

MALITA INVESTMENTS P.L.C.

Annual Report and Financial Statements
31 December 2018

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Directors' report

The Directors present their eighth annual report together with the audited financial statements for the year ended 31 December 2018.

Principal activities

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

Review of the business

The Company continued to receive ground rents from the MIA and VCP in respect of properties on which Malita owns the dominium directum. The ground rent receivable from VCP is partly dependent on the revenues deriving to VCP from the letting of buildings and facilities, and other activities including passenger and cruise liner operations. For the period under review, Malita received an additional rent of €150,680 since the percentage revenue arising from other activities was higher than the set minimum annual ground rent due to Malita.

In addition, the Company receives lease income in respect of the Open Air Theatre in City Gate, Valletta and a penalty in lieu of rents from Government in respect of the Parliament Building in Valletta until the issuance of the completion certificate which was issued in January 2019. Following the issuance of the completion certificate of the Parliament Building the Company will start receiving lease income. Moreover, the Company is receiving additional rent in relation to a number of improvements to the Parliament Building.

As set out in Note 6, the results for the period includes a positive movement in the fair value of the MIA and VCP properties of €4,860,000 (2017: €5,383,000) and €2,801,000 (2017: €11,304,000) in the fair value of the Parliament Building and Open Air Theatre which came about due to the downward movement of interest rates and changes in the contractual cash flows owing to the passage of time. Similar to previous years, this surplus has been considered to be non-distributable and has accordingly been transferred to a non-distributable reserve.

On 28 June 2017, the Company entered into two credit facility agreements with the European Investment Bank and the Council of Europe Development Bank for the purpose of financing the construction of a number of affordable housing units in Malta. The facility has been granted for a 25-year term and amounts to €53,700,000. Pursuant to this agreement, on 29 December 2017 the Company entered into an emphyteutical deed for 28 years with the Housing Authority to acquire sixteen (16) property sites in a number of locations across Malta to be used by the Company for the purposes of developing the affordable housing units.

In September 2018, the Company entered into sixteen (16) availability agreements with Government whereby the Company will make available sixteen (16) property sites consisting of 680 units in a number of locations across Malta for a period of 25 years once complete. During such period the Company will lease the residential units on these development sites for affordable housing purposes. In 2018 the Company has issued a number of invitations to tender for the construction of these units, some of which have been awarded. Development on these property sites has started but is in its initial construction stages. The capitalised cost to date on this development amounts to €5,566,308 and is reflected in these financial statements.

During the year, the Company has furthered its negotiations in connection with other possible new projects that it is evaluating. Further details on the costs incurred are set out in Note 10 to the financial statements.

Directors' report - continued

Results and dividends

The statement of comprehensive income is set out on page 25.

An interim gross dividend of €1,955,026 or €0.0132 per share resulting in an interim net dividend of €1,270,767 or €0.00858 per share was paid on 7 September 2018.

The Directors recommend the payment of a final gross dividend of €3,228,756 or €0.0218 per share (December 2017: €3,228,756 or €0.0218 per share), equating to a final net dividend of €2,098,691 or €0.01417 per share (December 2017: €2,744,442 or €0.01853 per share).

Directors

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

Kenneth Farrugia	(Chairman - appointed on incorporation)
Ray Sladden	(appointed on 9 April 2014)
Paul Mercieca	(appointed on 9 April 2014)
Robert Suban	(appointed on 9 April 2014)
Eric Schembri	(appointed on 1 August 2014)

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

Statement of Directors' responsibilities for the financial statements

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

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

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

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

The financial statements of Malita Investments p.l.c. for the year ended 31 December 2018 are included in the Annual Report and Statutory Financial Statements – 31 December 2018, which is published in hard-copy printed form and is available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Directors' report - continued

Information provided in accordance with Listing Rule 5.70.1

Pursuant to Listing Rule 5.70.1, in September 2018 the Company executed sixteen (16) availability agreements with the Government of Malta as detailed in the Review of the business in this Directors' report.

Going concern

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

Financial key performance indicators

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

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

	2018	2017
Working capital ratio	0.1:1	0.3:1
Net revenues	€7,503,343	€7,081,399
Debt to assets ratio	32.5%	32.9%
Debt to equity ratio	48.2%	49.0%
Interest coverage	10.6 times	18.7 times

As per the previous financial statements, the Company has a deterioration in the working capital ratio. The current year decline is due to a payable of €1,665,451, further details of which are provided in Note 15, an overdrawn bank balance reflecting a premium of €1,177,200 and project capital expenditure of €2,723,657 incurred to bring the Affordable Housing project to fruition. Once such project capital expenditure is settled through the loan disbursements as explained in Note 1.1 the resultant working capital ratio would be 0.9:1.

Non-financial key performance indicators

Environmental and social risks

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

Financial risk management and exposures

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

Directors' report - continued

Information pursuant to Listing Rule 5.64

Share capital information of the Company is disclosed in Note 11 to the financial statements. The issued share capital of the Company is split into two classes of shares. The Ordinary A Shares and Ordinary B Shares rank *pari passu* for all intents and purposes of law.

