board did not undertake a performance evaluation of its role in accordance with Article 7 of the Corporate Governance Code, but intends to do so in the coming year.

Apart from setting the strategy and direction of the Company, the Board retains direct responsibility for approving and monitoring:

- the direct supervision, supported by expert professional advice as appropriate, on the issue and listing of bonds;
- that the proceeds of the bonds are applied for the purposes for which they were sanctioned as specified in the prospectus of the bonds issued;
- the proper utilisation of the resources of the Company;
- the annual report and financial statements, the relevant public announcements and the Company's compliance with its continuing listing obligations.

### **Remuneration Statement**

The Board confirms that the maximum annual aggregate emoluments that may be paid to the directors pursuant to the Company's Memorandum and Articles of Association, was approved by the shareholders at the Annual General Meeting. None of the directors has service contracts with the Company. Furthermore, the remuneration of each of the independent non-executive directors is a fixed honorarium of €5,000 per annum. The executive directors do not earn any fixed honorarium from the Company but have an indefinite full-time contract of service with companies forming part of the db Group.

None of the directors have any variable component remuneration relating to profit sharing, share options or pension benefits from the Company.

The Board further confirms that the Company does not intend to effect any changes to its remuneration policy for the following year.



## **Corporate Governance - Statement of Compliance** - continued

### **Risk Management and Internal Control**

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

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

The Board recognises that the Company must manage a range of risks in the course of its activities and in this respect maintains a sound risk management and internal control system which includes the determination of the nature and extent of the risks it is willing to take in achieving its strategic objectives.

The Board, in this financial period, established a formal and transparent arrangement to apply risk management and internal control principles, as well as maintaining an appropriate relationship with the Company's auditors.

The Board is adjourned periodically of the financial affairs and operational developments of the group entities to whom the Issuer has advanced the proceeds from the bond issue.

### **Audit Committee**

During the current financial period, the Audit Committee met four times with full attendance.

The Audit Committee's primary objective is to assist the Board in fulfilling its responsibilities relating to risk, control and governance; as well as to review the financial reporting processes. The Board has set formal terms of reference of the Audit Committee that establish its composition, role and functions. The Audit Committee is a subcommittee of the Board and is directly responsible and accountable to the Board. The Board reserves the right to change these terms of reference from time to time.

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

As required by the Maltese Companies Act (Cap. 386) and the Malta Financial Services Authority Listing Rules, the financial statements of SD Finance plc are subject to annual audit by its external auditors. Moreover, the Audit Committee has direct access to the external auditors of the Company, who attend the Board meetings at which the Company's financial statements are approved.

The Audit Committee is composed of three independent non-executive directors, in accordance with Listing Rule 5.117. The members of the Audit Committee are Mr Stephen Muscat, Mr Philip Micallef and Dr Vince Micallef. Mr Stephen Muscat, who also acts as the Chairman of the Audit Committee, is a Certified Public Accountant and is considered by the Board to be both independent and competent in accounting as required in terms of the Listing Rules.

## Corporate Governance - Statement of Compliance - continued

### Relations with Bond Holders and the Market

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

The Company communicates with its bondholders by publishing its interim results for a six-month period during the year and by way of publication of the full year Audited Financial Statements. Additionally, during the current financial period, the Company organised a specific session for Financial Intermediaries and the press to explain the Company's results and those of the Group. The Board deems that it is providing the market with adequate information about its activities through these channels.

In this respect, the directors are of the view that Principle Ten of the Code of Corporate Governance is not applicable to the Company.

### Other Information

In view of the size and type of operations of the Company, the Board does not consider the Company to require the setting up of a nomination committee.

During the financial period under review, no private interests or duties unrelated to the Company were disclosed by the directors which were or could have been likely to place any of them in conflict with any interests in, or duties towards the Company.

The Company is a member of the db Group, which group has its own program for Corporate Social Responsibility initiatives.

### Conclusion

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

Approved by the Board on 26 July 2018 and signed on its behalf by:



Arthur Gauci  
Director



Stephen Muscat  
Director



## *Independent auditor's report*

To the Shareholders of SD Finance plc

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion:

- SD Finance plc's financial statements give a true and fair view of the company's financial position as at 31 March 2018, and of the company's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

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

#### **What we have audited**

SD Finance plc's financial statements, set out on pages 18 to 34, comprise:

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

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#### *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.

