

Mediterranean Investments Holding p.l.c.
Report and consolidated financial statements
For the year ended 31 December 2007

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Report of the directors

The directors present their report and the audited financial statements of the company (Mediterranean Investments Holding p.l.c) and the group for the year ended 31 December 2007.

Principal activity

The company that was incorporated as a private limited liability company on 12 December 2005 as Mediterranean Investments Holding Limited was, on 6 November 2007, converted into a public limited liability company with the name of Mediterranean Investments Holding p.l.c. Its principal activity is to directly or indirectly acquire and develop real estate opportunities in Libya and invest in any related trade or business venture.

Review of business development

During the twelve months under review MIH has consolidated its efforts in developing the Palm City project which remains at the forefront of the company's real estate investments in Libya. MIH has increased its resources in its subsidiary Palm City Limited, in a bid to ensure that the project is completed by the end of 2008 and to highest standards.

In October 2007, MIH successfully issued a € 15 million bond which, the company is pleased to announce, was oversubscribed by 150% within the first couple of hours. The main purpose of the bond issue was to cover the additional cost associated with increasing the size of the Palm City project by 50 units or 14%, with the rest of the funds to be channelled towards new projects.

In parallel to this, MIH has been actively engaged in developing further its plan to become the leading real estate investment company in Libya. The company's strategy throughout the period has been focused on acquiring real estate for further development, including investments in developing more residential property, commercial centres, schools, hospitals and a mixed use development.

The investment in QP qpm-projacs Limited ("QP") has registered positive developments throughout 2007. QP has negotiated and signed heads of agreement with a major investor seeking project management services for its real estate development in Libya. QP has also been approached by a number of other companies and towards the end of the year, negotiations were being finalised for the provision of project and construction management services for a significantly large mixed use development in Libya.

Agility (Libya) Limited, a company in which MIH owns a minority shareholding of 10%, has also achieved some very positive milestones. A team of executives have been recruited and an office set up in Tripoli. Towards the end of the first half of the reporting period, Agility (Libya) Limited had already secured a number of major blue chip clients and a myriad of logistics and freight forwarding services were being offered.

The period under review has been characterised by further investment in MIH's wholly owned subsidiary – Palm City Limited. MIH has advanced a total of Euro 18.9 million to its subsidiary Palm City Ltd to fund the development of the Palm City project.

Results

During the year under review the group registered a loss of € 173,563 (2006 - profit € 242,181) and the company a profit of € 304,116 (2006 - € 378,173).

Report of the directors (continued)

Statement pursuant to Listing Rule 9.40.5

We confirm that to the best of our knowledge, the financial statements set out on pages 11 to 30 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and the profit or loss of the company and its subsidiary and associate companies included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and the position of the company and its subsidiary and associate companies included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties that they face.

Directors

The following have served as directors of Mediterranean Investments Holding p.l.c. during the year under review:

Mr Alfred Pisani (Chairman)
Mr Jamil S. Alessa (Vice-Chairman)
Mr Mustafa T. Mohamed Khattabi (appointed on 9 March 2007)
Mr Musaed Al Saleh
Mr Joseph Fenech
Mr Khalil E. A. M. Alabdullah
Mr Abdulrazagh Zmirli (resigned on 9 March 2007)

In accordance with the company's Articles of Association, the present directors remain in office.

Statement of directors' responsibilities

The Companies Act, 1995 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the profit or loss of the group and the company for that year. In preparing those financial statements, the directors are required to:


- adopt the going concern basis unless it is inappropriate to presume that the group and the company will continue in business;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act, 1995. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. They are also responsible for safeguarding the assets of the group and the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the directors (continued)

Auditors

The auditors Grant Thornton have intimated their willingness to continue in office.



Alfred Pisani
Chairman

Registered address:
22, Europa Centre
Floriana, FRN 1400
28 April 2008

Jamil S. Alessa
Vice-Chairman



Directors' statement of compliance with the Code of Principles of Good Governance

Introduction

Under the Listing Rules issued by the Malta Financial Services Authority listed companies should endeavour to adopt the Code of Principles of Good Corporate Governance, “the principles”.

Even though these principles are not mandatory the directors believe that such practices are in the best interest of the company. Consequently the board has decided to implement and adapt those principles that are appropriate to the company's circumstances after taking cognisance of the company's function and the scale of its operations.

