

MALTA PROPERTIES COMPANY P.L.C.

**Annual Report and Consolidated
Financial Statements
31 December 2019**

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Annual Report and Consolidated Financial Statements - 31 December 2019

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Chairman's and Chief Executive Officer's review

Steady progress in uncertain times

It is often said that in the modern world change is the only constant. Never was this more true than in 2019. In a year of significant change and a certain degree of uncertainty, both for Malta and its economy, Malta Properties Company (MPC) has continued to move forward.

Since the inception of our company, MPC's strategy has always been to remain resolutely focussed on its ambitious target to become Malta's foremost provider of commercial premium property. In pursuit of this ambition we have always sought to invest in properties that offer genuine long-term potential at a price that makes sense. The property market can be aggressive and sometimes unpredictable. Resources can be a challenge, especially in times when property markets are booming. Competition is strong and endless. But we strongly believe in our ability to earmark properties with great potential, negotiate preferential terms and to match our properties with the right tenants.

Consequently, 2019 was another positive year for MPC. It was also a period in which the Company laid the foundations for new developments as witnessed by the conclusion, in early 2020, of an agreement to purchase the site being leased by the HSBC Call Centre in Swatar.

Positive financial performance

During 2019, Malta Properties Company continued to achieve positive results. A review of our financial performance shows an increase in revenue which grew 3.5 per cent to €3.43 million (2018: €3.31 million). In 2019, MPC also continued to see growth in the net asset value per share, which reached €0.53 (2018: €0.51). This encouraging performance and healthy cash flow generation also means that MPC is in a position, for the second successive year, to propose the payment of a dividend to shareholders amounting to €0.01 per share.

This positive underlying performance did not translate into an increase in overall profit before tax which in 2019 reached €3.62 million (2018: €12.78 million). Shareholders will recall that our 2018 results were positively impacted by one off events, notably the promise of sale agreement for the St George's Exchange and the sale of the old Sliema Exchange, which were not repeated in 2019.

The disposal of assets, of course, generates significant revenue. The primary purpose of such disposals, however, remains to provide MPC with the resources it needs to further develop other sites in its portfolio, or to purchase new ones, which better fit its strategy of establishing itself as the leading provider of high quality commercial property in Malta.

Operational highlights of 2019

Our revenues in 2019 were further strengthened by the income generated from our fully leased property in Floriana, the redevelopment of which had been completed in 2018. This development, which has played an important role in diversifying MPC's client base, has also had a positive impact on our operational procedures and processes, incentivising us to become more effective in managing relationships with multiple tenants. This strengthening of our operational capacity will be vital, allowing us to scale up our activity efficiently in the coming years.

While the diversification of our client base remains a key strategic objective, the fact remains that at present our key tenant remains GO plc. I am pleased to report that work on our site in Zejtun, which will be occupied by GO and also house a new state of the art data centre, is now almost complete. The site will, in fact, be handed over to GO during the fourth quarter of this year and we will therefore begin to see steady revenue streams being generated from the site as from the latter part of 2020. Early in 2019, the new Birkirkara exchange was completed and handed over to GO p.l.c.

Chairman's and Chief Executive Officer's review - continued

During the past year, work also progressed on plans for our site in Marsa. These are now at a very advanced stage and, as work at Zejtun comes to a close, work in Marsa is expected to accelerate. Our ambition remains for this project to be completed by 2024.

In 2019, in addition to the work on Zejtun and Marsa, MPC has continued to focus on developing its property portfolio. With the completion of the sale of our site at St Paul's Bay, we have remained committed to seeking out properties which offer the best potential for long term results.

The market currently appears to be undergoing a period of correction, which means an increase in the number of attractive properties available at prices which might represent an opportunity for our Company. As we have stated on several occasions, we are very thorough and focussed when vetting potential acquisitions, as we seek to ensure these align with a number of criteria. During the year we scrutinised a significant number of properties and developments, whilst also keeping up the momentum with pursuing the possible acquisition of Smart City Malta.

Our approach is yielding results. As highlighted at the start of this message, MPC has taken the opportunity to enter into an agreement to purchase the site being leased by the HSBC Call Centre in Swatar. This investment of €8.05 million in a high-profile site with significant future income and appreciation potential, was formally announced at the beginning of 2020.

Committed to the Community

As our business develops, so do our relationships with the community. While MPC continues to be an active supporter of various charitable organisations such as Write Deal Association, Life Cycle Malta Foundation, YMCA Malta, Puttinu Cares and Hospice Malta, we have also been active in ensuring our properties are as sustainable as possible. To this end, we are incorporating photovoltaic panels on a significant scale into our development projects in Zejtun and Floriana.

Optimistic Outlook

While the world around us is continuously changing, Malta Properties Company has positioned itself well to be able to make the best of any opportunities that may arise. The cautious approach towards managing our property portfolio which characterised the early years of our business means that our company now has the strength to invest in those properties that have the genuine potential to deliver the returns we all seek. In fact, with a gearing ratio of 0.39 and a loan to value rate of 0.27, MPC is still relatively unleveraged and thus remains very well placed to invest further in its property portfolio.

As our company begins to mature, our prospects for a prosperous future remain as strong as ever. Malta Properties Company's ambition to become Malta's leading provider of commercial premium property is well on the way to becoming reality.

I would like to thank all the shareholders for their support throughout the past year and the Board of Directors for their valuable contribution. I also want to thank the team at MPC for their continuous efforts and commitment.



Deepak Padmanabhan
Chairman & Chief Executive Officer

Directors' report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2019.

Principal activities

The main activity of the Group and the Company is property investment and development. 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 year under review, the Group's total income amounted to €3.43 million, an increase of 3.5% over the previous year (2018: €3.31 million), while its operating profit decreased by 6.6% and amounted to €2.12 million (2018: €2.27 million) as the company continued to seek opportunities for business development. The Group's profit before tax reached €3.62 million (2018: €12.78 million), a decrease of €9.16 million over that of the previous year arising from a lower fair valuation gain and a lower gain on disposal. The gain on disposal on the St. Paul's Bay property amounted to €250,000. The Group's constant revenue streams are secured through the long term leases with diverse tenants which continue to be in place, while revenues are expected to increase gradually in line with inflation and with rents from new developments.

Works continued to progress during 2019 at the former Zejtun Exchange which is being redeveloped into a state-of-the-art technical and data centre. Moreover, the Group continued seeking appropriate investment opportunities and on 15 January 2020 the Company signed a promise of sale agreement to purchase a tenanted property in Swatar.

Financial position

The Group's financial position continues to be strong. Total non-current assets amounted to €76.74 million as at the end of 2019 (2018: €73.39 million). Throughout the year, planning and development works continued on a number of properties, contributing to additional property value, as has the fair valuation of the Group's properties as per the Group's accounting policies. The main increase resulted from the group's continued development of the Zejtun site during 2019 and fair value increases across the Group's property portfolio, in particular from the site in St. George's.