## *Independent auditor's report - continued*

To the Shareholders of SD Finance plc

### **Independence**

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

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

The non-audit services that we have provided to the company, in the period from 20 January 2017 to 31 March 2018, are disclosed in Note 12 to the financial statements.

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### *Our audit approach*

#### **Overview**



Overall materiality: €671,000, which represents 1% of total assets.

Recoverability of loans issued to the guarantor of the bonds and fellow subsidiaries



## *Independent auditor's report - continued*

To the Shareholders of SD Finance plc

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

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

### **Materiality**

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

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

<b><i>Overall materiality</i></b>	€671,000
<b><i>How we determined it</i></b>	1% on total assets
<b><i>Rationale for the materiality benchmark applied</i></b>	We chose total assets as the benchmark because, in our view, it is an appropriate measure for this entity. We chose 1%, which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €67,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



## *Independent auditor's report - continued*

To the Shareholders of SD Finance plc

### **Key audit matters**

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

<b>Key audit matter</b>	<b>How our audit addressed the Key audit matter</b>
<p><i>Recoverability of loans issued to the guarantor of the bonds and fellow subsidiaries (Notes 2.1(a) and 4)</i></p> <p>Loans receivable represent funds advanced to the company's parent, SD Holdings Limited, who is also the guarantor of the bonds issued by the company, and to fellow subsidiaries Hotel San Antonio Limited and Seabank Hotel and Catering Limited. Loan balances with these related parties as at 31 March 2018 amounted to €62.2 million.</p> <p>As explained in accounting policy Note 1.4, the recoverability of the loans is assessed at the end of each financial year.</p> <p>The loans are the principal asset of the company, which is why we have given additional attention to this area.</p>	<p>We have agreed the terms of these loans to supporting loan agreements.</p> <p>We have assessed the financial soundness of these related parties. In doing this, we made reference to the latest audited financial statements, management accounts, cash flow projections, forecasts and other prospective information made available to us.</p> <p>Based on evidence and explanations obtained, we concur with management's view with respect to the recoverability of these loans.</p>



## *Independent auditor's report - continued*

To the Shareholders of SD Finance plc

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### *Other information*

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

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

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

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

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

- The information given in the directors' report for the financial 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 company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.



## Independent auditor's report - continued

To the Shareholders of SD Finance plc

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

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

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

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

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### *Auditor's responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.





## *Independent auditor's report - continued*

To the Shareholders of SD Finance plc

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



## *Independent auditor's report - continued*

To the Shareholders of SD Finance plc

### *Report on other legal and regulatory requirements*

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

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

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

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

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

In our opinion, the Statement of Compliance set out on pages 5 to 8 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

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#### *Other matters on which we are required to report by exception*

We also have responsibilities:

- Under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:
  - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
  - The financial statements are not in agreement with the accounting records and returns.
  - We have not received all the information and explanations we require for our audit.
  - Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
  
- Under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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



*Independent auditor's report - continued*

To the Shareholders of SD Finance plc

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*Appointment*

We were appointed as auditors for the company's first financial period ended 31 March 2018. The company became listed on 4 May 2017.

**PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta



Stefan Bonello  
Partner

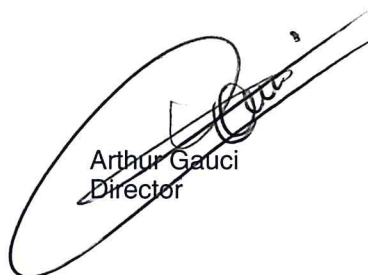
26 July 2018

## Statement of financial position

	Notes	As at 31 March 2018 €
<b>ASSETS</b>		
<b>Non-current assets</b>		
Loans receivable	4	62,232,686
<b>Current assets</b>		
Receivables	5	1,488
Cash and cash equivalents	6	4,827,878
Total current assets		4,829,366
<b>Total assets</b>		67,062,052
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Share capital	7	250,000
Retained earnings		8,199
<b>Total equity</b>		258,199
<b>Non-current liabilities</b>		
Borrowings	8	64,152,312
<b>Current liabilities</b>		
Payables	9	2,647,126
Current tax liabilities		4,415
Total current liabilities		2,651,541
Total liabilities		66,803,853
<b>Total equity and liabilities</b>		67,062,052

The notes on pages 22 to 34 are an integral part of these financial statements.

