

MIDI p.l.c.

Annual Report and Consolidated  
Financial Statements  
31 December 2017

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## Directors' report

The Directors present their annual report and the audited Financial Statements for the year ended 31 December 2017.

### Principal Activity

The MIDI Group (the "Group") comprises MIDI p.l.c. ("MIDI" or the "Company") and 4 subsidiaries, Tigné Contracting Limited, Tigné Point Marketing Limited, T14 Investments Limited and Solutions & Infrastructure Services Limited. The Company also hold a 50% share in Mid Knight Holdings Limited.

The principal activity of the Group and the Company is the development of the Manoel Island and the Tigné Point Project.

### Review of the business

The Group has registered a profit after tax of €20.8 million during the financial year ending 31 December 2017 compared to a loss of €2.5 million registered during the previous financial year.

During this financial year, the Group's results have been positively impacted by the financial results of Mid Knight Holdings Limited ("MKH"), a jointly controlled entity accounted for on the basis of the equity method of accounting, as the Group's consolidated financial statements include a profit of €26.3 million being the Company's 50% share of MKH's profits. The profit of MKH for the year ending 31st December 2017 includes a gain of €59.6 million before tax, in respect of the revaluation of MKH's immovable property from €35.4 million to €95 million.

The revenue generated from sale of properties amounted to €185k (2016: 5.6m) as the Company had no apartments available to deliver to the respective buyers. Due to the limited revenue generated, an operating loss of €3.1 million has resulted from this segment (2016: operating profit of €1.4 million).

During 2017, the Company continued with the development works of the Q2 apartments with such development coming to a conclusion during the early months of 2018. The Company launched another tranche of apartments during 2017 which are all now subject to a promise of sale agreement with prospective owners. The remaining Q2 apartments are earmarked for launch during the second quarter of 2018. At the time of approval of these financial statements, a number of apartments have already been delivered to their owners and it is envisaged that most of the Q2 apartments will be delivered over the course of 2018. Therefore, profits generated from the sale of these apartments will be recorded in the Company's financial results for the 12 months ending December 2018.

Revenues from rental and management operations amounted to €4.5 million (2016: €3.1 million). These revenues mainly include the rental income generated from the Pjazza retail units, rental income from the foreshore restaurants, revenues generated by the public car park and the operator concession fees earned from the Manoel Island Yacht Marina. These revenues also include revenues generated by Solutions & Infrastructure Services Limited ("SIS"), which is a wholly owned subsidiary of the Company. The principal operations of SIS include the provision of HVAC services and the carrying out of certain M&E works on specific MIDI developments.

## **Directors' report** - continued

### **Review of the business** - continued

SIS financial results include an impairment of €1 million on the HVAC plant and machinery in view of the updated contribution forecasts for the HVAC operations. The Company will continue to monitor the performance and operations of this subsidiary on an ongoing basis in order to ensure that the carrying value of the HVAC plant and machinery is correctly stated.

During 2017, the Company focused on updating the masterplan for the Manoel Island project. In November 2017, the Company announced, via announcement 'MDI110' that it had submitted the masterplan to the Planning Authority ("PA") for its consideration and to the Environmental and Resources Authority ("ERA") for Environmental Impact Assessment evaluation. This masterplan, which has been entrusted to the international architectural firm Foster+Partners, has taken on board a number of recommendations made by the various NGO's and the Gzira Local Council with whom the Company has engaged in discussions during the course of the year. The Company is targeting to commence preparatory works on Manoel Island towards the end of 2018 with development works commencing during the first half of 2019.

In March 2018, the Company announced, via announcement 'MDI112', that it had entered into a guardianship deed with the Manoel Island Foundation and the Gzira Local Council. Subject to receiving necessary planning approvals of the Masterplan and the commencement of the development of Manoel Island, the Company has provided certain commitments governing the Manoel Island Public Park, the Foreshore, the Swimming Zones, Fort Manoel and building heights on Manoel Island in accordance with the terms of the Guardianship Deed.

### **Information pursuant to Listing Rule 5.64**

#### Structure of Capital

The Company has an authorised share capital of ninety million euro (€90,000,000) divided into four hundred and fifty million (450,000,000) Ordinary shares having a nominal value of €0.20 each.

The Company's issued share capital is forty two million eight hundred and thirty one thousand nine hundred eight euro (€42,831,984) divided into two hundred and fourteen million one hundred fifty nine thousand nine hundred and twenty two (214,159,922) Ordinary shares of €0.20 each fully paid up and forming part of one class of Ordinary Shares. Since there are currently no different classes of ordinary shares in the Company, all Ordinary Shares have the same rights, voting rights and entitlements in connection with any distribution whether of dividends or capital (on a winding up or otherwise). There are no shares in issue that have any preferred or deferred rights.

Every Ordinary Share carries the right to participate in any distribution of dividend declared by the Company *pari passu* with all other Ordinary Shares. Each Ordinary Share shall be entitled to one vote at meetings of Shareholders. Every Ordinary Share carries the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise, *pari passu* with all other Ordinary Shares. The Ordinary Shares are freely transferable and pursuant to admission to the Official List of the Malta Stock Exchange, the shares are transferable in accordance with the rules and regulations of the Malta Stock Exchange as applicable from time to time.

Subject to the provisions of the Companies Act (Chapter 386 of the Laws of Malta) (the "Companies Act"), the Company may purchase its own shares.

## **Directors' report** - continued

### **Information pursuant to Listing Rule 5.64** - continued

#### Appointment and Removal of Directors

Article 98 of the Company's Memorandum and Articles of Association states that at each Annual General Meeting of the Company all the directors shall retire from office. A director retiring from office shall retain office until the dissolution of such Meeting and a retiring director shall be eligible for re-election or re-appointment.

The Directors of the Company shall be elected as provided in Article 102 of the Company's Memorandum and Articles of Association that is a maximum of eight (8) directors shall be elected at each Annual General Meeting (or at an Extraordinary General Meeting convened for the purpose of electing directors). Voting shall take place on the basis that every member shall have one (1) vote in respect of each ordinary share held by him. A member may use all his votes in favour of one candidate or may split his votes in any manner he chooses amongst any two or more candidates. The Chairman of the Meeting shall declare elected those candidates who obtain the greater number of votes on that basis.

The Directors of the Company may appoint one (1) additional director to the Board of the Company without the requirement that the appointment of such director be ratified by a members' resolution taken at a General Meeting of the Company. A director so appointed by the Board of the Company shall hold office until the end of the Annual General Meeting following his appointment. The director so appointed may be withdrawn or replaced by the Board at any time.

#### Powers of Directors

The Directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts, sue and be sued in representation of the Company. The business of the Company shall be managed by the Directors, who may exercise all such powers of the Company as are not, by the Companies Act or by the Articles of Association, required to be exercised by the Company in General Meeting, subject, nevertheless, to the provisions of the Articles of Association and of the Companies Act and to such directions, being not inconsistent with any provisions of the Articles of Association and of the Companies Act, as may be given by the Company in General Meeting: provided that no direction given by the Company in General Meeting shall invalidate any prior act of the Directors which would have been valid if such direction had not been given. The general powers conferred upon the Directors by Article 87 of the Articles of Association shall not be deemed to be abridged or restricted by any specific power conferred upon the Directors by any other Article.

Subject to the provisions of the Articles of Association, the Board of Directors may exercise all the powers of the Company to borrow money and to hypothecate or charge its undertaking, property and uncalled capital or any part thereof, and to issue debentures and other securities, whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### Voting Rights in respect of Ordinary Shares

As outlined previously, each ordinary share shall be entitled to one vote. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person shall have one (1) vote, and on a poll every member present in person or by proxy shall have one (1) vote for each share of which he is the holder.

On a poll votes may be given personally or by proxy and a member entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

## **Directors' report** - continued

### **Information pursuant to Listing Rule 5.64** - continued

#### Voting Rights in respect of Ordinary Shares - continued

No member shall be entitled, in respect of any share in the capital of the Company held by him, to be present or to vote on any question, either in person or by proxy, at any General Meeting, or upon any poll, or to be reckoned in a quorum, or to exercise any other right or privilege conferred by membership in relation to meetings of the Company if any call or other sum presently payable by him to the Company in respect of such share remains unpaid.

#### Restrictions on Ordinary Shares

During such time as any part of the call or installment together with interests and expenses remains unpaid, the entitlement of the person from whom the sum is due to the rights and advantages conferred by membership of the Company including the right to receive dividends and the right to attend and vote at meetings of the Company, shall be suspended. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall, upon supplying to the Company such evidence as the Directors may reasonably require to show his title to the share, be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to Meetings of the Company.

Provided always that the Directors may at any time give notice requiring any such person to elect either be registered himself or to transfer the share, and if the notice is not complied with within ninety (90) days, the Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share until the requirements of the notice have been complied with.

#### Transfer of Ordinary Shares

Subject to the provisions of law and of the Company's Articles of Association, the shares of the Company are freely transferable provided that in no case may a part of a share constitute the object of a transfer.

All transfers of shares in the Company, which are listed on the Malta Stock Exchange, shall be regulated by law and accordingly Articles 34 to 36 of the Company's Articles of Association shall be applicable to such transfers only in so far as the said Articles are not inconsistent therewith.

#### General Meetings

The Company shall in each year hold a General Meeting as its Annual General Meeting in addition to any other meetings in that year, and not more than fifteen (15) months shall elapse between the date of one Annual General Meeting of the Company and that of the next. Furthermore, Article 182(1) of the Companies Act, sets out a period of seven (7) months from the end of the accounting period, within which period, a public company is to call a general meeting for the approval of the annual accounts for the applicable accounting period.

All General Meetings other than Annual General Meetings shall be called Extraordinary General Meetings. The Directors may, whenever they think fit, convene an Extraordinary General Meeting, and Extraordinary General Meetings shall also be convened on such requisition, or, in default, may be convened by such requisitionists as provided by the Act. If at any time there are not in Malta sufficient directors capable of acting to form a quorum, the Directors in Malta capable of acting, or if there are no directors capable and willing so to act, any two (2) members of the Company, may convene an Extraordinary General Meeting in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

## **Directors' report** - continued

### **Information pursuant to Listing Rule 5.64** - continued

#### General Meetings - continued

A General Meeting of the Company shall be called by not less than twenty one (21) days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the place, the day and the hour of meeting, the proposed agenda for the Meeting and, in case of special business, the general nature of the business to be considered as well as other information which is specified in Article 56(2) of the Company's Articles of Association.

Subject to such restrictions for the time being, affecting the right to receive notice to the holders of any class of shares, notice of every General Meeting shall be given in any manner hereinbefore authorised to:- (a) every member except those members who have not supplied to the Company an address for the giving of notices to them; and (b) the Auditor for the time being of the Company; and (c) the Directors for the time being of the Company. No other person shall be entitled to receive notices of General Meetings.

A notice calling an Annual General Meeting shall specify the meeting as such and a notice convening a meeting to pass an Extraordinary Resolution as the case may be shall specify the intention to propose the resolution as such and the principal purpose thereof. A notice of General Meeting called to consider extraordinary business shall be accompanied by a statement regarding the effect and scope of any proposed resolution in respect of such extraordinary business.

In every notice calling a meeting, there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a member and such statement shall comply with the provisions of the Act as to informing members of their right to appoint proxies.

Any member or members holding not less than five per cent (5%) in nominal value of all the shares entitled to vote at the meeting may: (a) request the Company to include items on the agenda of the General Meeting, provided that each item is accompanied by a justification or a draft resolution to be adopted at the Annual General Meeting; and (b) table draft resolutions for items included in the agenda of a general meeting. The request to put items on the agenda of the General Meeting or the tabling of draft resolutions to be adopted at the General Meeting shall be submitted to the Company (in hard copy or in electronic form to an email address provided by the Company for the purpose) at least forty six (46) days before the date set for the General Meeting to which it relates and shall be authenticated by the person or persons making it. Furthermore, where the right to request items to be put on the agenda of the General Meeting or to table draft resolutions to be adopted at the General Meeting requires a modification of the agenda for the General Meeting that has already been communicated to Shareholders, there shall be made available a revised agenda in the same manner as the previous agenda in advance of the applicable record date or, if no such record date applies, sufficiently in advance of the date of the General Meeting so as to enable other Shareholders to appoint a proxy, or where applicable, to vote by correspondence.

The accidental omission to give notice of a meeting or (in cases where instruments of proxy are sent out with the notice) the accidental omission to send such instrument of proxy to, or the non-receipt of notice of a meeting or such instrument of proxy by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

## **Directors' report** - continued

### **Information pursuant to Listing Rule 5.64** - continued

#### General Meetings - continued

An "Ordinary Resolution" means a resolution taken at a General Meeting of the Company passed by a member or members having the right to attend and vote at such meeting holding in the aggregate more than fifty per cent (50%) in nominal value of the shares represented and entitled to vote at the meeting. An "Extraordinary Resolution" means a resolution taken at a General Meeting of the Company of which notice specifying the intention to propose the text of the resolution as an extraordinary resolution and the principal purpose thereof has been duly given and passed by a number of members having the right to attend and vote at such meeting holding in the aggregate not less than seventy-five per cent (75%) in nominal value of the shares represented and entitled to vote at the meeting and at least fifty-one per cent (51%) in nominal value of all the shares entitled to vote at the meeting. Provided that, if one of the aforesaid majorities is obtained, but not both, another meeting shall be convened within thirty (30) days in accordance with the provisions for the calling of meetings to take a fresh vote on the proposed resolution. At the second meeting the resolution may be passed by a member or members having the right to attend and vote at the meeting holding in the aggregate not less than seventy-five per cent (75%) in nominal value of the shares represented and entitled to vote at the meeting. However, if more than half in nominal value of all the shares having the right to vote at the meeting is represented at that meeting, a simple majority in nominal value of such shares so represented shall suffice.

#### Changes to the Company's Memorandum and Articles of Association

The Company may by extraordinary resolution approved by the shareholders in general meeting alter or add to its Memorandum and Articles of Association.

#### Other matters

The Company has nothing to report in relation to the requirements of Listing Rules 5.64.4, 5.64.5, 5.64.7 and 5.64.10, since these do not apply to the Company. Information relating to the requirements of listing rule 5.64.11 is reflected in the Remuneration Statement on pages 25 and 26.

### **Information pursuant to Listing Rule 5.70.1**

Solutions & Infrastructure Services Limited has entered into two works contracts with Mekanika Limited with the former providing certain M&E works to the T14 Office Block. These two contracts amount to €1.36 million in total.

### **Directors' interests in Share Capital of the Company as at 23 April 2018**

As at 31 December 2017, Dr. Alec A. Mizzi and Mr. Alan Mizzi have a beneficial interest in 30,422,201 (2016: 30,422,201) ordinary shares issued by the Company which are held by Alf. Mizzi & Sons Ltd., a beneficial interest in 6,784,500 (2016: 6,784,500) ordinary shares in the Company which are held by Zachary Estates Limited and a beneficial interest in 2,012,050 (2016: 2,012,050) ordinary shares in the Company which are held by First Gemini p.l.c..

## Directors' report - continued

### Directors' interests in Share Capital of the Company as at 23 April 2018 - continued

On the 20 March 2018, the Company was informed that Zachary Estates Limited was merged into Alf. Mizzi & Sons Ltd. and on the 15 March 2018 the ownership of 6,784,500 shares that Zachary Estates Limited held in the Company was transferred to Alf. Mizzi & Sons Ltd. As at 23 April 2018, the beneficial interest of Dr. Alec A. Mizzi and Mr. Alan Mizzi held by Alf. Mizzi & Sons Ltd. has as a result increased to 37,206,701 shares in the Company but in total remains unchanged.

Mr. Joseph Bonello has a direct interest in 2,405,321 (2016: 2,405,321) ordinary shares in the Company held in his own name. In addition, as at 31 December 2017, Mr. Joseph Bonello has a beneficial interest in 11,359,766 (2016: 11,628,599) shares held by Finco Treasury Management Limited as nominees in the course of its' investment business. As at 23 April 2018, this beneficial interest was increased to 11,472,046 ordinary shares.

Mr. Joseph A. Gasan has a beneficial interest in 23,741,461 (2016: 23,741,461) ordinary shares in the Company held by Gasan Enterprises Limited.

### Registered Shareholders with 5% or more of the share capital of the Company

	23 April 2018	31 December 2017	2016
Alf. Mizzi & Sons Ltd.	17.37%	14.21%	14.21%
MAPFRE MSV Life p.l.c.	12.55%	12.55%	12.55%
Gasan Enterprises Limited	11.09%	11.09%	11.09%
Mr. Mark Andrew Weingard	8.91%	8.91%	-
Finco Treasury Management Limited	5.36%	5.30%	5.43%
Vassallo Builders Group Limited	4.98%	4.99%	5.04%

Following an amalgamation of Alf. Mizzi & Sons Ltd. with its wholly owned subsidiary Zachary Estates Limited, on the 15 March 2018, the ownership of 6,784,500 ordinary shares that Zachary Estates Limited held in the Company was transferred to Alf. Mizzi & Sons Ltd. Consequently as at 23 April 2018 Alf Mizzi & Sons Ltd. owns 37,206,701 shares in the Company which represents 17.37% of the Company's issued ordinary share capital with voting rights attached.

### Results and dividends

The consolidated income statement is set out on page 39. The Directors recommend that at the forthcoming Annual General Meeting, the shareholders approve the payment of a net final dividend of €0.007 (2016: €0.007) per share amounting to €1,499,119 (2016: €1,499,119). Retained earnings carried forward at the reporting date amounted to €2,101,265 (2016: €11,358,085) for the Company and €25,815,645 (2016: €6,488,812) for the Group.

## **Directors' report** - continued

### **Directors**

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

Alec A. Mizzi – Chairman	
Joseph Bonello	
Jonathan Buttigieg	(appointed as of 20 June 2017)
David G. Curmi	
David Demarco	(resigned on 20 June 2017; appointed as of 1 July 2017)
Joseph A. Gasan	
Alan Mizzi	
Mark Portelli	(resigned on 20 June 2017)
Joseph Said	
Mark Andrew Weingard	(appointed as of 20 June 2017)

All the directors shall retire from office at the Annual General Meeting of the Company in accordance with articles 98 and 99 of the Company's Articles of Association and those eligible can be re-elected or re-appointed.

### **Senior Management, Company Secretary and Internal Audit**

As at 31 December 2017, the senior management of the Group was composed as follows:

Mark Portelli	Chief Executive Officer (commencement of appointment: 1 September 2017)
Jesmond Micallef	Chief Financial Officer
Ivan Piccinino	Senior Project Manager
Ehsan Tabrizi	Chief Commercial Manager

Luke Coppini resigned from his post of Chief Executive Officer on 31 August 2017.

Catherine Formosa      Company Secretary      (commencement of term: 25 August 2017)

Graham Fairclough resigned from his post of Company Secretary on 25 August 2017.

The Company's Board of Directors engaged the services of EY Malta to provide internal audit related services to the Company.

### **Directors' statement of responsibilities in relation to 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 Group and the Parent Company as at the end of each reporting period and of the profit or loss for that period.

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

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

## **Directors' report** - continued

### **Directors' statement of responsibilities in relation to the Financial Statements** - continued

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 Maltese 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 MIDI p.l.c. for the year ended 31 December 2017 are included in the Annual Report 2017, which is published in hard-copy printed form and 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.

