IMMO-CROISSANCE SICAV - FIS

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

IMMO
CROISSANCE

Registered office:
11-13, Boulevard de la Foire
L-1528 Luxembourg
Grand-Duchy of Luxembourg
R.C.S Luxembourg : B 28.872

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Administration

Registered office

Immo-Croissance SICAV-FIS
Centre Etoile
11-13 Boulevard de la Foire
L-1528 Luxembourg

BOARD OF DIRECTORS

Chairman
Mr. Peter LANG
3, allée des Charmes
L-1372 Luxembourg

Members
Mr. Jean-François WILLEMS
Havilland Group S.A.
35a, Avenue JF Kennedy
L-1855 Luxembourg

Mr. Marc ARAND
Banque Havilland (Liechtenstein) AG
Austrasse 61,
LI-9490 Vaduz

Administration (continued)

Custodian and administrative agent
(until April 30, 2019 / July 31, 2019)
RBC Investor Services Bank S.A.
14, Porte de France
L-4360 Esch-sur-Alzette

Registrar and transfer agent
(until February 6, 2018)
RBC Investor Services Bank S.A.
14, Porte de France
L-4360 Esch-sur-Alzette

Auditors
PricewaterhouseCoopers, Société coopérative
2, rue Gerhard Mercator
B.P. 1443
L-1014 Luxembourg

Property appraiser
Inowai S.A.
52, route d'Esch
L-1470 Luxembourg

Activity report

2018 has been a good year for our portfolio as, at the time of this report, all our buildings show a very low vacancy rate.

The Centre Monterey is fully let, but one tenant will be leaving the building end of August 2019 and 450 sqm will become vacant. A potential tenant has already shown an interest into the surface and negotiations are ongoing. No renovation costs are expected for the re-letting.

After the tenant on the ground floor in the Residence Monterey had been declared bankrupt and left the building in December 2017, several potential tenants have shown an interest for the surface. The Company is currently in discussion with a potential anchor tenant, who visited the premises in November 2018 and decided to enter into negotiations with the Company. An agreement for a 12 years lease at EUR 7.500 per month was concluded under the condition that the tenant takes all renovation works in charge. The rental agreement has been signed and began on March 1, 2019. In addition to the commercial space, the tenant also rented the apartment in the first floor of the same building. The apartment has been vacant since beginning of November 2018. The 4th floor of the Residence Monterey has finally been let out in December 2018 for a one-year lease and the lease for the duplex has been renegotiated at EUR 2.800 per month instead of EUR 2.500 as from June 2018. The building is fully let.

In Strassen, after several years of high vacancy rate, the building "Edison" is finally fully let until at least September 2020 since the signature of the second lease contract with the State of Luxembourg which started in July 2018.

The technical equipment and setting were outdated, and the Company made investments for around EUR 1.8 million to meet the tenant's requirements.

Our building in Hesperange is still in a transition phase and the Company has been advised that the new development plan (plan d'aménagement general, "PAG") should be made available by the commune of Hesperange in spring 2019.

We have been approached by several movie production companies who have been renting out Hesperange for short periods (weeks) since 2016.

Our current portfolio consists of 4 buildings at year end 2018, representing a total net value of around EUR 54.3 million. (The same buildings were evaluated at EUR 49 million at the end of the previous year).

The rental income in 2018 increased from EUR 2.1 million in 2017 to EUR 2.4 million. This increase is mainly due to the arrival of the State in the Edison building in May 2017 and July 2018.

Following a decision of the Luxembourg Court of Appeal dated July 12, 2017, Pillar Securitisation S.à r.l. is now registered as the holder of 25,010,558 shares and R Capital S.à r.l. as the holder of 31,673 shares of the Fund as at the December 31, 2017. However, several lawsuits between R Capital S.à r.l. and Pillar Securitisation S.à r.l. are still ongoing and various proceedings are still pending.

On July 27, 2017, R Capital S.à r.l. initiated further legal proceedings against the Fund and Pillar Securitisation S.à r.l. for voidance of the capital increase of EUR 25,000,000 against issue of 25,000,000 shares of the Company subscribed by Pillar Securitisation S.à r.l. on December 22, 2009. In the opinion of the Board of Directors of the Fund, this action is time-barred and unfounded, but in case the court was to decide to declare the increase of capital null and void, this would lead R Capital S.à r.l. to become the majority shareholder with 31,673 shares. Moreover, the Fund would be held to repay the amount contributed and this repayment obligation would adversely affect its financial condition.

