

# Annual Report

2017



“Malta Properties Company is one of the largest publicly listed real estate companies in Malta and aims to develop a commercial property portfolio of outstanding quality.”

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## CHAIRMAN'S MESSAGE

### A year of steady progress

I am pleased to report that 2017, Malta Properties Company p.l.c.'s (MPC) second full financial year of trading as an independent publicly listed entity, was one of sustained and steady progress.

As our Chief Executive Officer explains in his review, we continue to drive forward our three fold strategy: develop and build value in what we consider to be our core assets; sell non-core assets; pursue the prospect of inorganic growth.

Our progress during the year under review has not only been in our Group's financial performance where we have seen profit before tax climb to €6.13 million (2016: €3.45 million). We have also seen the net asset value per share increase to €0.40 (2016: €0.36). This improvement has largely been due to the increased value of our property portfolio, a consequence of the investment MPC has made in redeveloping key sites.

Indeed throughout the year under review significant steps forward were made on a number of properties. At Floriana, redevelopment is complete, and our first tenant has moved in. This is of course an important step forward as we seek greater diversification both in terms of tenants and income streams. Considerable progress has also been registered at Żejtun where construction is on track and where we expect GO p.l.c. (GO), our key tenant, to begin operating its state-of-the-art data centre by the end of 2019. Plans for our sites in Marsa, Birkirkara and St George's also remain on track while at the same time we have moved forward on the sale of non-core properties both in Sliema and in St Paul's Bay.

Further contributing to MPC's solid performance in 2017 has been the stable rental income in line with the long term agreements that were put in place at the time of MPC's spin off from GO and which continue to provide financial security for MPC as we pursue our own strategy of growth and income diversification.



**“2017, our second full financial year of trading as an independent publicly listed entity, was one of sustained and steady progress.”**

### Committed to sustainable growth

In a property market which continues to remain bullish, MPC remains committed to its core mission of growing and sustaining shareholder value by focusing on long term property developments, whilst rigorously maintaining strong financial discipline. With these principles in mind we have continued to explore the possibility of acquiring new properties to further expand our portfolio. MPC follows a strict discipline when it comes to property acquisitions and, besides other things, looks for attractive returns. Increasing our portfolio of properties remains a key objective for the coming months and years.

### A business with a conscience

MPC focuses on sustainability both from the way it finances its operations and also from the way it develops its properties. Our Company has worked hard to ensure the sustainability of the properties which we have redeveloped. Our Floriana Head Office is now powered by renewable energy following the installation of solar panels. The new data centre at Żejtun will also be largely powered by renewable energy, contributing to a better environment for all the community.

As our business continues to develop, MPC also recognises its responsibility towards the broader community in which we operate. Throughout 2017 we undertook a number of initiatives including supporting the Malta Community Chest Fund, Hospice Malta, ALS Malta, St Jeanne Antide Foundation and Write Deal Association. Through these contributions we have helped those in need and helped to promote awareness on very important societal issues such as literacy and domestic violence.

### Looking to the future

As an important commercial enterprise with a social conscience, MPC has established itself as a leader in the sustainable development and management of premium commercial properties. We can look forward to continued growth and success as we continue to build on the strong foundations we are building together.



Our Floriana Head Office is now powered by renewable energy following the installation of solar panels.



Throughout the year we undertook a number of CSR initiatives, such as supporting the Malta Community Chest Fund, Hospice Malta, ALS Malta, St Jeanne Antide Foundation and Write Deal Association.

**Deepak S. Padmanabhan**  
Chairman

## CHIEF EXECUTIVE OFFICER'S REVIEW



### **Moving forward**

In 2017, Malta Properties Company p.l.c. (MPC) continued to make steady progress and to deliver against its key objectives. The Group's profit before tax increased to €6.13 million (2016: €3.45 million). This was driven by rental income of nearly €3.10 million (2016: €3.24 million) and an increase in property values. Moreover, MPC delivered a year on year growth in net asset value of 13.57%. Since MPC's listing in November 2015, the total net asset value per share has grown by 22.03%.

### **Client diversification and property redevelopment**

While the stability in our revenues remains underpinned by the long term rental agreements which are in place with our key client GO p.l.c. (GO), 2017 also saw important developments in our efforts to diversify our client portfolio.

The redevelopment of our premises in Floriana is now practically complete and agreements are already in place with new tenants, the first of which had moved in by early 2018.

In addition to the progress at Floriana, significant advances were also made at our site in Żejtun where a new state-of-the-art data centre is being developed. Construction of this new centre is very much on track and we remain on schedule for GO and its subsidiary BM IT Limited to be able to begin operating from there by the end of 2019. In the past year, MPC also completed the development of a new exchange at our Spencer Hill property in Marsa.

**Floriana**

The redevelopment of our premises in Floriana is now practically complete and agreements are already in place with new tenants, the first of which have now moved in. This is an important step forward as we seek greater diversification in terms of tenants and income streams.

**“The Group’s profit before tax increased to €6.13 million (2016: €3.45 million). This was driven by rental income of nearly €3.10 million (2016: €3.24 million) and an increase in property values following our investment in redeveloping key sites.”**

### **Managing the property portfolio responsibly**

The redevelopment of our existing sites will remain at the core of our strategy going forward. As our financial performance in 2017 demonstrates, these are vitally important to not only increasing revenues for MPC, but also the value of our property portfolio.

Additionally we will continue to remain vigilant in how we manage our portfolio, seeking to acquire properties as and when the right opportunities arise but also disposing of those properties which are not core to our operations. In fact, during 2017, two promise of sale agreements were entered into: the preliminary sales agreement of our property in Sliema for €5 million, and that for our property in St Paul's Bay for €3.75 million.

One of our key assets is, without doubt, the Mercury House site in St George's. We are working with other parties to progress to the next stage of development and the Memorandum of Understanding which exists between MPC and the site developers is expected to be turned into a promise of sale agreement during 2018.



### **Żejtun Exchange**

The Żejtun Exchange property, measuring circa 10,240m<sup>2</sup> is set within the Bulebel Industrial Estate. Significant advances were made at this site, where a new state-of-the-art data centre is being developed. We remain on schedule for GO and its subsidiary BM IT Limited to begin operating here by the end of 2019.



#### **Marsa Spencer Hill Exchange**

Our property at Spencer Hill occupies an area of circa 2,660 m<sup>2</sup> in a commercial area less than 10 minutes' drive to both Valletta and Malta International Airport. There are two phases to this project, the first being a new telephone exchange for our tenant GO, which has now been completed. The next phase will entail the demolition of an existing office building to be replaced by a business centre, retail and office space and a penthouse floor.

#### **A sustainable and successful future**

MPC's vision is to be Malta's premier provider of commercial real estate. In a short period of just two years we have already made significant progress, delivering improved financial results but also ensuring the stability and long term sustainability of our business. MPC is in fact in a very healthy financial position with a loan to value ratio of 0.26.

Our multi-faceted strategy firmly seeks to maximise the potential presented by a resilient and growing economy, particularly in the property sector, while ensuring that our success is built on firm foundations.

A handwritten signature in black ink, appearing to read 'Nikhil P. Patil'.

**Nikhil P. Patil**  
Chief Executive Officer

## BOARD OF DIRECTORS

### DEEPAK S. PADMANABHAN

*Chairman*

CEO at Emirates International Telecommunications LLC, Chairman of Forthnet S.A. and Board Member of Tunisie Telecom, Axiom LLC and TiE Dubai. Previously was Chief Strategy and Business Development Officer of TECOM Investments. He holds an Honours Engineering Degree in Electronics, with a Post Graduate Diploma in Computer Communications and Networks. He has several years of experience on mergers and acquisitions, strategy and investments and value creation.



### THE NOBLE PAUL S. TESTAFERRATA MORONI VIANI

A Director of Aquasun Services Limited, with responsibility for market research, contracting with tour operators, administration and property. Also a Director of GO p.l.c., Vltava Fund SICAV p.l.c., Middlesea Insurance p.l.c., Cablenet Communication Systems Limited (a company incorporated in Cyprus), Innovate Software Limited, Sales and Letting Limited, and various companies within the Testaferrata Group.

### EDMOND BRINCAT

A Certified Public Accountant and a Fellow of the Malta Institute of Accountants. Mr Brincat joined the GO Group in 1999, part of the team entrusted to set up and launch Go Mobile. Since 2006 he held the position of Chief Finance Officer at GO p.l.c. As of February 2018 he holds the position of Chief Operations Officer at SmartCity Malta. He is also a director of a number of companies.



### CORY GREENLAND

A self-employed Notary Public and Human Resources Consultant. At University he graduated with a Bachelor of Communications, Master of European Studies and a Doctorate of Law. He lectures in employment relations and law at the University of Malta and has served on several Boards and Committees. He is currently a Non-Executive Director of Malta International Airport p.l.c. and Board Member of the National Commission for Further and Higher Education.

### MOHSIN MAJID

Deputy CEO at Tunisie Telecom, the leading telecom operator in Tunisia. Previously, he was an Investment Manager at Emirates International Telecommunications (EIT), an investor in the TMT sector. Prior to EIT, he was a strategy consultant at Analysys Mason. He studied Manufacturing Engineering at Cambridge University and currently serves on the Boards of GO p.l.c., Topnet and Forthnet.



