

MALITA INVESTMENTS P.L.C.

Condensed Interim Financial Statements (unaudited)
30 June 2018

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Interim Directors' report

The Directors present their report together with the condensed interim financial statements for the period ended 30 June 2018.

Principal activities

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

Review of the business

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

As explained in Note 4, the results for the Company registered a positive movement in fair value of the MIA and VCP properties as well as the Parliament Building and Open Air Theatre of €2,390,000 and €1,159,000 respectively which came about due to the slight downward movement of interest rates. This has been transferred to a non-distributable reserve (net of deferred tax).

Pursuant to the entry into an emphyteutical deed for the acquisition of sixteen (16) property sites and the credit facility agreements with the European Investment Bank and the Council of Europe Development Bank in 2017, the Company started the development on several sites during the period. To this effect, the Company's investment in the project has increased by €2,650,061 up to June 2018.

The Company has ongoing negotiations on a number of projects, one of which is currently being classified under Other assets. The Board of Directors are currently considering and evaluating other potential projects.

Result and dividends

The condensed statement of comprehensive income is set out on page 5. The Directors declare the payment of an interim gross dividend of €1,955,026 or €0.0132 per share (June 2017: €1,955,026 or €0.0132 per share) equating to an interim net dividend of €1,270,767 or €0.00858 per share (June 2017: €1,270,767 or €0.00858 per share) payable on 7 September 2018.

Directors

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

Kenneth Farrugia
Ray Sladden
Paul Mercieca
Robert Suban
Eric Schembri

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

Interim Directors' report - continued

Statement of Directors' responsibilities for the financial statements

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


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

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

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

The financial statements of Malita Investments p.l.c. for the period ended 30 June 2018 are included in the Condensed Interim Financial Statements – 30 June 2018, which is published in printed form and will be made available on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's 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.

On behalf of the board



Robert Suban
Director



Paul Mercieca
Director

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

10 August 2018



Report on review of interim financial information

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

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Malita Investments p.l.c. as of 30 June 2018 and the related condensed statements of comprehensive income, changes in equity and cash flows for the 6-month period then ended and notes comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

Other matters

This report, including the conclusion, has been prepared for and only for the Company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

78 Mill Street
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Steve Mamo', written over a faint, larger signature.

Steve Mamo
Partner

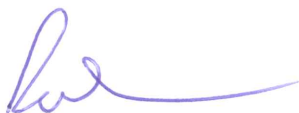
10 August 2018

Condensed statement of financial position

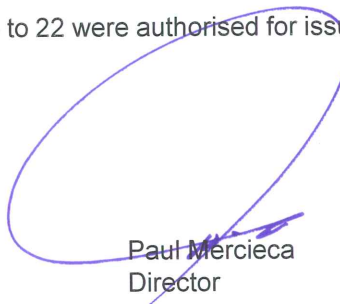
	Notes	As at 30 June 2018 € (unaudited)	As at 31 December 2017 € (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		8,555	3,634
Investment property	4	183,940,436	177,739,687
		183,948,991	177,743,321
Current assets			
Trade and other receivables		607,270	904,247
Cash and cash equivalents		288,347	1,049,421
Current tax assets		-	8,400
Other assets		174,422	158,119
		1,070,039	2,120,187
Total assets		185,019,030	179,863,508
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	5	73,295,143	73,295,143
Retained earnings		5,939,101	6,668,983
Non-distributable reserve – fair value gains	6	42,001,585	38,736,505
Non-distributable reserve – other	7	2,271,704	2,047,865
Total equity		123,507,533	120,748,496
Non-current liabilities			
Borrowings	8	41,191,226	38,298,063
Deferred tax liabilities	12	14,382,381	14,098,461
		55,573,607	52,396,524
Current liabilities			
Borrowings	8	1,908,472	1,891,340
Capital creditor for acquisition of property		-	3,884,554
Trade and other payables		3,510,486	942,594
Current tax liabilities		518,932	-
		5,937,890	6,718,488
Total liabilities		61,511,497	59,115,012
Total equity and liabilities		185,019,030	179,863,508

The notes on pages 9 to 22 are an integral part of these condensed interim financial statements.

