MIDI p.l.c.

Annual Report and Consolidated Financial Statements
31 December 2001

Company Registration Number : C - 15836

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2001.

Principal activity

The principal activity of the group is the development of the Manoel Island and Tigne` Point Project.

Review of the business

During the year under review the company recruited additional project management and engineering resources. It also completed detailed plans and submitted planning permit applications for two major phases within Tigne` Point. Works commenced at Tigne` Point in respect of site preparation and excavation and at Manoel Island in terms of emergency repairs and restoration to Fort Manoel.

Results and dividends

The consolidated profit and loss account is set out on page 5. The directors do not recommend the payment of a dividend (2000: Nil).

Directors

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

Albert Mizzi – Chairman
Bank of Valletta plc
Paul Bonello
Joseph A. Gasan
Mario C. Grech
Prof. John Mamo
Dr. Alec A. Mizzi
Maurice F. Mizzi
Charles Polidano – appointed 2 August 2001
Michael Soler
Nazzareno Vassallo
John M. Gatt – resigned 2 August 2001

All the directors shall retire from office at the Annual General Meeting of the company in accordance with Article 85 of the company's Articles of Association and are eligible for re-election or re-appointment.

Directors' report - continued

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board

Albert Mizzi
Chairman

Joseph A. Gasan
Director

Registered office
Qui-si-sana Road
Tigne`, Sliema
Malta

20 May 2002

Statement of directors' responsibilities

The directors are required by the Maltese Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the company and of the group as at the end of each financial period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates;
- the financial statements have been drawn up in accordance with International Accounting Standards;
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company or the group will continue in business as a going concern.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group, and to enable them to ensure that the financial statements comply with the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the auditors

To the Members of MIDI p.l.c.

We have audited the financial statements on pages 5 to 18. As described in the statement of directors' responsibilities on page 3, these financial statements are the responsibility of the company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and of the profit, changes in equity and cash flows for the year then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the Maltese Companies Act, 1995.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
167 Merchants Street
Valletta
Malta

20 May 2002

Profit and loss accounts

		Group		Company	
	Notes	**2001**	2000	**2001**	2000
		Lm	Lm	**Lm**	Lm
Operating income	1	**15,584**	6,392	**15,584**	6,392
Administrative expenses		**(16,235)**	(3,044)	**(15,572)**	(3,044)
Operating (loss)/profit	2	**(651)**	3,348	**12**	3,348
Interest receivable		**9,777**	18,740	**9,777**	18,740
Profit on ordinary activities before tax		**9,126**	22,088	**9,789**	22,088
Tax on profit on ordinary activities	4	**(1,471)**	(3,983)	**(1,471)**	(3,983)
Profit for the financial year		**7,655**	18,105	**8,318**	18,105

Statement of total recognised gains and losses

There were no recognised gains or losses in 2001 and 2000 other than the profit for the financial year.

Balance sheets

		Group		Company	
	Notes	**2001**	2000	**2001**	2000
		Lm	Lm	**Lm**	Lm
ASSETS					
Fixed assets					
Tangible assets	5	**69,211**	89,398	**69,211**	89,398
Investments	6	**-**	-	**2,000**	-
		69,211	89,398	**71,211**	89,398
Current assets					
Stock – Development project	7	**24,286,179**	21,140,942	**24,286,179**	21,140,942
Debtors	8	**432,593**	73,307	**377,707**	73,307
Cash at bank and in hand		**242,111**	75,848	**241,959**	75,848
		24,960,883	21,290,097	**24,905,845**	21,290,097
Total assets		**25,030,094**	21,379,495	**24,977,056**	21,379,495
EQUITY AND LIABILITIES					
Capital and reserves					
Called up issued share capital	11	**4,756,692**	3,301,584	**4,756,692**	3,301,584
Profit and loss account		**53,301**	45,646	**53,964**	45,646
Total shareholders' funds		**4,809,993**	3,347,230	**4,810,656**	3,347,230
Creditors: amounts falling due after more than one year					
Other creditors	10	**16,369,125**	16,259,075	**16,369,125**	16,259,075
Borrowings	9	**1,998,893**	-	**1,998,893**	-
		18,368,018	16,259,075	**18,368,018**	16,259,075
Creditors: amounts falling due within one year					
Other creditors	10	**1,852,078**	1,771,790	**1,798,377**	1,771,790
Current taxation	4	**5**	1,400	**5**	1,400
		1,852,083	1,773,190	**1,798,382**	1,773,190
Total creditors		**20,220,101**	18,032,265	**20,166,400**	18,032,265
Total equity and liabilities		**25,030,094**	21,379,495	**24,977,056**	21,379,495