Activity report (continued)

Criminal proceedings have been started by the investigating magistrate against R Capital S.à r.l. and accomplices following a complaint lodged on behalf of Pillar Securitisation S.à r.l. However, the investigating magistrate decided that the investigation should not progress, and the Court of appeal had confirmed the views of the investigating magistrate. Pillar Securitisation S.à r.l. had lodged a petition before the Court of cassation. In the course of these proceedings, the advocate general pleaded that the petition of Pillar Securitisation S.à r.l. was justified in several respects and finally the decision of the Court of appeal was overturned by the Court of cassation on March 8, 2018. On May 9, 2018, the Court of appeal has ordered the investigating magistrate to continue his investigation. The case is now based in the hands of another investigating magistrate.

On January 22, 2014, the Fund signed an agreement with Pillar Securitisation S.à r.l. for a short-term bridge financing of EUR 33.7 million repayable on December 31, 2014. This agreement has been extended on a yearly basis, and for the last time on February 5, 2019. In this amendment, Pillar Securitisation S.à r.l. inserted a milestone condition for the Company to partially or fully refinance the principal amount and interests or sell one or more property to repay Pillar by an amount of at least EUR 30 million before July 31, 2019.

On March 1, 2018, and following a request from the Board of Directors, Pillar granted the Company an additional credit facility of EUR 1 million to ensure the costs of the Edison renovation. This credit facility has been released on October 31, 2018. At year-end, the total amount due to Pillar amounts EUR 39.4 million including EUR 5 million accrued interests.

Beginning October 2018, the Company decided to contact a couple of independent financial institutions to get the loan from Pillar Securitisation S.à r.l. refinanced. A formal request has been sent to 4 banks in Luxembourg. The request has either been rejected or put on hold mainly due to the legal proceedings on shareholder level.

In February 2018, we terminated the transfer agent contract with RBC and decided to manage the shareholder register on our own. On January 21, 2019, RBC informed us about their decision to terminate all services under the current agreement with the Company. The Company is currently seeking for a new service provider.

The operating expenses increased to EUR 1.5 million in 2018 (EUR 1.2 million in 2017) and the financial expenses also increase from EUR 1.9 million in 2017 to EUR 2.6 million due to the increase in the interest rate. On December 31, 2018, the outstanding amount due was EUR 39,834,139 (including accrued interest).

The Fund closed the financial year 2018 with a profit of EUR 2.3 million. The net asset value of the Fund rose from EUR 14.3 million the end of 2017 to EUR 16.6 million at the end of 2018. The indebtedness ratio was 70.3% by the end of 2017 and decreased to 68.9% by the end of 2018.

Shareholder information

The total equity value of Immo-Croissance SICAV-FIS and the total equity value per share are available at the registered office of the Fund.

The Fund publishes a detailed annual report on its activity and the management of its assets. These documents may be obtained by any interested shareholder free of charge from the Fund's registered office.

The Fund's financial year runs to December 31 of each year.

Audit report

To the Shareholders of
Immo-Croissance SICAV-FIS

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Immo-Croissance SICAV-FIS (the "Fund") as at 31 December 2018, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

What we have audited

The Fund's financial statements comprise:

- the statement of net assets as at 31 December 2018;
- the statement of operations and changes in net assets for the year then ended;
- the statement of changes in number of shares in issue for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" 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.

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the legal proceeding against the Fund and Pillar Securitisation S. à r. l. initiated by R Capital S. à r. l. on 27 July 2017 about the increase of capital of 25,000,000 EUR which occurred on 22 December 2009. Should the outcome of this proceeding be favorable to R Capital S. à r. l. , the Fund would have to reimburse the amount of the increase of capital (25,000,000 EUR) to Pillar Securitisation S. à r. l..

This note indicated also the additional conditions of the loan agreement under which the Fund will have to either refinance or partially repay the loan for an amount of 30,000,000 EUR by the end of July 2019. The Board of Directors is uncertain that these conditions could be fulfilled until 31 July 2019.

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R.C.S. Luxembourg B 65 477 - TVA LU25482518

These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Fund's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Emphasis of matter

We draw attention to Note 1 in the financial statements, which describes the lawsuits between the two shareholders of the Fund (Pillar Securitisation S.à r.l. and R Capital S.à r.l.) and the possible outcomes of these lawsuits.

