MALITA INVESTMENTS

# MALITA INVESTMENTS P.L.C.

ANNUAL REPORT & FINANCIAL STATEMENTS 2016

# MISSION STATEMENT

*Malita's mission is to invest in sustainable urban regeneration projects located in both Malta and Gozo which will ultimately translate into long-term economic and environmental benefits.*

# CONTENTS

# CHAIRMAN'S STATEMENT

*Over the course of the period under review, the Company has also opened up interesting discussions on other prospective project opportunities which are being evaluated.*

Over the course of this financial year, the Board of Directors, together with the Company's executive management, have actively followed up on its assessment and evaluation of the key projects initiated during the course of the previous financial years. Albeit notable progress has been registered in this regard, the sheer complexity and magnitude of the projects being evaluated has prolonged the process and has regretfully brought about delays in the implementation of these projects. These delays were driven by the extensive project planning, management and development requirements, the strict confines within which the financing modelling for such projects need to be structured, as well as a number of other exogenous factors such as the requirements of a number of stakeholders which all needed to be managed and addressed. In parallel, over the course of the period under review, the Company has also opened up interesting discussions on other prospective project opportunities which are being evaluated.

Going forward, during the course of the next financial year, the Board of Directors and the management team will strengthen their collective thrusts to enable the Company to proceed to the financing and development of the aforementioned projects.

## FINANCIAL PERFORMANCE

During the period under review, gross revenues reached €6.98 million as projected with operating expenses registered at € 0.45 million. The Fair Value Movement of the Company's Investment Property was registered at €3.02 million. This is a non-distributable revenue stream and further details in this regard may be found in the Notes to the Financial Statements.

Consequently, after taking into consideration net finance costs of €1.28 million, the Company has registered a Pre-Tax Profit of €8.26 million with a Net Profit for the year of €6.42 million after taking into account a tax charge of €1.84 million. Earnings per share amount to €0.0434 per share down from €0.1119 per share in 2015, primarily due to lower fair value gains.

Subject to the approval of the Company's shareholders at the next Annual General Meeting, the Directors will be recommending for the shareholders' approval the payment of a final gross dividend of €0.0228 per share (2015: €0.0220), equating to a final net dividend of €0.01482 (2015: €0.0143) to the shareholders on the Company's register at close of business of the Malta Stock Exchange on 28th March 2017.

Finally, I would like to take this opportunity to extend my sincere gratitude to the members of the Board for their support and commitment as well as to our highly valued employees for their devotion and loyalty.

**KENNETH FARRUGIA**
CHAIRMAN

# BOARD OF DIRECTORS

**KENNETH FARRUGIA**
*Chairman*

**PAUL MERCIECA**
*Non-Executive Director*

**ERIC SCHEMBRI**
*Non-Executive Director*

**DR ROBERT SUBAN**
*Non-Executive Director*

**RAY SLADDEN**
*Non-Executive Director*

**DR JOHN BUTTIGIEG**
*Non-Executive Director*

# BOARD OF DIRECTORS

**KENNETH FARRUGIA**

Mr Kenneth Farrugia joined Bank of Valletta p.l.c., Malta's largest banking group, in October 1985 and over the years has occupied various positions within the Bank. He currently holds the post of Chief Business Development Officer and sits on the Executive Management Board of the Bank. Mr Farrugia is also a Director on the Bank of Valletta Asset Management, Chairman of the Board of Governors of FinanceMalta, and also serves as Chairman of the Management Committee of the Malta Funds Industry Association.

**PAUL MERCIECA**

Mr Paul Mercieca currently acts as an independent non-executive director on the boards of various companies and previously held the position of Chief Executive Officer of Deloitte Malta for twenty three years up to 31st December 2013. Whilst at Deloitte, Mr Mercieca was responsible for a number of clients operating in various sectors of the economy including one of Malta's largest banks and companies listed on the Malta Stock Exchange. He served as a member of the Accountancy Board for eight years between 1988 and 1996 and is a former member of the Council of the Malta Institute of Accountants. Mr Mercieca was also the Chairman of the Institute's Risk Management Committee and served on the Independence, Ethics and Regulatory Committee. He is a Fellow of the Chartered Association of Certified Accountants, the Malta Institute of Accountants and a Member of the Malta Institute of Taxation.

**ERIC SCHEMBRI**

Mr Eric Schembri was appointed the Executive Chairman of MIB Holding Co. Ltd. and its subsidiaries. He was also a Director on the board of Middle Sea Insurance p.l.c. (1991-1996) and a Director of The Malta International Training Centre. Mr Schembri was the promoter leading the Board of Mid-Med Bank p.l.c. (HSBC) to set up its own life assurance company. He was appointed executive coordinator, Chairman of the steering committee and then executive director of Mid-Med Life Assurance Co. Ltd., (now HSBC Life Assurance Co. Ltd.). Mr Schembri held the position of Chairman at Crystal Finance Investments Ltd. besides director of other companies.

**DR ROBERT SUBAN**

Dr Robert Suban is a full-time lecturer in the Department of Banking and Finance at the University of Malta. He holds a Bachelor in Business Administration and a Masters Degree. He also holds a Ph.D. in Finance from Alliance Manchester Business School. He regularly attends and presents his research at various internationally peer-reviewed academic conferences in the area of finance and international business. He has worked at the Central Bank of Malta and was also a Manager of EU affairs at the Employment and Training Corporation (ETC). He has represented ETC/Maltese Government on various local and EU committees. He has been involved in various research and consultancy reports commissioned by local and international organisations. Currently, he is also a Director of Malita Investments p.l.c., is the Chairman of its Investment Committee as well as sits on its Audit Committee.

**RAY SLADDEN**

Mr Ray Sladden is a Certified Public Accountant and a fellow of the Malta Institute of Accountants. He is an associate of the London Institute of Banking and Finance and the Association of Corporate Treasurers. He has also completed further studies in business management and administration and is a member of the British Chartered Management Institute. As from 1998 he has held the position of Group Finance Director and Company Secretary of all the fully owned companies within the Tumas Group. He is also a director of a number of Group subsidiaries and has previously occupied the position of Financial Controller and subsequently Group Treasurer of AirMalta p.l.c., the national airline. He has held a number of directorships in various companies within the airline, hospitality, insurance and finance sector. In 2016 he was appointed to the Board of Governors of the Malta National Development and Social Fund. Mr Sladden is also a founding member of the Board of Trustees of the Tumas Fenech Foundation for Education in Journalism and is a member of the Professional Accountants in Business (PAIB) committee of the Malta Institute of Accountants.

**DR JOHN BUTTIGIEG**

Dr John Buttigieg was born in Hamrun on the 18th June 1945. He graduated from the University of Malta as a Bachelor of Arts and Doctor of Laws. In 1971, 1976, 1981 and 1986 Dr Buttigieg was elected to the House of Representatives of Malta. He has served as the Chairman of the Bank of Valletta p.l.c. and also as Chairman of Inveskredit International Bank p.l.c. Between 1976 and 1981 Dr Buttigieg formed part of the assembly of the Council of Europe and in 1996 he was nominated as Malta's Permanent Representative to the Council of Europe and as Malta's ambassador to Holland. From 1983 to 2012 he was the President of St Gaetan Band Club of Hamrun. He is married to Rose Buttigieg and has two children.

# DIRECTORS' REPORT

The Directors present their sixth annual report together with the audited financial statements for the year ended 31 December 2016.

## Principal activities

The Company's principal activities include the financing, acquisition, development, management and operation of immovable property, in particular, projects of national and/or strategic importance, and the investment in local stocks and shares.

## Review of the business

The Company continued to receive ground rents from the MIA and VCP in respect of properties on which Malita owns the dominium directum. In addition, the Company receives lease income in respect of the Open Air Theatre in City Gate, Valletta and a penalty from Government until the completion certificate of Parliament Building in Valletta is issued.