The condensed interim financial statements on pages 4 to 22 were authorised for issue by the board on 10 August 2018 and were signed on its behalf by:



Robert Suban
Director



Paul Mercieca
Director

Condensed statement of comprehensive income

	Notes	Period from 1 January to 30 June 2018 € (unaudited)	Period from 1 January to 30 June 2017 € (unaudited)
Revenue	9	3,914,626	3,527,446
Administrative expenses		(294,559)	(337,483)
Change in fair value of investment property	4	3,549,000	7,126,000
Operating profit		7,169,067	10,315,963
Finance income		154	357
Finance costs		(649,300)	(623,235)
Profit before tax		6,519,921	9,693,085
Tax expense	11	(1,016,442)	(8,012,423)
Profit for the period - total comprehensive income		5,503,479	1,680,662
Earnings per share (cents)	13	3.72	1.13

The notes on pages 9 to 22 are an integral part of these condensed interim financial statements.

Condensed statement of changes in equity

		Share capital	Retained earnings	Non-distributable reserves		Total
	Notes	€	€	Fair value gains	Other	€
		€	€	€	€	€
Balance at 1 January 2017		73,295,143	5,925,209	30,531,648	1,569,938	111,321,938
Comprehensive income						
Profit for the period		-	1,680,662	-	-	1,680,662
Transactions with owners						
Transfer within owners' equity	6	-	591,263	(591,263)	-	-
Transfer within owners' equity	7	-	(227,193)	-	227,193	-
Dividends to equity shareholders	14	-	(2,194,962)	-	-	(2,194,962)
Balance at 30 June 2017 (unaudited)		73,295,143	5,774,979	29,940,385	1,797,131	110,807,638
Balance at 1 July 2017		73,295,143	5,774,979	29,940,385	1,797,131	110,807,638
Comprehensive income						
Profit for the period		-	11,303,452	-	-	11,303,452
Transactions with owners						
Transfer within owners' equity	6	-	(8,796,120)	8,796,120	-	-
Transfer within owners' equity	7	-	(250,734)	-	250,734	-
Dividends to equity shareholders		-	(1,362,594)	-	-	(1,362,594)
Balance as at 31 December 2017 (audited)		73,295,143	6,668,983	38,736,505	2,047,865	120,748,496
Balance at 1 January 2018		73,295,143	6,668,983	38,736,505	2,047,865	120,748,496
Comprehensive income						
Profit for the period		-	5,503,479	-	-	5,503,479
Transactions with owners						
Transfer within owners' equity	6	-	(3,265,080)	3,265,080	-	-
Transfer within owners' equity	7	-	(223,839)	-	223,839	-
Dividends to equity shareholders	14	-	(2,744,442)	-	-	(2,744,442)
Balance at 30 June 2018 (unaudited)		73,295,143	5,939,101	42,001,585	2,271,704	123,507,533

The notes on pages 9 to 22 are an integral part of these condensed interim financial statements.

Condensed statement of cash flows

		Period from 1 January to 30 June 2018 € (unaudited)	Period from 1 January to 30 June 2017 € (unaudited)
	Notes		
Cash flows from operating activities			
Cash generated from operations	15	3,947,522	2,774,251
Interest received		216	671
Interest paid and similar charges		(900)	(445)
Tax paid		(205,186)	(314,880)
Net cash generated from operating activities		3,741,652	2,459,597
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,810)	(813)
Payments to acquire investment property		(110,513)	-
Improvements to investment property		(3,884,554)	-
Net cash used in investing activities		(4,000,877)	(813)
Cash flows from financing activities			
Repayment of borrowings		(975,946)	(723,383)
Interest paid on borrowings		(666,015)	(635,229)
Dividends paid to equity holders	14	(2,744,442)	(2,194,962)
Loan to finance additional investment in Parliament Building		3,884,554	-
Net cash used in financing activities		(501,849)	(3,553,574)
Net movement in cash and cash equivalents		(761,074)	(1,094,790)
Cash and cash equivalents at beginning of period		1,049,421	3,427,250
Cash and cash equivalents at end of period		288,347	2,332,460

The notes on pages 9 to 22 are an integral part of these condensed interim financial statements.