### **Statement by Directors in terms of Listing Rule 5.68**

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

- the financial statements give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2017, 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 as adopted by the EU; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

### **Going concern basis – Listing Rule 5.62**

Taking cognisance of the short-term funding arrangements together with the Group's long-term liquidity and capital management programmes, the Directors have a reasonable expectation, at the time of approving the Financial Statements, that the Group and the parent Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

### **Financial Key Performance Indicators**

The directors consistently monitor the Group's financial performance by using a range of financial measures which indicate whether shareholder value is being maintained and improved upon.

The main financial key performance indicators in use are as follows:

	<b>2017</b>	2016
Working Capital Ratio	<b>2.43</b>	3.47
Debt to Asset Ratio	<b>0.63</b>	0.67
Debt to Equity Ratio	<b>1.72</b>	2.11

### *Human Resources*

The Group seeks to employ high quality people in order to have talented and multi-skilled human resources to take forward the development project. It seeks to ensure that it provides the necessary environment in which its employees can develop their capabilities and contribute towards the achievements of the Group's ambitious goals. Further disclosures are made in the Statement of Compliance with the Principles of Good Corporate Governance and the Remuneration Statement.

## **Directors' report** - continued

### **Non-Financial Key Performance Indicators**

#### *Corporate Social Responsibility*

The Group has always recognised the importance of its corporate social responsibility over the years, most notably during the restoration works undertaken on Fort Manoel and Fort Tigné. In addition the Group strives to ensure that environmental friendliness is given priority in the course of construction, marketing and operations of the various phases of the Manoel Island and Fort Tigné project.

In March 2018, the Company announced, that it had entered into a guardianship deed with the Manoel Island Foundation and the Gzira Local Council. Subject to receiving necessary planning approvals of the Masterplan and the commencement of the development of Manoel Island, the Company has provided certain commitments governing the Manoel Island Public Park, the Foreshore, the Swimming Zones, Fort Manoel and building heights on Manoel Island in accordance with the terms of the Guardianship Deed.

The Group has also provided premises to non-profit organisations and other third parties to carry out activities and events which benefit philanthropic causes. Further reference to the Group's Corporate Social Responsibility is disclosed in the Statement of Compliance with the Principles of Good Corporate Governance.

### **Financial Risk Management and Exposures**

The Financial Risk Management note in the Financial Statements (Note 2) describes the process of how the Group identifies its financial risks and uncertainties. The main categories of risk described in this section are market, credit and liquidity risks.

### **Auditors**

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

On behalf of the Board



Alec A. Mizzi  
Chairman



Joseph A. Gasan  
Director

23 April 2018

Company secretary: Catherine Formosa

Registered office:  
North Shore  
Manoel Island  
Gzira  
Malta

Telephone number: (+356) 2065 5500

## **Statement of compliance with the Principles of Good Corporate Governance**

### **A. INTRODUCTION**

Pursuant to the Malta Financial Services Authority Listing Rules, MIDI p.l.c. (the “Company”) is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance (the “Code”) as well as on the measures adopted to ensure compliance with this same Code. For this reporting period, the Company is adhering to the Code as set out in Appendix 5.1 of Chapter 5 – Continuing Obligations of the said Listing Rules. The Directors are committed to the values of transparency, honesty and integrity in all their actions and strongly believe that such practices are in the best interests of the Company, its Shareholders and other stakeholders. The Directors believe that the Company benefits from having in place more transparent governance structures and from improved relations with the market which enhance market integrity and confidence. .

Good corporate governance is the responsibility of the Board of Directors of the Company (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. Notwithstanding that the Principles of Good Corporate Governance are not mandatory, the Board has ensured their adoption, save as indicated herein within the section entitled Non-Compliance with Code. In the latter section the Board indicates and explains the instances where it has departed from or where it has not applied the Code, as allowed by the Code.

The Board takes such measures as are necessary in order for the Company to comply with the requirements of the Code to the extent that this is considered appropriate and complementary to the size, nature and operations of the Company.

### **B. COMPLIANCE WITH THE CODE**

#### **Principle 1: The Board**

The overall management and policy setting of the Company is vested in a Board of Directors consisting of a Chairman and eight (8) Directors.

While the Board provides the necessary leadership in the overall direction of the Company, its key role with respect to the Company’s principal activities is to establish the Company’s strategy and to appoint all members of Senior Management and other key members of management.

All the Directors, individually and collectively, are of the appropriate calibre, and have the necessary skills and experience to contribute effectively to the decision making process. The Board delegates specific responsibilities to a number of committees, notably the Supervisory Board, the Audit Committee and the Remuneration Committee, each of which operates under formal terms of reference approved by the Board. The Project Management Advisory Committee reports to the Supervisory Board.

#### **Principle 2: Chairman and Chief Executive**

The positions of the Chairman of the Board and that of the Chief Executive Officer (the “CEO”) are vested in separate individuals. The positions have been defined with specific roles rendering these positions completely separate from one another.

Dr. Alec A. Mizzi serves as Chairman of the Board who is responsible to lead the Board and to set its agenda. The Chairman ensures that the Board’s discussions on any issue put before it go into adequate depth, encourages the involvement of all Directors, and ensures that all the Board’s decisions are supported by adequate and timely information. The Chairman, together with the Supervisory Board, ensures that the CEO develops a strategy that is agreed to by the Board.

## Statement of compliance with the Principles of Good Corporate Governance - continued

### B. COMPLIANCE WITH THE CODE - continued

#### Principle 2: Chairman and Chief Executive - continued

The role of CEO is vested in Mr. Mark Portelli. The Board has delegated specific authority to the CEO to manage specific activities within the Company which include, amongst others:

- Implementation of policies as set by the Board;
- Working towards objectives established by the Board;
- Representing the Company with third parties;
- Putting into effect plans to organise, direct and manage the human resources available to attain the highest possible profitability or results in the interest of the Company's shareholders and all other stakeholders.

The role of the CEO is to plan, co-ordinate and control the daily operations of the Company through the leadership and direction of MIDI's management team. For this purpose, the CEO communicates on a continuous basis with Senior Managers to direct business activities against plans, to decide on emerging matters, to allocate responsibilities of work and to monitor performance. The CEO chairs the Management Committee, a forum within which the Company's Senior Managers meet on a regular basis to action and implement Board decisions in a timely manner.

#### Principle 3: Composition of the Board

The Board is composed exclusively of non-executive Directors.  
The following Directors served on the Board during the period under review:

*Chairman*  
Alec A. Mizzi

#### *Independent non-executive Directors*

Joseph Bonello	
Jonathan Buttigieg	(appointed 20 June 2017)
David G. Curmi	
David Demarco	(resigned 20 June 2017; reappointed 1 July 2017)
Joseph A. Gasan	
Alan Mizzi	
Mark Portelli	(resigned 20 June 2017)
Joseph Said	
Mark Andrew Weingard	(appointed 20 June 2017)

During the period under review, the Board consisted of nine independent Directors (including the Chairman). The Board determines whether a director is independent by considering the following principles relating to independence contained in the Code:

- Whether the director has been an executive officer or employee of the Company or a subsidiary of the Company as the case may be within the last three years;
- Whether the director has or has had within the last three years, a significant business relationship with the Company either directly, or as a partner, shareholder, director or senior employee of a body that has a such a relationship with the Company;

## **Statement of compliance with the Principles of Good Corporate Governance - continued**

### **B. COMPLIANCE WITH THE CODE - continued**

#### **Principle 3: Composition of the Board - continued**

- iii. Whether the director has received or receives significant additional remuneration from the Company or any member of the group of which the Company forms part in addition to a director's fee;
- iv. Whether the director has close family ties with any of the Company's executive directors or senior employees;
- v. Whether the director has served on the Board for more than twelve consecutive years; or
- vi. Whether the director is or has been within the last three years an engagement partner or a member of the audit team of the present or former external auditor of the Company or any member of the group of which the Company forms part.

The Board considers despite the fact that Dr. Alec A. Mizzi and Mr. Joseph A. Gasan have served on the Board for more than twelve consecutive years, this has not undermined the said Director's ability to consider appropriately the issues which are brought before the Board. Mr. Joseph Said and Mr. Mark A. Weingard are also considered to be independent directors despite the fact that they are directors/senior employees of companies that have a significant business relationship with the Group.

The composition of the Board is determined by the Articles of Association of the Company. The appointment of Directors to the Board is reserved exclusively to the Bank's shareholders, except in so far as (i) the situation contemplated in Article 102(3) of the Articles of Association where the Directors may appoint one additional director to the Board without the requirement that the appointment be ratified by a members' resolution taken at a General Meeting of the Company; and (ii) an appointment which may be made by the Board to fill a casual vacancy on the Board in terms of Article 103(3).

The Board is composed of a minimum of five (5) and a maximum of nine (9) Directors. A maximum of eight (8) Directors are elected at each Annual General Meeting (or at an Extraordinary General Meeting convened for the purpose of electing directors) while the Board of Directors may appoint one (1) additional director to the Board without the requirement that the appointment be ratified by a members' resolution taken at a General Meeting of the Company in terms of Article 102(3).

No election will take place where there are as many nominations for the Board of Directors as there are vacancies, in which case the candidates so nominated will be automatically appointed Directors.

Unless appointed for a shorter period, a Director shall hold office from the end of one Annual General Meeting to the end of the next. A retiring Director shall be eligible for re-election or re-appointment. The Director appointed by the Board in terms of Article 102(3) shall hold office until the end of the Annual General Meeting following his appointment.

Shareholders are entitled to participate in the election of the directors on the basis that each Shareholder shall have one (1) vote in respect of each ordinary share held. A shareholder may use all his votes in favour of one candidate or may split his votes in any manner he chooses amongst two or more candidates. The candidates elected are those candidates who obtain the greater number of votes on that basis.

The Chairman shall be elected by a simple majority from amongst the Directors of the Company.

The Board considers that the size of the Board, whilst not being large as to be unwieldy, is appropriate for the requirements of the Company's business. Apart from being clearly equally conducive to good corporate governance, the composition of the Board provides, in the Board's view, the added benefits of control and management of the Company's affairs and an efficient decision-making process.

## **Statement of compliance with the Principles of Good Corporate Governance – continued**

### **B. COMPLIANCE WITH THE CODE - continued**

#### **Principle 4: The Responsibilities of the Board**

The Board of Directors is charged with the supervision of Board Committees and of management and the general course of affairs of the Company and the business connected with it (including its financial policies and corporate structure). The Board of Directors periodically evaluates the main organisational structure and the operation of the internal risk-management and control systems established as well as agree on any necessary changes or corrective actions regarding such systems.

In fulfilling its mandate, the Board of Directors assumes responsibility to:

- a) establish corporate governance standards;
- b) review, evaluate and approve, on a regular basis, long-term plans for the Company;
- c) review, evaluate and approve the Company's budgets and forecasts;
- d) review, evaluate and approve major resource allocations and capital investments;
- e) review the financial and operating results of the Company;
- f) ensure appropriate policies and procedures are in place to manage risks and internal control;
- g) review, evaluate and approve the overall corporate organisation structure, the assignment of management responsibilities and plans for senior management development including succession;
- h) review, evaluate and approve compensation strategy for senior management; and
- i) review periodically the Company's objectives and policies relating to social, health and safety and environmental responsibilities.

The Board supervises compliance with the Listing Rules, including those pertaining to the preparation and publication of the Annual Report and Financial Statements, and approves the Financial Statements for submission to the General Meeting of the Shareholders. The Board retains direct responsibility for approving and monitoring:

- (i) the Business Plan for the Group;
- (ii) the Annual Budget;
- (iii) the Annual Financial Statements;
- (iv) termination of the employment or engagement of a substantial number of employees of the Company simultaneously or within a short period of time;
- (v) termination of employment or engagement of the Chief Executive Officer and other positions of strategic importance at Senior Management level;
- (vi) proposals to increase the issued capital and to materially increase or decrease the Company's funding; and
- (vii) other resolutions which the Board of Directors may determine to be subject to its approval.

Any meeting that a director wishes to initiate may be arranged through the Company Secretary. A Director of the Company has access to advice from internal and external sources, which are deemed necessary for carrying out the respective roles and responsibilities and the Company will bear the related expenses. A newly appointed Director is given a thorough induction course in the operations, activities and procedures of the Company to be able to carry out the function of a Director in an effective manner.

## Statement of compliance with the Principles of Good Corporate Governance - continued

### B. COMPLIANCE WITH THE CODE - continued

#### Principle 5: Board Meetings

The Board endeavours to meet on a monthly basis, with additional meetings held as necessary. Board meetings are presided over by the Chairman and all Directors are allowed equal opportunity to voice and express their views on matters relating to the Company and its business.

After each Board meeting, minutes that faithfully record attendance, matters discussed and decisions taken, are prepared and circulated to all Directors as soon as practicable after the meeting.

A total of eleven (11) Board of Directors meetings were held during 2017 and attendance was as follows:

<i>Board member</i>	<i>Attended</i>
Alec A. Mizzi	11
Joseph Bonello	11
Jonathan Buttigieg	6 (out of 6 meetings)
David G. Curmi	9
David Demarco	9 (out of 10 meetings)
Joseph A. Gasan	11
Alan Mizzi	10
Mark Portelli	4 (out of 5 meetings)
Joseph Said	11
Mark Andrew Weingard	6 (out of 6 meetings)

#### Principle 6: Information and Professional Development

The Chief Executive Officer is appointed by the Board of Directors.

The recruitment and selection of Senior Management is the responsibility of the Remuneration Committee in consultation with the Board. In addition, the Board dedicates considerable attention towards succession planning within senior management ranks.

Newly appointed Directors are provided with briefings by the Chief Executive Officer and also by other members of Senior Management in respect to the operations of the Group. An information pack is handed to a new Director following his appointment which incorporates Memoranda and Articles of Group companies, relevant legislation as well as rules and bye-laws. The Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are adhered to. Additionally, Directors may seek independent professional advice on any matter at the Company's expense.

The Company ensures the personal development of directors, management and employees by recommending attendance to seminars, conferences as well as training programmes that are designed to help improve the potential of its staff members whilst boosting the Company's competitiveness. The Company ensures that it provides the necessary training to the individual Directors on a requirements basis by formally identifying and addressing such requirements.

## **Statement of compliance with the Principles of Good Corporate Governance - continued**

### **B. COMPLIANCE WITH THE CODE - continued**

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

During the financial year under review, the Board did not carry out any evaluation of its own performance.

Further information is provided in Section C of this Statement entitled Non-Compliance with the Code.

#### **Principle 8: Committees**

The Board has appointed the following Committees:

##### Audit Committee

The Audit Committee is a committee appointed by the Board and is directly responsible and accountable to the Board. The Audit Committee's primary purpose is to:

- (a) protect the interests of the Company's shareholders; and
- (b) assist the Directors in conducting their role effectively so that the Company's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times.

The Board has set formal terms of reference of the Audit Committee that establish its composition, role and function. The Board reserves the right to change these terms of reference from time to time.

The main role and responsibilities of the Audit Committee are:

- (a) to inform the Board of Directors of the outcome of the statutory audit and to explain how the statutory audit contributed to the integrity of the Financial Statements and what the role of the audit committee was in this process;
- (b) to monitor the financial reporting process and to submit recommendations of proposals to ensure its integrity;
- (c) to monitor the effectiveness of the company's internal quality control and risk managements system and, where applicable, its internal audit regarding the financial reporting without breaching its independence;
- (d) to monitor the audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the competent authority pursuant to Article 26 (6) of the Statutory Audit Regulation;
- (e) to review the additional report prepared by the statutory auditors or audit firm submitted to the Audit Committee in terms of Article 11 of the Statutory Audit Regulation. The Audit Committee may disclose the additional report to third parties in order to execute its functions in line with the terms of reference;
- (f) to review and monitor the independence of the statutory auditors or audit firms in accordance with Articles 22, 22a, 22b, 24a and 24b of the Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, amending Council Directive 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC and Article 6 of the Statutory Audit Regulation and in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of the Statutory Audit regulation;
- (g) the procedure for the selection of statutory auditors or audit firms;
- (h) to recommend the statutory auditors or the audit firm to be appointed in accordance with Article 16 of the Statutory Audit Regulation;
- (i) to review the Company's internal financial control system and, unless addressed by a separate risk committee or the Board itself, risk management systems;
- (j) to review, as applicable, the organisation of the internal audit function of the Company, including its plans, activities, staffing and organisational structure;

**Statement of compliance with the Principles of Good Corporate Governance - continued**

**B. COMPLIANCE WITH THE CODE - continued**

**Principle 8: Committees - continued**

- (k) to establish internal procedures and to monitor these on a regular basis;
- (l) to establish and maintain access between the internal and external auditors of the Company and to ensure that this is open and constructive;
- (m) to review and challenge where necessary, the actions and judgements of management, in relation to the interim and annual Financial Statements before submission to the Board, focusing particularly on:
  - (i) critical accounting policies and practices and any changes in them;
  - (ii) decisions requiring a major element of judgement;
  - (iii) the extent to which the Financial Statements are affected by any unusual transactions in the year and how they are disclosed;
  - (iv) the clarity of disclosures and compliance with International Financial Reporting Standards as adopted by the EU;
  - (v) significant adjustments resulting from the audit;
  - (vi) compliance with stock exchange and other legal requirements;
  - (vii) reviewing the Company's Statement on Corporate Governance prior to endorsement by the Board;
- (n) to gain an understanding of whether significant internal control recommendations made by internal and external auditors have been implemented by management;
- (o) discuss Company policies with respect to risk assessment and risk management, review contingent liabilities and risks that may be material to the Company;
- (p) to vet and approve related party transactions; and
- (q) to consider other matters that are within the general scope of the Committee that are referred to it by the Board of Directors.

For the year under review, the Audit Committee was composed of three non-executive directors. The directors that served on the Audit Committee for the year under review were: Mr. Joseph Said (Chairman of the Committee), Mr. Joseph Bonello (resigned 25 July 2017), Mr. David Demarco (appointed 25 July 2017), Mr. Alan Mizzi (appointed 25 July 2017), Mr. Mark Portelli (resigned 20 June 2017).

In terms of Listing Rules 5.117 and 5.118, Mr. David Demarco ACIB, BA (Hons) Accountancy, MBA, FIA, CPA and Mr. Alan Mizzi ACA are the Directors who the Board considers as competent in accounting and/or auditing. Mr. David Demarco is considered independent because he is free from any business, family or other relationship with the Company or its management that may create a conflict of interest such as to impair his judgement.

The Audit Committee is required to meet a minimum of four (4) times a year. During the year under review the Audit Committee met six (6) times.

When the Audit Committee's monitoring and review activities reveal cause for concern or identify the need for improvement, it shall make recommendations to the Board on the action needed to address the issue or make such improvements.

The Audit Committee oversees the Internal Audit process. This independent appraisal function was established within the Group to carry out business process risk based audits aimed at ensuring adequate controls and efficient business processes. Such a process is undertaken by EY Malta, with representatives of the firm attending the meetings of the Audit Committee and thereby reporting directly to the Audit Committee.