As set out in Note 6, the positive movement in the fair value of the investment property of €3,015,000 (2015: €11,609,000) comprises the movement in the fair value of the dominium directum of the MIA and VCP properties. This is due to the downward movement of interest rates. Similar to previous years, this profit has been considered to be non-distributable and has accordingly been transferred to a non-distributable reserve.

The Parliament Building and the Open Air Theatre are measured at cost in view that the certificate of completion of the Parliament Building has not yet been issued. Accordingly, it is premature to estimate the separate fair value of the Parliament Building and Open Air Theatre, and as such, any changes in fair value are not reflected in the financial statements.

The Board of Directors continued to consider and evaluate a number of potential projects including ones with a mix of public/private participation.

## Results and dividends

The statement of comprehensive income is set out on page 31.

An interim gross dividend of €1,895,783 or €0.0128 per share resulting in an interim net dividend of €1,232,259 or €0.00832 per share was paid on 9 September 2016.

The Directors recommend the payment of a final gross dividend of €3,376,864 or €0.0228 per share (December 2015: €3,258,377 or €0.0220 per share), equating to a final net dividend of €2,194,962 or €0.01482 per share (December 2015: €2,117,945 or €0.0143 per share).

## Directors

The Directors of the Company who held office during the year were:

| | |
|---|---|
| Kenneth Farrugia | (Chairman - appointed on incorporation) |
| Frederick Mifsud Bonnici | (appointed on 27 February 2012, resigned on 30 April 2016) |
| Ray Sladden | (appointed on 9 April 2014) |
| Paul Mercieca | (appointed on 9 April 2014) |
| Robert Suban | (appointed on 9 April 2014) |
| John Buttigieg | (appointed on 1 August 2014) |
| Eric Schembri | (appointed on 1 August 2014) |

The Company's Articles of Association require Directors to retire after three years in office, but they are eligible for re-appointment.

## Statement of Directors' responsibilities for the financial statements

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

In preparing the financial statements, the Directors are responsible for the following matters:

- 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 controls as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Malita Investments p.l.c. for the year ended 31 December 2016 are included in the Annual Report and Statutory Financial Statements – 31 December 2016, which is published in hard-copy printed form and is available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls and the security of the website. Access to information published on the Company'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.

## Information provided in accordance with Listing Rule 5.70.1

The Company did not enter into any material contracts during the year.

# DIRECTORS' REPORT

## Going concern

After making enquiries, the Directors, at the time of approving the financial statements, have determined that there is reasonable expectation 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.

## Financial key performance indicators

The Company is focused on its financial performance. The Directors monitor the health and progress of the business and apart from profitability, use a range of financial measures which collectively form an integral part of building value for the shareholders on a consistent basis and over the long term.

**Key Performance Indicators (KPIs) used in managing the Company's business include:**

| | 2016 | 2015 |
|---|---|---|
| Working capital ratio | **1.6:1** | 5.6:1 |
| Net revenues | **€6,528,732** | €6,548,186 |
| Debt to assets ratio | **28.8%** | 29.9% |
| Debt to equity ratio | **40.5%** | 42.7% |
| Interest coverage | **7.4 times** | 13.8 times |

## Non-financial key performance indicators

Environmental and social risks

In addition to strengthening governance and controls, the Company seeks to provide value to society. The Directors believe that being economically successful is important to generate value to stakeholders, whilst also considering the environmental and social impact of the actions, to support a sustainable future.

## Financial risk management and exposures

For the risk management and exposures refer to Note 2 'Financial risk management' that details the key risk factors including market risk, credit risk and liquidity risk and the Company's approach towards managing these risks.

## Information pursuant to Listing Rule 5.64

Share capital information of the Company is disclosed in Note 9 to the financial statements. The issued share capital of the Company is split into two classes of shares. The Ordinary A Shares and Ordinary B Shares rank *pari passu* for all intents and purposes of law.

Holders of Ordinary A Shares were not entitled to receive a dividend or other distribution in respect of profits generated by the Company during the Prescribed Dividend Period (the period commencing from the date of incorporation of the Company and ended on the 31 December 2014) and the right to receive the Restricted Dividends vested solely in the holders of the Ordinary B Shares.

No person may, whether directly or indirectly, and in any manner whatsoever, acquire or hold a beneficial interest in the Ordinary A and Ordinary B shares in excess of five per cent (5%) of the total issued share capital of the Company having voting rights. This clause does not apply to shares held by:

- the Government of Malta;
- an underwriter or sub-underwriter under the provisions of an underwriting or sub-underwriting agreement;
- custodians in their custodian capacity provided such custodians can only exercise the voting rights attached to such shares under instructions given in writing or by electronic means by the beneficial owner/s.

The Government of Malta, whether directly or indirectly (through an entity or body corporate wholly owned and controlled by the Government of Malta), shall, for a period of 25 years commencing from the date of incorporation of the Company, hold at least seventy per cent (70%) of the issued share capital of the Company.

Any transfer of shares by the Government of Malta or any issuance of shares by the Company which has the effect of reducing the holding or otherwise diluting the holding of the Government of Malta, shall be null and void.

The rules governing the appointment or election of Directors are contained in Article 54.1 and Article 61.2 of the Company's Articles of Association. An extraordinary resolution approved by the shareholders in the general meeting is required to amend the Articles of Association.

The powers of Directors are outlined in Articles 70 to 77 of the Company's Articles of Association.

Pursuant to Listing Rules 5.64.5, 5.64.6, 5.64.7, 5.64.10, 5.64.11 it is hereby declared that, as at 31 December 2016, none of the requirements apply to the Company.

# DIRECTORS' REPORT

## Statement of responsibility pursuant to Listing Rule 5.68

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

- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, 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 may face.

## 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 (AGM).

On behalf of the board

Kenneth Farrugia
Chairman

Paul Mercieca
Director

**Registered office:**
Clock Tower
Level 1
Tigne` Point
Sliema
Malta

28 February 2017

# CORPORATE GOVERNANCE STATEMENT

## Introduction

Pursuant to the Listing Rules issued by the Malta Financial Services Authority (MFSA), Malita Investments p.l.c. whose equity securities are listed on a regulated market endeavours to adopt the Code of Principles of Good Corporate Governance contained in Appendix 5.1 to Chapter 5 of the Listing Rules (the "Code"). In terms of Listing Rule 5.94, the Company hereby reports on the extent of its adoption of the principles of the Code for the financial year being reported upon.

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

The Board of Directors (the "Board") has carried out a review of the Company's compliance with the Code for the financial year under review, and hereby provides its report thereon.

## General

The Company's governance principally lies in its Board which is responsible for the overall setting of the Company's policies and business strategies. The Company's principal activity is the financing, acquisition, development and management of immovable property, the leveraging of revenue streams arising therefrom and the reinvestment of undistributed profits in national and/or strategic real estate projects as well as in commercial property opportunities.

The Directors are of the view that it has employed structures which are most suitable for the size, nature and operations of the Company. Accordingly, in general, the Directors believe that the Company has adopted appropriate structures to achieve an adequate level of good corporate governance, together with an adequate system of controls in line with the Company's requirements.

This Corporate Governance Statement (the "Statement") sets out the structures and processes in place within the Company and how these effectively achieve the goals set out in the Code. For this purpose, this Statement makes reference to the pertinent principles of the Code and then sets out the manner in which the Directors believe that these have been adhered to. Where the Company has not complied with any of the principles of the Code, this Statement gives an explanation for non-compliance.

For the avoidance of doubt, reference in this Statement to compliance with the principles of the Code means compliance with the Code's main principles and the Code provisions.