The company presently acts as an investment and finance company for its subsidiary, Palm City Limited, and associate companies, QP qpm-projacs Limited and Agility (Libya) Limited, and as such its operations are limited to the monitoring of funds spent on the subsidiary's development project in Libya. The directors believe that the adoption of certain structures and mechanisms that may well be suitable for a company having more complex operations, not only are not appropriate for the company but could well have the adverse effect of unnecessarily increasing the costs of administration without adding much benefit from a corporate governance perspective.

In this context the board believes that the company's current set up enables it to operate in a proper and efficient manner and provides adequate safeguards for good corporate governance.

The board

The board of directors is responsible for the company's affairs, in particular giving direction to the company and its subsidiary and being actively involved in the oversight of the systems of internal controls and financial reporting.

The board is composed of six non-executive directors who are appointed by the shareholders:

Mr. Alfred Pisani
Mr Jamil S. Alessa
Mr Mustafa T. Mohamed Khattabi
Mr Musaed Al Saleh
Mr Joseph Fenech
Mr Khalil E.A.M Alabdullah

The directors do not receive any remuneration.

Directors' statement of compliance with the Code of Principles of Good Governance (continued)

The board (continued)

The board convenes as frequently as considered necessary. Individual directors, apart from attendance at formal meetings, participate in other informal meetings during the year as may be required, either to assure good corporate governance or to contribute more effectively to the decision making process. The board members are notified of forthcoming meetings by the company secretary with the issue of an agenda and supporting documents as necessary.

Apart from setting the strategy and direction of the company, the board retains direct responsibility for approving and monitoring the annual report and financial statements. The board is also responsible for making relevant public announcements and for the company's compliance with continuing listing obligations.

The board considers that the present size and operations of the company do not necessitate the institution of separate committees such as evaluation and remuneration committees.

Audit committee

The audit committee's primary objective is to assist the board in fulfilling its responsibilities in dealing with issues of risk, control and governance, and to review the financial reporting process, financial policies and internal control structure.

Mr Joseph Fenech acts as chairman of the audit committee, whilst Mr Khalil E.A.M. Alabdullah acts as a member and Mr Alfred Fabri as secretary. Since its recent appointment this committee has not yet convened.

Approved by the board on 28 April 2008 and signed on its behalf by:



Alfred Pisani
Chairman



Jamil S. Alessa
Vice-Chairman

Shareholder and other information

The following information is being published by Mediterranean Investments Holding p.l.c. (the “company”) in terms of the Listing Rules of the Listing Authority.

Number of shareholders

Range	Total shareholders at 31 December 2007	Total shareholders at 31 December 2006
1 to 1000	-	-
1001 to 5000	-	-
5001 and over	3	2
	3	2

Shareholders are entitled to vote at company shareholders’ meetings on the basis of one vote for each share held. Shares in issue shall rank pari passu with respect to any distribution of dividends or capital, in winding up or otherwise.

Shareholders holding 5% or more of the share capital at 31 December

	2007		2006	
	Number of shares	Percentage holding %	Number of shares	Percentage holding %
Corinthia Palace Hotel Company Limited	24,001,000	50	24,001,000	50
National Real Estate Company	19,200,800	40	24,001,000	50
Libya Projects Trading and Contracting Company	4,800,200	10	-	-

Directors’ interest in the shareholding of the company

Mr Alfred Pisani has a beneficial interest in the company of 79,683 ordinary shares through the shareholding of A & A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

There have been no changes in the shareholding of the company since balance sheet date.

Shareholder and other information (continued)

Contracts of significance

Loan agreements with Palm City Limited

The company has advanced amounts borrowed by way of bonds listed on the Malta Stock Exchange and other loans to its subsidiary, Palm City Limited. The terms of the relevant agreements are set out in the company's financial statements.

Build – Operate – Transfer agreement

On 2 October 2007 Palm City Limited (the subsidiary company) entered into a Build-Operate-Transfer agreement for € 24,000,000 with Corinthia Palace Hotel Company Limited effective from 6 July 2006. This arrangement gives Palm City Limited the right to build and operate the property for a period of 65 years.

Company secretary and registered office

Mr Reginald Cuschieri
22, Europa Centre
Floriana FRN 1400
Malta

Report of the auditors to the shareholders

Pursuant to Listing Rule 8.39 issued by the Listing Authority

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the directors of Mediterranean Investments Holding p.l.c. (the “company”) to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance (the “statement of compliance”), and the effective measures they have taken to ensure compliance with these principles.

Our responsibility, as auditors of the company, is laid down by Listing Rule 8.39, which requires us to include a report on this statement of compliance.

