

Mediterranean Investments Holding
p.l.c.

Report & Consolidated Financial
Statements

31 December 2017

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Directors' report

The directors present their report together with the audited financial statements of Mediterranean Investments Holding p.l.c. (the company) and the consolidated financial statements of the group for the year ended 31 December 2017. The group comprises the company, its two subsidiaries, Palm City Ltd and Palm Waterfront Ltd, and its associate, Medina Tower Joint Stock Company for Real Estate Investment and Development.

Principal activities

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

Review of the business

The early part of the year under review demonstrated a turn around in the sentiment with our tenants and their perceived risk, to the extent that numerous queries for accommodation were received and furthermore promising the take up of units by former tenants/clients as also new ones. From a very low occupancy rate of 10% closing in 2016, the sign up of new tenants contributed towards a gradual increase of 20% by June 2017 and 25% by December 2017. The significant increase in occupancy only came about following numerous property audits carried out by security consultants to the tenants who have certified Palm City as a safe and secure compound that provides the highest level of service not only in hospitality but more so in safety and security.

The increased occupancy in turn had a positive contribution to EBITDA as Palm City, the only operational asset of MIH, not only was able to cover its costs of operation but more significantly produce an operating profit of €3.4 million compared to a loss of just under €800,000 in 2016.

Following on the previous year's objective of running a very lean organisational setup of Palm City, management continued to exercise extreme caution in controlling operational costs throughout, to the extent that for most part of 2017, Palm City was operated with a very small nucleus of personnel who did an excellent job in maintaining the compound and preparing units for move-ins. As more revenue was secured throughout the latter part of 2017, money was spent on improving the security infrastructure throughout Palm City as also beefing up the team to handle the increased workload from accommodating a significant number of tenants at Palm City. An international health care operator has been signed up to operate the clinic at Palm City and in the coming weeks, the second restaurant will be re-opened as well as the supermarket.

The improved performance at Palm City level not only substantially improved the profitability but also contributed towards the payment of finance costs at MIH group level to the extent that MIH required significantly less support from its shareholders throughout the year under review when compared to the previous year.

Results

IAS 40, requires that the value of the group's properties as at the reporting date be tested for impairment. In view of the unstable situation in Libya, such a test would necessarily need to take into account a number of alternative scenarios. Although it is evident that the value of the properties of the group have been impaired over the years, the extremely fluid and volatile situation in the country does not allow a reliable quantification of the anticipated decrease.

Nonetheless, the directors have run a number of tests to establish what the impairment on the properties could be when taking into account a number of different scenarios that could be a possible outcome on the future of the country. In consideration of the various scenarios considered in the current political climate the directors have opted to keep the value of the investment properties unchanged in this reporting period given that a very significant impairment was already recognised in previous financial years.

The period under review has very much seen a turnaround in business activity in Libya, with a significant increase in occupancy at Palm City, the only operational asset of the Group. This asset has contributed €8.4 million of revenue for the 12 months under review. (2016: €3.6 million).

Although revenues increased by €4.7 million over last year, operating costs and administrative expenses were retained at relatively low operating levels so that the increased revenue directly contributed to an operating profit of €3.6 million compared to a loss of €0.8 million last year.

The group registered a consolidated profit after tax of €226,448 (2016: loss of €6,442,528).

The profit after tax for the year of the group also includes a fair value gain on interest rate swap amounting to €144,967 which was credited to the income statement in terms of the provisions of IAS 39.

The group's assets stand at €280 million as at 31 December 2017, up from €277 million as at the corresponding date in the previous year. This reduction mainly reflects the increase in cash and cash equivalents.

Directors

The following have served as directors of the company during the year under review:

Mr Alfred Pisani (Chairman)
Mr Samuel Dean Sidiqi (Vice Chairman) - resigned 14 March 2018
Mr Joseph Fenech
Mr Faisal J S Alessa - resigned 31 October 2017 and re-appointed 28 March 2018
Mr. Mario P. Galea
Mr Joseph M. Pisani
Mr Bassem Bitar - appointed 1 January 2017 and resigned 28 March 2018
Mr Shivamurthy Bhanapur Hiremath - appointed 1 November 2017 and resigned 14 March 2018
Mr Ahmed Wahedi - appointed 14 March 2018
Mr Ahmed Yousri Helmy - appointed 14 March 2018

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

Disclosure of information to the auditor

At the date of making this report the directors confirm the following:

- As far as each director is aware, there is no relevant information needed by the independent auditor in connection with preparing the audit report of which the independent auditor is unaware, and
- Each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the independent auditor in connection with preparing the audit report and to establish that the independent auditor is aware of that information.

Statement of directors' responsibilities

The Companies Act, Cap 386 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 these 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 have been properly prepared in accordance with the Companies Act, Cap 386. 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.

Auditor

The auditor Grant Thornton has intimated its willingness to continue in office and a resolution proposing its reappointment will be put to the Annual General Meeting.



Alfred Pisani
Chairman



Ahmed Wahedi
Director


Registered office:
22, Europa Centre,
Floriana FRN 1400,
Malta

24 April 2018


Statement by the directors on the financial statements and other information included in the annual report

Pursuant to Listing Rule 5.68, we, the undersigned, declare that to the best of our knowledge, the financial statements included in the Annual Report, and prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and the group, and that this report includes a fair review of the development and performance of the business and position of the company and the group, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the board of directors on 24 April 2018 by:



Alfred Pisani
Chairman



Ahmed Wahedi
Director

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

Listed companies are subject to The Code of Principles of Good Corporate Governance (the "Code"). The adoption of the Code is not mandatory, but listed companies are required under the Listing Rules issued by the Listing Authority to include a Statement of Compliance with the Code in their Annual Report, accompanied by a report of the independent auditor.

The board of directors (the "directors" or the "board") of Mediterranean Investments Holding p.l.c. ("MIH" or the "company") restate their support for the Code and note that the adoption of the Code has resulted in positive effects to the company.

The board considers that during the reporting period, the company has been in compliance with the Code to the extent that was considered adequate with the size and operations of the company. Instances of divergence from the Code are disclosed and explained below.

A. COMPLIANCE WITH THE CODE

Principles 1 and 4: The board

The board of directors is entrusted with the overall direction and management of the company, including the establishment of strategies for future development, and the approval of any proposed acquisitions by the company in pursuing its investment strategies.

Its responsibilities also involve the oversight of the company's internal control procedures and financial performance, and the review of business risks facing the company, ensuring that these are adequately identified, evaluated, managed and minimised. All the directors have access to independent professional advice at the expense of the company, should they so require.

Further to the relevant section in Appendix 5.1 to the Listing Rules the board of directors acknowledge that they are stewards of the company's assets and their behaviour is focused on working with management to enhance value to the shareholders.

The board is composed of persons who are fit and proper to direct the business of the company with the shareholders as the owners of the company.

All directors are required to:

- Exercise prudent and effective controls which enable risk to be assessed and managed to achieve continued prosperity to the company;
- Be accountable for all actions or non-actions arising from discussion and actions taken by them or their delegates;
- Determine the company's strategic aims and the organisational structure;
- Regularly review management performance and ensure that the company has the appropriate mix of financial and human resources to meet its objectives and improve the economic and commercial prosperity of the company;
- Acquire a broad knowledge of the business of the company;
- Be aware of and be conversant with the statutory and regulatory requirements connected to the business of the company;
- Allocate sufficient time to perform their responsibilities; and
- Regularly attend meetings of the board.

In terms of Listing Rules 5.117 – 5.134 the board has established an audit committee to monitor the company's present and future operations, threats and risks in the external environment and current and future strengths and weaknesses. The audit committee ensures that the company has the appropriate policies and procedures in place to ensure that the company and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards. The audit committee has a direct link to the board and is represented by the chairman of the audit committee in all board meetings.

Principle 2: Chairman and Chief Executive

The roles of Chairman and Chief Executive Officer are carried out respectively by Mr Alfred Pisani and Mr Reuben Xuereb.

In terms of Principle 3.1, which calls for the appointment of a senior independent director, the board has appointed Mr Mario Galea as the indicated senior independent director.

The chairman is responsible to:

- Lead the board and set its agenda;
- Ensure that the directors of the board receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the company;
- Ensure effective communication with shareholders; and
- Encourage active engagement by all members of the board for discussion of complex or contentious issues.

Principle 3: Composition of the board

The board of directors consists of two executive directors and five non-executive directors. Three directors are appointed by each of the two major shareholders, that is Corinthia Palace Hotel Company Limited of Malta ("CPHCL") and National Real Estate Company of Kuwait ("NREC") and are officers of these two companies. The other is an independent director jointly appointed by the two major shareholders. The present mix of executive directors, non-executive directors and independent director is considered to create a healthy balance and serves to unite all shareholders' interests, whilst providing direction to the company's management to help maintain a sustainable organisation.

The non-executive directors constitute a majority on the board and their main functions are to monitor the operations of the executive directors and their performance as well as to analyse any investment opportunities that are proposed by the executive directors. In addition, the non-executive directors have the role of acting as an important check on the possible conflicts of interest of the executive directors, which may exist as a result of their dual role as executive directors of the company and their role as officers of MIH's 50% shareholder, CPHCL.

For the purpose of Listing Rules 5.118 and 5.119, the non-executive directors are deemed independent. The board believes that the independence of its directors is not compromised because of long service or the provision of any other service to the group. Each director is mindful of maintaining independence, professionalism and integrity in carrying out his duties, responsibilities and providing judgement as a director of the company.

The board considers that none of the independent directors of the company:

- Are or have been employed in any capacity by the company;
- Have or have had, over the past three years, a significant business relationship with the company;
- Have received or receives significant additional remuneration from the company in addition to its director's fee;
- Have close family ties with any of the company's executive directors or senior employees;
- Have been within the last three years an engagement partner or a member of the audit team or past external auditor of the company

Each of the directors hereby declares that he undertakes to:

- Maintain in all circumstances his independence of analysis, decision and action;
- Not to seek or accept any unreasonable advantages that could be considered as compromising his independence; and
- Clearly express his opposition in the event that he finds that a decision of the board may harm the company.

The board also believes that the independence of its directors is not compromised because of long service or the provision of any other service to the Corinthia Group. Each director is mindful of maintaining independence, professionalism and integrity in carrying out his duties, responsibilities and providing judgement as a director of the company.

The board is made up as follows:

| <i>Executive directors</i> | <i>Date of first appointment</i> |
|---------------------------------------|----------------------------------|
| Mr Alfred Pisani – Chairman | 12 December 2005 |
| Mr Joseph Fenech – Executive Director | 25 August 2006 |
| | |
| <i>Non-executive directors</i> | <i>Date of first appointment</i> |
| Mr Faisal J S Alessa | 24 June 2009 |
| Mr Mario P. Galea | 15 January 2014 |
| Mr Joseph M. Pisani | 12 June 2015 |
| Mr Ahmed Wahedi | 14 March 2018 |
| Mr Ahmed Yousri Helmy | 14 March 2018 |
| | |
| <i>Company secretary</i> | <i>Date of first appointment</i> |
| Mr Stephen Bajada | 18 April 2012 |

In accordance with the Articles of Association, the directors are appointed for an indefinite period.

Principle 5: Board meetings

During the year under review the board of directors met three times to discuss the operations and strategy of the company.

The number of board meetings attended by the directors for the year under review is as follows:

| | |
|----------------------------------|------------------------------------|
| Mr Alfred Pisani | - 3 times |
| Mr Joseph Fenech | - 3 times |
| Mr Joseph M Pisani | - 2 times |
| Mr Samuel Dean Sidiqi | - 3 times (resigned 14 March 2018) |
| Mr Bassem Bitar | - 2 times (resigned 28 March 2018) |
| Mr Shivamurthy Bhanapur Hiremath | - 1 time (resigned 14 March 2018) |
| Mr Mario P Galea | - 3 times |

Principle 6: Information and professional development

The company ensures that it provides directors with relevant information to enable them to effectively contribute to board decisions. The company is committed to provide adequate and detailed induction training to directors who are newly appointed to the board. The company pledged to make available to the directors all training and advice as required.