Current assets as at year end amounted to €7.44 million (2018: €9.14 million), the main movements related to the conversion into cash of the inventories sold during the year partly set-off by the dividend payment made during 2019.

Directors' report - continued

Review of the business - continued

Financial position - continued

The Group's borrowings increased in line with the cost of works of the Zejtun project, but these borrowings remained less than half of its equity. As at year end, the Group's gearing ratio was low at 0.39 (2018: 0.37) and its loan to value ratio stood at 0.27 (2018: 0.25), which means that the Group's assets are almost four times larger than its debt.

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 Group's assets and the local property market in general.	<ul style="list-style-type: none"> -The Group has strict guidelines on quality and valuation of any acquired property. -The Group's properties are fully rented out to various tenants, 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 property that is currently being developed. -The long term leases on the 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.
Operational risk	This risk relates to the timely execution of the redevelopment pipeline.	<ul style="list-style-type: none"> -Project management is carried out by professionals and experts in the field at each of the sites being developed. -The Group engages some of the top contractors and consultants. -Contracts include penalties for contractors not delivering within the agreed timeframes. -Constant monitoring of project timelines and critical paths.
Financial risk	This risk mainly relates to the fluctuation in interest rates and refinancing risk.	<ul style="list-style-type: none"> -The Group was a party to a three-year receive-variable, pay-fixed interest rate swap agreement which terminated on 27 December 2019 to hedge its exposures to floating interest payments on bank borrowings amounting to €16,000,000 as at 31 December 2019. 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 the coming two years and thereafter on refinancing at that point in time. -The Group continued with the withdrawal of the Zejtun project loan during the year and this stood at €4,627,249 as at year end. The loan has a moratorium period until 20 May 2020 and is to be repaid on a quarterly basis thereafter with a bulk repayment at the end of the five years. -Further details relating to financial risks are disclosed in Note 2 to the financial statements.

Directors' report - continued

Review of the business - continued

Risk analysis - continued

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 statements are set out on page 29. The Directors recommend that at the forthcoming Annual General Meeting, the shareholders approve the payment of a net dividend of €0.01 per share after taxation (2018: €0.01 per share) – such dividend to be payable after shareholder approval at the AGM.

Retained earnings, consisting of both distributable and non distributable reserves, amounting to €20,650,747 (2018: €18,976,523) of the Group and €5,223,565 (2018: €2,455,562) of the Company are being carried forward to the next financial year.

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. Mohamed Sharaf (appointed on 20 June 2019)

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 last 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 were acting as Directors of the following subsidiary companies at 31 December 2019: 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 9 to 16.

Directors' report - continued

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 parent 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 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and is 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.

Going concern

The Directors, as required by 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

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Listing Rules, the appointment of the auditors and the authorisation of the directors to set their remuneration will be proposed and approved at the Company's AGM.

Directors' report - continued

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 2019, 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 2019, 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

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Malta

Telephone :(+356) 2123 0032

Dr Francis Galea Salomone
Company Secretary

19 February 2020

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 and the other four being 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 Chief Executive Officer is appointed by the Board for a definite period of time.

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.

Up to 15 June 2018, in line with the requirements of Principle 2, MPC had segregated the functions of the Chief Executive Officer and the Chairman until the previous CEO resigned from his post and Mr. Deepak S. Padmanabhan was appointed in his stead. Until the majority shareholder recruits a suitable Chairman, Mr. Deepak S. Padmanabhan has also retained his position as Chairman on the request of the majority shareholder.

Corporate governance - Statement of compliance - continued

B. Compliance - continued

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 four (4) non-executive Directors and one (1) executive Director.

The following Directors served on the Board during the period under review:

Executive director

Mr. Deepak S. Padmanabhan (Chairman)

Non-executive directors

The Noble Paul S. Testaferrata Moroni Viani

Mr. Mohsin Majid

Dr. Cory Greenland

Mr. Mohamed Sharaf (appointed on 20 June 2019)

For the purposes of the Code, the non-executive Directors are independent. The Company deems that, although Mr. Deepak S. Padmanabhan, Mr. Mohamed Sharaf and Mr. Mohsin Majid (the latter up to 15 January 2020) 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.

Principle 3.1 also states that if the Chief Executive Officer and Chairman are the same person the Board should appoint one of the non-executive directors as a senior independent director. The Board has deemed this not be required given the temporary nature of Mr. Deepak S. Padmanabhan's appointment as Chairman. Having said that an independent director has been appointed as the Chairman of the Audit Committee.

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 sub-committees, 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.

Corporate governance - Statement of compliance - continued

B. Compliance - continued

Principles 4 and 5: The Responsibilities of the Board and Board Meetings - continued

During the year under review the Company held six (6) Board meetings.

The following is the attendance at Board meetings of each of the Directors during 2019:

Mr. Deepak S. Padmanabhan	6
Mr. Paul Testaferrata Moroni Viani	6
Mr. Mohsin Majid	5
Dr. Cory Greenland	6
Mr. Mohamed Sharaf (appointed on 20 June 2019)	2

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) meetings.

Corporate governance - Statement of compliance - continued

B. Compliance - continued

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.

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 2019, the Board of Directors performed the functions of a Remuneration Committee and this is further explained within the Remuneration Report.

Corporate governance - Statement of compliance - continued

B. Compliance - continued

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.

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

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

The Office of the Company Secretary maintains regular communication between the Company and its investors. Individual shareholders can raise matters relating to their shareholdings and the business of the Company 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 2019
Mr. Deepak S. Padmanabhan	nil
The Noble Paul S. Testaferrata Moroni Viani	nil
Mr. Mohsin Majid	nil
Dr. Cory Greenland	3,000
Mr. Mohamed Sharaf (appointed on 20 June 2019)	nil

As at 31 December 2019, 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.

Corporate governance - Statement of compliance - continued

B. Compliance - continued

Principle 11: Conflicts of Interest - continued

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 17 February 2020.

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 2019, the Company has continued to support 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 2 : Chairman and Chief Executive Officer

As explained in Principle 2 in Section B, the position of Chairman and Chief Executive Officer is currently held by Mr. Deepak S. Padmanabhan as from 15 June 2018. This is a measure until a suitable candidate for the position of Chairman is nominated by the majority shareholder.

The Board is of the view that this temporary function of the Chairman does not impinge on his ability to bring to bear independent judgement to the Board, but that such a wide and in-depth understanding of the company will improve the performance of both roles to the ultimate benefit of the Board as a whole, and that of its shareholders.

Principle 4: Succession Policy for the Board

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 that four of the five Directors have a 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.