Our opinion is not modified in respect of this matter.

Other information

The Board of Directors of the Fund is responsible for the other information. The other information comprises the information stated in the annual report but does not include the financial statements and our audit 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors of the Fund for the financial statements

The Board of Directors of the Fund is responsible for the preparation and fair presentation of the financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors of the Fund determines 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 Board of Directors of the Fund is responsible for assessing the Fund'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 Board of Directors of the Fund either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial statements

The objectives of our audit 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 audit 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 the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, 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 Fund's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the Fund;

- conclude on the appropriateness of the Board of Directors of the Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit 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 audit report. However, future events or conditions may cause the Fund 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.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 7 June 2019

Dauvergne

Isabelle Dauvergne

Statement of net assets

As at December 31, 2018

Unless otherwise stated all amounts are expressed in Euros

	Notes	As at December 31, 2018	As at December 31, 2017
Assets			
Fixed assets			
Real estate investments at appraised market value	4	48,585,284	43,404,119
Shares in affiliated undertakings	5	5,264,089	5,080,104
		53,849,373	**48,484,223**
Current assets			
Trade and other receivables	6	329,104	375,142
Amounts owed by affiliated undertakings	17c	370,824	320,824
Cash at bank and other short-term deposits	7	1,869,087	1,288,546
		2,569,015	**1,984,512**
Total assets		**56,418,388**	**50,468,735**
Liabilities			
Current liabilities			
Bank borrowings	9	39,387,060	35,772,526
Trade and other payables	10	440,829	359,658
		39,827,889	**36,132,184**
Total liabilities		**39,827,889**	**36,132,184**
Net assets		**16,590,499**	**14,336,551**
Represented by:			
Share capital	8	38,122,861	38,122,861
Accumulated losses		(23,786,310)	(27,766,270)
Increase in net assets resulting from operations		2,253,948	3,979,960
Net assets		**16,590,499**	**14,336,551**

The attached notes form an integral part of these financial statements.

Statement of operations and of changes in net assets

For the year ended December 31, 2018

Unless otherwise stated all amounts are expressed in Euros

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Net assets at the beginning of the year		**14,336,551**	**10,356,591**
Income			
Rental income		2,346,609	2,043,131
Other income		1,633	21
Total income		**2,348,242**	**2,043,152**
Expenses			
Property operating expenses	11	(414,595)	(457,843)
Custodian and central administration fees	12	(35,565)	(35,892)
Employee benefit expenses	13	(108,086)	(96,345)
Administrative and professional fees	14	(717,635)	(355,087)
Interest expenses and other financial costs	9	(2,639,191)	(1,874,665)
Other expenses	15	(124,191)	(153,100)
Total expenses		**(4,039,263)**	**(2,972,932)**
Operating loss		**(1,691,021)**	**(929,780)**
Value adjustments in respect of shares in affiliated undertakings	5	183,985	(404,379)
Changes in net unrealized appreciation on real estate investments	4	3,760,984	5,314,119
Increase in net assets resulting from operations		**2,253,948**	**3,979,960**
Total increase in net assets		2,253,948	3,979,960
Net assets at the end of the year		**16,590,499**	**14,336,551**

The accompanying notes form an integral part of these financial statements.

Statement of changes in number of shares in issue

For the year ended December 31, 2018

	Ordinary shares
Number of shares in issue at the start of the year	25,042,231
Number of shares subscribed during the year	-
Number of shares redeemed during the year	-
Number of shares in issue at the year end	**25,042,231**

Statistics

For the last three years

Unless otherwise stated all amounts are expressed in Euros

	As at December 31, 2018	**As at December 31, 2017**	**As at December 31, 2016**
Total net asset value	16,590,499	14,336,551	10,356,591
Net asset value per share	0.66	0.57	0.41

The accompanying notes form an integral part of these financial statements.

Statement of investments

As at December 31, 2018

Unless otherwise stated all amounts are expressed in Euros

a. Real estate investments

Break down by property

Property name and address	Acquisition date	Year of construction	Tenants	Office space (sq.m.)	Residential/ Commercial space (sq.m.)	Archive space (sq.m.)	Car park (units)
Centre Monterey 23 Av. Monterey L-2163 Luxembourg	22-Nov-1988	1969	Commercial companies/ Insurance company/ Investment Fund	1,639	-	495	20
Résidence Monterey 22 Av. Monterey L-2163 Luxembourg	29-Jun-1989	1993	Commercial/ residential	198	716	112	3
Edison 7 Rue Thomas Edison L-1445 Strassen	10-Feb-1999	2000	Bank/ State administration	7,121	-	157	382

Geographical repartition

	Cost	Market value(*)	Insured value	% of total portfolio
Grand Duchy of Luxembourg	39,344,831	48,585,284	60,721,675	100%

(*) Including an adjustment for straight lining of rent incentives amounting to EUR 154,716.

