Malta Properties

ANNUAL REPORT

# 2015

LEADING DEVELOPER AND ADMINISTRATOR OF PREMIUM COMMERCIAL PROPERTIES

“We are focused on delivering premium property services to our clients, as well as on maximising long term value for MPC’s own Shareholders.”

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**Malta Properties Company p.l.c.**
Company Number: C 51272

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# CHAIRMAN'S MESSAGE

## EMBARKING ON A NEW JOURNEY

In July 2015, the shareholders of GO p.l.c. (GO) endorsed the spin-off of GO's shareholding in Malta Properties Company Limited, as it was then called. The following October, GO's Board of Directors declared an interim 'in kind' dividend distributing GO's shareholding in Malta Properties Company p.l.c. (MPC) to all GO's shareholders, on a pro rata basis. In late November, MPC was admitted to the Malta Stock Exchange, where its shares have been trading ever since.

As Chairman, it is important that I restate the motivation behind the decision to spin-off MPC and how your Board believes this will deliver greater long term value to all shareholders. MPC's property portfolio, covering 12 sites with a value of €54 million, certainly has the potential to make our Company the leading provider and manager of commercial real estate in Malta. As part of GO, however, MPC was just one, non-core, aspect of that group's business. Though GO is a highly successful and profitable business in its own right, its primary focus is naturally on telecommunications and ICT, and this meant that all the potential locked within MPC's extensive property portfolio remained largely untapped. As a separate entity, run by a dedicated executive team, which is solely focused on executing MPC's own development strategy, we can now embark on achieving our own goals.

## GOOD LONG TERM PROSPECTS

When considering the spin-off, the Board was careful to consider not only the long term prospects of our Company, but also its ability in the short term to secure the necessary cash flows needed to implement its ambitious redevelopment plans for a number of properties. Furthermore, as many of our redevelopment projects will not be completed until at least 2018, the Board also had to take into account the possibility of any unforeseen downturn in the current positive economic and investment climate prevailing in Malta.

Thanks largely to a number of long term lease agreements on different properties which have been put in place with GO and also with Vodafone, the Board remains confident that MPC will have both the cash flow and the assets required to secure the funding needed to deliver the current major project which we have set out as a short term priority, namely the redevelopment of the Żejtun Exchange.

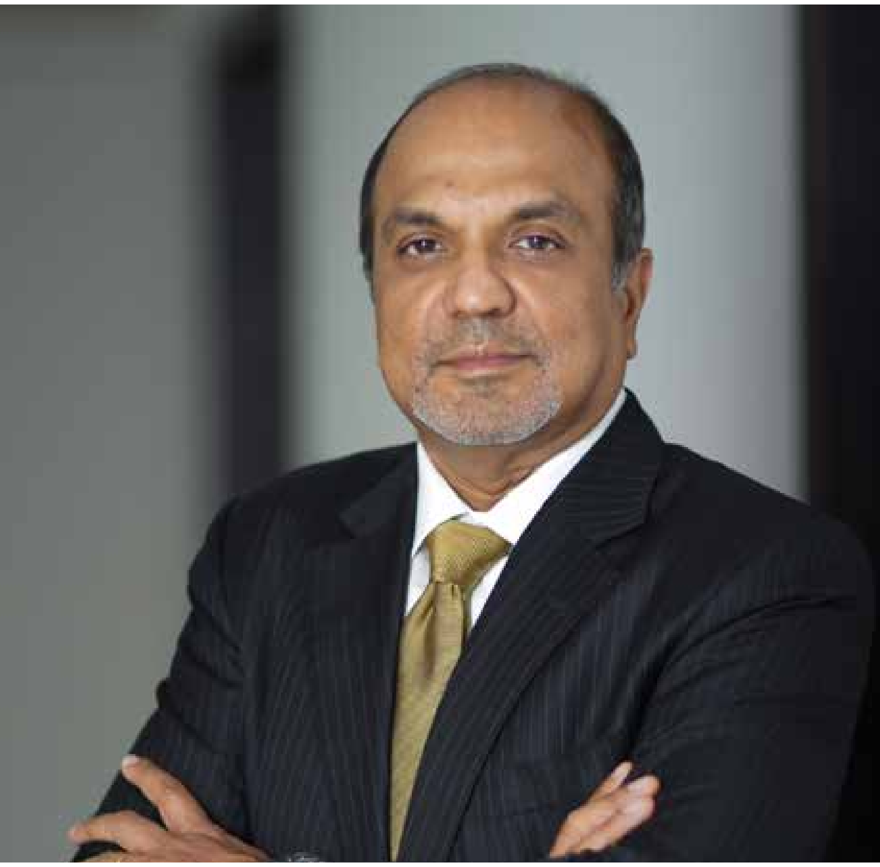
This stable, long term outlook for our business is reflected in the 2015 performance which generated a pre-tax profit of €1.4 million (forecast was €1.3 million) based on rental income of €3.2 million (forecast was €3.2 million). Ensuring we fulfil the long term potential of our Company will continue to require a mix of caution in the management of our resources coupled with determination to implement our strategy.

## THE OPPORTUNITY AHEAD

2015 has been in many ways a foundation year for MPC. In 2016 we will see construction work begin on several fronts. The level of activity will increase dramatically as our Company comes to life and starts to play its own particular role in Malta's economy.

We are now completely separate from GO and focused on delivering premium property services to our clients, particularly our anchor tenant GO itself, as well as on maximising long term value for MPC's own shareholders from our extensive property portfolio.

**MR DEEPAK S. PADMANABHAN**
Chairman



**"IT IS AN EXCITING FUTURE, AS THE SPIN-OFF OF MPC INTO A SEPARATE, PUBLICLY LISTED ENTITY, NOW ALLOWS THE COMPANY TO FOCUS ON MAXIMISING LONG TERM VALUE FOR OUR SHAREHOLDERS FROM OUR EXTENSIVE PROPERTY PORTFOLIO."**

# CHIEF EXECUTIVE OFFICER'S REVIEW

## STRONG FOUNDATIONS FOR A SUCCESSFUL FUTURE

2015 marked the dawn of a new era for Malta Properties Company p.l.c. (MPC), as the Company was successfully spun-off from its former parent, GO p.l.c. (GO), and listed as a separate entity on the Malta Stock Exchange.

The success of the spin-off, which delivered a special dividend valued at €33.6 million to GO's shareholders, was based on a detailed prospectus which valued the Company's properties at €53.1 million as at that date. The prospectus also detailed the terms of our existing lease agreements both with GO and other tenants, and set out the Company's financial performance covering the period from 26 November 2010 to 31 December 2014.

This information clearly demonstrated the strong foundations on which MPC has been built. Coupled with a clear and focused strategy to redevelop our commercial property portfolio, the Company has continued to progress in 2015, delivering satisfactory results from which we can look forward to the future with optimism.

## CONSISTENT FINANCIAL PERFORMANCE

In 2015, MPC continued to deliver a consistent financial performance, delivering a profit before tax of €1.4 million. This was based on revenues from rental income of nearly €3.2 million. In the short to medium term, these revenue levels are expected to remain stable and increase gradually in line with inflation. This expectation is based on the fact that MPC has in place a number of long term lease agreements with its tenants. These long term leases on various properties will also shield us from any potential unforeseen economic uncertainties. Whilst, over the coming few years, costs will necessarily increase as our new entity undertakes the first in a series of planned redevelopment projects, we expect to create significant value as our investments will serve to enhance the underlying value of our extensive portfolio.

## MAJOR DEVELOPMENTS IN THE PIPELINE

In line with our strategic plans, MPC is currently focusing its energies on three main projects, which are set to transform our potential rental income from 2019 onwards.

The first major project to be undertaken by MPC will be the redevelopment of the Żejtun Exchange, where plans to build a state-of-the-art technical and data centre for GO and its BMIT subsidiary are at an advanced stage. Work on the site has, in fact, already started with the demolition of buildings which will not be retained. A second development application for the construction of offices, a data centre and training facilities, has also been submitted to MEPA. The permit is expected soon and construction is planned to be completed by 2019. The project is estimated to cost around €8.5 million and will be financed primarily through bank funding.

Planning applications have also been submitted for the redevelopment of the Marsa Spencer Hill Exchange, which occupies an area of 2,663m² in a commercial area which is less than 10 minutes drive to both Valletta and the Malta International Airport. Here our intention is to build a new telephone exchange for GO, as well as a new office building with a net floor rentable area, excluding car parking facilities, of no less than 7,500m².
This extensive project, which will regenerate the area, is expected to be completed in its entirety by 2021 and is estimated to cost around €16.5 million.

In addition to the above, during the current year we have also made considerable progress on our plans for the Birkirkara Exchange and we expect to submit an application for the development of a mixed-use commercial building here during 2016.

### A COMMITMENT TO GROW THE VALUE OF OUR COMPANY

All MPC shareholders have benefitted from the Company's spin-off from GO. Our Company is now set to embark on a period of investment, which while necessitating a prudent approach also with regards to cash dividends, should see the value of our property portfolio, and hence our Company, continue to grow in the years ahead.

MPC's ambition is to become Malta's premier provider of commercial real estate. We have the necessary resources, the right team, and the required expertise to translate this ambition into a reality, the results of which we will all be able to enjoy within a few years.

