MELITE

COMPANY ANNOUNCEMENT

Melite Finance plc

Approval of unaudited interim financial statements for the financial period ended 30 June 2022

Date of Announcement	30 August 2022
Reference	38/2022
Capital Markets Rule	5.16.20

QUOTE

During the meeting of the Board of Directors of Melite Finance p.l.c. (the "Company") held today 30 August, 2022, the Board of Directors of the Company approved the Company's unaudited interim financial statements for the six-month period ended 30 June, 2022.

The interim financial statements are attached herewith and are also available for viewing on the website of the Company at http://meliteproperties.com/melite-finance/financial-information/.

UNQUOTE

By order of the Board of Directors of Melite Finance p.l.c.

Malcolm Falzon
COMPANY SECRETARY

MELITE FINANCE P.L.C.

Condensed Interim Consolidated
Financial Statements
30 June 2022

(unaudited)

For the period 1 January 2022 to 30 June 2022

Company Registration Number: C 88405

Directors' report

The directors present their report in terms of Chapter 5 of the Capital Markets Rules issued by the MFSA, and in terms of the Prevention of Financial Markets Abuse Act 2005. The underlying accounting policies are the same as those adopted by Melite Finance p.l.c. (the 'Company') and its subsidiary (together, the 'Group') in its published annual report. The published figures have been extracted from the Company's unaudited accounts for the six months ended 30 June 2022, as approved by the Board of Directors on 30 August 2022 and are in accordance with accounting standards as adopted by the EU for interim financial statements, (International Accounting Standard 34, 'Interim Financial Reporting'). In accordance with the terms of Capital Markets Rule 5.75.5, this interim report has not been audited or reviewed by the Group's independent auditors.

Principal activities

The principal activity of the Company, which forms part of the Melite Retail Group, is to act as a finance company by advancing amounts on loan to its subsidiary Melite Properties S.r.l (Melite Properties). The subsidiary holds investment property through its rights to properties which it lets out to third parties.

Review of the business

During the six-month period under review, the Revenue for the Group, which was primarily generated from rental operations, amounted to €1,159,525 (2021: €487,777– net of concessions granted to tenants amounting to €103,069). No concessions were granted to tenants in 2022. The Group registered a gross profit of €360,354 (2021: gross loss of €709,353) and a loss before tax amounting to €247,104 (2021: €1,986,386).

The Group's total asset base stands at €20,403,083 (2021: €21,050,728). The main non-current assets comprise right-of-use assets of €17,939,674 (2021: €19,214,203). At 30 June 2022, the Group's current assets amounted to €1,914,668 (2021: €1,685,116) and are mainly represented by trade and other receivables, net of impairment provisions, of €640,940 (2021: €963,555) and cash of €1,273,728 (2021: €721,561). The Group's non-current liabilities amounted to €18,717,497 (2021: €19,993,555) which mainly consist of borrowings of €9,837,689 (2021: €9,930,727) and lease liabilities of €8,879,809 (2021: €10,062,828). The Group's current liabilities amounted to €2,168,590 (2021: €2,311,075) which primarily consist of the current portion of the lease liability of €1,254,819 (2021: €1,247,380), bank borrowings of €92,955 and trade and other payables, including corporate tax liabilities of €820,815 (2021: €1,063,695).

Directors' report - continued

Business update

Melite Properties' principal operation consists of the letting and sub-letting of retail outlets located in Italy, and therefore the longer-term prospects of the Melite Finance Group are intrinsically linked to the development in the retail real estate market in Italy, particularly the market for prime locations on the primary high streets of the Italian peninsula and islands. The Melite Finance Group's commercial lease agreements typically relate to retail outlets located in the prime positions in high streets of cities such as Milan and Turin and in the main retail area of towns such as Pavia, Como and Treviso.

As described in the financial statements for the year ended 31 December 2021, both the retail landscape and the commercial real estate landscape in Northern Italy, where the vast majority of the Stores are located, have been subjected to significant and unprecedented disruption as a result of the pandemic. Following the outbreak of COVID-19 in Italy, particularly in Northern Italy where most of the leases held by Melite Properties are situated, all retail outlets in Italy were shut with effect from 10 March 2020. Retail outlets were permitted to re-open as from 18 May 2020 but virtually all of Melite Properties' tenants had elected not to re-open for the major part of the year, in common with many retail outlets across Italy. Further to a spike in the number of positive COVID-19 cases recorded across Italy over the latter months of 2020, the Italian government re-introduced a series of restrictive measures as from early November. Such measures subsisted throughout the month of December and only started to be gradually relaxed in parts of Italy in mid-2021.