Principle 8: Committees

Audit committee

The audit committee's primary objective is to assist the board in fulfilling its supervisory responsibilities over the financial reporting processes, financial policies and internal control structure. The committee is made up of a majority of non-executive directors and reports directly to the board of directors. The committee oversees the conduct of the internal and external audit and acts to facilitate communication between the board, management and, upon the direct request of the audit committee, the internal audit team and the external auditors.

During the year under review, the committee met three times. The internal and external auditors were invited to attend these meetings.

During the year under review, Mr Mario P. Galea served as Chairman. Mr Joseph M Pisani, Mr Shivamurthy Bhanapur Hiremath and Mr Bassem Bitar served as members whilst Mr Stephen Bajada acted as secretary to the committee.

The board of directors, in terms of Listing Rule 5.118, has indicated Mr Mario P. Galea as the independent non-executive member of the audit committee who is considered to be competent in accounting and/or auditing in view of his considerable experience at a senior level in the audit and advisory field.

The audit committee is also responsible for the overview of the internal audit function. The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the company (as well as of its subsidiary) for the purpose of advising management and the board, through the audit committee, on the efficiency and effectiveness of management policies, practices and internal controls. The function is expected to promote the application of best practices within the organisation. During 2016, the internal audit function continued to advise the audit committee on aspects of the regulatory framework which affect the day-to-day operations of Palm City Residences.

The directors are fully aware that the close association of the company with CPHCL and its other subsidiaries is central to the attainment by the company of its investment objectives and implementation of its strategies. The audit committee ensures that transactions entered into between related parties are carried out on an arm's length basis and are for the benefit of the company, and that the company, and its subsidiary, accurately report all related party transactions in the notes to the financial statements.

In the year under review the Audit Committee oversaw the implementation of the necessary measures to ensure compliance in terms of the Market Abuse Directive and Regulations which came into effect in 2016. The board of directors approved the new terms of reference of the Audit Committee, bringing them in line with both the changes in the Listing Rules, as well as best international practice.

Pursuant to Articles 16 and 17 of Title III of the provisions of the Statutory Audit Regulations the Audit Committee has been entrusted with overseeing the process of appointment of the statutory auditors or audit firms.

Principle 9: Relations with shareholders and with the market

The company is highly committed to having an open and communicative relationship with its bondholders and investors. In this respect, over and above the statutory and regulatory requirements relating to the Annual General Meeting, the publication of interim and annual financial statements, the company seeks to address the diverse information needs of its bondholders and investors by providing the market with regular, timely, accurate, comparable and comprehensive information.

Principle 10: Institutional shareholders

The company ensures that it is constantly in close touch with its principal institutional investors. The company is aware that institutional investors who are mainly bondholders have the knowledge and expertise to analyse market information and make their independent and objective conclusions of the information available.

Institutional investors are expected to give due weight to relevant factors drawn to their attention when evaluating the company's governance arrangements in particular those relating to board structure and composition and departure from the Code of Corporate Governance.

Principle 11: Conflicts of interest

The directors are fully aware of their obligations regarding dealings in securities of the company as required by the Listing Rules in force during the year. Moreover, they are notified of blackout periods, prior to the issue of the company's interim and annual financial information, during which they may not trade in the company's bonds.

None of the other directors of the company have any interest in the shares of the company or the company's subsidiaries or investees or any disclosable interest in any contracts or arrangements either subsisting at the end of the last financial year or entered into during this financial year.

Principle 12: Corporate social responsibility

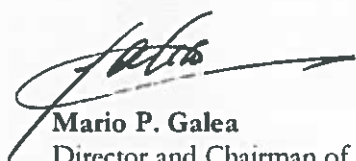
The company understands that it has an obligation towards society at large to put into practice sound principles of Corporate Social Responsibility. This responsibility is carried out by its Maltese shareholder, CPHCL.

B. NON-COMPLIANCE WITH THE CODE

Principle 7: Evaluation of the board's performance

Under the present circumstances, the board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the board's performance is always under the scrutiny of the shareholders.

Approved by the board of directors on 24 April 2018 and signed on its behalf by:


Mario P. Galea
Director and Chairman of audit committee


Joseph Fenech
Executive director

Other disclosures in terms of listing rules

Statement by the directors pursuant to Listing Rule 5.70.1

Contracts of significance

Loan agreements with Palm City Ltd

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

Loan agreement with Palm Waterfront Ltd

The company has advanced amounts to its subsidiary, Palm Waterfront Ltd. The terms of the relevant agreement are set out in the company's financial statements.

Loan agreements with shareholders and an ultimate shareholder

The shareholders of the company have advanced funds to the company by way of shareholders' loans. The terms of the relevant agreement are set out in the company's financial statements.

Build – Operate – Transfer agreements

Palm City Ltd is party to a Build-Operate-Transfer agreement wherein it was engaged by Corinthia Palace Hotel Company Limited (CPHCL – holder of legal title to the Janzour land) to finalise the construction of the project in accordance with the specifications agreed upon by both parties. All costs and expenses related to the completion of the project, construction and development shall be borne by Palm City Ltd. In return Palm City Ltd will operate the project for its own benefit for a specific period of 65 years. Upon expiry of this 65 year term, Palm City is bound to transfer the operation back to CPHCL. The company and Corinthia Palace Hotel Company Limited have applied to the competent authorities in Libya, for approval of the assignment of the 99-year lease (which expires on 4 July 2105), from Corinthia Palace Hotel Company Limited to Palm City Ltd. Both parties have agreed that upon such approval being granted, the Build-Operate-Transfer agreement will be terminated.

On 5 December 2013, Palm Waterfront Ltd entered into a Build-Operate-Transfer agreement with Corinthia Palace Hotel Company Limited. The arrangement gives Palm Waterfront Ltd the right to develop a site located in Shuhada Sidi Abuljalil, Janzour in Libya. It also gives it the right to construct, implement, manage and operate the project to be developed on said site at its discretion. The term of the Build-Operate-Transfer agreement is for a period of 80 years from date of signing of said agreement.

Pursuant to Listing Rule 5.70.2

Company secretary and registered office

Stephen Bajada
22 Europa Centre, Floriana FRN 1400, Malta
Telephone (+356) 21 233 141

Signed on behalf of the board of directors on 24 April 2018 by:



Alfred Pisani
Chairman



Ahmed Wahedi
Director

Remuneration statement

With the exception of the independent director who is jointly appointed by the shareholders, the other directors are officers of the shareholders and none is paid any remuneration. In the circumstances, the need for the appointment of a Remuneration Committee does not arise.

Remuneration of senior executives

The total remuneration of the senior executives of the company and its subsidiaries for the year ended 31 December 2017 amounted to €210,271.

The above amount represents fixed remuneration. There are no variable remuneration considerations nor share options.

Signed on behalf of the board of directors on 24 April 2018 by:



Alfred Pisani
Chairman



Ahmed Wahedi
Director

Statements of total comprehensive income

| | Notes | Group | | Company | |
|---|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2017 | 2016 | 2017 | 2016 |
| | | € | € | € | € |
| Revenue | 6, 7 | 8,358,810 | 3,626,997 | 191,442 | 182,326 |
| Operating expenses | | (3,030,139) | (2,474,940) | - | - |
| Gross profit | | 5,328,671 | 1,152,057 | 191,442 | 182,326 |
| Other income | 9 | 143,920 | 121,082 | - | - |
| Administrative expenses | | (1,610,300) | (1,741,621) | (516,557) | (515,035) |
| Marketing expenses | | (275,947) | (316,403) | (274,709) | (311,276) |
| Operating profit (loss) | | 3,586,344 | (784,885) | (599,824) | (643,985) |
| Finance income | 10 | 2,757,025 | 1,118,411 | 2,346,296 | 773,458 |
| Finance costs | 10 | (6,537,946) | (6,955,006) | (5,491,865) | (5,718,979) |
| Share of loss of equity accounted investment | | (80,361) | - | (80,361) | - |
| Fair value gain on interest rate swap | | 144,967 | 238,524 | - | - |
| Loss before tax | 11 | (129,971) | (6,382,956) | (3,825,754) | (5,589,506) |
| Tax (expense) income | | | | | |
| - Current tax | 12 | (480) | 83,874 | - | - |
| - Deferred tax on fair value of investment property | 12 | - | (241,185) | - | - |
| - Deferred tax – other | 12 | 356,899 | 97,739 | 356,899 | 97,739 |
| Profit (loss) for the year | | 226,448 | (6,442,528) | (3,468,855) | (5,491,767) |
| Other comprehensive income: | | | | | |
| Items that will be reclassified subsequently to profit or loss | | | | | |
| Available-for-sale financial assets | | | | | |
| - current year gains (losses) | | - | - | 3,698,981 | (946,851) |
| Difference on exchange | | (1,020,982) | (609,026) | (1,020,982) | (609,026) |
| Income tax relating to components of other comprehensive income | 27 | (357,343) | 234,376 | (909,172) | (19,996) |
| Other comprehensive (loss) income for the year, net of tax | | (1,378,325) | (374,650) | 1,768,827 | (1,575,873) |
| Total comprehensive loss for the year | | (1,151,877) | (6,817,178) | (1,700,028) | (7,067,640) |
| Earnings (loss) per share (basic and diluted) | 13 | 0.005 | (0.13) | (0.07) | (0.11) |

Statements of financial position

| | Notes | Group | | Company | |
|--|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2017 € | 2016 € | 2017 € | 2016 € |
| Assets | | | | | |
| Non-current | | | | | |
| Intangible assets | 14 | 2,258 | 2,258 | - | - |
| Property, plant and equipment | 15 | 8,789,157 | 8,541,825 | 828 | 1,329 |
| Investment property | 16 | 250,267,829 | 250,212,420 | - | - |
| Investment accounted for using the equity method | 17 | 12,603,445 | 13,704,789 | - | - |
| Investment in subsidiaries and associate | 18 | - | - | 221,610,682 | 223,696,359 |
| Lease prepayment | 19 | 399,760 | 407,373 | - | - |
| | | 272,062,449 | 272,868,665 | 221,611,510 | 223,697,688 |
| Current | | | | | |
| Inventories | 20 | 653,131 | 440,715 | - | - |
| Trade and other receivables | 21 | 2,863,313 | 2,330,067 | 2,996,550 | 2,658,836 |
| Cash and cash equivalents | 22 | 4,904,028 | 1,538,553 | 935,013 | 27,400 |
| | | 8,420,472 | 4,309,335 | 3,931,563 | 2,686,236 |
| Total assets | | 280,482,921 | 277,178,000 | 225,543,073 | 226,383,924 |
| Equity | | | | | |
| Share capital | 23 | 48,002,000 | 48,002,000 | 48,002,000 | 48,002,000 |
| Other components of equity | | (921,838) | 456,487 | 76,151,864 | 74,383,037 |
| Retained earnings (accumulated losses) | | 83,446,908 | 83,220,460 | (34,665,015) | (31,196,160) |
| Total equity | | 130,527,070 | 131,678,947 | 89,488,849 | 91,188,877 |
| Liabilities | | | | | |
| Non-current | | | | | |
| Bank and other borrowings | 24 | 12,898,340 | 10,779,899 | - | - |
| Bonds | 25 | 82,423,517 | 43,000,000 | 82,423,517 | 43,000,000 |
| Shareholders' loan | 26 | 10,203,300 | 8,275,379 | 10,203,300 | 8,275,379 |
| Deferred tax liability | 27 | 29,127,400 | 29,126,958 | 40,036,013 | 39,483,740 |
| Derivative financial instrument | 28 | - | 29,114 | - | - |
| Other non-current liabilities | 29 | 824,990 | 25,783 | - | - |
| | | 135,477,547 | 91,237,133 | 132,662,830 | 90,759,119 |
| Current | | | | | |
| Bank borrowings | 24 | 2,634,873 | 2,736,448 | - | 3,715 |
| Bonds | 25 | - | 40,291,962 | - | 40,291,962 |
| Derivative financial instrument | 28 | 30,495 | 146,348 | - | - |
| Trade and other payables | 29 | 10,512,621 | 9,727,473 | 3,391,394 | 4,140,251 |
| Current taxation | | 1,300,315 | 1,359,689 | - | - |
| | | 14,478,304 | 54,261,920 | 3,391,394 | 44,435,928 |
| Total liabilities | | 149,955,851 | 145,499,053 | 136,054,224 | 135,195,047 |
| Total equity and liabilities | | 280,482,921 | 277,178,000 | 225,543,073 | 226,383,924 |