We read the statement of compliance and consider whether it is consistent with the audited financial statements. We consider the implications on our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with 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 covers all risks and controls, or form an opinion on the effectiveness of the company’s corporate governance procedures or its risk and control procedures, nor on the ability of the company to continue in operational existence.

In our opinion, the accompanying statement of compliance provides the disclosures required by Listing Rules 8.37 and 8.38 issued by the Listing Authority.



Mark Bugeja
f/Grant Thornton

Certified Public Accountants

Grant Thornton House
Princess Elizabeth Street
Ta’ Xbiex XBX 1104
Malta

28 April 2008

Report of the auditors to the members

We have audited the accompanying consolidated financial statements of Mediterranean Investments Holding p.l.c. which comprise the profit and loss account for the year ended 31 December 2007, balance sheet as at 31 December 2007, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Report of the auditors to the members (continued)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company and group as at 31 December 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the Companies Act (Chap.386).



Mark Bugeja
f/Grant Thornton

Certified Public Accountants

Grant Thornton House
Princess Elizabeth Street
Ta' Xbiex XBX 1104
Malta

28 April 2008

Profit and loss accounts

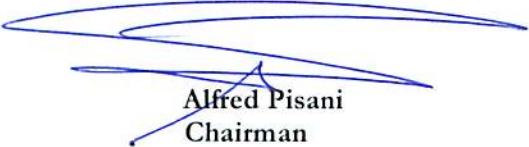
	Note	Group		Company	
		2007 €	2006 (12½ months) €	2007 €	2006 (12½ months) €
Other income		963	1,532	732	145
Finance income	4	466,223	481,333	495,358	481,333
Marketing costs		(311,210)	(41,417)	-	-
Administrative expenses		(105,952)	(82,633)	(29,643)	(9,830)
Finance costs	5	(106,349)	(2,295)	(97,323)	(1,679)
		<hr/>	<hr/>	<hr/>	<hr/>
		(56,325)	356,520	369,124	469,969
Share of results of associate company		(52,230)	(22,543)	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
(Loss)/profit before taxation		(108,555)	333,977	369,124	469,969
Taxation	6	(65,008)	(91,796)	(65,008)	(91,796)
		<hr/>	<hr/>	<hr/>	<hr/>
(Loss)/profit for the year/period	8	(173,563)	242,181	304,116	378,173
		<hr/>	<hr/>	<hr/>	<hr/>
Earnings per share	9	-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>


Balance sheets at 31 December

	Note	Group		Company	
		2007 €	2006 €	2007 €	2006 €
Non-current assets					
Intangible assets	10	1,832	981	-	-
Property, plant and equipment	11	41,059,453	28,565,453	-	-
Financial assets	12	85,227	127,457	49,398,985	30,481,089
Lease prepayment	13	475,916	-	-	-
		<u>41,622,428</u>	<u>28,693,891</u>	<u>49,398,985</u>	<u>30,481,089</u>
Current assets					
Debtors	14	7,477,188	161,507	79,075	66,201
Cash at bank and in hand		16,637,018	20,131,384	14,426,685	17,893,036
		<u>24,114,206</u>	<u>20,292,891</u>	<u>14,505,760</u>	<u>17,959,237</u>
Creditors: amounts falling due within one year	15	(2,666,016)	(742,601)	(220,456)	(60,153)
		<u>21,448,190</u>	<u>19,550,290</u>	<u>14,285,304</u>	<u>17,899,084</u>
Total assets less current liabilities		<u>63,070,618</u>	<u>48,244,181</u>	<u>63,684,289</u>	<u>48,380,173</u>
Creditors: amounts falling due after more than one year					
Bonds in issue	16	(15,000,000)	-	(15,000,000)	-
Net assets		<u>48,070,618</u>	<u>48,244,181</u>	<u>48,684,289</u>	<u>48,380,173</u>
Capital and reserves					
Called-up issued share capital	17	48,002,000	48,002,000	48,002,000	48,002,000
Profit and loss account		68,618	242,181	682,289	378,173
		<u>48,070,618</u>	<u>48,244,181</u>	<u>48,684,289</u>	<u>48,380,173</u>

Rate of exchange - € 1 = Lm 0.4293

The consolidated financial statements on pages 11 to 30 were approved by the board of directors on 28 April 2008 and were signed on its behalf by:


Alfred Pisani
Chairman


Jamil S. Alessa
Director

Statements of changes in equity

Group

	Called-up issued share capital €	Profit and loss account €	Total €
Issue of share capital	24,002,000	-	24,002,000
Capitalisation of loan	24,000,000	-	24,000,000
Profit for the period	-	242,181	242,181
	-----	-----	-----
At 31 December 2006	48,002,000	242,181	48,244,181
Loss for the year	-	(173,563)	(173,563)
	-----	-----	-----
At 31 December 2007	48,002,000	68,618	48,070,618
	-----	-----	-----

Company

	Called-up issued share capital €	Profit and loss account €	Total €
Issue of share capital	24,002,000	-	24,002,000
Capitalisation of loan	24,000,000	-	24,000,000
Profit for the period	-	378,173	378,173
	-----	-----	-----
At 31 December 2006	48,002,000	378,173	48,380,173
Profit for the year	-	304,116	304,116
	-----	-----	-----
At 31 December 2007	48,002,000	682,289	48,684,289
	-----	-----	-----

Cash flow statements

	Note	Group		Company	
		2007	2006	2007	2006
		(12½ months)		(12½ months)	
		€	€	€	€
Cash (used in)/from operating activities					
Cash (used in)/generated from operations	18(a)	(1,228,707)	598,039	562,223	415,663
Tax paid		(102,732)	(54,072)	(102,732)	(54,072)
Net cash (used in)/from operating activities		(1,331,439)	543,967	459,491	361,591
Investing activities					
Payment to acquire property, plant and equipment		(17,144,130)	(4,270,378)	-	-
Payment to acquire intangible assets		(851)	(4,739)	-	-
Payment to acquire financial assets		(10,000)	(150,000)	(17,998)	(152,000)
Loan to subsidiary		-	-	(18,899,898)	(6,329,089)
Net cash used in investing activities		(17,154,981)	(4,425,117)	(18,917,896)	(6,481,089)
Net cash from financing activities					
Issue of share capital		-	24,002,000	-	24,002,000
Issue of bond		15,000,000	-	15,000,000	-
Interest paid		(315)	-	(315)	-
Net cash from financing activities		14,999,685	24,002,000	14,999,685	24,002,000
Net (decrease)/increase in cash and cash equivalents		(3,486,735)	20,120,850	(3,458,720)	17,882,502
Cash and cash equivalents at beginning of year/period	18(b)	20,120,850	-	17,882,502	-
Cash and cash equivalents at end of year/period	18(b)	16,634,155	20,120,850	14,423,782	17,882,502

Notes to the financial statements

1 Basis of preparation

The financial statements are presented in Euros (€). They have been prepared under the historical cost convention, in accordance with the requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union and the accounting provision of the Companies Act, 1995.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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 (revised).

The financial information has been prepared from the audited financial statements of the following companies comprising the group.

Parent Company

Mediterranean Investments Holding p.l.c.

Subsidiary company

Palm City Limited

Associate companies

QP qpm – projacs Limited
Agility (Libya) Limited

2 First time adoption of IFRS

IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital Disclosures became mandatory with effect from 1 January 2007.

The company and group have adopted both standards in these financial statements.

The capital disclosure requirements that became necessary due to the change in IAS 1 can be found in note 22.

Notes to the financial statements (continued)

2 First time adoption of IFRS (continued)

IFRS 7 replaces and amends disclosure requirements previously set out in IAS 32 Financial Instruments: Presentation and Disclosures. All disclosures relating to financial instruments, including comparative information, have been updated to reflect the new requirements. The first-time application of IFRS 7, however, has not resulted in any prior-period adjustments of cash flows, net income or balance sheet line items.

Other standards or interpretations relevant for IFRS financial statements did not become effective during the current financial year and the company and group have not opted for earlier adoption. The directors anticipate that these standards and interpretations will have no material impact on the financial statements in the year of initial application.

3 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied by entities comprising the group.

Basis of consolidation

These financial statements include all subsidiaries that are controlled by the parent company Mediterranean Investments Holding p.l.c.

Control is presumed to exist where more than one half of the subsidiary's voting power is controlled by the parent company, or the parent company is able to govern the financial and operating policies of the subsidiary, or control the removal or appointment of a majority of the subsidiary's board of directors.

The results of subsidiary companies acquired or sold during the year are included in the consolidated profit and loss account from or to the effective date of acquisition or disposal.

Investments in associate companies are accounted for in the consolidated financial statements under the equity method. Investments in subsidiary and associated companies classified as non-current financial assets are stated in the parent company's balance sheet at cost, less any permanent diminution in the value of the investment.