Following the onset of COVID-19 and the decision by Melite Italia s.r.l, (the principal tenant at the time), to enter into voluntary administration, a restructuring plan was agreed to by the Board of Directors of the Company. As part of the restructuring plan, Melite Properties rescinded ten stores during the course of 2020 and 2021. This was necessary to channel all available cash towards safeguarding what the Board of Directors of Melite Properties believe to be the more valuable leases that are essential to secure the fulfilment of its obligations towards the Company and, in turn, the Melite Finance Group's long-term survival. The leases that were rescinded relate to those stores (such as stores located within commercial centres) which, based on advice from real estate specialists, were expected to take longer to sub-let.

Whilst the retail sector experienced some recovery in 2021, the outlook remained uncertain given that COVID-19 continued to persist throughout the year. The uncertainty in the market which continued in the first half of 2022 is compounded by the situation in Ukraine and the ripple effects this has had on the retail sector in Italy and the global economy.

Melite Properties has maintained payments of rent to landlords (as reduced, where possible, further to negotiations conducted by management) and remains in contact with them as this is considered essential for the purpose of the safeguarding of the company's property rights over the stores it has retained.

The Board of Directors of the Company remains focussed on trying to ensure that the underlying business retains as much value as possible to enable the Company to continue, in so far as is possible, to service its obligations to the holders of the €9,250,000 secured bonds 2028 issued by the Company (the "Bonds").

Following the rescission of contracts. Melite Properties was left with a total of 19 stores, with a combined valuation of €9,172,385. These 19 stores had a value of €8,527,424 as at 31 December 2020 reflecting the improvement in trading conditions over the last twelve to eighteen months.

The Directors have carried out an internal assessment to determine whether there were significant changes to the fair value of the leasehold premia keeping in view the generally acceptable valuation methods and are of the opinion that the fair value of the properties has not altered significantly since the date of the last valuations carried out by the company's external valuer as at 31 December 2021. The valuations are based on the same methodology assumed in the previous valuations used for the purposes of the initial transfer.

Directors' report - continued

Notwithstanding the challenging economic climate and rapidly evolving conditions, management concluded or retained agreements for the sub-letting of all 19 stores to third party operators during the course of 2020 and 2021, albeit at a discount from but increasing to pre-COVID rental rates as from January 2023.

Melite Properties was successful in securing Italian state credits as compensation for loss of rent during the forced closure of the retail outlets for the amounts of €521,775 in 2021 and €42,595 between January and June 2022.No further similar state credits are expected.

On 19 November 2021, one of the shareholders of the parent company advanced €448,625 and on 28 January 2022 advanced a further €209,375 to the Company and the Group, with a view of the total advance of €658,000 being converted into preference share capital. The capitalisation was approved by the shareholders of the Company on 28 January 2022 and effected on 1 February 2022.

Given the credits received from the Italian state and the capital injection referred to above, and subject to no significant deterioration in market conditions that could arise from the uncertainties referred to earlier, the Group's cashflow for the next 12 months appears to be manageable.

The Directors continue to consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of the 2022 interim financial statements. However, the conditions described above surrounding the retail sector in Italy, the impact of the pandemic on the operations and financial position of the Group, and the tenancy risk that will remain, indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern.

Directors' report - continued

Results and dividends

The condensed interim consolidated statement of comprehensive income is set out on page 9. The Directors do not recommend the payment of an interim dividend for the period under review.

Directors

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

Jackie Briffa
Alan Frendo Jones
Christian Ganado
Paul Mercieca
Stanley Portelli

Approved by the Board of Directors on 30th August 2022 and signed on its behalf by:

Paul Mercieca	Stanley Portelli
Director	Director

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

Statement pursuant to Capital Markets Rule 5.75.3

We hereby confirm that to the best of our knowledge:

- the condensed interim consolidated financial statements give a true and fair view of the financial position of the Group and Company as at 30 June 2022, as well as of the financial performance and cash flows for the said period, in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (IAS 34: 'Interim Financial Reporting'); and