### FRANCIS GALEA SALOMONE

*Company Secretary*

Holds a Doctorate of Law from the University of Malta, a Master's Degree in European Studies from the University of Kent (Canterbury) and a Bachelor's Degree in International Business. Currently a partner at Galea Salomone & Associates, with particular focus on Corporate and Commercial law. He has extensive experience in advising public listed companies on the regulatory and corporate governance aspects of their business.

## EXECUTIVE TEAM

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

**DANIELA ZAMMIT** *Chief Financial Officer*



Malta Properties

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# Consolidated Financial Statements

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## DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

### Principal activities

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

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

### Review of the business

#### Review of Group operations

##### Performance

During the financial year under review, MPC Group's profit before tax increased by €2.68 million over that of the previous year and amounted to €6.13 million (2016: €3.45 million). Revenues from rental income decreased by 4.3% and stood at €3.10 million (2016: €3.24 million) due to the release of various properties or areas within the properties previously occupied by GO p.l.c. (GO) for the purpose of redevelopment of these properties by MPC. While the long term leases in place on the various properties secure constant revenues for the Group, revenues are expected to increase gradually in line with inflation and with rents from new developments. In 2017, administrative expenses amounted to €1.31 million (2016: €0.71 million). This increase was in line with expectations as the Group is undergoing growth in its operations, working on its property acquisition front and undertaking its planned redevelopment projects.

During 2017, work commenced on two new small exchanges which are being developed for GO at the Group's properties in Marsa and B'Kara. The Marsa new exchange has been completed before year end while works continue at the B'Kara new exchange. These new exchanges will allow GO to eventually release the larger exchanges which will allow MPC to redevelop these properties. Moreover, work has continued to progress at the former Żejtun Exchange which is being redeveloped into a state-of-the-art technical and data centre for GO. MPC's Floriana property was also redeveloped into The Bastions office complex, which welcomed its first tenant early in 2018.

### Financial position

As at the end of the year, total non-current assets amounted to €59.62 million (2016: €50.60 million). The increase from the previous year was mainly as a result of the development and improvements being carried out by the Group on a number of its properties as described above and also due to the fair valuation of the Group's properties as per the Group's accounting policies. During 2017, two of the Group's non-core properties were sold on preliminary agreement.

The Group's current assets amounted to €7.92 million as at year end (2016: €8.13 million). The major movement within current assets resulted due to capital expenditure on development and advance payments made to the Group's contractors, reflecting a decrease in the cash balance as at year end.

In 2017, the Group started to withdraw its Żejtun project bank loan facility as works at the exchange and data centre progressed as planned. The Group's borrowings remain less than half of its equity, and in fact as at year end the Group's gearing ratio stood low at 0.42 (2016: 0.44). During the year, the Group maintained a loan to value ratio of 0.26 (2016: 0.28), which means that the Group has almost four times as much assets as it has debt.

**Directors' report** *continued***Review of the business** *continued***Review of Group operations** *continued***Risk analysis**

The Group's risks can be analysed into three categories: strategic risk, operational risk and financial risk. Below is a description of each of these risks and the mitigating factors in place:

<i>Risk</i>	<i>Description</i>	<i>Mitigating factors</i>
Strategic risk	This risk relates to the value of the Company's assets and the local property market in general.	<ul style="list-style-type: none"> <li>• The Group has strict guidelines on quality and valuation of any acquired property.</li> <li>• The Group's properties are fully rented out, except for those sites where development or refurbishment is in progress. Moreover, the Group already has long term lease agreements in place with GO p.l.c. for the exchanges that are being developed.</li> <li>• The long term leases on various properties will shield the Group from any potential unforeseen circumstances and will allow it to carry out its operations in a stable manner as revenue levels are expected to increase in line with inflation.</li> </ul>
Operational risk	This risk relates to the timely execution of the redevelopment pipeline.	<ul style="list-style-type: none"> <li>• Project management is carried out by professionals and experts in the field at each of the sites being developed.</li> <li>• The Group engages some of the top contractors and consultants.</li> <li>• Contracts include penalties for contractors not delivering within the agreed timeframes.</li> <li>• Constant monitoring of project timelines and critical paths.</li> </ul>
Financial risk	This risk mainly relates to the fluctuation in interest rates and refinancing risk.	<ul style="list-style-type: none"> <li>• The Group is a party to a three-year receive-variable, pay-fixed interest rate swap agreement terminating on 27 December 2019 to hedge its exposures to floating interest payments on bank borrowings amounting to €16,000,000 as at 31 December 2017. The loan is to be repaid as a bullet repayment at the end of five years (refer to Note 13 to the financial statements). Therefore, the Group is exposed to fluctuation in interest rates in years four and five and thereafter on refinancing at that point in time.</li> <li>• The Group started with the withdrawal of the Žejtun project loan during 2017 and this stood at €1,017,258 as at year end. The loan has a moratorium period until the construction is complete and is to be repaid on a quarterly basis thereafter with a bulk repayment at the end of five years.</li> <li>• Further details relating to financial risks are disclosed in Note 2 to the financial statements.</li> </ul>

The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's risk policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

**Results and dividends**

The income statement is set out on page 29. The Directors do not recommend the payment of a dividend (2016: nil).

## Directors' report *continued*

### Directors

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

Mr Deepak S. Padmanabhan (Chairman)  
 The Noble Paul S. Testaferrata Moroni Viani  
 Mr Mohsin Majid  
 Dr Cory Greenland  
 Mr Edmond Brincat (resigned 20 March 2018)

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

The Noble Paul S. Testaferrata Moroni Viani and Dr Cory Greenland offered themselves for election at the First Annual General Meeting for the two seats on the Board of Directors, and were elected to represent the Company's shareholders.

Of the Directors of the Company, Mr Deepak S. Padmanabhan and Dr Cory Greenland (together with Mr Nikhil P. Patil – Chief Executive Officer) were acting as Directors of the following subsidiary companies at 31 December 2017: BKE Property Company Limited, MCB Property Company Limited, MSH Property Company Limited, SGE Property Company Limited, SLM Property Company Limited, SPB Property Company Limited and ZTN Property Company Limited.

### Remuneration Committee and corporate governance

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

The Group's arrangements for corporate governance are reported on pages 15 to 19.

### Statement of Directors' responsibilities for the financial statements

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

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

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

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

The financial statements of Malta Properties Company p.l.c. for the year ended 31 December 2017 are included in the Annual Report 2017, which is published in hard-copy printed form and may be made 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 over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

### Information provided in accordance with Listing Rule 5.70.1

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

**Directors' report** *continued***Going concern**

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

**Auditors**

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

**Information provided in accordance with Listing Rule 5.64**

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

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

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

The Directors confirm that as at 31 December 2017, only Emirates International Telecommunications (Malta) Limited held a shareholding in excess of 5% of the total issued share capital.

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

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

The Directors shall be appointed as set out hereunder:

- a. Any Member holding separately not less than twenty per cent (20%) of the total voting rights of the Company shall have the right to appoint a Director for each and every complete 20% of such rights.
- b. Any shares remaining unused by Members in the appointment of a Director may be used to elect Directors at the Annual General Meeting or at any Extraordinary General Meeting convened for the purpose of electing Directors.
- c. The Directors appointed shall be appointed by letter addressed to the Company which shall indicate the shareholding used for the purpose and shall be signed by the Member making the appointment. The letter must be delivered to or received by the Company not later than twenty one (21) days prior to the Annual or Extraordinary General Meeting, as the case may be, at which the other Directors are to be elected.
- d. The other Directors (being such number as would together with the Directors appointed under the preceding paragraphs make a total of five Directors) shall be elected at the Annual General Meeting or at the Extraordinary General Meeting convened for the purpose of electing Directors by those members who have not exercised any of their rights under the foregoing paragraphs; and for the purposes of any such election, voting shall take place on the basis that one share entitles the holder to vote for only one candidate for election, and the Chairman of the Meeting shall declare elected those candidates who obtain the greater number of votes on that basis.

Any amendment to the Company's Memorandum and Articles of Association has to be made in accordance with the Companies Act (Cap. 386).

**Directors' report** *continued***Information provided in accordance with Listing Rule 5.64** *continued*

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

The Company may, subject to the applicable restrictions, limitations and conditions contained in the Companies Act (Cap. 386), acquire its own shares and/or Equity Securities.

Pursuant to Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 it is hereby declared that, as at 31 December 2017, none of the requirements apply to the Company.

**Statement by the Directors pursuant to Listing Rule 5.68**

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

On behalf of the Board



Deepak S. Padmanabhan  
Chairman



Paul S. Testaferrata  
Moroni Viani  
Director

Registered office  
Emvin Cremona Street  
Floriana FRN1281  
Malta

21 March 2018

# CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

## A. Introduction

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

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

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

## B. Compliance

### Principle 1: The Board

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

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

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

### Principle 2: Chairman and Chief Executive Officer

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

The responsibilities and roles of the Chairman and the Chief Executive Officer are clearly established and agreed to by the Board of Directors. The Chairman is responsible to lead the Board and set its agenda. The Chairman ensures that the Board is in receipt of precise, timely and objective information and also encourages active engagement by all members of the Board for discussion of complex and contentious issues.

