# MELITE FINANCE P.L.C.

Condensed Interim Consolidated
Financial Statements
30 June 2019

For the period 1 January 2019 to 30 June 2019

Company Registration Number: C 88405

## Directors' report

The directors present their report in terms of Chapter 5 of the Listing Rules issued by The Listing Authority, and in terms of the Prevention of Financial Markets Abuse Act 2005. The underlying accounting policies are the same as those adopted by Melite Finance p.l.c. and its subsidiary (the 'Group') in its published unaudited consolidated financial statements for the period ended 31 December 2018. The published figures have been extracted from the Company's unaudited accounts for the six months ended 30 June 2019, as approved by the Board of Directors on 22 August 2019 and are in accordance with accounting standards as adopted by the EU for interim financial statements, (International Accounting Standard 34, 'Interim Financial Reporting'). These condensed interim consolidated financial statements have not been audited nor reviewed by the Group's independent auditors.

### Principal activities

The Company was incorporated on 27 September 2018 in terms of the Maltese Companies Act (Cap. 386). The principal activity of the Group and Company is to act as a finance company for the Melite Retail Group, of which the Group and Company are a member, principally by advancing amounts to other group companies for investments and working capital requirements. The Group also holds investment property which it leases out to related and non-related parties.

By virtue of an offering memorandum dated 12 November 2018, the Group issued €9,250,000 bonds with a face value of €100 each. The bonds have a coupon interest of 4.85% which is payable annually in arrears, on 23 November of each year. The bonds are redeemable at par and are due for redemption on 23 November 2028.

### Review of the business

During the six month period under review, the Group and Company registered a gross profit amounting to €780,960 and €135,000 respectively. Revenue for the Group, which was primarily generated from rental income, amounted to €1,829,655. During the six month period, the Group registered a loss before tax amounting to €221,282, after reflecting the impact of the revisions to IFRS 16, that came in force on 1 January 2019 and that amounted to a charge of €264,690, which negative impact will be reversed in subsequent periods over the life of the leases. The Company registered a profit before tax of €21,220 for the six month period ended 30 June 2019.

### Principal risks and uncertainties for the remaining six months of the financial year

The Company's principal activity is to act as a finance company for the Melite Retail Group and to effectively and efficiently manage the financing requirements of the Group's working capital. In this context, the Company's trading prospects are dependent on the performance of the companies within the Group to which amounts have been advanced by the Company. The business activities of the companies forming part of the Melite Retail Group, of which the Group and Company form part, are all concentrated in the Italian property rental and retail sector.

In preparing these financial statements the directors of the Company have made reference to the cash flow forecast of the Group covering the years 2019 to 2028. The cash flow forecast assumes that the Group will continue to generate the required cash flows from its trading activities in the property rental sector.

In view of the fact that activities are monitored closely and that costs are in line with budgets, the directors believe that it remains appropriate to prepare the interim financial statements on a going concern basis. The financial statements however do not include any adjustments in the event that the forecast and assumptions do not materialise as planned.

## Directors' report - continued

### Results and dividends

The condensed interim consolidated statement of comprehensive income is set out on page 5. The directors do not recommend the payment of an interim dividend for the period under review.

### Directors

The directors of the company who held office during the period were:

Jackie Briffa
Alan Frendo Jones
Andrew Ganado
Christian Ganado
Paul Mercieca
Stanley Portelli

The company's Articles of Association do not require any directors to retire.

Approved by the Board of Directors on 22 August 2019 and signed on its behalf by:

Paul Mercieca
Director

Stanley Portelli
Director

Registered office
Level 3, Valletta Buildings
South Street
Valletta VLT 1103
Malta

## Statement pursuant to listing rule 5.75.3

We hereby confirm that to the best of my knowledge:

- the condensed interim consolidated financial statements give a true and fair view of the financial position of the Group and Company as at 30 June 2019, as well as of the financial performance and cash flows for the said period, in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (IAS 34: 'Interim Financial Reporting'); and

- the Interim Directors' Report includes a fair review of the information required in terms of Listing Rule 5.81.