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

Paul Mercieca
Director
30th August 2022

Stanley Portelli
Director

Condensed interim consolidated statements of financial position

	As at 30 June 2022 Group €	As at 30 June 2022 Company €	As at 31 December 2021 Group €	As at 31 December 2021 Company €
ASSETS				
Non-current assets	**18,488,415**	**8,870,851**	19,279,850	9,091,273
Current assets	**1,914,668**	**359,233**	1,770,878	32,646
Total assets	**20,403,083**	**9,230,084**	21,050,728	9,123,919
EQUITY AND LIABILITIES				
Net deficiency	**(483,004)**	**(857,107)**	(435,377)	(809,479)
Non-current liabilities	**18,717,497**	**9,375,249**	19,252,486	9,404,473
Current liabilities	**2,168,590**	**711,943**	2,233,619	528,925
Total liabilities	**20,886,087**	**10,087,191**	21,486,105	9,933,397
Total equity and liabilities	**20,403,083**	**9,230,084**	21,050,728	9,123,918

The notes on pages 12 to 15 are an integral part of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements on pages 6 to 15 were authorised for issue by the board on 30th August 2022 and were signed on its behalf by:

Paul Mercieca
Director

Stanley Portelli
Director

Condensed interim consolidated income statements

	Period from 1 January to 30 June 2022		Period from 1 January to 30 June 2021	
	Group	**Company**	Group	Company
	€	**€**	€	€
Revenue	**1,159,525**	**-**	487,777	-
Cost of sales	**(799,171)**	**-**	(1,197,130)	-
Gross profit/(loss)	**360,354**	**-**	(709,353)	-
Administrative expenses	**(165,816)**	**(77,033)**	(199,272)	(110,024)
Impairment on leashold premia, net of recovery	**-**	**-**	(704,222)	-
Other operating income	**97,793**	**99,524**	210,648	85,000
Operating profit/(loss)	**292,331**	**22,491**	(1,402,199)	(25,024)
Impairment of investment in subsidiary	**-**	**(220,422)**	-	(2,372,706)
Finance income	**-**	**198,422**	-	198,422
Finance costs	**(539,435)**	**(247,596)**	(584,187)	(246,857)
Loss before tax	**(247,104)**	**(247,105)**	(1,986,386)	(2,446,165)
Income tax expense	**(9,898)**	**(9,898)**	-	-
Loss for the period	**(257,002)**	**(257,003)**	(1,986,386)	(2,446,165)
Attributable to:				
Owners of the parent	**(257,002)**	**(257,003)**	(1,986,386)	(2,446,165)

The notes on pages 12 to 15 are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statements of comprehensive income

	Period from 1 January to 30 June 2022		Period from 1 January to 30 June 2021	
	Group	**Company**	Group	Company
	€	**€**	€	€
Loss for the period	**(257,002)**	**(257,003)**	(1,986,386)	(2,446,165)
Other comprehensive losses: *Items that will not be reclassified subsequently to profit or loss* Released on disposal of equity instruments designated at FVTOCI	**-**	**-**	(82,826)	-
Total comprehensive loss for the period	**(257,002)**	**(257,003)**	(2,069,212)	(2,446,165)
Attributable to: Owners of the parent	**(257,002)**	**(257,003)**	(2,069,212)	(2,446,165)

The notes on pages 12 to 15 are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statements of changes in equity

Group

	Share capital €	Other reserves €	Fair value reserve €	Accumulated losses €	Total €
Balance at 31 December 2020	5,874,406	637,560	82,826	(5,270,775)	1,324,017
Comprehensive losses					
Loss for the period	-	-	-	(1,986,386)	(1,986,386)
Other comprehensive losses	-	-	(82,826)	-	(82,826)
Total comprehensive losses for the period	-	-	(82,826)	(1,986,386)	(2,069,212)
Balance at 30 June 2021	5,874,406	637,560	-	(7,257,161)	(745,195)
Balance at 31 December 2021	5,874,406	1,086,185	-	(7,395,968)	(435,377)
Comprehensive losses					
Loss/total comprehensive losses for the period	-	-	-	(257,002)	(257,002)
Transactions with owners					-
Additional ex-gratia contribution recevied from one of the shareholders of the parent company	-	209,375	-	-	209,375
Conversion of ex-gratia capital contributions into preference shares	658,000	(658,000)	-	-	-
Balance at 30 June 2022	**6,532,406**	**637,560**	**-**	**(7,652,970)**	**(483,004)**

The notes on pages 12 to 15 are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statements of changes in equity - continued