### Principle 3: Composition of the Board

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

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

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

Mr Deepak S. Padmanabhan (Chairman)  
The Noble Paul S. Testaferrata Moroni Viani  
Mr Mohsin Majid  
Dr Cory Greenland  
Mr Edmond Brincat (resigned 20 March 2018)

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

## Corporate governance – Statement of compliance *continued*

### **B. Compliance** *continued*

#### **Principles 4 and 5: The Responsibilities of the Board and Board Meetings**

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

During the year under review the Company held eight (8) Board meetings.

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

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

#### **Board Committees**

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

The Audit Committee supports the work of the Board in terms of quality control of the Group's financial reports and internal controls. The Audit Committee is currently chaired by The Noble Paul S. Testaferrata Moroni Viani, with the other members being Mr Mohsin Majid and Dr Cory Greenland.

The Audit Committee is independent and is constituted in accordance with the requirements of the Listing Rules, with Mr Mohsin Majid being chosen as the member competent in accounting and/or auditing in view of his experience in the field. The Chief Finance Officer and the external auditors of the Company attend the meetings of the Committee by invitation. Other executives are requested to attend when required. The Company Secretary also acts as Secretary to the Audit Committee.

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

As part of its duties, the Committee receives and considers the audited statutory financials statements of all companies comprising the Group. The Committee held four (4) meetings during the year. The external auditors attended all four (4) of these meetings.

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

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

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

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

## Corporate governance – Statement of compliance *continued*

### B. Compliance *continued*

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

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

#### Principle 8: Committees

The Company has opted not to set up a Remuneration Committee and a Nomination Committee. Further explanation is provided under the section entitled Non-Compliance with the Code of this Statement. The Board of Directors deems that the setting up of a Remuneration Committee is not necessary within the context of the size, nature and operations of the Group and Company. During the year ended 31 December 2017, the Board of Directors performed the functions of a Remuneration Committee and this is further explained within the Remuneration Report.

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

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

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

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

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

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

As provided by the Companies Act (Cap. 386), minority shareholders may convene Extraordinary General Meetings.

#### Principle 11: Conflicts of Interest

The Directors are fully aware of their responsibility always to act in the best interests of the Company and its shareholders as a whole irrespective of whoever appointed or elected them to serve on the Board.

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

Directors' interest in the shareholding of the Company:

	Number of shares as at 31 December 2017
Mr Deepak S. Padmanabhan	nil
The Noble Paul S. Testaferrata Moroni Viani	nil
Mr Mohsin Majid	nil
Mr Edmond Brincat	1,620
Dr Cory Greenland	3,000

## Corporate governance – Statement of compliance *continued*

### B. Compliance *continued*

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

As at 31 December 2017, The Noble Paul S. Testaferrata Moroni Viani had a beneficial interest in the Company of 75,494, 2,900 and 16,050 shares through the shareholding of Testaferrata Moroni Viani (Holdings) Ltd., Testaferrata Moroni Viani Ltd. and other related parties, respectively.

None of the other Directors of the Company have any interest in the shares of the Company or the Company's subsidiaries or investees or any disclosable interest in any contracts or arrangements either subsisting at the end of the last financial year or entered into during this financial year. No other changes in the Directors' interest in the shareholding of the Company between year-end and 15 March 2018.

#### Principle 12: Corporate Social Responsibility

The Directors also seek to adhere to accepted principles of corporate social responsibility in their management practices of the company in relation to the Company's workforce, the country's cultural and historical heritage, the environment and the local community. During 2017, the Company has supported several voluntary organisations through donations with the aim of improving the quality of life of the local community and society at large. As in previous years, the Company is also committed to constructing buildings which are energy efficient.

### C. Non-compliance with the Code

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

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

#### Principle 4: Succession Policy for the Board (code provision 4.2.7)

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

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

#### Principle 6: Succession Plan for Senior Management

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

#### Principle 8A: Remuneration Committee

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

#### Principle 8B: Nomination Committee

Pursuant to the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders. Shareholders holding not less than 20% (twenty per centum) of the issued share capital of the Company having voting rights shall be entitled to appoint one Director for every such 20% holding by letter addressed to the Company. The other shareholders are entitled to appoint the remaining Board members at the AGM in accordance with the provisions of the Articles of Association. Within this context, the Board believes that the setting up of a Nomination Committee is currently not suited to the Company since it will not be able to undertake satisfactorily its full functions and responsibilities as envisaged by the spirit of the Code.

#### Principle 9: Conflicts between Shareholders (code provision 9.3)

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

## Corporate governance – Statement of compliance *continued*

### D. Internal control

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

#### Organisation

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

#### Control environment

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

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

#### Risk identification

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

#### Information and communication

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

### Monitoring and corrective action

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

### E. General meetings

Shareholders' influence is exercised at the Annual General Meeting (AGM), which is the highest decision-making body of the Company. All shareholders, registered in the Shareholders' Register, have the right to participate in the Meeting and to vote for the full number of their respective shares. A shareholder who cannot participate in the Meeting can be represented by proxy.

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

# REMUNERATION REPORT

## A. Remuneration Committee

The functions of the Remuneration Committee were performed by the Board of Directors composed of Deepak S. Padmanabhan, Paul S. Testaferrata Moroni Viani, Cory Greenland, Mohsin Majid and Edmond Brincat. In addition, the Chief Executive Officer's input was sought and obtained when considered appropriate. The Board discusses and approves remuneration and bonuses of senior executives.

## B. Remuneration policy – Directors

It is the shareholders, in terms of the Memorandum and Articles of Association of the Company, who determine the maximum annual aggregate emoluments of the Directors. The maximum amount is determined by resolution at the Annual General Meeting of the Company and the aggregate amount fixed for this purpose during the last Annual General Meeting was €100,000. It is confirmed that none of the Directors have any service contracts with the Company but two (2) of the Directors are employees of the ultimate parent company of Malta Properties Company p.l.c. It is also confirmed that none of the Directors, in their capacity as Directors of the Company, are entitled to profit sharing, share options, pension benefits or any other remuneration.

The current Directors' fees as approved by the Board are set at €11,647 per annum for each Director. Since their appointment as Directors, Mr D. Padmanabhan and Mr M. Majid opted to waive fees due to them as Directors. No variable remuneration is paid to Directors.

Total emoluments received by Directors during the financial year 2017 in terms of Code Provisions 8.A.5 are as follows: fixed remuneration of €34,941.

## C. Remuneration policy – Senior Executives

On the other hand, it is the Board of Directors who determines the overall structure and parameters of the Remuneration Policy for senior executives. The Board of Directors then agrees the individual remuneration packages of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). The Board of Directors considers that the Remuneration Policy which is being adopted in respect of the remuneration packages of senior executives is fair and reasonable and in keeping with local equivalents. The Board of Directors is also of the opinion that the packages offered ensure that the Company attracts and retains management staff that is capable of fulfilling their duties and obligations towards the Company. The CEO is on a definite contract while the CFO is on an indefinite contract of employment and their contracts specify their remuneration package. None of the contracts provide for profit sharing or share options. An annual bonus is payable based on an assessment by the Board of Directors of their overall performance during the previous financial year. No supplementary pension or other pension benefits are payable to the senior executives. The CEO's annual bonus entitlement is linked to the attainment of pre-set qualitative and quantitative objectives approved by the Board of Directors. The Board considers the linkage between the fixed remuneration and the bonus to be appropriate. As regards non-cash benefits, senior executives are entitled to health insurance, telephone expenses and car-cash allowance. The CEO, being non-resident in Malta, is also entitled to travelling and accommodation allowances. Total emoluments received by senior executives during the financial year 2017 in terms of Code Provisions 8.A.5 are as follows: fixed remuneration of €203,000 and variable remuneration of €211,000; and other benefits referred to above. There were no share options during the financial year.



# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Malta Properties Company p.l.c.  
**Report on the audit of the financial statements**

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## Our opinion

In our opinion:

- Malta Properties Company p.l.c.'s Group and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and Parent Company's financial position as at 31 December 2017, and of the Group and Parent 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

Malta Properties Company p.l.c.'s financial statements set out on pages 27 to 56 comprise:

- the Consolidated and Parent Company's statements of financial position as at 31 December 2017;
- the Consolidated and Parent Company's income statements and statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company's statements of changes in equity for the year then ended;
- the Consolidated and Parent Company's statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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## Basis for opinion

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

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

## Independence

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

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

The non-audit services that we have provided to the Group and its subsidiaries, in the period from 1 January 2017 to 31 December 2017 are disclosed in Note 18 to the financial statements.

## Independent auditor's report *continued*

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

### Our audit approach

#### Overview



- Overall Group materiality: €306,000, which represents 5% of profit before tax.
- The group engagement team carried out the audit of the financial statements of the Parent Company as well as the audit of the financial statements of all the subsidiaries of the Company.
- Valuation of the Group's and the Company's property portfolio

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated 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.

#### 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated 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.



## Independent auditor's report *continued*

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

<b>Overall group materiality</b>	€306,000 (2016: €172,000)
<b>How we determined it</b>	5% of profit before tax
<b>Rationale for the materiality benchmark applied</b>	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group 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 €16,000 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.