Paul Mercieca
Director

Stanley Portelli
Director

22 August 2019

## Condensed interim consolidated statements of financial position

| | As at 30 June 2019 (Unaudited) | | As at 31 December 2018 (Unaudited) | |
|---|---|---|---|---|
| | **Group €** | **Company €** | Group € | Company € |
| **ASSETS** | | | | |
| Non-current assets | **28,148,778** | **14,571,373** | 11,474,613 | 14,610,464 |
| Current assets | **2,356,401** | **677,739** | 4,300,456 | 511,746 |
| **Total assets** | **30,505,179** | **15,249,112** | 15,775,069 | 15,122,210 |
| **EQUITY AND LIABILITIES** | | | | |
| **Total equity** | **5,701,905** | **5,938,993** | 5,975,628 | 5,956,864 |
| **Non-current liabilities** | | | | |
| Borrowings | **24,079,567** | **8,956,366** | 8,943,416 | 8,943,416 |
| Current liabilities | **723,707** | **353,753** | 856,025 | 221,930 |
| Total liabilities | **24,803,274** | **9,310,119** | 9,799,441 | 9,165,346 |
| **Total equity and liabilities** | **30,505,179** | **15,249,112** | 15,775,069 | 15,122,210 |

The notes on pages 8 to 12 are an integral part of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements on pages 4 to 12 were authorised for issue by the board on 22 August 2019 and were signed on its behalf by:

Paul Mercieca
Director

Stanley Portelli
Director

## Condensed interim consolidated statements of comprehensive income

| | **Period from 1 January to 30 June 2019** | | Period from 27 September 2018 to 30 June 2019 | |
|---|---|---|---|---|
| | **Group** | **Company** | Group | Company |
| | **€** | **€** | € | € |
| | **(unaudited)** | **(unaudited)** | (unaudited) | (unaudited) |
| Rental income | **1,829,655** | **-** | 2,552,856 | - |
| Other income | **-** | **135,000** | - | 180,000 |
| Cost of sales | **(1,048,695)** | **-** | (1,510,549) | - |
| **Gross profit** | **780,960** | **135,000** | 1,042,307 | 180,000 |
| Administrative expenses | **(337,772)** | **(54,602)** | (500,694) | (82,817) |
| **Operating profit** | **443,188** | **80,398** | 541,613 | 97,183 |
| Finance costs | **(664,470)** | **(240,043)** | (715,142) | (290,716) |
| Finance income | **-** | **180,865** | - | 241,153 |
| **(Loss)/profit before tax** | **(221,282)** | **21,220** | (173,529) | 47,620 |
| Tax (expense)/credit | **(55,030)** | **(39,091)** | 1,028 | 16,967 |
| **(Loss)/profit for the period – total comprehensive income** | **(276,312)** | **(17,871)** | (172,501) | 64,587 |
| Attributable to: | | | | |
| Owners of the parent | **(276,312)** | **(17,871)** | (172,501) | 64,587 |

The notes on pages 8 to 12 are an integral part of these condensed interim consolidated financial statements.

## Condensed interim consolidated statements of changes in equity

### Group

| | Share capital € (unaudited) | Retained earnings € (unaudited) | Total € (unaudited) |
|---|---|---|---|
| Balance at 27 September 2018 | - | - | - |
| **Comprehensive income** | | | |
| Profit for the period - total comprehensive income | - | (172,501) | (172,501) |
| **Transactions with owners** | | | |
| Issue of share capital | 5,874,406 | - | 5,874,406 |
| **Balance at 30 June 2019** | **5,874,406** | **(172,501)** | **5,701,905** |

### Company

| | Share capital € (unaudited) | Retained earnings € (unaudited) | Total € (unaudited) |
|---|---|---|---|
| Balance at 27 September 2018 | - | - | - |
| **Comprehensive income** | | | |
| Profit for the period - total comprehensive income | - | 64,587 | 64,587 |
| **Transactions with owners** | | | |
| Issue of share capital | 5,874,406 | - | 5,874,406 |
| **Balance at 30 June 2019** | **5,874,406** | **64,587** | **5,938,993** |

The notes on pages 8 to 12 are an integral part of these condensed interim consolidated financial statements.