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

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

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

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

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

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

Pursuant to Listing Rules 5.64.5, 5.64.6, 5.64.7, 5.64.10, 5.64.11 it is hereby declared that, as at 31 December 2018, none of the requirements apply to the Company.

Statement of responsibility pursuant to Listing Rule 5.68

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

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

Directors' report - continued

Auditors

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

On behalf of the board



Kenneth Farrugia
Chairman



Paul Mercieca
Director

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

8 March 2019

Corporate Governance Statement

Introduction

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

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

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

General

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

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

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

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

Compliance

Principle 1: The Board

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

Corporate Governance Statement - continued

Principle 1: The Board - continued

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

Principle 2: Chairman and Chief Executive

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

Principle 3: Composition of the Board

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

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

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

For the purposes of Code Provision 3.2, the Board considers each of the non-executive Directors as independent within the meaning of the Code, notwithstanding the relationship disclosed hereunder;

- (i) Kenneth Farrugia – is the Chief Business Development Officer of Bank of Valletta p.l.c. with whom the Company has banking facilities

Corporate Governance Statement - continued

Principle 3: Composition of the Board - continued

None of the non-executive Directors:

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

Principle 4: The Responsibilities of the Board

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

Board Committees

Audit Committee

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

Investment Committee

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

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

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

Corporate Governance Statement - continued

Principle 4: The Responsibilities of the Board - continued

Board committees - continued

Remuneration and Nominations Committee

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

Principle 5: Board Meetings

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

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

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

Kenneth Farrugia	(Chairman - appointed on incorporation)	6
Ray Sladden	(appointed on 9 April 2014)	7
Paul Mercieca	(appointed on 9 April 2014)	7
Eric Schembri	(appointed on 1 August 2014)	7
Robert Suban	(appointed on 9 April 2014)	7

Principle 6: Information and Professional development

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

Principle 7: Evaluation of the Board's performance

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

Principle 8: Committees

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

Corporate Governance Statement - continued

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

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

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

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

Principle 11: Conflicts of Interest

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

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

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

Director	Number of shares held as at 31 December 2018
Kenneth Farrugia	nil
Ray Sladden	nil
Paul Mercieca	nil
Robert Suban	nil
Eric Schembri	nil

There were no changes in the Directors' interest in the shareholding of the Company between year-end and 8 March 2019.

Corporate Governance Statement - continued

Principle 12: Corporate Social Responsibility

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

Non-compliance with the code

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

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

Principle 7: Evaluation of the Board's performance

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

Principle 9.3: Conflicts

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

Internal Control

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

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

General Meetings

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

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

Remuneration Statement

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

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

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

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

Meetings

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

Remuneration policy - Directors

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

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

The aggregate amount of remuneration paid to all Directors of the Company was €50,000 during 2018 and the amount of €25,000 was received by the members of the Audit Committee, Investment Committee and Remuneration and Nominations Committee. Details of the remuneration of each individual director are set out in Note 20 to the financial statements.

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

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

Remuneration Statement - continued

Remuneration policy - Senior Management

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



Independent auditor's report

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

Report on the audit of the financial statements

Our opinion

In our opinion:

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

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

What we have audited

Malita Investments p.l.c.'s financial statements, set out on pages 23 to 49, comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

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

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

Independent auditor's report - continued

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

Report on the audit of the financial statements - continued

Our opinion - continued

The non-audit services that we have provided to the company, in the period from 1 January 2018 to 31 December 2018 are disclosed in Note 18 to the Financial Statements.

Our audit approach

Overview



Overall materiality: €300,500, which represents 5% of profit before tax, excluding fair value movements for the year

Valuation of Investment Properties

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

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

Materiality

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



Independent auditor's report - continued

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

Report on the audit of the financial statements - continued

Our audit approach - continued

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

Overall materiality	€300,500 (2017: 269,000)
How we determined it	5% of profit before tax, excluding fair value movements
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the company is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €30,050 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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



Independent auditor's report - continued

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

Report on the audit of the financial statements - continued

Our audit approach - continued

Key audit matter

How our audit addressed the Key audit matter

Valuation of Investment Properties (Note 6 to the financial statements)

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

The valuation of the MIA and VCP properties, which was carried out by management, is based on the present value of ground rents up to the expiry of the temporary emphyteutical grants and the estimated freehold value thereafter discounted to present value. The fair value of MIA and VCP properties is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 31 December 2018. The discount rate is based on the yield to maturity on the longest term available MGS (Malta Government Stock) in issue as at year end plus a premium reflecting the risk inherent in the underlying cash flows.

The valuation of the Parliament Building and Open Air Theatre, which was carried out by management, is based on the present value of the lease income that is projected to be generated from these properties up to the expiry of the emphyteutical grant. The fair value of the Parliament Building and Open Air Theatre is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 31 December 2018. The discount rate is based on the yield to maturity on the longest term available MGS (Malta Government Stock) in issue as at year end plus a premium reflecting the risk inherent in the underlying cash flows.