The financial statements on pages 13 to 52 were approved by the board of directors, authorised for issue on 24 April 2018 and signed on its behalf by:


Alfred Pisani
Chairman


Ahmed Wahedi
Director

Statements of changes in equity

Group

| | Share capital € | Other components of equity € | Retained earnings € | Total equity € |
|--|-----------------------|---------------------------------------|---------------------------|----------------------|
| Balance at 1 January 2016 | 48,002,000 | 831,137 | 89,662,988 | 138,496,125 |
| Loss for the year | - | - | (6,442,528) | (6,442,528) |
| Other comprehensive loss | - | (374,650) | - | (374,650) |
| Total comprehensive loss for the year | - | (374,560) | (6,442,528) | (6,817,178) |
| Balance at 31 December 2016 | 48,002,000 | 456,487 | 83,220,460 | 131,678,947 |
| Balance at 1 January 2017 | 48,002,000 | 456,487 | 83,220,460 | 131,678,947 |
| Profit for the year | - | - | 226,448 | 226,448 |
| Other comprehensive loss | - | (1,378,325) | - | (1,378,325) |
| Total comprehensive (loss) income for the year | - | (1,378,325) | 226,448 | (1,151,877) |
| Balance at 31 December 2017 | 48,002,000 | (921,838) | 83,446,908 | 130,527,070 |

Company

| | Share capital € | Other components of equity € | Accumulated losses € | Total equity € |
|--|-----------------------|---------------------------------------|----------------------------|----------------------|
| Balance at 1 January 2016 | 48,002,000 | 75,958,910 | (25,704,393) | 98,256,517 |
| Loss for the year | - | - | (5,491,767) | (5,491,767) |
| Other comprehensive loss | - | (1,575,873) | - | (1,575,873) |
| Total comprehensive loss for the year | - | (1,575,873) | (5,491,767) | (7,067,640) |
| Balance at 31 December 2016 | 48,002,000 | 74,383,037 | (31,196,160) | 91,188,877 |
| Balance at 1 January 2017 | 48,002,000 | 74,383,037 | (31,196,160) | 91,188,877 |
| Loss for the year | - | - | (3,468,855) | (3,468,855) |
| Other comprehensive income | - | 1,768,827 | - | 1,768,827 |
| Total comprehensive income (loss) for the year | - | 1,768,827 | (3,468,855) | (1,700,028) |
| Balance at 31 December 2017 | 48,002,000 | 76,151,864 | (34,665,015) | 89,488,849 |

Statements of cash flows

| Notes | Group | | Company | |
|---|--------------------|--------------------|--------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Operating activities | | | | |
| Loss before tax | (129,971) | (6,382,956) | (3,825,754) | (5,589,506) |
| Adjustments | 5,598,123 | 6,538,770 | 4,783,266 | 4,945,999 |
| Net changes in working capital | 694,966 | (639,830) | (928,700) | (354,980) |
| Tax paid | (59,854) | (529,847) | - | - |
| Tax refund | - | 312,135 | - | 312,135 |
| Net cash from (used in) operating activities | 6,103,264 | (701,728) | 28,812 | (686,352) |
| Investing activities | | | | |
| Payments to acquire property, plant and equipment | (340,511) | (16,930) | (518) | - |
| Payments to acquire investment property | (55,409) | (169,640) | - | - |
| Proceeds from disposal of financial assets | - | 511,352 | - | - |
| Loan to subsidiary company | 80,362 | - | 4,763,676 | (279,778) |
| Interest received | 2,410 | 22,697 | 101 | 31 |
| Net cash (used in) from investing activities | (313,148) | 347,479 | 4,763,259 | (279,747) |
| Financing activities | | | | |
| Repayment of bank loan | (2,943,755) | (3,174,902) | - | - |
| Proceeds from borrowings | 5,000,000 | - | - | - |
| Proceeds from shareholders' loan | 1,927,921 | 5,620,024 | 1,927,921 | 5,395,285 |
| Repayment of bonds | (553,656) | - | (553,656) | - |
| Interest paid | (5,757,307) | (6,008,475) | (5,250,157) | (5,365,639) |
| Net cash (used in) from financing activities | (2,326,797) | (3,563,353) | (3,875,892) | 29,646 |
| Net change in cash and cash equivalents | 3,463,319 | (3,917,602) | 916,179 | (936,453) |
| Cash and cash equivalents, beginning of year | 1,497,081 | 5,434,585 | 23,685 | 982,567 |
| Cash and cash equivalents before effect of foreign exchange rate changes | 4,960,400 | 1,516,983 | 939,864 | 46,114 |
| Effect of foreign exchange rate changes | (58,465) | (19,902) | (4,851) | (22,429) |
| Cash and cash equivalents, end of year | 4,901,935 | 1,497,081 | 935,013 | 23,685 |

Notes to the financial statements

1 Nature of operations

The group's principal activity is to directly or indirectly acquire and develop real estate opportunities in Libya and invest in any related trade or business venture.

The company's principal activity is to act as a holding company and its revenue is derived from management fees and dividends.

2 General information and statement of compliance with IFRSs

Mediterranean Investments Holding p.l.c. is a public limited liability company and is incorporated and domiciled in Malta. The address of the company's registered office is 22, Europa Centre, Floriana FRN 1400, Malta. The company is 50% owned by Corinthia Palace Hotel Company Limited of 22, Europa Centre, Floriana, FRN 1400, 40% owned by National Real Estate Company of PO Box 64585, Shuwaikh B 70456, Kuwait, and 10% owned by Libya Projects General Trading and Contracting Co. of Office 16/Meezzanine Block 12, Al Asfour International Company, Al Manqaf, Kuwait.

The financial statements of the group and the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union, and in accordance with the Companies Act, Cap 386.

The financial statements are presented in euro (€), which is also the functional currency of the group and its subsidiaries.

3 Going concern

The going concern basis underlying the preparation of these financial statements assumes that the company's and group's lenders and creditors will continue to provide the financial support necessary to enable the company and the group to meet their debts as and when they fall due.

At the reporting date the group had a working capital deficiency of €6.0 million and the company had a positive working capital of €0.50 million (2016 deficiency of : €49.9 million and €41.7 million respectively). The directors have taken and are still taking various measures to ensure that the group will continue to have adequate levels of cash to sustain its operations.

The significant improvement in the working capital position is mainly due to the repayment of a €40.3 million bond which matured in July 2017 and which was classified as a current liability as at 31 December 2016, and the issue of a new bond amounting to €40 million which is classified as a non-current liability as at 31 December 2017.

On their assessment of the financial position of the group and the company, the directors anticipate that these will continue to operate within the banking limits currently agreed.

4 Change in accounting policies

4.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2017

Certain amendments to IFRSs that become mandatorily effective in 2017 have no material impact on the company's and group's results or position. Accordingly, the company and the group have made no changes to their accounting policies in 2017.

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group and the company

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the group and the company. Information on those expected to be relevant to the group and the company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the group and the company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments either not adopted or listed below are not expected to have a material impact on the group and the company's financial statements.

IFRS 9 'Financial Instruments' (2014)

The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The group and the company's management have yet to assess the impact of IFRS 9 on these separate and consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The group and the company's management have not yet assessed the impact of IFRS 15 on these separate and consolidated financial statements.

IFRS 16 'Leases'

The IASB has published IFRS 16 'Leases' completing its long-running project on lease accounting.

The new standard, which is effective for accounting periods beginning on or after 1 January 2019 subject to endorsement by the EU, requires lessees to account for leases 'on-balance sheet' by recognising a 'right of use' asset and a lease liability. IFRS 16 also changes the definition of a lease and introduces new disclosure requirements.

The company and group's management has yet to assess the impact of IFRS 16 on these financial statements.

5 Summary of accounting policies

5.1 Overall considerations

The financial statements have been prepared using the significant accounting policies and measurement bases summarised below. The accounting policies have been consistently applied by the group and the company and are consistent with those in previous years.

5.2 Presentation of financial statements

The consolidated and separate financial statements are presented in accordance with IAS 1 *Presentation of Financial Statements* (Revised 2007). The group and the company have elected to present the 'statement of total comprehensive income' in one statement.

5.3 Basis of consolidation

The group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 31 December 2017. Subsidiaries are all entities over which the group has power to control the financial and operating policies. MIH p.l.c. obtains and exercises control through voting rights. All subsidiaries have a reporting date of 31 December.

Intra-group balances, transactions and unrealised gains and losses on transactions between the group companies are eliminated. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owner of the parent and the non-controlling interests based on their respective ownership interests.

The consolidated financial statements have been prepared from the financial statements of the following companies comprising the group.

| Company | Nature of business | % ownership |
|--|--|--------------------|
| Mediterranean Investments Holding p.l.c. | Holding company | |
| Palm City Ltd | Owns, operates and rents a residential compound | 100% |
| Palm City Waterfront Ltd | Invest, develop and operate real estate projects | 99.9% |

5.4 Revenue

Revenue is derived from leasing out the investment property owned by the subsidiary, and the sales generated by food and beverage outlets within the Palm City residential complex.

Revenue is measured by reference to the fair value of consideration received or receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

Revenue from the sale of goods and services provided is recognised when all the following conditions have been satisfied:

- The company has transferred to the buyer the significant risks and rewards of ownership of the goods supplied or the services provided. This is generally when the customer has taken undisputed delivery of goods or has approved the services that have been provided.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the company, and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest and dividends

Interest income is reported on an accruals basis using the effective interest method. Dividend income, other than those from investments in associates, is recognised at the time the right to receive payment is established.

5.5 Investments in associates

Associates are those entities over which the group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

The carrying amount of the investments in associates is increased or decreased to recognise the group's share of the profit or loss and other comprehensive income of the associate. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustment of assets and liabilities.

Unrealised gains and losses on transactions between the group and its associates are eliminated to the extent of the group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies of the group.

5.6 Foreign currency translation

Functional and presentation currency

The separate and consolidated financial statements are presented in euro, which is also the functional currency of the parent company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.7 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

5.8 Borrowing costs

Borrowing costs primarily comprise interest on the group's borrowings. Borrowing costs incurred on specific fixed asset projects prior to their commissioning are capitalised as part of the cost of the asset. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is based on the average rate of interest on bank borrowings. All other borrowing costs are amortised on an effective interest basis over the life of the loan facility agreement.

5.9 Employee benefits

Contributions towards the state pension in accordance with local legislation are recognised in profit or loss when they are due.

5.10 Intangible 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.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within 'other income' or 'administrative expenses'.

5.11 Property, plant and equipment

All items of property, plant and equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management. They are subsequently measured at acquisition cost or manufacturing cost less subsequent depreciation and impairment losses.

Depreciation is calculated, using the straight-line method, to write off the cost or valuation of assets over their estimated useful lives on the following bases:

| | % |
|----------------------------------|----|
| - Computer equipment | 25 |
| - Computer software | 20 |
| - Office furniture and equipment | 25 |
| - Motor vehicles | 25 |
| - Tools | 33 |
| - Machinery and equipment | 25 |

Assets in the course of construction are not depreciated.

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within 'other income' or 'administrative expenses'.

5.12 Investment property

Investment property is property held to earn rentals and/or for capital appreciation, and is accounted for using the fair value model.