**MR NIKHIL P. PATIL**
Chief Executive Officer

# OUR PROJECTS

**1. ŻEJTUN EXCHANGE**

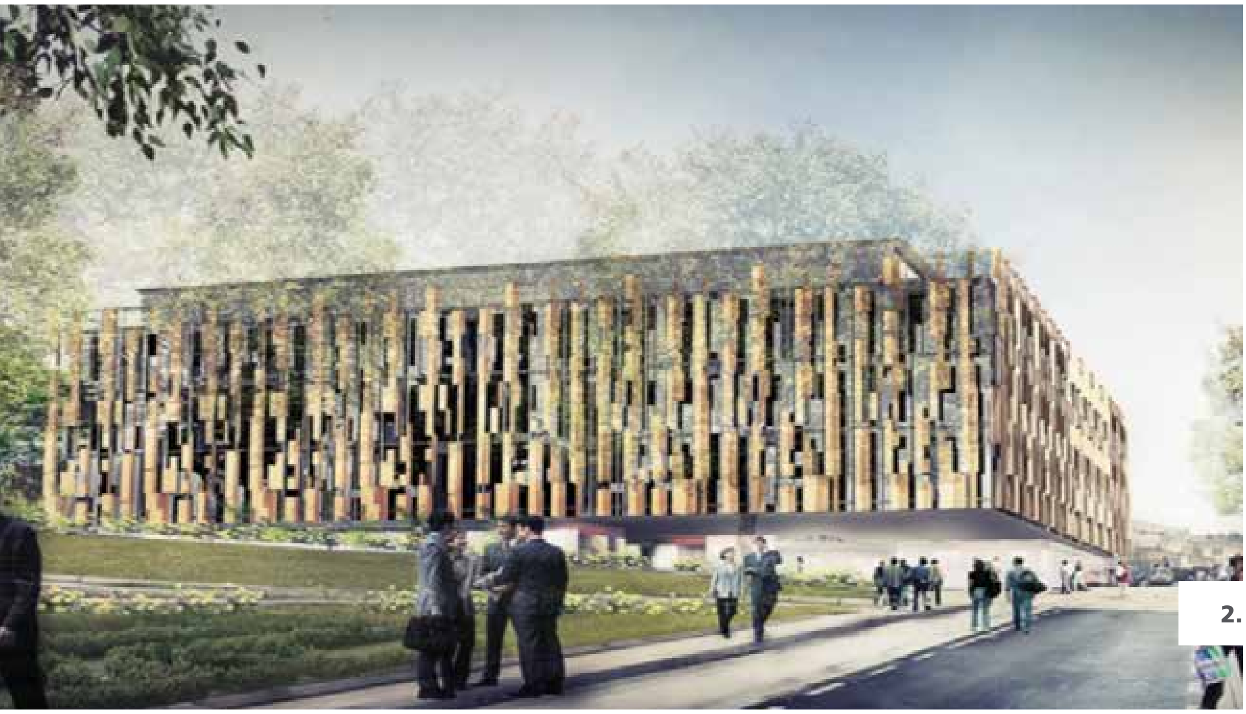
The Żejtun Exchange property, measuring circa 10,240m², is set within the Bulebel Industrial Estate. It is the largest site that the GO Group occupies. It is also in close proximity to an Enemalta distribution centre, making it ideal as the GO Group's main technical hub. MPC aims to retain and renovate the structures within the Eastern portion of the property and to develop the remaining property into offices for the GO Group and a data centre and offices for BMIT Ltd, a subsidiary of GO p.l.c. principally engaged in the provision of data, cloud and managed services.

**2. MARSA SPENCER HILL EXCHANGE**

The Marsa Spencer Hill Exchange occupies an area of 2,663m² in a commercial area and is less than 10 minutes drive to both Valletta and the Malta International Airport. The existing property consists of a three storey building and surrounding grounds and outbuildings used mainly as offices and equipment rooms with ancillary spaces. Two planning applications have been submitted to MEPA; one proposing the construction of a new telephone exchange at the western extremity of the site, freeing up the remaining site for redevelopment, and the second proposing the demolition of the existing office building and the construction of a new one. The proposed building will consist of four underground levels of parking, a semi-basement floor housing reception, business centre, retail and a food and beverage outlet, with three overlying floors of offices and a receded penthouse office floor. The proposed project will have a net floor rentable area (excluding car parking facilities) measuring approximately 7,500m².

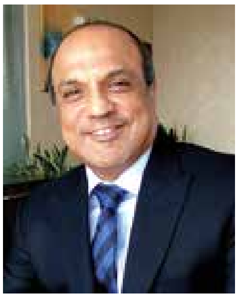
> **"THE TRANSFORMATION OF KEY SITES INTO LEADING TECHNICAL, DATA, COMMERCIAL AND RETAIL CENTRES SHOULD HAVE A SIGNIFICANT POSITIVE IMPACT ON RENTAL INCOME FROM 2019 ONWARDS"**

**1.**



**2.**

# BOARD OF DIRECTORS



**MR DEEPAK S. PADMANABHAN**
Chairman

**THE NOBLE PAUL S. TESTAFERRATA MORONI VIANI**

**MR EDMOND BRINCAT**

**MR MICHAEL WARRINGTON**

**MR MOHSIN MAJID**

**DR FRANCIS GALEA SALOMONE**
Company Secretary

# EXECUTIVE TEAM

**MR NIKHIL P. PATIL**
Chief Executive Officer

**MS DANIELA ZAMMIT**
Chief Financial Officer

# FINANCIAL STATEMENTS

# DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES

The main activity of the Company is that of acting as a property investment and development company. The Company may, inter alia, directly or through subsidiary companies, acquire by any title whatsoever, and take on lease or sub-lease and dispose of, grant and/or lease and hold property of any kind, whether movable or immovable for the purposes of its business, and construct, develop and enter into arrangements with contractors and other service providers in connection with its properties.

As the holding company of the Malta Properties Company p.l.c. Group, the Company is ultimately dependent upon the operations and performance of its subsidiaries and their respective operations.

## REVIEW OF THE BUSINESS

### REVIEW OF GROUP OPERATIONS

2015 marked the dawn of a new era for Malta Properties Company p.l.c. (MPC), as the Company was successfully spun-off from its former parent, GO p.l.c. (GO), and listed as a separate entity on the Malta Stock Exchange.

The success of the spin-off delivered a special dividend valued at €33.6 million to GO shareholders, and valued the Company's properties at €53.1 million as at that date. This clearly demonstrates the strong foundations on which MPC has been built. Coupled with a clear and focused strategy to redevelop the Company's commercial property portfolio, the Company has continued to progress in 2015, delivering satisfactory results from which we can look forward to the future with optimism.

### PERFORMANCE

In 2015, MPC generated a profit before tax of €1.4 million (2014: €0.9 million). This was based on revenues from rental income of €3.2 million (2014: €3.0 million) which increased by 6.8%. In the short to medium term, these revenue levels are expected to remain stable and increase gradually in line with inflation. This expectation is based on the fact that MPC has in place a number of long term lease agreements with its tenants. These long term leases on various properties will also shield the Company from any potential unforeseen economic uncertainties.

Administrative expenses increased substantially as a result of the independent operation of the Group and its listing on the Malta Stock Exchange during the year, and amounted to €0.5 million (2014: €12,353). Whilst, over the coming few years, costs will necessarily increase as the Group undertakes the first in a series of planned redevelopment projects, the Group expects to create significant value as its investments will serve to enhance the underlying value of its extensive portfolio.

### FINANCIAL POSITION

The Group's total asset base stands at €54.0 million, an increase of €3.4 million over the prior year. During the year the Group acquired a new property and performed several small developments and improvements to existing properties.

The Group's current assets decreased by €2.8 million and stood at €1.7 million (2014: €4.5 million), which decrease is mainly due to the settlement of amounts owed by GO. Part of the debt owed to GO amounting to €32.4 million was capitalised during the year under review and this capitalisation was the major factor which led to a decrease in the Group's borrowings of €33.5 million.

On 5 October 2015, the Company issued as fully paid-up 101,154,238 ordinary shares with a nominal value of €0.32 each and allotted these shares to its previous parent company's shareholders.

2015 has been in many ways a foundation year for MPC. In 2016, construction works will begin on several fronts, and in line with its strategic plans, MPC is currently focusing its energies on three main projects, which are set to transform the Group's potential rental income from 2019 onwards.

## RESULTS AND DIVIDENDS

The statement of comprehensive income is set out on page 23. The Directors do not recommend the payment of a dividend (2014: €2,850,000).

## DIRECTORS

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

Mr Deepak S. Padmanabhan *(Chairman)*

The Noble Paul S. Testaferrata Moroni Viani *(appointed on 27 April 2015)*

Mr Michael Warrington *(appointed on 5 October 2015)*

Mr Mohsin Majid *(appointed on 5 October 2015)*

Mr Edmond Brincat *(appointed on 5 October 2015)*

Mr Yiannos Michaelides *(resigned on 5 October 2015)*

Mr Nikhil P. Patil *(resigned on 5 October 2015)*

In terms of Article 96.1 of the Articles of Association, the term of appointment of the Directors still in office expires at the end of the forthcoming Annual General Meeting.

## DIRECTORS' REPORT *continued*

### DIRECTORS *continued*

Of the Directors of the Company, Mr Deepak S. Padmanabhan (together with Mr Yiannos Michaelides and Mr Nikhil P. Patil – Chief Executive Officer) were acting as Directors of the following subsidiary companies at 31 December 2015: BKE Property Company Limited, MCB Property Company Limited, MSH Property Company Limited, SGE Property Company Limited, SLM Property Company Limited, SPB Property Company Limited and ZTN Property Company Limited.

### REMUNERATION COMMITTEE AND CORPORATE GOVERNANCE

The Board deems that the setting up of a Remuneration Committee is not necessary within the context of the size, nature and operations of the Group and Company.

The Group's arrangements for corporate governance are reported on pages 13 to 17.