The attached notes form an integral part of these financial statements.

Statement of investments (continued)

As at December 31, 2018

Unless otherwise stated all amounts are expressed in Euros

b. Shares in affiliated undertakings

As at December 31, 2018

Description	Country of incorporation	Number of shares held	Ownership %	Cost	Market value	% of net assets
Immo Hesperange S.à r.l. (*) (**)	Luxembourg	6,310	100	6,310,000	5,264,089	31.73%
Total				**6,310,000**	**5,264,089**	

As at December 31, 2017

Description	Country of incorporation	Number of shares held	Ownership %	Cost	Market value	% of net assets
Immo Hesperange S.à r.l. (*) (**)	Luxembourg	6,310	100	6,310,000	5,080,104	35.43%
Total				**6,310,000**	**5,080,104**	

(*) Immo Hesperange S.à r.l. owns a vacant property located at 1, Ceinture Um Schlass, L-5880 Hesperange and having an office space of 2,080 square meters.
(**) Unaudited accounts

Notes to the financial statements

For the year ended December 31, 2018

Note 1 – General information

Immo-Croissance SICAV-FIS (the "Fund" or "Company") is a property investment company that was created on September 22, 1988 with an unlimited duration in the form of an investment fund (Luxembourg SICAV) in accordance with the Luxembourg law of August 10, 1915 (as modified) relating to commercial companies, and the law of March 30, 1988 relating to collective investment undertakings. With effect from February 13, 2004, the Fund has been governed by the law of December 19, 2002. Since June 25, 2008 the Fund is governed by the law of February 13, 2007 on specialized investment funds, as amended.

The Fund's registered office is located at 11-13, Boulevard de la Foire, L-1528 Luxembourg. The Fund is registered in the Luxembourg trade and companies registry under number RCS B028872.

The Fund's objective is to offer to its shareholders the opportunity to invest in a diversified portfolio that is specialised in high-quality property assets located within the European Union and especially in Luxembourg. While the Fund's property investments take a variety of forms, they primarily concern office premises.

The Fund's investment policy is directed towards the long term, frequent purchases and sales of assets are not considered. The Board of Directors may, however, sell the Fund's property assets at any time in view of future prospects or market concerns, or for any other reason that the Board of Directors deems appropriate.

Going concern assessment

The Fund's current liabilities exceed its current assets by EUR 37,624,785 (2017: EUR 34,467,568) as per December 31, 2018.

In the past couple of years, the Fund successfully negotiated the extension of the shareholder loan from Pillar Securitisation S.à r.l., representing almost 100% of the Fund's current liabilities, and for which the maturity has been extended up to January 31, 2020.

Since 2016 already, several covenants under the loan agreement have been breached. Pillar temporarily waived its rights in respect of these breaches until January 31, 2020 but imposed additional conditions on the Fund under which it will have to either refinance or partially repay the shareholder loan with an amount of at least EUR 30 million by the end of July 2019.As per the date of this report, the Board of Directors is uncertain that these conditions can be fulfilled until July 31, 2019 and Pillar Securitisation S.à r.l. may either grant a waiver or call a default under the loan agreement.

Notwithstanding the aforementioned, following a decision of the Luxembourg Court of Appeal dated July 12, 2017, Pillar Securitisation S.à r.l. is now registered as the holder of 25,010,558 shares and R Capital S.à r.l. as the holder of 31,673 shares of the Fund as at the December 31, 2018. However, lawsuits between R Capital S.à r.l. and Pillar Securitisation S.à r.l. regarding the shareholding of the Fund are still ongoing.