Corporate governance - Statement of compliance - continued

C. Non-compliance with the Code - continued

Principle 7: Evaluation of the Board's Performance

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 always under scrutiny of the shareholders.

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 with in the appropriate fora in the Board meetings, wherein the minority shareholders are represented. There is also an open channel of communication between the Company and the minority shareholders via the Office of the Company Secretary.

D. Internal control

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

Organisation

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

Corporate governance - Statement of compliance - continued

D. Internal control - continued

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 Mohamed Sharaf (appointed on 20 June 2019). 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 by resolution at the Annual General Meeting of the Company. The aggregate amount fixed for this purpose during the last Annual General Meeting was €100,000. None of the Directors have any service contracts with the Company but two (2) of the Directors (three (3) up to 15 January 2020) are employees of the ultimate parent company of Malta Properties Company p.l.c. Moreover, 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 Directors' fees as approved by the Board for 2019 were set at €19,800 per annum for each Director. Since their appointment as Directors, Mr. D. Padmanabhan, Mr. M. Sharaf and Mr. M. Majid (up to 15 January 2020) opted to waive fees due to them as Directors. No variable remuneration is paid to Directors in their capacity as Directors of the Company. Total emoluments received by Directors during the financial year 2019 in terms of Code Provisions 8.A.5 are as follows: fixed remuneration of €39,600. Directors are provided with electronic equipment to be able to connect to any online Board meetings for assisting in providing advice and to provide their inputs on the market.

C. Remuneration policy - Senior executives

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 or pension benefits. A variable performance bonus is payable based on achieving Company and personal objectives in relation to Company performance and value creation for shareholders. The Board considers the linkage between the fixed remuneration and the bonus to be appropriate. As regards to non-cash benefits, senior executives are entitled to health insurance, telephone expenses and car-cash allowance. Total emoluments received by senior executives during the financial year 2019 in terms of Code Provisions 8.A.5 are as follows: fixed remuneration of €174,000 and variable remuneration of €126,000; and other benefits referred to above.



Independent auditor's report

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

Report on the audit of the financial statements

Our opinion

In our opinion:

- Malta Properties Company p.l.c.'s Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and the Parent Company's financial position as at 31 December 2019, and of the Group's and the 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 66, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2019;
- the Consolidated and Parent Company income statements and statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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



Independent auditor's report - continued

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

Independence

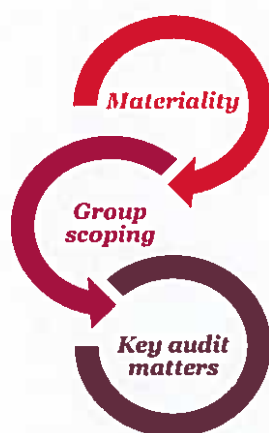
We are independent of the Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive 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 these Codes.

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 2019 to 31 December 2019, are disclosed in Note 18 to the financial statements.

Our audit approach

Overview



- Overall group materiality: €362,000, which represents approximately 5% of the average profit before tax of the last three years.
- The Group is composed of 8 reporting units all located in Malta.
- 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.



Independent auditor's report - continued

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

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.

<i>Overall group materiality</i>	€362,000
<i>How we determined it</i>	Approximately 5% of average profit before tax of the last three years
<i>Rationale for the materiality benchmark applied</i>	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. Average profits of the last three years was chosen since profits fluctuate as a result of fair value movements on properties. We chose 5% which is within the range of materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €36,200 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Independent auditor's report - continued

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

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><i>Valuation of the Group's and the Company's property portfolio (Refer to Note 5)</i></p> <p>The Group's and Company's property portfolio has a carrying amount of €76 million and €16 million respectively as at 31 December 2019.</p> <p>On an annual basis, management assess the fair value of its property portfolio based on external valuations performed by independent property valuers using adequate valuation models including the comparison sales approach and the discounted cash flow approach.</p> <p>In view of a limited number of similar comparable properties and property transactions, comprising sales or rentals in the respective markets in which the properties are located, the valuations have been performed using unobservable inputs. Such unobservable inputs usually include the discount rate and growth rate in the case of discounted cash flow approach and sale price per square metre in the case of the sales comparative approach.</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>The extent of judgement and the size of the property value, resulted in this matter being identified as an area of audit focus.</p>	<p>We evaluated the competence of the external valuers, which included due consideration of their qualifications and expertise.</p> <p>We discussed with the external valuers the valuation approach adopted, the key valuation assumptions and other judgements made in arriving at their conclusions with respect to the property valuations. We obtained an overall understanding of any changes in the valuation methodology adopted in any circumstance where the approach varied from prior years.</p> <p>We engaged our own in-house experts to review the valuation approach adopted and underlying assumptions applied in the property valuations in order to assess the reasonableness of the fair value assigned to the properties.</p> <p>We discussed the valuations with Group/Company management and the external valuers and concluded, based on our work, that the Group's and Company's property valuations were within an acceptable range of values.</p> <p>In addition, we evaluated the adequacy of the disclosures in Note 5 to the financial statements, including those regarding the key valuation assumptions applied in the property valuations.</p>



Independent auditor's report - continued

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

How we tailored our group audit scope

The Group is composed of 8 reporting units all located in Malta. 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.

The Group audit team performed all of this work by applying the overall group materiality, together with additional procedures performed on the consolidation. This gave 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 Chairman's and Chief Executive Officer's review, the Directors' report, and the Remuneration report (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.



Independent auditor's report - continued

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

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.

Auditor's responsibilities for the audit of the financial statements

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

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

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



Independent auditor's report - continued

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

- 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 9 to 16 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

Other matters on which we are required to report by exception

We also have responsibilities:

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

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



Independent auditor's report - continued

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

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 9 years. The Company became listed on a regulated market on 23 November 2015.

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

A handwritten signature in black ink, appearing to read 'Lucienne Pace Ross', written over a horizontal line.