## Statement of compliance with the Principles of Good Corporate Governance - continued

### B. COMPLIANCE WITH THE CODE - continued

#### Principle 8: Committees - continued

##### Supervisory Board

The Board delegates some of its responsibilities to the Supervisory Board, which is composed of Dr. Alec A. Mizzi (Chairman of the Committee), Mr. David G. Curmi (Director), Mr. Joseph A. Gasan (Director), Mr. Mark Portelli (CEO of the Company), Mr. Jesmond Micallef (CFO of the Company), Mr Ivan Piccinino (Senior Project Manager of the Company), and Mr. Ehsan Tabrizi (CCO of the Company).

The objective of the Supervisory Board is to take, or to establish the basis on which, all decisions within the Company are taken, other than decisions on those matters specifically reserved for the Board of Directors or the other committees. The Supervisory Board is also entrusted to act as an interface between the Senior Management of the Company and the Board of Directors.

Some of the more important functions carried out by the Supervisory Board include:

- (a) the approval and monitoring of strategic and forecasting processes;
- (b) reporting on strategic matters to the Board of Directors;
- (c) the review of the Company's annual budget and funding requirements with an aim of making its own recommendations to the Board of Directors;
- (d) the supervision of the Project Management Advisory Committee on all development related matters, including the making of recommendations to the Board of Directors with regards to the awarding of contract of works; and
- (e) the consideration of all new business opportunities, including joint ventures with third parties on existing or new projects

##### Project Management Advisory Committee

In view of the inherent operations of the Company as a property developer, the Supervisory Board set-up a sub-committee in the form of an advisory committee to assist it with project management related matters pertaining to the Tigné Point development.

In furtherance of such an advisory role, the Project Management Advisory Committee's ("PMAC") involvement extends to the three main stages of project management: (i) the preparatory stages of the development; (ii) the performance stage when construction works are undertaken on site; and (iii) the handover stage when following completion, the end product is either transferred to a third party purchaser or alternatively sought to be implemented by the Company as part of its overall operations.

Some of the more specific functions undertaken by the PMAC include the following:

- (a) to make recommendations on the appropriate procurement procedure to be adopted in particular phases of the project;
- (b) to act as an interface between the Company and the project management consultants engaged by the Company;
- (c) to prepare and/or to oversee the preparation of reports on the short listed bidders;
- (d) to oversee the negotiation of the contract of works between Senior Management and contractors;
- (e) to provide regular updates and/or to request the preparation of such update reports on the progress of works on the individual construction phases, both from a timing and cost point of view; and
- (f) to advise the Supervisory Board on any action that may be required on project management matters.

The PMAC is composed of Mr. David Demarco (Director) who chairs the PMAC. Mr. Jonathan Buttigieg (Director) and members of Senior Management. A number of consultants also attend the meetings of the PMAC.

## **Statement of compliance with the Principles of Good Corporate Governance - continued**

### **B. COMPLIANCE WITH THE CODE - continued**

#### **Principle 8: Committees - continued**

##### Remuneration Committee

In accordance with the Listing Rules, the Board set up a Remuneration Committee.

Information regarding its membership, the number of meetings held, the attendance over the year and its main activities is found as part of the section in the Annual Report entitled "Remuneration Statement".

#### **Principle 9 & 10: Relations with Shareholders and with the Market, and Institutional Investors**

Pursuant to the Company's statutory obligations in terms of the Maltese Companies Act (Cap. 386) and the Listing Rules, the Annual Report and Financial Statements, declaration of dividends, election of directors, and appointment of auditors and authorisation of the directors to set the auditors' fees are proposed and approved at the Company's Annual General Meeting.

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.

The Board is of the view that during the period under review, the Company communicated effectively with shareholders by through periodical Company Announcements and through press releases in the local media to the market in general.

The Company also communicates with its shareholders through the Company's Annual General Meeting ("AGM"). Apart from the AGM, the Company communicates with its shareholders by way of the Annual Report and Financial Statements and through periodical newsletters that are circulated to all its investors. The Company's website also contains information about the Company and its business, including an Investor Relations Section.

The Directors consider that the Board properly serves the legitimate interests of all Shareholders and is accountable to all Shareholders. The Board intends to ensure that the Company communicates with Shareholders effectively, not only through the General Meetings, but also through contact with the individual directors as necessary.

The Chairman arranges for all Directors to attend the Annual General Meeting. Information on the Company's General Meetings is found in the Directors' Report.

Individual shareholders can raise matters relating to their shareholding and the business of the Group at any time throughout the year, and are given the opportunity to ask questions at the AGM or submit written questions in advance. In terms of Article 129 of the Companies Act, the Board may call an extraordinary general meeting on the requisition of shareholders holding not less than one-tenth of the paid up share capital of the Company.

The Company holds meetings with stockbrokers and financial intermediaries at least once a year, which meeting usually coincides with the publication of the annual financial statements.

## **Statement of compliance with the Principles of Good Corporate Governance – continued**

### **B. COMPLIANCE WITH THE CODE - continued**

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

By way of internal practice, the directors of the Company also act as directors of Tigné Contracting Limited, the contracting arm of the Group. Some Directors also act as directors on fully owned subsidiaries within the Group, namely: Tigné Point Marketing Limited, Solutions & Infrastructure Services Limited and T14 Investments Limited. Joseph A. Gasan is also a director on Mid Knight Holdings Limited, a joint venture company.

During the period under review the Chief Executive Officer has acted as a director of Tigné Point Marketing Limited and Mid Knight Holdings Limited.

The Directors are strongly aware of their responsibility to act at all times in the interest of the Company and its shareholders as a whole and of their obligation to avoid conflicts of interest.

The Directors and the CEO acting as directors of other companies of the Group and other third companies may be subject to conflicts between the potentially divergent interests of the Company, the Group or such other third companies. The Company is not aware of any private interest or duties unrelated to the Group which may or are likely to place the Directors or the CEO in conflict with any interest in, or duties towards the Company.

Given the current shareholding of MIDI p.l.c., and in line with expectations upon the commencement of the Company, conflicts of interest affecting Board members may arise from time to time with regards to:

1. Contracts for goods and services, including the provision of construction services, civil and mechanical and engineering works which have been/may be entered into between MIDI p.l.c., Tigné Contracting Limited, Solutions & Infrastructure Services Limited, Mid Knight Holdings Limited and companies related to Board members;
2. Financing and insurance related services which have been/may be provided to MIDI p.l.c. by companies related to Board members;
3. Activities, including retail projects, carried on by MIDI p.l.c. which may compete with similar activities carried on, in the close proximity of the project by companies related to Board members;
4. Purchases of apartments by directors or by companies related to Board members;
5. Rental Agreements by directors or by companies related to Board members.

All contracts for goods and services, including the provision of construction services, civil and mechanical and engineering works, and any other purchases are based upon the principle of competitive bidding. The CEO negotiates with suppliers in order to ensure that the best quality goods and services are procured by MIDI at the least possible price. With regard to construction services, the Supervisory Board is responsible, with assistance from the Project Management Advisory Committee, to supervise the tendering process. In particular, the Supervisory Board is responsible for assisting and directing the CEO in negotiations with contractors, suppliers and service providers and is responsible for the award of tenders not exceeding the value of €2 million. Any tenders exceeding such a value are awarded by the Board.

## **Statement of compliance with the Principles of Good Corporate Governance - continued**

### **B. COMPLIANCE WITH THE CODE - continued**

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

In terms of the Memorandum and Articles of Association of the Company, the directors are obliged to declare to the Board and to keep the Board advised, on an ongoing basis of any direct or indirect interest that could potentially conflict with that of the Company. The Board member concerned shall not take part in the assessment by the Board as to whether a conflict of interest exists. A director shall not vote in respect of any contract, arrangement, transaction or proposal in which he has material interest in accordance with the Memorandum and Articles of Association, whether direct or indirect, otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

Article 91(5) of the Memorandum and Articles of Association states that if any question arises at any meeting as to the materiality of a director's interest or as to the entitlement of any director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, then such question shall be referred to the auditors and their ruling shall be final and conclusive except in a case where the nature or extent of the interests of the director concerned have not been fairly disclosed.

#### *Dealing in Company Securities*

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 the law, including the Listing Rules, as well as within the Company's policy in respect of dealings by directors in the Company's securities, which policy is based on timely and comprehensive disclosures and notices, where and if applicable in terms of the applicable laws.

Directors' interests in the share capital of the Company are contained in the Directors' report.

#### **Principle 12: Corporate Social Responsibility**

The Company recognises the importance of its role in the corporate social responsibility arena and it has taken several initiatives in this respect in particular through the restoration works undertaken on Fort Manoel and Fort Tigné.

In the context of the Company's activities, Management strives to ensure that environmental friendliness is given priority in the course of construction, marketing and operation of the different phases of the Manoel Island and Tigné Point project.

In March 2018, the Company announced, that it had entered into a guardianship deed with the Manoel Island Foundation and the Gzira Local Council. Subject to receiving necessary planning approvals of the Masterplan and the commencement of the development of Manoel Island, the Company has provided certain commitments governing the Manoel Island Public Park, the Foreshore, the Swimming Zones, Fort Manoel and building heights on Manoel Island in accordance with the terms of the Guardianship Deed.

As part of its CSR initiatives, the Company also provides premises belonging to it to non-profit organisations and other third parties to carry out activities and events which benefit non-profit organisations or a philanthropic cause.

## **Statement of compliance with the Principles of Good Corporate Governance - continued**

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

#### **Principle 3: Executive and non-executive directors on the Board**

The Board is composed entirely of non-executive Directors. This composition is explained under Principle 3 in Section B. The Board notes that the provisions of Principle 3 suggest that the Board should be composed of executive and non-executive directors, including independent non-executives. However, it is equally noted that the focus of the supporting principles is on the importance of having non-executive directors who not being involved in the day-to-day running of the business, can bring fresh perspectives and contribute more objectively in supporting as well as constructively challenging and monitoring the management team. With the role played by the Supervisory Board as an interface between the Board of Directors and the Company's Senior Management, the Board is satisfied that the strategy of the Board is adequately implemented. Furthermore, the CEO as well as members of Senior Management are invited to attend meetings of the Board of Directors, albeit without a vote, in order to ensure their full understanding and appreciation of the Board's strategy. This enables the Chief Executive Officer and Senior Management to provide direct input to the Board's deliberations.

#### **Principle 4: Code Provision 4.2.7 Succession policy for the future composition of the Board**

The Board notes that pursuant to the Company's Memorandum and Articles of Association of the Company, the appointment of directors to serve on the Board of Directors is a matter which is entirely reserved to the shareholders of the Company (other than in the case of the ninth director who may be appointed by the Board or where the need arises to fill a casual vacancy). Accordingly, shareholders are afforded the power to nominate and elect a new board of directors on an annual basis. Thus, the Board does not consider it practical to develop a succession policy for the future composition of the Board since every Director is required to retire from office at the Annual General Meeting. However, as indicated in the statement of compliance, all newly appointed directors are given a thorough induction course in the operations, activities and procedures of the Company by Senior Management to be able to carry out the function of a Director in an effective manner.

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

During the year under review, the Board did not undertake an evaluation of its own performance and that of its committees. In the context of the nature of the Company's operations and the stage of its operations together with the particular composition and role of the Board, the Board did not consider that such a formal evaluation of performance was necessary. Nonetheless a review of the strengths and weaknesses of each director is taken into consideration when reviewing the composition of the Board's committees.

#### **Principle 8B: Nominations Committee**

The appointment of directors to the Board is a matter which is reserved entirely to the Group's shareholders in terms of the Memorandum and Articles of Association of the Company. Pursuant to a call for nominations for election to the office of Director, by notice in at least two (2) daily newspapers, all shareholders are entitled to submit nominations for such an election. Within this context, a Nominations Committee in terms of the Code would not be able to undertake satisfactorily its full functions and responsibilities as envisaged by the spirit of the Code and therefore the setting up of a Nominations Committee is not considered appropriate.

**Statement of compliance with the Principles of Good Corporate Governance –**  
continued

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

**Principle 9: Relations with Shareholders and with the Market (Code Provision 9.3)**

There are no procedures disclosed in the Company's Memorandum or Articles as recommended in Code Provision 9.3, to resolve conflicts between minority shareholders and controlling shareholders. It is the Board's view that this Code Provision is not applicable to the Company since the Company has no controlling shareholders.

This notwithstanding, the Company ensures that sufficient contact is maintained with shareholders to understand issues and concerns. The Office of the Company Secretary maintains regular communication with investors and provides individual shareholders with the opportunity to raise matters at any time throughout the year. Shareholders are also given the opportunity to ask questions at the AGM or to submit written questions in advance. Furthermore, as provided by the Companies Act, the Board may call an extraordinary general meeting on the requisition of shareholders holding not less than one-tenth of the paid up share capital of the Company.

**D. INTERNAL CONTROL AND RISK MANAGEMENT IN RELATION TO THE FINANCIAL REPORTING PROCESS**

The Board is ultimately responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable, as opposed to absolute assurance against material misstatement or loss.

The Company operates through the Board of Directors and the Supervisory Board with clear reporting lines and delegation of powers. The Board of Directors has adopted and implemented appropriate policies and procedures to manage risks and internal control. The Supervisory Board plans, executes, controls and monitors business operations in order to achieve the set objectives.

The Directors, with the assistance of Senior Management, are responsible for the identification, evaluation and management of the key risks to which the Company may be exposed. The Company has in place clear and consistent procedures in place for monitoring the system of internal financial controls. The Directors also receive periodic management information giving comprehensive analysis of financial and business performance including variances against the Group's set targets.

This process is applicable specifically in relation to the Company's financial reporting framework.

The Audit Committee reviews and assesses the effectiveness of the internal control systems, including financial reporting, and determines whether significant internal control recommendations made by internal and external auditors have been implemented. The Committee plays an important role in initiating discussions with the Board with respect to risk assessment and risk management, reviews contingent liabilities and risks that may be material to the Group.

**E. LISTING RULE 5.97.5**

The information required by this Listing Rule is found in the Directors' Report.

**Statement of compliance with the Principles of Good Corporate Governance -**  
continued

**F. GENERAL MEETINGS**

General meetings are called and conducted in accordance with the provisions contained in the Company's Articles of Association. As outlined previously, information on General Meetings is located in the Directors' Report.

The report above is a summary of the views of the Board on the Company's compliance with the Code. Generally the Board is of the opinion that, in the context of the applicability of the various principles of the Code to the Company and in the context of the Company's business operations and save as indicated herein in the section entitled "Non-Compliance" the Company has applied the principles and has been in compliance with the Code throughout the financial year under review. The Board shall keep these principles under review and shall monitor any developments in the Company's business to evaluate the need to introduce new corporate governance structures or mechanisms as and when the need arises.

Approved by the Board on 23 April 2018 and signed on its behalf by:



Alec A. Mizzi  
Chairman



Joseph A. Gasan  
Director

## Remuneration Report

### Membership and Terms of Reference of Remuneration Committee

The Remuneration Committee is composed of Mr. Joseph Said (Chairman), Mr. David G. Curmi and Mr. Mark Andrew Weingard as members, all of whom are independent non-executive directors.

The Terms of Reference of the Committee have been established by the Board.

The Committee is charged with the oversight of the remuneration policies implemented by the Company. Its objectives are those of devising a remuneration policy aimed to attract, retain and motivate directors, as well as senior management with the right qualities and skills for the benefit of the Company. The Committee is responsible for making proposals to the Board on the remuneration of Directors and the individual remuneration packages of Senior Management.

### Remuneration Statement

The Board of Directors approved and signed the Remuneration Report on 23 April 2018.

### Remuneration Policy - Directors

In terms of the Company's Memorandum and Articles of Association, the shareholders of the Company determine the maximum annual aggregate remuneration of the directors pursuant to their appointment to the Company's Board of Directors and in relation to services rendered pursuant to their appointment by the Board of Directors on the Board Committees.

At the 2017 Annual General Meeting, held on 20 June 2017, the shareholders of the Company resolved to set a maximum annual aggregate remuneration for the Directors of the Company, which was capped at seventy five thousand euro (€75,000). The remuneration policy for directors, as adopted by the Company, also provides for the remuneration of directors pursuant to their nomination and appointment on Board Committees.

It is confirmed that none of the Directors, purely through their appointment as directors of the Company, are entitled to profit sharing, share options, pension benefits or any other remuneration from the Company.

Total Directors' remuneration for the financial year ended 31 December 2017 in respect of their office as Directors, are as detailed below.

Fixed Remuneration	Variable Remuneration	Share Options	Others
€65,866	None	None	None

The amount disclosed above reflects the total Directors' emoluments paid during the period under review.

## Remuneration Report - continued

### Remuneration Statement - continued

#### Remuneration Policy - Senior Management

The term 'Senior Management' shall refer to the list of officers as set out within the Directors' report.

The Board of Directors, pursuant to the recommendations of the Remuneration Committee, considers that the packages offered to Senior Management, as exhaustively listed within this Annual Report, ensure that the Company attracts and retains management staff that is capable of fulfilling its duties and obligations. Furthermore, it is the Company's policy to engage its senior management group on the basis of indefinite contracts of employment after a period of probation, rather than on fixed term contracts. Accordingly, the applicable notice periods, after probation, are those provided for in the relevant legislation.

The terms and conditions of employment of Senior Management are specified in their respective indefinite contracts of employment. None of the Company's Senior Management, through their employment with the Company, is entitled to any share options and/or profit sharing arrangements or pension benefits. Senior Management are eligible for an annual bonus entitlement by reference to the attainment of pre-established objectives. Such bonus was paid to Senior Management for the first time in respect of the financial year under review.

The individual contracts of employment of all senior management staff, excluding the Chief Executive Officer, contain provisions for termination payments other than as may be applicable in accordance with legal requirements.

All employees of the Company are entitled to health and life insurance, whilst Senior Management and some other executives of the Company are entitled to reimbursement of telephone expenses.

Total emoluments received by Senior Management during the period under review are as detailed below, in terms of Code Provision 8.A.5 of the Listing Rules.

Fixed Remuneration	Variable Remuneration	Share Options	Others
€401,804	€50,000	None	Non-cash benefits referred to above



Joseph Said  
*Chairman of Remuneration Committee*



David G. Curmi  
*Member of Remuneration Committee*

23 April 2018



## *Independent auditor's report*

To the Shareholders of MIDI p.l.c.

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion:

- MIDI 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 2017, 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**

MIDI p.l.c.'s financial statements, set out on pages 37 to 92, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2017;
- 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.

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#### *Basis for opinion*

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

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



## *Independent auditor's report - continued*

To the Shareholders of MIDI 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 the IESBA Code.

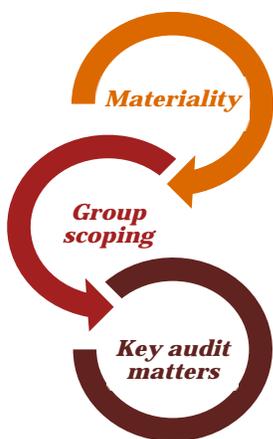
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the parent company and its subsidiaries are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the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

The non-audit services that we have provided to the group and its subsidiaries, in the period from 1 January 2017 to 31 December 2017, are disclosed in the note 23 to the financial statements.