# CORPORATE GOVERNANCE STATEMENT

## Compliance

### Principle 1: The Board

Throughout the year under review, the Board has provided the necessary leadership in the overall direction of the Company and the administration of its resources to enhance the prosperity of the business over time, and therefore the value of the shareholders' investment. The Board is currently composed of six non-executive Directors (one of whom is the Chairman). The Directors, individually and collectively, are of the appropriate calibre, with the necessary skills and experience to contribute effectively to the decision making process. The Directors have determined the Company's strategic aims and organisational structure and always ensure that the Company has the appropriate mix of financial and human resources to meet its objectives.

The process of appointment of Directors is transparent and is conducted during the Company's AGM where all the shareholders of the Company are entitled to participate in the voting process to elect the Board Directors. Furthermore, in terms of the Company's Memorandum and Articles of Association, a Director is prohibited from voting on any contract or arrangement or any other proposal in which he has a material interest.

### Principle 2: Chairman and Chief Executive

The Company has adopted clear division of responsibilities between the Chairman and the Chief Financial Officer. The Chairman is responsible to lead the board and set its agenda, ensures that the Board achieves its full potential by giving precise, timely and objective information in order for them to make informed decisions and effectively monitor the performance of the Company. The Chairman also ensures effective communication with shareholders and involves all Board members in discussions of Company matters. On the other hand, the day-to-day management of the Company is vested with the Chief Financial Officer who reports to the Board of Directors.

### Principle 3: Composition of the Board

The Board is composed of six non-executive Directors. The members of the Board for the year under review were Mr Kenneth Farrugia (Chairman), Mr Frederick Mifsud Bonnici (resigned on 30 April 2016), Mr Ray Sladden, Dr Robert Suban, Mr Paul Mercieca, Dr John Buttigieg and Mr Eric Schembri. Pursuant to generally accepted practices, as well as the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders, except in so far as an appointment is made to fill a vacancy on the Board, and which appointment would expire at the Company's subsequent AGM.

Unless they resign or are removed, Directors shall hold office up until the end of the subsequent AGM following their appointment. Directors whose term of office expires or who resign or are removed are eligible for re-appointment. All Directors shall retire from office at least once every three (3) years, but shall be eligible for re-election.

The Board usually meets on a bi-monthly basis or as may be determined by the Board and in general the meetings usually focus on strategy, operational and financial performance and the consideration of investment opportunities wherein the Board decides on the nature, direction and framework of the activities of the Company.

## **Compliance** - continued

### **Principle 3: Composition of the Board** - continued

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

None of the non-executive Directors:

(a) are or have been employed in any capacity by the Company;
(b) have, or had within the last three years, a significant business relationship with the Company;
(c) have received or receive significant additional remuneration from the Company;
(d) have close family ties with any of the executive members of the Board;
(e) have served on the board for more than twelve consecutive years; or
(f) have been within the last three years an engagement partner or a member of the audit team of the present or past external auditors of the Company.

### **Principle 4: The Responsibilities of the Board**

In terms of Principle four, it is the Board's responsibility to ensure a system of accountability, monitoring, strategy formulation and policy development. The Board regularly reviews and evaluates major operational and financial plans, risk policy, performance objectives and monitor implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. The Board delegates specific responsibilities to various Board Committees including the Audit Committee, the Remuneration and Nominations Committee and the Investment Committee.

### **Board Committees**

#### ***Audit Committee***

The Audit Committee for the year under review was composed of Paul Mercieca, Eric Schembri, Frederick Mifsud Bonnici (resigned on 30 April 2016) and Robert Suban (appointed on 1 July 2016). Paul Mercieca, the Chairman of the Audit Committee, is an independent member of the Committee and is competent in accounting and/or auditing in view of his professional knowledge as a warranted accountant. The Audit Committee's primary objective is to assist the Board in dealing with issues of risk, control and governance; and in reviewing the Company's reporting processes, financial policies and internal control structure. The Audit Committee also oversees the conduct of the external audit and facilitates communication between the Company's Board, management and external auditors. The Board has set formal terms of reference of the Audit Committee that establish its composition, role and function, the parameters of its remit as well as the basis for the processes that it is required to comply with. The Audit Committee is a sub-committee of the Board.

#### ***Investment Committee***

The Company has set up an Investment Committee where the primary purpose is to determine what investments the Company should undertake within the investment policies parameters as determined from the Board, giving due consideration to the Company's funding requirements as these may vary from time to time. The Investment Committee is currently chaired by Robert Suban and includes Ray Sladden as a member.

# CORPORATE GOVERNANCE STATEMENT

## **Compliance** - continued

### **Principle 4: The Responsibilities of the Board** - continued

***Investment Committee*** *- continued*

The Investment Committee is also responsible for considering proposed ethical positions with respect to appropriate projects and investments. It oversees the management of the Company's investments in accordance with such policies and reviews, where necessary, the Company's investment policies.

In exercising its functions, the Investment Committee is required to ensure that any investment proposed to the Board of Directors does not materially and negatively disrupt the dividend policy adopted by the Board from time to time.

***Remuneration and Nominations Committee***

The Remuneration and Nominations Committee is dealt with under the Remuneration Statement in terms of Code Provisions 8.A.3 and 8.A.4.

### **Principle 5: Board Meetings**

The Board believes that it complies fully with the requirements of this Principle and the relative Code Provisions. Directors receive Board and Committee papers in advance of meetings and have access to the advice and services of the Company Secretary. After each Board meeting and before meetings, minutes that faithfully record attendance and decisions are prepared and circulated to all Directors as soon as practicable. The Directors are aware of their responsibility to always act in the best interests of the Company and its shareholders as a whole irrespective of whoever appointed or elected them to serve on the Board.

During the financial year under review, the Board held eight meetings.

The following is the attendance at Board meetings of each of the Directors:

| | | |
|---|---|---|
| Kenneth Farrugia | (Chairman - appointed on incorporation) | 8 |
| Ray Sladden | (appointed on 9 April 2014) | 8 |
| Paul Mercieca | (appointed on 9 April 2014) | 8 |
| John Buttigieg | (appointed on 1 August 2014) | 8 |
| Eric Schembri | (appointed on 1 August 2014) | 8 |
| Robert Suban | (appointed on 9 April 2014) | 7 |
| Frederick Mifsud Bonnici | (resigned on 30 April 2016) | 2 |

### **Principle 6: Information and Professional development**

The Board is responsible for the appointment of senior management and ensures that there is adequate training in the Company for Directors, management and employees as may be necessitated from time to time. The Board also ensures that all Directors are supplied with precise, timely and clear information so that they can effectively contribute to board decisions. The Directors receive monthly management accounts on the Company's financial performance and position.

## **Compliance** - continued

### Principle 7: Evaluation of the Board's performance

Over the year under review it is the Board's opinion that all members of the Board, individually and collectively, have contributed in line with the required levels of diligence and skill. In addition, the Board believes that its current composition endows the Board with a cross-section of skills and experience and achieves the appropriate balance required for it to function effectively. In view of the size and nature of the Company, it was not considered necessary to carry out a formal evaluation of the Board's performance.

### Principle 8: Committees

The Remuneration and Nominations Committee is dealt with under the Remuneration Statement in terms of Code Provisions 8.A.3 and 8.A.4.

### Principles 9 and 10: Relations with Shareholders and with the Market, and Institutional Shareholders

The Company recognises the importance of keeping investors informed to ensure that they are able to make informed investment decisions. The Board is of the opinion that over the year under review the Company has communicated effectively with the market through its Company announcements that it has informed the market of significant events relevant to the Company.

The Company will be holding its fifth AGM where in a similar manner to previous years, the Board intends to communicate directly with shareholders on the performance of the Company over the last financial year. At the AGM, the Chairman of the Board and all Directors will attend the AGM and will be available to answer questions raised by the floor. Business at the Company's AGM is in line with the Company's statutory obligations and covers the approval of the Annual Report and Audited Financial Statements, the declaration and approval of a dividend, the election of Directors, the appointment of auditors and the authorisation of the Directors to set the auditor's remuneration.