Notes to the financial statements (Continued)

For the year ended December 31, 2018

On July 27, 2017, R Capital S.à r.l. initiated legal proceedings against the Fund and Pillar Securitisation S.à r.l. for voidance of the capital increase of EUR 25,000,000 against issue of 25,000,000 shares of the Fund subscribed by Pillar Securitisation S.à r.l. on December 22, 2009. In the opinion of the Board of Directors of the Fund, this action is time-barred and unfounded. This claim has been dismissed as inadmissible by the Luxembourg district court. An appeal against this decision is possible. If a but in case the court was to decide to declare the increase of capital null and void, this would lead R Capital S.à r.l. to become the majority shareholder with 31,673 shares. Moreover, the Fund would be held to repay the amount contributed of EUR 25,000,000 and this repayment obligation would adversely affect its financial condition and result in the inability of the Fund to repay its debts. This being said, the Board of Directors is confident that this would not happen during 2019.

On this basis, the Board of Directors has concluded that the going concern assumption is still appropriate for the preparation of the financial statements for the year ending December 31, 2018.

Note 2 – Basis of preparation

The financial statements are presented in Euro ("EUR") and have been prepared in compliance with Luxembourg legal and regulatory requirements relating to investment funds.

The values are rounded to the nearest Euro.

Note 3 – Main accounting policies

3a Real estate investments

Real estate investments include property assets (land and buildings) held by the Fund in order to get rental earnings or to enhance their capital value, (or both reasons) as well as properties being redeveloped.

Real estate investments are initially recorded at cost, including related transaction costs. Transaction costs include property transfer taxes, professional fees and initial leasing commissions to bring the property asset to the condition necessary of it to operate in the manner intended by the Fund. Subsequent expenditure on major renovation and development of real estate investments is capitalized at cost. The cost of maintenance, repairs and minor improvement are expensed when incurred.

After initial recognition, real estate investments are carried at market value, as determined on the basis of a valuation prepared by an independent property appraiser possessing an appropriate and recognized professional qualification, as in the case of Inowai S.A. (appointed for the first time on October 18, 2010), who has proven experience in the valuation of real estate. The appraiser's appointment is renewed annually by the general meeting of shareholders.

Market value is defined in the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (the "Red Book"). This is defined as "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and without compulsions. The market value retained by the Fund for reporting purposes is the value of the real estate investments excluding registration duties (or VAT applicable), notary fees or other transaction costs.

Gains or losses arising from changes in the valuation of real estate investments are included in the statement of operations and changes in net assets in the year in which they arise under "Changes in net unrealized appreciation/ (depreciation) on real estate investments".

Gains or losses on disposal of real estate investment are determined as the difference between the net disposal proceeds and the carrying value of the asset concerned, as shown in the previous full period financial statements.

Any gains or losses on disposal are recognized in the statement of operations and changes in net assets in the year of disposal and are shown under "Net realized gain/ (loss) on real estate investments".

In determining the fair value, the income capitalization method and the discounted cash flow ("DCF") methods have been used. These approaches require assumptions and judgements in relation to the future receipt of contractual rentals, expected future market rentals, void period, maintenance requirements, property capitalization rate or estimated yield and make reference to market evidence of transaction prices for similar properties.

The market value is not meant to represent the liquidation value or the net realisable value of the properties, which would be dependent upon the price negotiated at the time of sale less any associated selling costs. The market value is largely based on estimates using property appraisal techniques as outlined above. Such estimates are inherently subjective and actual values can only be determined in a sale transaction.

3b Shares in affiliated undertakings

Shares in affiliated undertakings are initially recorded at cost, including related transaction costs. After initial recognition, they are carried at market value. Management estimates that the market value of shares in affiliated undertakings can be approximated by the net equity of such undertakings at the reporting date, as adjusted to take into account the effect of the valuation of the underlying property assets owned by the affiliated undertakings, net of deferred taxes. The values used for those property assets are estimated by the Management based on the report from Inowai S.A., the independent appraiser of the Fund. See note 3a for further details.

3c Trade and other receivables

Trade and other receivables mostly represent amounts due from tenants arising from rental of office units and other related services. They are generally due between 15 and 90 days.

They are recognized at nominal value less provisions for any doubtful debts. An estimate for doubtful debt is made when collection of the full amount is no longer probable. Bad debts are written off when identified. The value adjustments are not continued if the reasons for which they were made have ceased to apply.

Notes to the financial statements (Continued)

For the year ended December 31, 2018

3d Cash at bank and other short-term deposits

Cash at bank and other short-term deposits are valued at their nominal value.

3e Bank borrowings

Bank borrowings are carried at their nominal value.