Key audit matter	How our audit addressed the Key audit matter
<p><b><i>Valuation of the Group's and the Company's property portfolio</i></b></p> <p>The Group's and the Company's property portfolio comprises assets leased out under operating leases and the head office of the Company, with a carrying amount of €60 million and €15 million respectively as at 31 December 2017.</p> <p>The valuation of the Group's and the Company's property portfolio is based on external valuations which have been performed using an adjusted sales comparison approach. In view of a limited number of similar sales in the local market, the valuations have been performed using unobservable inputs. As explained in Note 5 to the financial statements, the significant input to this approach is generally a sales price per square metre or a sales price factor per square metre/airspace related to transactions and comparable properties located in proximity to the Group's and the Company's property, with significant adjustments for differences in the size, age, exact location and condition of the property.</p> <p>The valuation of the Group's and the Company's property portfolio is inherently subjective principally due to the judgemental nature of the factors mentioned above and the assumptions used in the underlying valuation models. The significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus in this area.</p>	<p>We evaluated the competence of the external valuers, which included consideration of their qualifications and expertise.</p> <p>We met the external valuers to discuss the valuation approach adopted and the judgements made in arriving at the property valuations. We obtained an understanding of changes in the methodology where the approach or assumptions differed from those used in prior years.</p> <p>We engaged our own in-house experts to review and challenge the valuation approach and assumptions for the properties. We compared the equivalent yields applied to each property to an expected range of yields taking into account available data and asset specific considerations. We also considered whether the other assumptions applied by the external valuers, such as the estimated rental values and development costs to complete were supported by available data such as recent lease agreements.</p> <p>We performed testing over source documentation provided by the Group and the Company to the external valuers. This included agreeing this data to underlying lease information and vouching costs incurred to date in respect of properties under development. With respect to these properties, we also assessed the reasonableness of the estimated costs to completion.</p>



## Independent auditor's report *continued*

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

Key audit matter	How our audit addressed the Key audit matter
External valuers were engaged by the Directors to carry a valuation during December 2017 in accordance with accepted international principles.	We attended meetings with management and the external valuers to discuss the findings of our audit work and found that they were able to provide explanations and refer to appropriate supporting evidence.
	In addition, we evaluated the adequacy of the disclosures made in Note 5 to the financial statements, including those regarding the key assumptions.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. We audited the financial statements of all the subsidiaries of Malta Properties Company p.l.c.

The Group audit team performed all of this work by applying the overall Group materiality, together with additional procedures performed on the consolidation. This gives us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

### Other information

The Directors are responsible for the other information. The other information comprises the Directors' report, the Remuneration report, the Chairman's message and the Chief Executive Officer's review (but does not include the financial statements and our auditor's report thereon). Our opinion on the financial statements does not cover the other information, including the Directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the Directors' report, we also considered whether the Directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

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

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

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

### 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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



## Independent auditor's report *continued*

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Parent 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 Group or the Parent 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Independent auditor's report** *continued*

To the Shareholders of Malta Properties Company p.l.c.  
**Report on other legal and regulatory requirements**

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

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

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

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

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

In our opinion, the Statement of Compliance set out on pages 15 to 19 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.

**Appointment**

We were first appointed as auditors of the Company on 21 December 2010. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 7 years. The Company became listed on a regulated market on 23 November 2015.

**PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta

Simon Flynn  
Partner

21 March 2018

## STATEMENTS OF FINANCIAL POSITION

As at 31 December	Notes	Group		Company	
		2017	2016	2017	2016
		€	€	€	€
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	4	<b>749,547</b>	464,829	<b>749,547</b>	464,829
Investment property	5	<b>58,810,000</b>	50,090,000	<b>13,920,000</b>	10,655,000
Investment in subsidiaries	6	–	–	<b>69,993</b>	69,993
Loans receivable from subsidiaries	7	–	–	<b>38,859,068</b>	38,859,068
Deferred tax asset	14	<b>26,360</b>	28,662	<b>26,360</b>	28,662
Trade and other receivables	9	<b>29,472</b>	18,879	–	–
Total non-current assets		<b>59,615,379</b>	50,602,370	<b>53,624,968</b>	50,077,552
<b>Current assets</b>					
Inventories – property held for resale	8	<b>6,360,000</b>	6,360,000	–	–
Trade and other receivables	9	<b>559,107</b>	332,673	<b>7,392,109</b>	4,300,229
Current tax asset		<b>42,541</b>	59,268	–	–
Cash and cash equivalents	10	<b>954,771</b>	1,376,510	<b>161,011</b>	1,364,010
Total current assets		<b>7,916,419</b>	8,128,451	<b>7,553,120</b>	5,664,239
<b>Total assets</b>		<b>67,531,798</b>	58,730,821	<b>61,178,088</b>	55,741,791

**Statements of Financial Position** *continued*

As at 31 December	Notes	Group		Company	
		2017	2016	2017	2016
		€	€	€	€
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	11	<b>32,419,356</b>	32,419,356	<b>32,419,356</b>	32,419,356
Other reserve	12	<b>170,259</b>	(53,229)	<b>170,259</b>	(53,229)
Retained earnings		<b>8,398,008</b>	3,725,053	<b>2,247,080</b>	696,747
<b>Total equity</b>		<b>40,987,623</b>	36,091,180	<b>34,836,695</b>	33,062,874
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	13	<b>17,017,258</b>	16,000,000	<b>17,017,258</b>	16,000,000
Deferred tax liability	14	<b>6,587,000</b>	5,645,000	<b>1,462,000</b>	1,065,500
Derivative financial instruments	15	<b>75,313</b>	81,891	<b>75,313</b>	81,891
Trade and other payables	16	<b>96,702</b>	–	<b>96,702</b>	–
Total non-current liabilities		<b>23,776,273</b>	21,726,891	<b>18,651,273</b>	17,147,391
<b>Current liabilities</b>					
Trade and other payables	16	<b>2,258,230</b>	337,872	<b>7,229,038</b>	5,072,049
Current tax liability		<b>509,672</b>	574,878	<b>461,082</b>	459,477
Total current liabilities		<b>2,767,902</b>	912,750	<b>7,690,120</b>	5,531,526
<b>Total liabilities</b>		<b>26,544,175</b>	22,639,641	<b>26,341,393</b>	22,678,917
<b>Total equity and liabilities</b>		<b>67,531,798</b>	58,730,821	<b>61,178,088</b>	55,741,791

The notes on pages 32 to 56 are an integral part of these financial statements.

The financial statements on pages 27 to 56 were authorised for issue by the Board on 21 March 2018 and were signed on its behalf by:



Deepak S. Padmanabhan  
Chairman



Paul S. Testaferrata Moroni Viani  
Director

## INCOME STATEMENTS

Year ended 31 December	Notes	Group		Company	
		2017 €	2016 €	2017 €	2016 €
Rental income	17	<b>3,098,942</b>	3,235,816	<b>528,067</b>	618,176
Other income	17	<b>314</b>	5,000	<b>283</b>	–
Administrative expenses	18	<b>(1,309,024)</b>	(711,253)	<b>(1,274,406)</b>	(670,306)
<b>Operating profit/(loss)</b>		<b>1,790,232</b>	2,529,563	<b>(746,056)</b>	(52,130)
Finance income	21	–	–	<b>1,457,216</b>	1,457,216
Finance costs	22	<b>(637,021)</b>	(778,710)	<b>(637,021)</b>	(778,712)
Adjustment arising on fair valuation of property	5	<b>4,973,911</b>	1,696,843	<b>2,175,671</b>	145,311
<b>Profit before tax</b>		<b>6,127,122</b>	3,447,696	<b>2,249,810</b>	771,685
Tax expense	23	<b>(1,454,167)</b>	(890,785)	<b>(699,477)</b>	(394,822)
<b>Profit for the year</b>		<b>4,672,955</b>	2,556,911	<b>1,550,333</b>	376,863
<b>Earnings per share</b>	24	<b>0.05</b>	0.03		

The notes on pages 32 to 56 are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

Year ended 31 December	Note	Group		Company	
		2017 €	2016 €	2017 €	2016 €
<b>Comprehensive income</b>					
Profit for the year		<b>4,672,955</b>	2,556,911	<b>1,550,333</b>	376,863
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Surplus arising on revaluation of land and buildings, net of deferred tax	12	<b>219,212</b>	–	<b>219,212</b>	–
<i>Items that may be subsequently reclassified to profit or loss</i>					
Change in fair value of derivative designated as hedging instrument in cash flow hedge	12	<b>6,578</b>	(81,891)	<b>6,578</b>	(81,891)
Income tax relating to components of other comprehensive income	12	<b>(2,302)</b>	28,662	<b>(2,302)</b>	28,662
Total other comprehensive income for the year, net of tax		<b>223,488</b>	(53,229)	<b>223,488</b>	(53,229)
<b>Total comprehensive income for the year</b>		<b>4,896,443</b>	2,503,682	<b>1,773,821</b>	323,634

The notes on pages 32 to 56 are an integral part of these financial statements.