The financial statements on pages 5 to 18 were authorised for issue by the board on 20 May 2002 and were signed on its behalf by:

Albert Mizzi
Chairman

Joseph A. Gasan
Director

Statements of changes in equity

Group	Notes	**Share capital** Lm	**Profit and loss account** Lm	**Total** Lm
Balance at 1 January 2000		2,278,008	27,541	2,305,549
Capitalisation of amounts due to consortium partners		23,576	-	23,576
Issue of new shares for cash	11	1,000,000	-	1,000,000
Profit for the financial year		-	18,105	18,105
Balance at 31 December 2000		**3,301,584**	**45,646**	**3,347,230**
Balance at 1 January 2001		3,301,584	45,646	3,347,230
Increase in paid up share capital	11	1,455,108	-	1,455,108
Profit for the financial year		-	7,655	7,655
Balance at 31 December 2001		**4,756,692**	**53,301**	**4,809,993**

Company	Notes	**Share capital** Lm	**Profit and loss account** Lm	**Total** Lm
Balance at 1 January 2000		2,278,008	27,541	2,305,549
Capitalisation of amounts due to consortium partners		23,576	-	23,576
Issue of new shares for cash	11	1,000,000	-	1,000,000
Profit for the financial year		-	18,105	18,105
Balance at 31 December 2000		**3,301,584**	**45,646**	**3,347,230**
Balance at 1 January 2001		3,301,584	45,646	3,347,230
Increase in paid up share capital	11	1,455,108	-	1,455,108
Profit for the financial year		-	8,318	8,318
Balance at 31 December 2001		**4,756,692**	**53,964**	**4,810,656**

Cash flow statements

	Notes	Group 2001 Lm	Group 2000 Lm	Company 2001 Lm	Company 2000 Lm
Operating (loss)/profit		**(651)**	3,348	**12**	3,348
Investment in stock - development project		**(1,797,902)**	(19,527,037)	**(1,797,902)**	(19,527,037)
Other working capital movements	12	**46,776**	301,679	**47,961**	301,679
Cash used in operations		**(1,751,777)**	(19,222,010)	**(1,749,929)**	(19,222,010)
Interest received		**9,777**	18,740	**9,777**	18,740
Tax paid		**(2,866)**	(3,952)	**(2,866)**	(3,952)
Net cash used in operating activities		**(1,744,866)**	(19,207,222)	**(1,743,018)**	(19,207,222)
Investing activities					
Acquisition of office equipment, furniture and fittings	5	**(5,573)**	(89,398)	**(5,573)**	(89,398)
Acquisition of shares in a group undertaking		**-**	-	**(2,000)**	-
Net cash used in investing activities		**(5,573)**	(89,398)	**(7,573)**	(89,398)
Financing activities					
Government (repayments)/financing re acquisition of land		**(1,719,774)**	17,580,650	**(1,719,774)**	17,580,650
Bank borrowings	9	**1,998,893**	-	**1,998,893**	-
Other creditors		**182,475**	-	**182,475**	-
Increase in paid up share capital	11	**1,455,108**	1,000,000	**1,455,108**	1,000,000
Net cash generated from financing activities		**1,916,702**	18,580,650	**1,916,702**	18,580,650
Movement in cash and cash equivalents		**166,263**	(715,970)	**166,111**	(715,970)
Cash and cash equivalents at beginning of year		**75,848**	791,818	**75,848**	791,818
Cash and cash equivalents at end of year	13	**242,111**	75,848	**241,959**	75,848

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

The consolidated financial statements include the financial statements of MIDI p.l.c. and its subsidiary undertaking Tigne` Contracting Limited. These are prepared in accordance with International Accounting Standards and comply with the Maltese Companies Act, 1995. The consolidated financial statements are prepared under the historical cost convention.

During 2001, the company and group adopted IAS 39, Financial Instruments: Recognition and Measurement. The adoption of IAS 39 had no significant effect on these financial statements. The company and group do not hold derivatives and the measurement principles applicable to the company's and group's significant financial assets and liabilities have not been revised by the application of IAS 39.