Apart from the AGM, the Company communicates with its shareholders and the market by way of the Annual Report and Financial Statements, by publishing its results on a six-monthly basis during the year, and by way of Company announcements to the market in general when necessary. These reports are also available on the Company's website (www.malitainvestments.com) which also contains information about the Company and its projects. The Company's website also contains a notifications and publications section which includes press releases and investor information sub-sections.

### Principle 11: Conflicts of Interest

The Directors of the Company recognise their responsibility to act in the interest of the Company and its shareholders as a whole irrespective of who appointed them to serve on the Board. It is the practice of the Board that when a potential conflict of interest arises in connection with any transaction or other matter, the potential conflict of interest is declared so that steps may be taken to ensure that such items are appropriately dealt with. Directors who have a conflict of interest do not participate in discussions concerning such matters unless the Board find no objection to the presence of such Director. The Directors are obliged to keep the Board advised, on an on-going basis, of any interest that could potentially conflict with that of the Company. In any event, Directors refrain from voting on the matters where conflicts of interest arise. There were no such matters in the year under review.

# CORPORATE GOVERNANCE STATEMENT

## **Compliance** - continued

**Principle 11: Conflicts of Interest** - continued

Directors are informed of their obligations on dealing in securities of the Company within the parameters of law, including the Listing Rules, and Directors follow the required notification procedures.

As at the date of this Statement, the interests of the Directors in the shares of the Company were as follows (shares held):

| Director | Number of shares held as at 31 December 2016 |
|---|---|
| Kenneth Farrugia | nil |
| Ray Sladden | nil |
| Paul Mercieca | nil |
| Robert Suban | nil |
| John Buttigieg | nil |
| Eric Schembri | nil |

There were no changes in the Directors' interest in the shareholding of the Company between year-end and 28 February 2017.

**Principle 12: Corporate Social Responsibility**

The Directors are committed to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large.

## Non-compliance with the code

**Principle 3: Executive and Non-Executive Directors on the Board**

The Board is currently composed entirely of non-executive Directors. However, it is considered that the current composition of the Board provides for sufficiently balanced skills and experience to enable it to discharge its duties and responsibilities effectively.

**Principle 7: Evaluation of the Board's performance**

In view of the size and nature of the Company, it was not considered necessary to carry out an evaluation of the Board's performance.

**Principle 9.3: Conflicts**

Currently there is no established mechanism disclosed in the Company's Memorandum and Articles of Association, as recommended in Code Provision 9.3, to trigger arbitration in the case of conflict between the minority shareholders and the controlling shareholders. The Board believes, taking into account the current shareholder profile, the measures currently available for shareholders, such as the right to ask questions, and the continuous dialogue with shareholders provide the necessary safeguards for the protection of the shareholders' interests.

## Internal Control

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage risk to achieve business objectives and provides reasonable assurance against normal business risks.

The Company has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives. Lines of responsibility and delegation of authority are documented. The Company also has procedures to ensure completeness and accurate accounting for financial transactions and to limit the potential exposure to fraud.

## General Meetings

Shareholders' influence is exercised at the AGM, which is the highest decision making body of the Company. All shareholders registered in the Shareholders' Register, have the right to participate in the meeting and to vote for the full number of their respective shares. Shareholders who cannot participate in the meeting can be represented by proxy. Shareholders' meetings are called with sufficient notice to enable the use of proxies to attend, vote or abstain.

Business at the Company's AGM covers the approval of the Annual Report and Audited Financial Statements, the declaration and approval of a dividend, the election of Directors, the appointment of auditors and the authorisation of the Directors to set the auditor's remuneration.

## Remuneration Statement

The Company has set up a Remuneration and Nominations Committee and the Board has established a remuneration policy for Directors and senior management. The terms of reference of this Committee are set out below:

The Remuneration and Nominations Committee is composed of two persons as shall be appointed from time to time by the Board of Directors. The members appointed by the Board of Directors to sit on the Remuneration and Nominations Committee are Kenneth Farrugia (Chairman of the Committee) and Paul Mercieca.

The primary purpose of the Remuneration and Nominations Committee is to:

- review the setting of remuneration levels within the Company, including remuneration levels for the Executive Directors when applicable;
- to evaluate the performance of the individual Executive Directors when applicable;
- to monitor the level and the structure of the remuneration of non-executive Directors on the basis of adequate information provided by the Executive; and
- to approve or otherwise performance related bonus awards and long term incentive plan awards paid to employees.

# CORPORATE GOVERNANCE STATEMENT

**Remuneration Statement** – continued

## Meetings

During the year under review the Committee held four meetings. All Committee members attended the meeting. The members of the Committee have also discussed various matters related to the composition of the board and internal human resources matters during the meeting held.

## Remuneration policy - Directors

The Board is composed exclusively of non-executive Directors. The maximum annual aggregate emoluments that may be paid to Directors is approved by the shareholders at the General Meeting in terms of Article 37 of the Articles of Association.

The current Directors' fees approved by the Board are set at €7,500 per annum for Directors and €20,000 per annum for the Chairman. The Chairmen of board Committees are entitled to an additional remuneration of €5,000 and Committee members are entitled to an additional remuneration of €2,500 per annum.

The aggregate amount of remuneration paid to all Directors of the Company was €60,000 during 2016 and the amount of €23,750 was received by the members of the Audit Committee, Investment Committee and Remuneration and Nominations Committee. Details of the remuneration of each individual director are set out in Note 17 to the financial statements.

There is no linkage between the remuneration and the performance of Directors.

None of the Directors have any service contracts with the Company and none of the Directors, in their capacity as Director of the Company, are entitled to profit sharing, share options, pension benefits or non-cash benefits.

## Remuneration policy - Senior Management

The Board notes that the organisational set-up of the Company consists of 3 employees, 1 of whom is considered to be a senior officer. The terms and conditions of employment of the senior officer are set out in the contract of employment with the Company. The senior officer is not entitled to profit sharing, share options or pension benefits. The Board deems the disclosure of the total emoluments received by the senior officer as commercially sensitive and is hence availing itself of the exemption pursuant to Code Provision 8.A.6.

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Malita Investments p.l.c.

## Report on the audit of the financial statements

***Our opinion***

In our opinion:

- Malita Investments p.l.c.'s financial statements (the "financial statements") give a true and fair view of the company's financial position as at 31 December 2016, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

**What we have audited**

Malita Investments p.l.c.'s financial statements, set out on pages 30 to 54, comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows 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 International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

**Independence**

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

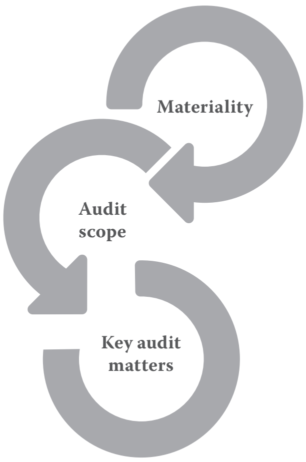
# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Malita Investments p.l.c.

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

***Our audit approach***

**Overview**




Overall materiality: €262,400 which represents 5% of profit before tax.

Valuation of Investment Properties

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 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.

pwc

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

***Our audit approach*** - continued

**Materiality** - continued

| | |
|---|---|
| *Overall materiality* | €262,400 |
| *How we determined it* | 5% of profit before tax |
| *Rationale for the materiality benchmark applied* | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the company is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €26,200 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Key audit matters**

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

**Key audit matter**
*Valuation of Investment Properties (Note 6 to the financial statements)*

The Company's investment property comprises the Malta International Airport ("MIA") and Valletta Cruise Port ("VCP") properties as well as Parliament Building and Open Air Theatre. The fair value of the MIA and VCP properties has been determined based on projected future cash flows, discounted by a risk adjusted discount rate.