## STATEMENTS OF CHANGES IN EQUITY

Group	Note	Share capital €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2016		32,419,356	–	1,168,142	33,587,498
<b>Comprehensive income</b>					
Profit for the year		–	–	2,556,911	2,556,911
Other comprehensive income:					
Cash flow hedge, net of deferred tax	12	–	(53,229)	–	(53,229)
Balance at 31 December 2016		32,419,356	(53,229)	3,725,053	36,091,180
<b>Comprehensive income</b>					
Profit for the year		–	–	4,672,955	4,672,955
Other comprehensive income:					
Cash flow hedge, net of deferred tax	12	–	4,276	–	4,276
Surplus arising on revaluation of land and buildings, net of deferred tax	12	–	219,212	–	219,212
Total comprehensive income		–	223,488	4,672,955	4,896,443
<b>Balance at 31 December 2017</b>		<b>32,419,356</b>	<b>170,259</b>	<b>8,398,008</b>	<b>40,987,623</b>

Company	Note	Share capital €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2016		32,419,356	–	319,884	32,739,240
<b>Comprehensive income</b>					
Profit for the year		–	–	376,863	376,863
Other comprehensive income:					
Cash flow hedge, net of deferred tax	12	–	(53,229)	–	(53,229)
Balance at 31 December 2016		32,419,356	(53,229)	696,747	33,062,874
<b>Comprehensive income</b>					
Profit for the year		–	–	1,550,333	1,550,333
Other comprehensive income:					
Cash flow hedge, net of deferred tax	12	–	4,276	–	4,276
Surplus arising on revaluation of land and buildings, net of deferred tax	12	–	219,212	–	219,212
Total comprehensive income		–	223,488	1,550,333	1,773,821
<b>Balance at 31 December 2017</b>		<b>32,419,356</b>	<b>170,259</b>	<b>2,247,080</b>	<b>34,836,695</b>

The notes on pages 32 to 56 are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

Year ended 31 December	Notes	Group		Company	
		2017	2016	2017	2016
		€	€	€	€
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	25	<b>3,581,983</b>	2,145,131	<b>(115,311)</b>	870,510
Interest paid		<b>(637,021)</b>	(778,710)	<b>(637,021)</b>	(778,712)
Tax paid		<b>(630,646)</b>	(394,043)	<b>(371,372)</b>	(166,059)
Net cash generated from/(used in) operating activities		<b>2,314,316</b>	972,378	<b>(1,123,704)</b>	(74,261)
<b>Cash flows from investing activities</b>					
Additions to investment property		<b>(3,746,089)</b>	(1,148,008)	<b>(1,089,329)</b>	(110,254)
Purchase of property, plant and equipment		<b>(7,224)</b>	(50,499)	<b>(7,224)</b>	(50,499)
Net cash used in investing activities		<b>(3,753,313)</b>	(1,198,507)	<b>(1,096,553)</b>	(160,753)
<b>Cash flows from financing activities</b>					
Bank loan drawdown		<b>1,017,258</b>	16,000,000	<b>1,017,258</b>	16,000,000
Repayment of related party loan			– (16,000,000)		– (16,000,000)
Net cash generated from financing activities		<b>1,017,258</b>	–	<b>1,017,258</b>	–
<b>Net movement in cash and cash equivalents</b>		<b>(421,739)</b>	(226,129)	<b>(1,202,999)</b>	(235,014)
<b>Cash and cash equivalents at beginning of year</b>		<b>1,376,510</b>	1,602,639	<b>1,364,010</b>	1,599,024
<b>Cash and cash equivalents at end of year</b>	10	<b>954,771</b>	1,376,510	<b>161,011</b>	1,364,010

The notes on pages 32 to 56 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Summary of significant accounting policies

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

### 1.1 Basis of preparation

The consolidated financial statements include the financial statements of Malta Properties Company p.l.c. and its subsidiaries and have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act (Cap. 386). They have been prepared under the historical cost convention as modified by the fair valuation of investment property and derivative financial instruments.

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

#### ***Standards, interpretations and amendments to published standards effective in 2017***

In 2017, the Group and Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group and Company's accounting period beginning on 1 January 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies impacting the Group and Company's financial performance and position.

#### ***Standards, interpretations and amendments to published standards that are not yet adopted***

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2017. The Group 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, except as disclosed below, that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

#### ***IFRS 15, 'Revenue from contracts with customers'***

In May 2014, IFRS 15, 'Revenue from contracts with customers' was issued. It was subsequently amended in September 2015 and April 2016. It will be effective for periods beginning on or after 1 January 2018.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.

As outlined, the new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative stand-alone selling price basis, based on a five-step model.

#### ***Performance obligations***

IFRS 15 requires that at contract inception, we assess the good or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer. Promises in a contract can be explicit, or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

IFRS 15 will require disclosures relating to the Group's performance obligations. The stand-alone selling prices of the Group's products and services can be determined.

## Notes to the financial statements *continued*

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

#### 1.1 Basis of preparation *continued* Standards, interpretations and amendments to published standards that are not yet adopted *continued*

##### IFRS 15, 'Revenue from contracts with customers' *continued* Transition

Our decision to adopt the modified retrospective approach depends on a number of factors considering the time, effort and cost involved in doing so when compared to the benefits to users of the financial statements.

##### Financial impact

The Group is in the process of quantifying the implications of the standard and the financial impact is not yet reasonably estimable. Based on our analysis to date we do not expect the impact of adoption to be significant.

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

##### IFRS 9, 'Financial instruments'

IFRS 9 is effective from 1 January 2018. It is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities.

The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Group is yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9. We do not expect the standard to have a material impact on our results.

Providing for loss allowance on our existing financial assets is not expected to have a material impact. However, we have not yet quantified the impact on contract assets which will be recognised under IFRS 15. This is being considered as part of the wider IFRS 15 project.

##### IFRS 16, 'Leases'

IFRS 16 was published in January 2016 and will be effective from 1 January 2019, replacing IAS 17 'Leases'. The accounting for lessors will not significantly change.

We do not expect to early-adopt the standards and so transition to IFRS 16 will take place on 1 January 2019.

#### 1.2 Consolidation Subsidiaries

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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

## Notes to the financial statements *continued*

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

#### 1.2 Consolidation *continued*

##### *Subsidiaries continued*

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

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

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

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

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

#### 1.3 Foreign currency translation

##### *a. Functional and presentation currency*

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

##### *b. Transactions and balances*

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

#### 1.4 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings comprise offices and are shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

## Notes to the financial statements *continued*

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

#### 1.4 Property, plant and equipment *continued*

Any subsequent increases are recognised in profit or loss up to the amount previously charged to profit or loss, and then reflected in other comprehensive income and shown as a revaluation reserve.

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's property portfolio at periodical intervals. The fair values are based on market values, being the estimated amount or price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risk inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The rates of depreciation used for the current and comparative periods are as follows:

	%
Buildings	1
Office furniture and equipment	10 – 25

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.7).

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognised in profit or loss.

When revalued assets are sold, the amounts included in the revaluation reserve relating to the asset are transferred to retained earnings.

#### 1.5 Investment property

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

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

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

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

## Notes to the financial statements *continued*

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

#### 1.5 Investment property *continued*

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

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

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

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

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

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

#### 1.6 Impairment of non-financial assets

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

#### 1.7 Financial assets

##### 1.7.1 Classification

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group or Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group and Company's loans and receivables comprise trade and other receivables together with cash and cash equivalents in the statement of financial position (Notes 1.9 and 1.10).

## Notes to the financial statements *continued*

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

#### 1.7 Financial assets *continued*

##### 1.7.2 Recognition and measurement

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

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

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

##### 1.7.3 Impairment

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

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

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in Note 1.9.

##### 1.8 Inventories – property held for resale

Property held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

##### 1.9 Trade and other receivables

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

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

## Notes to the financial statements *continued*

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

#### 1.10 Cash and cash equivalents

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

#### 1.11 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.

#### 1.12 Financial liabilities

The Group and Company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group and Company's financial liabilities, other than derivative contracts, 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, except for derivative financial instruments, are subsequently measured at amortised cost. The Group and Company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

#### 1.13 Trade and other payables

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

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

#### 1.14 Borrowings

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

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

#### 1.15 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Certain derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible loan, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the consolidated income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- a. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- b. hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); or
- c. hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 to 125 per cent.

## Notes to the financial statements *continued*

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

#### 1.15 Derivative financial instruments and hedge accounting *continued*

The fair values of derivative instruments used for hedging purposes are disclosed in Note 15. Movements in the hedge reserve in other comprehensive income are shown in Note 12. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

#### *Cash flow hedge*

The Group designates certain derivative financial instruments as hedging instruments in cash flow hedging relationships to hedge its interest rate risk exposures. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

#### *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the consolidated income statement under 'Net gains/(losses) on financial instruments classified as held for trading'. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets

or financial liabilities designated at fair value are included in 'Net gains on financial instruments designated at fair value'.