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

Our procedures in relation to management's valuation of the properties included:

- Assessing the methodologies used by management to estimate the fair value of the properties. We confirmed that the valuation approach for the properties was in accordance with professional valuation standards and suitable for use in determining their carrying values as at 31 December 2018;
- Testing the mathematical accuracy of the calculations derived from each forecast model;
- Assessing key inputs in the calculations such as ground rent, rent, other cash inflows, growth rate and discount rate, by reference to management's forecasts, contractual arrangements in place, data external to the Company and our own expertise;
- Considering the potential impact of reasonably possible downside changes in these key assumptions.

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



Independent auditor's report - continued

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

Report on the audit of the financial statements - continued

Our audit approach - continued

Key audit matter	How our audit addressed the Key audit matter
The existence of significant estimates referred to previously could result in material misstatement, which is why we have given specific focus and attention to this area	

Other information

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

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

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

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

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

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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



Independent auditor's report - continued

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

Report on the audit of the financial statements - continued

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



Independent auditor's report - continued

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

Report on the audit of the financial statements - continued

Auditor's responsibilities for the audit of the financial statements – continued

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

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

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

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

Report on other legal and regulatory requirements

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

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

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



Independent auditor's report - continued

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

Report on other legal and regulatory requirements - 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 6 to 11 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

Other matters on which we are required to report by exception

We also have responsibilities:

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

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



Independent auditor's report - continued

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

Report on other legal and regulatory requirements - continued

Appointment

We were first appointed as auditors of the Company on 20 October 2011. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 8 years, including one year prior to listing. The company became listed on a regulated market on 7 August 2012.

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Stephen Mamo', is written over the printed name.

Stephen Mamo
Partner

8 March 2019

Statement of financial position

		As at 31 December	
	Notes	2018 €	2017 €
ASSETS			
Non-current assets			
Property, plant and equipment	5	17,346	3,634
Investment property	6	183,898,507	176,234,133
Contract asset	7	5,566,308	1,505,554
		189,482,161	177,743,321
Current assets			
Trade and other receivables	8	597,038	904,247
Cash and cash equivalents	9	-	1,049,421
Current tax assets		-	8,400
Other assets	10	183,609	158,119
		780,647	2,120,187
Total assets		190,262,808	179,863,508
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	73,295,143	73,295,143
Retained earnings		6,817,895	6,668,983
Non-distributable reserve - fair value gains	12	45,784,355	38,736,505
Non-distributable reserve - other	13	2,510,545	2,047,865
Total equity		128,407,938	120,748,496
Non-current liabilities			
Borrowings	14	40,181,938	38,298,063
Deferred tax liabilities	24	14,711,611	14,098,461
		54,893,549	52,396,524
Current liabilities			
Borrowings	14	2,954,642	1,891,340
Capital creditor for the acquisition of property	15	1,665,451	3,884,554
Trade and other payables	16	1,006,291	942,594
Current tax liabilities		450,739	-
Overdrawn bank balance	9	884,198	-
		6,961,321	6,718,488
Total liabilities		61,854,870	59,115,012
Total equity and liabilities		190,262,808	179,863,508

The notes on pages 28 to 49 are an integral part of these financial statements.

Statement of financial position - continued

The financial statements on pages 23 to 49 were authorised for issue by the board on 8 March 2019 and were signed on its behalf by:



Kenneth Farrugia
Chairman



Paul Mercieca
Director

Statement of comprehensive income

	Notes	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Revenue	17	8,012,326	7,472,533
Administrative expenses	18	(508,983)	(391,134)
Change in fair value of investment property	6	7,661,000	16,687,000
Operating profit		15,164,343	23,768,399
Finance income	21	652	964
Finance costs	22	(1,426,331)	(1,270,530)
Profit before tax		13,738,664	22,498,833
Tax expense	23	(2,064,013)	(9,514,719)
Profit for the year - total comprehensive income		11,674,651	12,984,114
Earnings per share (cents)	25	7.88	8.77

The notes on pages 28 to 49 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Retained earnings €	Non-distributable reserves		Total €
				Fair value gains €	Other €	
Balance at 1 January 2017		73,295,143	5,925,209	30,531,648	1,569,938	111,321,938
Comprehensive income						
Profit for the year		-	12,984,114	-	-	12,984,114
Transactions with owners						
Transfer within owners' equity	12	-	(8,204,857)	8,204,857	-	-
Transfer within owners' equity	13	-	(477,927)	-	477,927	-
Dividends to equity shareholders	26	-	(3,557,556)	-	-	(3,557,556)
		-	(12,240,340)	8,204,857	477,927	(3,557,556)
Balance at 31 December 2017		73,295,143	6,668,983	38,736,505	2,047,865	120,748,496
Balance at 1 January 2018		73,295,143	6,668,983	38,736,505	2,047,865	120,748,496
Comprehensive income						
Profit for the year		-	11,674,651	-	-	11,674,651
Transactions with owners						
Transfer within owners' equity	12	-	(7,047,850)	7,047,850	-	-
Transfer within owners' equity	13	-	(462,680)	-	462,680	-
Dividends to equity shareholders	26	-	(4,015,209)	-	-	(4,015,209)
		-	(11,525,739)	7,047,850	462,680	(4,015,209)
Balance at 31 December 2018		73,295,143	6,817,895	45,784,355	2,510,545	128,407,938