3f Provisions

Provisions to cover foreseeable liabilities and charges are determined at the end of each year. Provisions set up in previous years are reviewed regularly and may be written back to the statement of operations and changes in net assets.

3g Revenue recognition

Rental income

Rental income represents rents charged to customers and is recognized on a straight-line basis taking into account any rent-free periods and other lease incentives, net of any sales taxes, over the lease period to the first break option.

Lease incentives, including rent-free periods and reimbursement of relocation or other costs, are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

Rendering of services

Services and management charges are recognized in the accounting period in which the services are rendered.

Expenses recoverable from customers

Expenses recharged to customers are recognized on an accrual basis in the period to which the expenses can be contractually recovered net of any sales taxes.

3h Use of estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period in which the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore present the financial position and results fairly.
The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the financial statements (Continued)

For the year ended December 31, 2018

Note 4 –Real estate investments at appraised market value

The movements during the years ended December 31, 2018 and December 31, 2017 are as follows:

	As at December 31, 2018	As at December 31, 2017
Historic cost		
Opening balance	37,924,650	37,924,650
Capital expenditure	1,420,181	-
Closing balance	**39,344,831**	**37,924,650**
Net unrealized appreciation/ (depreciation)		
Opening balance	5,479,469	165,350
Net unrealized appreciation/ (depreciation) for the year	3,679,819	5,078,238
Straight-lining of rent incentives	81,165	235,881
Closing balance	**9,240,453**	**5,479,469**
Fair value - opening balance	43,404,119	38,090,000
Fair value - closing balance	**48,585,284**	**43,404,119**

As at December 31, 2018, the management of the Fund estimates the fair value of the properties before adjustment for straight-lining of rent incentives to EUR 48,740,000 (2017: EUR 43,640,000).

Note 5 – Shares in affiliated undertakings

The movements during the years ended December 31, 2018 and December 31, 2017 are as follows:

	As at December 31, 2018	As at December 31, 2017
Cost		
At the beginning of the year	6,310,000	6,310,000
Disposals/ redemptions/ settlements during the year	-	-
At the end of the year	**6,310,000**	**6,310,000**
Value adjustments		
At the beginning of the year	(1,229,896)	(825,517)
Movements during the year	183,985	(404,379)
At the end of the year	**(1,045,911)**	**(1,229,896)**
Market value		
At the beginning of the year	5,080,104	5,484,483
At the end of the year	**5,264,089**	**5,080,104**

Notes to the financial statements (Continued)

For the year ended December 31, 2018

Note 6 – Trade and other receivables

As of December 31, 2018 the loans to entities affiliated to R Capital S.à r.l. ("R Capital"), the former shareholder of the Fund, amounted to EUR 2.7 million. The Fund initiated a legal action against R Capital and other related entities and persons in order to claim back the loans. As the recovery of those amounts remains at risk, those loans have been fully written down in 2009.

At year-end, the trade and other receivables are composed of the following:

	As at December 31, 2018	As at December 31, 2017
Rental guarantee	27,775	4,650
Rent receivables	160,634	241,061
Prepaid expenses and other receivables	140,695	129,431
	329,104	**375,142**

Note 7 – Cash at bank and other short-term deposits

Cash at bank is remunerated at variable interest rates indexed to the rates paid on demand deposits. Short-term deposits cover various periods ranging from one day to three months depending on the Fund's immediate cash needs.

Note 8 – Share capital

The Fund's capital is represented by ordinary shares with no par value carrying one vote each. They are entitled to dividends when declared. The Fund has no restrictions or specific capital requirements on the issue and re-purchase of ordinary shares.

During the year ended December 31, 2018, no shares were issued or redeemed (2017: none).

On December 17, 2013, the Court of First Instance in Luxembourg ordered the escrow of all the Fund's shares owned by Pillar Securitization S.à r.l. in relation to a judicial action introduced by R Capital claiming restitution of the shares of the Fund. On July 12, 2017, the Court of Appeal in Luxembourg ordered the restitution of 31,673 shares of the Fund to R Capital S.à r.l..

Under the order of the President of the *Tribunal d'Arrondissement* of Luxembourg dated December 1, 2017, all the shares of the Fund have been released from receivership.