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### *Our audit approach*

#### **Overview**



Overall group materiality:

€650,000, which represents 0.75% of consolidated net assets.

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The audit carried out by the group engagement team covered all companies within the group as at and for the year ended 31 December 2017, comprising MIDI p.l.c. (the Parent Company) and its subsidiaries: Tigné Contracting Limited, Tigné Point Marketing Limited, T14 Investments Limited and Solutions & Infrastructure Services Limited, as well as the investments in joint ventures namely Mid Knight Holdings Limited and Mid Knight Operations Limited.

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Fair valuation of property

Inventory valuation

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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.



## *Independent auditor's report - continued*

To the Shareholders of MIDI p.l.c.

### **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.

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<b><i>Overall group materiality</i></b>	€650,000
<b><i>How we determined it</i></b>	0.75% of consolidated net assets
<b><i>Rationale for the materiality benchmark applied</i></b>	We chose net assets as the benchmark because, in our view, it is the benchmark against which the underlying value of Group is most commonly measured by users, and is a generally accepted benchmark. We chose 0.75%, which is within the range of quantitative materiality thresholds that we consider acceptable.

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We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €65,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### **How we tailored our group audit scope**

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

The Group is composed of MIDI p.l.c. (the Parent Company) and its subsidiaries: Tigné Contracting Limited, Tigné Point Marketing Limited, T14 Investments Limited and Solutions & Infrastructure Services Limited. It also holds investments in joint ventures namely Mid Knight Holdings Limited and Mid Knight Operations Limited.

Full scope audit procedures were performed by PwC Malta on all the components. This, together with the additional procedures performed on the consolidation at the Group level, were sufficient to allow us to conclude on our opinion on the Group financial statements as a whole.



## *Independent auditor's report - continued*

To the Shareholders of MIDI 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**

##### *Fair valuation of property, relating to the Group and the Parent Company*

The Group's and Parent Company's assets comprise properties held for long-term rental yields or for capital appreciation, which are classified as investment property and accounted for at fair value. The Group's and Parent Company's property, plant and equipment also includes the public car park.

The latest full property valuation was carried out as at 31 December 2015, on the basis of an assessment of the open market value of the respective properties. The valuation was carried out by an independent architect and civil engineer dated 28 March 2016.

During 2017, the Board of Mid Knight Holdings Limited, a jointly controlled entity, commissioned a valuation of the company's main asset, consisting of an office block known as 'The Centre', which as from 2017 is being rented to third parties. The asset is accounted for as Investment Property in the financial statements of the joint venture company. The open market valuation was carried out by an independent architect and civil engineer and is dated 17 November 2017.

Further disclosure is included in Note 5 (Property, Plant and Equipment), Note 6 (Investment Property) and Note 8 (Investment in joint ventures)

We read the valuation reports for all properties, including the Investment Property of Mid Knight Holdings Limited, and confirmed that the valuation approach for each property was in accordance with professional valuation standards in determining the carrying value of property at 31 December 2017.

We also evaluated the competence, qualifications, experience and objectivity of management's property valuation experts.

We engaged our in-house valuation specialists to critique and challenge the key assumptions used in the architect's valuation. Our specialists also held discussions with the architect to understand the basis on which the architect's valuation was prepared. Particular focus was placed on the assumptions and methodology used. Third party evidence and other data was obtained to corroborate the assumptions.

We also reviewed management's assessment that the key assumptions used in the valuations as at 31 December 2015 and 17 November 2017 are still applicable as at 31 December 2017.

We concluded, based on our audit work that the valuations were within a reasonable range.

In addition, we evaluated the adequacy of the disclosures made in Notes 5 and 6 of the financial statements, including those regarding the assumptions.



## *Independent auditor's report - continued*

To the Shareholders of MIDI p.l.c.

Key audit matter	How our audit addressed the Key audit matter
<p>We focused on this area because of the significance of the carrying value of the Group's and Company's property in the respective Statements of Financial Position, the impact on profit or loss arising from the revaluation of Investment Property in the jointly controlled entity as a consequence of the equity method of accounting - which impacts the Group's results, and the judgemental nature of the assumptions used in underlying valuations, such as the sales price per car space or square metre and the discount rates applied.</p>	
<p><i>Inventory valuation, relating to the Group and the Parent Company</i></p>	
<p>The carrying amount of inventory at a Group and Parent Company level represents the value of the of land, development and borrowing costs attributable to the various phases of the Manoel Island and Tigné Point project which are either held for sale or under development as at 31 December 2017, analysed by project phase.</p>	<p>We understood and evaluated the assessment performed by management to ascertain whether inventory is carried at the lower of cost and net realisable value.</p>
<p>Further disclosure is included in Note 11 (Inventories - Development project).</p>	<p>Our audit procedures included a review, also with the assistance of our valuation specialists, of the projected financial information prepared by management with the objective of estimating recoverable amounts.</p>
<p>For each project phase, management assesses whether inventory is carried at the lower of cost and net realisable value.</p>	<p>In relation to the Manoel Island project, we are aware that the Board has considered a number of scenarios through which this asset can be realised and has engaged international consultants to assist the Group in establishing a vision for this project, with the aim of maximising its underlying value. We are aware that the Board has engaged an international financial advisor for the purpose of identifying and selecting a suitable strategic partner to financially support the development of Manoel Island. We understand that the Board is in the process of short-listing a number of options and is targeting to commence preparatory works on Manoel Island towards the end of 2018 with development works commencing during the first half of 2019.</p>
<p>We focused on this area because of the significance of the carrying value of inventories, which includes costs attributable to the Manoel Island project, in the Group's Statement of Financial Position and the judgemental nature of the assumptions used by management in the assessment described above.</p>	



## *Independent auditor's report - continued*

To the Shareholders of MIDI p.l.c.

<b>Key audit matter</b>	<b>How our audit addressed the Key audit matter</b>
	<p>We have sighted various offers together with other documentation that indicate that the realisable value attributable to Manoel Island is in excess of its carrying amount.</p> <p>We have also discussed with management and the audit committee the key assumptions underlying the assessment performed.</p> <p>We concluded, based on our audit work, that the outcome of the assessment is not unreasonable.</p>

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### *Other information*

The directors are responsible for the other information. The other information comprises the Directors' report and Remuneration Report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement to the Members, the Chief Executive Officer's Review of Operations, and the Five Year Record, which is expected to be made available to us after that date.

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

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

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

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

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

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

When we read the Chairman's Statement to the Members, the Chief Executive Officer's Review of Operations, and the Five Year Record, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance in accordance with International Standards on Auditing.



## *Independent auditor's report - continued*

To the Shareholders of MIDI p.l.c.

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### *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.

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### *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 MIDI 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 MIDI p.l.c.

### *Report on other legal and regulatory requirements*

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#### *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 11 to 24 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

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#### *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 MIDI p.l.c.

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*Appointment*

We were first appointed as auditors of the Parent Company for the financial year ended 31 December 1998. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 20 years.

The Parent Company became listed on a regulated market on 23 January 2009.

**PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta

A handwritten signature in blue ink that reads 'D. Valenzia'.

David Valenzia  
Partner

23 April 2018

## Statements of financial position

As at 31 December					
Notes	Group		Company		
	2017	2016	2017	2016	
	€	€	€	€	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	20,540,257	21,817,859	17,518,720	803,301
Investment property	6	21,728,090	21,728,090	21,728,090	38,553,090
Investments in subsidiaries	7	-	-	11,709,316	12,180,963
Investment in joint ventures	8	28,243,812	1,962,735	-	-
Available-for-sale financial assets	9	513,906	730,320	513,906	730,320
Loans receivable from joint ventures	10	9,701,000	9,701,000	-	-
Deferred tax assets	21	-	262,726	-	-
<b>Total non-current assets</b>		<b>80,727,065</b>	56,202,730	<b>51,470,032</b>	52,267,674
<b>Current assets</b>					
Inventories - Development project	11	140,269,181	127,077,461	140,704,377	127,309,125
Trade and other receivables	12	3,935,534	3,190,964	10,357,653	12,883,096
Current tax assets		235,395	2,935,456	232,719	2,934,420
Term placements with banks	13	-	200,000	-	200,000
Cash and cash equivalents	14	10,134,894	14,173,142	9,732,774	13,319,985
<b>Total current assets</b>		<b>154,575,004</b>	147,577,023	<b>161,027,523</b>	156,646,626
<b>Total assets</b>		<b>235,302,069</b>	203,779,753	<b>212,497,555</b>	208,914,300

**Statements of financial position - continued**

		<b>As at 31 December</b>			
		<b>Group</b>		<b>Company</b>	
Notes	2017	2016	2017	2016	
	€	€	€	€	
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	15	<b>42,831,984</b>	42,831,984	<b>42,831,984</b>	42,831,984
Share premium	15	<b>15,878,784</b>	15,878,784	<b>15,878,784</b>	15,878,784
Property revaluation reserve	17	<b>2,012,507</b>	2,063,446	-	-
Investment fair value reserve	18	<b>81,866</b>	96,280	<b>81,866</b>	96,280
Retained earnings		<b>25,815,645</b>	6,488,812	<b>2,101,265</b>	11,358,085
<b>Total equity</b>		<b>86,620,786</b>	67,359,306	<b>60,893,899</b>	70,165,133
<b>Non-current liabilities</b>					
Trade and other payables	19	<b>22,752,040</b>	33,425,089	<b>22,752,040</b>	33,425,089
Borrowings	20	<b>62,210,761</b>	60,448,245	<b>62,210,761</b>	60,448,245
Deferred tax liabilities	21	<b>178,590</b>	-	<b>1,289,676</b>	1,419,774
<b>Total non-current liabilities</b>		<b>85,141,391</b>	93,873,334	<b>86,252,477</b>	95,293,108
<b>Current liabilities</b>					
Trade and other payables	19	<b>59,613,993</b>	42,547,113	<b>61,425,280</b>	43,456,059
Borrowings	20	<b>3,925,899</b>	-	<b>3,925,899</b>	-
<b>Total current liabilities</b>		<b>63,539,892</b>	42,547,113	<b>65,351,179</b>	43,456,059
<b>Total liabilities</b>		<b>148,681,283</b>	136,420,447	<b>151,603,656</b>	138,749,167
<b>Total equity and liabilities</b>		<b>235,302,069</b>	203,779,753	<b>212,497,555</b>	208,914,300

The notes on pages 45 to 92 are an integral part of these Financial Statements.

The Financial Statements on pages 37 to 92 were authorised for issue by the Board on 23 April 2018 and were signed on its behalf by:



Alec A. Mizzi  
Chairman



Joseph A. Gasan  
Director

## Income statements

		Year ended 31 December			
		Group		Company	
Notes		2017	2016	2017	2016
		€	€	€	€
<b>Revenue</b>	22	<b>4,636,488</b>	8,674,272	<b>2,287,220</b>	7,253,889
Cost of sales	23	<b>(3,050,649)</b>	(3,885,060)	<b>(197,715)</b>	(2,475,902)
<b>Gross profit</b>		<b>1,585,839</b>	4,789,212	<b>2,089,505</b>	4,777,987
Other operating income/(expenses)	28	<b>134,147</b>	(520,954)	<b>130,594</b>	216,866
Administrative expenses	23	<b>(4,506,087)</b>	(2,636,616)	<b>(5,238,994)</b>	(2,234,399)
<b>Operating (loss)/profit</b>		<b>(2,786,101)</b>	1,631,642	<b>(3,018,895)</b>	2,760,454
Finance income	26	<b>243,338</b>	4,439	<b>40,015</b>	4,439
Finance costs	27	<b>(2,497,981)</b>	(3,730,513)	<b>(2,493,563)</b>	(3,704,905)
Share of profit/(loss) of investment accounted for using the equity method of accounting	8	<b>26,281,077</b>	(18,372)	-	-
Impairment charge on investment in subsidiary	7	-	-	<b>(471,647)</b>	-
<b>Profit/(loss) before tax</b>		<b>21,240,333</b>	(2,112,804)	<b>(5,944,090)</b>	(940,012)
Tax expense	29	<b>(465,320)</b>	(402,776)	<b>(465,320)</b>	(401,425)
<b>Profit/(loss) for the year</b>		<b>20,775,013</b>	(2,515,580)	<b>(6,409,410)</b>	(1,341,437)
Earnings per share	30	<b>0.097</b>	(0.012)		

The notes on pages 45 to 92 are an integral part of these Financial Statements.

## Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
Notes		2017 €	2016 €	2017 €	2016 €
	<b>Profit/(loss) for the year</b>	<b>20,775,013</b>	(2,515,580)	<b>(6,409,410)</b>	(1,341,437)
	<i>Items that may be subsequently reclassified to profit or loss</i>				
	Cash flow hedges, net of deferred tax	16	-	121,792	-
	(Losses)/gains from changes in fair value of available-for-sale financial assets	18	(9,034)	4,151	(9,034)
	Total other comprehensive income	(9,034)	125,943	(9,034)	125,943
	<b>Total comprehensive income for the year</b>	<b>20,765,979</b>	(2,389,637)	<b>(6,418,444)</b>	(1,215,494)

The notes on pages 45 to 92 are an integral part of these Financial Statements.

## Statements of changes in equity

Group	Notes	Share capital €	Share premium €	Hedging reserve €	Property revaluation reserve €	Investment fair value reserve €	Retained earnings €	Total €
<b>Balance at 1 January 2016</b>		42,831,984	15,878,784	(121,792)	2,063,446	92,129	10,503,511	71,248,062
<b>Comprehensive income</b>								
Loss for the year		-	-	-	-	-	(2,515,580)	(2,515,580)
<b>Other comprehensive income</b>								
<i>Items that may be reclassified subsequently to profit or loss</i>								
Fair valuation of available-for-sale financial assets:								
Net changes in fair value arising during the year, before tax	18	-	-	-	-	4,151	-	4,151
Cash flow hedges, net of deferred tax	16	-	-	121,792	-	-	-	121,792
Total other comprehensive income		-	-	121,792	-	4,151	-	125,943
<b>Total comprehensive income</b>		-	-	121,792	-	4,151	(2,515,580)	(2,389,637)
<b>Transactions with owners</b>								
Dividends paid to shareholders	31	-	-	-	-	-	(1,499,119)	(1,499,119)
<b>Balance at 31 December 2016</b>		<b>42,831,984</b>	<b>15,878,784</b>	<b>-</b>	<b>2,063,446</b>	<b>96,280</b>	<b>6,488,812</b>	<b>67,359,306</b>
<b>Balance at 1 January 2017</b>		42,831,984	15,878,784	-	2,063,446	96,280	6,488,812	67,359,306
<b>Comprehensive income</b>								
Profit for the year		-	-	-	-	-	20,775,013	20,775,013
<b>Other comprehensive income</b>								
<i>Items that may be reclassified subsequently to profit or loss</i>								
Fair valuation of available-for-sale financial assets:								
Reclassification adjustments – net amounts reclassified to profit or loss, before tax	18	-	-	-	-	(5,380)	-	(5,380)
Net changes in fair value arising during the year, before tax	18	-	-	-	-	(9,034)	-	(9,034)
Total other comprehensive income		-	-	-	-	(14,414)	-	(14,414)
<b>Total comprehensive income</b>		-	-	-	-	(14,414)	20,775,013	20,760,599
<b>Transactions with owners</b>								
Dividends paid to shareholders	31	-	-	-	-	-	(1,499,119)	(1,499,119)
Other movements net of tax	17	-	-	-	(50,939)	-	50,939	-
Total transactions with owners		-	-	-	(50,939)	-	(1,448,180)	(1,499,119)
<b>Balance at 31 December 2017</b>		<b>42,831,984</b>	<b>15,878,784</b>	<b>-</b>	<b>2,012,507</b>	<b>81,866</b>	<b>25,815,645</b>	<b>86,620,786</b>

**Statements of changes in equity – continued**

Company	Notes	Share capital €	Share premium €	Hedging reserve €	Investment fair value reserve €	Retained earnings €	Total €
<b>Balance at 1 January 2016</b>		42,831,984	15,878,784	(121,792)	92,129	14,198,641	72,879,746
<b>Comprehensive income</b>							
Loss for the year		-	-	-	-	(1,341,437)	(1,341,437)
<b>Other comprehensive income</b>							
<i>Items that may be reclassified subsequently to profit or loss</i>							
Fair valuation of available-for sale financial assets:							
Net changes in fair value arising during the year, before tax	18	-	-	-	4,151	-	4,151
Cash flow hedges, net of deferred tax	16	-	-	121,792	-	-	121,792
Total other comprehensive income		-	-	121,792	4,151	-	125,943
<b>Total comprehensive income</b>		-	-	121,792	4,151	(1,341,437)	(1,215,494)
<b>Transactions with owners</b>							
Dividends paid to shareholders	31	-	-	-	-	(1,499,119)	(1,499,119)
<b>Balance at 31 December 2016</b>		<b>42,831,984</b>	<b>15,878,784</b>	<b>-</b>	<b>96,280</b>	<b>11,358,085</b>	<b>70,165,133</b>

## Statements of changes in equity – continued

Company	Notes	Share capital €	Share premium €	Hedging reserve €	Investment fair value reserve €	Retained earnings €	Total €
<b>Balance at 1 January 2017</b>		42,831,984	15,878,784	-	96,280	11,358,085	70,165,133
<b>Comprehensive income</b>							
Loss for the year		-	-	-	-	(6,409,410)	(6,409,410)
<b>Other comprehensive income</b>							
<i>Items that may be reclassified subsequently to profit or loss</i>							
Fair valuation of available-for sale financial assets:							
Reclassification adjustments – net amounts reclassified to profit or loss, before tax	18	-	-	-	(5,380)	-	(5,380)
Net changes in fair value arising during the year, before tax	18	-	-	-	(9,034)	-	(9,034)
Total other comprehensive income		-	-	-	(14,414)	-	(14,414)
<b>Total comprehensive income</b>		-	-	-	(14,414)	(6,409,410)	(6,423,824)
<b>Transactions with owners</b>							
Dividends paid to shareholders	31	-	-	-	-	(1,499,119)	(1,499,119)
Adjustment to retained earnings upon termination of car park agreement	5	-	-	-	-	(1,700,000)	(1,700,000)
Adjustment to depreciation and deferred taxation in respect of the reclassification from Investment Property to Property, Plant and Equipment	5	-	-	-	-	351,709	351,709
Total transactions with owners		-	-	-	-	(2,847,410)	(2,847,410)
<b>Balance at 31 December 2017</b>		<b>42,831,984</b>	<b>15,878,784</b>	<b>-</b>	<b>81,866</b>	<b>2,101,265</b>	<b>60,893,899</b>

The notes on pages 45 to 92 are an integral part of these Financial Statements.