The valuation of the MIA and VCP properties, which was carried out by management, is based on the present value of ground rents up to the expiry of the temporary emphyteutical grants and the estimated freehold value thereafter discounted to present value. The fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 31 December 2016. The discount rate is based on the yield to maturity on the longest term available MGS (Malta Government Stock) in issue as at year end plus a premium reflecting the risk inherent in the underlying cash flows.

# INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Malita Investments p.l.c.

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

***Our audit approach*** - continued

**Key audit matter** - continued

**How our audit addressed the Key audit matter**

We engaged our own in-house valuation specialists to critique and challenge the model and assumptions used by management.

Our procedures in relation to management's valuation of the properties included:
- Assessing the methodologies used by management to estimate the fair value of the properties. We confirmed that the valuation approach for the properties was in accordance with professional valuation standards and suitable for use in determining their carrying values as at 31 December 2016;
- Testing the mathematical accuracy of the calculations derived from each forecast model;
- Assessing key inputs in the calculations such as ground rent, growth rate and discount rate, by reference to management's forecasts, contractual arrangements in place, data external to the Company and our own expertise;
- Considering the potential impact of reasonably possible downside changes in these key assumptions.

We discussed the valuations with the Audit Committee and concluded, based on our audit work that the company's property valuation was within an acceptable range.

***Other Information***

The directors are responsible for the other information. The other information comprises directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and chairman's statement, which is expected to be made available to us after that date.

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.

pwc

## Report on the audit of the financial statements - continued

***Other Information*** - continued

When we read the chairman's statement, if we conclude that there is a material misstatement therein, we are required to communicate the matter in accordance with International Standards on Auditing.

***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 has no realistic alternative but to do so.

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Malita Investments p.l.c.

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

***Auditor's responsibilities for the audit of the financial statements*** - continued

- 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.

## 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.

## Report on other legal and regulatory requirements - continued

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

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 15 to 22 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

***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.

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

**PricewaterhouseCoopers**

78, Mill Street
Qormi
Malta

Simon Flynn
Partner

28 February 2017

# STATEMENT OF FINANCIAL POSITION

| | Notes | As at 31 December 2016 € | 2015 € |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **2,966** | 4,622 |
| Investment property | 6 | **152,543,759** | 149,525,385 |
| | | **152,546,725** | 149,530,007 |
| **Current assets** | | | |
| Trade and other receivables | 7 | **401,208** | 375,245 |
| Cash and cash equivalents | 8 | **3,427,250** | 4,534,272 |
| | | **3,828,458** | 4,909,517 |
| **Total assets** | | **156,375,183** | 154,439,524 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 9 | **73,295,143** | 73,295,143 |
| Retained earnings | | **5,925,209** | 5,990,408 |
| Non-distributable reserve - fair value gains | 10 | **30,531,648** | 27,757,848 |
| Non-distributable reserve - other | 11 | **1,569,938** | 1,204,938 |
| **Total equity** | | **111,321,938** | 108,248,337 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | **37,070,583** | 39,938,007 |
| Deferred tax liabilities | 21 | **5,616,319** | 5,375,119 |
| | | **42,686,902** | 45,313,126 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **821,603** | 810,642 |
| Current tax liabilities | | **86,233** | 67,419 |
| Borrowings | 12 | **1,458,507** | - |
| | | **2,366,343** | 878,061 |
| **Total liabilities** | | **45,053,245** | 46,191,187 |
| **Total equity and liabilities** | | **156,375,183** | 154,439,524 |

The notes on pages 34 to 54 are an integral part of these financial statements.

The financial statements on pages 30 to 54 were authorised for issue by the board on 28 February 2017 and were signed on its behalf by:

Kenneth Farrugia
Chairman

Paul Mercieca
Director

# STATEMENT OF COMPREHENSIVE INCOME

| | Notes | **Year ended 31 December 2016 €** | Year ended 31 December 2015 € |
|---|---|---|---|
| Revenue | 14 | **6,976,714** | 6,935,891 |
| Administrative expenses | 15 | **(447,982)** | (387,705) |
| Change in fair value of investment property | 6 | **3,015,000** | 11,609,000 |
| **Operating profit** | | **9,543,732** | 18,157,186 |
| Finance income | 18 | **4,306** | 20,150 |
| Finance costs | 19 | **(1,284,772)** | (1,317,608) |
| **Profit before tax** | | **8,263,266** | 16,859,728 |
| Tax expense | 20 | **(1,839,461)** | (282,676) |
| **Profit for the year - total comprehensive income** | | **6,423,805** | 16,577,052 |
| **Earnings per share (cents)** | 22 | **4.34** | 11.19 |

The notes on pages 34 to 54 are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

| | | | | Non-distributable reserves | | |
|---|---|---|---|---|---|---|
| | Notes | Share capital € | Retained earnings € | Fair value gains | Other € | Total € |
| Balance at 1 January 2015 | | 73,295,143 | 6,092,159 | 14,854,368 | 837,581 | 95,079,251 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | 16,577,052 | - | - | 16,577,052 |
| **Transactions with owners** | | | | | | |
| Transfer within owners' equity | 10 | - | (12,903,480) | 12,903,480 | - | - |
| Transfer within owners' equity | 11 | - | (367,357) | - | 367,357 | - |
| Dividends to equity shareholders | 23 | - | (3,407,966) | - | - | (3,407,966) |
| | | - | **(16,678,803)** | **12,903,480** | **367,357** | **(3,407,966)** |
| **Balance at 31 December 2015** | | **73,295,143** | **5,990,408** | **27,757,848** | **1,204,938** | **108,248,337** |
| Balance at 1 January 2016 | | 73,295,143 | 5,990,408 | 27,757,848 | 1,204,938 | 108,248,337 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | 6,423,805 | - | - | 6,423,805 |
| **Transactions with owners** | | | | | | |
| Transfer within owners' equity | 10 | - | (2,773,800) | 2,773,800 | - | - |
| Transfer within owners' equity | 11 | - | (365,000) | - | 365,000 | - |
| Dividends to equity shareholders | 23 | - | (3,350,204) | - | - | (3,350,204) |
| | | - | (6,489,004) | 2,773,800 | 365,000 | (3,350,204) |
| **Balance at 31 December 2016** | | **73,295,143** | **5,925,209** | **30,531,648** | **1,569,938** | **111,321,938** |

The notes on pages 34 to 54 are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

| | Notes | **Year ended 31 December 2016 €** | Year ended 31 December 2015 € |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 24 | **6,535,791** | 6,583,070 |
| Interest received | | **5,223** | 22,067 |
| Interest paid and similar charges | 19 | **(852)** | (1,308) |
| Tax paid | | **(1,579,447)** | (1,519,598) |
| **Net cash generated from operating activities** | | **4,960,715** | 5,084,231 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 5 | **(311)** | (3,624) |
| Payments to capital creditor | | **-** | (300,003) |
| **Net cash used in investing activities** | | **(311)** | (303,627) |
| **Cash flows from financing activities** | | | |
| Repayments of borrowings | | **(1,412,291)** | - |
| Interest paid on borrowings | | **(1,304,931)** | (1,316,300) |
| Dividends paid to equity holders | 23 | **(3,350,204)** | (3,407,966) |
| **Net cash used in financing activities** | | **(6,067,426)** | (4,724,266) |
| **Net movement in cash and cash equivalents** | | **(1,107,022)** | 56,338 |
| **Cash and cash equivalents at beginning of year** | | **4,534,272** | 4,477,934 |
| **Cash and cash equivalents at end of year** | 8 | **3,427,250** | 4,534,272 |

The notes on pages 34 to 54 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Summary of significant accounting policies

The Board has adopted the following principal accounting policies which it believes cover most of the type of activities it will undertake in the foreseeable future. Accordingly, not all the accounting policies set out below would necessarily apply as at the date of this report.

### 1.1 Basis of preparation

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

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

*Standards, interpretations and amendments to published standards effective 1 January 2016*

The Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2016. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies.