Lucienne Pace Ross
Partner

19 February 2020

Statements of financial position

		As at 31 December			
		Group		Company	
	Notes	2019 €	2018 €	2019 €	2018 €
ASSETS					
Non-current assets					
Property, plant and equipment	4	836,886	842,398	836,886	842,398
Investment property	5	75,740,550	72,482,147	15,485,550	15,214,750
Investment in subsidiaries	6	-	-	69,993	69,993
Loans receivable from subsidiaries	7	-	-	38,791,065	38,785,236
Deferred tax asset	14	-	16,595	-	16,595
Trade and other receivables	9	158,493	46,896	-	-
Total non-current assets		76,735,929	73,388,036	55,183,494	54,928,972
Current assets					
Inventories – property held for resale	8	-	3,500,000	-	-
Trade and other receivables	9	83,477	720,941	8,498,334	6,738,929
Current tax asset		18,713	42,511	-	-
Deposits	10	609,000	-	600,000	-
Cash and cash equivalents	10	6,724,714	4,874,104	1,372,766	338,046
Total current assets		7,435,904	9,137,556	10,471,100	7,076,975
Total assets		84,171,833	82,525,592	65,654,594	62,005,947

Statements of financial position - continued

		As at 31 December			
		Group		Company	
Notes		2019 €	2018 €	2019 €	2018 €
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	11	32,419,356	32,419,356	32,419,356	32,419,356
Other reserves	12	249,365	216,365	249,365	216,365
Retained earnings		20,650,747	18,976,523	5,223,565	2,455,562
Total equity		53,319,468	51,612,244	37,892,286	35,091,283
LIABILITIES					
Non-current liabilities					
Borrowings	13	19,802,249	19,089,084	19,802,249	19,089,084
Deferred tax liability	14	7,654,000	7,678,160	1,628,500	1,601,420
Trade and other payables	16	173,594	316,460	173,594	316,460
Total non-current liabilities		27,629,843	27,083,704	21,604,343	21,006,964
Current liabilities					
Borrowings	13	825,000	-	825,000	-
Derivative financial instruments	15	-	47,413	-	47,413
Trade and other payables	16	2,252,036	3,650,947	5,229,462	5,770,141
Current tax liability		145,486	131,284	103,503	90,146
Total current liabilities		3,222,522	3,829,644	6,157,965	5,907,700
Total liabilities		30,852,365	30,913,348	27,762,308	26,914,664
Total equity and liabilities		84,171,833	82,525,592	65,654,594	62,005,947

The notes on pages 34 to 66 are an integral part of these financial statements.

The financial statements on pages 27 to 66 were authorised for issue by the Board on 19 February 2020 and were signed on its behalf by:


Deepak S. Padmanabhan
Chairman


Paul S. Testaferatta Moroni Viani
Director

Income statements

Year ended 31 December					
	Notes	Group		Company	
		2019 €	2018 €	2019 €	2018 €
Rental income	17	3,395,992	3,297,616	913,510	761,126
Other income	17	30,213	13,830	30,176	12,516
Net impairment losses on financial assets	7,9	-	-	3,123	(85,632)
Administrative expenses	18	(1,301,910)	(1,037,121)	(1,050,774)	(990,076)
Operating profit/(loss)		2,124,295	2,274,325	(103,965)	(302,066)
Dividend income	17	-	-	4,312,890	-
Finance income	21	-	-	1,457,215	1,457,215
Finance costs	22	(505,513)	(632,706)	(668,438)	(632,706)
Gain on disposal of property	8	250,000	2,140,000	-	-
Adjustment arising on fair valuation of property	5	1,749,849	8,997,603	255,292	221,521
Profit before tax		3,618,631	12,779,222	5,252,994	743,964
Tax expense	23	(931,311)	(2,200,707)	(1,471,895)	(535,482)
Profit for the year		2,687,320	10,578,515	3,781,099	208,482
Earnings per share	24	0.03	0.10		

The notes on pages 34 to 66 are an integral part of these financial statements.

Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
	Note	2019 €	2018 €	2019 €	2018 €
Comprehensive income					
Profit for the year		2,687,320	10,578,515	3,781,099	208,482
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Surplus arising on revaluation of land and buildings	12	2,182	37,916	2,182	37,916
Deferred tax on surplus arising on revaluation of land and buildings	12	-	(9,945)	-	(9,945)
<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	47,413	27,900	47,413	27,900
Deferred tax on change in fair value of derivative	12	(16,595)	(9,765)	(16,595)	(9,765)
Total other comprehensive income for the year, net of tax		33,000	46,106	33,000	46,106
Total comprehensive income for the year		2,720,320	10,624,621	3,814,099	254,588

The notes on pages 34 to 66 are an integral part of these financial statements.

Statements of changes in equity

Group	Notes	Share capital €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2018		32,419,356	170,259	8,398,008	40,987,623
Comprehensive income					
Profit for the year		-	-	10,578,515	10,578,515
Other comprehensive income:					
Cash flow hedge, net of deferred tax	12	-	18,135	-	18,135
Surplus arising on revaluation of land and buildings, net of deferred tax	12	-	27,971	-	27,971
Total comprehensive income		-	46,106	10,578,515	10,624,621
Balance at 31 December 2018		32,419,356	216,365	18,976,523	51,612,244
Comprehensive income					
Profit for the year		-	-	2,687,320	2,687,320
Other comprehensive income:					
Cash flow hedge, net of deferred tax	12	-	30,818	-	30,818
Surplus arising on revaluation of land and buildings, net of deferred tax	12	-	2,182	-	2,182
Total comprehensive income		-	33,000	2,687,320	2,720,320
Transactions with owners					
Dividends	27	-	-	(1,013,096)	(1,013,096)
Balance at 31 December 2019		32,419,356	249,365	20,650,747	53,319,468

As at 31 December 2019, total retained earnings of the Group amounted to €20,650,747 (2018: €18,976,523). Distributable reserves within retained earnings amounted to €4,227,309 (2018: €4,127,949), while non-distributable reserves amounted to €16,423,439 (2018: €14,848,574).

Statements of changes in equity - continued

Company	Notes	Share capital €	Other reserves €	Retained earnings €	Total €
Balance 1 January 2018		32,419,356	170,259	2,247,080	34,836,695
Comprehensive income					
Profit for the year		-	-	208,482	208,482
Other comprehensive income:					
Cash flow hedge, net of deferred tax	12	-	18,135	-	18,135
Surplus arising on revaluation of land and buildings, net of deferred tax	12	-	27,971	-	27,971
		-	46,106	208,482	254,588
Balance at 31 December 2018		32,419,356	216,365	2,455,562	35,091,283
Comprehensive income					
Profit for the year		-	-	3,781,099	3,781,099
Other comprehensive income:					
Cash flow hedge, net of deferred tax	12	-	30,818	-	30,818
Surplus arising on revaluation of land and buildings, net of deferred tax	12	-	2,182	-	2,182
		-	33,000	3,781,099	3,814,099
Transactions with owners					
Dividends	27	-	-	(1,013,096)	(1,013,096)
Balance at 31 December 2019		32,419,356	249,365	5,223,565	37,892,286

As at 31 December 2019, total retained earnings of the Company amounted to €5,223,565 (2018: €2,455,562). Distributable reserves within retained earnings amounted to €2,607,218 (2018: €68,978), while non-distributable reserves amounted to €2,616,347 (2018: €2,386,584).

The notes on pages 34 to 66 are an integral part of these financial statements.