Notes to the condensed interim financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

These condensed interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34, 'Interim financial reporting'. They have been prepared under the historical cost convention as modified by fair valuation of investment property.

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRS.

The condensed interim financial statements have been reviewed, not audited.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies (see note 2 – Critical accounting estimates and judgements).

The statement of financial position reflects a net current liability position of €4,867,851. Current liabilities as at 30 June 2018 include payables of €2,539,549 in relation to acquisition of investment property and up to the date of these financial statements, the Company paid €110,513 from own funds for the acquisition of the same property. As explained in the Review of the business the Company has entered into two credit facility agreements amounting to €53,700,000 in order to finance this project, however no disbursements have been made to date. Consequently, this balance will eventually be drawn down from this bank loan and the Company's position will improve significantly.

Standards, interpretations and amendments to published standards effective in 2018

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

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, subject to endorsement by the EU. The standard will have no significant impact on the company's financial results and position.

1. Summary of significant accounting policies – continued

1.1 Basis of preparation - continued

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Company's accounting periods beginning after 1 January 2018. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU.

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

1.2 Investment property

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

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost, in accordance with Note 1.10. After initial recognition, investment property is carried at fair value. Given that there is no active market for the investment property held by the Company, the Company establishes fair value by using valuation techniques, particularly discounted cash flow analysis.

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

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

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

2. Summary of significant accounting policies - continued

1.3 Financial assets

1.3.1 Classification

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company's financial assets consist of receivables. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. The latter are classified as non-current assets. The Company's receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.4 and 1.5). Cash and cash equivalents includes cash in hand, deposits held with banks with original maturities of six months or less.

1.3.2 Recognition and measurement

The Company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

1.4 Trade and other receivables

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

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

1.5 Cash and cash equivalents

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

1. Summary of significant accounting policies - continued

1.6 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.

1.7 Trade and other payables

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

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

1.8 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statement, 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.

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

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

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

1.9 Revenue recognition

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

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

(a) Interest income

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

1. Summary of significant accounting policies - continued

1.9 Revenue recognition - continued

(b) Rental income from investment property

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

1.10 Borrowing costs

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

1.11 Dividend distributions

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

2. Critical accounting estimates and judgements

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

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

The Company's investment property comprises the MIA and VCP properties as well as the Parliament Building and Open Air Theatre. The fair value of the Company's investment property has been determined based on projected future cash flows, appropriately discounted by a risk adjusted discount rate. As explained in Note 4 - Investment property, the valuation was determined using discounted cash flow projections considering, *inter alia*, the projected future cash flows to be generated from the transfer of the dominium directum of the MIA and VCP properties, the Parliament Building and Open Air Theatre, ongoing maintenance needs, and other relevant market factors.

A key variable used in the determination of the fair value of the Investment Property is the discount rate. If the discount rate used in the discounted future cash flows for the investment property had been 0.5% higher/lower, all other things being equal, the fair value of the Company's investment property would decrease/increase by €17.7 million (2017: €15 million) and €21.0 million (2017: €19 million) respectively.