The notes on pages 28 to 49 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Cash flows from operating activities			
Cash generated from operations	27	7,865,458	6,549,350
Interest received		714	1,280
Interest paid and similar charges	22	(88,630)	(18,455)
Income taxes paid		(991,724)	(1,127,210)
Net cash generated from operating activities		6,785,818	5,404,965
Cash flows from investing activities			
Payments for property, plant and equipment	5	(16,802)	(2,460)
Payments for acquisition of investment property		(2,395,303)	(1,505,554)
Payments for improvements to investment property		(3,884,554)	(3,115,446)
Net cash used in investing activities		(6,296,659)	(4,623,460)
Cash flows from financing activities			
Repayments of borrowings		(1,940,751)	(1,458,508)
Interest paid on borrowings		(1,351,372)	(1,258,716)
Dividends paid to equity holders	26	(4,015,209)	(3,557,556)
Proceeds from borrowings	27	4,884,554	3,115,446
Net cash used in financing activities		(2,422,778)	(3,159,334)
Net movement in cash and cash equivalents		(1,933,619)	(2,377,829)
Cash and cash equivalents at beginning of year		1,049,421	3,427,250
Cash and cash equivalents at end of year	9	(884,198)	1,049,421

The notes on pages 28 to 49 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

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

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

The statement of financial position reflects a net current liability position of €6,180,674. Current liabilities as at 31 December 2018 include payables of €1,665,451 in relation to the Affordable Housing project for which the Company is in the final stages of obtaining the required drawdowns. Moreover, the Company paid €2,395,303 in project capital expenditure from internal funds during the year under review. The overdrawn bank balance reflects a premium amounting to €1,177,200 incurred to bring the Affordable Housing project to fruition. Once the borrowings are disbursed the Company will recover all these project expenses and the Company's liquidity position will improve significantly.

Standards, interpretations and amendments to published standards effective 1 January 2018

The Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2018. 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.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 January 2018 did not result in changes in accounting policies or adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

IFRS 15 Revenue from Contracts with Customers

The company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which did not result in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 15, the company has adopted the new rules retrospectively however has not restated comparatives for the 2017 financial year since effect was immaterial.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards that are not yet effective

IFRS 16 Leases

IFRS 16, 'Leases', is the IASB's replacement of IAS 17, 'Leases' which eliminates the classification by a lessee of leases of either operating or finance. Instead, all leases are treated in a similar way to finance leases in accordance with IAS 17. The standard's approach to lessor accounting is substantially unchanged from IAS 17 and as such is not expected to have a significant impact on the Company. The standard is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 requires a lessee to initially recognise and measure right-of-use assets and lease liabilities at the commencement date (i.e. the date on which the lessor makes the underlying asset available for use by the lessee). Recognising assets and liabilities arising from a lease at the commencement date is consistent with the lessee accounting model, in which a lessee recognises an asset representing its right to use an underlying asset for the period of the lease and a liability representing its obligation to make lease payments.

The Company has not early adopted IFRS 16, however, the Company's Directors have analysed the impact that its adoption will have on the Company's financial statements. On 1 January 2019 with the adoption of IFRS 16, the Company shall present a right of use asset and a lease liability as follows:

	€
Right of use asset	107,907,980
Lease liability	4,456,473
	<hr/>
Net investment in the lease	103,451,507
	<hr/>

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Company's accounting periods beginning after 1 January 2018. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's Directors are of the opinion that there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

1.2 Foreign currency translation

Functional and presentation currency

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

1.3 Investment property

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

1. Summary of significant accounting policies - continued

1.3 Investment property - continued

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost, in accordance with Note 1.16. After initial recognition, investment property is carried at fair value. Given that there is no active market for the investment property held by the Company, the Company establishes fair value by using valuation techniques, particularly, discounted cash flow analysis.

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

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

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

1.4 Contract asset

The Company is recognising a contract asset in its statement of financial position to account for the Affordable housing project during its construction period. The carrying amount of the contract asset is equal to the total costs incurred on this project.

1.5 Financial assets

1.5.1 Classification

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company's financial assets consist of receivables. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. The latter are classified as non-current assets. The Company's receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.6 and 1.7). Cash and cash equivalents includes cash in hand, deposits held with banks with original maturities of six months or less.

1.5.2 Recognition and measurement

The Company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs.

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

1.5.2 Recognition and measurement - continued

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

1.6 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In the opinion of the Directors, the recorded book value in the company's books of trade and other receivables and their value measured at amortised cost using the effective interest method, less provision for impairment are not materially different. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1.7 Cash and cash equivalents

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

1.8 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.

1.9 Financial liabilities

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

1. Summary of significant accounting policies - continued

1.10 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as finance cost in income statement over the period of the borrowings using the effective interest method. In the opinion of the Directors, the recorded book value in the company's books of borrowings and their value measured at amortised cost using the effective interest method, are not materially different. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.11 Trade and other payables

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

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

1.12 Current and deferred tax

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

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

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

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

1.13 Provisions

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

1. Summary of significant accounting policies - continued

1.14 Revenue recognition

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

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

(a) Interest income

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

(b) Rental income from investment property

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

1.15 Operating leases

(a) The company is a lessee

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

(b) The company is a lessor

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with accounting policy 1.3.