Statements of cash flows

		Year ended 31 December			
		Group		Company	
	Notes	2019 €	2018 €	2019 €	2018 €
Cash flows from operating activities					
Cash generated from operations	25	2,560,319	1,788,422	3,319,998	656,236
Interest paid		(505,513)	(632,706)	(668,438)	(632,706)
Tax paid		(917,471)	(1,497,850)	(1,431,458)	(776,943)
Net cash generated from/(used in) operating activities		1,137,335	(342,134)	1,220,102	(753,413)
Cash flows from investing activities					
Additions to investment property		(2,573,684)	(4,117,210)	(106,341)	(1,073,229)
Purchase of property, plant and equipment		(4,110)	(68,149)	(4,110)	(68,149)
Proceeds from disposal of property		3,375,000	5,000,000	-	-
Funds received upon promise of sale agreements		-	1,375,000	-	-
Restricted deposits		(609,000)	-	(600,000)	-
Net cash generated from/(used in) investing activities		188,206	2,189,641	(710,451)	(1,141,378)
Cash flows from financing activities					
Bank loan drawdown		1,538,165	2,071,826	1,538,165	2,071,826
Dividends paid		(1,013,096)	-	(1,013,096)	-
Net cash generated from financing activities		525,069	2,071,826	525,069	2,071,826
Net movement in cash and cash equivalents		1,850,610	3,919,333	1,034,720	177,035
Cash and cash equivalents at beginning of year		4,874,104	954,771	338,046	161,011
Cash and cash equivalents at end of year	10	6,724,714	4,874,104	1,372,766	338,046

The notes on pages 34 to 66 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 property, plant and equipment, 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 2019

In 2019, 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 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's and 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, that are mandatory for the Group's and Company's accounting periods beginning after 1 January 2019. The Group and Company have not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's Directors are of the opinion that there are no requirements that will have possible significant impact on the Group and Company's financial statements in the period of initial application.

1.2 Consolidation

Subsidiaries

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

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

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

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

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

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

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

Loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, an extension of the Company's investment in that subsidiary. Loans to subsidiaries for which settlement is planned are classified as financial assets (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. Summary of significant accounting policies - continued

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. 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.

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment - continued

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 1.6).

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.

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 the following accounting period and is subsequently shown at fair value. 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 until it is derecognised (eliminated) from the statement of financial position and does not reclassify it as inventory. 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 sell, 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. Summary of significant accounting policies - continued

1.7 Financial assets

Classification

The Group classifies its financial assets as financial assets measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Group classifies its financial assets as at amortised cost only if both the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group's main financial assets that are subject to IFRS 9's expected credit loss model comprise cash and cash equivalents and in the case of the Company also loans receivable and amounts owed by subsidiaries.

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. Summary of significant accounting policies - continued

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.

Details about the Group's impairment policies and the calculation of loss allowance are provided in Note 1.7

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.

Details about the Group's impairment policies and the calculation of loss allowance are provided in Note 1.7

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'). 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. Summary of significant accounting policies - continued

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.

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.

1.15 Derivative financial instruments and hedge accounting

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/(losses) 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.

1. Summary of significant accounting policies - continued

1.17 Current and deferred tax - continued

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

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

1.18 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. Revenue comprises rental income from the rental of immovable property in the ordinary course of the Group or Company's activities. Revenue from investment property is recognised in profit or loss on a straight-line basis over the term of the lease and is stated net of sales tax, rebates and discounts. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

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 above.

1.20 Operating leases

The Group or Company is the lessor

Assets leased out under operating lease are included in 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 in accordance with Note 1.19.

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. Summary of significant accounting policies - continued

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's 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.

(a) Market risk

Cash flow and fair value interest rate risk

The Group's interest rate risk principally arises from bank borrowings (Note 13) issued at variable rates that are partially offset by balances held with banks (Note 10) 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 was 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 which terminated on 27 December 2019 (Notes 13 and 15).

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

Cash flow and fair value interest rate risk - continued

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 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	
	2019	2018	2019	2018
	€	€	€	€
Financial assets at amortised cost				
Loans receivable from subsidiaries (Note 7)	-	-	38,791,065	38,785,236
Other receivables (Note 9)	12,303	199,062	8,287,531	6,395,290
Cash and cash equivalents (Note 10)	6,724,714	4,874,104	1,372,766	338,046
	6,737,017	5,073,166	48,451,362	45,518,572

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 other receivables include significant amounts due from its subsidiaries (Note 7). The Group's finance function 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 loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group and Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group and Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The table below shows the reconciliation of the Company's opening allowance to the closing loss allowance as at 31 December 2018:

Company

	Loans receivable from subsidiaries €	Amounts owed by subsidiaries €	Total €
Loss allowance as at 1 January 2018	-	-	-
Increase in allowance recognised in profit or loss during the year	73,832	11,800	85,632
Closing loss allowance as at 31 December 2018	73,832	11,800	85,632
(Decrease)/increase in allowance recognised in profit or loss during the year	(5,829)	2,706	(3,123)
Closing loss allowance as at 31 December 2019	68,003	14,506	82,509

The estimated expected credit loss on other receivables in the case of the Group and on cash and cash equivalents for both the Group and the Company was immaterial. The Group presently has a small number of clients as tenants, the major tenant being GO p.l.c. The Group assessed the respective credit risk and concluded that despite the concentration these tenants are able to honour their contractual commitments.

(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 in the main repayable within one year from the end of the reporting period.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

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

Group and Company

	Carrying amount €'000	Contractual cash flows €'000	Less than 1 year €'000	Between 1 and 2 years €'000	Between 2 and 5 years €'000
31 December 2019					
Bank loan	20,627	22,373	1,444	1,706	19,223
31 December 2017					
Bank loan	19,089	20,753	565	1,384	18,804

2.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 debt to total equity. Aggregated debt is calculated as total borrowings (as shown in the statement of financial position).

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

2. 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 had a carrying amount of €Nil as at 31 December 2019 as this terminated on 27 December 2019. The fair value of the interest rate swap with the carrying amount of €47,413 as at 31 December 2018, 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 the 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 2019 and 2018, 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 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 except as disclosed in Notes 4 and 5, are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

4. Property, plant and equipment

Group and Company	Land and buildings €	Office furniture and equipment €	Total €
At 1 January 2018			
Cost or valuation	700,000	66,267	766,267
Accumulated depreciation	-	(16,720)	(16,720)
Carrying amount	700,000	49,547	749,547
Year ended 31 December 2018			
Opening net book amount	700,000	49,547	749,547
Additions	63,284	4,865	68,149
Depreciation charge	(1,750)	(11,464)	(13,214)
Revaluation of land and buildings			
- Effect on cost	36,166	-	36,166
- Effect on accumulated depreciation	1,750	-	1,750
Closing carrying amount	799,450	42,948	842,398
At 31 December 2018			
Cost or valuation	799,450	71,132	870,582
Accumulated depreciation	-	(28,184)	(28,184)
Carrying amount	799,450	42,948	842,398
Year ended 31 December 2019			
Opening net book amount	799,450	42,948	842,398
Additions	-	4,110	4,110
Depreciation charge	(2,182)	(9,622)	(11,804)
Revaluation of land and buildings			
- Effect on accumulated depreciation	2,182	-	2,182
Closing carrying amount	799,450	37,436	836,886
At 31 December 2019			
Cost or valuation	799,450	75,242	874,692
Accumulated depreciation	-	(37,806)	(37,806)
Carrying amount	799,450	37,436	836,886

Borrowings are secured by the Group's and Company's property, plant and equipment (Note 13).