The financial statements on pages 18 to 34 were authorised for issue by the board on 26 July 2018 and were signed on its behalf by:



Arthur Gauci  
Director



Stephen Muscat  
Director

## Statement of comprehensive income

	Notes	Period from 20 January 2017 to 31 March 2018 €
Finance income	10	2,768,906
Finance cost	11	(2,717,930)
<b>Net interest income</b>		<b>50,976</b>
Administrative expenses	12	(38,362)
<b>Profit before tax</b>		<b>12,614</b>
Tax expense	14	(4,415)
<b>Profit for the period - Total comprehensive income</b>		<b>8,199</b>
Earnings per share (cents)	15	3.28c

The notes on pages 22 to 34 are an integral part of these financial statements.

## Statement of changes in equity

	Note	Share capital €	Retained earnings €	Total €
Balance at 20 January 2017		-	-	-
<b>Comprehensive income</b>				
Profit for the period - total comprehensive income		-	8,199	8,199
<b>Transactions with owners</b>				
Issue of share capital	7	250,000	-	250,000
<b>Balance at 31 March 2018</b>		<b>250,000</b>	<b>8,199</b>	<b>258,199</b>

The notes on pages 22 to 34 are an integral part of these financial statements.

## Statement of cash flows

	Notes	Period from 20 January 2017 to 31 March 2018 €
<b>Cash flows from operating activities</b>		
Interest received		2,767,418
Cash paid to services providers		(32,818)
Net cash used in operating activities		2,734,600
<b>Cash flows from investing activities</b>		
Advances to related parties	4	(62,232,686)
Net cash used in investing activities		(62,232,686)
<b>Cash flow from financing activities</b>		
Proceeds from the issuance of ordinary shares	7	250,000
Proceeds from the issuance of bonds	8	65,000,000
Payments for bond issue costs	8	(924,036)
Net cash generated from financing activities		64,325,964
<b>Net movement in cash and cash equivalents</b>		4,827,878
<b>Cash and cash equivalents at beginning of period</b>		-
<b>Cash and cash equivalents at end of period</b>		4,827,878

The notes on pages 22 to 34 are an integral part of these financial statements.

## Notes to the financial statements

### 1. Summary of significant accounting policies

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

#### 1.1 Basis of preparation

These financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act (Cap. 386). The financial statements have been prepared under the historical cost convention.

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

#### *Standards, interpretations and amendments to published standards effective in the current financial period*

On incorporation, the company adopted standards, amendments and interpretations that are mandatory for the company's accounting period beginning on 20 January 2017.

#### *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 company's accounting periods beginning after 20 January 2017. The company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and for the company it is effective as from the accounting period commencing on 1 April 2018. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit or loss. The company's financial assets are limited to loans receivable which continue to be measured at amortised cost, consistently with IAS 39. The standard also introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. This generally results in accelerating provisions for impairment as compared to IAS 39.

Notwithstanding this change in recognising impairment, the company qualifies for the simplifications afforded in IFRS 9 in recognising impairment losses for its trade receivables, by estimating the expected credit loss using a provisions matrix. The directors have concluded that the resultant provision after the application of the provisions matrix would be immaterial given the short-term nature of the company's receivables and a low occurrence of past default.



## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

With respect to the loans advanced to related parties, IFRS 9's three-stage impairment model ("the general model") applies. The first step of the general model is to determine which impairment 'stage' the loans sit within. At initial recognition, loans are generally within 'stage 1', which requires a 12-month expected credit loss to be calculated for each balance. The model then requires monitoring of the credit risk associated with the loan to consider if there has been a significant increase since initial recognition. If there has been a significant increase in credit risk (the loan is now in 'stage 2'), or the asset has become credit impaired (the loan is now in 'stage 3'), a lifetime expected credit loss must be recognised.

In determining whether a significant increase in credit risk has occurred, the company takes into account the related parties' performance and financial position, as well as expected future cash flows. With respect to these loans, the directors are not expecting a significant increase in the credit risk since initial recognition. On this basis, the company expects an immaterial provision for impairment with respect to the loans to related parties.