3. Segment reporting

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

4. Investment property

	30 June 2018 €	31 December 2017 €
Property measured at fair value	179,784,821	176,234,133
Property measured at cost	4,155,615	1,505,554
Carrying amount	<u>183,940,436</u>	<u>177,739,687</u>

a) Property measured at fair value

	30 June 2018 €	31 December 2017 €
MIA and VCP properties	77,977,000	75,587,000
Parliament Building and Open Air Theatre	101,807,821	100,647,133
Carrying amount	<u>179,784,821</u>	<u>176,234,133</u>

i. MIA and VCP

	30 June 2018 €	31 December 2017 €
At 1 January	75,587,000	70,204,000
Fair value gain	2,390,000	5,383,000
Carrying amount	<u>77,977,000</u>	<u>75,587,000</u>

ii. Parliament Building and Open Air Theatre

	30 June 2018 €	31 December 2017 €
At 1 January	100,647,133	82,339,759
Amortisation of borrowing costs	1,688	3,374
Additional investment	-	7,000,000
Fair value gain	1,159,000	11,304,000
Carrying amount	<u>101,807,821</u>	<u>100,647,133</u>

4. Investment property - continued

a) Property measured at fair value - continued

ii. Parliament Building and Open Air Theatre - continued

Fair values of investment property

The movement in the fair value of investment property comprises the movement in the fair value of the dominium directum of the MIA and VCP properties, as well as the Parliament Building and Open Air Theatre. This fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 30 June 2018. Accordingly, the fair value of the investment property is subject to variation owing to, amongst other things, movements in market interest rates, expected inflation rates and changes in the contractual cash flows owing to the passage of time.

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

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

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

Valuation process

a) MIA and VCP

The valuation of the MIA and VCP properties is based on the present value of ground rents up to the expiry of the temporary emphyteutical grants and the estimated freehold value thereafter discounted to present value. The fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 30 June 2018. The discount rate is based on the yield to maturity on the longest term available Malta Government Stock (MGS) in issue plus a premium reflecting the risk inherent in the underlying cash flows.

In view of the variation in the MGS benchmark referred to above during the period ended 30 June 2018, a fair value gain of €2,390,000 has been recognised in these financial statements.

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

- Ground rent, as contractually agreed which for the coming year is estimated at €1.9 million (2017: €1.8 million);
- Growth rate, as contractually agreed at an average of 2.5% p.a., represents the estimated average growth of the Company's rentals;
- Discount rate of 4.92% based on the long-term risk-free rate of return and a specific risk premium for the individual property being valued taking into account factors such as, property illiquidity, management limitations, type, size and location of property, competition, future uncertainty, counter-party risks and resource risks.

The impact of a lower/higher discount rate has been disclosed in Note 2 - Critical accounting estimates and judgements. Movements resulting from the said revaluation process are treated as non-distributable (see Note 6).

4. Investment property - continued

a) Property measured at fair value – continued

Valuation process - continued

b) Parliament Building and Open Air Theatre

The valuation of the Parliament Building and Open Air Theatre is based on the present value of ground rents up to the expiry of the temporary emphyteutical grant discounted to present value. The fair value of investment property is calculated with reference to the cash flows receivable by the Company in terms of its contractual agreements, discounted to present value as at 30 June 2018. The discount rate is based on the yield to maturity on the longest term available Malta Government Stock (MGS) in issue plus an additional premium reflecting the risk inherent in the underlying cash flows and the type of property.

A fair value gain of €1,159,000 (2017: €11,304,000) has been recognised in these financial statements. The property has been measured at fair value from 1 January 2017.

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

- Rents, as contractually agreed which for the coming year is estimated at €5.2 million;
- Growth rate, at an average of 3.5% every 3 years, represents the estimated average growth of the Company's rentals;
- Discount rate of 6.42% based on the long-term risk-free rate of return and a specific risk premium for the individual property being valued taking into account factors such as, property illiquidity, management limitations, type, size and location of property, competition, future uncertainty, counter-party risks and resource risks.

The impact of a lower/higher discount rate has been disclosed in Note 2 - Critical accounting estimates and judgements. Movements resulting from the said revaluation process are treated as non-distributable (see Note 6).