### 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 Group and the parent Company as at the end of each reporting period and of the profit or loss for that period.

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

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

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

### INFORMATION PROVIDED IN ACCORDANCE WITH LISTING RULE 5.70.1

There were no material contracts to which the Company, or any of its subsidiaries was a party, and in which anyone of the Company's Directors was directly or indirectly interested.

### GOING CONCERN

The Directors, as required by the Listing Rule 5.62, have considered the Company's operating performance, the balance sheet at year end, as well as the business plan for the coming year, and they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, they continue to adopt the going concern basis in preparing the financial statements.

### 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.

### INFORMATION PROVIDED IN ACCORDANCE WITH LISTING RULE 5.64

The authorised share capital of the Company is forty million Euro (€40,000,000) divided into one hundred and twenty five million (125,000,000) shares of thirty two Euro cents (€0.32) each share.

The issued share capital of the Company is thirty two million four hundred and nineteen thousand, three hundred and fifty six Euro (€32,419,356) divided into one hundred and one million three hundred and ten thousand four hundred and eighty eight (101,310,488) ordinary shares of thirty two Euro cents (€0.32) each share, which have been subscribed for and allotted fully paid-up.

The issued shares of the Company consist of one class of ordinary shares with equal voting rights attached.

On 5 October 2015, at an extraordinary general meeting held by the Company, it was resolved that the Company's issued share capital of 50,000 ordinary shares with a nominal value of €1 each were to be converted into 156,250 ordinary shares of €0.32 each. On the same date, the Company issued as fully paid-up 101,154,238 ordinary shares with a nominal value of €0.32 each and allotted these shares to a related party in consideration for the capitalisation of a debt owing to this related party amounting to €32,369,356.

# DIRECTORS' REPORT *continued*

## INFORMATION PROVIDED IN ACCORDANCE WITH LISTING RULE 5.64 *continued*

The Directors confirm that as at 31 December 2015, only Emirates International Telecommunications (Malta) Limited held a shareholding in excess of 5% of the total issued share capital.

Any shareholder holding in excess of 40% of the issued share capital of the Company having voting rights may appoint the Chairman. In the event that there is no one single shareholder having such a shareholding, the Chairman shall be elected by shareholders at the Annual General Meeting of the Company.

The rules governing the appointment of Board members are contained in Clause 96 of the Company's Articles of Association as follows:

The Directors shall be appointed as set out hereunder:

a) Any Member holding separately not less than twenty per cent (20%) of the total voting rights of the Company shall have the right to appoint a Director for each and every complete 20% of such rights.

b) Any shares remaining unused by Members in the appointment of a Director may be used to elect Directors at the Annual General Meeting or at any Extraordinary General Meeting convened for the purpose of electing Directors.

c) The Directors appointed shall be appointed by letter addressed to the Company which shall indicate the shareholding used for the purpose and shall be signed by the Member making the appointment. The letter must be delivered to or received by the Company not later than twenty one (21) days prior to the Annual or Extraordinary General Meeting, as the case may be, at which the other Directors are to be elected.

d) The other Directors (being such number as would together with the Directors appointed under the preceding paragraphs make a total of five Directors) shall be elected at the Annual General Meeting or at the Extraordinary General Meeting convened for the purpose of electing Directors by those members who have not exercised any of their rights under the foregoing paragraphs; and for the purposes of any such election, voting shall take place on the basis that one share entitles the holder to vote for only one candidate for election, and the Chairman of the Meeting shall declare elected those candidates who obtain the greater number of votes on that basis.

Any amendment to the Company's Memorandum and Articles of Association has to be made in accordance with the Companies Act.

Without prejudice to any special rights previously conferred on the holders of any of the existing shares or class thereof, any share in the Company may be issued with such preferred, deferred, or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Board of Directors may from time to time determine, as provided for in Clause 3 of the Articles of Association, as long as any such issue of Equity Securities falls within the authorised share capital of the Company.

The Company may, subject to the applicable restrictions, limitations and conditions contained in the Companies Act, acquire its own shares and or Equity Securities.

Pursuant to Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 it is hereby declared that, as at 31 December 2015, none of the requirements apply to the Company.

## STATEMENT BY THE DIRECTORS PURSUANT TO LISTING RULE 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Mr Deepak S. Padmanabhan
Chairman

Mr Edmond Brincat
Director

Registered office
GO
Fra Diegu Street
Marsa
Malta

21 March 2016

# CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

## A. INTRODUCTION

Pursuant to the Malta Financial Services Authority Listing Rules, Malta Properties Company p.l.c. ("the Company") whose equity securities are listed on a regulated market should endeavour to adopt the Code of Principles of Good Corporate Governance ("the Code") as contained in Appendix 5.1 to Chapter 5 of the Listing Rules. In terms of the Listing Rules the Company is hereby reporting on the extent of its adoption of the Code.

The Company acknowledges that the Code does not prescribe mandatory rules but recommends principles so as to provide proper incentives for the Board of Directors ("the Board") and the Company's management to pursue objectives that are in the interests of the Company and its shareholders. Good corporate governance is the responsibility of the Board, and in this regard the Board has carried out a review of the Company's compliance with the Code during the period under review, and hereby provides its report thereon.

As demonstrated by the information set out in this statement, the Company believes that it has, save as indicated herein the section entitled Non-Compliance with the Code, throughout the period under review, applied the principles and complied with the provisions of the Code.

## B. COMPLIANCE

### PRINCIPLE 1: THE BOARD

The Board, the members of which are appointed by the shareholders, is primarily tasked with the administration of the Company's resources in such a way as to enhance the prosperity of the business over time, and therefore the value of the shareholders' investment. The Board is composed of five Directors (one of whom is the Chairman) all of whom are non-executive Directors.

The Board is in regular contact with the Chief Executive Officer and is continuously informed of any decisions taken in order to ensure an effective contribution to the decision making process, whilst at the same time exercising prudent and effective controls. Directors, individually and collectively, are of appropriate calibre, with the necessary skill and experience to assist the Chief Executive Officer in providing leadership, integrity and judgement in directing the Company towards the maximisation of shareholder value.

Further detail in relation to Board Committees and the responsibilities of the Board is found in "Principles 4 and 5" of this statement.

### PRINCIPLE 2: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are filled by separate individuals, and the Chief Executive Officer is appointed by the Board for a definite period of time. During the period under review Mr Nikhil P. Patil was appointed as Chief Executive Officer of the Company.

The responsibilities and roles of the Chairman and the Chief Executive Officer are clearly established and agreed to by the Board of Directors.

The Chairman is responsible to lead the Board and set its agenda. The Chairman ensures that the Board is in receipt of precise, timely and objective information and also encourages active engagement by all members of the Board for discussion of complex and contentious issues.

### PRINCIPLE 3: COMPOSITION OF THE BOARD

In accordance with the provisions of the Company's Articles of Association, the appointment of Directors to the Board is exclusively reserved to the Company's shareholders, except in so far as appointment is made to fill a casual vacancy on the Board, and which appointment would expire at the Company's Annual General Meeting following appointment. Any vacancy among the Directors may be filled by the co-option of another person to fill such vacancy. Such co-option shall be made by the Board of Directors.

The Board has the overall responsibility for the activities carried out within the Company and the Group and thus decides on the nature, direction, strategy and framework of the activities and sets the objectives for the activities.

The Board of Directors is currently chaired by Mr Deepak S. Padmanabhan and comprises five (5) non-executive Directors. The following Directors served on the Board during the period under review:

Mr Deepak S. Padmanabhan *(Chairman)*

The Noble Paul S. Testaferrata Moroni Viani *(appointed on 27 April 2015)*

Mr Michael Warrington *(appointed on 5 October 2015)*

Mr Mohsin Majid *(appointed on 5 October 2015)*

Mr Edmond Brincat *(appointed on 5 October 2015)*

Mr Yiannos Michaelides *(resigned on 5 October 2015)*

Mr Nikhil P. Patil *(resigned on 5 October 2015)*

# CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE *continued*

## B. COMPLIANCE *continued*

### PRINCIPLE 3: COMPOSITION OF THE BOARD *continued*

For the purposes of the Code, the non-executive Directors are independent. The Company deems that, although Mr Deepak S. Padmanabhan has an employee and director relationship with the controlling shareholder, in terms of Supporting Principle 3 (vii) of the Code of Principles of Good Corporate Governance such relationship is not considered to create a conflict of interest such as to jeopardise exercise of his free judgement.

### PRINCIPLES 4 AND 5: THE RESPONSIBILITIES OF THE BOARD AND BOARD MEETINGS

The Board has a formal schedule of matters reserved to it for decisions, but also delegates specific responsibilities to board committees and subcommittees, the most prominent being the Audit Committee. Directors receive board and committee papers in advance of meetings and have access to the advice and services of the Company Secretary. Directors may, in the course of their duties, take independent professional advice on any matter at the Company's expense. The Directors are fully aware of their responsibility always to 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. As delegated and monitored by the Board, the Company Secretary keeps detailed records of all dealings by Directors and senior executives of the Company and its subsidiaries in the Company's shares and all minutes of meetings of the Board and its sub-committees.

During the year under review the Board met two times.

On joining the Board, a Director is provided with a presentation on the activities of the Company and its subsidiaries.

The Board has the responsibility to ensure that the activities are organised in such a way that the accounts, management of funds and financial conditions in all other respects are controlled in a satisfactory manner and that the risks inherent in the activities are identified, defined, measured, monitored and controlled in accordance with external and internal rules, including the Articles of Association of the Company. The Board of Directors, through the work carried out by the executive team, continuously assesses and monitors the Company's operational and financial performance, assesses and controls risk, and monitors competitive forces in all areas of operation. It also ensures that both the Company and its employees maintain the highest standards of corporate conduct.