## Statements of cash flows

		Year ended 31 December			
Notes	Group		Company		
	2017	2016	2017	2016	
	€	€	€	€	
<b>Cash flows from operating activities</b>					
Cash used in operations	32	(8,755,553)	(65,989)	(8,060,217)	(2,751,713)
Net interest paid		(2,162,694)	(3,203,020)	(2,361,599)	(3,177,412)
Net income tax refunded/(paid)		2,676,056	(452,021)	2,677,696	(450,870)
Net cash used in operating activities		(8,242,191)	(3,721,030)	(7,744,120)	(6,379,995)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	5	(295,405)	(1,340,589)	(342,439)	-
Proceeds from disposal of property, plant and equipment	5	-	20	-	-
Proceeds from maturity of term placements with banks	13	200,000	2,050,000	200,000	2,050,000
Proceeds from maturity of investments in available-for-sale financial assets	9	202,000	207,380	202,000	207,380
Net cash generated from investing activities		106,595	916,811	59,561	2,257,380
<b>Cash flows from financing activities</b>					
Proceeds from bank borrowings		6,814,882	7,241,606	6,814,882	7,967,948
Repayments of bank and other borrowings		(1,218,415)	(4,601,858)	(1,218,415)	(4,601,858)
Release of financial instruments held in trust		93,042	244,781	93,042	244,781
Proceeds upon the termination of the swap		-	507,000	-	507,000
Redemption of 7% Bonds 2016 – 2018		-	(9,263,354)	-	(9,263,354)
Proceeds from 4% Secured Euro Bonds 2026		-	18,008,340	-	18,008,340
Dividend paid		(1,499,119)	(1,499,119)	(1,499,119)	(1,499,119)
Net cash generated from financing activities		4,190,390	10,637,396	4,190,390	11,363,738
<b>Net movement in cash and cash equivalents</b>		(3,945,206)	7,833,177	(3,494,169)	7,241,123
<b>Cash and cash equivalents at beginning of year</b>		13,829,344	5,996,167	12,976,187	5,735,064
<b>Cash and cash equivalents at end of year</b>	14	9,884,138	13,829,344	9,482,018	12,976,187

The notes on pages 45 to 92 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 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

These consolidated Financial Statements include the Financial Statements of MIDI p.l.c. and its subsidiaries. These Financial Statements have been prepared in accordance with 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 valuations of the land and buildings class of property, plant and equipment, investment property, available-for-sale financial assets 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 the Directors to exercise their judgement in the process of applying the Group's accounting policies (see Note 3 – Critical accounting estimates and judgements).

##### 1.1.1 Assessment of going concern assumption

MIDI p.l.c. has registered a consolidated profit before tax amounting to €21,240,333 during the financial year ended 31 December 2017 (2016: loss of €2,112,804). The Group's total assets exceeded its total liabilities by €86,620,786 as at 31 December 2017 (2016: €67,359,306). The Group has been reviewing its financing arrangements to ensure that it is in a position to meet its operational and cash flow commitments throughout the twelve-month period subsequent to 31 December 2017. During the current financial year, the Group's bankers have confirmed their willingness to support the Group's financial requirements in this respect.

MIDI Group continued to review its funding strategy in the context of the timing of the different development stages of the remaining Tigné Point phases and of the Manoel Island project to sustain its long-term development plans. The Group's liquidity and capital management programmes comprise: i) monitoring the feasibility of the different project phases based on net cash inflows and income streams; ii) reviewing the sustainability of the carrying amount of assets allocated to the respective phases; and iii) assessing the appropriate funding mix to be applied to each phase. The outcome of the review of the Group's funding programmes in the longer-term could potentially result in changes to the existing or projected use of the asset base pertaining to the different phases of the Tigné Point and Manoel Island project to leverage the underlying cash flow streams.

The review highlighted above has not given rise to potential indications of impairment of the carrying amount of inventories attributable to the remaining Tigné Point phases and to the Manoel Island project. No heightened risk factors have been identified in respect of the latter in view of the judgemental nature of the review process.

During 2017, the Company focused on updating the masterplan for the Manoel Island project. In November 2017, the Company announced, via announcement 'MDI110' that it had submitted the masterplan to the Planning Authority ("PA") for its consideration and to the Environmental and Resources Authority ("ERA") for Environmental Impact Assessment evaluation. This masterplan, which has been entrusted to the international architectural firm Foster+Partners, has taken on board a number of recommendations made by the various NGO's and the Gzira Local Council with whom the Company has engaged in discussions during the course of the year. The Company is targeting to commence preparatory works on Manoel Island towards the end of 2018 with development works commencing during the first half of 2019. The Company has identified a number of options including the ongoing assistance by Jefferies International in identifying and selecting a suitable partner to support the development of Manoel Island.

## 1. Summary of significant accounting policies – continued

### 1.1 Basis of preparation – continued

#### 1.1.1 Assessment of going concern assumption – continued

The Group's projected equity levels are also being assessed in the context of the future project phases, focusing on the relationship between the amount of borrowings and shareholders' equity.

Accordingly, the Directors continue to adopt the going concern assumption in the preparation of the Consolidated Financial Statements. In the opinion of the Directors, taking cognisance of the short-term funding arrangements together with the Group's long-term liquidity and capital management programmes, there is no material uncertainty which may cast significant doubt on the Group's ability to continue operating as a going concern.

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

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

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2018, including IFRS 9, 'Financial instruments', IFRS 15, 'Revenue from contracts with customers' and IFRS 16, 'Leases' amongst other pronouncements. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, except as disclosed below, and the Company's Directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

IFRS 9, which is effective for accounting periods commencing on 1 January 2018, addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only three classification categories: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through profit or loss. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. Furthermore, there is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9, also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities.

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 Group is assessing the impact of IFRS 15.

## 1. Summary of significant accounting policies – continued

### 1.1 Basis of preparation – continued

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

Under IFRS 16, 'Leases', a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to endorsement by the EU, and subject to the Group also adopting IFRS 15. The Group is assessing the impact of IFRS 16.

### 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

The excess 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 identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the 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. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an 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 the 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.

## 1. Summary of significant accounting policies – continued

### 1.3 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the Financial Statements of each of the Group's entities 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 Company's functional and the Group's 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 or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### 1.4 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings, are shown at fair value based on periodic, but at least triennial, 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 depreciation and 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 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. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

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

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

Land is depreciated over the remaining term of property interest. 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 lives, as follows:

	2017 %	2016 %
Buildings	1	1
Plant and integral assets:		
Electrical and plumbing installations	3 – 8	3 – 8
Machinery and operational equipment	2 – 15	2 – 15
Plant and equipment	5 – 25	5 – 25
Other integral assets	2	2
Office equipment, furniture, fittings and other assets	10 – 33.33	10 – 33.33
Motor vehicles	20	20

Assets in course of construction are not depreciated.

The assets' 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 disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to the assets 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 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 principally comprises land and buildings.

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 the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

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

**1.5 Investment property – continued**

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

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

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

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

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the Group decides to dispose of an investment property without development, the Group continues to treat the property as an investment property. Similarly, if the Group 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 property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

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

For a transfer from inventories to investment property, arising on changes in intended use as evidenced by commencement of an operating lease arrangement rather than sale, any difference between the fair value at the transfer date and its previous carrying amount within inventories shall be recognised in profit or loss.

## 1. Summary of significant accounting policies – continued

### 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 1.7 Investment in joint venture

The Group's interest in jointly controlled entities is accounted for using the equity method and is initially recorded at cost. The Group's share of the joint venture post-formation profits and losses is recognised in profit or loss and its share of post-formation movements in reserves is recognised in equity. The cumulative movements are adjusted against the carrying amount of the investment. When the Group's share of losses in the joint venture equals or exceeds its interest in the entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Investments in jointly controlled entities are accounted for at cost less impairment losses in the Company's separate Financial Statements. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an 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 the joint venture 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.

### 1.8 Financial assets

#### Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### *(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, term placements with banks and cash and cash equivalents in the statement of financial position (notes 1.10 and 1.11).

#### *(b) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale assets. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months from the end of the reporting period.

## 1. Summary of significant accounting policies – continued

### 1.8 Financial assets – continued

#### Recognition and measurement

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instruments. Regular way purchases and sales of financial assets are recognised on the settlement date, which is the date on which an asset is delivered to or by the Group. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or has not retained control of the asset. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary assets denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the asset and other changes in the carrying amount of the asset. The translation differences on monetary assets are recognised in profit or loss; translation differences on non-monetary assets are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary assets classified as available-for-sale are recognised in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques, in most cases by reference to the net asset backing of the investee.

When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss within 'investment and other related income'.

Dividends on available-for-sale equity instruments are recognised in profit or loss within 'investment and other related income' when the Group's right to receive payments is established.

#### Impairment

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

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

## 1. Summary of significant accounting policies – continued

### 1.8 Financial assets – continued

#### Impairment – continued

##### *(a) Assets carried at amortised cost*

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

##### *(b) Assets classified as available-for-sale*

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired. If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

### 1.9 Inventories – Development project

The main object of the Group is the development of a large area of land acquired; this development is intended principally for resale purposes, and is accordingly classified in the Financial Statements as inventories. Any elements of the project which are identified for business operation within the Group's activities or long-term investment purposes are transferred at their carrying amount to property, plant and equipment or investment property when such identification is made and the cost thereof can be reliably segregated.

The development is carried at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the land together with other costs incurred during its subsequent development, including:

- (i) The costs incurred on development works, including demolition, site clearance, excavation, construction and other activities, together with the costs of ancillary activities such as site security.
- (ii) The cost of various design and other studies conducted in connection with the project, together with all other expenses incurred in connection therewith.
- (iii) Any borrowing costs, including imputed interest, attributable to the development phases of the project.

The purchase cost of acquiring the land represents the cash equivalent value of the contracted price. This was determined at date of purchase by discounting to present value the future cash outflows comprising the purchase consideration.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

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

**1.10 Trade and other receivables**

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

**1.11 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Accordingly, cash and cash equivalents comprise cash in hand, deposits held at call with banks and term placements with banks having an original term of three months or less.

**1.12 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**1.13 Financial liabilities**

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group 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.

**1.14 Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

## 1. Summary of significant accounting policies – continued

### 1.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as part of borrowing costs over the period of the borrowings and accounted for as follows:

- (i) Borrowing costs that are directly attributable to the development project are capitalised as part of the cost of the project and are included in its carrying amount. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare any distinct part of the project for its sale or intended use are completed. Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment or investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.
- (ii) All other borrowing costs are recognised in profit or loss as incurred.

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

### 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 the 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 respectively.

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, the 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. Summary of significant accounting policies – continued**

**1.18 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of sales taxes, rebates and discounts.

The Group 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 as described below.

Sales of property are recognised when the significant risks and rewards of ownership of the property being sold are effectively transferred to the buyer. This is generally considered to occur at the later of the contract of sale and the date when all the Group's obligations relating to the property are completed such that possession of the property can be transferred in the manner stipulated by the contract of sale. Amounts received in respect of sales that have not yet been recognised in the Financial Statements, due to the fact that the significant risks and rewards of ownership still pertain to the Group, are treated as payments received on account and presented within trade and other payables.

Revenue from services is generally recognised in the period during which the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

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

**1.19 Derivative financial instruments and hedging**

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. 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.

Fair values of derivative contracts are mainly based on dealer quotes obtained at the end of the reporting period from the Group's counterparties. The fair value of cross-currency interest rate swaps is mainly based on the present value of the estimated future cash flows.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability if the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

## 1. Summary of significant accounting policies – continued

### 1.19 Derivative financial instruments and hedging – continued

On the date a derivative contract is entered into, the Group designates certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met. Under the requirements of IAS 39, the criteria for a derivative instrument to be accounted for as a cash flow hedge include:

- formal documentation of the hedging instrument, hedging item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

Accordingly, the Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking derivatives designated as hedges to specific assets and liabilities or to specific forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedging reserve within equity in other comprehensive income. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. Where the forecast transaction results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in equity are reclassified from equity as a reclassification adjustment and included in the initial measurement of the cost of the asset or liability. Otherwise amounts deferred in equity are reclassified to profit or loss as a reclassification adjustment and presented as revenue or expense in the periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in profit or loss when the hedged forecast transaction affects profit or loss. However, if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

### 1.20 Operating leases

#### *(a) An undertaking is the lessee*

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

#### *(b) An undertaking is the lessor*

Assets leased out under operating leases are included in property, plant and equipment or investment property in the statement of financial position and are accounted for in accordance with accounting policies 1.4 and 1.5 respectively. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term.

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

**1.21 Dividend distribution**

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

**2. Financial risk management**

**2.1 Financial risk factors**

The activities of the Group, of which the Company forms part, potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management, covering risk exposures for all group undertakings, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the respective Company's financial performance. The parent Company's Board of Directors provides principles for overall group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. In order to manage exposures to risks arising from fluctuations in currency exchange rates and interest rates, the Group made use of derivative financial instruments during the year. The general hedging policy guidelines regarding currency and interest rate risks are set by the Board and the Company's finance department is responsible for implementation of these hedging policies. The respective derivative transactions are concluded only with first rate counterparties.

*(a) Market risk*

*(i) Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency. The Group's revenues, operating and development expenditure and financial assets and liabilities, including financing, are denominated in euro. Accordingly, the Group is not significantly exposed to foreign exchange risk and a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

*(ii) Cash flow and fair value interest rate risk*

The Group's significant instruments which are subject to fixed interest rates comprise term placements with banks (Note 13), borrowings from related parties (Note 20) and the bonds issued to the general public (Note 20). In this respect, the Group is potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost. The Group's interest rate risk principally arises from bank borrowings issued at variable rates (Note 20) which expose the Group to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on borrowings costs in respect of these liabilities. Based on this analysis, management considers the potential impact 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.

## 2. Financial risk management – continued

### 2.1 Financial risk factors – continued

#### (b) Credit risk

The Group is not significantly exposed to credit risk arising in the course of its principal activity relating to sale of residential units in view of the manner in which promise of sale agreements are handled through receipt of payments on account at established milestones up to delivery (see Note 19). The Group monitors the performance of the purchasers throughout the term of the related agreement in relation to meeting contractual obligations and ensures that contract amounts are fully settled prior to delivery.

Credit risk arises from cash and cash equivalents, other deposits with banks and receivables, which constitute the Group's loans and receivables category for IAS 39 categorisation purposes. The Group's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Loans and receivables category				
Loans receivable from joint ventures (Note 10)	9,701,000	9,701,000	-	-
Trade and other receivables (Note 12)	2,430,573	2,160,619	9,966,149	12,345,470
Term placements with banks (Note 13)	-	200,000	-	200,000
Cash and cash equivalents (Note 14)	10,134,894	14,173,142	9,732,774	13,319,985
	<b>22,266,467</b>	26,234,761	<b>19,698,923</b>	25,865,455

The Group's exposures to credit risk are analysed in the statement of financial position and in the respective notes to the Financial Statements. The maximum exposure to credit risk at the end of the reporting period in respect of these financial assets is equivalent to their carrying amount. The Group does not hold any collateral as security in this respect except as outlined below.

The Group's receivables mainly comprise receivables in respect of rental operations and the provision of HVAC related services. With respect to rental operations, the Group invoices its customers quarterly in advance and assesses the credit quality of its customers taking into account financial position, past experience and other factors. With respect to HVAC related services, customers are invoiced on a bi-monthly basis. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. The Group monitors the performance of these assets on a regular basis. These receivables are principally in respect of transactions with entities for which there is no recent history of default. Management does not expect any material losses from non-performance by these debtors.

The Company's receivables include significant amounts due from subsidiaries arising from transactions with these entities. The Group monitors intra-group credit exposures at individual entity level and ensures timely performance in the context of overall group liquidity management.

As explained in Note 12, as of 31 December 2017, the directors of the parent company reviewed the balance due from SIS - its subsidiary, in the context of the operations and prospects of the same company and resolved to recognise a provision of €1.9 million to account for the difference between the carrying amount of the balance due and the value which, as of that date, was deemed to be recoverable.

As at the end of the financial reporting period, the Group had no significant past due or impaired financial assets.

## 2. Financial risk management – continued

### 2.1 Financial risk factors – continued

#### (c) *Liquidity risk*

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally trade and other payables and borrowings (refer to Notes 19 and 20). One of the Group's principal liabilities consists of the liability towards the Government in respect of the temporary emphyteusis, which comprises cash payments and obligations through the performance of restoration and infrastructural work at Manoel Island and Tigné Point.

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. The Group's liquidity risk is managed actively by management. Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows from development and operation of the different phases of the project at Tigné Point and Manoel Island. This includes reviewing the matching or otherwise of expected cash inflows and outflows arising from expected maturities of financial instruments in relation to the distinct project phases.

The Group has been reviewing its financing arrangements to ensure that it is in a position to meet its operational and cash flow commitments.

MIDI Group continued to review its funding strategy in the context of the timing of the remaining development stages of the Tigné Point and the overall Manoel Island project to sustain its long-term prospects.

Liquidity risk is not deemed significant in the opinion of the Directors, taking cognisance of the short-term funding arrangements together with the Group's long-term liquidity management.

The Group's trade and other payables (Note 19), other than the liability towards the Government and certain other payables, are principally repayable within one year from the end of the reporting period. Payments received on account under promise of sale agreements do not give rise to cash outflows but would be utilised upon delivery of the related apartments in the expected time bands as disclosed in the related note.

As disclosed in the Note 1.1, Assessment of going concern assumption, the Company has engaged an international consultancy firm in order to establish a vision and seek potential partners for the Manoel Island development with the intention to maximize the value of this project. Concurrently, the Company remains in discussions with third parties who have expressed an interest in this project. It is expected that any outcome of this transaction will have a positive material effect on the Group's cash flows.

The table below analyses the Group's other principal non-derivative financial liabilities into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. In relation to the amounts payable to Government amounts which will be satisfied through the performance of restoration works on major historical sites and the construction of public infrastructure works have been included in the table below since cash outflows would occur in the performance of these obligations. These cash flows have been reflected in the bands below on the basis of the contractual terms of the arrangements (refer to Note 20).

**2. Financial risk management – continued**

**2.1 Financial risk factors – continued**

(c) *Liquidity risk* – continued

<b>Group and Company</b>	<b>Less than one year €</b>	<b>Between 1 and 2 years €</b>	<b>Between 2 and 5 years €</b>	<b>Over 5 years €</b>	<b>Total €</b>
<b>At 31 December 2017</b>					
Bank borrowings	4,558,387	13,406,720	-	-	17,965,107
4% Secured Euro Bonds 2026	2,000,000	2,000,000	4,000,000	59,139,726	67,139,726
Due to Government in relation to purchase of land	27,232,704	5,823,433	17,470,300	4,040,949	54,567,386
Other non-current liabilities	5,731	32,486	124,881	58,830	221,928
<b>At 31 December 2016</b>					
Bank borrowings	515,761	515,761	11,845,164	-	12,876,686
4% Secured Euro Bonds 2026	2,000,000	2,000,000	4,000,000	61,139,726	69,139,726
Due to Government in relation to purchase of land	27,232,704	2,329,373	17,470,300	9,828,641	56,861,018
Other non-current liabilities	37,007	3,891	95,828	51,050	187,776

## 2. Financial risk management – continued

### 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 Group may adjust the amount of dividends paid to Shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (as shown in the statement of financial position) less cash and cash equivalents and other term placements with banks. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Total borrowings (Note 20)	<b>66,136,660</b>	60,448,245	<b>66,136,660</b>	60,448,245
Less:				
- cash and cash equivalents (Note 14)	<b>(10,134,894)</b>	(14,173,142)	<b>(9,732,774)</b>	(13,319,985)
- term placements with banks (Note 13)	-	(200,000)	-	(200,000)
- reserve classified as available-for-sale investments (Note 9)	<b>(313,906)</b>	(530,320)	<b>(313,906)</b>	(530,320)
Net debt	<b>55,687,860</b>	45,544,783	<b>56,089,980</b>	46,397,940
Total equity	<b>86,620,786</b>	67,359,306	<b>60,893,899</b>	70,165,133
Total capital	<b>142,308,646</b>	112,904,089	<b>116,983,879</b>	116,563,073
Gearing ratio	<b>39.1%</b>	40.3%	<b>47.9%</b>	39.8%

The Group manages the relationship between equity injections from shareholders and borrowings, being the constituent elements of capital, as reflected above with a view to managing the cost of capital. The Group maintains its level of capital by reference to its financial obligations and commitments arising from operational requirements in relation to the different phases of the development project.