Company

	Share capital €	Other reserves €	Accumulated losses €	Total €
Balance at 31 December 2020	5,874,406	637,560	(3,816,958)	2,695,008
Comprehensive losses				
Loss/total comprehensive losses for the period	-	-	(2,446,165)	(2,446,165)
Balance at 30 June 2021	**5,874,406**	**637,560**	**(6,263,123)**	**248,843**
Balance at 31 December 2021	5,874,406	1,086,185	(7,770,070)	(809,479)
Comprehensive losses				
Loss/total comprehensive losses for the period	-	-	(257,003)	(257,003)
Transactions with owners				
Additional ex-gratia contribution recevied from one of the shareholders of the parent company	-	209,375	-	209,375
Conversion of ex-gratia capital contributions into preference shares	658,000	(658,000)	-	-
Balance at 30 June 2022	**6,532,406**	**637,560**	**(8,027,073)**	**(857,107)**

The notes on pages 12 to 15 are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statements of cash flows

	Period from 1 January to 30 June 2022		Period from 1 January to 30 June 2021	
	Group	**Company**	Group	Company
	€	**€**	€	€
Net cash generated from/(used in) operating activities	**1,107,811**	**99,372**	280,947	(174,904)
Net cash generated from investing activities	**-**	**-**	530,343	-
Net cash (used in)/generated from financing activities	**(731,007)**	**175,449**	(892,953)	-
Net movement in cash and cash equivalents	**376,804**	**274,821**	(81,663)	(174,904)
Cash and cash equivalents at beginning of period	**391,873**	**5,479**	315,438	194,415
Cash and cash equivalents at end of period	**768,677**	**280,300**	233,775	19,511

The notes on pages 12 to 15 are an integral part of these condensed interim consolidated financial statements.

Notes to the condensed interim consolidated financial statements

1. General information

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

The consolidated financial statements for the year ended 31 December 2021 are available upon request from the Company's registered office at Level 3, Valletta Buildings, South Street, Valletta, VLT 1103, Malta. They are also available for viewing on its website at www.meliteproperties.com.

This condensed interim consolidated financial information was approved for issue by the Board of Directors on 30th August 2022.

2. Basis of preparation

The condensed consolidated interim financial information for the six-month period ended 30 June 2022 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34, 'Interim Financial Reporting)'. The condensed interim consolidated financial information should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with IFRSs as adopted by the EU.

The Directors continue to consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of the 2022 interim financial statements However, the uncertain conditions surrounding the retail sector in Italy, the impact of the pandemic on the operations and financial position of the Group, and the tenancy risk that will remain, indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern.

3. Summary of significant accounting policies

The accounting policies applied in the preparation of the condensed consolidated interim financial information are the same as those applied in the consolidated financial statements for the year ended 31 December 2021.

(a) Standards, interpretations and amendments to published standards effective in 2021

In 2021, the Company adopted revised standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2021. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning after 1 January 2022 have been published by the date of authorisation for issue of this financial information. The Company's Directors are of the opinion that there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

Notes to the condensed interim consolidated financial statements - continued

4. Financial risk management

The Company's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2021.

5. Critical accounting estimates and judgements

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

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, except as outlined in Note 2 to these financial statements and as highlighted in the following paragraphs.

Fair value of right of use assets and lease premia

As at 30 June 2022, the Group's right of use assets include leasehold premia amounting to €9,012,683 (2021: €9,337,882). These premia are fair valued on the basis of professional advice, given that such valuation requires the extensive use of judgement and estimates. There is an active market for the transfer of property rights attached to leases of retail outlets located in Italy, whereby the current holders transfer their residual rights to the retail outlet to other parties for a consideration. The consideration paid typically reflects the differential between the current market rental rate for an outlet and the rental rate stipulated in the lease agreement with the landlord.

Valuations are performed annually using projected rental streams and the residual value of the property following lapse of the rental period, taking into consideration also the location of the property. The most significant judgements and estimates affecting the valuations include projected rental streams, the residual value of the property and the current market rate for the leasing of outlets in the location of the outlet being valued. The Directors obtained an assessment of the current market value of the property rights attached to its lease agreements from a specialised real estate valuer based in Italy. These valuations were used as a basis for the initial transfer of the property rights from Melite Italia S.r.l to Melite Properties S.r.l. The valuations were carried out by reference to the current average rental value per sqm (valore locativo mq/anno) for each outlet, which reflects external market factors including the supply and demand for retail outlets in a particular location. In this respect, the valuers made reference to data derived from recent comparable market transactions that would have occurred in the same street where each property is located.

For the purposes of the interim unaudited condensed financial statements, the Directors have carried out an internal assessment to determine whether there were significant changes to the fair value of the leasehold premia keeping in view the generally acceptable valuation methods. The Directors are of the opinion that the fair value of the properties has not altered significantly since the date of the last valuations carried out by the Company's external valuer as at 31 December 2021. The valuations are based on the same methodology assumed in the previous valuations used for the purposes of the initial transfer.