### BOARD COMMITTEES

***Audit Committee***

The Audit Committee supports the work of the Board in terms of quality control of the Group's financial reports and internal controls. The Audit Committee is currently chaired by Mr Michael Warrington, with the other members being Mr Mohsin Majid and Mr Edmond Brincat. The Audit Committee is independent and is constituted in accordance with the requirements of the Listing Rules, with Mr Michael Warrington being chosen as the member competent in accounting and/or auditing in view of his experience in the field. The Chief Finance Officer and the external auditors of the Company attend the meetings of the Committee by invitation. Other executives are requested to attend when required. The Company Secretary also acts as Secretary to the Audit Committee.

The Committee scrutinises and monitors related party transactions. It considers the materiality and the nature of the related party transactions carried out by the Company to ensure that the arm's length principle is adhered to at all times.

### PRINCIPLE 6: INFORMATION AND PROFESSIONAL DEVELOPMENT

The Board is responsible for the appointment of the Chief Executive Officer. The Chief Executive Officer is responsible for the appointment of senior management.

On joining the Board, Board members are informed in writing by the Company secretary of the Directors' duties and obligations, relevant legislation as well as rules and bye-laws. In addition, Directors have access to the advice and services of the Company Secretary and the Board is also advised directly, as appropriate, by its legal advisors. Directors are also provided with a presentation on the activities of the Company and subsidiaries. The Company Secretary ensures effective information flows within the Board, committees and between senior management and Directors, as well as facilitating professional development. The Company Secretary advises the Board through the Chairman on all governance matters.

Directors may, in the course of their duties, take independent professional advice on any matter at the Company's expense. The Company will provide for additional individual Directors' training on a requirements basis.

## CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE *continued*

### B. COMPLIANCE *continued*

**PRINCIPLE 7: EVALUATION OF THE BOARD'S PERFORMANCE**

The Chairman of the Board informally evaluates the performance of the Board members, which assessment is followed by discussions within the Board. Through this process, the activities and working methods of the Board and each committee member are evaluated. Amongst the things examined by the Chairman through his assessment are the following: how to improve the work of the Board further, whether or not each individual member takes an active part in the discussions of the Board and the committees; whether they contribute independent opinions and whether the meeting atmosphere facilitates open discussions. Under the present circumstances the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role as the Board's performance is furthermore also under the scrutiny of the shareholders. On the other hand, the performance of the Chairman is evaluated by the Board of Directors of the ultimate controlling party, taking into account the manner in which the Chairman is appointed. The self-evaluation of the Board has not led to any material changes in the Company's governance structures and organisations.

**PRINCIPLE 8: COMMITTEES**

The Company has opted not to set up a Remuneration Committee and a Nomination Committee. Further explanation is provided under the section entitled Non-Compliance with the Code of this Statement. The Board of Directors deems that the setting up of a Remuneration Committee is not necessary within the context of the size, nature and operations of the Group and Company. During the year ended 31 December 2015, the Board of Directors preformed the functions of a Remuneration Committee and this if further explained within the Remuneration Report.

**PRINCIPLES 9 AND 10: RELATIONS WITH SHAREHOLDERS AND WITH THE MARKET, AND INSTITUTIONAL SHAREHOLDERS**

The Company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood. During the period under review, the Company has maintained an effective communication with the market through a number of Company announcements and Circulars.

The Company also communicates with its shareholders through the Company's Annual General Meeting ("AGM"). The Chairman of the Board ensures that all Directors attend the AGM and that both the Chairman of the Board and the Chairman of the Audit Committee are available to answer questions.

Both the Chairman and Chief Executive Officer also ensure that sufficient contact is maintained with major shareholders to understand issues and concerns.

Apart from the AGM, the Company communicates with its shareholders by way of the Annual Report and Financial Statements and also through the Company's website (www.maltaproperties.com.mt) which also contains information about the Company and its business, including an Investor Relations section.

The Office of the Company Secretary maintains regular communication between the Company and its investors. Individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the year, and are given the opportunity to ask questions at the AGM or to submit written questions in advance.

As provided by the Companies Act, 1995, minority shareholders may convene Extraordinary General Meetings.

**PRINCIPLE 11: CONFLICTS OF INTEREST**

The Directors are fully aware of their responsibility always to 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.

On joining the Board and regularly thereafter, the 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.

Directors' interest in the shareholding of the Company:

| | *Number of shares as at 31 December 2015* |
|---|---|
| Mr Deepak S. Padmanabhan | nil |
| The Noble Paul S. Testaferrata Moroni Viani | nil |
| Mr Michael Warrington | nil |
| Mr Mohsin Majid | nil |
| Mr Edmond Brincat | 1,620 |

# CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE *continued*

## B. COMPLIANCE *continued*

### PRINCIPLE 11: CONFLICTS OF INTEREST *continued*

As at 31 December 2015, The Noble Paul S. Testaferrata Moroni Viani had a beneficial interest in the Company of 75,494 and 2,900 shares through the shareholding of Testaferrata Moroni Viani (Holdings) Ltd. and Testaferrata Moroni Viani Ltd. respectively.

None of the other Directors of the Company have any interest in the shares of the Company or the Company's subsidiaries or investees or any disclosable interest in any contracts or arrangements either subsisting at the end of the last financial year or entered into during this financial year. No other changes in the Directors' interest in the shareholding of the Company between year-end and 18 March 2016.

### PRINCIPLE 12: CORPORATE SOCIAL RESPONSIBILITY

The Directors also seek to adhere to accepted principles of corporate social responsibility in their management practices of the company in relation to the Company's workforce, the country's cultural and historical heritage, the environment and the local community. The Company is committed to constructing buildings which are energy efficient.

## C. NON-COMPLIANCE WITH THE CODE

### PRINCIPLE 3: EXECUTIVE AND NON-EXECUTIVE DIRECTORS ON THE BOARD

As explained in Principle 3 in Section B, the Board is composed entirely of non-executive Directors. Notwithstanding this, it is considered that the Board, as composed, provides for sufficiently balanced skills and experience to enable it to discharge its duties and responsibilities effectively. In addition, no cases of conflict of interest are foreseen. The Directors believe that the executive role should be performed by the Chief Executive Officer who reports directly to the Board. As such, the Board shall maintain a supervisory role and monitor the operations of the Chief Executive Officer.

### PRINCIPLE 4: AUDIT COMMITTEE (CODE PROVISION 4.2.3); SUCCESSION POLICY FOR THE BOARD (CODE PROVISION 4.2.7)

Code Provision 4.2.3 recommends the establishing of an Audit Committee in terms of Listing Rules 5.115 - 5.132, requiring it to meet at least four times a year. In the context of the Company becoming listed on 23 November 2015, the Audit Committee did not meet during the year ended 31 December 2015.

Code Provision 4.2.7 recommends "the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility".

In the context of the appointment of Directors being a matter reserved exclusively to the Company's shareholders (except where the need arises to fill a casual vacancy) as explained under Principle 3 in Section B, considering that every Director retires from office at the AGM and on the basis of the Directors' non-executive role, the Company does not consider it feasible to have in place such a succession policy.

### PRINCIPLE 6: SUCCESSION PLAN FOR SENIOR MANAGEMENT

Although the Chief Executive Officer is responsible for the recruitment and appointment of senior management, the Company has not established a formal succession plan. This is basically due to the size of the Company's work force.

### PRINCIPLE 8A: REMUNERATION COMMITTEE

The Board deems that the setting up of a Remuneration Committee is not necessary within the context of the size, nature and operations of the Company. However, as aforementioned, its function was carried out by the Board of Directors.

### PRINCIPLE 8B: NOMINATION COMMITTEE

Pursuant to the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders. Shareholders holding not less than 20% (twenty per cent) of the issued share capital of the Company having voting rights shall be entitled to appoint one Director for every such 20% holding by letter addressed to the Company. The other shareholders are entitled to appoint the remaining Board members at the AGM in accordance with the provisions of the Articles of Association.

Within this context, the Board believes that the setting up of a Nomination Committee is currently not suited to the Company since it will not be able to undertake satisfactorily its full functions and responsibilities as envisaged by the spirit of the Code.

## CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE *continued*

### C. NON-COMPLIANCE WITH THE CODE *continued*

#### PRINCIPLE 9: CONFLICTS BETWEEN SHAREHOLDERS (CODE PROVISION 9.3)

Currently there is no established mechanism disclosed in the Company's Memorandum and Articles of Association to trigger arbitration in the case of conflict between the minority shareholders and the controlling shareholders. In any such cases, should a conflict arise, the matter is dealt with in the appropriate fora in the Board meetings, wherein the minority shareholders are represented. There is also an open channel of communication between the Company and the minority shareholders via the Office of the Company Secretary.

### D. INTERNAL CONTROL

The key features of the Group's system of internal controls are as follows:

#### ORGANISATION

The Group operates through boards of Directors of subsidiaries with clear reporting lines and delegation of powers. The Company's Chairman is also the chairman of the board of Directors of the Company's subsidiaries.

#### CONTROL ENVIRONMENT

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities. The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives. Lines of responsibility and delegation of authority are documented.

The Group and the individual companies comprising it have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties and reviews by management and the external auditors.

#### RISK IDENTIFICATION

Group management is responsible together with each of the subsidiary companies' management, for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

#### INFORMATION AND COMMUNICATION

Group companies participate in periodic strategic reviews which include consideration of long term financial projections and the evaluation of business alternatives.