Investment property is revalued annually and is included in the statement of financial position at its fair value. This is determined by the directors based either on management's estimates of expected future cash flows or market values. When based on management's estimates of future cash flows, the value of the property is determined by applying a suitable discount rate.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within 'gain on fair value of investment property'.

Rental income and operating expenses from investment property are reported within 'revenue' and 'operating expenses', and are recognised as described in notes 5.4 and 5.7 respectively.

5.13 Leased assets

Operating leases

Operating leases are those leases where a significant portion of the risk and rewards of ownership are effectively retained by the lessor. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

5.14 Impairment testing of tangible and intangible assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested 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 or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. To determine the value in use, the group's management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by the group's management.

Impairment losses are recognised in the profit or loss. Impairment losses for cash-generating units are charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge that has been recognised is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

5.15 Investment in subsidiaries

Investment in subsidiaries is included in the company's financial statements at fair value (refer to note 5.16).

5.16 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the group and company become a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value. Financial assets and financial liabilities are measured subsequently as described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets of the group and company are classified into loans and receivables and available-for-sale financial assets upon initial recognition.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and/or expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs' or 'finance income', except for impairment of trade receivables which is presented within 'administrative expenses'.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Loans advanced by the company to its subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as an extension to the company's net investment in those subsidiaries and included as part of the carrying amount of investments in subsidiaries.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available feature of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The company's available-for-sale financial assets include investment in subsidiaries and investment in associate. The group's available-for-sale financial assets include its investment in associate.

Available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within 'other components of equity', except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within 'other comprehensive income'. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses for financial assets that are debt securities are recognised in profit or loss if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For AFS equity investments, impairment reversals are not recognised in profit or loss and any subsequent changes in fair value are recognised in other comprehensive income.

Classification and subsequent measurement of financial liabilities

The group and the company's financial liabilities include borrowings, trade and other payables and a derivative financial instrument.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit and loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income' except for changes in fair value of derivative financial instrument which are disclosed separately, for presentation purposes, in the statement of total comprehensive income.

5.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

5.18 Income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised directly in the statement of comprehensive income or equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in the statement of other comprehensive income or equity (such as the revaluation of land) in which case the related deferred tax is also recognised in the statement of other comprehensive income or equity respectively.

5.19 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and demand deposits, net of bank balance overdrawn. In the statement of financial position the bank balance overdrawn is included within bank borrowings in current liabilities.

5.20 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Other components of equity include movements in fair value of available-for-sale financial assets.

Retained earnings/accumulated losses include all current and prior period results, less dividend distributions.

Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

5.21 Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the group and company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Where the time value of money is material, provisions are discounted to their present values.

Any reimbursement that the company and group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

5.22 Significant management judgement in applying accounting policies and estimation uncertainty

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

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

The fair value of investment property is determined by using valuation techniques. Further details of the judgements and assumptions made are disclosed in note 16.

This note highlights information about the fair value estimation of the investment property.

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

(a) Income taxes

In order to establish the taxation provisions, management exercises significant judgement in view of the fact that the group and the company operate in various jurisdictions and as a result there are diverse transactions for which the ultimate tax determination is somewhat uncertain. In the event that the amount of actual tax due differs from the original amounts provided for, such variances will have an impact on the taxation charges for future periods.

(b) Impairment of trade and other receivables

The company and the group make an allowance for doubtful debtors based on an assessment of the recoverability of receivables. Allowances are applied to receivables on a case by case basis where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful debtors. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

(c) Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the group and company. The carrying amounts are analysed in note 15. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

(d) Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by expiry, obsolescence, future technology or other market-driven changes that may reduce future selling prices.

(e) Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

(f) Fair value of investment property

At each reporting date, the investment property is revalued by the directors based either on management's estimates of expected future cash flows or market values. The company has not recognised any fair value adjustments to the investment property during the year under review. When based on management's estimates of expected future cash flows the value of each property is determined by applying a suitable discount rate.

The company's investment property is situated in Libya which is still experiencing political instability. The future performance and the fair value of the investment property are heavily dependent on when the situation in Libya will return to normality following which international players in the oil and gas sector are expected to return to that country. The estimated fair values were arrived at using projected cash flows from the operation of the investment property. On the basis of the valuation carried out by the directors no further impairment was deemed necessary in these financial statements. In arriving at their valuation the directors have taken into consideration the gradual recovery in Libya that the company is already experiencing and further assuming that the recovery continues until the company achieves pre-revolution levels of activity in 2020.

5.23 Segment reporting

The standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The chief operating maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group board of directors.

An operating segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from that of other segments. The operating segments can be classified as investment property rental, income from food and beverages and others.

The group is engaged in the ownership and leasing of its investment property. The group's country of domicile is Malta and the operation is in Libya.

The board of directors assesses performance based on the measure of earnings before interest, tax, depreciation and amortisation (EBITDA).

The group is not required to report a measure of total assets and liabilities for each reportable segment since such amounts are not regularly provided to the chief operating decision maker. However, in accordance with IFRS 8, non-current assets (other than financial instruments and deferred tax assets) are divided into geographical areas in note 6.

6 Segment reporting

| | 2017 € Libya | 2016 € Libya |
|---|---------------------------|---------------------------|
| Revenue (note 1) | | |
| Investment property rental | 7,395,757 | 3,343,768 |
| Income from food and beverages operations | 414,601 | 42,729 |
| Other | 548,452 | 240,500 |
| | <u>8,358,810</u> | <u>3,626,997</u> |
| EBITDA | 4,096,214 | (5,885) |
| Depreciation | (92,160) | (123,492) |
| Amortisation of lease prepayments | (7,613) | (7,613) |
| Segment operating profit | <u>3,996,441</u> | <u>(136,990)</u> |
| Non current assets (note 2) | <u>250,872,718</u> | <u>250,851,590</u> |

During the year, €2,168,060 or 26% (2016: 1,236,922 or 34%) of the Group's revenues depended on two single customers in the investment property rental segment.

Note 1: Revenue comprises amounts attributable to the group's country of domicile, Malta, amounting to €10,570 (2016: €50,137), Libya, amounting to €1,677,114 (2016: €925,337), United States of America, amounting to €2,283,503 (2016: €203,763) and other foreign countries amounting to €4,387,623 (2016: €2,447,760).

Note 2: All non-current assets are located in Libya.

7 Revenue

| | Group | | Company | |
|--|-------------------------|-------------------------|-----------------------|-----------------------|
| | 2017 € | 2016 € | 2017 € | 2016 € |
| Income from management fees | - | - | 191,442 | 182,326 |
| Income from residential leases | 6,917,308 | 3,259,265 | - | - |
| Income from commercial leases | 478,449 | 84,503 | - | - |
| Income from food and beverage operations | 414,601 | 42,729 | - | - |
| Administration fees | 122 | 18,459 | - | - |
| Water, electricity, internet and telephone recharges | 469,652 | 140,933 | - | - |
| Miscellaneous income | 78,678 | 81,108 | - | - |
| | <u>8,358,810</u> | <u>3,626,997</u> | <u>191,442</u> | <u>182,326</u> |

8 Staff costs

| | Group | | Company | |
|-----------------------|------------------|------------------|---------|------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Wages and salaries | 1,329,449 | 1,147,413 | - | - |
| Social security costs | 115,097 | 202,473 | - | - |
| | 1,444,546 | 1,349,886 | - | - |

The average number of persons employed by the group during the year was:

| | 2017 | 2016 |
|----------------|-----------|-----------|
| | No. | No. |
| Operating | 52 | 50 |
| Administrative | 15 | 13 |
| | 67 | 63 |

During the years 2017 and 2016, the company did not have any employees.

9 Other income

| | Group | | Company | |
|-------------------------------------|----------------|----------------|---------|------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Reversal of provision for bad debts | 96,344 | - | - | - |
| Creditors written back | 47,576 | 121,082 | - | - |
| | 143,920 | 121,082 | - | - |

10 Finance income and finance costs

Finance income and finance costs may be analysed as follows:

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Interest receivable on short term deposits | 2,410 | 3,825 | 101 | 31 |
| Interest receivable on financial assets | - | 18,872 | - | - |
| Interest charged on loan to subsidiary company | - | - | 274,209 | 417,192 |
| Difference on exchange | 2,754,615 | 1,095,714 | 2,071,986 | 356,235 |
| Finance income | 2,757,025 | 1,118,411 | 2,346,296 | 773,458 |
| Interest on bonds | 4,936,828 | 5,365,639 | 4,936,828 | 5,365,639 |
| Interest charged on loan from shareholders | 431,519 | 224,739 | 431,519 | 224,739 |
| Bank interest | 648,166 | 786,403 | - | - |
| Interest on other loans | 176,438 | - | - | - |
| Difference on exchange | - | 45,604 | - | - |
| Loss on disposal of financial assets | - | 19,758 | - | - |
| Amortisation of borrowing costs | 221,477 | 384,262 | - | - |
| Amortisation of bond issue costs | 123,518 | 128,601 | 123,518 | 128,601 |
| Finance costs | 6,537,946 | 6,955,006 | 5,491,865 | 5,718,979 |

11 Loss before tax

The loss before tax is stated after charging:

| | Group | | Company | |
|---|--------|---------|---------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Depreciation of property, plant and equipment | 93,179 | 123,970 | 1,019 | 478 |
| Operating lease charge | 7,613 | 7,613 | - | - |
| Auditor's remuneration | - | - | - | - |
| - Annual statutory audit | 23,000 | 25,620 | 8,350 | 9,000 |

12 Tax income (expense)

The relationship between the expected tax income based on the effective tax rate of the group and the company and the tax (expense) income actually recognised in the statements of total comprehensive income can be reconciled as follows:

| | Group | | Company | |
|--|----------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Loss before tax | (129,971) | (6,382,956) | (3,825,754) | (5,589,506) |
| Tax rate | 18.75% | 18.75% | 35% | 35% |
| Expected tax income | 24,370 | 1,196,804 | 1,339,014 | 1,956,328 |
| Adjustment for non-deductible expenses | (1,978,674) | (1,986,712) | (1,953,662) | (1,858,589) |
| Adjustment for income not subject to tax | 768,089 | 44,723 | 668,845 | - |
| Adjustment for tax rate differences | 1,239,932 | 1,014,603 | - | - |
| Under provision of deferred tax in prior year | 302,702 | (241,185) | 302,702 | - |
| Deferred tax asset not accounted for | - | (87,805) | - | - |
| Actual tax income (expense), net | 356,419 | (59,572) | 356,899 | 97,739 |
| Comprising: | | | | |
| Current tax | (480) | 83,874 | - | - |
| Deferred tax on loss on fair value of investment property | - | (241,185) | - | - |
| Deferred tax on unabsorbed capital allowances and unused tax losses | 356,899 | 97,739 | 356,899 | 97,739 |
| Tax income (expense) | 356,419 | (59,572) | 356,899 | 97,739 |
| Deferred tax (expense) income, recognised directly in other comprehensive income | (357,343) | 234,376 | (909,172) | (19,996) |

See note 27 for information on the group's and company's deferred tax liability.

13 Earnings (loss) per share

The calculation of earnings (loss) per share is based on the net profit (loss) for the year attributable to ordinary shareholders and the weighted average number of ordinary shares (2017 and 2016: 48,002,000) outstanding during the year. There was no dilution of share capital during the reporting periods presented.