The Group's projected equity levels are being assessed in the context of the future project phases, focusing on the relationship between the amount of borrowings and shareholders' equity. As outlined previously, MIDI Group is reviewing its funding strategy in the context of the timing of the remaining phases of Tigné Point and the overall Manoel Island project to sustain its long-term prospects. In view of the Group's activities comprised within its liquidity and capital management programmes, the development stage of the distinct phases and the extent of projected borrowings or financing, the capital level as at the end of the financial reporting period is currently deemed adequate by the Directors. The Company has engaged international consultancy firms in order to establish a vision and find potential partners for the Manoel Island development with the intention to maximise the value of the project. Concurrently, the Company remains in discussions with third parties who have expressed an interest in the project. It is anticipated that the outcome of any transaction concluded will have a positive effect on the Group's total equity.

## 2. Financial risk management – continued

### 2.3 Fair values of financial instruments

At 31 December 2017 and 2016 the carrying amounts of other financial instruments, comprising cash at bank, receivables, payables, accrued expenses and short-term borrowings approximated their fair values in view of the nature of the instruments or their short-term maturity.

The fair value of non-current financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of the Group's bank and other borrowings (Note 20) as at the end of the reporting period is not materially different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2 within the fair value measurement hierarchy required by IFRS 7, 'Financial Instruments: Disclosures'.

The Directors have assessed the fair value of the amount due to Government in relation to purchase of land (see Note 19) by reference to the original discount rate applied upon completion of the deed (see Note 11) adjusted by changes recorded since then at end of the reporting period in the yields to maturity of long term Malta Government securities with tenor similar to the repayment terms of the liability towards the Government. On this basis, the fair value at 31 December 2017 of the amount due to Government with respect to the purchase of land amounted to €49.8 million (2016: €50.2 million). The current market interest rates utilised for fair value estimation are considered observable and accordingly these fair value estimates have been categorised as Level 2.

Information on the fair value of the bonds issued to the public is disclosed in Note 20 to the Financial Statements. The fair value estimate in this respect is deemed Level 1 as it constitutes a quoted price in an active market.

## 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, with the exception to the below, the accounting estimates and judgements made in the course of preparing these Financial Statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

As referred to in Notes 5 and 6 to the financial statements, the Group's and Company's land and buildings category of property, plant and equipment and its investment property are fair valued on 31 December on the basis of valuation techniques.

#### 4. Activities of the Group – segment information

The MIDI Consortium was granted a letter of intent by the Government of Malta in December 1992 for the development of the Manoel Island and Tigné Point project. Project negotiations were successfully concluded and a 99 year emphyteutical grant was entered into with Government on 15 June 2000. Works at Tigné Point commenced in 2000 and a number of phases have been completed since then.

During the financial year ended 31 December 2017, the Company launched another tranche of Q2 apartments with nearly all of these apartments now being subject to a promise of sale agreement. Another launch for the remaining apartments is scheduled during 2018. The Q2 development is now practically complete with apartment deliveries to the respective tenants having commenced at the time of this report. The Group has two operating segments:

- development and sale of property, which comprises primarily the construction and sale of residential units within Tigné Point and Manoel Island Project; and
- property rental and management, which now involves the leasing and management of retail space at Pjazza Tigné and the catering units situated at the Foreshore as well as car park operations. In addition SIS services pertaining to HVAC, telephony and internet services (which were terminated during 2017), building technology service, and certain M&E contracted works are also being included in this segment.

The Board of Directors assesses the performance of the segments on the basis of segment operating results, before financing costs and tax impact. The financial information for the reportable segments in relation to the years ended 31 December 2017 and 2016, before the increase in fair value of investment property is as follows:

	Development and sale of property		Property rental and management		Group	
	2017	2016	2017	2016	2017	2016
	€	€	€	€	€	€
Segment revenue	<b>184,500</b>	5,596,819	<b>4,451,988</b>	3,077,453	<b>4,636,488</b>	8,674,272
Segment results - operating (loss)/profit before gains from changes in fair value of investment property	<b>(3,125,310)</b>	1,358,404	<b>339,209</b>	273,238	<b>(2,786,101)</b>	1,631,642

**5. Property, plant and equipment**

<b>Group</b>	Land and buildings €	Plant and integral assets €	Office equipment, furniture and fittings, and equipment awaiting installation €	Total €
<b>At 1 January 2016</b>				
Cost or valuation	17,712,835	4,553,333	1,432,374	23,698,542
Accumulated depreciation	(320,708)	(399,690)	(1,160,285)	(1,880,683)
Net book amount	<u>17,392,127</u>	<u>4,153,643</u>	<u>272,089</u>	<u>21,817,859</u>
<b>Year ended 31 December 2016</b>				
Opening net book amount	17,569,255	3,197,755	440,992	21,208,002
Reclassification to inventories	-	-	(157,607)	(157,607)
Additions	-	1,276,352	64,237	1,340,589
Disposals	-	-	(762)	(762)
Depreciation released on disposal	-	-	742	742
Depreciation charge	(177,128)	(320,464)	(75,513)	(573,105)
Closing net book amount	<u>17,392,127</u>	<u>4,153,643</u>	<u>272,089</u>	<u>21,817,859</u>
<b>At 31 December 2016</b>				
Cost or valuation	17,712,835	4,553,333	1,432,374	23,698,542
Accumulated depreciation	(320,708)	(399,690)	(1,160,285)	(1,880,683)
Net book amount	<u>17,392,127</u>	<u>4,153,643</u>	<u>272,089</u>	<u>21,817,859</u>
<b>Year ended 31 December 2017</b>				
Opening net book amount	17,392,127	4,153,643	272,089	21,817,859
Impairment charge	-	(1,000,000)	-	(1,000,000)
Additions	-	86,462	208,943	295,405
Depreciation charge	(204,862)	(263,381)	(104,764)	(573,007)
Closing net book amount	<u>17,187,265</u>	<u>2,976,724</u>	<u>376,268</u>	<u>20,540,257</u>
<b>At 31 December 2017</b>				
Cost or valuation	17,712,835	4,639,795	1,641,317	23,993,947
Accumulated depreciation and impairment losses	(525,570)	(1,663,071)	(1,265,049)	(3,453,690)
Net book amount	<u>17,187,265</u>	<u>2,976,724</u>	<u>376,268</u>	<u>20,540,257</u>

During 2017, the directors of Solutions & Infrastructure Services Limited, a fully owned subsidiary of the Group, resolved to account for an impairment charge of €1,000,000 on the company's HVAC plant, to reflect its current value in use as of 31 December 2017. This charge is reflected in the consolidated financial statements.

**5. Property, plant and equipment – continued**

If the Group's land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2017 €	2016 €
Cost	<b>14,538,303</b>	14,538,303
Accumulated depreciation	<b>(525,570)</b>	(320,708)
Net book amount	<b>14,012,733</b>	14,217,595

The Directors have assessed the fair values of these assets at 31 December 2017 and 2016, which fair values were deemed to fairly approximate the carrying amounts.

As described in Note 6, the property of MIDI was revalued on 31 December 2015.

Group borrowings are secured on the Group's property, plant and equipment (Note 20).

<b>Company</b>	Land and buildings €	Office equipment, furniture and fittings €	Total €
<b>At 1 January 2016</b>			
Cost	887,835	353,330	1,241,165
Accumulated depreciation	(92,125)	(330,151)	(422,276)
Net book amount	795,710	23,179	818,889
<b>Year ended 31 December 2016</b>			
Opening net book amount	795,710	23,179	818,889
Depreciation charge	(8,878)	(6,710)	(15,588)
Closing net book amount	786,832	16,469	803,301
<b>At 31 December 2016</b>			
Cost	887,835	353,330	1,241,165
Accumulated depreciation	(101,003)	(336,861)	(437,864)
Net book amount	786,832	16,469	803,301
<b>Year ended 31 December 2017</b>			
Opening net book amount	786,832	16,469	803,301
Reclassification from investment property	16,825,000	-	16,825,000
Additions upon transfer of operations	13,737	305,077	318,814
Additions	-	23,625	23,625
Catch-up depreciation	(219,705)	-	(219,705)
Depreciation charge	(204,862)	(27,453)	(232,315)
Closing net book amount	<b>17,201,002</b>	<b>317,718</b>	<b>17,518,720</b>
<b>At 31 December 2017</b>			
Cost	17,726,572	682,032	18,408,604
Accumulated depreciation	(525,570)	(364,314)	(889,884)
Net book amount	<b>17,201,002</b>	<b>317,718</b>	<b>17,518,720</b>

**5. Property, plant and equipment – continued**

On 22 June 2017, the Company terminated its management agreement with SIS in connection to the management and operation of MIDI's public car park at Tigné Point. Management and operation of this car park was effectively transferred to the Parent Company as of 1 October 2017. Upon the transfer of the management and operations of the car park to the Company, the car park asset has been reclassified from Investment Property to Property, plant and equipment in line with IAS16.

The transfer of the car park operation was done for a consideration of €1.7 million - payable by the parent company, and has been accounted for through an adjustment to retained earnings given that the property was being carried at fair value as investment property. Upon the change in classification from Investment Property to Property, plant and equipment – an adjustment to realign the basis of deferred tax liability (credit of €571,414) and accumulated depreciation (charge of €219,705) was also accounted for in retained earnings.

**6. Investment property**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>At 1 January</b>				
Cost	<b>16,876,951</b>	16,876,951	<b>30,527,419</b>	30,527,419
Fair value gains	<b>4,851,139</b>	4,851,139	<b>8,025,671</b>	8,025,671
Carrying amount	<b>21,728,090</b>	21,728,090	<b>38,553,090</b>	38,553,090
<b>Year ended 31 December</b>				
Opening carrying amount	<b>21,728,090</b>	21,728,090	<b>38,553,090</b>	38,553,090
Reclassification to property, plant and equipment (Note 5)	-	-	<b>(16,825,000)</b>	-
Closing carrying amount	<b>21,728,090</b>	21,728,090	<b>21,728,090</b>	38,553,090
<b>At 31 December</b>				
Cost	<b>16,876,951</b>	16,876,951	<b>16,876,951</b>	30,527,419
Fair value gains	<b>4,851,139</b>	4,851,139	<b>4,851,139</b>	8,025,671
Carrying amount	<b>21,728,090</b>	21,728,090	<b>21,728,090</b>	38,553,090

Rental income from investment property is disclosed in Note 4, presented as segment revenue attributable to the property rental and management segment.

As disclosed in Note 5, upon the transfer of the management and operation of the MIDI public car from SIS back to the Company, the public car park value of €16,825,000 was reclassified to Property, plant and equipment at a Company level. This reclassification has already been accounted for at Group level in 2016, when SIS became a 100% owned subsidiary of the Company.

*Fair valuation of property*

The Group's investment properties are held for long-term rental yields or for capital appreciation purposes and include property which is being developed for future use as investment property. The Group utilises comparable sales values and discounted cash flow projections as valuation methods to determine the fair value of investment property at 31 December.

## 6. Investment property – continued

### *Fair valuation of property – continued*

The Company 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).

All the recurring property fair value measurements at 31 December 2017 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

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

A reconciliation from the opening balance to the closing balance of property for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above. The movement reflects additions and gains from changes in fair value for the year ended 31 December 2017.

### *Valuation processes*

The Company's property is valued on a periodic basis by the Directors after seeking professional advice from independent professionally qualified valuers who hold a recognised relevant professional qualification and have the necessary experience in the location and segments of the property being valued. When external valuations are carried out in accordance with this policy, the valuer reports directly to the Board of Directors and discussions on the valuation technique and its results, including an evaluation of the inputs to the valuation, are held between these parties.

At the end of every reporting period, when an external valuation is not carried out, the Directors also assess whether any significant changes in actual circumstances and developments have been experienced since the last external valuation. An adjustment to the carrying amount of the property is only reflected if it has been determined that there has been significant change.

### *Valuation techniques*

On 28 March 2016, a property valuation was carried out as at 31 December 2015 on the basis of open market value and existing use of the respective properties. The valuation has been carried out by Edgar Caruana Montaldo, an independent architect and civil engineer, with reference to the Valuation Standards for Accredited Valuers 2012 by Kamra tal-Periti.

The valuation of the public car parking has been performed using the sales comparison approach. In view of a limited number of similar sales in the local market, the valuations have been performed using unobservable inputs. The significant input to this approach is generally a sales price per car space related to transactions in comparable properties located in proximity to the Company's property, with significant adjustments for differences in the size, exact location and condition of the property. The price per car space as at 31 December 2015 was €25,000. The higher the sales price per car space, the higher the resultant fair valuation.

**6. Investment property – continued**

*Valuation techniques – continued*

The fair value of the other investment properties was determined on the basis of a price per square meter as at 31 December 2015, by reference to the value of comparable properties in the close proximity. This value was adjusted taking into consideration the permits and ancillary facilities in the close proximity of the property and present commitments. The unobservable inputs included in the architect's valuation as at 31 December 2015, range between €200 and €6,500 per square meter. An increase in the adjusted sales prices per square metre would result in a higher fair value.

In the opinion of the directors, the fair value of investment property at the end of the reporting period is not materially different from its carrying amount.

Group borrowings are secured on the Group's investment property (Note 20).

**7. Investments in subsidiaries**

	<b>Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
At 1 January	<b>12,180,963</b>	1,412,964
Additions	-	11,697,999
Provision for impairment	<b>(471,647)</b>	-
Amounts assigned by the previous joint venture partner during the year	-	(930,000)
	<hr/>	<hr/>
At 31 December	<b>11,709,316</b>	12,180,963

The subsidiaries at 31 December, whose results and financial position affected the figures of the Group, are shown below:

<b>Group undertaking</b>	<b>Registered Office</b>	<b>Class of shares held</b>	<b>Percentage of shares held</b>	
			<b>2017</b>	<b>2016</b>
Tigné Contracting Limited	North Shore Manoel Island, Gzira, Malta	Ordinary shares	<b>100%</b>	100%
Tigné Point Marketing Limited	North Shore Manoel Island, Gzira, Malta	Ordinary shares	<b>99%</b>	99%
T14 Investments Limited	North Shore Manoel Island Gzira, Malta	Ordinary shares	<b>100%</b>	100%
Solutions & Infrastructure Services Limited ("SIS")	North Shore Manoel Island Gzira, Malta	Ordinary shares	<b>100%</b>	100%

All shareholdings are held directly by MIDI p.l.c..

## 7. Investments in subsidiaries – continued

At 31 December 2017, the Directors reviewed the carrying amount of the investment in SIS and after taking cognisance of the future plans and business of the subsidiary resolved to account for an impairment charge on the value of the investment of €471,647 which is being recognised in the parent company's income statement. The directors of the parent company also reviewed the balance due from SIS, in the context of the operations and prospects of the same company and resolved to recognise a provision of €1.9 million to account for the difference between the carrying amount of the balance due and the value which, as of that date, was deemed to be recoverable (Note 12).

During 2016, the Company capitalised a shareholders' loan of €11,697,999 due from T14 Investments Limited, a fully-owned subsidiary. This amount includes €6,457,862 originally due to the Company (Note 12) and €5,240,137, which was due to another fellow subsidiary, which was assigned to the Company, prior to the said capitalisation.

## 8. Investments in joint ventures

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	€	€
<b>Year ended 31 December</b>		
Opening carrying amount	<b>1,962,735</b>	1,981,107
Share of profit/(loss) for the year	<b>26,281,077</b>	(18,372)
	<b>28,243,812</b>	1,962,735
<b>At 31 December</b>		
Cost	<b>2,000,000</b>	2,000,000
Share of profits/(losses) and reserves	<b>26,243,812</b>	(37,265)
	<b>28,243,812</b>	1,962,735

The Group's shares in the joint venture represent:

<b>Jointly-controlled entity</b>	<b>Registered office</b>	<b>Class of shares held</b>	<b>Percentage of shares held</b>	
			<b>2017</b>	<b>2016</b>
Mid Knight Holdings Limited	North Shore Manoel Island Gzira, Malta	Ordinary Shares	<b>50%</b>	50%

During 2014, the Group entered into a joint venture through T14 Investments Limited (a fully-owned subsidiary of MIDI p.l.c.) in Mid Knight Holdings Limited (the joint venture) with Benny Holdings Limited. The principal business objective of Mid Knight Holdings Limited, which is not listed, is the development, management and administration of a business centre on the T14 site located at Tigné Point.

During 2017, the Board of Mid Knight Holdings Limited commissioned an independent architect and civil engineer, Lawrence Montebello, to prepare an open market valuation of the respective company's main asset, 'The Centre', - an office block at Tigné Point in Sliema, which is managed by the jointly controlled entity and is currently rented to third parties.

**8. Investment in joint ventures – continued**

The valuation is based on the definition of the market value of a property, by both the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual, and that of the European Council Directive.

The value of the property has been established by using a comparative approach. The current selling prices and rental values of similar commercial properties in similar localities have been compared.

The market value of the property as of 31 December 2017 has been estimated at €95,000,000.

The share of results accounted for in the consolidated financial statements on the basis of the equity method of accounting, represents the share of results of Mid Knight Holdings Limited - which include the post-tax revaluation surplus arising on the revaluation of Investment Property as accounted for in the financial statements of the joint venture for the year ended 31 December 2017.

As at 31 December 2017, the Directors reviewed the estimated recoverable amount of the investment determined on the basis of value in use, and no impairment charges were deemed necessary.

The Group's share of results of Mid Knight Holdings Limited for financial years ending 31 December 2017 and 31 December 2016 and its share of the assets and liabilities, based on the information available to the Company, are shown as follows:

	Assets €	Liabilities €	Revenues €	Loss €
<b>Year ended 31 December 2016</b>				
Mid Knight Holdings Limited	14,043,359	12,080,624	-	(18,372)
<hr/>				
	Assets €	Liabilities €	Revenues €	Profit €
<b>Year ended 31 December 2017</b>				
Mid Knight Holdings Limited	<b>49,703,174</b>	<b>21,459,363</b>	<b>3,408,670</b>	<b>26,281,077</b>
<hr/>				

**9. Available-for-sale financial assets**

	<b>Group and Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
<b>Year ended 31 December</b>		
Opening carrying amount	<b>730,320</b>	726,169
Maturity of investment	<b>(207,380)</b>	-
(Losses)/Gains from changes in fair value	<b>(9,034)</b>	4,151
Closing carrying amount	<b>513,906</b>	730,320
<b>At 31 December</b>		
Cost	<b>634,040</b>	634,040
Maturity of investment	<b>(202,000)</b>	-
Fair value gains (Note 18)	<b>81,866</b>	96,280
Carrying amount	<b>513,906</b>	730,320

The Group's available-for-sale investments, which are fair valued annually, consist of:

- a) equity investments amounting to €200,000 (2016: €200,000) in an unlisted local private company; and
- b) debt securities with a cost amounting to €232,040 (2016: €434,040), comprising Malta Government securities subject to fixed rates of interest ranging from 4.5% to 5.20% and having maturity dates between 2028 and 2031. One of the securities matured in 2017.