#### MONITORING AND CORRECTIVE ACTION

There are clear and consistent procedures in place for monitoring the system of internal financial controls. The Audit Committee meets regularly during the year and, within its terms of reference as approved by the Listing Authority, reviews the effectiveness of the Group's systems of internal financial controls. The Committee receives reports from management and the external auditors.

### E. GENERAL MEETINGS

Shareholders' influence is exercised at the Annual General Meeting (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. A shareholder who cannot participate in the Meeting can be represented by proxy.

Business at the Company's AGM will cover the Annual Report and Financial Statements, the declaration of dividends, election of Directors and the approval of their remuneration, the appointment of the auditors and the authorisation of the Directors to set the auditors' fees. Shareholders' meetings are called with sufficient notice to enable the use of proxies to attend, vote or abstain. The Company clearly recognises the importance of maintaining a regular dialogue with its shareholders in order to ensure that its strategies and performance are understood. It communicates with the shareholders through the AGM by way of the Annual Report and Financial Statements and by publishing its results on a regular basis during the year. This it does through the Investor Relations Section on the Company's internet site, the Office of the Company Secretary, and Company announcements to the market in general.

# REMUNERATION REPORT

## A. REMUNERATION COMMITTEE

The functions of the Remuneration Committee were performed by the Board of Directors composed of Deepak S. Padmanabhan, Paul S. Testaferrata Moroni Viani, Michael Warrington, Mohsin Majid and Edmond Brincat, and the Chief Executive Officer (the latter input was sought and obtained when considered appropriate). The Board discusses and approves remuneration and bonuses of senior executives.

## B. REMUNERATION POLICY – DIRECTORS

It is the shareholders, in terms of the Memorandum and Articles of Association of the Company, who determine the maximum annual aggregate emoluments of the Directors. The maximum amount is determined by resolution at the Annual General Meeting of the Company and the aggregate amount fixed for this purpose will be discussed during the upcoming Annual General Meeting. It is confirmed that none of the Directors have any service contracts with the Company but two (2) of the Directors are employees of the ultimate parent company of Malta Properties Company p.l.c. It is also confirmed that none of the Directors, in their capacity as Directors of the Company, are entitled to profit sharing, share options, pension benefits or any other remuneration. No emoluments were received by Directors for the Financial Year 2015 in terms of Code Provision 8.A.5.

## C. REMUNERATION POLICY – SENIOR EXECUTIVES

On the other hand, it is the Board of Directors who determines the overall structure and parameters of the Remuneration Policy for senior executives. The Board of Directors then agrees the individual remuneration packages of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). The Board of Directors considers that the Remuneration Policy which is being adopted in respect of the remuneration packages of senior executives is fair and reasonable and in keeping with local equivalents. The Board of Directors is also of the opinion that the packages offered ensure that the Company attracts and retains management staff that is capable of fulfilling their duties and obligations towards the Company. The CEO is on a definite contract while the CFO is on an indefinite contract of employment and their contracts specify their remuneration package. None of the contracts provide for profit sharing or share options. An annual bonus is payable based on an assessment by the Board of Directors of their overall performance during the previous financial year. No supplementary pension or other pension benefits are payable to the senior executives. The CEO's annual bonus entitlement is linked to the attainment of pre-set qualitative and quantitative objectives approved by the Board of Directors. The Board considers the linkage between the fixed remuneration and the bonus to be appropriate. As regards non-cash benefits, senior executives are entitled to health insurance, telephone expenses and car-cash allowance. The CEO, being non-resident in Malta, is also entitled to travelling and accommodation allowances. Total emoluments received by senior executives during the financial year 2015 in terms of Code Provisions 8.A.5 are as follows: fixed remuneration of €32,049; variable remuneration of €251,731; and other benefits referred to above. There were no share options during the financial year.

# INDEPENDENT AUDITOR'S REPORT

pwc

To the Shareholders of Malta Properties Company p.l.c.

## REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

We have audited the consolidated and the stand-alone parent Company financial statements of Malta Properties Company p.l.c. (together the "financial statements") on pages 21 to 48 which comprise the statements of financial position as at 31 December 2015, the consolidated and the stand-alone parent Company statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

As explained more comprehensively in the statement of Directors' responsibilities for the financial statements on page 11, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995, 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.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

### OPINION

In our opinion the financial statements

- give a true and fair view of the financial position of the Group and the Company as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 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.

# INDEPENDENT AUDITOR'S REPORT *continued*

To the Shareholders of Malta Properties Company p.l.c.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 *continued*

### REPORT ON THE STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE *continued*

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

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

In our opinion, the Statement of Compliance set out on pages 13 to 17 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- The information given in the Directors' report is not consistent with the financial statements.
- 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

Mr Simon Flynn
Partner

21 March 2016

# STATEMENTS OF FINANCIAL POSITION

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 |
| As at 31 December | Notes | **€** | € | **€** | € |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 4 | **8,491** | – | **8,491** | – |
| Investment property | 5 | **54,018,149** | 50,610,000 | **10,812,435** | 10,810,000 |
| Investments in subsidiaries | 6 | **–** | – | **69,993** | 69,993 |
| Loans receivable from subsidiaries | 7 | **–** | – | **38,859,068** | 38,859,068 |
| Trade and other receivables | 8 | **12,142** | 12,142 | **–** | – |
| Total non-current assets | | **54,038,782** | 50,622,142 | **49,749,987** | 49,739,061 |
| **Current assets** | | | | | |
| Trade and other receivables | 8 | **91,443** | 4,446,643 | **2,002,225** | 2,710,096 |
| Current tax assets | | **38,094** | – | **–** | – |
| Cash and cash equivalents | 9 | **1,602,639** | 120,421 | **1,599,024** | 50,202 |
| Total current assets | | **1,732,176** | 4,567,064 | **3,601,249** | 2,760,298 |
| **Total assets** | | **55,770,958** | 55,189,206 | **53,351,236** | 52,499,359 |

# STATEMENTS OF FINANCIAL POSITION *continued*

| As at 31 December | Notes | Group 2015 € | Group 2014 € | Company 2015 € | Company 2014 € |
|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | 10 | **32,419,356** | 50,000 | **32,419,356** | 50,000 |
| Retained earnings | | **1,168,142** | (695,584) | **319,884** | 16,917 |
| **Total equity** | | **33,587,498** | (645,584) | **32,739,240** | 66,917 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 11 | **16,000,000** | 49,523,792 | **16,000,000** | 49,523,792 |
| Deferred tax liability | 12 | **5,401,815** | 6,073,200 | **1,081,243** | 1,297,200 |
| Total non-current liabilities | | **21,401,815** | 55,596,992 | **17,081,243** | 50,820,992 |
| **Current liabilities** | | | | | |
| Trade and other payables | 13 | **481,501** | 143,370 | **3,315,780** | 1,590,910 |
| Current tax liability | | **300,144** | 94,428 | **214,973** | 20,540 |
| Total current liabilities | | **781,645** | 237,798 | **3,530,753** | 1,611,450 |
| **Total liabilities** | | **22,183,460** | 55,834,790 | **20,611,996** | 52,432,442 |
| **Total equity and liabilities** | | **55,770,958** | 55,189,206 | **53,351,236** | 52,499,359 |

The notes on pages 26 to 48 are an integral part of these financial statements.

The financial statements on pages 21 to 48 were authorised for issue by the Board on 21 March 2016 and were signed on its behalf by:

Mr Deepak S. Padmanabhan
Chairman

Mr Edmond Brincat
Director

# STATEMENTS OF COMPREHENSIVE INCOME

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 |
| Year ended 31 December | Notes | **€** | € | **€** | € |
| Rental income | 14 | **3,174,500** | 2,971,427 | **719,000** | 639,884 |
| Other income | 14 | **251,731** | – | **251,731** | – |
| Administrative expenses | 15 | **(541,664)** | (12,353) | **(528,813)** | (1,710) |
| **Operating profit** | | **2,884,567** | 2,959,074 | **441,918** | 638,174 |
| Finance income | 17 | **–** | – | **1,457,216** | 4,206,061 |
| Finance costs | 18 | **(1,557,957)** | (1,857,140) | **(1,557,957)** | (1,857,142) |
| Adjustment arising on fair valuation of property | 5 | **89,783** | (215,910) | **–** | (185,656) |
| **Profit before tax** | | **1,416,393** | 886,024 | **341,177** | 2,801,437 |
| Tax credit/(expense) | 19 | **447,333** | (183,526) | **(38,210)** | (266,608) |
| **Profit for the year – total comprehensive income** | | **1,863,726** | 702,498 | **302,967** | 2,534,829 |
| **Earnings per share** | 20 | **0.07** | 4.50 | | |

The notes on pages 26 to 48 are an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

| Group | Notes | Share capital € | Retained earnings € | Total € |
|---|---|---|---|---|
| Balance at 1 January 2014 | | 50,000 | 1,451,918 | 1,501,918 |
| **Comprehensive income** | | | | |
| Profit for the year | | – | 702,498 | 702,498 |
| **Transactions with owners** | | | | |
| Dividend | 21 | – | (2,850,000) | (2,850,000) |
| Balance at 31 December 2014 | | 50,000 | (695,584) | (645,584) |
| **Comprehensive income** | | | | |
| Profit for the year | | – | 1,863,726 | 1,863,726 |
| **Transactions with owners** | | | | |
| Issue of share capital | 10 | 32,369,356 | – | 32,369,356 |
| **Balance at 31 December 2015** | | **32,419,356** | **1,168,142** | **33,587,498** |

| Company | Notes | Share capital € | Retained earnings € | Total € |
|---|---|---|---|---|
| Balance at 1 January 2014 | | 50,000 | 332,088 | 382,088 |
| **Comprehensive income** | | | | |
| Profit for the year | | – | 2,534,829 | 2,534,829 |
| **Transactions with owners** | | | | |
| Dividend | 21 | – | (2,850,000) | (2,850,000) |
| Balance at 31 December 2014 | | 50,000 | 16,917 | 66,917 |
| **Comprehensive income** | | | | |
| Profit for the year | | – | 302,967 | 302,967 |
| **Transactions with owners** | | | | |
| Issue of share capital | 10 | 32,369,356 | – | 32,369,356 |
| **Balance at 31 December 2015** | | **32,419,356** | **319,884** | **32,739,240** |

The notes on pages 26 to 48 are an integral part of these financial statements.