#### 1.16 Offsetting financial instruments

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

#### 1.17 Current and deferred tax

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

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

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

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

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

## Notes to the financial statements *continued*

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

#### 1.18 Provisions

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

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

#### 1.19 Revenue recognition

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

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

#### *Rental income*

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

#### 1.20 Operating leases

##### *The Group or Company is the lessor*

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

#### 1.21 Dividend distribution

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

#### 1.22 Borrowing costs

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

## 2. Financial risk management

### 2.1 Financial risk factors

The Group and Company's activities potentially expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. Malta Properties Company p.l.c.'s (MPC) overall risk management, covering risk exposures for all group entities, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the respective company's financial performance. MPC's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Accordingly, the Board provides principles for overall group risk management, as well as risk management policies covering risks referred to above and specific areas such as investment of excess liquidity. The Group and Company used derivative financial instruments to hedge certain risk exposures during the current period.

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

**Notes to the financial statements** *continued***2. Financial risk management** *continued***2.1 Financial risk factors** *continued***a. Market risk***Cash flow and fair value interest rate risk*

The Group and Company's instruments subject to fixed interest rates comprise bank borrowings (Note 13). In this respect, the Company is potentially exposed to fair value interest rate risk in view of the fixed interest terms, but the related instruments are measured at amortised cost.

The Group's interest rate risk principally arises from bank borrowings issued at variable rates that are partially offset by balances held with banks and other financial assets subject to floating interest rates, which expose the Group to cash flow interest rate risk. Floating interest rates on these financial instruments are linked to reference rates such as Euribor or the respective banker's base rate. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments taking into consideration refinancing, renewal of existing positions, alternative financing and hedging techniques. The Company is a party to a receive-variable, pay-fixed interest rate swap agreement to hedge its exposures to floating interest amounts on bank borrowings amounting to €16,000,000 as at 31 December 2017 (Notes 13 and 15).

The Group's and Company's cash and cash equivalents (Note 10) are subject to floating interest rates. Management monitors the impact of changes in market interest rates on amounts reported in the statement of comprehensive income in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial. The Group's interest-bearing instruments are subject to fixed rate of interest and accordingly the level of interest rate risk is contained. The Group's operating cash flows are substantially independent of changes in market interest rates.

**b. Credit risk**

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

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Loans and receivables category:				
Loans receivable from subsidiaries (Note 7)	–	–	<b>38,859,068</b>	38,859,068
Trade and other receivables (Note 9)	<b>245,144</b>	69,653	<b>7,112,906</b>	4,289,089
Cash and cash equivalents (Note 10)	<b>954,771</b>	1,376,510	<b>161,011</b>	1,364,010
	<b>1,199,915</b>	1,446,163	<b>46,132,985</b>	44,512,167

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The Group does not hold any collateral as security in this respect.

The Group banks only with local financial institutions with high quality standing or rating. The Company's loans and receivables include significant amounts due from its subsidiaries (Note 7). The Group's treasury monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management.

The Group assesses the credit quality of these receivables taking into account the financial position, performance and other factors. The Group takes cognisance of the relationship with these entities and management does not expect any losses from non-performance or default.

## Notes to the financial statements *continued*

### 2. Financial risk management *continued*

#### 2.1 Financial risk factors *continued*

##### c. Liquidity risk

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

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. The Group's and Company's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments coupled with intra-group financing that it can access to meet liquidity needs.

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

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

Group and Company	Carrying amount €'000	Contractual cash flows €'000	Less than 1 year €'000	Between 1 and 2 years €'000	Between 2 and 5 years €'000
<b>31 December 2017</b>					
Bank loan	<b>17,017</b>	<b>19,028</b>	<b>503</b>	<b>503</b>	<b>18,022</b>
<b>31 December 2016</b>					
Bank Loan	16,000	18,376	472	472	17,432

#### 2.2 Capital risk management

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

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

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

## Notes to the financial statements *continued*

### 2. Financial risk management *continued*

#### 2.3 Fair values of financial instruments

##### *Fair value estimation in relation to financial instruments measured at fair value*

The Group's financial instruments, which are carried at fair value, include derivative financial instruments designated as hedging instruments and other derivative instruments (Note 15).

The Group is required to disclose fair value measurements by level of a fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value (Level 1, 2 or 3). The different levels of the fair value hierarchy are defined as fair value measurements using:

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

The fair value of the interest rate swap with the carrying amount of €75,313 as at 31 December 2017 (2016: €81,891), designated as a hedging instrument, was determined by use of a valuation obtained from a financial institution and verified with observable market data. The fair value of interest rate swap was calculated as the present value of the estimated future cash flows based on observable yield curves. Accordingly, it was categorised since inception as a level 2 instrument.

#### *Fair values of financial instruments not carried at fair value*

At 31 December 2017 and 2016, the carrying amounts of certain financial instruments not carried at fair value comprising cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances to related parties and other balances with related parties, which are short-term or repayable on demand, is equivalent to their carrying amount.

### 3. Critical accounting estimates and judgements

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

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

**Notes to the financial statements** *continued***4. Property, plant and equipment**

Group and Company	Land and buildings €	Office furniture and equipment €	Total €
<b>Year ended 31 December 2016</b>			
Opening net book amount	–	8,491	8,491
Amount reclassified from investment property (Note 5)	413,000	–	413,000
Additions	–	50,499	50,499
Depreciation charge	(615)	(6,546)	(7,161)
Closing carrying amount	412,385	52,444	464,829
<b>At 31 December 2016</b>			
Cost or valuation	413,000	59,043	472,043
Accumulated depreciation	(615)	(6,599)	(7,214)
Carrying amount	412,385	52,444	464,829
<b>Year ended 31 December 2017</b>			
Opening net book amount	412,385	52,444	464,829
Additions	–	7,224	7,224
Depreciation charge	(1,597)	(10,121)	(11,718)
Revaluation of land and buildings			
– Effect on cost	287,000	–	287,000
– Effect on accumulated depreciation	2,212	–	2,212
Closing carrying amount	<b>700,000</b>	<b>49,547</b>	<b>749,547</b>
<b>At 31 December 2017</b>			
Cost or valuation	700,000	66,267	766,267
Accumulated depreciation	–	(16,720)	(16,720)
Carrying amount	<b>700,000</b>	<b>49,547</b>	<b>749,547</b>

**5. Investment property**

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
<b>At 31 December</b>				
Opening carrying amount	<b>50,090,000</b>	54,018,149	<b>10,655,000</b>	10,812,435
Reclassification to inventories – property held for resale (Note 8)	–	(6,360,000)	–	–
Reclassification to property, plant and equipment (Note 4)	–	(413,000)	–	(413,000)
Additions	<b>3,746,089</b>	1,148,008	<b>1,089,329</b>	110,254
Gains from changes in fair value	<b>4,973,911</b>	1,696,843	<b>2,175,671</b>	145,311
Closing carrying amount	<b>58,810,000</b>	50,090,000	<b>13,920,000</b>	10,655,000
<b>At 31 December</b>				
Cost or valuation	<b>51,309,187</b>	47,563,098	<b>11,489,761</b>	10,400,432
Net fair value gains	<b>7,500,813</b>	2,526,902	<b>2,430,239</b>	254,568
Carrying amount	<b>58,810,000</b>	50,090,000	<b>13,920,000</b>	10,655,000

## Notes to the financial statements *continued*

### 5. Investment property *continued*

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

#### Fair valuation of land and buildings

The Group's land and buildings were revalued during December 2017 by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The Directors have reviewed the carrying amounts of the properties as at 31 December 2017, on the basis of an assessment by the independent property valuers, and the carrying amounts were adjusted accordingly during the current financial year.

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

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

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

The Group's land and buildings comprises various exchanges and offices. All the recurring property fair value measurements at 31 December 2017 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2017.

A reconciliation from the opening balance to the closing balance for recurring fair value measurements categorised within Level 3 of the

value hierarchy, is reflected in the table above. The movement for the year ended 31 December 2017 reflects additions and gains from changes in fair value.

#### Valuation processes

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

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

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

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

#### Valuation techniques

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

## Notes to the financial statements *continued*

### 5. Investment property *continued*

#### Information about fair value measurements using significant unobservable inputs (Level 3)

Description by class based on highest and best use	Fair value at 31 December 2017 €000	Valuation technique	Significant unobservable input	Range of unobservable inputs (weighted average) €
<b>Land and buildings</b>				
Current use as office premises	<b>23,875</b>	Adjusted sales comparison approach	Sales price per square metre	1,210 – 1,820 (1,500)
Developable land for industrial/commercial use	<b>14,000</b>	Adjusted sales comparison approach	Sales price factor per square metre	930 – 1,020 (960)
Marketed as extended-commercial premises	<b>8,630</b>	Adjusted sales comparison approach	Sales price per square metre	1,040 – 1,200 (1,150)
Marketed as residential-commercial developments	<b>12,305</b>	Adjusted sales comparison approach	Sales price per square metre	1,340 – 1,600 (1,550)

Description by class based on highest and best use	Fair value at 31 December 2016 €000	Valuation technique	Significant unobservable input	Range of unobservable inputs (weighted average) €
<b>Land and buildings</b>				
Current use as office premises	<b>18,740</b>	Adjusted sales comparison approach	Sales price per square metre	660 – 1,760 (1,300)
Developable land for residential/commercial use	<b>11,700</b>	Adjusted sales comparison approach	Sales price factor per square metre	750 – 900 (800)
Marketed as extended-commercial premises	<b>8,500</b>	Adjusted sales comparison approach	Sales price per square metre	940 – 1,220 (1,140)
Marketed as residential-commercial developments	<b>11,150</b>	Adjusted sales comparison approach	Sales price per square metre	1,170 – 1,490 (1,410)

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

**Notes to the financial statements** *continued***6. Investment in subsidiaries**

	<b>Company</b>
<b>Years ended 31 December 2017 and 2016</b>	<b>€</b>
Opening and closing cost and carrying amount	69,993

The carrying amount of the investments at 31 December 2017 and 2016 is equivalent to the cost of the investment net of impairment charges.