## Condensed interim consolidated statements of cash flows

| | Period from 27 September 2018 to 30 June 2019 | |
|---|---|---|
| | Group<br>€<br>(unaudited) | Company<br>€<br>(unaudited) |
| Net cash generated from operating activities | 5,506,070 | 5,583,164 |
| Net cash used in investing activities | (13,642,987) | (14,554,406) |
| Net cash generated from financing activities | 9,185,440 | 9,185,440 |
| Net movement in cash and cash equivalents | 1,048,523 | 214,198 |
| Cash and cash equivalents at beginning of period | - | - |
| **Cash and cash equivalents at end of period** | **1,048,523** | **214,198** |

The notes on pages 8 to 12 are an integral part of these condensed interim consolidated financial statements.

# Notes to the condensed interim consolidated financial statements

## 1. General information

Melite Finance p.l.c. ("the Company") is a limited liability company domiciled and incorporated in Malta.

The unaudited consolidated financial statements for the year ended 31 December 2018 are available upon request from the company's registered office at Level 3, Valletta Buildings, South Street, Valletta, VLT 1103, Malta. They are also available for viewing on its website at www.meliteproperties.com.

This condensed interim consolidated financial information was approved for issue by the Board of Directors on 22 August 2019.

## 2. Basis of preparation

The condensed consolidated interim financial information for the six-month period ended 30 June 2019 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34, 'Interim Financial Reporting'. The condensed interim consolidated financial information should be read in conjunction with the unaudited consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRSs as adopted by the EU. These condensed interim consolidated financial statements have not been audited nor reviewed by the Group's independent auditors.

## 3. Summary of significant accounting policies

The accounting policies applied in the preparation of the condensed consolidated interim financial information are the same as those applied in the unaudited consolidated financial statements for the year ended 31 December 2018.

*(a) Standards, interpretations and amendments to published standards effective in 2019*

In 2019, the company adopted revised standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2019. IFRS 16 results in almost all leases being recognised in the statement of financial position as the distinction between operating and finance leases, previously in IAS 17, is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting policy pertaining to the company's leasing arrangements is disclosed in Note 3.2.

*(b) Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning after 1 January 2019 have been published by the date of authorisation for issue of this financial information. The company's directors are of the opinion that there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

## Notes to the condensed interim consolidated financial statements - continued

### 3. Summary of significant accounting policies - continued

#### 3.1 Adoption of new standards and interpretations

During the current year, the Group and Company adopted all the new International Financial Reporting Standards (IFRSs) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2019.

- IFRS 16 - Leases

Under IFRS 16 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 a 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. The standard is effective for annual periods beginning on or after 1 January 2019.

The company adopted IFRS 16 from 1 January 2019 and applied the modified transition approach. As a result, the company will not restate comparative amounts for the year prior to first adoption. Under this approach, the lease liability is measured at the present value of the remaining lease payments as at 1 January 2019. Right-of-use of properties at that date was measured at an amount equivalent to this lease liability, adjusted for any prepaid or accrued operating lease expenses, with no adjustment to equity.

The adoption of IFRS 16 also resulted in the replacement of operating lease rental expenditure by amortisation of the right-of-use asset, and an interest cost on the lease liability. Rental payments under IFRS 16 are allocated between interest payments and a reduction in the lease liability, with a corresponding impact on the company's statement of cash flows. Accordingly, lease payments for the period ended 30 June 2019, representing rental payments allocated to a reduction in the lease liability, are reported as a financing cash flow instead of an operating cash flow.