# STATEMENTS OF CASH FLOWS

| | | Group | | Company | |
|---|---|---|---|---|---|
| Year ended 31 December | Notes | **2015** **€** | 2014 € | **2015** **€** | 2014 € |
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 22 | **4,146,540** | 421 | **4,213,144** | 202 |
| Net cash generated from operating activities | | **4,146,540** | 421 | **4,213,144** | 202 |
| **Cash flows from investing activities** | | | | | |
| Acquisition of/additions to investment property | | **(2,655,831)** | – | **(2,655,831)** | – |
| Purchase of property, plant and equipment | | **(8,491)** | – | **(8,491)** | – |
| Net cash used in investing activities | | **(2,664,322)** | – | **(2,664,322)** | – |
| **Net movement in cash and cash equivalents** | | **1,482,218** | 421 | **1,548,822** | 202 |
| **Cash and cash equivalents at beginning of year** | | **120,421** | 120,000 | **50,202** | 50,000 |
| **Cash and cash equivalents at end of year** | 9 | **1,602,639** | 120,421 | **1,599,024** | 50,202 |

The notes on pages 26 to 48 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 1.1 BASIS OF PREPARATION

The consolidated financial statements include the financial statements of Malta Properties Company p.l.c. and its subsidiaries and have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act, 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 Group and Company's accounting policies (see Note 3 – Critical accounting estimates and judgements).

#### STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS EFFECTIVE IN 2015

In 2015, the Group and Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group and Company's accounting period beginning on 1 January 2015. 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 impacting the Group's financial performance and position.

#### STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET ADOPTED

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 Group's accounting periods beginning after 1 January 2015, including IFRS 9, 'Financial instruments', amongst other pronouncements. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, except as disclosed below, and the Company's Directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Group is yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9, subject to endorsement by the EU, not later than the accounting period beginning on or after 1 January 2018.

### 1.2 CONSOLIDATION

#### SUBSIDIARIES

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where, for instance the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### 1.2 CONSOLIDATION *continued*

**SUBSIDIARIES** *continued*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of the investment. Provisions are recorded where, in the opinion of the Directors, there is impairment in value. Where there has been impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

Loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, an extension of the Company's investment in that subsidiary. Loans to subsidiaries for which settlement is planned are classified as loans and receivables in accordance with the requirements of IAS 39 (Note 1.7).

### 1.3 FOREIGN CURRENCY TRANSLATION

**A. 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 consolidated financial statements are presented in euro, which is the Group and Company's functional and presentation currency.

**B. TRANSACTIONS AND BALANCES**

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

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### 1.4 PROPERTY, PLANT AND EQUIPMENT

All other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. 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 asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

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

Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The rates of depreciation used are as follows:

| | % |
|---|---|
| Office furniture and equipment | 10 – 25 |

### 1.5 INVESTMENT PROPERTY

Property that is held for long term rental yields or for capital appreciation or both, and that is not occupied by the Group or Company is classified as investment property. 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. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value, representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location, or condition of the specific asset. If this information is not available, the Group and Company use alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the end of the reporting period by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### 1.5 INVESTMENT PROPERTY *continued*

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

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

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the Group or Company decides to dispose of an investment property without development, the Group or Company continues to treat the property as an investment property. Similarly, if the Group or Company begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment. If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss.

Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

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

### 1.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 1.7 FINANCIAL ASSETS

#### 1.7.1 CLASSIFICATION

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group or Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group and Company's loans and receivables comprise trade and other receivables together with cash and cash equivalents in the statement of financial position (Notes 1.8 and 1.9).

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### 1.7 FINANCIAL ASSETS *continued*

#### 1.7.2 RECOGNITION AND MEASUREMENT

The Group and Company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the settlement date, which is the date on which an asset is delivered to or by the Group or Company.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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

#### 1.7.3 IMPAIRMENT

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

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

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in Note 1.8.

### 1.8 TRADE AND OTHER RECEIVABLES

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group or Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'administrative expenses'.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### 1.8 TRADE AND OTHER RECEIVABLES *continued*

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 'administrative expenses' in profit or loss.

### 1.9 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 bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

### 1.10 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.

### 1.11 FINANCIAL LIABILITIES

The Group and Company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group and 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. The Group and 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.

### 1.12 TRADE AND OTHER PAYABLES

Trade and other 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.

### 1.13 BORROWINGS

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group or Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### 1.14 OFFSETTING FINANCIAL INSTRUMENTS

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

### 1.15 CURRENT AND DEFERRED TAX

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

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### 1.15 CURRENT AND DEFERRED TAX *continued*

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date.

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 consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; 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.

### 1.16 PROVISIONS

Provisions for legal claims are recognised when the Group or 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 1.17 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group or Company's activities. Revenue is recognised upon performance of services and is stated net of sales tax, returns, rebates and discounts.

The Group and 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 the Group and Company's activities as described below.

#### RENTAL INCOME

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

### 1.18 OPERATING LEASES

#### THE GROUP OR COMPANY IS THE LESSOR

Assets leased out under operating lease are included in the investment property in the statement of financial position and are accounted for in accordance with Note 1.5. Rental income from operating lease is recognised in profit or loss on a straight-line basis over the lease term.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### 1.19 DIVIDEND DISTRIBUTION

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

### 1.20 BORROWING COSTS

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. The capitalisation of borrowing costs is ceased once the asset is substantially ready for its intended use or sale and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of interest-bearing borrowings.

## 2. FINANCIAL RISK MANAGEMENT

### 2.1 FINANCIAL RISK FACTORS

The Group and Company's activities potentially expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. Malta Properties Company p.l.c.'s (MPC) overall risk management, covering risk exposures for all group entities, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the respective company's financial performance. MPC's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Accordingly, the Board provides principles for overall group risk management, as well as risk management policies covering risks referred to above and specific areas such as investment of excess liquidity. The Group and Company did not make use of derivative financial instruments to hedge certain risk exposures during the current period.

The Group's risk policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

#### A. MARKET RISK

*Cash flow and fair value interest rate risk*

The Group and Company's instruments subject to fixed interest rates comprise related party borrowings (Note 11). In this respect, the Company is potentially exposed to fair value interest rate risk in view of the fixed interest terms, but the related instruments are measured at amortised cost. The Group's and Company's cash and cash equivalents (Note 9) are subject to floating interest rates. Management monitors the impact of changes in market interest rates on amounts reported in the statement of comprehensive income in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial. The Group's interest-bearing instruments are subject to fixed rate of interest and accordingly the level of interest rate risk is contained. The Group's operating cash flows are substantially independent of changes in market interest rates.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 2. FINANCIAL RISK MANAGEMENT *continued*

### 2.1 FINANCIAL RISK FACTORS *continued*

#### B. CREDIT RISK

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 |
| | Notes | **€** | € | **€** | € |
| Loans and receivables category: | | | | | |
| Loans receivable from subsidiaries | 7 | **–** | – | **38,859,068** | 38,859,068 |
| Trade and other receivables | 8 | **91,443** | 4,446,643 | **2,002,225** | 2,710,096 |
| Cash and cash equivalents | 9 | **1,602,639** | 120,421 | **1,599,024** | 50,202 |
| | | **1,694,082** | 4,567,064 | **42,460,317** | 41,619,366 |

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 Group does not hold any collateral as security in this respect.

The Group banks only with local financial institutions with high quality standing or rating. The Company's loans and receivables include significant amounts due from its subsidiaries (Note 7). The Group's treasury monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The Group assesses the credit quality of these receivables taking into account the financial position, performance and other factors. The Group takes cognisance of the relationship with these entities and management does not expect any losses from non-performance or default.

#### C. LIQUIDITY RISK

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables (Note 13). 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 Group's obligations.

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. The Group's and 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 intra-group financing that it can access to meet liquidity needs.

The Group's and Company's trade and other payables are entirely repayable within one year from the end of the reporting period.

## 2. FINANCIAL RISK MANAGEMENT *continued*

### 2.1 FINANCIAL RISK FACTORS *continued*

#### C. LIQUIDITY RISK *continued*

The table below analyses the Group's and the Company's borrowings into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

| Group and Company | Carrying amount €000 | Contractual cash flows €000 | Less than 1 year €000 | Between 1 and 2 years €000 |
|---|---|---|---|---|
| **31 December 2015** | | | | |
| Amounts due to related party | **16,000** | **17,045** | **597** | **16,448** |
| **31 December 2014** | | | | |
| Amounts due to related party | 49,524 | 60,909 | 7,671 | 53,238 |

### 2.2 CAPITAL RISK MANAGEMENT

The Group'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 Group monitors the level of capital on the basis of the ratio of aggregated net debt to total capital. Net debt is calculated as total borrowings (as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the respective statement of financial position, plus net debt.