*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 but are mandatory for the Company's accounting periods beginning after 1 January 2016. 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 there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

### 1.2 Foreign currency translation

*Functional and presentation currency*

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

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

### 1.3 Investment property

Investment property is held for long-term rental yields or for capital appreciation or both, and is not occupied by the Company. Investment property also includes property that is being constructed or developed for future use as investment property, when such identification is made.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost, in accordance with Note 1.15. After initial recognition, investment property is carried at fair value. Given that there is no active market for the investment property held by the Company, the Company establishes fair value by using valuation techniques, particularly, discounted cash flow analysis.

Investment property that is being redeveloped for continuing use as investment property continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

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

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

### 1.4 Financial assets

#### 1.4.1 Classification

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company's financial assets consist of receivables. 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. The latter are classified as non-current assets. The Company's receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.5 and 1.6). Cash and cash equivalents includes cash in hand, deposits held with banks with original maturities of six months or less.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Summary of significant accounting policies - continued

### 1.4 Financial assets - continued

#### 1.4.2 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. Financial assets are initially recognised at fair value plus transaction costs. 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.

### 1.5 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In the opinion of the Directors, the recorded book value in the company's books of trade and other receivables and their value measured at amortised cost using the effective interest method, less provision for impairment are not materially different. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. 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.

### 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 includes cash in hand, deposits held at call with banks and when applicable 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. Summary of significant accounting policies - continued

### 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 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. In the opinion of the Directors, the recorded book value in the company's books of financial liabilities and their value measured at amortised cost for impairment are not materially different. 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.

### 1.9 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 as finance cost in income statement over the period of the borrowings using the effective interest method. In the opinion of the Directors, the recorded book value in the company's books of borrowings and their value measured at amortised cost using the effective interest method, are not materially different. 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.

### 1.10 Trade and other payables

Trade 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 (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

### 1.11 Current and deferred tax

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Summary of significant accounting policies - continued

### 1.11 Current and deferred tax - continued

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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

### 1.12 Provisions

Provisions for legal claims, should they arise are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

### 1.13 Revenue recognition

Revenue comprises the fair value for ground rents received or receivable as per contracts entered into, penalties due to delays in completion of the Parliament Building and the lease of the Open Air Theatre.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

*(a) Interest income*

Interest income is recognised for all interest-bearing instruments using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period.

*(b) Rental income from investment property*

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

## 1. Summary of significant accounting policies - continued

### 1.14 Operating leases

*(a) The company is a lessee*

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income statement on a straight-line basis over the period of the lease.

*(b) The company is a lessor*

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with accounting policy 1.3. Receipts made under operating leases (net of any incentives paid by the Company) are charged to income statement on a straight-line basis over the period of the lease.

### 1.15 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Borrowing costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of interest-bearing borrowings.

### 1.16 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Directors.

## 2. Financial risk management

### 2.1 Financial risk factors

The Company's activities potentially expose it to a variety of financial risks: market risk (including interest rate risk and other price risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. It is the responsibility of the Board of Directors to provide principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The Company did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial periods.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

*(a) Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Company's cash and cash equivalents (Note 8) are subject to floating interest rates. Management sets limits on the exposure to interest rate risk that may be accepted and monitors the impact of changes in market interest rates on amounts reported in the statement of comprehensive income in respect of these instruments. The Company's interest-bearing instruments are short-term in nature and accordingly the level of interest rate risk is contained. The Company's operating cash flows are substantially independent of changes in market interest rates. Fixed interest instruments comprise borrowings (Note 12) which are measured at amortised cost and accordingly the Company is not exposed to fair value interest rate risk. Based on this analysis, management considers the potential impact on income statement of a defined interest rate shift that is reasonably possible at the end of the reporting year to be immaterial.

*(b) Credit risk*

Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding receivables and committed transactions. The Company's exposures to credit risk as at the end of the reporting years are analysed as follows:

| | **2016** | 2015 |
|---|---|---|
| | **€** | € |
| Loans and receivables category: | | |
| - Trade and other receivables (Note 7) | **401,208** | 375,245 |
| - Cash and cash equivalents (Note 8) | **3,427,250** | 4,534,272 |

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements.

The Company banks only with local financial institutions licensed by the Malta Financial Services Authority with high quality standing and/or rating.

## 2. **Financial risk management** - continued

### **2.1 Financial risk factors** - continued

*(c) Liquidity risk*

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise borrowings (Note 12), and trade and other payables (Note 14). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Company's obligations.

Management monitors liquidity risk by reviewing expected cash flows, and ensures that its own resources are adequate and new facilities are in place when new projects are approved. The Company's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments coupled with the Company's committed bank borrowing facilities that it can access to meet liquidity needs.

The table below analyses the Company's financial liabilities into relevant maturity groupings, based on the remaining period to the relevant maturity date. The amounts disclosed in the table are the contractual discounted cash flows.

| | Within 1 year | From 1 year to 2 years | From 2 years to 5 years | Later than 5 years | Total |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **Liabilities** | | | | | |
| Borrowings | 2,717,223 | 2,717,223 | 8,151,670 | 39,248,219 | 52,834,335 |
| Trade and other payables | 821,603 | - | - | - | 821,603 |

### **2.2 Capital risk management**

Capital is managed by reference to the level of equity and borrowings. The Company's objectives when managing capital are to safeguard the 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 the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Company's activities and the extent of borrowings or debt, the capital level as at the end of the reporting year is deemed adequate by the Directors.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Financial risk management - continued

### 2.3 Fair values of financial instruments

At 31 December 2016 and 31 December 2015, the carrying amounts of other financial instruments comprising loans and receivables; cash at bank and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments, the relatively short period of time between the origination of the instruments and their expected realisation or the interest rates to which they are exposed.

## 3. Critical accounting estimates and judgements

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The Company's investment property comprises the MIA and VCP properties as well as the Parliament Building and Open Air Theatre. The fair value of the MIA and VCP properties has been determined based on projected future cash flows, appropriately discounted by a risk adjusted discount rate. As explained in Note 6 - Investment Property, the valuation was determined using discounted cash flow projections considering, inter alia, the projected future cash flows to be generated from the transfer of the dominium directum of the MIA and VCP properties, ongoing maintenance needs, and other relevant market factors.

A key variable used in the determination of the fair value of the Investment Property is the discount rate. If the discount rate used in the discounted future cash flows for the Investment Property had been 0.5% higher/lower, all other things being equal, the fair value of the Company's investment property would decrease/increase by €5.9 million (2015: €8.6 million) and €14.0 million (2015: €10.5 million) respectively.

## 4. Segment reporting

The Directors have reviewed the disclosure requirements of IFRS 8, 'Operating Segments' and determined that the Company effectively has one operating segment, taking cognisance of the information utilised within the Company for the purpose of assessing performance.

## 5. Property, plant and equipment

| | Computer hardware € |
|---|---|
| **Year ended 31 December 2015** | |
| Opening net book amount | 3,710 |
| Additions | 3,624 |
| Depreciation charge | (2,712) |
| Closing net book amount | 4,622 |
| **At 31 December 2015** | |
| Cost or valuation | 11,801 |
| Accumulated depreciation | (7,179) |
| Net book amount | 4,622 |
| **Year ended 31 December 2016** | |
| Opening net book amount | 4,622 |
| Additions | 311 |
| Depreciation charge | (1,967) |
| Closing net book amount | 2,966 |
| **At 31 December 2016** | |
| Cost or valuation | 12,112 |
| Accumulated depreciation | (9,146) |
| **Net book amount** | **2,966** |

# NOTES TO THE FINANCIAL STATEMENTS

## 6. Investment property

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Property measured at fair value | **70,204,000** | 67,189,000 |
| Property measured at cost | **82,339,759** | 82,336,385 |
| Carrying amount | **152,543,759** | 149,525,385 |

### a) Property measured at fair value

MIA and VCP properties

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| At 1 January | **67,189,000** | 55,580,000 |
| Fair value gains | **3,015,000** | 11,609,000 |
| Carrying amount | **70,204,000** | 67,189,000 |

### Fair values of investment property

The movement in the fair value of investment property comprises the movement in the fair value of the dominium directum of the MIA and VCP properties. The fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 31 December 2016. Accordingly, the fair value of the investment property is subject to variation owing to, amongst other things, movements in market interest rates, expected inflation rates and changes in the contractual cash flows owing to the passage of time.