The company's new accounting policy following adoption of IFRS 16 at 1 January 2019 is set out in Note 3.2.

#### 3.2 Leases

*Accounting policies applied subsequent to 1 January 2019*

*The Group is the lessee*

The Group leases retail properties. Rental contracts are typically made for fixed periods of 1 to 17 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

## **Notes to the condensed interim consolidated financial statements** - continued

### 3. **Summary of significant accounting policies** - continued

#### 3.2 **Leases** - continued

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments less any lease incentives receivable and variable lease payment that are based on an index or a rate. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the company's incremental borrowing rate. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any initial direct costs.

In determining the lease term, in addition to the non-cancellable lease period, the company includes periods covered by an option to extend the lease that are reasonably certain of exercise.

The comparative information provided continues to be accounted for in accordance with the company's previous year accounting policy.

*Accounting policies applied until 31 December 2018*

*The group 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.

### 4. **Financial risk management**

The Company's financial risk management objectives and policies are consistent with those disclosed in the unaudited consolidated financial statements for the year ended 31 December 2018.

### 5. **Critical accounting estimates and judgements**

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

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

### 6. **Intangible assets**

Intangible assets primarily represent premiums paid on leasehold property and the right of use of properties being rented out by the Group.

## Notes to the condensed interim consolidated financial statements - continued

### 7. Taxation

The tax expense for the period ended 30 June 2019 amounting to €54,306 is made up of a deferred tax movement on the tax losses available as at period end and a current tax provision.

### 8. Loans receivable

In the ordinary course of its business activities, the Company also advances funds to group companies. Such amounts are subject to a fixed rate of interest of 6.1%, are unsecured and repayable by not later than 23 November 2028.

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

The Company holds investments in equities that are quoted on the Italian stock exchange. These financial assets are held as security on the properties. During the period ended 30 June 2019, there were no significant movements in their fair value which needed to be reflected in the fair value reserve.

### 10. Capital commitments

As at 30 June 2019, the Company did not have any capital commitments.

### 11. Interest bearing borrowings

By virtue of an offering memorandum dated 12 November 2018, the Group issued €9,250,000 bonds with a face value of €100 each. The bonds have a coupon interest of 4.85% which is payable annually in arrears, on 23 November of each year. The bonds are redeemable at par and are due for redemption on 23 November 2028. The bonds were admitted on the Official List of the Malta Stock Exchange on 12 November 2018. The quoted market price as at 30 June 2019 for the bonds was €104.90, which in the opinion of the directors fairly represents the fair value of these financial liabilities.

In accordance with the provisions of the prospectus, the proceeds from the bond issue have been advanced by the Group to group related parties.

The Bonds constitute the general, direct, unconditional, unsecured, unsubordinated obligations of the Company, and rank equally without any priority or preference with all other present and future unsecured and unsubordinated obligations of the Company.

As from 1 January 2019, the Group has also adopted the amendments to IFRS 16 and has recognised a lease liability reflecting future lease payments and a 'right-of-use asset' for all property lease contracts. The lease liability as at 1 January 2019 amounted to €15,907,205, and a deemed interest cost of 6.1% has been applied.

## Notes to the condensed interim consolidated financial statements - continued

### 12. Contingent liabilities

No events occurred since 31 December 2018 that require disclosure of any contingent liabilities as at 30 June 2019.

### 13. Related parties

The Group forms part of the Melite Retail Group of Companies. All companies forming part of the Melite Retail Group, which are all ultimately owned by Melite Retail Limited, are considered to be related parties in view of common ultimate shareholding.

The principal transactions carried out by the Group with related parties during the six month period ended 30 June 2019 are outlined below:

- Rental income from companies within the Melite Retail Group amounting to €1,599,750.
- Management fees charged by related party amounting to €25,000.
- Payroll costs recharged by related party amounting to €25,144.

### 14. Subsequent events

There were no material events which occurred subsequent to the balance sheet date.