The company's cash and cash equivalents are held with local financial institutions with high quality standing or rating. The company will apply the low credit risk simplification allowed by IFRS 9, through which such balances will be classified within 'stage 1' without the requirement to carry out an assessment of whether there has been a significant increase in credit risk. Under the practical expedient, the company will estimate the 12-month expected credit loss. The directors have however determined that the high quality of the financial institutions is such that the adoption of IFRS 9 will not have a material impact on the net carrying amount of these financial assets.

### 1.2 Foreign currency translation

#### (a) *Functional and presentation currency*

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

#### (b) *Transactions and balances*

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

### 1.3 Financial assets

#### 1.3.1 Classification

The company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise loans receivables, other receivables and cash and cash equivalents (Notes 1.4, 1.5 and 1.6) in the statement of financial position.

## 1. Summary of significant accounting policies - continued

### 1.3 Financial assets - continued

#### 1.3.2 Recognition and measurement

The company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which the company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

#### 1.3.3 Impairment

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The company first assesses whether objective evidence of impairment exists. The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

## 1. Summary of significant accounting policies - continued

### 1.4 Loans receivable

Under the requirements of IAS 39, the company's loans receivable, consisting in the main of advances to its parent undertaking and other related parties, are classified as loans and receivables, unless the company has the intention of trading the asset immediately or in the short-term, in which case the loans receivable are categorised as instruments held-for-trading.

All loans receivable are recognised when cash is advanced to the borrowers. Loans receivable are initially recognised at the fair value of cash consideration given or proceeds advanced, plus transaction costs. These financial assets are subsequently carried at amortised cost using the effective interest method. The company assesses at the end of each reporting period whether there is objective evidence that loans and advances are impaired (refer to Note 1.3.3).

### 1.5 Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.3.3). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

Receivables which are expected to be collected within one year or less, are classified as current assets. If not, they are presented as non-current assets.

### 1.6 Cash and cash equivalents

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

### 1.7 Share capital

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

### 1.8 Financial liabilities

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The company's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of the consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

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

**1.9 Borrowings**

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

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

**1.10 Payables**

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

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

**1.11 Offsetting financial instruments**

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

**1.12 Current and deferred tax**

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

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

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

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

## 1. Summary of significant accounting policies - continued

### 1.13 Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing financial instruments using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Accordingly, interest expense includes the effect of amortising any difference between net proceeds and redemption value in respect of the company's interest-bearing borrowings.

### 1.14 Dividend distribution

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

### 1.15 Earnings per share

The company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period.

### 1.16 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of directors that makes strategic decisions. The Board considers the company to constitute one reportable segment in view of its activities.

## 2. Financial risk management

### 2.1 Financial risk factors

The company constitutes a financing special purpose vehicle whose bond proceeds were advanced to SD Holdings Limited (parent undertaking), Hotel San Antonio Limited (fellow subsidiary) and Seabank Hotel and Catering Limited (fellow subsidiary). The company's principal risk exposures relate to credit risk and liquidity risk. The company is not exposed to currency risk and the directors deem interest rate risk exposure to be minimal due to the matching of its interest costs on the bonds with its interest income from its loans and receivables referred to above.

**2. Financial risk management - continued**

(a) Credit risk

Credit risk primarily arises from loans receivable from SD Holdings Limited, Hotel San Antonio Limited and Seabank Hotel and Catering Limited (Note 4) and cash and cash equivalents (Note 6).

The maximum credit exposure to credit risk at the end of the reporting period in respect of the company's financial assets is equivalent to their carrying amount, which is analysed as follows:

	2018 €
Loans and receivables category:	
Loans receivable from parent undertaking and fellow subsidiaries (Note 4)	62,232,686
Other receivables (Note 5)	1,488
Cash and cash equivalents (Note 6)	4,827,878
	67,062,052

The company's loans receivable consist of advances to related parties forming part of the db Group (refer to Note 4), which advances have been effected out of the company's bond issue proceeds. The company monitors intra-group credit exposures on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The company's collateral held as security in respect of the financial assets is disclosed in Note 4 to the financial statements. The guarantor in relation to the bond issue (SD Holdings Limited) is in fact one of the borrowers. The company assesses the credit quality of the db Group taking into account financial position, performance and other factors. The company takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

The company's other receivables mainly include interest receivable from the company's parent and other related parties in respect of the advances referred to previously.