Notes to the financial statements (Continued)

For the year ended December 31, 2018

Note 9 – Bank borrowings

At year-end, the borrowings are composed of the following:

Lender	Interest rate	Maturity	As at December 31, 2018	As at December 31, 2017
Pillar Securitisation S.à r.l.	*Until January 30, 2018*: Euribor + 3.5% margin + PIK 2% *As from January 31, 2018:* PIK 8%	31-01-2020	39,387,060	35,772,526

The principal amount outstanding includes a PIK interest accrued on the principal amount drawn down and capitalised at the end of each interest period. As at December 31, 2018, the capitalized interests amounted to EUR 5,250,554 (2017: EUR 2,636,020). For the year ended December 31, 2018, interests amounting to EUR 2,614,534 has been charged to the profit and loss account (2017: EUR 1,825,076).

The going concern assessment is disclosed in Note 1.

On January 22, 2014 the Fund signed an agreement with Pillar Securitisation S.à r.l. for a short-term bridge financing of EUR 33.4 million repayable on December 31, 2014.

Further to four successive extensions of the aforementioned loan, the maturity date of the loan has been postponed for the fifth time to January 31, 2020. See Note 19.

With effect on January 31, 2018, the initial interest rate composed of Euribor plus margin and a PIK interest of 2% has been replaced by a single PIK interest of 8%.

In 2015, the Fund failed to comply with all of the covenants. Due to the un-remedied breaches of the required covenants, Pillar Securitisation S.à r.l. was contractually entitled to request immediate repayment of the outstanding loan.

The Fund informed Pillar Securitisation S.à r.l. that certain financial covenants are likely to be breached as a result of a large decrease in the value of one of the borrower's buildings, namely the Edison building located 7, rue Thomas Edison, L-1445 Strassen, which was causing a substantial drop in the borrower's equity value as per December 31, 2017. By Waiver Letter dated April 11, 2016, as further amended on January 26, 2018 and February 5, 2019, Pillar Securitisation S.à r.l. temporarily waived its rights in respect of this breach until January 31, 2020.

Pillar Securitisation S.à r.l. imposed additional conditions under which the Fund will have to either refinance or partially repay the shareholder loan with an amount of at least EUR 30 million by July 31, 2019. See going concern assessment for further details.

As at December 31, 2018, the carrying amount of such short-term borrowings was not materially different from their fair value.

Notes to the financial statements (Continued)

For the year ended December 31, 2018

Note 10 – Trade and other payables

	As at December 31, 2018	As at December 31, 2017
Accounts payable	197,695	110,527
Audit fees	26,550	44,100
Custodian and central administration fees (Note 12)	22,790	23,637
Directors' fees (Note 17 b)	61,881	59,334
Prepaid rental income and services charges	56,317	12,622
Real estate valuation fees	6,500	6,000
Rental guarantee	31,800	7,800
Subscription tax	358	259
VAT	13,991	10,642
Other payables	22,947	84,737
	440,829	**359,658**

Note 11 – Property operating expenses

The main charges in respect of rental properties concern individual and collective services (maintenance, lighting, etc.), property charges (cleaning, sewerage and household waste), land taxes, caretaking charges, management charges and insurance.

Some rental property charges such as individual services (e.g. hot water, meter rental and heating) are mostly recoverable from the lessees. The Fund makes available to lessees, prior to the expiry of their leases, supporting evidence for all expenses incurred by the Fund as well as the calculations of the split of property charges by lessee. The property operating expenses are broken down as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Service charges and maintenance	375,691	430,815
Insurance	21,637	13,811
Property tax	17,537	13,217
	414,595	**457,843**

Note 12 – Custodian and central administration fees

Based on the agreement signed on September 23, 1988 between the Fund and Banque Internationale à Luxembourg S.A. and its endorsement on February 2, 2006, which appoints RBC Investor Services Bank S.A. as custodian bank, the Fund entrusts the custodian bank to act as custodian for cash, marketable securities, other assets and ownership deeds that the Fund owns or may acquire.

The custodian bank has the right to levy a custodian fee on the Fund's assets, which is payable at each quarter end and is calculated as follows:

Notes to the financial statements (Continued)

For the year ended December 31, 2018

- 0.10% per annum of the gross value at the quarter end of marketable securities, cash and other assets excluding any direct investment in property assets;

- 0.01% of property assets up to a maximum of EUR 1,239.47 per building.

In addition, the custodian bank will be reimbursed by the Fund for all charges and fees levied by correspondents (clearing systems or banks) for the Fund's assets and marketable securities.

