



MELITE

COMPANY ANNOUNCEMENT

Melite Finance plc

**Approval of unaudited interim financial statements
for the financial period ended 30 June 2023**

Date of Announcement	30 August 2023
Reference	43/2023
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, 2023, the Board of Directors of the Company approved the Company's unaudited interim financial statements for the six-month period ended 30 June, 2023.

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 2023

(unaudited)

For the period 1 January 2023 to 30 June 2023

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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. and its subsidiary (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 2023, as approved by the Board of Directors on 30 August 2023 and are in accordance with International Financial Reporting Standards as adopted by the EU for interim financial statements (i.e. 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 leasehold rights over 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 €1,436,247 (2022: €1,159,525). The Group registered a gross profit of €626,737 (2022: €360,354) and a loss before tax amounting to €133,053 (2022: €247,104).

The Group's total asset base stands at €20,508,371 (2022: €20,403,083). The main non-current assets comprise right-of-use assets of €18,387,168 (2022: €17,939,674). At 30 June 2023, the Group's current assets amounted to €972,677 (2022: €1,914,668) and are mainly represented by trade and other receivables, net of impairment provisions, of €608,376 (2022: €640,940) and cash and cash equivalents of €364,301 (2022: €1,273,728). The Group's non-current liabilities amounted to €19,551,342 (2022: €18,717,497) which mainly consist of borrowings of €9,784,041 (2022: €9,837,689) and lease liabilities of €9,767,301 (2022: €8,879,809). The Group's current liabilities amounted to €2,151,112 (2022: €2,168,590) which primarily consist of the current portion of the lease liability of €1,438,293 (2022: €1,254,819), bank borrowings of €89,952 and trade and other payables, including corporate tax liabilities of €622,867 (2022: €820,815).

Business update

The Company's dependence on Melite Properties

The Melite Finance Group is largely dependent on the business and prospects of its subsidiary, Melite Properties. As set out in the Prospectus, the proceeds from the issue of the Bonds were loaned, in part (circa €5.9 million), by the Company to Melite Properties to settle debt and to refurbish retail outlets in leading locations in Italy over which it enjoys leaseholdrights, and to acquire such rights over additional retail outlets for sub-letting. The continued servicing of the Bonds is entirely dependent – and the redemption of the Bonds is in part dependent – on Melite Properties being able to fulfil its repayment obligations towards the Company in terms of the said loan.

The current situation

Melite Properties' principal operation consists of the sub-letting of retail outlets located in Italy, and therefore the longer-term prospects of the Melite Finance Group are intrinsically linked to developments 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 high streets of cities such as Milan and Turin and in the main retail area of towns such as Pavia, Como and Treviso.

Directors' report - continued

As described in the financial statements for the year ended 31 December 2022, 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 onset of COVID-19 and resulting collapse of the retail market in Italy, and the ensuing decision by Melite Italia s.r.l, (the principal tenant of Melite Properties at the time), to enter into voluntary administration, a restructuring plan was agreed to by the Board of Directors of Melite Properties. As part of the restructuring plan, Melite Properties rescinded the lease of ten stores during the course of 2020 and 2021 in order to channel all available cash towards safeguarding its more valuable leases. This was considered 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 by Melite Properties related to those stores which, based on advice from real estate specialists, were expected to take longer to sub-let (such as stores located within commercial centres).

Notwithstanding the challenging economic climate, management was successful in sub-letting the remaining 19 stores to third party operators during the course of 2020 and 2021, albeit at a discount due to some concessions granted on rental lease payments to tenants. The rentals on these stores increased to pre-COVID rates as from January 2023.

Melite Properties received the last Italian state credits for the amount of €62,550 in 2022 as compensation for loss of rent during the forced closure of the retail outlets as a result of the pandemic.

During the financial year ended 31 December 2022, following lifting of COVID-19 restrictions, all stores were re-opened. The six months ending 30 June 2023 reflect a full six months of open stores.

Unfortunately, the outbreak of the war in Ukraine in February 2022 and the soaring inflation and rising interest rates which followed, resulted in a relatively higher margin being charged as variable lease payments, which affected both the rental turnover and finance lease payments of the Group during 2023. These factors have stifled the Group's recovery process post COVID-19 to a significant degree. Having said that, rental margins are expected to improve further as from 1st January 2024.