Receipts made under operating leases (net of any incentives paid by the Company) are charged to income statement on a straight-line basis over the period of the lease.

1.16 Borrowing costs

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

1.17 Dividend distributions

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

2. Financial risk management

2.1 Financial risk factors

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

(a) Market risk

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

The Company's cash and cash equivalents (Note 9) are subject to floating interest rates. Management sets limits on the exposure to interest rate risk that may be accepted and monitors the impact of changes in market interest rates on amounts reported in the statement of comprehensive income in respect of these instruments. The Company's interest-bearing instruments are short-term in nature and accordingly the level of interest rate risk is contained. The Company's operating cash flows are substantially independent of changes in market interest rates. Fixed interest instruments comprise borrowings (Note 14) which are measured at amortised cost and accordingly the Company is not exposed to fair value interest rate risk. Based on this analysis, management considers the potential impact on income statement of a defined interest rate shift that is reasonably possible at the end of the reporting year to be immaterial.

(b) Credit risk

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

	2018	2017
	€	€
Loans and receivables category:		
- Trade and other receivables (Note 8)	597,038	904,247
- Cash and cash equivalents (Note 9)	(884,198)	1,049,421

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

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

(c) Liquidity risk

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise borrowings (Note 14), and trade and other payables (Note 16). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Company's obligations.

2. Financial risk management - continued

2.1 Financial risk factors - continued

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

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

	Within 1 year	From 1 year to 2 years	From 2 years to 5 years	Later than 5 years	Total
Liabilities					
Borrowings	4,352,173	3,314,673	9,944,020	38,714,877	56,325,743
Capital creditor for acquisition of property	1,665,451	-	-	-	1,665,451
Trade and other payables	1,006,291	-	-	-	1,006,291

As explained in the basis of preparation, the capital creditor for acquisition of property will be recovered from the disbursements of the borrowings that the Company has secured.

2.2 Capital risk management

Capital is managed by reference to the level of equity and borrowings. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

The Company's equity, as disclosed in the statement of financial position, constitutes its capital. The Company maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Company's activities and the extent of borrowings or debt, the capital level as at the end of the reporting year is deemed adequate by the Directors.

2.3 Fair values of financial instruments

At 31 December 2018 and 31 December 2017, the carrying amounts of other financial instruments comprising loans and receivables; cash at bank and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments, the relatively short period of time between the origination of the instruments and their expected realisation or the interest rates to which they are exposed.

3. Critical accounting estimates and judgements

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

3. Critical accounting estimates and judgements - continued

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

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

A key variable used in the determination of the fair value of the Investment Property is the discount rate. If the discount rate used in the discounted future cash flows for the Investment Property had been 0.5% higher/lower, all other things being equal, the fair value of the Company's investment property would decrease/increase by €18.2 million (2017: €17.2 million) and €21.6 million (2017: €20.5 million) respectively.

4. Segment reporting

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

5. Property, plant and equipment

	Computer hardware €
Year ended 31 December 2017	
Opening net book amount	2,966
Additions	2,460
Depreciation charge	(1,792)
	3,634
Closing net book amount	3,634
At 31 December 2017	
Cost or valuation	14,571
Accumulated depreciation	(10,937)
	3,634
Net book amount	3,634

5. Property, plant and equipment - continued

Year ended 31 December 2018

Opening net book amount	3,634
Additions	16,802
Depreciation charge	(3,090)
Closing net book amount	17,346

At 31 December 2018

Cost or valuation	31,373
Accumulated depreciation	(14,027)
Net book amount	17,346

6. Investment property

	2018 €	2017 €
MIA and VCP properties	80,447,000	75,587,000
Parliament Building and Open Air Theatre	103,451,507	100,647,133
Carrying amount	183,898,507	176,234,133

i. MIA and VCP properties

	2018 €	2017 €
At 1 January	75,587,000	70,204,000
Fair value gains	4,860,000	5,383,000
Carrying amount	80,447,000	75,587,000

ii. Parliament Building and Open Air Theatre

	2018 €	2017 €
At 1 January	100,647,133	82,339,759
Amortisation of borrowing costs	3,374	3,374
Additional investment	-	7,000,000
Fair value gain	2,801,000	11,304,000
Carrying amount	103,451,507	100,647,133

Fair values of investment property

The movement in the fair value of investment property comprises the movement in the fair value of the dominium directum of the MIA and VCP properties, as well as the Parliament Building and Open Air Theatre.

6. Investment property - continued

Fair values of investment property - continued

The fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 31 December 2018.

Accordingly, the fair value of the investment property is subject to variation owing to, amongst other things, movements in market interest rates, expected inflation rates and changes in the contractual cash flows owing to the passage of time.