The excess of the parent company's interest in the fair values of the identifiable assets and liabilities acquired over the cost of acquisition is accounted for as negative goodwill and is recognised immediately in the profit and loss account in accordance with the requirements of IFRS 3, Business Combinations.

The excess of the purchase consideration over the fair value of the net identifiable assets of subsidiaries and associates is accounted for as goodwill. Goodwill is stated at cost less impairment to date. In respect of associates the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

All intra-group balances and intra-group transactions and resulting unrealised profits have been eliminated in full on consolidation.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

Intangible fixed assets

Trademarks are measured initially at purchase cost. Subsequent to initial recognition, intangible assets are stated at cost less any accumulated amortisation and impairment losses.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The cost of assets in the course of construction includes the cost of materials, direct labour and an appropriate proportion of overheads, and, where applicable, interest costs incurred in financing, together with any other costs, to the extent that they are incurred prior to the commencement of the use of these assets.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight line method, on the following bases:

	%
Computer equipment	25
Office furniture and equipment	25
Motor vehicles	25

No depreciation is provided on land and on assets in the course of construction and assets that are not yet brought into use.

Impairment

At each balance sheet date the company and group review the carrying amounts of their assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheets when the company and the group have become a party to the contractual provisions of the instruments.

Debtors and loans receivable

Debtors and loans receivable are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise balances with banks and in hand.

Creditors

Creditors are stated at their nominal value.

Bank and other borrowings

Interest-bearing borrowings are recorded at the proceeds received. Finance charges are accounted for on an accrual basis and are shown with accruals to the extent that they are not settled in the period in which they arise.

Foreign currency amounts

Assets and liabilities in foreign currencies are translated into Euro at the rate of exchange ruling at the balance sheet date.

Transactions during the year are translated into Euro at the rate of exchange ruling on the date of the transaction.

All profits and losses on exchange are dealt with through the profit and loss account.

Taxation

Tax expense is calculated on the net income adjusted for non temporary differences between taxable and accounting income. The tax effect of temporary differences, arising from items being brought to account in different periods for income tax and accounting purposes, is carried in the balance sheet as deferred tax debits or credits.

Deferred tax balances are accounted for on the liability method taking into account the estimated tax that will be paid or recovered when the temporary differences reverse. Deferred tax debits are only carried forward if there is reasonable expectation of realisation. Deferred tax debits arising from unrelieved tax losses or unabsorbed capital allowances yet to be recovered are only carried forward if there is reasonable assurance and to the extent that it is probable that future taxable income will be sufficient to allow the benefit of the loss to be realised, or to the extent of net credits in the deferred tax balance. Deferred tax liabilities associated with investment in subsidiary companies are not recognised to the extent that the

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

group is able to control timing of the reversal of the temporary differences and do not expect the temporary differences to reverse in the foreseeable future.

Revenue

Interest income arising from the use by others of the company's and the group's resources is recognised on the accruals basis, by reference to the principal outstanding and at the interest rate applicable.

Retirement benefit cost

The group companies contribute towards state pensions in accordance with local legislation and do not contribute to any retirement benefit plans. Related costs are recognised as an expense during the year in which they are incurred.

4 Finance income

	Group		Company	
	2007	2006	2007	2006
	(12½ months)		(12½ months)	
	€	€	€	€
Bank interest	466,223	481,333	466,191	481,333
Interest charged on loan to subsidiary company	-	-	29,167	-
	<u>466,223</u>	<u>481,333</u>	<u>495,358</u>	<u>481,333</u>

5 Finance costs

	Group		Company	
	2007	2006	2007	2006
	(12½ months)		(12½ months)	
	€	€	€	€
Interest on bonds	96,875	-	96,875	-
Bank interest	9,126	205	315	115
Bank charges	348	2,090	133	1,564
	<u>106,349</u>	<u>2,295</u>	<u>97,323</u>	<u>1,679</u>

6 Taxation

	Group and Company	
	2007	2006
	(12½ months)	
	€	€
Malta Income Tax:		
Current at 35%	-	34,318
Final withholding tax at 15%	65,008	57,478
	<u>65,008</u>	<u>91,796</u>

Notes to the financial statements (continued)

7 Staff costs

	Group	
	2007	2006 (12½ months)
	€	€
Wages and salaries	287,950	193,614
Social security costs/INAS	16,678	7,395
Wages and salaries capitalised	(195,562)	(194,749)
	<u>109,066</u>	<u>6,260</u>
Average number of employees:		
Administrative	3	2
Operational	33	22
	<u>36</u>	<u>24</u>