As at 31 December 2022, Melite Properties held leasehold rights over a total of 19 stores which had a combined valuation of €8,127,274, as at 31 December 2022 (2021: €9,172,385). This valuation reflects the directors' assessment of the fair value of the leasehold premia which takes into consideration the market conditions in Italy at the end of the year as well as the valuation carried out by the company's external valuer as at 31 December 2022

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 2022. The valuations are based on the same methodology assumed in the previous valuations used for the purposes of the initial transfer.

Subject to no significant deterioration in the Group's operations and financial performance that may arise from the uncertainty and volatility in market conditions referred to above, the Group's cashflow for the next 12 months appears to be manageable.

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 to service its obligations to the holders of the Bonds.

Directors' report - continued

Melite Italia S.r.l restructuring

On 27 April 2022, the Melite Italia S.r.l voluntary restructuring process was concluded whereby an irrevocable offer by a third-party retail operator to acquire Melite Italia S.r.l's branch of business was accepted by the Italian Court following a judicial auction process. As a result, the third-party retail operator stepped into the shoes of Melite Italia S.r.l as sub-lessee of 11 of the 19 stores to which Melite Property S.r.l holds title. Whereas the conclusion of the liquidation process of Melite Italia S.r.l was expected to be finalised in 2023 there is now some uncertainty as to when this will happen due to unforeseen developments in the concordato process which remain out of the company's control. As a result, this may delay the payment of the remaining balance due to Melite Properties S.r.l amounting to €401,405.

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 2023 interim financial statements. However, the inflationary conditions surrounding the retail and commercial real estate sectors 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.

Results and dividends

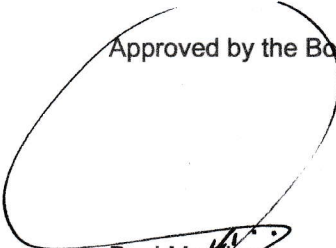
The condensed interim consolidated statement of comprehensive income is set out on page 7. The directors do not recommend the payment of an interim dividend for the period under review.

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 2023 and signed on its behalf by:



Paul Mercieca
Director



Stanley Portelli
Director

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

Statement pursuant to 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 2023, 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 2023



Stanley Portelli
Director


Condensed interim consolidated statements of financial position

	As at 30 June 2023		As at 31 December 2022	
	Group (unaudited) €	Company (unaudited) €	Group (audited) €	Company (audited) €
ASSETS				
Non-current assets	19,535,694	8,580,057	19,379,237	8,654,058
Current assets	972,677	130,525	978,375	199,799
Total assets	20,508,371	8,710,582	20,357,612	8,853,857
EQUITY AND LIABILITIES				
Net deficiency	(1,194,083)	(1,194,083)	(1,051,106)	(1,051,108)
Non-current liabilities	19,551,342	9,321,601	19,419,458	9,351,244
Current liabilities	2,151,112	583,064	1,989,260	553,721
Total liabilities	21,702,454	9,904,665	21,408,718	9,904,965
Total equity and liabilities	20,508,371	8,710,582	20,357,612	8,853,857

The notes on pages 10 to 13 are an integral part of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements on pages 5 to 13 were authorised for issue by the board on 30th August 2023 and were signed on its behalf by:


Paul Mercieca
Director


Stanley Portelli
Director

Condensed interim consolidated statements of profit or loss and other comprehensive income

	Period from 1 January to 30 June 2023		Period from 1 January to 30 June 2022	
	Group €	Company €	Group €	Company €
Revenue	1,436,247	-	1,159,525	-
Cost of sales	(809,510)	-	(799,171)	-
Gross profit	626,737	-	360,354	-
Administrative expenses	(197,588)	(98,859)	(165,816)	(77,033)
Other operating income	23,946	87,159	97,793	99,524
Operating profit/(loss)	453,095	(11,700)	292,331	22,491
Impairment of investment in subsidiary	-	(74,001)	-	(220,422)
Finance income	-	198,422	-	198,422
Finance costs	(586,148)	(245,773)	(539,435)	(247,596)
Loss before tax	(133,053)	(133,053)	(247,104)	(247,105)
Income tax expense	(9,924)	(9,924)	(9,898)	(9,898)
Loss for the period	(142,977)	(142,976)	(257,002)	(257,003)
Attributable to:				
Owners of the parent	(142,977)	(142,976)	(257,002)	(257,003)
Total comprehensive loss for the period	(142,977)	(142,976)	(257,002)	(257,003)
Attributable to:				
Owners of the parent	(142,977)	(142,976)	(257,002)	(257,003)

The notes on pages 10 to 13 are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statements of changes in equity