The Company is required to disclose fair value measurements of the following fair value measurement hierarchy for non-financial assets carried at fair value by level:
- Quoted prices (unadjusted) in active markets for identical assets (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset that are not based on observable market data for similar properties (that is, unobservable inputs) (level 3).

The Company's recurring fair value measurements are categorised as level 3 as they are based on significant unobservable inputs.

### Valuation process

The valuation of the MIA and VCP properties is based on the present value of ground rents up to the expiry of the temporary emphyteutical grants and the estimated freehold value thereafter discounted to present value. The fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 31 December 2016.

## 6. Investment property - continued

### a) Property measured at fair value - continued

**Valuation process** - continued

The discount rate is based on the yield to maturity on the longest term available MGS (Malta Government Stock) in issue as at year end plus a premium reflecting the risk inherent in the underlying cash flows.

In view of the variation in the MGS benchmark referred to above during the year ended 31 December 2016, a fair value gain of €3,015,000 (2015: €11,609,000) has been recognised in these financial statements during this year.

In accordance with the fair value measurement hierarchy explained above, the significant unobservable inputs applied in the valuation of the Company's assets are the following:

- Ground rent, as contractually agreed which for 2016 is estimated at €1.8 million (2015: €1.8 million);
- Growth rate, as contractually agreed at an average of 2.5% p.a. represents the estimated average growth of the Company's rentals;
- Discount rate of 5.14% (2015: 5.20%) based on the long-term risk-free rate of return and a specific risk premium for the individual property being valued taking into account factors such as, property illiquidity, management limitations, type, size and location of property, competition, future uncertainty, counter-party risks and resource risks.

The impact of a lower/higher discount rate has been disclosed in Note 3 - Critical accounting estimates and judgements. Movements resulting from the said revaluation process are treated as non-distributable (see Note 10).

### b) Property measured at cost

Parliament Building and Open Air Theatre

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| At 1 January | **82,336,385** | 82,333,011 |
| Amortisation of borrowing costs | **3,374** | 3,374 |
| Carrying amount | **82,339,759** | 82,336,385 |

As at 31 December 2016, the certificate of completion of the Parliament Building, despite being officially opened in 2015, has not yet been issued. On the other hand, the Open Air Theatre was completed on 18 October 2013. On this basis, in the opinion of the Directors, it is premature to estimate the separate fair value of the Parliament Building and Open Air Theatre. Accordingly, any changes to the fair value determined on the basis of the projected net rents receivable up to the expiry of the emphyteutical grants, discounted to present value at a rate which reflects the yield to maturity on the longest available term MGS (Malta Government Stock) in issue plus a premium reflecting the risk inherent in the underlying cash flows, are not reflected in these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. Trade and other receivables

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| **Current** | | |
| City Gate penalties receivable | **310,000** | 310,000 |
| Prepaid City Gate ground rents | **50,769** | 50,769 |
| Trade receivables | **26,185** | - |
| Prepaid expenses | **13,859** | 13,164 |
| Bank interest receivable | **395** | 1,312 |
| | **401,208** | 375,245 |

## 8. Cash and cash equivalents

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

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Cash at bank and in hand | **563,890** | 332,354 |
| Short-term bank deposits | **2,863,360** | 4,201,918 |
| | **3,427,250** | 4,534,272 |

## 9. Share capital

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| **Authorised** | | |
| 150,000,000 Ordinary A shares of €0.50 each | **75,000,000** | 75,000,000 |
| 50,000,000 Ordinary B shares of €0.50 each | **25,000,000** | 25,000,000 |
| | **100,000,000** | 100,000,000 |
| **Issued and fully paid** | | |
| 118,108,064 Ordinary A shares of €0.50 each | **59,054,032** | 59,054,032 |
| 30,000,000 Ordinary B shares of €0.50 each | **15,000,000** | 15,000,000 |
| | **74,054,032** | 74,054,032 |
| Issue costs | **(758,889)** | (758,889) |
| | **73,295,143** | 73,295,143 |

## 9. **Share capital** - continued

Ordinary A and Ordinary B shares rank *pari passu* for all intents and purposes of the law, except that holders of Ordinary A shares were not entitled to receive a dividend or other distribution in respect to profits generated by the Company during the period between the date of incorporation and 31 December 2014.

## 10. Non-distributable reserve - fair value gains

The reserve represents the cumulative fair value gains, net of applicable deferred tax liabilities on the Company's investment properties. These gains were initially recognised in the statement of comprehensive income and because of their nature, were subsequently transferred to a non-distributable reserve.

## 11. Non-distributable reserve - other

As per article 82 of the Company's Articles of Association, the directors have set aside €365,000 (2015: €367,357) which equals 10% of the net profit excluding fair value movements net of deferred tax (see Note 10) of the Company and allocated them to a non-distributable reserve. The directors may employ the reserve in the furtherance of the business of the Company as the directors may from time to time think fit.

## 12. Borrowings

On 1 October 2012, the Company had drawn a €40,000,000 loan facility with the European Investment Bank in part satisfaction of the acquisition of the Parliament Building and the Open Air Theatre. This facility is split up into €25,000,000 for 20 years and €15,000,000 for 25 years at a fixed rate of interest. The borrowing cost of the long-term loan is inclusive of a three-year capital moratorium period. The first capital repayment of the long-term loan was paid in January 2016.

| | **2016** | 2015 |
|---|---|---|
| | **€** | € |
| **Borrowings** | | |
| Non-current | **37,070,583** | 39,938,007 |
| Current | **1,458,507** | - |
| | **38,529,090** | 39,938,007 |

# NOTES TO THE FINANCIAL STATEMENTS

## 13. Trade and other payables

| | **2016** | 2015 |
|---|---|---|
| | **€** | € |
| **Current** | | |
| Trade payables | **29,256** | 6,777 |
| Indirect taxes and social security | **8,477** | 4,553 |
| Deferred ground rent income | **168,618** | 168,618 |
| Interest payable on long-term loan | **582,293** | 603,304 |
| Accrued expenses | **32,959** | 27,390 |
| | **821,603** | 810,642 |

## 14. Revenue

Revenue comprises the consideration payable by MIA and VCP by way of an annual ground rent in respect of the temporary emphyteusis granted. Lease for the Open Air Theatre also commenced for this property pursuant to a lease agreement entered into with the Company. Also included in the revenue figure is a penalty payable by Government pursuant to a public deed which was entered into with the Company which stipulated that, the Government was required to complete the development of the Parliament Building and Open Air Theatre in accordance with pre-established specifications and timelines and that, in the event of a delay in completion, the Government is liable to pay the Company a daily penalty broadly in line with the rental income due, had the project have been completed on time.