8 (Loss)/profit for the year/period

	Group		Company	
	2007	2006 (12½ months)	2007	2006 (12½ months)
	€	€	€	€
(Loss)/profit for the year/period is stated after charging:				
Auditors' remuneration	4,100	3,600	1,500	1,000
Depreciation	3,652	111	-	-
Goodwill written off	-	3,758	-	-
	<u>4,100</u>	<u>3,600</u>	<u>1,500</u>	<u>1,000</u>

9 Earnings per share

The calculation of earnings per share is based on the net (loss)/profit for the year/period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

Notes to the financial statements (continued)

10 Intangible assets

Group	Goodwill €	Trademarks €	Total €
At 1 January 2006	-	-	-
Additions	3,758	981	4,739
	<hr/>	<hr/>	<hr/>
At 31 December 2006	3,758	981	4,739
Additions	-	851	851
	<hr/>	<hr/>	<hr/>
At 31 December 2007	3,758	1,832	5,590
	<hr/>	<hr/>	<hr/>
Amortisation			
At 1 January 2006	-	-	-
Amount written off	3,758	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2006	3,758	-	3,758
Amount written off	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2007	3,758	-	3,758
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2007	-	1,832	1,832
	<hr/>	<hr/>	<hr/>
At 31 December 2006	-	981	981
	<hr/>	<hr/>	<hr/>

Notes to the financial statements (continued)

11 Property, plant and equipment

Group

	Computer equipment €	Motor vehicles €	Office furniture & equipment €	Asset in the course of construction €	Total €
Cost or valuation					
At 1 January 2006	-	-	-	-	-
Additions	61,049	89,596	48,268	28,385,054	28,583,967
At 31 December 2006	61,049	89,596	48,268	28,385,054	28,583,967
Additions	3,049	10,035	16,836	13,012,821	13,042,741
Transfer to lease prepayment (note 13)	-	-	-	(494,827)	(494,827)
At 31 December 2007	64,098	99,631	65,104	40,903,048	41,131,881
Depreciation					
At 1 January 2006	-	-	-	-	-
Charge for the period	5,170	8,341	5,003	-	18,514
At 31 December 2006	5,170	8,341	5,003	-	18,514
Charge for the year	15,581	23,862	14,471	-	53,914
At 31 December 2007	20,751	32,203	19,474	-	72,428
Net book value					
At 31 December 2007	43,347	67,428	45,630	40,903,048	41,059,453
At 31 December 2006	55,879	81,255	43,265	28,385,054	28,565,453

Note -

Bond issue costs amounting to € 513,000 have been capitalised as part of asset in the course of construction.

12 Financial assets

	Group		Company	
	2007 €	2006 €	2007 €	2006 €
Shares in subsidiary company (note a)	-	-	24,009,998	2,000
Shares in associate companies (note b)	85,227	127,457	160,000	150,000
Loan to subsidiary company (note c)	-	-	25,228,987	30,329,089
	85,227	127,457	49,398,985	30,481,089

Notes to the financial statements (continued)

12 Financial assets (continued)

Notes –

(a) Interest in subsidiary company (unquoted)

Subsidiary company	Percentage holding in ordinary shares %	Nature of business
Palm City Limited 22, Europa Centre Floriana, Malta	99.9	Property development

(b) Interest in associate companies (unquoted)

Associate company	Percentage holding in ordinary shares %	Nature of business	Capital and reserves 31.12.07 €	Loss for the year ended 31.12.07 €	Capital and reserves at 31.12.06 €	Loss for the period ended 31.12.06 €
QP qpm – projacs Limited 22, Europa Centre, Floriana Malta	30	Property development	250,757	(174,101)	424,858	(75,142)
Agility (Libya) Ltd 22, Europa Centre, Floriana Malta	10	Supply chain logistics	100,000	-	-	-

(c) Loans to subsidiary company

	€	Security	Interest rate	Repayment
Loan I	20,228,987	None	-	Not fixed
Loan II	5,000,000	None	7.5%	By 4 December 2014

13 Lease prepayment

Group

	2007 €	2006 €
Transfer from property, plant and equipment (note 11)	494,827	-
Amount charged to profit and loss account for the year	(11,303)	-
	<hr/>	<hr/>
	483,524	-
Amount to be charged to profit and loss account within one year	(7,608)	-
	<hr/>	<hr/>
Amounts classified as non-current assets	475,916	-
	<hr/>	<hr/>

Notes to the financial statements (continued)

13 Lease prepayment (continued)

On 2 October 2007 Corinthia Palace Hotel Company Limited entered into a build-operate-transfer agreement with Palm City Limited effective from 6 July 2006. The arrangement, which gives Palm City Limited the right to operate the Palm City Residences in Janzour, Libya for a period of 65 years, contains a lease element which is classified as an operating lease. The payment for the operating lease element has been estimated at € 494,827 on the basis of the original lease granted by the Government of Libya to Corinthia Palace Hotel Company Limited, and is classified as a lease prepayment.