14 Intangible asset

Trademarks

| Group | 2017 | 2016 |
|------------------------------|--------------|--------------|
| | € | € |
| Carrying amount | | |
| At 1 January and 31 December | <u>2,258</u> | <u>2,258</u> |

15 Property, plant and equipment

The group and company's property, plant and equipment comprise of asset in the course of construction, computer equipment, computer software, motor vehicles, office furniture and equipment, tools and machinery and equipment. The carrying amount can be analysed as follows:

| Group | Asset in the course of construction € | Computer equipment € | Computer software € | Motor vehicles € | Office furniture and equipment € | Tools € | Machinery and equipment € | Total € |
|--|--|-------------------------|------------------------|---------------------|-------------------------------------|------------|------------------------------|------------------|
| Gross carrying amount | | | | | | | | |
| At 1 January 2016 | 8,306,997 | 227,960 | 202,559 | 131,353 | 521,602 | 119,316 | 582,842 | 10,092,629 |
| Additions | 1,702 | - | 14,791 | - | 278 | - | 159 | 16,930 |
| At 31 December 2016 | 8,308,699 | 227,960 | 217,350 | 131,353 | 521,880 | 119,316 | 583,001 | 10,109,559 |
| Depreciation | | | | | | | | |
| At 1 January 2016 | - | 200,945 | 97,966 | 131,353 | 429,350 | 119,316 | 464,834 | 1,443,764 |
| Depreciation for the year | - | 14,177 | 39,481 | - | 52,340 | - | 17,972 | 123,970 |
| At 31 December 2016 | - | 215,122 | 137,447 | 131,353 | 481,690 | 119,316 | 482,806 | 1,567,734 |
| Carrying amount at 31 December 2016 | 8,308,699 | 12,838 | 79,903 | - | 40,190 | - | 100,195 | 8,541,825 |
| Gross carrying amount | | | | | | | | |
| At 1 January 2017 | 8,308,699 | 227,960 | 217,350 | 131,353 | 521,880 | 119,316 | 583,001 | 10,109,559 |
| Additions | 274,501 | 3,314 | - | 29,845 | 14,421 | 298 | 18,132 | 340,511 |
| Disposals | - | - | - | (19,709) | (10,662) | - | - | (30,371) |
| At 31 December 2017 | 8,583,200 | 231,274 | 217,350 | 141,489 | 525,639 | 119,614 | 601,133 | 10,419,699 |
| Depreciation | | | | | | | | |
| At 1 January 2017 | - | 215,122 | 137,447 | 131,353 | 481,690 | 119,316 | 482,806 | 1,567,734 |
| Depreciation for the year | - | 9,174 | 39,521 | 2,274 | 33,437 | 285 | 8,488 | 93,179 |
| Release on disposal | - | - | - | (19,709) | (10,662) | - | - | (30,371) |
| At 31 December 2017 | - | 224,296 | 176,968 | 113,918 | 504,465 | 119,601 | 491,294 | 1,630,542 |
| Carrying amount at 31 December 2017 | 8,583,200 | 6,978 | 40,382 | 27,571 | 21,174 | 13 | 109,839 | 8,789,157 |

| Company | Computer equipment € |
|--|----------------------------|
| Gross carrying amount | |
| At 1 January 2016 | 5,515 |
| Additions | - |
| At 31 December 2016 | <u>5,515</u> |
| Depreciation | |
| At 1 January 2016 | 3,708 |
| Depreciation for the year | 478 |
| At 31 December 2016 | <u>4,186</u> |
| Carrying amount at 31 December 2016 | <u>1,329</u> |
| Gross carrying amount | |
| At 1 January 2017 | 5,515 |
| Additions | 518 |
| At 31 December 2017 | <u>6,033</u> |
| Depreciation | |
| At 1 January 2017 | 4,186 |
| Depreciation for the year | 1,019 |
| At 31 December 2017 | <u>5,205</u> |
| Carrying amount at 31 December 2017 | <u>828</u> |

The group's property, plant and equipment comprises of an asset that is being constructed on land located in Shuhada Sidi Abuljalil, Janzour in Libya. This land is earmarked for development for residential units, tourism, leisure and restaurant facilities by one of the subsidiaries, Palm Waterfront Ltd. Costs directly associated with the development of the land have also been included.

The right to construct the asset was acquired by means of a Build, Operate and Transfer (BOT) agreement with Corinthia Palace Hotel Company Limited which was signed on 5 December 2014. The arrangement gives Palm Waterfront Ltd the right to develop the site, construct, implement, manage and operate the project at its discretion. The term of the BOT agreement is for a period of 80 years from date of signing of said agreement.

16 Investment property

Group

Investment property includes the Palm City Residences in Janzour, Libya, which is held to earn rentals and for capital appreciation. Due to the lack of comparable properties in the market, the determination of fair value cannot be objectively established on the basis of current active market prices. Therefore the fair value is determined on the basis of the discounted value of future earnings expected from the operation of the property.

Changes to the carrying amounts presented in the statement of financial position can be summarised as follows:

| | 2017 € | 2016 € |
|--|--------------------|--------------------|
| Carrying amount as at 1 January | 250,212,420 | 250,042,780 |
| Capitalisation of project related expenses | 55,409 | 169,640 |
| Carrying amount as at 31 December | <u>250,267,829</u> | <u>250,212,420</u> |

Investment property valued at €250,267,829 (2016: €250,212,240) is pledged as security for related borrowings.

Rental income for 2017 amounting to €7,395,757 (2016: €3,343,768) is included within 'revenue'. No contingent rents were recognised. Direct operating expenses of €3,030,139 (2016: €2,474,940) were reported within 'operating expenses'.

All residences are intended to be leased out on operating leases. The standard lease contract is for a term of five years but leases for a shorter term have been concluded. Lessees have the possibility of cancelling their commitments under these agreements by giving six months notice and by paying pre-determined penalties that vary in accordance with the lessees' length of stay. The group has no minimum lease payments.

The fair value of the investment property was determined by discounting the forecast future cash flows generated by Palm City Residences for the remaining period of 54 years of the Build-Operate-Transfer agreement signed between Corinthia Palace Hotel Company Limited and Palm City Ltd in 2007. In the previous reporting period, a valuation exercise was carried out by the directors to determine the fair value of the investment property, and a composite pre-tax discount rate of 10.46% in real terms was applied to the projected cash flows.

During the current reporting period, another exercise was carried out by the directors to determine the fair value of the investment property. The valuation arrived at was a result of various premia being applied including country risk, property risk and projection risk premium.

During recent years Libya's oil production improved however the political situation is still considered to be highly unstable. Given this scenario, country risk premium for the country was lower when compared to last year. In the current exercise the country risk premium used was 11.4 % (equivalent to 8.7% post-tax). This is significantly lower than what was used in the previous year (18.2% pre-tax and 13.8% post-tax). The valuation also assumes a gradual linear reduction in country risk as from next year, to settle at pre-tax rate of 4% by 2024.

The previous valuations of the property had excluded a property risk premium of 1.25% since this was accounted for in the significant higher country risk premium. Given the drop-in country risk, the directors have once again included this specific risk to reflect the risk associated with the quality of the rental cash flow streams.

Previous valuations of the property had also factored in a BOT premium of 1% in the computation of the discount rate. This has been kept at the same level for the current valuation.

Based on their knowledge of the business and the conditions that Palm City is currently operating in, the directors have decided to factor in a projection risk premium of 2% (2016: 1.75%).

The composite pre-tax discount rate for the year under review, for all the above inputs, including a risk free rate of 1.31% is 11.98%.

The valuation arrived at when using all the above inputs, combined with the projected income streams amounts to €250,629,000. The directors decided not to recognise a further uplift of €361,171 in these financial statements.

If the discount rate is increased or decreased by 100 basis points, the fair value of investment property would decrease and increase by €22 million and €26 million (2016: €27 million and €34 million) respectively.

There are no material contractual obligations pertaining to investment property at the end of the reporting periods presented, except for repairs and maintenance expenses incurred in the normal running of the operation.

Leasing arrangements for residential units at the end of the reporting periods presented are as follows:

| | 2017 | 2016 |
|---------------|------------|------------|
| | % | % |
| Within 1 year | 20 | 39 |
| 1-5 years | 80 | 61 |
| | <u>100</u> | <u>100</u> |

17 Investment accounted for using the equity method

Group

| | Note | 2017 | 2016 |
|--|------|-------------------|-------------------|
| | | € | € |
| Shares in associate company (unquoted) | 18.2 | <u>12,603,445</u> | <u>13,704,789</u> |

18 Investments in subsidiaries and associate

Company

| | Notes | 2017 | 2016 |
|---|-------|--------------------|--------------------|
| | | € | € |
| Shares in subsidiary companies (unquoted) | 18.1 | 199,554,788 | 195,855,807 |
| Shares in associate company (unquoted) | 18.2 | 12,603,445 | 13,704,789 |
| Loan to subsidiary companies | 18.3 | 9,452,449 | 14,135,763 |
| | | <u>221,610,682</u> | <u>223,696,359</u> |

18.1 Shares in subsidiary companies (unquoted)

| Subsidiary company | Percentage holding in ordinary shares | Nature of business |
|---|---------------------------------------|----------------------|
| Palm City Ltd 22, Europa Centre, Floriana, Malta | 100% | Property development |
| Palm Waterfront Ltd 22, Europa Centre, Floriana, Malta | 99.9% | Property development |

The shares in Palm Waterfront Ltd were acquired in 2013. Shares in subsidiary company are being shown at fair value based on the latest available financial statements.

The company pledged 116,490,000 of its ordinary shares in Palm City Ltd as security for the bank borrowings of said company (note 24).

18.2 Shares in associate company (unquoted)

| Associate company | Percentage holding in ordinary shares % | Nature of business | Capital and reserves 31.12.2017 € |
|---|---|----------------------|-----------------------------------|
| Medina Tower Joint Stock Company for Real Estate Investment and Development (MTJSC) Suite 107, Tower 2, Level 10 Tripoli Towers, Tripoli, Libya | 25 | Property development | 50,413,780 (LYD 82,078,679) |

Summarised financial information for MTJSC is as follows:

| | 2017 € | 2016 € |
|---------------------|------------|------------|
| Total assets | 50,886,290 | 55,341,195 |
| Total liabilities | (472,510) | (522,039) |
| Profit for the year | 107,257 | - |

A reconciliation of the above summarised financial information to the carrying amount of the investment is set out below:

| | 2017 € | 2016 € |
|---------------------------------------|-------------------|-------------------|
| Total net assets | 50,413,780 | 54,819,156 |
| Proportion of ownership held by group | 25% | 25% |
| Carrying amount of investment | <u>12,603,445</u> | <u>13,704,789</u> |

In the group financial statements, the investment in MTJSC is accounted for using the equity method. In the financial statements of the company, these shares are being shown as available-for-sale financial assets. Their fair value has been derived based on the latest financial information available.

18.3 Loan to subsidiary companies

The loan to Palm City Ltd is unsecured, bears interest at 6% per annum and has no fixed date of repayment. The loan to Palm Waterfront Ltd is unsecured, is interest free and is repayable after more than 5 years. The carrying amount of the loans is considered a reasonable approximation of fair value.

19 Lease prepayment

Group

| | 2017 € | 2016 € |
|-----------------------------------|----------------|----------------|
| Balance at beginning of year | 414,986 | 422,599 |
| Amount charged to profit and loss | (7,613) | (7,613) |
| Balance at end of year | 407,373 | 414,986 |
| Classified as: | | |
| Non-current asset | 399,760 | 407,373 |
| Current asset (note 21) | 7,613 | 7,613 |
| | 407,373 | 414,986 |

Lease prepayment amounts to be charged to profit and loss of the group in future years are as follows:

| | 2017 € | 2016 € |
|---------------|----------------|----------------|
| Within 1 year | 7,613 | 7,613 |
| 1-5 years | 38,065 | 38,065 |
| After 5 years | 361,695 | 369,308 |
| | 407,373 | 414,986 |

On 2 October 2007 Corinthia Palace Hotel Company Limited entered into a Build-Operate-Transfer agreement with Palm City Ltd effective from 6 July 2006. The arrangement, which gives Palm City Ltd 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.

The company and Corinthia Palace Hotel Company Limited have applied to the competent authorities in Libya, for approval of the assignment of the 99-year lease (which expires on 4 July 2105), from Corinthia Palace Hotel Company Limited to Palm City Ltd. Both parties have agreed that upon such approval being granted, the Build-Operate-Transfer agreement will be terminated.