As administrator, custodian, domiciliary and transfer agent, RBC is entitled to receive out of the assets of the Fund an annual fee of EUR 30,958 for the provision of administration and transfer agency services, which is payable annually (plus VAT thereon, if any).

On February 6, 2018, the Board of Directors resolved to terminate with immediate effect the appointment of RBC Investor Services Bank S.A. as registrar and transfer agent of the Fund.

On January 21, 2019, the custodian agreement and services agreement entered into by the Fund with RBC Investor Services Bank S.A. have been terminated. See Note 19.

Note 13 – Employee benefit expenses

During the financial year 2018, the Fund had on average 1.65 full time equivalent employees (2017: 1.54 employees).

At year-end, employee benefit expenses were as follows:

	Year ended December 31, 2018	**Year ended December 31, 2017**
Salaries	78,890	72,710
Social charges	29,196	23,635
	108,086	**96,345**

Note 14 – Administrative and professional fees

	Year ended December 31, 2018	**Year ended December 31, 2017**
Audit fees	61,793	44,907
Other professional fees	439,165	129,743
Directors' fees (Note 17b)	174,816	144,937
Administrative expenses	41,861	35,500
	717,635	**355,087**

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements (Continued)

For the year ended December 31, 2018

Note 15 – Other expenses

Other expenses mainly include payroll taxes and non-recoverable VAT.

Note 16 – Taxation

Pursuant to current legislation and regulations, the Fund is liable in Luxembourg to an annual tax ("Taxe d'abonnement") of 0.01% payable quarterly and calculated on the basis of the Fund's net assets at each quarter end.

Pursuant to current legislation in Luxembourg, the Fund is not liable for any company levies or taxes on capital gains, or any property taxes on buildings that it owns in the Grand Duchy of Luxembourg, apart from land taxes.

Note 17 – Transactions with related parties

17a Bank borrowings

As at December 31, 2018, the amount owed to Pillar Securitisation S.à r.l., including capitalised interests amounted to EUR 39,387,060 (2017: EUR 35,772,526). See Note 9.

17b Directors' fees

As from June 5, 2013 and until the suspension by the Court of the Board of Directors on October 22, 2014, each member of the Board of Directors of the Fund is entitled to receive remuneration consisting of fixed annual remuneration ranging from EUR 16,153 to EUR 60,000 (net of taxes) to be paid quarterly in arrears and on a prorata temporis basis, plus an attendance fee per board meeting of EUR 538.

Effective December 1, 2017, the mandate of the Temporary Director was terminated, restoring the powers of the Board of Directors.

On January 15, 2018, the general meeting of the shareholders confirmed that the board remuneration as referred to above is still applicable and shall be paid to the each member of the Board of Directors of the Fund as from the decision rendered by the Court of Appeal on July 12, 2017.

Total Directors' fees for 2018 were EUR 174,816 (2017: EUR 144,937). Total Directors' fees payable as at December 31, 2018 were 61,881 (2017: EUR 59,334).

17c Amounts owed by affiliated undertakings

On August 14, 2012 the Fund entered into an intercompany loan agreement with its subsidiary Immo Hesperange S.à r.l. for an amount of EUR 500,000. The loan bears a floating interest rate of Euribor 1 month plus a margin of 1% per annum. By mutual agreement between the Fund and its subsidiary, the calculation and recognition of interests is not performed.

The amount owed to the Fund as at December 31, 2018 is EUR 370,824 (2017: EUR 320,824).

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements (Continued)

For the year ended December 31, 2018

17d Other transaction

For the year ended December 31, 2018, no consulting fees were charged by Mr. Lang to the Fund (2017: EUR 14,468). The entire balance was payable at year-end 2017.

Note 18 – Contingencies and commitments

At year-end, the Fund has a EUR 39,387,060 (2017: EUR 35,772,526) loan secured by a first ranking mortgage over the properties owned by the Fund, a first ranking pledge over the shares of Immo Hesperange S.à r.l., the Fund's subsidiary, a first ranking pledge over the rental accounts and a first priority assignment on any lease contracts, rental guarantees and insurance agreements related to the properties.

Note 19 – Subsequent events

On January 21, 2019, the custodian agreement and services agreement entered into with RBC Investor Services Bank S.A. have been terminated with effect on April 30, 2019 and July 31, 2019 respectively.

On February 5, 2019, the maturity date of the loan provided by Pillar Securitisation S.à r.l. was extended until January 31, 2020 (see Note 9).