(b) Consolidation

Subsidiary undertakings, which are those companies in which the group directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the group and are no longer consolidated from the date of disposal. All intercompany transactions between group companies have been eliminated. There are no minority interests within the group.

(c) Revenue recognition

Revenues earned by the company and group comprise berthing fees and interest income and are recognised on an accruals basis.

(d) Borrowings

Borrowings are recognised initially at the cash equivalent value of the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective interest method. The difference between proceeds and the redemption value is recognised over the period of the borrowings and accounted for as follows:

(i) Borrowing costs that are directly attributable to the development project are capitalised as part of the cost of the project and are included in its carrying amount. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare any discrete part of the project for its sale or intended use are completed.

(ii) All other borrowing costs are recognised in the income statement as incurred.

Accounting policies - continued

(e) Stock – Development project

The main object of the company is the development of a large area of land acquired for the purpose. This development is intended in the main for resale purposes, and is accordingly classified in the financial statements as stock. Any elements of the project which are identified for business operation or long-term investment properties are transferred at their carrying amount or fair value to Property, Plant and Equipment or Investment Properties when such identification is made and the cost thereof can reliably be segregated.

The development is carried at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the land together with other costs incurred during its subsequent development, including:

(i) The costs incurred on development works, including demolition, site clearance, excavation, construction, etc., together with the costs of ancillary activities such as site security;

(ii) The cost of various design and other studies conducted in connection with the project, together with all other expenses incurred in connection therewith;

(iii) Any borrowing costs, including imputed interests, attributable to the development phases of the project.

The purchase cost of acquiring the land represents the cash equivalent value of the contracted price. This was determined at date of purchase by discounting to present value the future cash outflows comprising the purchase consideration.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(f) Tangible fixed assets

Tangible fixed assets, comprising office equipment, furniture and fittings, are initially recorded at cost less depreciation.

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

	%
Office equipment, furniture and fittings	10 – 33

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Accounting policies - continued

(g) Trade debtors

Trade debtors are carried at anticipated realisable value. An estimate is made for doubtful debtors based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

(h) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(i) Foreign currencies

Transactions in foreign currencies have been converted into Maltese liri at the rates of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into Maltese liri at the rates of exchange ruling at the balance sheet date.

Notes to the financial statements

1. Activities of the company

The MIDI Consortium was granted a letter of intent by the Government of Malta in December 1992 for the development of the Manoel Island and Tigne` Point project. Project negotiations were successfully concluded and a 99 year emphyteutical grant was entered into with Government on 15 June 2000. Works at Tigne` Point commenced towards the end of 2000 and continued during 2001. During the year, the company earned berthing fees on existing facilities at Manoel Island and interest income on bank balances.

2. Operating (loss)/profit

Operating (loss)/profit is stated after:

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Audit fees	**1,650**	1,500	**1,500**	1,500
Staff costs (Note 3)	**3,490**	350	**3,490**	350

3. Staff costs

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Wages and salaries	**222,244**	78,268	**222,244**	78,268
Social security costs	**14,597**	4,435	**14,597**	4,435
	237,841	82,703	**237,841**	82,703
Amounts included in Stock – development project (Note 7)	**234,351**	82,353	**234,351**	82,353
Amounts expensed	**3,490**	350	**3,490**	350
	237,841	82,703	**237,841**	82,703

Average number of persons employed during the year:

	Group		Company	
	2001	2000	**2001**	2000
Administration	**27**	15	**27**	15

4. Tax on profit on ordinary activities

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Current tax expense	**1,471**	3,983	**1,471**	3,983

The tax on the profits of the group and of the company before the tax charge differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Profit on ordinary activities before tax	**9,126**	22,088	**9,789**	22,088
Tax on ordinary profit at 35%	**3,194**	7,731	**3,426**	7,731
Investment income subject to tax at 15%	**(1,955)**	(3,748)	**(1,955)**	(3,748)
Expenses not allowed	**232**	-	-	-
	1,471	3,983	**1,471**	3,983

5. Tangible assets – office equipment, furniture and fittings

	Group and Company Office equipment, furniture & fittings Lm
Year ended 31 December 2001	
Opening net book amount	89,398
Additions	5,573
Depreciation charge	(25,760)
Closing net book amount	**69,211**
At 31 December 2001	
Cost	118,939
Accumulated depreciation	(49,728)
Net book amount	69,211
At 31 December 2000	
Cost	113,366
Accumulated depreciation	(23,968)
Net book amount	89,398

6. Financial assets

Company	Shares in a group undertaking 2001 Lm
At 1 January	-
Additions	2,000
At 31 December	**2,000**

The sole group undertaking at 31 December 2001 is shown below:

Group undertaking	Registered office	Class of shares held	Percentage of shares held
Tigne` Contracting Limited	Qui-si-sana Road, Tigne`, Sliema	Ordinary shares	100%

Tigne` Contracting Limited was incorporated on 10 July 2001.