The fair value of the equity investments is estimated by reference to the net asset backing of the investee. At the end of the reporting period, the cost of these investments approximates fair value and no movements have been reflected directly in equity in other comprehensive income.

The fair value of the debt securities at the end of the reporting period, amounting to €313,906 (2016: €530,320), is based on the market value of the instruments as quoted on the Malta Stock Exchange. Accordingly the fair value of these financial assets, based on quoted prices in an active market, is categorised as Level 1 within the fair value measurement hierarchy required by IFRS 7.

The Group is not exposed to significant credit risk and price risk in respect of available-for-sale investments taking into account the level of such investments. Considering the nature and amount of such available-for-sale investments, sufficient information on fair values has been provided in this note.

**10. Loans receivable from joint ventures**

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
<b>Year ended 31 December</b>		
Opening carrying amount	<b>9,701,000</b>	9,701,000
Cost and carrying amount at 31 December	<b>9,701,000</b>	9,701,000

These loans are analysed as follows:

	<b>Group</b>	
	<b>2017</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
Non-current	<b>9,701,000</b>	9,701,000

Non-current advances at Group level comprise amounts receivable from Mid Knight Holdings Limited. These consist of €6,001,000 maturing in 2027 and €3,700,000 maturing in 2029. These loans are unsecured, and are subject to a fixed interest rate of 5%.

**11. Inventories – Development project**

The main object of the Group is the development of a large area of land at Manoel Island and Tigné Point, acquired from the Government of Malta for this purpose by virtue of a 99 year emphyteutical grant entered into on 15 June 2000. This development is intended in the main for resale purposes. Construction works during the year ended 31 December 2017, reflected within the table below, were mainly focused on the Q2 residential block which forms part of the Tigné North Phase. Other studies and consultancy costs were incurred on the Manoel Island phase of the project. In terms of the emphyteutical grant, the entire development shall be substantially completed by 31 March 2023.

During the year ended 31 December 2016, the Group completed and transferred to the purchasers, residential units constructed on Tigné Point. The cost allocated to these apartments was recognised within cost of sales in profit or loss.

## 11. Inventories – Development project – continued

The carrying amount of works on the project are also presented as inventories at Company level, notwithstanding the fact that certain expenditure was carried out by another group undertaking, to reflect the substance of the arrangement in place between MIDI p.l.c. and this other group undertaking. Costs incurred on the project up to 31 December 2017 and 2016 comprised:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	€	€	€	€
Purchase cost of land (see note below):				
- At 1 January	<b>22,135,075</b>	22,404,312	<b>22,135,075</b>	22,404,312
- Transferred to cost of sales	-	(269,237)	-	(269,237)
	<b>22,135,075</b>	22,135,075	<b>22,135,075</b>	22,135,075
Cost of design works and other studies, demolition, excavation, construction and restoration works and other expenses incurred:				
- At 1 January	<b>61,361,099</b>	51,095,413	<b>61,592,763</b>	51,152,313
- Additions for the year	<b>12,410,822</b>	11,937,568	<b>11,441,803</b>	12,112,332
- Transferred to cost of sales	<b>(1,172,551)</b>	(1,671,882)	-	(1,671,882)
	<b>72,599,370</b>	61,361,099	<b>73,034,566</b>	61,592,763
Borrowing costs attributable to the project:				
- At 1 January	<b>43,581,287</b>	41,630,900	<b>43,581,287</b>	41,630,900
- Imputed interest (see note below)	<b>1,868,190</b>	1,901,361	<b>1,868,190</b>	1,901,361
- Bank and other interest	<b>85,259</b>	185,861	<b>85,259</b>	185,861
- Transferred to cost of sales	-	(136,835)	-	(136,835)
	<b>45,534,736</b>	43,581,287	<b>45,534,736</b>	43,581,287
	<b>140,269,181</b>	127,077,461	<b>140,704,377</b>	127,309,125

The contract of acquisition of the land provided for a premium of €92.17 million payable over an extended period of time, which was discounted to its present value amount of €42.62 million at date of purchase. The rate applied in discounting to present value the future outflows comprising the purchase consideration was 7.75% based upon the effective pre-tax return rate provided for in the deed of acquisition (refer to Note 19).

Borrowing costs arising from bank and other borrowings capitalised within inventories are reflected within the table above. A capitalisation rate of 0.2% (2016: 0.4%) was utilised in this respect.

## 12. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
<b>Current</b>				
Receivables in respect of rental operations	490,624	397,910	490,624	368,303
Amounts owed by subsidiaries	-	-	8,864,508	11,629,894
Amounts owed by joint venture	304,199	31,058	228,842	30,926
Amounts owed by other related parties	327,321	279,735	28,960	32,606
Recoverable expenses incurred on behalf of contractors	726,853	1,341,179	173,188	283,788
Indirect taxation	280,078	38,545	48,689	-
Other receivables	301,498	72,192	131,338	-
Prepayments and accrued income	1,504,961	1,030,345	391,504	537,579
	<b>3,935,534</b>	3,190,964	<b>10,357,653</b>	12,883,096

Amounts owed by subsidiaries, joint venture and other related parties are unsecured, interest free, and repayable on demand.

Receivables in respect of rental operations include €57,928 (2016: €51,477) due from related parties.

As already explained in Note 7, as of 31 December 2017, the directors of the parent company reviewed the balance due from SIS - its subsidiary, in the context of the operations and prospects of the same company and resolved to recognise a provision of €1.9 million to account for the difference between the carrying amount of the balance due and the value which, as of that date, was deemed to be recoverable.

## 13. Term placements with banks

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
<b>Current</b>				
Deposits with banks	-	200,000	-	200,000

At 31 December 2017, the Group's outstanding term placements with banks comprise an amount of €Nil (2016: €200,000).

The weighted average effective interest rate applicable as at 31 December 2016 was 5.1% for deposits maturing within one year.

#### 14. Cash and cash equivalents

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

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Cash at bank and in hand	<b>10,134,894</b>	14,173,142	<b>9,732,774</b>	13,319,985
Cash and cash equivalents held under trust arrangement earmarked for eventual repayment of the maturing bonds	<b>(250,756)</b>	(343,798)	<b>(250,756)</b>	(343,798)
Cash and cash equivalents	<b>9,884,138</b>	13,829,344	<b>9,482,018</b>	12,976,187

As disclosed above, cash and cash equivalents for the purpose of the statements of cash flows, exclude the cash reserve held under trust arrangement earmarked for the eventual repayment of the maturing bonds (see Note 20). The balance earmarked for eventual repayment of the maturing bonds is in connection with MIDI's 7% EURO bonds 2016-2018 and MIDI's 7% GBP bonds 2016-2018 which were redeemed by the Company on 15 December 2016 but to date remain unredeemed due to *causa mortis* and court orders.

At 31 December 2017, the Group and Company had bank balances amounting to €452,942 (2016: €Nil) representing payments on the sale of property, which were deposited in restricted accounts and which were pledged to secure bank borrowings (refer to Note 20). These amounts were included within cash and cash equivalents since they were considered part of the Group's overall cash management.

#### 15. Share capital

	Company	
	2017	2016
	€	€
<b>Authorised</b>		
450,000,000 Ordinary shares of €0.20 each	<b>90,000,000</b>	90,000,000
<b>Issued and fully paid</b>		
214,159,922 Ordinary shares of €0.20 each	<b>42,831,984</b>	42,831,984

On 1 November 2010 an offer of shares having a nominal value of €0.20 each and offered at an Issue Price of €0.45 each was made to the public pursuant to the Prospectus dated 1 November 2010.

As at the closing of this offer on 2 December 2010 the Company issued and allotted 67,369,922 ordinary shares with a nominal value of €0.20 each, fully paid up.

The share premium attributable to these Issued shares, reflecting the difference of €0.25 between the Issue Price and the nominal value, amounting to €16,842,481, is presented separately in the statement of financial position.

Share issue costs, amounting to €963,697, have been deducted from the share premium.

## 16. Hedging reserve

The fair value changes arising from derivative financial instruments qualifying as effective cash flow hedges are recorded in a separate category of equity, in the hedging reserve, as shown below:

<b>Group and Company</b>	2016 €
<b>At 1 January</b>	
Gross amount of losses	187,375
Deferred income taxes	(65,583)
	121,792
<b>Movements during year ended 31 December</b>	
Losses/(Gains) from changes in fair value of derivative instruments arising during the year	1,437,646
Deferred income taxes	(503,176)
	934,470
Transfers to Inventories – development project as a reclassification adjustment	-
Deferred income taxes	-
Reclassified from equity to profit or loss as a reclassification adjustment	(1,385,987)
Deferred income taxes	485,096
	(900,891)
Loss recognised in profit or loss upon the termination of swap agreement	(239,034)
Deferred income taxes	83,663
	(155,371)
<b>At 31 December</b>	
Gross amount of losses	-
Deferred income taxes	-
	-
	-

The Company has hedged the foreign exchange cash flow exposure on the interest and principal of the bonds issued which are denominated in sterling by entering into a fixed to fixed euro/sterling cross currency interest rate swap (Note 20). The net fair value losses at 31 December are reclassified from equity to profit or loss as a reclassification adjustment in the financial periods in which the hedged transactions, comprising the interest and principal amounts of the bonds denominated in sterling, affect the income statement.

**16. Hedging reserve – continued**

This would occur throughout the term of the cross currency interest rate swap, reflecting the incidence of the annual settlement dates until maturity as established by the terms of the contract.

During the year ended 31 December 2016, the Company exercised its right to redeem the bonds underlying this derivative contract, as disclosed in Note 20. As a result, the cross currency interest rate swap was terminated on 21 November 2016 with the Company realizing a loss as disclosed in the table above in the Group's financial statements for the period ended 31 December 2016.

**17. Property revaluation reserve**

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	€	€
<b>Revaluation of land and building</b>		
At 1 January	<b>2,063,446</b>	2,063,446
Reclassification to retained earnings, net of tax	<b>(50,939)</b>	-
	<hr/>	<hr/>
At 31 December	<b>2,012,507</b>	2,063,446
	<hr/>	<hr/>

The tax impact relating to components of other comprehensive income is presented in the table above. The property revaluation reserve is non-distributable.

**18. Investment fair value reserve**

	<b>Group and Company</b>	
	<b>2017</b>	<b>2016</b>
	€	€
At 1 January	<b>96,280</b>	92,129
Realised loss on maturity of Investment	<b>(5,380)</b>	-
(Losses)/gains from changes in fair value of available-for-sale financial assets	<b>(9,034)</b>	4,151
	<hr/>	<hr/>
At 31 December	<b>81,866</b>	96,280
	<hr/>	<hr/>

The fair value reserve reflects the cumulative net changes in fair value of available-for-sale financial assets held by the Group and Company, which changes are recognised directly in equity in other comprehensive income.

## 19. Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
<b>Current</b>				
Payments received on account	<b>16,191,972</b>	27,061	<b>16,191,972</b>	27,061
Due to Government in relation to purchase of land (Note 11)	<b>27,232,704</b>	27,232,704	<b>27,232,704</b>	27,232,704
Amounts owed to subsidiaries	-	-	<b>8,486,754</b>	8,572,675
Amounts owed to other related parties	<b>400,924</b>	586,724	<b>14,728</b>	25,630
Amounts owed to joint venture	<b>19,274</b>	-	<b>19,274</b>	-
Indirect taxation	<b>76,255</b>	127,453	-	110,122
Other payables	<b>3,208,690</b>	5,495,510	<b>1,042,584</b>	1,154,241
Accruals and deferred income	<b>12,484,174</b>	9,077,661	<b>8,437,264</b>	6,333,626
	<b>59,613,993</b>	42,547,113	<b>61,425,280</b>	43,456,059

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
<b>Non-current</b>				
Due to Government in relation to purchase of land (Note 11)	<b>22,529,764</b>	22,990,950	<b>22,529,764</b>	22,990,950
Payments received on account	-	10,270,948	-	10,270,948
Other payables	<b>222,276</b>	163,191	<b>222,276</b>	163,191
	<b>22,752,040</b>	33,425,089	<b>22,752,040</b>	33,425,089

Amounts owed to joint venture and other related parties are unsecured, interest free, and repayable on demand.

Payments received on account represent deposits and amounts received from prospective purchasers on account of the purchase price of residential property pursuant to the signing of a promise of sale agreement, together with other intermediate payments pending the completion of the residential property and ensuing signing of the final deed of sale pertaining thereto. The Company offers prospective purchasers (or their bankers) a special hypothec on the relative residential property (with a carrying amount of €16,191,972 (2016: €10,298,009) covering the equivalent amount of payments received on account) as security for any part out of such payments received on account, which are deemed to be refundable in terms of the relative promise of sale agreement. The Company's bankers have undertaken to postpone their hypothecary and privileged rights in favour of the aforementioned security provided to prospective purchasers (or their bankers).

The current portion of the amounts due to Government in relation to the purchase of land was determined on the basis of the contracted terms of emphyteutical grant entered into on 15 June 2000. This portion is contractually deemed as current on the basis of the arrangement, but only an outflow of €2,329,373 is expected during the financial year ending 31 December 2018 (2017: €2,329,373) in line with the contracted repayment schedule.

## 19. Trade and other payables – continued

The amount due to Government in relation to the purchase of land includes:

- (a) an amount, originally contracted at €11.65 million, which is being satisfied through the performance of restoration works on major historical sites forming part of the project;
- (b) an amount, originally contracted at €20.96 million, which is being satisfied through the construction of all the public infrastructure works required at Manoel Island and Tigné Point;
- (c) the balance which is being settled in cash.

Various costs incurred in respect of (a) and (b) above up to 31 December 2017 are included in Inventories – Development project and the amounts referred to will be deducted from the amount due to Government when the completion stages stipulated in the relative lease agreement are attained. The Company has also carried out substantial works pertaining to (a) and (b) and which have already been deducted from amounts due to Government.

The amounts due to Government with respect to the acquisition of land are secured by a first ranking special privilege on the emphyteutical concession at Tigné Point and Manoel Island, and a general hypothec over the Company's property (see also Note 20).

Maturity of the Group's and Company's non-current liability towards Government:

	2017 €	2016 €
Between 1 and 2 years	<b>5,823,433</b>	2,329,373
Between 2 and 5 years	<b>17,470,300</b>	17,470,300
Over 5 years	<b>4,040,949</b>	9,828,641
	<b>27,334,682</b>	29,628,314
Less: imputed interest component	<b>(4,804,918)</b>	(6,637,364)
	<b>22,529,764</b>	22,990,950

Non-current other payables at 31 December mainly represent deposits effected under operating lease arrangements by a number of tenants. These amounts are refundable at the end of the lease term and are subject to interest at 3% per annum. Amounts owed to related parties in this respect are disclosed in Note 36.

## 20. Borrowings

	Group and Company	
	2017 €	2016 €
<b>Current</b>		
Bank loans	<b>3,925,899</b>	-
<b>Non-current</b>		
Bank loans	<b>12,999,971</b>	11,329,403
500,000 4% Secured Euro Bonds 2026	<b>49,210,790</b>	49,118,842
	<b>62,210,761</b>	60,448,245
<b>Total borrowings</b>	<b>66,136,660</b>	60,448,245

**20. Borrowings – continued**

On the 28 June 2016, the Company issued €50,000,000 4% Secured Euro Bonds redeemable in 2026, which bonds were oversubscribed and admitted to listing on the 3 August 2016 (“New Bond Issue”). The New Bond Issue’s payment and interest are secured by a number of the Company’s immovable properties as well as the Company’s investment in Mid Knight Holdings Limited via its subsidiary T14 Investments Limited.

The quoted market price for the 4% Secured Euro Bonds 2026 as at 31 December 2017 was €103.00 (31 December 2016: €105.00). In the opinion of the Directors carrying value of the bonds is considered to be a reasonable approximation of their fair values.

The bonds are measured at the amount of net proceeds adjusted for the amortisation of directly attributable and incremental transactions costs, consisting of bond issue costs incurred in the preparation and implementation of the bond issue, using the effective interest method as follows:

	<b>Group and Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
<b>Face value of bonds</b>		
500,000 4% Secured Euro Bonds 2026	<b>50,000,000</b>	50,000,000
Gross amount of bond issue costs	<b>(1,709,201)</b>	(1,709,201)
Amortisation up to end of current year	<b>919,991</b>	828,043
	<b>(789,210)</b>	(881,158)
<b>Unamortised bond issue costs</b>		
<b>Amortised cost and closing carrying amount of bonds</b>	<b>49,210,790</b>	49,118,842

As at 31 December 2017, Company bank borrowings for an amount of €3,925,899 (2016: € Nil) are principally secured by general hypothecs over the Company’s assets, however with the exclusion of certain property areas, and by special hypothecs and special privileges over specified portions of land comprised within the Company’s temporary emphyteusis, ranking after the privilege in favour of Government in respect of the amounts outstanding attributable to the acquisition of land (see also Note 19). As at 31 December 2017, these borrowings are also secured by a pledge on bank balances (Note 14). Other Company bank borrowings for an amount of €12,999,971 (2016: €11,329,402) are secured by a general hypothec over the Company’s assets and by a special hypothec over portions of land at Manoel Island. These general and special hypothecs also rank after prior charges in favour of Government.

Bank borrowings are subject to floating rates of interest. The weighted average effective interest rates applied to borrowings as at the end of the reporting period were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Bank loans	<b>3.7%</b>	4.6%	<b>3.7%</b>	<b>4.6%</b>

**20. Borrowings – continued**

Maturity of total borrowings as at 31 December:

	<b>Group and Company</b>	
	<b>2017</b>	<b>2016</b>
	€	€
Within one year	<b>3,925,899</b>	-
Between one and two years	<b>12,999,971</b>	-
Between two and five years	-	11,329,403
Over five years	<b>49,210,790</b>	49,118,842
	<b>66,136,660</b>	60,448,245

**21. Deferred taxation**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2016: 35%). The movement on the deferred income tax account is analysed as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	€	€	€	€
At beginning of year	<b>(262,726)</b>	(343,200)	<b>1,419,774</b>	1,339,300
Charged/(credited) to profit or loss (Note 29):				
- unabsorbed capital allowances	<b>1,909</b>	(1,909)	<b>1,909</b>	(1,909)
- inventories recognised in cost of sales	-	33,767	-	33,767
- depreciation on property, plant and equipment	<b>5,554</b>	(439)	<b>5,554</b>	(439)
- unutilised tax losses	<b>433,853</b>	(16,528)	<b>433,853</b>	(16,528)
Tax relating to components of other comprehensive income:				
- cash flow hedging reserve (Note 16)	-	65,583	-	65,583
Credited to retained earnings:				
- adjustment upon reclassification of car park from Investment Property to Property, Plant and equipment (Note 5)	-	-	<b>(571,414)</b>	-
At end of year	<b>178,590</b>	(262,726)	<b>1,289,676</b>	1,419,774

## 21. Deferred taxation – continued

The deferred tax recognised in profit or loss and the balance at 31 December mainly arose from:

- temporary differences between the tax base and carrying amount of the elements of stocks transferred from Inventories – development project to cost of sales within profit or loss in respect of residential units sold during the year;
- temporary differences arising between the tax base and carrying amount of property, plant and equipment attributable to depreciation;
- fair value gains arising on investment property; and
- unutilised tax losses and unabsorbed capital allowances (whereas unutilised tax losses have no expiry date, unabsorbed capital allowances are forfeited upon cessation of trade).