14 Debtors

	Group		Company	
	2007	2006	2007	2006
	€	€	€	€
Advance payment to capital creditors	6,372,826	-	-	-
Amount owed by associate company	6,474	3,699	6,474	3,699
Amounts owed by related companies	13,975	87,480	-	-
Other debtors	1,043,495	47,617	39,791	39,791
Lease prepayment	7,608	-	-	-
Prepayments and accrued income	32,810	22,711	32,810	22,711
	<u>7,477,188</u>	<u>161,507</u>	<u>79,075</u>	<u>66,201</u>

Notes -

- The carrying value of debtors is a reasonable approximation of fair value.
- There are no past due debtors or impaired amounts.

15 Creditors: amounts falling due within one year

	Group		Company	
	2007	2006	2007	2006
	€	€	€	€
Bank balance overdrawn	2,903	10,534	2,903	10,534
Capital creditors	2,221,175	-	-	-
Trade creditors	98,914	295,560	98,914	485
Amount owed to related companies	205,289	361,666	2,000	2,000
Taxation (note b)	-	37,724	-	37,724
Accruals	137,735	37,117	116,639	9,410
	<u>2,666,016</u>	<u>742,601</u>	<u>220,456</u>	<u>60,153</u>

Notes to the financial statements (continued)

15 Creditors: amounts falling due within one year (continued)

Notes -

a) The carrying value of creditors is a reasonable approximation of fair value.

b) Taxation

	Group		Company	
	2007	2006	2007	2006
	€	€	€	€
Balance brought forward	37,724	-	37,724	-
Provision based on the taxable profit for the year/period	-	34,318	-	34,318
Tax paid	(37,724)	-	(37,724)	-
Final withholding tax at 15%	65,008	57,478	65,008	57,478
Tax withheld at source	(65,008)	(54,072)	(65,008)	(54,072)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance carried forward	-	37,724	-	37,724
	<hr/>	<hr/>	<hr/>	<hr/>

16 Bonds in issue

Bond denominated in	Interest rate %	Repayable by	Group and Company	
			2007	2006
			€	€
EUR	7.50	4 December 2014	15,000,000	-
			<hr/>	<hr/>

During the year ended 31 December 2007 the company issued bonds of a nominal value of € 15,000,000, which unless previously redeemed in accordance with the early redemption option given in the terms of issue, shall be redeemable at par on 4 December 2014.

The issuer reserves the right to redeem the bonds or any part of the issue at any time prior to the stated maturity on either of the interest payment dates falling in 2012 and/or 2013. Redemption of the bonds shall be made at the face value of the bonds. In addition the issuer reserves the right to purchase from the market at any time after issue, bonds for cancellation.

The bonds constitute general, direct, unconditional, unsecured and unsubordinated obligations of the issuer and will rank pari passu, without any priority or preference, with all other present and future unsecured and unsubordinated obligations.

Notes to the financial statements (continued)

17 Called-up issued share capital

	Group and Company	
	2007	2006
	€	€
Authorised		
50,000,000 ordinary 'A' shares of € 1 each	50,000,000	50,000,000
50,000,000 ordinary 'B' shares of € 1 each	50,000,000	50,000,000
	<hr/>	<hr/>
	100,000,000	100,000,000
	<hr/>	<hr/>
Called-up issued and fully paid up		
24,001,000 ordinary 'A' shares of € 1 each	24,001,000	24,001,000
24,001,000 ordinary 'B' shares of € 1 each	24,001,000	24,001,000
	<hr/>	<hr/>
	48,002,000	48,002,000
	<hr/>	<hr/>

The share capital consists only of ordinary shares with a par value of € 1. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Mediterranean Investments Holding p.l.c.