The subsidiaries at 31 December 2017 and 2016 are shown below:

<b>Subsidiary</b>	<b>Registered office</b>	<b>Class of shares held</b>	<b>Percentage of shares held</b>
BKE Property Company Limited	Emvin Cremona Street Floriana FRN1281	Ordinary Shares of €1 each	99.99%
MCB Property Company Limited	Emvin Cremona Street Floriana FRN1281	Ordinary Shares of €1 each	99.99%
MSH Property Company Limited	Emvin Cremona Street Floriana FRN1281	Ordinary Shares of €1 each	99.99%
SGE Property Company Limited	Emvin Cremona Street Floriana FRN1281	Ordinary Shares of €1 each	99.99%
SLM Property Company Limited	Emvin Cremona Street Floriana FRN1281	Ordinary Shares of €1 each	99.99%
SPB Property Company Limited	Emvin Cremona Street Floriana FRN1281	Ordinary Shares of €1 each	99.99%
ZTN Property Company Limited	Emvin Cremona Street Floriana FRN1281	Ordinary Shares of €1 each	99.99%

**7. Loans receivable from subsidiaries**

	<b>Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
Carrying amount	<b>38,859,068</b>	38,859,068

The loans are unsecured, subject to interest at 3.75% and repayable after more than twelve months.

**8. Inventories – property held for resale**

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
Opening carrying amount	<b>6,360,000</b>	–
Amount reclassified from investment property (Note 5)	–	6,360,000
Closing carrying amount	<b>6,360,000</b>	6,360,000

During the year, two of the Company's subsidiaries entered into a promise of sale agreement and bound themselves to sell and transfer the properties known as the Sliema Old Exchange and the St Paul's Bay Old Exchange to third parties. The consideration for the sale of the properties amounts to €8.75 million.

**Notes to the financial statements** *continued***9. Trade and other receivables**

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
<b>Current</b>				
Advanced payments	<b>326,849</b>	254,175	<b>262,617</b>	–
Amounts owed by subsidiaries	–	–	<b>6,994,818</b>	4,281,903
Amounts owed by related party	–	1,310	–	1,310
Indirect taxation	<b>210,775</b>	46,214	<b>118,088</b>	2,626
Other receivables	<b>4,897</b>	3,250	–	3,250
Prepayments	<b>16,586</b>	27,724	<b>16,586</b>	11,140
	<b>559,107</b>	332,673	<b>7,392,109</b>	4,300,229
<b>Non-current</b>				
Other receivables	<b>29,472</b>	18,879	–	–

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

**10. Cash and cash equivalents**

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

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Cash at bank and in hand	<b>954,771</b>	1,376,510	<b>161,011</b>	1,364,010

**11. Share capital**

	Group and Company	
	2017	2016
	€	€
<b>Authorised</b>		
125,000,000 (2016: 125,000,000) ordinary shares of €0.32 (2016: €0.32) each	<b>40,000,000</b>	40,000,000
<b>Issued and fully paid</b>		
101,310,488 (2016: 101,310,488) ordinary shares of €0.32 (2016: €0.32) each	<b>32,419,356</b>	32,419,356

**Notes to the financial statements** *continued***12. Other reserves**

Group and Company	Property revaluation reserve €	Hedge reserve €	Total €
<b>At 31 December 2016</b>			
Losses from changes in fair value (Note 15)	–	(81,891)	(81,891)
Deferred taxes thereon (Note 14)	–	28,662	28,662
Closing carrying amount	–	(53,229)	(53,229)
<b>At 31 December 2017</b>			
Opening carrying amount	–	(53,229)	(53,229)
Surplus arising on revaluation of land and buildings (Note 4)	289,212	–	289,212
Losses from changes in fair value (Note 15)	–	6,578	6,578
Deferred taxes thereon (Note 14)	(70,000)	(2,302)	(72,302)
Closing carrying amount	<b>219,212</b>	<b>(48,953)</b>	<b>170,259</b>

The *hedge reserve* reflects changes in fair value of the derivative financial instruments designated as effective hedging instruments in cash flow hedges. The net fair value losses as at 31 December 2017 on the Group's interest rate swap, which hedged variable interest payments on borrowings, are unrealised and therefore not recognised in the income statement.

**13. Borrowings**

	2017 €	Group and Company 2016 €
<b>Non-current</b>		
Carrying amount at 1 January	<b>16,000,000</b>	16,000,000
Bank loan	<b>1,017,258</b>	16,000,000
Repayment of loan from related party	–	(16,000,000)
Carrying amount at 31 December	<b>17,017,258</b>	16,000,000

The bank loans are subject to financial covenants and are secured by guarantees for a maximum amount of €24,500,000 provided by the Company and a number of subsidiaries. The bank loans are also secured by guarantees and by special hypothecs over the present and future assets of the Company.

The €16,000,000 bank loan is repayable through a bullet repayment in December 2021. The floating interest rate applicable on the loan is computed using a 3% margin over the 3-month Euribor. The Company has entered into an interest rate swap (Note 15) with a notional amount matching a proportion of the principal amount of the loan, with the intentions of hedging the Company's exposure to floating interest rates with respect to this borrowing. The terms and conditions of this interest rate swap are disclosed in Note 15.

The €8,500,000 loan facility started being withdrawn during the current year. This loan is subject to a 3-year moratorium on the capital repayments and it is to be repaid in full by May 2022. The floating interest rate applicable on the loan is computed using a 3% margin over the 3-month Euribor. As at 31 December 2017, the Company had an unutilised loan facility amounting to €7,482,742 (2016: €8,500,000).

**Notes to the financial statements** *continued***14. Deferred tax assets and liabilities**

Deferred taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35%, with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. tax effect of 10% (2016: 10%) of the transfer value.

The balance at 31 December represents temporary differences arising on:

	<b>Group</b>		<b>Company</b>	
	2017	2016	2017	2016
	€	€	€	€
<b>Deferred tax assets</b>				
Cash flow hedge	<b>26,360</b>	28,662	<b>26,360</b>	28,662
<b>Deferred tax liabilities</b>				
Revaluation of property, plant and equipment	<b>70,000</b>	–	<b>70,000</b>	–
Fair valuation of investment property	<b>6,517,000</b>	5,645,000	<b>1,392,000</b>	1,065,500
	<b>6,587,000</b>	5,645,000	<b>1,462,000</b>	1,065,500

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period. The deferred tax assets and liabilities reflected in other comprehensive income relate to fair valuation of cash flow.

Deferred tax liabilities on the fair valuation of investment property includes deferred tax on the fair valuation of properties whose use has since changed and which are currently classified as *Inventories*.

The movement on the deferred tax account is as follows:

<b>Group and Company</b>	<b>Deferred tax assets</b>
	Cash flow hedge
	€
Recognised in other comprehensive income	28,662
Balance as at 31 December 2016	28,662
Recognised in other comprehensive income	(2,302)
<b>Balance as at 31 December 2017</b>	<b>26,360</b>

**Notes to the financial statements** *continued***14. Deferred tax assets and liabilities** *continued*

Group	Deferred tax liabilities		
	Investment property	Property, plant and equipment	Total
	€	€	€
Balance as at 1 January 2016	5,401,815	–	5,401,815
Recognised in profit or loss (Note 23)	243,185	–	243,185
Balance as at 31 December 2016	5,645,000	–	5,645,000
Recognised in profit or loss (Note 23)	872,000	–	872,000
Recognised in revaluation reserve (Note 12)	–	70,000	70,000
<b>Balance as at 31 December 2017</b>	<b>6,517,000</b>	<b>70,000</b>	<b>6,587,000</b>

  

Company	Deferred tax liabilities		
	Investment property	Property, plant and equipment	Total
	€	€	€
Balance as at 1 January 2016	1,081,243	–	1,081,243
Recognised in profit or loss (Note 23)	(15,743)	–	(15,743)
Balance as at 31 December 2016	1,065,500	–	1,065,500
Recognised in profit or loss (Note 23)	326,500	–	326,500
Recognised in revaluation reserve (Note 12)	–	70,000	70,000
<b>Balance as at 31 December 2017</b>	<b>1,392,000</b>	<b>70,000</b>	<b>1,462,000</b>

**15. Derivative financial instruments**

	Group and Company	
	2017	2016
	€	€
<b>Non-current liabilities</b>		
Interest rate swap designated as hedging instrument in cash flow hedge	<b>75,313</b>	81,891

**Interest rate swap designated as hedging instrument**

The Group and Company are a party to a three-year receive-variable, pay-fixed interest rate swap arrangement, terminating on 27 December 2019, with a notional amount matching a proportion of the principal amount of the loan. The Group has designated this derivative contract as an instrument to hedge the Group's exposure to cash flow interest rate risk arising on the variable interest amounts payable with respect to the loan. Under the interest rate swap arrangement, the Group, at three monthly intervals, exchanged fixed interest amounts payable determined at the fixed interest rate of 2.95% with variable interest amounts receivable based on the 3-month floating Euribor. Fair value changes arising on this instrument were recognised in other comprehensive income directly in the cash flow hedge reserve.