The Company is required to disclose fair value measurements of the following fair value measurement hierarchy for non-financial assets carried at fair value by level:

- Quoted prices (unadjusted) in active markets for identical assets (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset that are not based on observable market data for similar properties (that is, unobservable inputs) (level 3).

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

Valuation process

a) MIA and VCP

The valuation of the MIA and VCP properties is based on the present value of ground rents up to the expiry of the temporary emphyteutical grants and the estimated freehold value thereafter discounted to present value. The fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 31 December 2018. The discount rate is based on the yield to maturity on the longest term available MGS (Malta Government Stock) in issue as at year end plus a premium reflecting the risk inherent in the underlying cash flows.

In view of the variation in the MGS benchmark referred to above during the year ended 31 December 2018, a fair value gain of €4,860,000 (2017: €5,383,000) has been recognised in these financial statements during this year.

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

- Ground rent, as contractually agreed which for 2018 is estimated at €2.0 million (2017: €1.8 million);
- Growth rate, as contractually agreed at an average of 3% p.a. represents the estimated average growth of the Company's rentals;
- Discount rate of 4.84% (2017: 4.97%) based on the long-term risk-free rate of return and a specific risk premium for the individual property being valued taking into account factors such as, property illiquidity, management limitations, type, size and location of property, competition, future uncertainty, counter-party risks and resource risks.

The impact of a lower/higher discount rate has been disclosed in Note 3 – Critical accounting estimates and judgements. Movements resulting from the said revaluation process are treated as non-distributable (see Note 12).

6. Investment property - continued

Valuation process - continued

b) Parliament Building and Open Air Theatre

The valuation of the Parliament Building and Open Air Theatre is based on the present value of ground rents up to the expiry of the temporary emphyteutical grant discounted to present value. The fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 31 December 2018. The discount rate is based on the yield to maturity on the longest term available Malta Government Stock (MGS) in issue plus an additional premium reflecting the risk inherent in the underlying cash flows and the type of property.

A fair value gain of €2,801,000 (2017: €11,304,000) has been recognised in these financial statements. The property was measured at cost up to 31 December 2016.

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

- Rents, as contractually agreed which for the coming year is estimated at €5.98 million;
- Growth rate, at an average of 1.14%, represents the estimated average growth of the Company's rentals;
- Discount rate of 6.34% (2017: 6.47%) based on the long-term risk-free rate of return and a specific risk premium for the individual property being valued taking into account factors such as, property illiquidity, management limitations, type, size and location of property, competition, future uncertainty, counter-party risks and resource risks.

The impact of a lower/higher discount rate has been disclosed in Note 3 – Critical accounting estimates and judgements. Movements resulting from the said revaluation process are treated as non-distributable (see Note 12).

The certificate of completion of the Parliament Building was issued end of January 2019. The Parliament Building and Open Air Theatre are both carried at fair value.

7. Contract asset

IFRIC 12 Service Concession Arrangements gives guidance on the accounting by operators for public-to-private service concession arrangements. This interpretation applies to public-to-private concession arrangements if:

- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (b) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

Infrastructure within the scope of this interpretation shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

The operator shall account for construction or upgrade services in accordance with IFRS 15 i.e. as a contract asset during the construction period. The operator shall recognise and measure revenue in accordance with IFRS 15 for the services it performs. The nature of the consideration determines its subsequent accounting treatment either as a financial asset or as an intangible asset.

7. Contract asset - continued

IFRIC 12 applies to the Company vis-à-vis the Affordable housing project wherein the Government of Malta and the Company are the operator and grantor respectively.

On 29 December 2017, the Company entered into an emphyteutical deed with the Housing Authority for a period of 28 years in order to acquire sixteen (16) property sites in various locations across Malta for the purpose of constructing a number of affordable housing units. The consideration payable by the Company for the acquisition of this property is an annual revisable ground rent and a premium of €1,177,200. In September 2018, the Company entered into sixteen (16) availability agreements with Government whereby the Company will make available sixteen (16) property sites consisting of 680 units in a number of locations across Malta for a period of 25 years once complete. During such period the Company will lease the residential units on these development sites for affordable housing purposes.

In accordance with IFRIC 12 and given that the development on these property sites is in its initial construction stages, the Company is recognising a contract asset of €5,566,308 in these financial statements.

For the period under review, the Company's revenue from this project in accordance with IFRS 15 amounts to €162,473. This revenue is not being recognised in these financial statements due to it being immaterial.

	2018 €	2017 €
Balance as at 1 January	1,505,554	-
Additions	4,060,754	1,505,554
Contract asset	5,566,308	1,505,554

8. Trade and other receivables

	2018 €	2017 €
Current		
City Gate penalties receivable	310,000	610,000
VCP ground rent receivable	150,680	183,712
Prepaid City Gate ground rents	53,307	50,769
Prepaid expenses	17,429	59,687
Other receivables	65,606	-
Bank interest receivable	16	79
	597,038	904,247

9. Cash and cash equivalents

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

	2018 €	2017 €
Cash at bank and in hand	(884,198)	597,670
Short-term bank deposits	-	451,751
	(884,198)	1,049,421

The Company has an overdrawn bank balance of €884,198 reflecting a premium of €1,177,200 incurred to bring the Affordable Housing project to fruition which is still undrawn. The Company is in the final stages of obtaining the required drawdowns for this project, following which the Company will recover this cash together with all the project expenses incurred to date and the Company's liquidity will improve significantly.