5. Investment property

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
At 31 December				
Opening carrying amount	72,482,147	58,810,000	15,214,750	13,920,000
Additions	1,508,554	4,674,544	15,508	1,073,229
Net gains from changes in fair value	1,749,849	8,997,603	255,292	221,521
Closing carrying amount	75,740,550	72,482,147	15,485,550	15,214,750
At 31 December				
Cost or valuation	57,492,285	55,983,731	12,578,498	12,562,990
Net fair value gains	18,248,265	16,498,416	2,907,052	2,651,760
Carrying amount	75,740,550	72,482,147	15,485,550	15,214,750

Investment property comprises commercial properties mainly leased out to a related party. Minimum lease payments receivable on leases of investment properties are disclosed in Note 28.

Borrowings are secured by the Group's and Company's investment property (Note 13).

Fair valuation of land and buildings

The Group's investment property were revalued on 31 December 2019 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 2019, 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 after considering the returns being attained by the property and its intrinsic value.

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 investment property comprises various exchanges and offices. All the recurring property fair value measurements at 31 December 2019 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 2019.

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 2019 reflects additions and gains from changes in fair value.

5. Investment property - continued

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 property have been performed using a variety of methods, including an adjusted sales comparison approach and the discounted cash flow approach. Each property was valued using the method considered by the external valuers to be the most appropriate valuation method for that type of property.

In view of a limited number of similar or comparable properties and property transactions, comprising sales or rentals in the respective markets in which the properties are located, the valuations have been performed using unobservable inputs. The significant inputs to the approaches used are generally those described below:

- Discounted cash flow approach considers the free cash flows arising from the projected income streams expected to be derived from the operation of property, discounted to present value using an estimate of the weighted average cost of capital that would be available to finance such an operation. The significant unobservable inputs utilised with this technique include:

Projected pre-tax cash flows which are initially mainly based on the existing rental income streams less operating costs that reflect the existing cost structure. Going forward all the rental streams are adjusted to reflect contracted rental adjustments including annual growth rates. An average growth rate of 1.41% per annum is being assumed. In the case of properties currently under development, estimated development costs to complete were also considered.

Discount rates based on current market interest rates and a risk premium that reflects the valuers assessment to specific risk attached to the property being valued and its underlying activity.

5. Investment property - continued

- The adjusted sales approach - The significant input to the sales comparative approach is generally a sales price per square metre related to transactions in comparable properties located in proximity to the Group's property, with significant adjustments for differences in the size, age, exact location and condition of the property. The term airspace is a conceptual unit representing a packet of three-dimensional accessible, usable and developable space. The concept of sales price factor per airspace or square metre is the value expected to be fetched on the open market and represents the present value of the property after deduction of all development, refurbishment and related costs.

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

	Fair value at 31 December 2019 €000	Valuation technique	Significant unobservable input	Range of unobservable inputs
Land and buildings				
Current use as office premises	30,355	Discounted cash flow approach	Discount rate	6.1% - 6.5%
Developable land for industrial/commercial use	18,500	Discounted cash flow approach	Discount rate	6.0% - 6.7%
Marketed as extended-commercial premises	11,400	Adjusted sales approach	Sales price per square metre	€4,770
	6,276	Discounted cash flow approach	Discount rate	6.1%
Marketed as residential-commercial developments	9,210	Discounted cash flow approach	Discount rate	6.1%
Land and buildings				
	Fair value at 31 December 2018 €000	Valuation technique	Significant unobservable input	Range of unobservable inputs
Current use as office premises	29,946	Discounted cash flow approach	Discount rate	6.1% - 6.5%
Developable land for industrial/commercial use	17,249	Discounted cash flow approach	Discount rate	6.0% - 6.7%
Marketed as extended-commercial premises	10,000	Adjusted sales approach	Sales price per square metre	€4,184
	6,203	Discounted cash flow approach	Discount rate	6.1%
Marketed as residential-commercial developments	9,084	Discounted cash flow approach	Discount rate	6.1%

5. Investment property - continued

For the sales comparative approach, the higher the rate per square metre, the higher the resultant fair valuation. Conversely, the lower the capitalisation rate, the higher the resultant fair valuation.

In respect of the discounted cashflow approach, the higher the annualized net cash inflows, and growth rate, the higher the fair value. Conversely, the lower the discount rate, the estimated development costs, and capitalisation rate used in calculating the annualized net cash inflows, the higher the fair value.

During 2018, one of the Company's subsidiaries entered into a promise of sale agreement and bound itself to sell and transfer the property known as the St. George's Exchange to third parties by August 2021. The consideration for the sale of the property amounts to €13.75 million.

6. Investment in subsidiaries

	Company
Years ended 31 December 2019 and 2018	€
Opening and closing cost and carrying amount	<u>69,993</u>

The carrying amount of the investments at 31 December 2019 and 2018 is equivalent to the cost of the investment net of impairment charges.

The subsidiaries at 31 December 2019 and 2018 are shown below:

Subsidiary	Registered office	Class of shares held	Percentage of shares held
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

	Company	
	2019	2018
	€	€
Loans receivable from subsidiaries	38,859,068	38,859,068
Loss allowance	(68,003)	(73,832)
Closing carrying amount	38,791,065	38,785,236

The loans are unsecured, subject to interest at 3.75% and repayable after more than twelve months. The Group assessed the impairment for all classes of assets under IFRS9 and the loss allowance represents the amount that the Company recognised as an expected loss provided under IFRS 9.

8. Inventories – property held for resale

Group	2019	2018
	€	€
Opening carrying amount	3,500,000	6,360,000
Disposal	(3,500,000)	(2,860,000)
Closing carrying amount	-	3,500,000

During 2017, 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 old Sliema Exchange and the old St. Paul's Bay Exchange to third parties. The consideration for the sale of the properties amounted to €8.75 million. During 2018, the deed of sale for the old Sliema Exchange was signed for €5 million. During 2019, the deed of sale for the old St. Paul's Bay Exchange was signed for €3.75 million.