The Group manages the relationship between equity injections and borrowings, being the constituent elements of capital as reflected above, with a view to managing the cost of capital. The level of capital, as reflected in the consolidated statement of financial position, is maintained by reference to the Group's respective financial obligations and commitments arising from operational requirements. In view of the nature of the Group's activities and the extent of borrowings or debt, the capital level at the end of the reporting period determined by reference to the consolidated financial statements is deemed adequate by the Directors.

### 2.3 FAIR VALUES OF FINANCIAL INSTRUMENTS

#### FAIR VALUES OF FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE

At 31 December 2015 and 2014, the carrying amounts of certain financial instruments not carried at fair value comprising cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances to related parties and other balances with related parties, which are short-term or repayable on demand, is equivalent to their carrying amount.

## 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. In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 4. PROPERTY, PLANT AND EQUIPMENT

Group and Company

| | Office furniture and equipment € |
|---|---|
| **Year ended 31 December 2015** | |
| Additions | 8,544 |
| Depreciation charge | (53) |
| Closing carrying amount | **8,491** |
| **At 31 December 2015** | |
| Cost | 8,544 |
| Accumulated depreciation | (53) |
| Carrying amount | **8,491** |

## 5. INVESTMENT PROPERTY

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| **At 31 December** | | | | |
| Opening carrying amount | **50,610,000** | 50,597,735 | **10,810,000** | 10,988,584 |
| Additions | **3,318,366** | 228,175 | **2,435** | 7,072 |
| Gains/(losses) from changes in fair value of property | **89,783** | (215,910) | **–** | (185,656) |
| Closing carrying amount | **54,018,149** | 50,610,000 | **10,812,435** | 10,810,000 |
| **At 31 December** | | | | |
| Cost | **53,188,090** | 49,869,724 | **10,703,178** | 10,700,743 |
| Net fair value gains | **830,059** | 740,276 | **109,257** | 109,257 |
| Carrying amount | **54,018,149** | 50,610,000 | **10,812,435** | 10,810,000 |

## 5. INVESTMENT PROPERTY *continued*

Investment property comprises commercial property mainly leased out to a related party.

### FAIR VALUATION OF LAND AND BUILDINGS

The Group's land and buildings were revalued on 31 December 2015 by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The Directors have reviewed the carrying amounts of the properties as at 31 December 2015, on the basis of an assessment by the independent property valuers, and the carrying amounts were adjusted accordingly during the current financial year.

Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites together with their development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

The Group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- 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 (that is, unobservable inputs) (Level 3).

The Group's land and buildings comprises various exchanges and offices. All the recurring property fair value measurements at 31 December 2015 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2015.

A reconciliation from the opening balance to the closing balance for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above. The movement reflects additions during and gains or losses from changes in fair value for the year ended 31 December 2015.

### VALUATION PROCESSES

The valuations of the properties are performed annually on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the Group which is derived from the Group's financial systems and is subject to the Group's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the Chief Financial Officer (CFO). This includes a review of fair value movements over the period. When the CFO considers that the valuation report is appropriate, the valuation report is recommended to the Audit Committee of the parent Company. The Audit Committee considers the valuation report as part of its overall responsibilities.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 5. INVESTMENT PROPERTY *continued*

### VALUATION PROCESSES *continued*

At the end of every reporting period, the CFO assesses whether any significant changes or developments have been experienced since the last external valuation. This is supported by an assessment performed by the independent firm of property valuers. The CFO reports to the Audit Committee on the outcome of this assessment.

### VALUATION TECHNIQUES

The external valuations of the Level 3 land and buildings have been performed using an adjusted sales comparison approach. In view of a limited number of similar sales in the local market, the valuations have been performed using unobservable inputs. The significant input to this approach is generally a sales price per square metre related to transactions in comparable properties located in proximity to the Group's property, with significant adjustments for differences in the size, age, exact location and condition of the property. The term airspace is a conceptual unit representing a packet of three-dimensional accessible, usable and developable space. The concept of sales price factor per airspace or square metre is the value expected to be fetched on the open market and represents the present value of the property after deduction of all development, refurbishment and related costs.

### INFORMATION ABOUT FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

| Description by class based on highest and best use | Fair value at 31 December 2015 €000 | Valuation technique | Significant unobservable input | Range of unobservable inputs (weighted average) € |
|---|---|---|---|---|
| **Land and buildings** | | | | |
| Current use as office premises | **17,153** | Adjusted sales comparison approach | Sales price per square metre | 1,300 – 2,970 (1,700) |
| Redevelopment into residential units | **7,550** | Adjusted sales comparison approach | Sales price factor per residential airspace | 95,000 – 140,000 (86,000) |
| Developable land for residential/commercial use | **10,444** | Adjusted sales comparison approach | Sales price factor per square metre | 650 – 1,100 (800) |
| Marketed as extended-commercial premises | **8,472** | Adjusted sales comparison approach | Sales price per square metre | 1,180 – 2,350 (1,500) |
| Marketed as residential-commercial developments | **10,400** | Adjusted sales comparison approach | Commercial: Sales price per square metre | 1,150 – 2,060 (1,250) |
| | | Adjusted sales comparison approach | Residential: Sales price per square metre | 600 – 1,150 (700) |

## 5. INVESTMENT PROPERTY *continued*

### INFORMATION ABOUT FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) *continued*

| Description by class based on highest and best use | Fair value at 31 December 2014 €000 | Valuation technique | Significant unobservable input | Range of unobservable inputs (weighted average) € |
|---|---|---|---|---|
| **Land and buildings** | | | | |
| Current use as office premises | **17,150** | Adjusted sales comparison approach | Sales price per square metre | 1,300 – 2,900 (1,700) |
| Redevelopment into residential units | **7,000** | Adjusted sales comparison approach | Sales price factor per residential airspace | 70,000 – 105,000 (85,000) |
| Developable land for residential/commercial use | **10,000** | Adjusted sales comparison approach | Sales price factor per square metre | 600 – 1,100 (800) |
| Marketed as extended-commercial premises | **6,100** | Adjusted sales comparison approach | Sales price per square metre | 1,150 |
| Marketed as residential-commercial developments | **10,360** | Adjusted sales comparison approach | Commercial: Sales price per square metre | 1,150 – 2,000 (1,250) |
| | | Adjusted sales comparison approach | Residential: Sales price per square metre | 600 – 1,150 (700) |

The higher the sales price per square metre or the sales price factor per airspace/square metre, the higher the resultant fair valuation. The highest and best use of the latter four classes of land and buildings differs from their current use. The non-financial assets are currently being used as exchanges, offices or retail outlets, which is not deemed to constitute the highest and best use taking cognisance of the size and location of such properties.

## 6. INVESTMENT IN SUBSIDIARIES

| | Company € |
|---|---|
| **Years ended 31 December 2015 and 2014** | |
| Opening and closing cost and carrying amount | **69,993** |

The carrying amount of the investments at 31 December 2015 and 2014 is equivalent to the cost of the investment net of impairment charges.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 6. INVESTMENT IN SUBSIDIARIES *continued*

The subsidiaries at 31 December 2015 and 2014 are shown below:

| Subsidiary | Registered office | Class of shares held | Percentage of shares held |
|---|---|---|---|
| BKE Property Company Limited | GO, Fra Diegu Street Marsa MRS1501 | Ordinary Shares of €1 each | 99.99% |
| MCB Property Company Limited | GO, Fra Diegu Street Marsa MRS1501 | Ordinary Shares of €1 each | 99.99% |
| MSH Property Company Limited | GO, Fra Diegu Street Marsa MRS1501 | Ordinary Shares of €1 each | 99.99% |
| SGE Property Company Limited | GO, Fra Diegu Street Marsa MRS1501 | Ordinary Shares of €1 each | 99.99% |
| SLM Property Company Limited | GO, Fra Diegu Street Marsa MRS1501 | Ordinary Shares of €1 each | 99.99% |
| SPB Property Company Limited | GO, Fra Diegu Street Marsa MRS1501 | Ordinary Shares of €1 each | 99.99% |
| ZTN Property Company Limited | GO, Fra Diegu Street Marsa MRS1501 | Ordinary Shares of €1 each | 99.99% |

## 7. LOANS RECEIVABLE FROM SUBSIDIARIES

| | | Company |
|---|---|---|
| | **2015** | 2014 |
| | **€** | € |
| Carrying amount | **38,859,068** | 38,859,068 |

The loans are unsecured, subject to interest at 3.75% and repayable on 30 September 2017.

## 8. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| **Current** | | | | |
| Amounts owed by subsidiaries | **–** | – | **2,001,039** | 2,710,096 |
| Amounts owed by related party | **36,801** | 4,446,643 | **–** | – |
| Indirect taxation | **43,456** | – | **–** | – |
| Prepayments | **11,186** | – | **1,186** | – |
| | **91,443** | 4,446,643 | **2,002,225** | 2,710,096 |
| **Non-current** | | | | |
| Other receivables | **12,142** | 12,142 | **–** | – |

Amounts owed by subsidiaries and related party are unsecured, interest free and repayable on demand.