10. Other assets

The Company incurred costs amounting to €183,609 relating to a new project that is in its final stages of evaluation. Since the project had not as yet commenced during the year under review, these costs which include legal and technical fees, were classified as other assets.

11. Share capital

	2018 €	2017 €
Authorised		
150,000,000 Ordinary A shares of €0.50 each	75,000,000	75,000,000
50,000,000 Ordinary B shares of €0.50 each	25,000,000	25,000,000
	100,000,000	100,000,000
Issued and fully paid		
118,108,064 Ordinary A shares of €0.50 each	59,054,032	59,054,032
30,000,000 Ordinary B shares of €0.50 each	15,000,000	15,000,000
	74,054,032	74,054,032
Issue costs	(758,889)	(758,889)
	73,295,143	73,295,143

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

12. Non-distributable reserve – fair value gains

The reserve represents the cumulative fair value gains, net of applicable deferred tax liabilities on the Company's investment properties.

12. Non-distributable reserve – fair value gains - continued

These gains were initially recognised in the statement of comprehensive income and because of their nature, were subsequently transferred to a non-distributable reserve.

13. Non-distributable reserve – other

As per article 82 of the Company's Articles of Association, the directors have set aside €462,680 (2017: €477,927) which equals 10% of the net profit excluding fair value movements net of deferred tax (see Note 11) of the Company and allocated them to a non-distributable reserve. The directors may employ the reserve in the furtherance of the business of the Company as the directors may from time to time think fit.

14. Borrowings

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

On 28 September 2016, the Company secured a €7,000,000 revolving loan facility with Bank of Valletta in satisfaction of the improvements to the Parliament Building. The facility is to be fully repaid within 15 years from first drawdown at a fixed rate of interest. The first capital and interest repayments on this loan were due in May 2018. The facility is pledged against the additional rent receivable by the Company for the use of the Parliament Building.

On 28 November 2018, the Company obtained a €1,000,000 short term funding facility from Bank of Valletta in order to meet capital expenditure requirements in respect of the Affordable Housing project. This short-term funding facility will be repaid in full within the coming year when the drawdowns from two credit facility agreements with the European Investment Bank and the Council of Europe Development Bank take place.

The Company's loan facilities as at 31 December 2018 amounted to €101,136,580 (2017: €93,889,403), out of which €58,000,000 was not utilised.

	2018	2017
	€	€
Borrowings		
Non-current	40,181,938	38,298,063
Current	2,954,642	1,891,340
	43,136,580	40,189,403

15. Capital creditor for the acquisition of property

During the year, the Company paid the Grand Harbour Regeneration Corporation (GHRC) the amount of €3,884,554 (2017: €3,115,446) for completed works done on the Parliament Building. The outstanding balance of €1,665,451 is related to the Affordable Housing project and is due within the coming year. Hence, it is classified as a current liability.

	2018	2017
	€	€
Capital creditor for acquisition of property	1,665,451	3,884,554

16. Trade and other payables

	2018 €	2017 €
Current		
Trade payables	192,257	114,281
Indirect taxes and social security	10,530	4,818
Deferred ground rent income	178,035	178,036
Interest payable on borrowings	561,980	575,651
Other payables	63,489	69,808
	1,006,291	942,594

17. Revenue

Revenue comprises the consideration payable by MIA and VCP by way of an annual ground rent in respect of the temporary emphyteusis granted. Lease for the Open Air Theatre also commenced for this property pursuant to a lease agreement entered into with the Company. Also included in the revenue figure is a penalty payable by Government pursuant to a public deed which was entered into with the Company which stipulated that, the Government was required to complete the development of the Parliament Building and Open Air Theatre in accordance with pre-established specifications and timelines and that, in the event of a delay in completion, the Government is liable to pay the Company a daily penalty broadly in line with the rental income due, had the project have been completed on time. The Parliament Building's certificate of completion was issued in January 2019.

On 20 April 2017, a lease agreement was entered into between the Government of Malta and the Company to reflect an additional investment in the Parliament Building and as from 1 June 2017 additional rent is payable semi-annually to the Company.

18. Expenses by nature

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Directors' emoluments (Note 20)	75,000	83,125
Professional fees	72,278	40,404
Printing & advertising	16,369	14,115
Employee benefit expenses (Note 19)	161,802	122,920
Ground rents	107,709	105,000
Depreciation of property, plant and equipment (Note 5)	3,090	1,792
Lease of premises	8,856	8,850
Other expenses	63,879	14,928
	508,983	391,134

18. Expenses by nature - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2018 and 2017 relate to the following:

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Annual statutory audit	15,400	14,500
Other assurance services	4,450	4,750
Tax advisory & compliance services	1,300	2,750
Other services	20,050	20,975
	<u>41,200</u>	<u>42,975</u>

19. Employee benefit expenses

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Wages and salaries	147,244	110,750
Fees	7,092	5,871
Social security costs	7,466	6,299
	<u>161,802</u>	<u>122,920</u>

The average number of persons employed during the year by the Company amounted to 3 (2017: 3).