20 Inventories

Inventories comprise mainly of food and beverage stocks used by the food and beverage department, together with stock of electrical materials and spare parts used by the maintenance and technical department of Palm City Ltd.

| Group | 2017 € | 2016 € |
|--------------------------------------|------------------|------------------|
| Food and beverage stocks | 29,028 | 15,570 |
| Electrical materials and spare parts | 624,103 | 425,145 |
| Total inventories | 653,131 | 440,715 |

In 2017, a total of €183,547 (2016: €23,578) of inventories was included in profit and loss as an expense.

21 Trade and other receivables

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Trade receivables, gross | 1,720,130 | 980,803 | - | - |
| Allowance for credit losses | (139,816) | (334,113) | - | - |
| Trade receivables | 1,580,314 | 646,690 | | |
| Amount due by subsidiary | - | - | 1,594,343 | 1,313,590 |
| Amounts due by associate company | 78,660 | 87,210 | 78,660 | 87,210 |
| Amounts due by other related companies | 298,774 | 370,326 | 261,685 | 262,280 |
| Accrued income | 62,817 | 30,090 | 827,784 | 553,574 |
| Other receivables | 110,595 | 577,468 | 111,214 | 383,721 |
| Financial assets | 2,131,160 | 1,711,784 | 2,873,686 | 2,600,375 |
| Advance payments to creditors | 158,198 | 1,000 | - | - |
| VAT refundable | 196,176 | 117,261 | 87,864 | 58,461 |
| Lease prepayment (note 19) | 7,613 | 7,613 | - | - |
| Deposits | 98,219 | 101,028 | - | - |
| Other prepayments | 138,709 | 96,709 | - | - |
| Other receivables | 133,238 | 294,672 | 35,000 | - |
| Non-financial assets | 732,153 | 618,283 | 122,864 | 58,461 |
| Total trade and other receivables | 2,863,313 | 2,330,067 | 2,996,550 | 2,658,836 |

All amounts are short-term. The net carrying value of trade and other receivables is considered a reasonable approximation of fair value.

The amounts due by group and related parties are unsecured, interest free and repayable on demand.

All of the group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision was recorded accordingly. The impaired trade receivables were with respect to rent receivable.

| | 2017 | 2016 |
|-------------------------------------|----------------|----------------|
| | € | € |
| Balance 1 January | 334,113 | 264,477 |
| Amounts written off | (97,953) | - |
| Reversal of provision for bad debts | (96,344) | - |
| Impairment loss | - | 69,636 |
| Balance 31 December | 139,816 | 334,113 |

An analysis of unimpaired trade receivables that are past due is given in note 32.1.

22 Cash and cash equivalents

Cash and cash equivalents include the following components:

| | Group | | Company | |
|---|------------------|------------------|----------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Cash at bank and in hand: | | | | |
| - euro | 4,564,109 | 1,349,658 | 896,768 | 20,810 |
| - Libyan dinar | 296,998 | 180,864 | - | - |
| - US dollar | 37,928 | 2,718 | 33,252 | 1,277 |
| - Pound sterling | 4,993 | 5,313 | 4,993 | 5,313 |
| Cash and cash equivalents in the statement of financial position | 4,904,028 | 1,538,553 | 935,013 | 27,400 |
| Bank balance overdrawn | (2,093) | (41,472) | - | (3,715) |
| Cash and cash equivalents in the statement of cash flows | 4,901,935 | 1,497,081 | 935,013 | 23,685 |

The group has a bank deposit amounting to €426,920 (2016: €10,018) which is specifically designated for security deposits from lessees. This is not available for general use by the group. The company has an amount of €250,000 (2016: €250,000) which is being held as security deposit related to a pending court case.

23 Share capital

The share capital of Mediterranean Investments Holding p.l.c. consists of fully paid ordinary 'A' shares and 'B' shares with a par value of €1 each. 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.

| | Group and Company | |
|---|--------------------|--------------------|
| | 2017 | 2016 |
| | € | € |
| Shares issued and fully paid | | |
| 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 |
| | 48,002,000 | 48,002,000 |
| Shares 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 |
| | 100,000,000 | 100,000,000 |

24 Bank and other borrowings

Borrowings include the following financial liabilities:

| | Group | | Company | |
|--------------------------------|-------------------|-------------------|-----------|--------------|
| | 2017 € | 2016 € | 2017 € | 2016 € |
| Bank balance overdrawn | 2,093 | 41,472 | - | 3,715 |
| Bank loans | 10,531,120 | 13,474,875 | - | - |
| Other borrowings | 5,000,000 | - | - | - |
| | 15,533,213 | 13,516,347 | - | 3,715 |
| Comprising: | | | | |
| Long-term borrowings | | | - | - |
| - due within 2-5 years | 12,898,340 | 10,779,899 | - | - |
| Borrowing due within 12 months | | | | |
| - Bank balance overdrawn | 2,093 | 41,472 | - | 3,715 |
| - Bank loans | 2,632,780 | 2,694,976 | - | - |
| | 2,634,873 | 2,736,448 | - | 3,715 |

The group's banking facilities as at 31 December 2017 amounted to €7,281,034 (2016: €9,101,291).

The bank borrowings are secured by a general hypothec over Palm City Ltd's assets, by a guarantee by Mediterranean Investments Holding p.l.c. and by a pledge over part of its shareholding in Palm City Ltd (note 18.1) and by pledges over part of Palm City Ltd's bank deposits (note 22). These borrowings are subject to floating interest rates. As at 31 December 2017, the Libyan dinar bank borrowings amounting to €3,250,087 (2016: €4,373,583) were subject to an effective interest rate of 1.5% (2016: 1.5%) over the Central Bank of Libya discount rate, whilst the euro bank borrowings amounting to €7,281,034 (2016: €9,101,292) were subject to an effective interest rate of 4% (2016: 2.6% plus 6 months Euribor). Syndicate loan repayments are made on a semi-annual basis for both the euro bank borrowings and the Libyan dinar bank borrowings, amounting to €910,129 (2016: €910,129), being capital repayment on euro loan and €406,261 (LYD 659,362) (2016: €437,359 - LYD 659,362) (using end of year exchange rate) being capital repayment on Libyan dinar loan.

Other borrowings comprise of a loan from LFICO amounting to €5,000,000 to the company. The loan was advanced to support the company in its corporate needs and working capital requirements. The loan is supported by a corporate guarantee being provided in favour of LFICO by Corinthia Palace Hotel Company Limited (CPHCL).

The carrying amount of bank borrowings is considered a reasonable approximation of fair value.

25 Bonds

| | Notes | Interest rate | Group | | Company | |
|----------|-------|---------------|-------------------|-------------------|-------------------|-------------------|
| | | | 2017 € | 2016 € | 2017 € | 2016 € |
| Bond III | 25.1 | 7.15% | - | 40,291,962 | - | 40,291,962 |
| Bond IV | 25.2 | 6% | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 |
| Bond V | 25.3 | 5.5% | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 |
| Bond VI | 25.4 | 6% | 11,000,000 | 11,000,000 | 11,000,000 | 11,000,000 |
| Bond VII | 25.5 | 5% | 39,423,517 | - | 39,423,517 | - |
| | | | 82,423,517 | 83,291,962 | 82,423,517 | 83,291,962 |

Comprising:

| | Group | | Company | |
|-------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 € | 2016 € | 2017 € | 2016 € |
| Current | - | 40,291,962 | - | 40,291,962 |
| Non-current | 82,423,517 | 43,000,000 | 82,423,517 | 43,000,000 |
| | 82,423,517 | 83,291,962 | 82,423,517 | 83,291,962 |

In 2010 the group successfully issued its third bond equivalent of €30 million (Bond III) subject to an over-allotment option for a further amount of €10 million. This bond was issued in a combination of euro, pound Sterling and US dollar. The over-allotment option was exercised thereby increasing the said bond to €40 million. This bond was redeemed in full in 2017.

During 2014 the company issued a €12 million 6% seven year bond maturing in 2021 (Bond IV).

In 2015, the company issued a €20 million 5.5% bond maturing in 2020 (Bond V) and an €11 million 6% bond maturing in 2020 (Bond VI).

In 2017 the group redeemed Bond III and successfully issued a €40 million 5% bond maturing in 2022 (Bond VII).

All of 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. Redemption of the bonds shall be made at the face value of the bonds. The company also reserves the right to purchase from the market at any time after issue, bonds for cancellation.

The carrying amount of bonds issued by the company is considered a reasonable approximation of fair value.

25.1 Bond III

| | Group € | Company € |
|-----------------------------------|--------------|--------------|
| At 31 December 2016 | 40,291,962 | 40,291,962 |
| Amortisation of transaction costs | 66,627 | 66,627 |
| Difference on exchange | (488,398) | (488,398) |
| Redemption of bond | (39,870,191) | (39,870,191) |
| At 31 December 2017 | - | - |

25.2 Bond IV

| | Group € | Company € |
|---|-------------------|-------------------|
| Proceeds from issue | 12,000,000 | 12,000,000 |
| Balance at 31 December 2017 and 2016 | <u>12,000,000</u> | <u>12,000,000</u> |

Transaction costs in connection with the Bond IV issue were expensed in the period under review.

25.3 Bond V

| | Group € | Company € |
|---|-------------------|-------------------|
| Proceeds from issue | 20,000,000 | 20,000,000 |
| Balance at 31 December 2017 and 2016 | <u>20,000,000</u> | <u>20,000,000</u> |

Transaction costs in connection with the Bond V issue were expensed in the period under review.

25.4 Bond VI

| | Group € | Company € |
|---|-------------------|-------------------|
| Proceeds from issue | 11,000,000 | 11,000,000 |
| Balance at 31 December 2017 and 2016 | <u>11,000,000</u> | <u>11,000,000</u> |

Transaction costs in connection with the Bond VI issue were expensed in the period under review.

25.5 Bond VII

| | Group € | Company € |
|------------------------------------|-------------------|-------------------|
| Proceeds from issue | 39,366,626 | 39,366,626 |
| Amortisation of transaction costs | 56,891 | 56,891 |
| Balance at 31 December 2017 | <u>39,423,517</u> | <u>39,423,517</u> |

Transaction costs in connection with the Bond VII issue were expensed in the period under review.

26 Shareholders' loan

The loan from shareholders is unsecured, bears interest at 5% per annum and is repayable between two and five years. The carrying amount of the shareholders' loan is considered a reasonable approximation of fair value.

27 Deferred tax liability

Group

Deferred tax arising from temporary differences can be summarised as follows:

| | 2017 € | 2016 € |
|--|-------------------|-------------------|
| Non-current assets | | |
| Investment property | 30,148,095 | 30,148,095 |
| Unused tax losses and capital allowances | (1,145,313) | (636,209) |
| Other temporary differences | 124,618 | (384,928) |
| | <u>29,127,400</u> | <u>29,126,958</u> |

The movement can be analysed as follows:

| | | |
|-----------------------|--------------|---------------|
| Movement for the year | <u>(442)</u> | <u>90,930</u> |
|-----------------------|--------------|---------------|

Recognised directly in equity:

| | | |
|---|-----------|---------|
| Deferred tax relating to difference on exchange | (357,343) | 234,376 |
|---|-----------|---------|

Recognised in profit or loss:

| | | |
|---|--------------|---------------|
| Under provision in previous years | - | (241,185) |
| Deferred tax on unabsorbed capital allowances and unused tax losses | 509,104 | 222,421 |
| Deferred tax on other temporary differences | (152,203) | (124,682) |
| | <u>(442)</u> | <u>90,930</u> |

Company

| | 2017 € | 2016 € |
|--|-------------------|-------------------|
| Available-for-sale financial assets | 41,056,716 | 40,504,887 |
| Unused tax losses and capital allowances | (1,145,313) | (636,209) |
| Other temporary differences | 124,610 | (384,938) |
| | <u>40,036,013</u> | <u>39,483,740</u> |

| | 2017 € | 2016 € |
|--|------------------|---------------|
| The movement can be analysed as follows: | | |
| Movement for the year | <u>(552,273)</u> | <u>77,743</u> |

Recognised directly in equity

| | | |
|--|-----------|----------|
| Deferred tax on gain on fair value of available-for-sale financial asset | (909,172) | (19,996) |
|--|-----------|----------|

Recognised in profit or loss

| | | |
|--|------------------|---------------|
| Deferred tax on other temporary difference | 356,899 | 97,739 |
| | <u>(552,273)</u> | <u>77,743</u> |

See note 12 for information on the group's and the company's tax income (expense).