The tax relating to components of other comprehensive income reflects the tax effect of re-measurement of derivative instruments qualifying as effective cash flow hedges. This tax has been recognised directly within equity in other comprehensive income. Accordingly, the tax impact relating to components of other comprehensive income is presented in the table above and further analysed in Note 16.

Deferred income tax assets and liabilities are offset when the taxes concerned relate to the same fiscal authority. The following amounts are offset in the statement of financial position:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	€	€	€	€
- temporary differences arising on property, plant and equipment	<b>1,997</b>	(5,466)	<b>1,997</b>	(5,466)
- unutilised tax losses	<b>(3,107,302)</b>	(3,541,155)	<b>(1,996,216)</b>	(2,430,069)
- fair valuation of property	<b>3,283,895</b>	3,283,895	<b>3,283,895</b>	3,855,309
<b>Net amount</b>	<b>178,590</b>	(262,726)	<b>1,289,676</b>	1,419,774

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.

## 22. Revenue

The Group's revenue includes income from property rental and management of certain areas within the project (Note 4).

**23. Expenses by nature**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	€	€	€	€
Cost of sales transferred from Inventories – Development project and related items	<b>1,172,551</b>	2,077,954	-	2,077,954
Commissions payable	<b>14,409</b>	274,750	<b>14,409</b>	274,750
Impairment of receivables due from subsidiary (Note 12)	-	-	<b>1,928,353</b>	-
Impairment of HVAC plant (Note 5)	<b>1,000,000</b>	-	-	-
Depreciation of property, plant and equipment (Note 5)	<b>573,007</b>	573,105	<b>232,315</b>	15,588
Employee benefit expense (Note 24)	<b>1,594,133</b>	1,260,723	<b>1,008,202</b>	530,480
Operating lease rentals payable:				
- Equipment	<b>5,750</b>	7,105	-	-
- Vehicles	<b>32,145</b>	17,863	<b>23,706</b>	13,566
Directors' emoluments (Note 25)	<b>65,866</b>	42,887	<b>65,866</b>	42,887
Other expenses	<b>3,098,875</b>	2,267,289	<b>2,163,858</b>	1,755,076
<b>Total cost of sales and administrative expenses</b>	<b>7,556,736</b>	6,521,676	<b>5,436,709</b>	4,710,301

Auditor's fees

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

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	€	€	€	€
Annual statutory audit	<b>39,500</b>	38,000	<b>15,500</b>	15,500
Tax advisory and compliance services	<b>1,450</b>	7,700	<b>840</b>	3,700
Other non-audit services	<b>54,640</b>	89,800	<b>49,600</b>	89,800
	<b>95,590</b>	135,500	<b>65,940</b>	109,000

In addition, fees charged by other firms (who are also part of the network of member firms of PricewaterhouseCoopers) for non-audit services amounted to €Nil (2016: €1,126,000).

**24. Employee benefit expense**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Wages and salaries	<b>1,911,919</b>	1,633,543	<b>1,497,598</b>	1,062,722
Social security costs	<b>96,673</b>	86,778	<b>69,634</b>	53,310
	<b>2,008,592</b>	1,720,321	<b>1,567,232</b>	1,116,032
Amounts reflected in Inventories - Development project (see Note 11)	<b>399,163</b>	442,663	<b>399,163</b>	442,663
Amounts recharged to subsidiaries	-	-	<b>144,571</b>	125,954
Amounts expensed in profit or loss	<b>1,594,133</b>	1,260,723	<b>1,008,202</b>	530,480
Amounts recharged to third parties	<b>15,296</b>	16,935	<b>15,296</b>	16,935
	<b>2,008,592</b>	1,720,321	<b>1,567,232</b>	1,116,032

Average number of persons employed by the Group and Company during the year:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>017</b>	2016
Technical and administration	<b>55</b>	55	<b>9</b>	34

**25. Directors' emoluments**

	<b>Group and Company</b>	
	<b>017</b>	2016
	<b>€</b>	
Directors' fees	<b>5,866</b>	42,887

**26. Finance income**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	016	<b>017</b>	2016
	<b>€</b>		<b>€</b>	
Interest income from:				
- bank deposits	<b>0,280</b>	,746	<b>0,280</b>	,746
- debt securities investments	<b>18,119</b>	-	<b>18,119</b>	-
- amounts owed from joint venture	<b>203,322</b>	-	-	-
- other	<b>1,617</b>	2,693	<b>1,616</b>	2,693
	<b>243,338</b>	4,439	<b>40,015</b>	4,439

**27. Finance costs**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>016</b>	<b>2017</b>	<b>2016</b>
	€		€	
Interest and related expense recognised in profit or loss on:				
- Bank loans and overdrafts	<b>77,292</b>	74,038	<b>77,292</b>	65,468
- Bonds issued to the general public				
Coupon interest payable	<b>,006,403</b>	,656,470	<b>,006,403</b>	,656,470
Amortisation of difference between net proceeds and redemption value	<b>99,632</b>	234,603	<b>99,632</b>	234,603
- Bank and other charges	<b>4,654</b>	65,402	<b>0,236</b>	48,364
	<b>2,497,981</b>	3,730,513	<b>2,493,563</b>	3,704,905

Finance costs capitalised are disclosed in Note 11 to these Financial Statements.

**28. Other operating income/(expenses)**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>016</b>	<b>2017</b>	<b>2016</b>
	€		€	
Dividend income	<b>50,000</b>	50,000	<b>50,000</b>	50,000
Rental income	<b>1,136</b>	9,981	<b>21,136</b>	39,981
Management fees receivable	<b>7,379</b>	8,009	<b>47,379</b>	78,009
Other income/(expenses)	<b>5,632</b>	388,944)	<b>12,079</b>	48,876
	<b>134,147</b>	(520,954)	<b>130,594</b>	216,866

**29. Tax expense**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>016</b>	<b>2017</b>	<b>2016</b>
	€		€	
Current taxation:				
Current tax expense	<b>4,005</b>	04,222	<b>4,004</b>	02,871
Deferred taxation (Note 21):				
Over-provision for prior year	<b>190,041)</b>		<b>190,041)</b>	
Current year charge	<b>31,357</b>	8,554	<b>31,357</b>	8,554
Tax expense income	<b>465,320</b>	402,776	<b>465,320</b>	401,425
Attributable to:				
- current taxation	<b>4,004</b>	04,222	<b>4,004</b>	02,871
- deferred taxation	<b>41,316</b>	8,554	<b>41,316</b>	8,554
	<b>465,320</b>	402,776	<b>465,320</b>	401,425

The amount of €571,414 related to the change in deferred tax liability on the transfer from investment property to property, plant and equipment was recognised directly in the Company's retained earnings.

## 29. Tax expense - continued

The tax on the (loss)/profit of the Group and the Company differs from the theoretical amount that would arise using the basic tax rate as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	€	€	€	€
Profit/(loss) before taxation	<b>21,240,333</b>	(2,112,804)	<b>(5,944,090)</b>	(940,012)
Tax at 35%	<b>7,434,117</b>	(739,481)	<b>(2,080,431)</b>	(329,004)
Tax effect of:				
- maintenance allowance claimed on rented property	<b>(47,387)</b>	(45,581)	<b>(47,387)</b>	(45,581)
- expenses not deductible for tax purposes	<b>1,948,165</b>	739,748	<b>2,623,089</b>	690,617
- dividend income taxed at source	<b>(4,986)</b>	(17,500)	<b>(4,986)</b>	(17,500)
- difference between accounting and tax cost of land	-	19,122	-	19,122
- deferred taxation on cash flow hedging reserve	-	83,663	-	83,663
- unrecognised deferred tax in prior year	<b>(190,041)</b>	108	<b>(190,041)</b>	108
- unrecognised temporary differences	<b>523,829</b>	356,267	-	-
- share of (profit)/loss of joint venture	<b>(9,198,377)</b>	6,430	-	-
- impairment charge on investment in subsidiary	-	-	<b>165,076</b>	-
<b>Tax expense in accounts</b>	<b>465,320</b>	402,776	<b>465,320</b>	401,425

## 30. Earnings per share

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

	<b>Group</b>	
	<b>2017</b>	2016
	€	€
Profit/(loss) attributable to equity holders of the Company	<b>20,775,013</b>	(2,515,580)
Weighted average number of ordinary shares in issue	<b>214,159,922</b>	214,159,922
Earnings per share	<b>0.097</b>	(0.012)

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

### 31. Dividends

	<b>Company</b>	
	<b>2017</b>	2016
	€	€
Net dividends paid on ordinary shares	<b>1,499,119</b>	1,499,119
Dividends per share	<b>0.007</b>	0.007

A dividend in respect of the year ended 31 December 2017 of €0.007 (2016: €0.007) per share, amounting to €1,499,119 (2016: €1,499,119), was proposed by the Board of Directors subsequent to the end of the reporting period. The financial statements do not reflect this proposed dividend.

### 32. Cash used in operations

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

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	€	€	€	€
Operating (loss)/profit	<b>(2,786,101)</b>	1,631,642	<b>(3,018,895)</b>	2,760,454
Adjustments for:				
Impairment of receivables due from subsidiaries (Note 12)	-	-	<b>1,928,353</b>	-
Impairment of HVAC plant (Note 5)	<b>1,000,000</b>	-	-	-
Depreciation of property, plant and equipment (Note 5)	<b>573,007</b>	573,105	<b>232,315</b>	15,588
Changes in working capital:				
Trade and other receivables	<b>(744,570)</b>	(321,306)	<b>597,090</b>	(3,695,246)
Trade and other payables	<b>6,393,831</b>	9,831,954	<b>5,596,172</b>	10,289,091
Inventories development project	<b>(13,191,720)</b>	(11,781,384)	<b>(13,395,252)</b>	(12,121,600)
Cash used in operations	<b>(8,755,553)</b>	(65,989)	<b>(8,060,217)</b>	(2,751,713)

### 33. Commitments

In addition to settling the liabilities associated with the purchase price of the land, the emphyteutical grant entered into with the Government provides for a series of development obligations relating to the contents of the project and the timescales over which it should be completed. As a result of these obligations, it is expected that total development investment in excess of circa €55 million will be made subsequent to the end of the financial year under review.

As at 31 December 2017, the Group had outstanding contractual commitments for project development works for the approximate amount of €5.5 million (2016: €10.6 million), which includes the amounts disclosed in Note 35. The emphyteutical grant specifies a maximum overall period of 25 years, commencing in the year 2000, for completion of the project.

The Group is also committed to effect payments for ground rent which will be recovered effectively from the property purchasers or tenants.

**33. Commitments - continued**

*Operating lease commitments – where the Group/Company is the lessor*

The future minimum lease payments receivable under non-cancellable operating leases, which are primarily entered into by the Company in relation to rental operations within the project, are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	€	€	€	€
Not later than 1 year	<b>1,498,134</b>	1,446,799	<b>1,498,134</b>	1,446,799
Later than 1 year and not later than 5 years	<b>2,686,849</b>	2,162,540	<b>2,686,849</b>	2,162,540
Over 5 years	<b>1,391,940</b>	1,759,326	<b>1,391,940</b>	1,759,326
	<b>5,576,923</b>	5,368,665	<b>5,576,923</b>	5,368,665

The operating lease agreements entered into by the company typically run for a significant number of years. These contracts generally provide that the lease payments increase by a predetermined percentage every year, which increases have been reflected in the figures above. A number of these arrangements also provide for contingent rentals based on outlet turnover levels.

*Operating lease commitments – where the Group/Company is the lessee*

The future minimum lease payments payable under motor vehicle and other non-cancellable operating leases, subject to normal commercial terms and conditions, are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	€	€	€	€
Not later than 1 year	<b>169,624</b>	254,058	<b>34,502</b>	33,807
Later than 1 year and not later than 5 years	<b>234,066</b>	542,884	<b>82,621</b>	79,778
Over 5 years	<b>9,818</b>	378,554	-	936
	<b>413,508</b>	1,175,496	<b>117,123</b>	114,521

### 34. Contingencies

- (a) The Company was requested by the Malta Environment and Planning Authority to pay fees amounting to €1,282,320 in 2009 for the disposal of excavated material at sea, which payment was made in full by the Company during the same year. The Directors are contending that the said fees, or part thereof, should ultimately be paid by the contractor engaged to carry out the excavation works. The Company is still in the process of arbitration with the relevant contractor and accordingly the extent of such recoverable amounts could not be reliably estimated as at 31 December 2017.
- (b) In terms of the Emphyteutical Deed, the Company is responsible for the construction and installation of the public infrastructure including drainage, water, electricity and telecommunications distribution systems, which on completion of each phase shall pass on to Government. The Company maintains that the circumstances from when the Emphyteutical Deed was entered into have now changed whereby state monopoly over telecommunication infrastructure has been removed and that accordingly telecommunication infrastructure should not revert back to Government upon completion of each phase.
- (c) Tigné Contracting Limited (a fully owned subsidiary of the Company) and a contractor have jointly agreed to enter into an arbitration process regarding works carried out by the contractor. The claim and counterclaim, excluding performance guarantees and retentions, which are duly accrued for by the Company, are in the region of €1 million.
- (d) The Company has received claims from property buyers mainly relating to damages allegedly incurred by them due to latent defects in their apartments and other differences. To date some of the pending claims were pursued in court; however the amount of the claims, where quantified, were not deemed material by the Company's Directors.
- (e) At 31 December 2017, the Group has contingent liabilities amounting to €350,000 (2016: €350,000) in respect of guarantees issued by the bank in the ordinary course of business in favour of the Malta Environment and Planning Authority.
- (f) At 31 December 2017, the Company has contingent liabilities in respect of guarantees given to the bank to secure the banking facilities of its fully-owned subsidiary, SIS, for the amount of €1,723,000 (2016: €1,723,000) and of a related party for the amount of €522,500 (2016: €522,500).
- (g) At 31 December 2017, the Company had a contingency arising from uncalled share capital in subsidiaries, amounting to €37,272 (2016: €37,272), for which no provision has been made in the Financial Statements.

### 35. Related party transactions

All companies forming part of the respective groups of companies of which Alf. Mizzi & Sons Limited, Gasan Enterprises Limited, Gatt Investments Limited, MAPFRE MSV Life p.l.c., Polidano Brothers Limited, Vassallo Builders Group Limited and Lombard Bank Malta p.l.c. form part, are considered by the Directors to be related parties together with First Gemini p.l.c. and Mr. Mark Andrew Weingard by virtue of the shareholding of the companies referred to in MIDI p.l.c.. All entities owned, controlled or significantly influenced by the Company's ultimate shareholders, together with the Company's Directors, close members of their families and all entities owned, controlled or significantly influenced by these individuals, are the principal related parties of the Group.

**35. Related party transactions - continued**

The following transactions were carried out with related parties:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€</b>	<b>€</b>	<b>€</b>	
<i>i) Sale of goods and services</i>				
Sale of goods and services to related parties	<b>1,307,108</b>	515,368	<b>377,757</b>	131,958
<i>ii) Purchase of goods and services</i>				
Purchase of services from subsidiaries	-	-	<b>306,199</b>	1,754,013
Purchase of services from related parties	<b>345,488</b>	333,462	<b>179,592</b>	216,450

At the end of the reporting period, the Group had outstanding contractual commitments with related parties for project development for the amount of € Nil (2016: €8,501).

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<i>iii) Rental income</i>				
Revenue earned during the current financial year from subsidiaries	-	-	<b>244,222</b>	292,677
Revenue earned during the current financial year from related parties	<b>135,055</b>	131,122	<b>135,055</b>	131,122
Balances as at 31 December included within other non-current liabilities (Note 18)	<b>35,000</b>	35,000	<b>35,000</b>	35,000
<i>iv) Bank loans from shareholders</i>				
Balances at 31 December	<b>12,999,971</b>	11,329,402	<b>12,999,971</b>	11,329,402
Net interest charged during the year	<b>377,292</b>	468,226	<b>377,292</b>	468,226

The Group and Company have banking facilities for the amount of €12,999,971 (2016: €10,581,582) sanctioned by related parties (terms and conditions are reflected in Note 20). Movements in bank loans are analysed in Note 20 to the Financial Statements.

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<i>v) Deposits with banks</i>				
Balances at 31 December	<b>5,508,654</b>	10,570,216	<b>5,508,654</b>	10,570,216
Interest income earned	<b>18,354</b>	11,366	<b>18,354</b>	11,366

### 35. Related party transactions - continued

Movements in these assets are analysed in the statements of cash flows.

	<b>Group and Company</b>		<b>Group and Company</b>	
	<b>Face value of bonds held</b>		<b>Interest payable</b>	
	<b>at 31 December</b>		<b>during the year</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<i>vi) Bonds held by related parties</i>				
Other related parties	<b>261,500</b>	261,500	<b>4,528</b>	4,528
Held by related parties as nominees	<b>1,855,800</b>	7,223,500	<b>32,133</b>	125,075

Amounts relating to project development which were capitalised in investment property and in inventories during 2017, pertaining to material contracts (as required by Listing Rule 5.70.1), to which the Group is a party and in which Directors are materially interested amounted to € Nil (2016: €450,004). These services were provided by shareholder companies mentioned previously, entities controlled or significantly influenced by the shareholder companies and MIDI p.l.c.'s jointly controlled entity. Outstanding contractual commitments for project development in relation to such contracts as at the end of the reporting period amounted to € Nil (2016: €8,501).

The Directors are the Group's key management personnel and transactions with these related parties consist solely of directors' remuneration as disclosed in Note 25.

The transactions undertaken with related parties, disclosed above, were carried out on commercial terms in the normal course of business and are subject to scrutiny by the Board of Directors. The transactions carried out with group subsidiaries were carried out at carrying amounts.

Balances outstanding as at the year end with respect to group subsidiaries and other related parties are disclosed in Notes 12 and 19 to the Financial Statements. Interest receivable and payable in this respect are disclosed in Notes 26 and 27 respectively.

Note 5 discloses the termination payment of €1.7 million made by the Company to SIS, its subsidiary, in connection to the operation of the public car park at Tigné Point.

Note 8 illustrates the increase in the investment in joint venture which arises upon the accounting of the share of results which include the gain on revaluation of the office block owned by Mid Knight Holdings Limited, a joint venture of the Group together with Benny Holdings Limited.

The Group also enters into other transactions with other related parties, such as the placement of insurance risks, but the related transaction amounts are not considered to have a material impact on the financial results and financial position of the Group.

### 36. Statutory information

MIDI p.l.c. is a public limited liability company and is incorporated in Malta.