## 15. Expenses by nature

| | **Year ended 31 December 2016** | Year ended 31 December 2015 |
|---|---|---|
| | **€** | € |
| Directors' emoluments (Note 17) | **83,750** | 92,500 |
| Professional fees | **81,167** | 35,797 |
| Printing & advertising | **10,746** | 12,333 |
| Employee benefit expenses (Note 16) | **104,141** | 79,015 |
| City Gate ground rents | **105,000** | 102,582 |
| Depreciation of property, plant and equipment (Note 5) | **1,967** | 2,712 |
| Lease of premises | **8,850** | 8,850 |
| Other expenses | **52,361** | 53,916 |
| | **447,982** | 387,705 |

## 15. **Expenses by nature** – continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2016 and 2015 relate to the following:

| | **Year ended 31 December 2016 €** | Year ended 31 December 2015 € |
|---|---|---|
| Annual statutory audit | **10,500** | 10,000 |
| Other assurance services | **4,000** | 5,625 |
| Other services | **11,550** | - |
| Tax & compliance services | **1,350** | 1,570 |
| | **27,400** | 17,195 |

## 16. Employee benefit expenses

| | **Year ended 31 December 2016 €** | Year ended 31 December 2015 € |
|---|---|---|
| Wages and salaries | **94,069** | 70,244 |
| Fees | **4,000** | 4,000 |
| Social security costs | **6,072** | 4,771 |
| | **104,141** | 79,015 |

The average number of persons employed during the year by the Company amounted to 3 (2015: 3).

# NOTES TO THE FINANCIAL STATEMENTS

## 17. Directors' emoluments

| | Year ended 31 December 2016 € | Year ended 31 December 2015 € |
|---|---|---|
| Kenneth Farrugia (Chairman - appointed on incorporation) | **25,000** | 25,000 |
| John Buttigieg (Director - appointed on 1 August 2014) | **7,500** | 7,500 |
| Paul Mercieca (Director - appointed on 9 April 2014) | **12,500** | 12,500 |
| Frederick Mifsud Bonnici (Director - resigned on 30 April 2016) | **5,000** | 15,000 |
| Eric Schembri (Director - appointed on 1 August 2014) | **10,000** | 10,000 |
| Ray Sladden (Director - appointed on 9 April 2014) | **10,000** | 10,000 |
| Robert Suban (Director - appointed on 9 April 2014) | **13,750** | 12,500 |
| | **83,750** | 92,500 |

## 18. Finance income

| | Year ended 31 December 2016 € | Year ended 31 December 2015 € |
|---|---|---|
| Bank interest income | **4,306** | 20,150 |

## 19. Finance costs

| | Year ended 31 December 2016 € | Year ended 31 December 2015 € |
|---|---|---|
| Loan interest expense | **1,283,920** | 1,316,300 |
| Bank charges | **852** | 1,308 |
| | **1,284,772** | 1,317,608 |

## 20. Tax expense

The tax charge for the year is made up as follows:

| | **Year ended 31 December 2016 €** | Year ended 31 December 2015 € |
|---|---|---|
| Current tax expense | **1,598,261** | 1,577,157 |
| Deferred tax expense/(credit) | **241,200** | (1,294,481) |
| Tax expense | **1,839,461** | 282,676 |

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

| | **Year ended 31 December 2016 €** | Year ended 31 December 2015 € |
|---|---|---|
| Profit before tax | **8,263,266** | 16,859,728 |
| Tax on profit at 35% | **2,892,143** | 5,900,905 |
| Tax effect of: | | |
| Income subject to 15% final withholding tax | **(861)** | (4,030) |
| Expenses not deductible for tax purposes | **120,341** | 100,251 |
| Tax rules applicable to immovable property | **(814,050)** | (5,357,631) |
| Maintenance allowance | **(358,112)** | (356,819) |
| Tax charge in the accounts | **1,839,461** | 282,676 |

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Deferred tax

Deferred tax is provided using the liability method for temporary differences arising on movements in the fair value of immovable investment property. The calculation of the deferred tax provision for the year ended 31 December 2016 is calculated on the taxation rules on capital gains upon a transfer of immovable property implemented through Act XIII of 2015. With effect from 1 January 2015, the rate of capital gains tax applicable is a final withholding tax of 8% on the value of the property.

The deferred tax balance as at 31 December 2016 represents:

| | **31 December 2016 €** | 31 December 2015 € |
|---|---:|---:|
| Temporary differences on: | | |
| Fair value gains | **5,616,319** | 5,375,119 |

The movement for the year comprising the recognition of the above deferred tax liability has been charged to statement of comprehensive income.

## 22. Earnings per share

Earnings per share is calculated by dividing the profit attributable to owners of the Company by the total weighted average number of ordinary shares in issue during the year.

| | **Year ended 31 December 2016** | Year ended 31 December 2015 |
|---|---:|---:|
| Profit for the year (€) | **6,423,805** | 16,577,052 |
| Total number of ordinary shares in issue | **148,108,064** | 148,108,064 |
| Earnings per share (cents) | **4.34** | 11.19 |

## 23. Dividends

| | 2015 Final dividend € | 2016 Interim dividend € | Total € |
|---|---|---|---|
| Dividends paid on ordinary shares: | | | |
| Gross | **3,258,377** | 1,895,783 | 5,154,160 |
| Tax at source | **(1,140,432)** | (663,524) | (1,803,956) |
| Net | **2,117,945** | 1,232,259 | 3,350,204 |
| Dividends per share (cents) | **1.43** | 0.83 | 2.26 |

A final gross dividend of €3,376,864 or €0.0228 per share (December 2015: €3,258,377 or €0.0220 per share), equating to a final net dividend of €2,194,962 or €0.01482 per share (December 2015: €2,117,945 or €0.0143 per share) is to be proposed at the annual general meeting on 27 April 2017.

These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2017.

## 24. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

| | Year ended 31 December 2016 € | Year ended 31 December 2015 € |
|---|---|---|
| Operating profit | **9,543,732** | 18,157,186 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment (Note 5) | **1,967** | 2,712 |
| Change in fair value of investment property (Note 6) | **(3,015,000)** | (11,609,000) |
| Changes in working capital: | | |
| Trade and other receivables | **(26,880)** | (4,738) |
| Trade and other payables | **31,972** | 36,910 |
| Cash generated from operations | **6,535,791** | 6,583,070 |

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Related party transactions

The only major shareholder of the Company is the Government of Malta through its 79.75% (2015: 79.75%) shareholding. The remaining 20.25% (2015: 20.25%) of the shares are held by the public. Other related entities are the following:

- Malta Investment Management Company Limited
- GHRC

Both because they are Government owned and managed.

The following transactions have been carried out with the above related parties during the year.

| | 2016 | 2015 |
|---|---|---|
| | **€** | € |
| **Government of Malta** | | |
| Payment of City Gate ground rent to Government | **(105,000)** | (102,582) |
| Receipt of City Gate penalties from Government | **3,660,000** | 3,650,000 |
| Receipt of Open Air Theatre lease income from Government | **1,560,889** | 1,550,000 |
| **Malta Investment Management Company Limited** | | |
| Office Lease payable to Malta Investment Management Company Limited | **(8,856)** | (8,850) |
| **Grand Harbour Regeneration Corporation** | | |
| Payments to GHRC for investment property | - | (300,003) |

## 26. Statutory information

Malita Investments p.l.c. is a public limited liability Company and is incorporated in Malta. The ultimate beneficial owner is the Government of Malta.

# COMPANY INFORMATION

| | |
|---|---|
| **Company Secretary** | Dr Astrid May Grima |
| **Auditors** | PricewaterhouseCoopers<br>78 Mill Street,<br>Qormi, QRM3101, Malta. |
| **Legal Advisors** | Camilleri Preziosi<br>Level 2 , Valletta Buildings, South Street,<br>Valletta, VLT1103, Malta. |
| **Registered Office** | Clock Tower, Level 1,<br>Tigné Point, Sliema TP01, Malta. |
| **Shareholder Information** | Tel: 2132 3503<br>Email: info@malitainvestments.com<br>Website: www.malitainvestments.com |
| **Company Reg. No.** | C53047 |
| **Financial Calendar** | Preliminary Announcement of Results<br>28 February 2017<br><br>Annual General Meeting<br>27 April 2017 |

# NOTES

# NOTES

Malita Investments p.l.c.
Clock Tower, Level 1, Tigné Point, Sliema TP 01, Malta
T: 2132 3503

**www.malitainvestments.com**

Registration № C 53047