28 Derivative financial instrument

Group

| | 2017 | 2016 |
|--------------------|---------------|----------------|
| | € | € |
| Interest rate swap | | |
| Non-current | - | 29,114 |
| Current | 30,495 | 146,348 |
| | <u>30,495</u> | <u>175,462</u> |

28.1 Terms

| | 2017 | 2016 |
|------------------|------------------|------------------|
| | € | € |
| Notional amount: | | |
| Maturing in 2018 | <u>2,760,417</u> | <u>8,281,250</u> |

Interest rates (2017 and 2016):

Maturing in 2018

Receive interest at the rate of

6 month Euribor

Pay fixed interest at the rate of

1.9% per annum

29 Trade and other payables

Trade and other payables recognised in the statement of financial position can be analysed as follows:

| | Group | | Company | |
|---|-------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Non-current | | | | |
| Security deposit | 824,990 | 25,783 | - | - |
| Total non-current | <u>824,990</u> | <u>25,783</u> | <u>-</u> | <u>-</u> |
| Current | | | | |
| Trade payables | 809,487 | 671,812 | 35,251 | 110,511 |
| Capital creditors (note) | 200,000 | 200,000 | - | - |
| Amounts owed to subsidiary company | - | - | - | 297 |
| Amounts owed to shareholder | 512,245 | - | 512,245 | - |
| Amounts owed to other related companies | 395,641 | 359,078 | 7,754 | 6,783 |
| Accrued expenses | 3,872,572 | 4,454,244 | 2,055,116 | 2,119,393 |
| Financial liabilities | <u>5,789,945</u> | <u>5,685,134</u> | <u>2,610,366</u> | <u>2,236,984</u> |
| Deferred income | 2,863,474 | 439,277 | - | - |
| Security deposits | 950,665 | 1,774,425 | - | - |
| Other payables | 908,537 | 1,828,637 | 781,028 | 1,903,267 |
| Non-financial liabilities | <u>4,722,676</u> | <u>4,042,339</u> | <u>781,028</u> | <u>1,903,267</u> |
| Total current | <u>10,512,621</u> | <u>9,727,473</u> | <u>3,391,394</u> | <u>4,140,251</u> |
| Total trade and other payables | <u>11,337,611</u> | <u>9,753,256</u> | <u>3,391,394</u> | <u>4,140,251</u> |

Amounts owed to shareholder and other related companies are unsecured, interest free and repayable on demand.

The carrying value of financial liabilities is considered a reasonable approximation of fair value.

Note: included in capital creditors is an amount of €200,000 withdrawn by one of the subsidiaries, Palm City Ltd. These monies were a guarantee for defective works which may have been carried out by a supplier at Palm City Residences (refer also to note 34).

30 Cash flow adjustments and changes in working capital

The following non-cash flow adjustments and adjustments for changes in working capital have been made to loss before tax to arrive at operating cash flow:

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Adjustments: | | | | |
| Fair value gain on derivative financial instrument | (144,967) | (238,524) | - | - |
| Depreciation | 93,179 | 123,970 | 1,019 | 478 |
| Operating lease | 7,613 | 7,613 | - | - |
| Interest receivable | (2,410) | (22,697) | (274,310) | (417,223) |
| Interest payable | 6,192,951 | 6,376,781 | 5,368,347 | 5,590,378 |
| Amortisation of borrowing costs | 221,477 | 384,262 | - | - |
| Amortisation of bond issue costs | 123,518 | 128,601 | 123,518 | 128,601 |
| Loss on disposal of financial assets | - | 19,758 | - | - |
| Difference on exchange | (796,894) | (310,630) | (435,308) | (356,235) |
| (Increase) decrease in allowance for credit losses | (96,344) | 69,636 | - | - |
| Total adjustments | 5,598,123 | 6,538,770 | 4,783,266 | 4,945,999 |
| Net changes in working capital: | | | | |
| Change in trade and other receivables | (665,002) | 1,466,751 | (63,505) | 158,196 |
| Change in trade and other payables | 1,572,384 | (2,112,317) | (865,195) | (513,176) |
| Change in inventories | (212,416) | 5,736 | - | - |
| Total changes in working capital | 694,966 | (639,830) | (928,700) | (354,980) |

31 Related party transactions

The group's related parties include its associates, key management and others as described below.

The company's related parties include its subsidiaries, key management and others as described below.

Unless otherwise stated, none of the transactions incorporates special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

31.1 Transactions with related parties

| | Group | | Company | |
|--|---------|---------|-----------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| | € | € | € | € |
| Consultancy and other services charged to subsidiary | - | - | (191,442) | (182,326) |
| Interest charged by shareholder | 431,519 | 224,739 | 431,519 | 224,739 |
| Consultancy and other services charged to associate | - | - | - | - |
| Interest charged to subsidiary | - | - | (274,209) | (417,192) |

Balances with related parties are disclosed in notes 18, 21, 26 and 29.

32 Financial instrument risk

Risk management objectives and policies

Credit risk is the risk that a counterparty fails to discharge an obligation to the group and the company. The group and company are exposed to various risks in relation to financial instruments. The group and company's financial assets and liabilities by category are summarised in note 32.4. The main types of risks are credit risk, liquidity risk and market risk.

The group and the company's risk management is coordinated at its head office, in close co-operation with the board of directors, and focuses on actively securing the group and the company's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The group and the company do not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the group and the company are exposed are described below.

The group and the company are exposed to market risk through their use of financial instruments and specifically to currency risk and interest rate risk, which result from their operating, investing and financing activities.

32.1 Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the group and the company. The group and the company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period, as summarised below:

| | Notes | Group | | Company | |
|---|-------|-------------------|-------------------|--------------------|--------------------|
| | | 2017 € | 2016 € | 2017 € | 2016 € |
| Classes of financial assets - carrying amounts | | | | | |
| Shares in subsidiary companies | 18 | - | - | 199,554,788 | 195,855,807 |
| Shares in associate company | 18 | 12,603,445 | 13,704,789 | 12,603,445 | 13,704,789 |
| Loan to subsidiary companies | 18 | - | - | 9,452,449 | 14,135,763 |
| Trade and other receivables | 21 | 2,131,160 | 1,711,784 | 2,873,686 | 2,600,375 |
| Cash and cash equivalents | 22 | 4,904,028 | 1,538,553 | 935,013 | 27,400 |
| | | <u>19,638,633</u> | <u>16,955,126</u> | <u>225,419,381</u> | <u>226,324,134</u> |

Management continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Management's policy is to deal only with creditworthy counterparties.

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality.

At 31 December the group had certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The amounts at 31 December, analysed by the length of time past due, are:

| | 2017 € | 2016 € |
|--|------------------|----------------|
| Not more than 30 days | 482,570 | 48,646 |
| More than 30 days but not more than 120 days | 688,272 | 90,080 |
| More than 120 days | 409,472 | 507,964 |
| Total | <u>1,580,314</u> | <u>646,690</u> |

In respect of trade and other receivables the group is not exposed to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds is considered negligible since the counterparties are reputable banks. None of the group's assets is secured by collateral or other credit enhancements.

32.2 Liquidity risk

Liquidity risk is that the group and company may be unable to meet their obligations.

Management manages the group and company's liquidity needs by carefully monitoring cash flows in day to day business. Liquidity needs are monitored in various time bands, on a daily and weekly basis, as well as on the basis of rolling 30-day projections. Long-term liquidity needs for a 6-monthly and yearly period are identified monthly.

The group and the company maintain cash to meet their liquidity requirements for the short-term. Funding for long-term liquidity needs is secured by an adequate amount of committed credit facilities.

As at 31 December 2017, the group and the company's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

Group

| | Current | | Non-current | |
|---------------------------------|------------------------|-----------------------|---------------------|---------------------------|
| | within 6 months | 6 to 12 months | 2 to 5 years | later than 5 years |
| 31 December 2017 | € | € | € | € |
| Bank loan | 1,316,390 | 1,316,390 | 7,898,340 | - |
| Other borrowings | - | - | 5,000,000 | - |
| Interest on bank loan | 148,511 | 125,314 | 1,388,112 | - |
| Interest on other borrowings | 200,000 | - | 800,000 | - |
| Bonds in issue | - | - | 82,423,517 | - |
| Interest on bonds in issue | 720,000 | 3,760,000 | 13,680,000 | - |
| Bank balance overdrawn | 2,093 | - | - | - |
| Trade and other payables | 809,487 | 1,594,885 | - | - |
| Shareholders' loan | - | - | 10,203,300 | - |
| Derivative financial instrument | 30,495 | - | - | - |
| | 3,226,976 | 6,796,589 | 121,393,269 | - |

Company

| | Current | | Non-current | |
|----------------------------|------------------------|-----------------------|---------------------|---------------------------|
| | within 6 months | 6 to 12 months | 2 to 5 years | later than 5 years |
| 31 December 2017 | € | € | € | € |
| Bonds in issue | - | - | 82,423,517 | - |
| Interest on bonds in issue | 720,000 | 3,760,000 | 13,680,000 | - |
| Trade and other payables | 35,251 | 604,004 | - | - |
| Shareholders' loan | - | - | 10,203,300 | - |
| | 755,251 | 4,364,004 | 106,306,817 | - |

This compares to the maturity of the group's and company's financial liabilities in the previous reporting period as follows:

Group

| 31 December 2016 | Current | | Non-current | |
|---------------------------------|-------------------|------------------|-------------------|--------------------|
| | within 6 months | 6 to 12 months | 2 to 5 years | later than 5 years |
| | € | € | € | € |
| Bank loan | 1,347,488 | 1,347,488 | 10,779,899 | - |
| Interest on bank loan | 220,316 | 162,688 | 1,661,949 | - |
| Bonds in issue | 40,291,262 | - | 43,000,000 | - |
| Interest on bonds in issue | 2,109,393 | 1,240,000 | 8,160,000 | - |
| Bank balance overdrawn | 41,472 | - | - | - |
| Trade and other payables | 671,812 | 1,430,253 | - | - |
| Shareholders' loan | - | - | 8,275,379 | - |
| Derivative financial instrument | 87,229 | 59,119 | 29,114 | - |
| | 44,768,972 | 4,239,548 | 71,906,341 | |

Company

| 31 December 2016 | Current | | Non-current | |
|----------------------------|-------------------|------------------|-------------------|--------------------|
| | within 6 months | 6 to 12 Months | 2 to 5 years | later than 5 years |
| | € | € | € | € |
| Bonds in issue | 40,291,262 | - | 43,000,000 | - |
| Interest on bonds in issue | 2,109,393 | 1,240,000 | 8,160,000 | - |
| Bank balance overdrawn | 3,715 | - | - | - |
| Trade and other payables | 110,511 | 17,080 | - | - |
| Shareholders' loan | - | - | 8,275,379 | - |
| | 42,514,881 | 1,257,080 | 59,435,379 | |

32.3 Market risk analysis

Foreign currency risk

Group

Exposure to currency exchange rates mainly arises from the group's borrowings denominated in Libyan dinars and the portion of Bond III which was issued by the company in Pound Sterling and US dollar. Cash inflows and cash outflows in foreign currency are matched at subsidiary level, hence, the group is only exposed to foreign currency risk as shown below.