18 Notes to the cash flow statements

(a) Cash (used in)/generated from operations

	Group		Company	
	2007	2006	2007	2006
	€	(12½ months) €	€	(12½ months) €
(Loss)/profit before taxation	(108,555)	333,977	369,124	469,969
Adjustments for:				
Share of results of associate company	52,230	22,543	-	-
Depreciation	3,652	111	-	-
Goodwill written off	-	3,758	-	-
Interest payable	97,190	-	97,190	-
Operating lease	11,303	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Operating profit before working capital changes	55,820	360,389	466,314	469,969
Increase in debtors	(935,247)	(161,507)	(12,874)	(66,201)
Increase in creditors	(349,280)	399,157	108,783	11,895
	<hr/>	<hr/>	<hr/>	<hr/>
	(1,228,707)	598,039	562,223	415,663
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the financial statements (continued)

18 Notes to the cash flow statements (continued)

(b) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Group		Company	
	2007 €	2006 €	2007 €	2006 €
Cash at bank	16,637,018	20,131,384	14,426,685	17,893,036
Bank overdraft	(2,903)	(10,534)	(2,903)	(10,534)
	<u>16,634,115</u>	<u>20,120,850</u>	<u>14,423,782</u>	<u>17,882,502</u>

19 Financial instruments

Financial instruments by category

The carrying values of the company's financial assets and liabilities for the period under review are disclosed by category in the balance sheet and notes 12, 14, 15 and 16.

At 31 December 2007 and 31 December 2006 the fair values of financial assets and liabilities were not materially different from their carrying values.

Risk management policies

(a) Credit risk

The group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

Group	2007 €	2006 €
Debtors and accrued income	119,067	161,507
Cash and cash equivalents	16,637,018	20,131,384
	<u>16,756,085</u>	<u>20,292,891</u>

Notes to the financial statements (continued)

19 Financial instruments (continued)

Company

	2007				2006			
	Current		Non-current		Current		Non-current	
	Within 6 months €	6-12 months €	2-5 years €	Later than 5 years €	Within 6 months €	6-12 months €	2-5 years €	Later than 5 years €
Creditors	(120,678)	-	-	-	(11,895)	-	-	-
Bank overdraft	(2,903)	-	-	-	(10,534)	-	-	-
Bonds in issue	-	-	-	(15,000,000)	-	-	-	-
Interest on bonds in issue	(562,500)	(562,500)	(4,500,000)	(2,250,000)	-	-	-	-
	<u>(686,081)</u>	<u>(562,500)</u>	<u>(4,500,000)</u>	<u>(17,250,000)</u>	<u>(22,429)</u>	-	-	-

(c) Interest rate risk

The group is not significantly exposed to interest rate risk since both its interest-bearing financial assets and liabilities are at fixed rates of interest.

(d) Foreign currency risk

The group's transactions are carried out in Euros, Maltese liri and Libyan dinars. Exposures to currency exchange rates mainly arise from certain contracts, payments for which are denominated in Libyan dinars. The group does not hedge against this exposure and as a result is exposed to the risk of changes in the Libyan dinar.

Since all construction contract costs and related payments are capitalised there is no significant effect on the results for the year.

20 Commitments

	Group		Company	
	2007 €	2006 €	2007 €	2006 €
Capital expenditure				
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>41,600,000</u>	<u>23,707,211</u>	-	-
Capital expenditure that has been authorised by the directors but has not yet been contracted for	<u>22,600,000</u>	<u>47,000,000</u>	-	-

Capital expenditure contracted for at the balance sheet date but not provided for in the financial statements will be funded by the parent company and a bank loan, undrawn at the balance sheet date, of € 55 million.

Notes to the financial statements (continued)

21 Related parties

	Group		Company	
	2007	2006	2007	2006
	(12½ months)		(12½ months)	
	€	€	€	€
a) Transactions				
Consultancy and other services	2,320,167	998,433	-	-
Assets acquired	-	24,000,000	-	-
Purchases of construction materials	1,197,351	-	-	-
Interest receivable	-	-	29,167	-
	<hr/>	<hr/>	<hr/>	<hr/>

b) Balances

Balances owed by/to related parties are disclosed in notes 12, 14 and 15.

22 Capital management policies and objectives

The board's policy is to maintain a strong capital base so as to maintain investors' and creditors' and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the group defines as the profit for the year divided by total equity.

The directors seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position. The group seeks to maximise the return on shareholders' equity and to reduce the incidence of interest expenses. The interest expenses expressed as a percentage of interest-bearing borrowings was 7.5%.

There were no changes in the group's approach to capital management during the year. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.