Group

	Share capital €	Other reserves €	Accumulated losses €	Total €
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 received 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)
Balance at 31 December 2022	6,532,406	637,560	(8,221,072)	(1,051,106)
Comprehensive losses				
Loss/total comprehensive losses for the period	-	-	(142,977)	(142,977)
Balance at 30 June 2023	6,532,406	637,560	(8,364,049)	(1,194,083)

The notes on pages 10 to 13 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 1 January 2022	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 received from one of the shareholders of the parent company	-	209,375	-	209,375
Issue of preference shares via conversion of capital contributions	658,000	(658,000)	-	-
Balance at 30 June 2022	6,532,406	637,560	(8,027,073)	(857,107)
Balance at 1 January 2023	6,532,406	637,560	(8,221,074)	(1,051,108)
Comprehensive losses				
Loss/total comprehensive losses for the period	-	-	(142,976)	(142,976)
Balance at 30 June 2023	6,532,406	637,560	(8,364,049)	(1,194,083)

The notes on pages 10 to 13 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 2023		Period from 1 January to 30 June 2022	
	Group €	Company €	Group €	Company €
Net cash generated from/(used in) operating activities	1,226,147	67,643	1,107,811	99,372
Net cash generated from investing activities	(1,415)	-	-	-
Net cash (used in)/generated from financing activities	(1,188,522)	(44,923)	(731,007)	175,449
Net movement in cash and cash equivalents	36,210	22,720	376,804	274,821
Cash and cash equivalents at beginning of period	328,091	81,763	391,873	5,479
Cash and cash equivalents at end of period	364,301	104,483	768,677	280,300

The notes on pages 10 to 13 are an integral part of these condensed interim consolidated financial statements.

Notes to the condensed interim consolidated financial statements

1. General information

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

The consolidated financial statements for the year ended 31 December 2022 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 2023.

2. Basis of preparation

The condensed consolidated interim financial information for the six-month period ended 30 June 2023 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’) and in terms of the Capital Markets Rules 5.81 issued by the Malta Financial Services Authority (“MFSA”). The condensed interim consolidated financial information should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2022, 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 2023 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 2022.

(a) Standards, interpretations and amendments to published standards effective in 2023

In 2023, the company adopted revised standards, amendments and interpretations to existing standards that are mandatory for the company’s accounting period beginning on 1 January 2023. 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 on or after 1 January 2024 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 2022.

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 paragraph.

(i) *Fair value of right of use assets and lease premia*

As at 30 June 2023, the Group's right of use assets include leasehold premia amounting to €8,611,194 (2022: €9,012,683). 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 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 2022. 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

(ii) 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 €74,001 (2022: €220,422). During the period, the Company carried out a review 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. During the course of the current financial period, additions to right-of-use assets following lease modifications arising from the extension of the lease terms of certain properties amounted to €867,563 (2022: nil). The remaining movement in the carrying amount of right of use assets during the period is attributable to depreciation charges amounting to €775,246 (2022: €763,034).

7. Taxation

The tax expense for the period ended 30 June 2023 amounting to €9,924 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 also advances funds to group companies. Such amounts are subject to a fixed rate of interest of 6.1%, are unsecured and repayable by not later than 23 November 2028.

9. Capital commitments

As at 30 June 2023 and 31 December 2022, the Company did not have any capital commitments.

10. Interest bearing borrowings

By virtue of an offering memorandum dated 12 November 2018, the Group issued €9,250,000 bonds with a face value of €100 each. The bonds have a coupon interest of 4.85% which is payable annually in arrears, on 23 November of each year. The bonds are redeemable at par and are due for redemption on 23 November 2028. The bonds were admitted on the Official List of the Malta Stock Exchange on 12 November 2018. The quoted market price as at 30 June 2023 for the bonds was €84 (2022: €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 parent to group related parties.

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

Notes to the condensed interim consolidated financial statements - continued

11. 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 2023 amounted to €11,205,588 (2022: €10,134,628). The total cash outflows for leases during the reporting period was €1,057,900 (2022: €906,456).

12. Contingent liabilities

No events occurred since 31 December 2022 that require disclosure of any contingent liabilities as at 30 June 2023.

13. Related parties

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

The principal transactions carried out by the Group with related parties during the six-month period ended 30 June 2023 (2022: six-months ended 30 June 2023) are outlined below:

- Fees charged by key management personnel amounting to €20,252 (2022: €20,514).
- Current assets include amounts due from the immediate parent company of the Group of €99,808 (2022: €71,006).
- Non-current liabilities include amounts advanced by related parties of €462,440 (2022: €462,440).