Notes to the condensed interim consolidated financial statements - continued

5. Critical accounting estimates and judgements – continued

Impairment loss on investment in subsidiary

The impairment losses on the investment in the subsidiary recognised in the condensed income statement during the period amounted to €220,422 (2021: €2,372,706). During the period, the Company carried out a review of the recoverable amount of its investment in subsidiary, this led to the recognition of an additional impairment loss. In determining the amount of impairment, the Directors took into consideration the net asset value of the subsidiary which reported a significant decrease in the current year due to the losses incurred during the period, future projected rental, rental margins and the fair value of the leasehold premia.

6. Right of use assets

Right of use assets relates to leasehold properties and premia paid on such properties. There were no additions in the current period (2021: €2,144,802) to right-of-use assets following lease modifications during the previous financial period. The movement in the carrying amount of right of use assets during the period is attributable to depreciation charges amounting to €763,034 (2021: €794,638).

7. Taxation

The tax expense for the period ended 30 June 2022 amounting to €9,898 consisted of the withholding tax on the interest payment received by the Company on the related party loans receivable.

8. Loans receivable

In the ordinary course of its business activities, the Company has also advanced funds to its subsidiary. Such amounts are subject to a fixed rate of interest of 6.1%, are unsecured and repayable by not later than 16 November 2028 and 16 November 2030 respectively.

9. Issue of preference share capital

On 19 November 2021, one of the shareholders of the parent company advanced €448,625. On 28 January 2022 a further €209,375 was advanced to the Company and the Group, with a view of this being converted into preference share capital. The capitalisation was approved by the shareholders of the Company on 28 January 2022, whereby it was resolved to:

- Re-designate the authorised share capital of the Company from ten million Euro (€10,000,000) divided into ten million (10,000,000) Ordinary Shares of a nominal value of one Euro (€1) each to nine million three hundred and forty-two thousand (9,342,000) Ordinary Shares of a nominal value of one Euro (€1) each and six hundred and fifty-eight thousand (658,000) redeemable Preference Shares of a nominal value of one Euro (€1) each.

- Increase the issued share capital of the Company by the issue and allotment of six hundred and fifty-eight thousand (658,000) redeemable Preference Shares of a nominal value of one Euro (€1), fully paid up, in favour of Alf Mizzi & Sons Ltd, in consideration for an ex-gratia contribution of €658,000. The redeemable Preference Shares were issued and allotted on 1 February 2022.

10. Capital commitments

As at 30 June 2022 and 31 December 2021, the Company did not have any capital commitments.

11. Interest bearing borrowings

By virtue of a prospectus dated 12 November 2018, the Group issued €9,250,000 bonds with a face value of €100 each. The Bonds bear interest at 4.85% which is payable annually in arrears, on 23 November of each year. The Bonds are redeemable at par and are due for redemption on 23 November 2028. The Bonds were admitted to listing on the Official List of the Malta Stock Exchange on 28 November 2018. The quoted market price as at 30 June 2022 for the Bonds was €80 (2021: €80), which in the opinion of the Directors fairly represents the fair value of these financial liabilities.

In accordance with the provisions of the prospectus, the proceeds from the Bond issue have been advanced by the Company to its subsidiary.

The Bonds constitute the general, direct, unconditional and secured obligations of the Company and shall at all times rank *pari passu*, without any priority or preference among themselves, but they shall rank with priority or preference over all unsecured obligations of the Company.

12. Lease liabilities

As from 1 January 2019, the Group has also adopted the amendments to IFRS 16 and has recognised a lease liability reflecting future lease payments and a 'right-of-use asset' for all property lease contracts. The lease liability as at 1 January 2019 amounted to €15,636,817, and a deemed interest cost of 6.1% has been applied. The balance of lease liability as at 30 June 2022 amounted to €10,134,628 (2021: €11,310,208). The total cash outflows for leases during the reporting period was €906,456 (2021: €892,953).

13. Contingent liabilities

No events occurred since 31 December 2021 that require disclosure of any contingent liabilities as at 30 June 2022.

14. Related parties

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

The principal transactions carried out by the Group with related parties during the six-month period ended 30 June 2022 are outlined below:

- Management fees charged by related parties amounting to €nil (2021: €25,000).

- Fees charged by key management personnel amounting to €20,514 (2021: €25,000).

- Current assets include amounts due from the immediate parent company of the Group of €71,006 (2021: €121,006).

- Non-current liabilities include amounts advanced by related parties of €462,440 (2021: €462,440).