9. Trade and other receivables

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Current				
Amounts owed by subsidiaries	-	-	8,292,239	6,210,528
Loss allowance	-	-	(14,506)	(11,800)
	-	-	8,277,733	6,198,728
Advance payments	-	109,244	-	-
Indirect taxation	49,345	211,505	-	147,945
Other receivables and related assets	10,467	381,337	196,936	373,401
Prepayments	23,665	18,855	23,665	18,855
	83,477	720,941	8,498,334	6,738,929
Non-current				
Other assets	158,493	46,896	-	-

Amounts owed by subsidiaries are unsecured, interest free and repayable on demand. The Group assessed the impairment for all classes of assets under IFRS9 and the loss allowance of €14,506 (2018: €11,800) represents the amount that the Company recognised as an expected loss provided under IFRS 9. Information about the Group's and Company's exposure to credit risk is disclosed in Note 2.

10. Cash and cash equivalents

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

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Cash at bank and in hand	6,724,714	4,874,104	1,372,766	338,046

Cash excludes an amount of €609,000 for the Group and €600,000 for the Company shown as deposits in the statement of financial position as these are restricted cash in terms of the ability to withdraw until the Zejtun project is completed. The Group assessed the impairment methodology for all classes of assets under IFRS 9 and the identified expected credit loss on cash and cash equivalents was immaterial.

11. Share capital

	Group and Company	
	2019	2018
	€	€
Authorised		
125,000,000 (2018: 125,000,000) ordinary shares of €0.32 (2018: €0.32) each	40,000,000	40,000,000
Issued and fully paid		
101,310,488 (2018: 101,310,488) ordinary shares of €0.32 (2018: €0.32) each	32,419,356	32,419,356

12. Other reserves

Group and Company

	Property revaluation reserve	Hedge reserve	Total
	€	€	€
At 31 December 2018			
Opening carrying amount	219,212	(48,953)	170,259
Surplus arising on revaluation of land and buildings (Note 4)	37,916	-	37,916
Losses from changes in fair value (Note 15)	-	27,900	27,900
Deferred taxes thereon (Note 14)	(9,945)	(9,765)	(19,710)
Closing carrying amount	247,183	(30,818)	216,365
At 31 December 2019			
Opening carrying amount	247,183	(30,818)	216,365
Surplus arising on revaluation of land and buildings (Note 4)	2,182	-	2,182
Losses from changes in fair value (Note 15)	-	47,413	47,413
Deferred taxes thereon (Note 14)	-	(16,595)	(16,595)
Closing carrying amount	249,365	-	249,365

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 2018 on the Group's interest rate swap, which hedged variable interest payments on borrowings, were unrealised and therefore not recognised in the income statement. The interest rate swap terminated on 27 December 2019.

13. Borrowings

	Group and Company	
	2019	2018
	€	€
Carrying amount at 1 January	19,089,084	17,017,258
Bank loan	1,538,165	2,071,826
Carrying amount at 31 December	20,627,249	19,089,084
Classified as:		
Non-current	19,802,249	19,089,084
Current	825,000	-

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 and a number of its subsidiaries.

13. Borrowings - continued

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 had 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 which expired on 27 December 2019. The terms and conditions of this interest rate swap are disclosed in Note 15.

The €8,500,000 loan facility started being withdrawn during 2017. 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 2019, the Company had an unutilised loan facility amounting to €3,872,751 (2018: €5,410,916).

This note provides information about the contractual terms of the Group's and Company's borrowings. For more information about the Group's and Company's exposure to liquidity and interest rate risk see Note 2.

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, that is, a tax effect of 10% (2018: 10%) of the transfer value.

The balance at 31 December represents temporary differences arising on:

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Deferred tax assets				
Cash flow hedge	-	16,595	-	16,595
Deferred tax liabilities				
Revaluation of property, plant and equipment	79,945	79,945	79,945	79,945
Fair valuation of investment property	7,574,055	7,598,215	1,548,555	1,521,475
	7,654,000	7,678,160	1,628,500	1,601,420

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.

In 2018, deferred tax liabilities on the fair valuation of investment property included deferred tax on the fair valuation of properties whose use had since changed and which were classified as Inventories.

14. Deferred tax assets and liabilities - continued

The movement on the deferred tax account is as follows:

Group and Company

	Deferred tax assets
	Cash flow hedge €
Balance as at 1 January 2018	26,360
Recognised in other comprehensive income	(9,765)
Balance as at 31 December 2018	16,595
Recognised in other comprehensive income	(16,595)
Balance as at 31 December 2019	-

Group

	Deferred tax liabilities		
	Investment property €	Property, plant and equipment €	Total €
Balance as at 1 January 2018	6,517,000	70,000	6,587,000
Recognised in profit or loss (Note 23)	1,081,215	-	1,081,215
Recognised in revaluation reserve (Note 12)	-	9,945	9,945
Balance as at 31 December 2018	7,598,215	79,945	7,678,160
Recognised in profit or loss (Note 23)	(24,160)	-	(24,160)
Balance as at 31 December 2019	7,574,055	79,945	7,654,000

14. Deferred tax assets and liabilities - continued

Company

	Deferred tax liabilities		
	Investment property €	Property, plant and equipment €	Total €
Balance as at 1 January 2018	1,392,000	70,000	1,462,000
Recognised in profit or loss (Note 23)	129,475	-	129,475
Recognised in revaluation reserve (Note 12)	-	9,945	9,945
Balance as at 31 December 2018	1,521,475	79,945	1,601,420
Recognised in profit or loss (Note 23)	27,080	-	27,080
Balance as at 31 December 2019	1,548,555	79,945	1,628,500

15. Derivative financial instruments

	Group and Company	
	2019 €	2018 €
Current liabilities		
Interest rate swap designated as hedging instrument in cash flow hedge	-	47,413

Interest rate swap designated as hedging instrument

The Group and Company were a party to a three-year receive-variable, pay-fixed interest rate swap arrangement which, terminated on 27 December 2019, with a notional amount matching a proportion of the principal amount of the loan. The Group had 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.

16. Trade and other payables

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Current				
Amounts owed to subsidiaries	-	-	4,703,909	5,143,426
Other payables	470,677	684,504	67,500	137,787
Indirect taxes	52,578	-	2,904	-
Accruals and deferred income	1,728,781	2,966,443	455,149	488,928
	2,252,036	3,650,947	5,229,462	5,770,141
Non-current				
Other payables	91,462	72,296	91,462	72,296
Accruals and deferred income	82,132	244,164	82,132	244,164
	173,594	316,460	173,594	316,460

Amounts owed to subsidiaries are unsecured, interest free and repayable on demand. The Group's and Company's exposure to liquidity risk relating to trade and other payables is disclosed in Note 2.