**Notes to the financial statements** *continued***16. Trade and other payables**

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
<b>Current</b>				
Amounts owed to subsidiaries	–	–	<b>6,332,687</b>	4,978,936
Other payables	<b>236,180</b>	117,232	<b>89,406</b>	27,024
Indirect taxes	<b>58,730</b>	45,288	–	–
Accruals	<b>1,963,320</b>	175,352	<b>806,945</b>	66,089
	<b>2,258,230</b>	337,872	<b>7,229,038</b>	5,072,049
<b>Non-current</b>				
Other payables	<b>96,702</b>	–	<b>96,702</b>	–

Amounts owed to subsidiaries are unsecured, interest free and repayable on demand.

**17. Rental and other income**

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Rental income on property rented to related party	<b>2,927,072</b>	3,063,946	<b>528,067</b>	618,176
Other rental income	<b>171,870</b>	171,870	–	–
Total rental income	<b>3,098,942</b>	3,235,816	<b>528,067</b>	618,176
Other income	<b>314</b>	5,000	<b>283</b>	–
Total income	<b>3,099,256</b>	3,240,816	<b>528,350</b>	618,176

**18. Expenses by nature**

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Depreciation (Note 4)	<b>11,718</b>	7,161	<b>11,718</b>	7,161
Auditor's remuneration	<b>30,000</b>	27,000	<b>7,500</b>	10,500
Professional fees	<b>174,030</b>	157,527	<b>167,415</b>	138,840
Employee benefit expense (Note 19)	<b>658,449</b>	230,189	<b>658,449</b>	230,189
Directors' emoluments (Note 20)	<b>34,941</b>	34,941	<b>34,941</b>	34,941
Insurance	<b>40,391</b>	38,667	<b>40,391</b>	38,667
Listing and related fees	<b>60,205</b>	76,712	<b>60,205</b>	76,712
Registration fees	<b>2,520</b>	3,760	<b>1,400</b>	2,640
Rent	–	9,217	–	9,217
Business development	<b>121,470</b>	–	<b>121,470</b>	–
Other	<b>175,300</b>	126,079	<b>170,917</b>	121,439
Total administrative expenses	<b>1,309,024</b>	711,253	<b>1,274,406</b>	670,306

**Notes to the financial statements** *continued***18. Expenses by nature** *continued***Auditor's fees**

Fees charged by the auditor for services rendered during the financial years ended 31 December 2017 and 2016 relate to the following:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Annual statutory audit	<b>30,000</b>	27,000	<b>7,500</b>	10,500
Other assurance services	<b>3,500</b>	3,500	<b>3,500</b>	3,500
Other non-audit services	<b>67,760</b>	38,660	<b>67,760</b>	30,700
	<b>101,260</b>	69,160	<b>78,760</b>	44,700

The auditor has provided the following non-audit services to the Group and the Company:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Financial due diligence report	–	30,000	–	30,000
Malta Commercial Property Market study and Investment Scheme study	<b>51,750</b>	–	<b>51,750</b>	–
General tax advice and tax compliance	<b>16,010</b>	8,660	<b>16,010</b>	700
	<b>67,760</b>	38,660	<b>67,760</b>	30,700

**19. Employee benefit expense**

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Wages and salaries	<b>628,930</b>	181,937	<b>628,930</b>	181,937
Social security costs	<b>29,519</b>	48,252	<b>29,519</b>	48,252
	<b>658,449</b>	230,189	<b>658,449</b>	230,189

In 2017, the average number of persons employed by the Group and Company was 6 (2016: 5).

**20. Directors' emoluments**

	Group and Company	
	2017	2016
	€	€
Directors' fees	<b>34,941</b>	34,941

Directors' emoluments are included within 'administrative expenses' (Note 18).

**Notes to the financial statements** *continued***21. Finance income**

	<b>Company</b>	
	2017	2016
	€	€
Interest receivable from subsidiaries	<b>1,457,216</b>	1,457,216

**22. Finance costs**

	<b>Group</b>		<b>Company</b>	
	2017	2016	2017	2016
	€	€	€	€
Interest payable to related party	–	585,205	–	585,205
Bank interest	<b>468,004</b>	13,125	<b>468,004</b>	13,126
Bank charges	<b>169,017</b>	180,380	<b>169,017</b>	180,381
	<b>637,021</b>	778,710	<b>637,021</b>	778,712

**23. Tax expense**

	<b>Group</b>		<b>Company</b>	
	2017	2016	2017	2016
	€	€	€	€
Current tax expense	<b>582,167</b>	647,600	<b>372,977</b>	410,565
Deferred tax expense/(credit) (Note 14)	<b>872,000</b>	243,185	<b>326,500</b>	(15,743)
Tax expense	<b>1,454,167</b>	890,785	<b>699,477</b>	394,822

The tax impacts, which are entirely attributable to deferred taxation, relating to components of other comprehensive income and accordingly presented directly in equity are as follows:

<b>Group and Company</b>	Before tax €	Tax credit €	Net of tax €
<b>As at 31 December 2017</b>			
Cash flow hedge	(75,313)	26,360	(48,953)
Revaluation of land and buildings	289,212	(70,000)	219,212
<b>As at 31 December 2016</b>			
Cash flow hedge	(81,891)	28,662	(53,229)

**Notes to the financial statements** *continued***23. Tax expense** *continued*

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

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Profit before tax	<b>6,127,122</b>	3,447,696	<b>2,249,810</b>	771,685
Tax on profit at 35%	<b>2,144,493</b>	1,206,694	<b>787,434</b>	270,090
Tax effect of:				
Movement in deferred tax liability on the basis applicable to capital gains	<b>872,000</b>	255,555	<b>326,500</b>	(15,744)
Further allowances on rental income	<b>(173,263)</b>	(226,507)	–	(43,272)
Movement in deferred tax liability on additions and revaluations	<b>(1,740,869)</b>	(593,895)	<b>(761,485)</b>	(50,859)
Income taxed at reduced rates	<b>(124,753)</b>	–	<b>(105,613)</b>	–
Expenses not deductible for tax purposes	<b>458,157</b>	248,938	<b>446,041</b>	234,607
Other differences	<b>18,402</b>	–	<b>6,600</b>	–
Tax expense	<b>1,454,167</b>	890,785	<b>699,477</b>	394,822

**24. Earnings per share**

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

	2017	2016
Profit attributable to equity holders of the Company (€)	<b>4,672,955</b>	2,556,911
Number of shares in issue (Note 11)	<b>101,310,488</b>	101,310,488
Earnings per share (€)	<b>0.05</b>	0.03

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

**25. Cash generated from/(used in) operations**

Reconciliation of operating profit/(loss) to cash generated from/(used in) operations:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Operating profit/(loss)	<b>1,790,232</b>	2,529,563	<b>(746,056)</b>	(52,130)
Adjustments for:				
Depreciation (Note 4)	<b>11,718</b>	7,161	<b>11,718</b>	7,161
Changes in working capital:				
Trade and other receivables	<b>(237,027)</b>	(247,967)	<b>(1,634,664)</b>	(840,790)
Trade and other payables	<b>2,017,060</b>	(143,626)	<b>2,253,691</b>	1,756,269
Cash generated from/(used in) operations	<b>3,581,983</b>	2,145,131	<b>(115,311)</b>	870,510

**Notes to the financial statements** *continued***26. Contingencies**

A guarantee of €24,500,000 (2016: €24,500,000) was issued by the Company, together with its fellow subsidiaries, in favour of its bankers for facilities provided.

**27. Commitments****a. Capital commitments**

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

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Investment property	<b>3,766,767</b>	2,464,350	<b>376,129</b>	90,500

**b. Operating leases – Group and Company as lessor**

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

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Within 1 year	<b>2,236,000</b>	1,784,500	<b>738,000</b>	519,000
Between 1 and 5 years	<b>11,720,000</b>	9,593,000	<b>2,951,000</b>	2,076,000
After 5 years	<b>13,306,000</b>	14,148,500	<b>1,068,000</b>	1,557,000
	<b>27,262,000</b>	25,526,000	<b>4,757,000</b>	4,152,000

**28. Related party transactions**

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

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

During the year the Company and its subsidiaries entered into transactions with related parties including rental income, finance income and finance costs (Notes 17, 21 and 22). Year end balances owed by/to related parties are disclosed in Notes 7, 9 and 16 to these financial statements.

**29. Statutory information**

Malta Properties Company p.l.c. is a public limited liability company domiciled and incorporated in Malta. The Company's immediate parent company is Emirates International Telecommunications (Malta) Limited which is ultimately controlled by Dubai Holding LLC, with registered office situated at EIT Office 1st Floor, Dubai Holding Headquarters, Opp. Madinat Jumeirah, intersection of Jumeirah Beach Road and Um Suqeim Road, Um Suqeim 3, Dubai, UAE. Dubai Holding LLC is owned by H.H. Sheikh Mohammad Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai.



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