The company banks only with local financial institutions with high quality standing or rating.

At the end of the reporting period, the company had no past due or impaired financial assets.

(b) Liquidity risk

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally the bonds issued to the general public and other payables (refer to Notes 8 and 9 respectively). Prudent liquidity risk management includes maintaining sufficient cash and liquid assets to ensure the availability of an adequate amount of funding to meet the company's obligations.

The company's liquidity risk is managed actively by ensuring that cash inflows arising from expected maturities of the company's advances to related parties effected out of the bond issue proceeds, together with any related interest receivable, match the cash outflows in respect of the company's bond borrowings, covering principal and interest payments, as referred to in Note 9 and reflected in the table below.

## 2. Financial risk management - continued

The following table analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Within 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €	Total €
<b>31 March 2018</b>					
Borrowings	2,827,500	2,827,500	8,482,500	79,137,500	93,275,000
Payables	5,544	-	-	-	5,544
	<b>2,833,044</b>	<b>2,827,500</b>	<b>8,482,500</b>	<b>79,137,500</b>	<b>93,280,544</b>

### 2.2 Capital risk management

The db Group objectives when managing capital at subsidiary level are to safeguard the respective company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may issue new shares or adjust the amount of dividends paid to shareholders.

The company's equity, as disclosed in the statement of financial position, constitutes its capital. The company maintains its level of capital by reference to its financial obligations and commitments arising from operational requirements. Taking cognisance of the nature of the company's assets, together with collateral held as security, backing the company's principal borrowings, the capital level at the end of the reporting period is deemed adequate by the directors.

### 2.3 Fair values of financial instruments

At 31 March 2018, the carrying amounts of cash at bank, receivables, payables and accrued expenses approximated their fair values due to the nature or short-term maturity of these instruments. The fair values of the interest bearing loans receivable were not significantly different from their carrying amounts at the end of the reporting period based on discounted cash flows using market interest rates prevailing at 31 March 2018. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2 within the fair value measurement hierarchy required by IFRS 7, 'Financial instruments: Disclosures'. Information on the fair value of the company's bonds issued to the general public is disclosed in Note 8 to the financial statements. The fair value estimate in this respect is deemed Level 1 as it constitutes a quoted price in an active market.

## 3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the directors, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

**4. Loans receivable**

	<b>2018</b> €
<b>Non Current</b>	
Loan to parent	1,488,101
Loans to fellow subsidiaries	60,744,585
	<b>62,232,686</b>

The proceeds from the bond issue (see Note 8) have been advanced by the company to SD Holdings Limited (the company's parent undertaking and guarantor of the bonds) and to Hotel San Antonio Limited and Seabank Hotel and Catering Limited (both fellow subsidiaries of the Issuer). The principal purposes for these advances were the re-financing of existing banking facilities of the respective borrower, the financing of the redemption of the redeemable preference shares of Seabank Hotel and Catering Limited, and for the general corporate funding purposes of the db Group.

These loans are subject to interest at a fixed interest rate of 4.55%, with an additional renewal fee, which shall be charged on the loans at a floating rate at the discretion of the directors of the Issuer. As at the end of the reporting period, the element of the floating rate interest was 0.19%. The loans are unsecured and repayable by not later than 10 April 2027.

**5. Receivables**

	<b>2018</b> €
<b>Current</b>	
Accrued income	1,488
	<b>1,488</b>

**6. Cash and cash equivalents**

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

	<b>2018</b> €
Cash at bank and in hand	4,827,878
	<b>4,827,878</b>

**7. Share capital**

	<b>2018</b> €
<b>Authorised</b>	
250,000 ordinary shares of €1 each	250,000
	<b>250,000</b>
<b>Issued and fully paid</b>	
250,000 ordinary shares of €1 each	250,000
	<b>250,000</b>



**7. Share capital - continued**

On 20 January 2017, the company was incorporated with an authorised and issued share capital of €250,000, made up of 250,000 ordinary shares of €1 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All shares rank equally with regard to the company's residual assets.