17. Rental income, other income and dividend income

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Rental income on property rented to related party	2,850,628	2,899,922	541,511	535,302
Other rental income	545,364	397,694	371,999	225,824
Total rental income	3,395,992	3,297,616	913,510	761,126
Other income	30,213	13,830	30,176	12,516
Total rental and other income	3,426,205	3,311,446	943,686	773,642
 Dividend income	 -	 -	 4,312,890	 -

The Group primarily operates in one segment that comprises the provision of rental services to customers, which activities are substantially subject to the same risks and returns. Accordingly, the presentation of segment information as required by IFRS 8, Operating segments, within these financial statements is not deemed applicable.

18. Expenses by nature

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Depreciation (Note 4)	11,804	13,214	11,804	13,214
Auditor's remuneration	30,103	34,894	11,903	12,894
Professional fees	100,555	126,679	93,285	106,710
Employee benefit expense (Note 19)	495,130	456,203	495,130	456,203
Directors' emoluments (Note 20)	39,600	30,282	39,600	30,282
Insurance	56,469	47,993	56,469	47,993
Listing and related fees	70,116	78,665	70,116	78,665
Registration fees	2,345	2,520	1,400	1,400
Business development	248,776	16,059	26,470	16,059
Other	247,012	230,612	244,597	226,656
Total administrative expenses	1,301,910	1,037,121	1,050,774	990,076

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2019 and 2018 relate to the following:

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Annual statutory audit	31,000	30,000	7,725	7,500
Other assurance services	3,500	3,500	3,500	3,500
Other non-audit services	30,425	6,300	17,925	1,400
	64,925	39,800	29,150	12,400

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

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
General tax advice and tax compliance services	23,175	6,300	17,925	1,400
Other advisory services	7,250	-	-	-
	30,425	6,300	17,925	1,400

19. Employee benefit expense

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Wages and salaries	547,074	481,627	547,074	481,627
Social security costs	16,478	37,431	16,478	37,431
	563,552	519,058	563,552	519,058
Capitalised wages	(17,686)	(58,111)	(952)	(22,214)
Recharges	(50,736)	(4,744)	(67,470)	(40,641)
	495,130	456,203	495,130	456,203

In 2019, the average number of persons employed by the Group and Company was 7 (2018: 7).

20. Directors' emoluments

	Group and Company	
	2019	2018
	€	€
Directors' fees	39,600	30,282

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

21. Finance income

	Company	
	2019	2018
	€	€
Interest receivable from subsidiaries	1,457,215	1,457,215

22. Finance costs

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Bank interest	478,719	551,282	598,838	551,282
Bank charges	26,794	81,424	69,600	81,424
	505,513	632,706	668,438	632,706

23. Tax expense

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Current tax expense	955,471	1,119,492	1,444,815	406,007
Deferred tax (income)/expense (Note 14)	(24,160)	1,081,215	27,080	129,475
Tax expense	931,311	2,200,707	1,471,895	535,482

23.1 Tax expense reconciliation

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	
	2019	2018	2019	2018
	€	€	€	€
Profit before tax	3,618,631	12,779,222	5,252,994	743,964
Tax on profit at 35%	1,266,521	4,472,728	1,838,548	260,387
Tax effect of:				
Tax rates applicable to property	(336,603)	(2,067,946)	(62,272)	51,943
Further allowances on rental income	(170,620)	(170,554)	-	-
Income taxed at reduced rates	(279,363)	(421,214)	(673,384)	(152,225)
Expenses not deductible for tax purposes	437,480	364,086	348,490	375,377
Other differences	13,896	23,607	20,513	-
Tax expense	931,311	2,200,707	1,471,895	535,482

23.2 Tax recognised in other comprehensive income

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:

Group and Company

	Before tax	Tax credit	Net of tax
	€	€	€
As at 31 December 2019			
Cash flow hedge	(47,413)	16,595	(30,818)
Revaluation of land and buildings	2,182	-	2,182
As at 31 December 2018			
Cash flow hedge	(27,900)	9,765	(18,135)
Revaluation of land and buildings	37,916	(9,945)	27,971

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.

	Group	
	2019	2018
Profit attributable to equity holders (€)	2,687,320	10,578,515
Number of shares in issue (Note 11)	101,310,488	101,310,488
Earnings per share (€)	0.03	0.10

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 operations

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

	Group		Company	
	2019 €	2018 €	2019 €	2018 €
Operating profit/(loss)	2,124,295	2,274,325	(103,965)	(302,066)
Adjustments for:				
Depreciation (Note 4)	11,804	13,214	11,804	13,214
Changes in working capital:				
Trade and other receivables	525,867	(179,258)	(308,019)	2,184,227
Trade and other payables	(101,647)	(319,859)	(592,712)	(1,239,139)
Dividends received from subsidiaries	-	-	4,312,890	-
Cash generated from operations	2,560,319	1,788,422	3,319,998	656,236

26. Contingencies

A guarantee of €24,500,000 (2018: €24,500,000) was issued by the Company, together with its fellow subsidiaries, in favour of its bankers for facilities provided.

27. Dividends

A dividend in respect of the year 31 December 2019 of €0.01 per share (2018: €0.01), amounting to €1,013,096 (2018: €1,013,096) was proposed by the Board of Directors subsequent to the end of the reporting period. The financial statements do not reflect this proposed dividend. Dividends of €1,013,096 proposed in 2018 have been approved and reflected in the current year's financial statements.

28. Commitments

(a) Capital commitments

Capital expenditure for investment property at the end of the reporting period is as follows:

	Group 2019 €	2018 €
Authorised and contracted	1,373,706	1,026,510
Authorised but not yet contracted	2,359,650	3,291,887

(b) Operating leases – Group and Company as lessor

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

	Group 2019 €	2018 €	Company 2019 €	2018 €
Within 1 year	2,217,000	2,245,000	744,000	723,000
Between 1 and 5 years	12,353,000	12,785,000	2,622,000	3,056,000
After 5 years	8,697,000	10,461,000	-	532,000
	23,267,000	25,491,000	3,366,000	4,311,000

29. Related party transactions

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

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

During the year the Company and its subsidiaries entered into transactions with related parties including rental income, dividends and finance income (Notes 17 and 21). Year end balances owed by/to related parties are disclosed in Notes 7, 9 and 16 to these financial statements. Furthermore, a payment of €510,100 was paid by the Group to a related party to vacate previously leased out premises. These are included as part of the additions in Investment Property.

Key management personnel compensation, consisting of directors' and senior management remuneration, is disclosed as follows:

	Group and Company 2019 €	2018 €
Directors	39,600	30,282
Senior management	300,000	308,000
	339,600	338,282

30. 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.