As explained in the Interim Directors' Report, as at 30 June 2018, the certificate of completion of the Parliament Building, despite being officially opened in 2015, has not yet been issued. On the other hand, the Open Air Theatre was completed on 18 October 2013. Nonetheless, in the opinion of the Directors, the Parliament Building and Open Air Theatre should be carried at fair value.

b) Property measured at cost

Affordable housing

	At cost 30 June 2018 €	At cost 31 December 2017 €
Balance as at 1 January	1,505,554	-
Additions	2,650,061	1,505,554
Carrying amount	4,155,615	1,505,554

4. Investment property - continued

b) Property measured at cost - continued

Affordable housing - continued

On 29 December 2017, the Company entered into an emphyteutical deed for a period of 28 years in order to acquire sixteen (16) property sites in various locations across Malta for the purpose of constructing a number of affordable housing units. The consideration payable by the Company for the acquisition of this investment property is an annual revisable ground rent and a premium. Included in the value for the cost of the investment is a premium amounting to €1,177,200 and capitalised costs of €2,978,415 that were incurred in order to bring the project to fruition.

5. Share capital

	30 June 2018	31 December 2017
	€	€
Authorised		
150,000,000 Ordinary A shares of €0.50 each	75,000,000	75,000,000
50,000,000 Ordinary B shares of €0.50 each	25,000,000	25,000,000
	100,000,000	100,000,000
Issued and fully paid		
118,108,064 Ordinary A shares of €0.50 each	59,054,032	59,054,032
30,000,000 Ordinary B shares of €0.50 each	15,000,000	15,000,000
	74,054,032	74,054,032
Issue costs	(758,889)	(758,889)
	73,295,143	73,295,143

6. Non-distributable reserve - fair value gains

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

7. Non-distributable reserve - other

As per article 82 of the Company's Articles of Association, the Directors have set aside €223,839 (June 2017: €227,293) which equals 10% of the net profit for the period excluding fair value movements net of deferred tax (see Note 6) of the Company and allocated them to a non-distributable reserve. The Directors may employ the reserve in the furtherance of the business of the Company as the Directors may from time to time think fit.

8. Borrowings

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

On 28 September 2016, the Company secured a €7,000,000 revolving loan facility with Bank of Valletta in satisfaction of the improvements to the Parliament Building. The facility is to be fully repaid within 15 years from first drawdown at a fixed rate of interest. In November 2017, the Company drew down €3,115,446 and the remaining drawdown of €3,884,554 was made in June 2018. The first capital and interest repayments on this loan were paid in May 2018.

	30 June 2018	31 December 2017
	€	€
Borrowings		
Non-current	41,191,226	38,298,063
Current	1,908,472	1,891,340
	43,099,698	40,189,403

9. Revenue

Revenue comprises the consideration payable by MIA and VCP by way of an annual ground rent in respect of the temporary emphyteusis granted. The Company kept receiving the lease for the Open Air Theatre pursuant to the lease agreement entered into. Also included in the revenue figure is a penalty payable by Government pursuant to a public deed which was entered into with the Company which stipulated that, the Government was required to complete the development of the Parliament Building and Open Air Theatre in accordance with pre-established specifications and timelines and that, in the event of a delay in completion, the Government was liable to pay the Company a daily penalty broadly in line with the rental income due, had the project been completed on time. In April 2017, a lease agreement was entered into between the Government of Malta and the Company to reflect an additional investment in the Parliament Building and as from June 2017 additional rent is payable semi-annually to the Company.

10. Directors' emoluments

	Period from 1 January to 30 June 2018 €	Period from 1 January to 30 June 2017 €
Kenneth Farrugia (Chairman)	12,500	12,500
Paul Mercieca (Director)	7,500	9,564
Ray Sladden (Director)	5,000	5,000
Robert Suban (Director)	7,500	7,500
John Buttigieg (Director – Resigned on 21 November 2017)	-	3,750
Eric Schembri (Director)	5,000	5,000
	37,500	43,314

11. Tax expense

The tax expense for the period is made up as follows:

	Period from 1 January to 30 June 2018 €	Period from 1 January to 30 June 2017 €
Current tax expense	732,522	295,161
Deferred tax expense (note 12)	283,920	7,717,262
Tax expense	1,016,442	8,012,423

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

	Period from 1 January to 30 June 2018 €	Period from 1 January to 30 June 2017 €
Profit before tax	6,519,921	9,693,085
Tax on profit at 35%	2,281,972	3,392,580
Tax effect of:		
Income subject to 15% final withholding tax	(187,758)	(173,966)
Expenses not deductible for tax purposes	85,118	99,904
Tax rules applicable to investment property	(958,320)	5,223,161
Maintenance allowance	(204,660)	(178,089)
Tax over provision in prior year	-	(351,167)
Tax charge in the accounts	1,016,442	8,012,423

12. Deferred tax

Deferred tax is provided for using the liability method for temporary differences arising on movements in the fair value of immovable investment property of MIA and VCP and the Parliament Building and Open Air Theatre. The calculation of the deferred tax provision for the period ended 30 June 2018 is calculated on the taxation rules on capital gains upon a transfer of immovable property implemented through Act XIII of 2015, with effect from 1 January 2015, the rate of capital gains tax applicable is a final withholding tax of 8% on the value of the property.

12. Deferred tax - continued

The deferred tax balance as at 30 June 2018 represents:

	30 June 2018	31 December 2017
	€	€
Temporary differences on:		
Fair value gains	14,382,381	14,098,461

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

13. Earnings per share

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

	Period from 1 January to 30 June 2018	Period from 1 January to 30 June 2017
Profit for the period (€)	5,503,479	1,680,662
Total average number of ordinary shares in issue	148,108,064	148,108,064
Earnings per share (cents)	3.72	1.13

14. Dividends

	2017 Final dividend €	2016 Final dividend €
Dividends paid on ordinary shares		
Gross	3,228,756	3,376,864
Tax at source	484,314	1,181,902
	2,744,442	2,194,962
Dividends per share (cents)	1.85	1.48

An interim gross dividend in respect of the period ended 30 June 2018 of €1,955,026 or €0.0132 per share equating to an interim net dividend of €1,270,767 or €0.00858 per share, was declared by the Board of Directors on 10 August 2018. The financial statements do not reflect this dividend.

15. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Period from 1 January to 30 June 2018 €	Period from 1 January to 30 June 2017 €
Operating profit	7,169,067	10,315,963
Adjustments for:		
Depreciation of property, plant and equipment	889	798
Change in fair value of investment property	(3,549,000)	(7,126,000)
Changes in working capital:		
Trade and other receivables	280,612	(940,944)
Trade and other payables	45,954	524,434
Cash generated from operations	<u>3,947,522</u>	<u>2,774,251</u>

16. Related party transactions

The only major shareholder of the Company is the Government of Malta through its 79.75% (2017: 79.75%) shareholding. The remaining 20.25% (2017: 20.25%) of the shares are held by the public. Other related entities are the following, since they are all Government owned and managed:

- Malta Investment Management Company Limited
- GHRC
- Projects Plus Limited
- Housing Project Management Unit

16. Related party transactions - continued

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

	Period from 1 January to 30 June 2018 €	Period from 1 January to 30 June 2017 €
Government of Malta		
City Gate ground rent to Government	(52,500)	(52,500)
City Gate penalties from Government	1,810,000	1,810,000
Open Air Theatre lease income from Government	797,528	797,528
Parliament Building lease income from Government	61,332	61,332
Malta Investment Management Company Limited		
Office Lease payable to Malta Investment Management Company Limited	(4,425)	(4,425)
Grand Harbour Regeneration Corporation		
Improvements to investment property	-	(7,000,000)
Projects Plus Limited		
Professional services	(177,125)	(44,687)
Housing Project Management Unit		
Professional services	(2,494,423)	-

17. Statutory information

Malita Investments p.l.c. is a public limited liability Company and is incorporated in Malta.