20. Directors' emoluments

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Kenneth Farrugia (Chairman – appointed on incorporation)	25,000	25,000
John Buttigieg (Resigned on 21 November 2017)	-	6,875
Paul Mercieca (Director – appointed on 9 April 2014)	15,000	16,250
Eric Schembri (Director – appointed on 1 August 2014)	10,000	10,000
Ray Sladden (Director – appointed on 9 April 2014)	10,000	10,000
Robert Suban (Director – appointed on 9 April 2014)	15,000	15,000
	<u>75,000</u>	<u>83,125</u>

21. Finance income

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Bank interest income	652	964

22. Finance costs

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Loan interest expense	1,337,701	1,252,075
Bank charges and fees	88,630	18,455
	1,426,331	1,270,530

23. Tax expense

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

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Current tax expense	1,450,863	1,032,577
Deferred tax expense	613,150	8,482,142
Tax expense	2,064,013	9,514,719

23. Tax expense - continued

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

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Profit before tax	13,738,664	22,498,833
Tax on profit at 35%	4,808,532	7,874,592
Tax effect of:		
Income subject to 15% final withholding tax	(406,199)	(361,670)
Expenses not deductible for tax purposes	141,079	100,482
Tax rules applicable to immovable property	(2,068,200)	2,641,691
Maintenance allowance	(411,199)	(389,209)
Tax over provision in prior year	-	(351,167)
Tax charge in the accounts	2,064,013	9,514,719

24. Deferred tax

Deferred tax is provided using the liability method for temporary differences arising on movements in the fair value of immovable investment property. The calculation of the deferred tax provision for the year ended 31 December 2018 is calculated on the taxation rules on capital gains upon a transfer of immovable property implemented through Act XIII of 2015. With effect from 1 January 2015, the rate of capital gains tax applicable is a final withholding tax of 8% on the value of the property.

The deferred tax balance as at 31 December 2018 represents:

	31 December 2018 €	31 December 2017 €
Temporary differences on:		
Fair value gains	14,711,611	14,098,461

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

25. Earnings per share

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

	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the year (€)	11,674,651	12,984,114
Total number of ordinary shares in issue	148,108,064	148,108,064
Earnings per share (cents)	7.88	8.77

26. Dividends

	2017 Final dividend €	2018 Interim dividend €	Total €
Dividends paid on ordinary shares:			
Gross	3,228,756	1,955,026	5,183,782
Tax at source	(484,314)	(684,259)	(1,168,573)
Net	2,744,442	1,270,767	4,015,209
Dividends per share (cents)	1.85	0.86	2.71

A final gross dividend of €3,228,756 or €0.0218 per share (December 2017: €3,228,756 or €0.0218 per share), equating to a final net dividend of €2,098,691 or €0.01417 per share (December 2017: €2,744,442 or €0.0185 per share) is to be proposed at the annual general meeting on 6 May 2019. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2019.

27. Cash flow information

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Operating profit	15,164,343	23,768,399
Adjustments for:		
Depreciation of property, plant and equipment (Note 5)	3,090	1,792
Change in fair value of investment property (Note 6)	(7,661,000)	(16,687,000)
Changes in working capital:		
Trade and other receivables	281,656	(661,474)
Trade and other payables	77,369	127,633
Cash generated from operations	7,865,458	6,549,350

b) Proceeds from borrowings

	Year ended 31 December 2018 €	Year ended 31 December 2017 €
Borrowings repayable after more than one year	3,884,554	3,115,446
Borrowings repayable within one year	1,000,000	-
	4,884,554	3,115,446

28. Related party transactions

The only major shareholder of the Company is the Government of Malta through its 79.75% (2017: 79.75%) shareholding. The remaining 20.25% (2017: 20.25%) of the shares are held by the public.

Other related entities are the following:

- Malta Investment Management Company Limited
- GHRC
- Projects Plus Limited
- Housing Authority
- Social Projects Management Limited

All because they are Government owned and managed.

28. Related party transactions - continued

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

	2018 €	2017 €
Government of Malta		
Payment of City Gate ground rent to Government	(107,711)	(105,000)
Receipt of City Gate penalties from Government	3,950,000	3,650,000
Receipt of Open Air Theatre lease income from Government	1,581,986	1,577,632
Receipt of Parliament Building additional rent from Government	750,000	437,500
Malta Investment Management Company Limited		
Office Lease payable to Malta Investment Management Company Limited	(8,850)	(8,850)
Grand Harbour Regeneration Corporation		
Payments to GHRC for investment property	(3,884,554)	(3,115,446)
Projects Plus Limited		
Payments to Projects Plus Limited for professional services	(262,339)	(197,601)
Housing Authority		
Payments to Housing Authority for ground rent and premium on transfer of properties	(81,891)	(1,177,200)
Social Projects Management Limited		
Payments to SPM Limited for project management services	(2,049,954)	-

29. Statutory information

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