## 9. CASH AND CASH EQUIVALENTS

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Cash at bank and in hand | **1,602,639** | 120,421 | **1,599,024** | 50,202 |

## 10. SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | **2015** | 2014 |
| | **€** | € |
| **Authorised** | | |
| 125,000,000 (2014: 50,000) ordinary shares of €0.32 (2014: €1) each | **40,000,000** | 50,000 |
| **Issued and fully paid** | | |
| 101,310,488 (2014: 50,000) ordinary shares of €0.32 (2014: €1) each | **32,419,356** | 50,000 |

On 5 October 2015, at an extraordinary general meeting held by the Company, it was resolved that the Company's issued share capital of 50,000 ordinary shares with a nominal value of €1 each were to be converted into 156,250 ordinary shares of €0.32 each. On the same date, the Company issued as fully paid-up 101,154,238 ordinary shares with a nominal value of €0.32 each and allotted these shares to its previous parent company in consideration for the capitalisation of a debt owing to this related party amounting to €32,369,356.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 11. BORROWINGS

| | Group and Company | |
|---|---|---|
| | **2015** | 2014 |
| | **€** | € |
| **Non-current** | | |
| Carrying amount at 1 January | **49,523,792** | 49,523,792 |
| Capitalisation (Note 10) | **(32,369,356)** | – |
| Repayment | **(1,154,436)** | – |
| Carrying amount at 31 December | **16,000,000** | 49,523,792 |

The loan is payable to a related party and is secured by joint and several guarantees and special hypothec over property owned by the Company and its subsidiaries, subject to interest at 3.75% plus 3-months Euribor and are repayable on 30 September 2017.

On 5 October 2015, the Company issued as fully paid-up 101,154,238 ordinary shares with a nominal value of €0.32 each and allotted these shares to its previous parent company in consideration for the capitalisation of a debt owing to this related party amounting to €32,369,356.

## 12. DEFERRED TAX LIABILITIES

Deferred taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35%, with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. tax effect of 10% (2014: 12%) of the transfer value.

The balance at 31 December represents temporary differences arising on:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Fair valuation of investment property | **5,401,815** | 6,073,200 | **1,081,243** | 1,297,200 |

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period.

## 12. DEFERRED TAX LIABILITIES *continued*

The movement on the deferred tax account is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| At beginning of year | **6,073,200** | 6,071,673 | **1,297,200** | 1,318,630 |
| Deferred tax acquired on investment property purchased during the year | **220,000** | – | **–** | – |
| Deferred taxes recognised in profit or loss (Note 19) | **(891,385)** | 1,527 | **(215,957)** | (21,430) |
| At end of year | **5,401,815** | 6,073,200 | **1,081,243** | 1,297,200 |

Following changes to the taxation rules on capital gains arising on transfer of immovable property as announced by the Minister for Finance during the Budget Speech for the financial year 2015, and in respect of which a Bill entitled 'An Act to implement Budget measures for the financial year 2015 and other administrative measures' came into effect on 30 April 2015, the final tax on transfers of immovable property acquired after 1 January 2004 was reduced to 8% of the transfer value while the rate in respect of transfers of property acquired before 1 January 2004 was reduced to 10%. The net impact of the application of the changed tax regime on the deferred tax liability attributable to fair valuation of property was a decrease amounting to €1,012,200 and €216,200 for the Group and the Company respectively.

## 13. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| **Current** | | | | |
| Amounts owed to related party | **130,612** | 17,162 | **128,136** | 1,560,610 |
| Amounts owed to subsidiaries | **–** | – | **2,969,646** | – |
| Other payables | **106,698** | – | **39,836** | – |
| Indirect taxes | **215,001** | 114,189 | **157,947** | 28,795 |
| Accruals | **29,190** | 12,019 | **20,215** | 1,505 |
| | **481,501** | 143,370 | **3,315,780** | 1,590,910 |

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 14. RENTAL AND OTHER INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Rental income on property rented to related party | **3,004,500** | 2,971,427 | **719,000** | 639,884 |
| Other rental income | **170,000** | – | **–** | – |
| Other income | **251,731** | – | **251,731** | – |
| Total income | **3,426,231** | 2,971,427 | **970,731** | 639,884 |

## 15. ADMINISTRATIVE EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Auditor's remuneration | **17,000** | 8,000 | **10,000** | 1,000 |
| Professional fees | **113,861** | 2,804 | **113,861** | 355 |
| Employee benefit expense (Note 16) | **310,942** | – | **310,942** | – |
| Insurance | **13,259** | – | **13,259** | – |
| Listing and related fees | **32,525** | – | **32,525** | – |
| Registration fees | **2,760** | 1,470 | **1,640** | 350 |
| Other | **51,317** | 79 | **46,586** | 5 |
| Total administrative expenses | **541,664** | 12,353 | **528,813** | 1,710 |

## 16. EMPLOYEE BENEFIT EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Wages and salaries | **309,004** | – | **309,004** | – |
| Social security costs | **1,938** | – | **1,938** | – |
| | **310,942** | – | **310,942** | – |

In 2015, the average number of persons employed by the Group was two (2). There were no employees in 2014.

## 17. FINANCE INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Dividend from subsidiaries | **–** | – | **–** | 2,748,845 |
| Interest receivable from subsidiaries | **–** | – | **1,457,216** | 1,457,216 |
| | **–** | – | **1,457,216** | 4,206,061 |

## 18. FINANCE COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Interest payable to related party | **1,557,867** | 1,857,140 | **1,557,867** | 1,857,142 |
| Bank charges | **90** | – | **90** | – |
| | **1,557,957** | 1,857,140 | **1,557,957** | 1,857,142 |

## 19. TAX (CREDIT)/EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Current tax expense | **444,052** | 181,999 | **254,167** | 288,038 |
| Deferred tax (credit)/expense (Note 12) | **(891,385)** | 1,527 | **(215,957)** | (21,430) |
| Tax (credit)/expense | **(447,333)** | 183,526 | **38,210** | 266,608 |

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 19. TAX (CREDIT)/EXPENSE *continued*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Profit before tax | **1,416,393** | 886,024 | **341,177** | 2,801,437 |
| Tax on profit at 35% | **495,738** | 310,108 | **119,412** | 980,503 |
| Tax effect of: | | | | |
| Income not subject to tax | **–** | – | **–** | (713,251) |
| Movement in deferred tax liability on the basis applicable to capital gains | **(798,602)** | 49,660 | **(215,957)** | 42,701 |
| Further allowances on rental income | **(222,215)** | (208,000) | **(50,330)** | (44,791) |
| Movement in deferred tax liability on additions | **(111,837)** | 27,381 | **–** | 848 |
| Taxation relating to prior years | **–** | 54 | **–** | – |
| Expenses not deductible for tax purposes | **189,583** | 4,323 | **185,085** | 598 |
| Tax (credit)/expense | **(447,333)** | 183,526 | **38,210** | 266,608 |

## 20. EARNINGS PER SHARE

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

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| Profit attributable to equity holders of the Company (€) | **1,863,726** | 702,498 |
| Weighted average number of shares in issue (Note 10) | **25,652,661** | 50,000 |
| Earnings per share (€) | **0.07** | 4.50 |

The Company has no instruments or arrangements which give rise to potential ordinary shares and accordingly diluted earnings per share is equivalent to basic earnings per share.

## 21. DIVIDENDS

| | Company | |
|---|---|---|
| | **2015** | 2014 |
| | **€** | € |
| Net dividends paid on ordinary shares | **–** | 2,850,000 |
| Dividends per share | **–** | 57 |

## 22. CASH GENERATED FROM OPERATIONS

Reconciliation of operating profit to cash generated from operations:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Operating profit | **2,884,567** | 2,959,074 | **441,918** | 638,174 |
| Changes in working capital: | | | | |
| Trade and other receivables | **3,692,665** | 274,072 | **707,871** | (616,785) |
| Trade and other payables | **(2,430,692)** | (3,232,725) | **3,063,355** | (21,187) |
| Cash generated from operations | **4,146,540** | 421 | **4,213,144** | 202 |

The main non-cash transaction during the year related to the issue of 101,154,238 ordinary shares as fully paid up with a nominal value of €0.32 each, which were allotted to the Company's previous parent company in consideration for the capitalisation of a debt amounting to €32,369,356 due by the Company to this related party (refer to Note 10).

## 23. CONTINGENCIES

The guarantee of €67,500,000 issued in 2014 by the Company, together with its fellow subsidiaries, in favour of GO p.l.c.'s bankers for facilities was released.

## 24. COMMITMENTS

### A. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Investment property | **288,190** | – | **–** | – |

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 24. COMMITMENTS *continued*

### B. OPERATING LEASES – GROUP AND COMPANY AS LESSOR

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **€** | € | **€** | € |
| Within 1 year | **1,817,000** | – | **519,000** | – |
| Between 1 and 5 years | **10,558,000** | – | **2,076,000** | – |
| After 5 years | **15,760,500** | – | **2,076,000** | – |
| | **28,135,500** | – | **4,671,000** | – |

## 25. RELATED PARTY TRANSACTIONS

The Company and its subsidiaries form part of EITML Group, which comprises Emirates International Telecommunications (Malta) Limited (EITML) and its subsidiaries. EITML is the Company's immediate parent, and Dubai Holdings LLC, EITML'S ultimate parent, is this reporting entity's ultimate parent company.

In the ordinary course of its operations, the Company and its subsidiaries carry out business with entities owned or controlled by Dubai Holding LLC.

During the year the Company and its subsidiaries entered into transactions with related parties including rental income, finance income and finance costs (Notes 14, 17 and 18). Year end balances owed by/to related parties are disclosed in Notes 7, 8, 11 and 13 to these financial statements.

## 26. STATUTORY INFORMATION

Malta Properties Company p.l.c. is a public limited liability company domiciled and incorporated in Malta. The Company's immediate parent company is Emirates International Telecommunications (Malta) Limited which is ultimately controlled by Dubai Holding LLC, with registered office situated at Emirates Towers, Level 43, Office Block, Sheikh Zayed Road, Dubai, UAE. Dubai Holding LLC is owned by H.H. Sheikh Mohammad Bin Rashid Al Makhtoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai.

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