Foreign currency denominated financial liabilities, translated into euro at the closing rate, are as follows:

| | Short term | | | Long term | | |
|-----------------------|----------------|------------------|------------------|------------------|----------|----------|
| | LYD | USD | GBP | LYD | USD | GBP |
| | € | € | € | € | € | € |
| 31 December 2017 | | | | | | |
| Financial liabilities | 812,522 | - | - | 2,437,565 | - | - |
| Total exposure | 812,522 | - | - | 2,437,565 | - | - |
| 31 December 2016 | | | | | | |
| Financial liabilities | 874,717 | 6,758,324 | 5,080,865 | 3,498,866 | - | - |
| Total exposure | 874,717 | 6,758,324 | 5,080,865 | 3,498,866 | - | - |

The following table illustrates the sensitivity of the net result for the year in regards to the group's financial liabilities and the LYD/euro exchange rate, the USD/euro exchange rate and the GBP/euro exchange rate 'all other things being equal'.

The following table assumes a +/- 8% change of the LYD/euro exchange rate at year end (2016: 9.7%). A change of (2016: +/- 3%) was considered for the USD/euro exchange rate and a change of (2016: +/- 12%) in respect of the GBP/euro exchange rate. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the group's foreign currency financial instruments held at the end of the reporting period.

If the euro had strengthened or weakened against the LYD by 8% (2016: 9.7%), against the USD by (2016: 3%) and against the GBP by (2016: 12%) then this would have had the following impact on the net result for the year.

| | Net result for the year | | |
|------------------|-------------------------|-------------|-------------|
| | LYD € | USD € | GBP € |
| 31 December 2017 | +/-260,007 | - | - |
| 31 December 2016 | +/- 424,238 | +/- 202,749 | +/- 609,704 |

The analysis above is considered to be representative of the group's exposure to currency risk.

Interest rate risk

The group's exposure to interest rate risk is limited to the variable interest rate of borrowings. The following table illustrates the sensitivity of the net result for the year to a reasonably possible change in interest rates of + / - 100 basis points (2016: +/-100 basis points) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the group's financial instruments held at each reporting date. All other variables are held constant.

| | 2017 € | | 2016 € | |
|-------------------------|-----------------------|----------------------|-----------------------|----------------------|
| | + 100 basis points | -100 basis points | + 100 basis points | -100 basis points |
| Net result for the year | 105,311 | (105,311) | 134,749 | (134,749) |

32.4 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

| | Notes | Group | | Company | |
|--|-------|--------------------|-------------------|--------------------|--------------------|
| | | 2017 € | 2016 € | 2017 € | 2016 € |
| Investments | | | | | |
| - Shares in subsidiary company | 18 | - | - | 199,554,788 | 195,855,807 |
| - Shares in associate company | 18 | 12,603,445 | 13,704,789 | 12,603,445 | 13,704,789 |
| - Loan to subsidiary companies | 18 | - | - | 9,452,449 | 14,135,763 |
| | | <u>12,603,445</u> | <u>13,704,789</u> | <u>221,610,682</u> | <u>223,696,359</u> |
| Loans and receivables | | | | | |
| - Trade and other receivables | 21 | 2,131,160 | 1,711,784 | 2,873,686 | 2,600,375 |
| - Cash and cash equivalents | 22 | 4,904,028 | 1,538,553 | 935,013 | 27,400 |
| | | <u>7,035,188</u> | <u>3,250,337</u> | <u>3,808,699</u> | <u>2,627,775</u> |
| Financial liabilities | | | | | |
| Financial liabilities measured at amortised cost | | | | | |
| Non-current | | | | | |
| - Borrowings | 24 | 12,898,340 | 10,779,899 | - | - |
| - Bonds | 25 | 82,423,517 | 43,000,000 | 82,423,517 | 43,000,000 |
| - Shareholders' loan | 26 | 10,203,300 | 8,275,379 | 10,203,300 | 8,275,379 |
| Financial liabilities measured at fair value through profit and loss | | | | | |
| Non-current | | | | | |
| - Derivative financial instrument | 28 | - | 29,114 | - | - |
| | | <u>105,525,157</u> | <u>62,084,392</u> | <u>92,626,817</u> | <u>51,275,379</u> |
| Current | | | | | |
| - Borrowings | 24 | 2,634,873 | 2,736,448 | - | 3,715 |
| - Bonds | 25 | - | 40,291,962 | - | 40,291,962 |
| - Derivative financial instrument | 28 | 30,495 | 146,348 | - | - |
| - Trade and other payables | 29 | 5,789,945 | 5,685,134 | 2,610,366 | 2,236,984 |
| | | <u>8,455,313</u> | <u>48,859,892</u> | <u>2,610,366</u> | <u>42,532,661</u> |

See note 5.16 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes. A description of the group's risk management objectives and policies for financial instruments is given in note 35.

33 Fair value measurement

33.1 Fair value measurement of financial instruments

The following table presents financial assets and liabilities measured at fair value in the group's and the company's statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets;
- Level 2: based on information other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: information for the asset that is not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

Group

| 31 December 2016 | Level 1 € | Level 2 € | Level 3 € |
|------------------------------|--------------|--------------|--------------|
| Financial liabilities | | | |
| Interest rate swap (a) | - | 175,462 | - |

| 31 December 2017 | Level 1 € | Level 2 € | Level 3 € |
|------------------------------|--------------|--------------|--------------|
| Financial liabilities | | | |
| Interest rate swap (a) | - | 30,495 | - |

Company

| 31 December 2016 | Level 1 € | Level 2 € | Level 3 € |
|---|--------------|--------------|--------------|
| Financial assets | | | |
| Available-for-sale financial assets (b) | - | - | 209,560,596 |

| 31 December 2017 | Level 1 € | Level 2 € | Level 3 € |
|---|--------------|--------------|--------------|
| Financial assets | | | |
| Available-for-sale financial assets (b) | - | - | 212,158,233 |

Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are as follows:

Interest rate swap

- a) Where derivatives are traded either on exchanges or liquid over-the-counter markets the group uses the closing price at the reporting date. Normally, the derivatives entered into by the group are not traded in active markets. The fair values of these contracts are estimated using a valuation technique that maximises the use of observable market inputs, e.g. market exchange and interest rates (level 2). Derivatives entered into by the group are included in level 2 and consist of an interest rate swap agreement (note 28).

Available-for-sale financial assets

- b) Fair value information for these financial assets has been obtained from the latest available financial information.

Level 3 fair value measurements

The reconciliation of the carrying amounts of financial instruments (available for sale financial assets) classified within Level 3 is as follows:

| Company | 2017 € | 2016 € |
|--|--------------------|--------------------|
| Balance at 1 January | 209,560,596 | 211,116,473 |
| Gain (loss) recognised in other comprehensive income | 2,677,998 | (1,555,877) |
| Other movement | (80,361) | - |
| Balance at 31 December | 212,158,233 | 209,560,596 |

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity.

33.2 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2017 and 31 December 2016.

Group

| 31 December 2017 | Level 1 € | Level 2 € | Level 3 € |
|---------------------|--------------|--------------|--------------|
| Investment property | - | - | 250,267,829 |

Group

| 31 December 2016 | Level 1 € | Level 2 € | Level 3 € |
|---------------------|--------------|--------------|--------------|
| Investment property | - | - | 250,212,420 |

The fair value of the subsidiary's investment property is estimated based on management estimates of expected future cash flows or market values. When based on management estimates of future cash flows, the value of the property is determined by applying a suitable discount rate. During the year under review the valuation arrived at when using these inputs amounted to €250,629,000 (see note 16).

34 Contingent liabilities

One of the subsidiaries is involved in two court cases, instituted by a supplier, as defendant in court proceedings against it amounting in total to €250,000. These proceedings are still in the very early stages and as a result it is not possible to predict a possible outcome.

35 Capital management policies and procedures

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.

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

36 Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the end of the reporting period and the date of authorisation by the board.

Independent auditor's report

To the shareholders of Mediterranean Investments Holding p.l.c.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Mediterranean Investments Holding plc (the "Company") and of the Group of which it is the parent, set out on pages 13 to 52, which comprise the statements of financial position as at 31 December 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of their financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 (the "Act").

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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Valuation of investment property

Key audit matter

One of the subsidiaries of the Group has a property situated in Zanzour, Libya, held under a 65 year Build, Operate and Transfer agreement. The property consists of a number of individual units within a gated complex. The units were constructed to be leased out under short- and long-term lets to third parties for use as accommodation. At 31 December 2017 the property is carried at €250.3 million.

Management has conducted an internal valuation of the property as at 31 December 2017. This valuation is based on the projected rental income streams discounted to present value. The underlying assumptions consist of the projected rental rates and occupancy levels of the units and take into consideration contracted rates for units that are leased out.

The valuation of the subsidiary's investment property is inherently subjective mainly due to the judgemental nature of the factors used in arriving at the value. Moreover the property is situated in Libya which is still passing through a period of great uncertainty. The significance of the estimates made, the judgement involved and the uncertainty in Libya could result in a material misstatement. Consequently this warrants specific audit focus.

How the key audit matter was addressed in our audit

We obtained an understanding of the methodology used by management to arrive at the valuation of the property at 31 December 2017 and tested the arithmetical accuracy of the workings. We also agreed the information in the valuation report to the accounting records.

We engaged our internal specialist resources to review and challenge the valuation methodology and the underlying assumptions.

We attended meetings with management and those charged with governance and noted that they were able to provide satisfactory responses to our questions.

We assessed the adequacy of the disclosures made in Notes 5.22 (f) and 16 of the financial statements including those regarding the key assumptions.

Based on the audit work done we concluded that the carrying amount of the investment property falls within a reasonable range of values.

The significant uncertainty which is still prevailing in Libya and the significant judgements surrounding the valuation of the Group's Investment Property situated in that country render the fair valuation of the property extremely difficult and judgemental. We consider this matter to be of fundamental importance to the users' understanding of these financial statements because should the assumptions underlying the valuation not materialise the fair value of the investment property which, at 31 December 2017 is carried at €250.3 million would vary.

Going concern

Key audit matter

At balance sheet date the Group had net current liabilities amounting to €6 million and this warrants specific audit focus.

As explained in note 3 to these financial statements the directors have taken and are still taking various measures to ensure that the Group will continue to have adequate levels of cash to sustain its operations.

How the key audit matter was addressed in our audit

We reviewed the plans prepared by management showing how the working capital deficiency of the Group are to be addressed. As part of this process we reviewed cash flow projections prepared by management.

We attended meetings with management and those charged with governance and noted that they were able to provide satisfactory responses to our questions relating to the Group's plans.

We assessed the adequacy of the disclosures made in Note 3, Going concern, of the financial statements including those regarding the key assumptions.

Based on the audit work done we concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate.

Other information

The directors are responsible for the other information. The other information comprises the (i) Chairman's Statement, (ii) the Directors' report, (iii) the Statement by the Directors on the Financial Statement and Other Information included in the Annual Report, (iv) the Directors' Statement of Compliance with the Code of

Principles of Good Corporate Governance and (v) Other Disclosures in terms of the Listing Rules (amend as required) which we obtained prior to the date of this auditor's report, but does not include the financial statements and our auditor's report thereon.

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

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

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Act.

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 Act

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.

Responsibilities of 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 IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Act, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 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 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 the 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 benefit of such communication.

Report on other legal and regulatory requirements

Report on the statement of compliance with the Principles of Good Corporate Governance

The Listing Rules 5.94 and 5.97 issued by the Malta Listing Authority (the "Listing Rules") 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.

Listing Rule 5.98 also requires us, as the auditor of the Company, 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 in 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 6 to 10 has been properly prepared in accordance with the requirements of the Listing Rules.

Other matters on which we are required to report by exception

We also have responsibilities

- under the Companies Act, Cap 386 to report to you if, in our opinion:
 - adequate accounting records have not been kept
 - the financial statements are not in agreement with the accounting records.
 - we have not received all the information and explanations we require for our audit.
- in terms of Listing Rule 5.62 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.

The engagement partner on the audit resulting in this independent auditor's report is Mark Bugeja.



Mark Bugeja (Partner) for and on behalf of

GRANT THORNTON
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24 April 2018