**8. Borrowings**

	<b>2018</b> €
<b>Non-current</b>	
650,000 4.35% Bonds 2017-2027	<b>64,152,312</b>

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

	<b>2018</b> €
Original face value of bonds issued	<b>65,000,000</b>
Bond issue costs	<b>(924,036)</b>
Accumulated amortisation	<b>76,348</b>
Closing net book amount of bond issue costs	<b>(847,688)</b>
<b>Amortised cost and closing carrying amount of the bonds</b>	<b>64,152,312</b>

By virtue of an offering memorandum dated 27 March 2017, the company issued €65,000,000 bonds with a face value of €100 each. The bonds have a coupon interest of 4.35% which is payable annually in arrears, on 25 April of each year. The bonds are redeemable at par and are due for redemption on 25 April 2027. The bonds are guaranteed by SD Holdings Limited, which has bound itself jointly and severally liable with the issuer, for the repayment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum. The bonds were admitted on the Official List of the Malta Stock Exchange on 4 May 2017. The quoted market price as at 31 March 2018 for the bonds was €103, which in the opinion of the directors fairly represents the fair value of these financial liabilities. At the end of the reporting period, bonds with a face value of €500,000 were held by a company director.

In accordance with the provisions of the prospectus, the proceeds from the bond issue have been advanced by the company to related parties (refer to Note 4).

**9. Payables**

	2018 €
<b>Current</b>	
Interest payable accrued	2,641,582
Other accruals	5,015
Other payables	529
	2,647,126

**10. Finance income**

	Period from 20 January 2017 to 31 March 2018 €
Interest income on loan advanced to parent	66,140
Interest income on loans advanced to fellow subsidiaries	2,699,838
Interest income on bank deposits	2,928
	2,768,906

**11. Finance costs**

	Period from 20 January 2017 to 31 March 2018 €
Bond interest expense	2,717,930

**12. Expenses by nature**

	Period from 20 January 2017 to 31 March 2018 €
Directors' fees (Note 13)	16,338
Listing and related compliance costs	7,327
Legal and professional fees	12,576
Other expenses	2,121
Total administrative expenses	38,362

**12. Expenses by nature - continued**

*Auditor's fees*

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

	Period from 20 January 2017 to 31 March 2018 €
Annual statutory audit	6,000
Tax advisory and compliance serves	500
	6,500

**13. Directors' emoluments**

	Period from 20 January 2017 to 31 March 2018 €
Directors' fees	16,338

**14. Tax expense**

	Period from 20 January 2017 to 31 March 2018 €
Current tax expense	4,415

The tax on the company's profit before tax does not differ from the theoretical amount that would arise using the basic tax rate as follows:

	Period from 20 January 2017 to 31 March 2018 €
Profit before tax	12,614
Tax on profit @ 35%	4,415

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## 15. Earnings per share

Earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares in issue during the period. The diluted earnings per share is equal to the basic earnings per share.

	<b>Period from 20 January 2017 to 31 March 2018</b>
Net profit attributable to owners of the company	<b>€8,199</b>
Weighted average number of ordinary shares in issue (Note 7)	<b>250,000</b>
Earnings per share (€ cents)	<b>3.28</b>

## 16. Net debt reconciliation

All the movements in the company's net debt relate only to cash flow movements and disclosed as part of the financing activities in the statement of cash flows on page 21.

## 17. Related parties

The company forms part of the db Group of Companies. All companies forming part of the db Group are related parties since these companies are all ultimately owned by SD Holdings Limited. The main related parties with whom transactions were entered into during the financial period were SD Holdings Limited, the guarantor of the bonds, and the companies to whom the loans were advanced from the bond proceeds.

Transactions with companies forming part of db Group principally include advances affected by the company, out of the bond issue proceeds, as disclosed in Note 4 to the financial statements. Interest receivable earned from these transactions is disclosed in Note 10.

Key management personnel compensation, consisting of remuneration to the company's directors, has been disclosed in Note 13.

## 18. Statutory information

SD Finance plc is a limited liability company and is incorporated in Malta.

The immediate and ultimate parent company of SD Finance plc is SD Holdings Limited, a company registered in Malta, with its registered address at db Seabank Resort & Spa, Marfa Road, Mellieha Bay, Mellieha, MLH 9064, Malta.

The ultimate beneficial owner of SD Holdings Limited is Silvio Debono.