The consolidated financial statements incorporate the results of this group undertaking for the period 10 July to 31 December 2001.

7. Stock – Development project

The main object of the company and the group is the development of a large area of land at Manoel Island and Tigne` Point, acquired from the Government of Malta for this purpose by virtue of a 99 year emphyteutical grant entered into on 15 June 2000. This development is intended in the main for resale purposes.

Costs incurred on the project up to 31 December comprised:

	Group and Company 2001 Lm	2000 Lm
Purchase cost of land (see note below)	**18,277,645**	18,277,645
Cost of design works and other studies, demolition, excavation and restoration works and other expenses incurred:		
- At 1 January	**2,175,867**	-
- Additions for the year including staff costs (Note 3)	**1,740,835**	2,175,867
At 31 December	**3,916,702**	2,175,867
Borrowings costs attributable to the projects:		
- At 1 January	**687,430**	-
- Imputed interest	**1,321,575**	687,430
- Bank interest	**82,827**	-
At 31 December	**2,091,832**	687,430
	24,286,179	21,140,942

7. Stock – Development project - continued

The contract of acquisition of the land provided for a premium of Lm39.57 million payable over an extended period of time, which was discounted to its present value amount of Lm18.3 million at date of purchase. The contract also provides for an option, exercisable by Government, to convert Lm20 million of the later cash components of the consideration into participating preference shares for the amount of Lm10 million, redeemable at an earlier date. The effective interest rate applicable to the option conversion is 7.75%, and this rate was applied in discounting to present value the future cash outflows comprising the purchase consideration.

8. Debtors

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Other debtors	**392,947**	-	**344,030**	-
Prepayments and accrued income	**39,646**	73,307	**33,677**	73,307
	432,593	73,307	**377,707**	73,307

9. Borrowings

	Group and Company	
	2001	2000
	Lm	Lm
Long term		
Bank loans		
	1,998,893	-

The bank borrowings are secured by General and Special hypothecs and a special privilege over all the company's property. Borrowings are subject to a floating rate of interest which averaged 7.3% in 2001 (2000: Nil) and fall due after more than 4 years.

10. Trade and other creditors

	Group 2001 Lm	Group 2000 Lm	Company 2001 Lm	Company 2000 Lm
Amounts falling due within one year				
Due to Government re purchase of land	**1,394,000**	1,719,774	**1,394,000**	1,719,774
Amounts due to shareholders	**152,000**	-	**152,000**	-
Other creditors	**142,639**	46,085	**121,024**	46,085
Accruals and deferred income	**163,439**	5,931	**131,353**	5,931
	1,852,078	1,771,790	**1,798,377**	1,771,790
Amounts falling due after more than one year				
Due to Government re purchase of land (see also note 7)	**16,186,650**	16,259,075	**16,186,650**	16,259,075
Other creditors	**182,475**	-	**182,475**	-
	16,369,125	16,259,075	**16,369,125**	16,259,075

The amount due to Government re purchase of land includes:

(a) An amount, originally contracted at Lm5 million, which is being satisfied through the performance of restoration works on major historical sites forming part of the project;

(b) An amount, originally contracted at Lm9 million, which is being satisfied through the construction of all the public infrastructure works required at Manoel Island and Tigne` Point;

(c) The balance which is being settled in cash and which, as stated in Note 7, includes the amount of Lm20 million that is subject to the option of conversion to participating preference shares.

The maturity of the group's and company's liability towards Government, assuming that the conversion option is not exercised, is as follows:

	2001 Lm	2000 Lm
Due between 1 and 2 years	**710,000**	1,394,000
Due between 2 and 5 years	**3,948,729**	4,508,729
Due after more than 5 years	**30,811,271**	30,961,271
	35,470,000	36,864,000
Less: imputed interest component	**(19,283,350)**	(20,604,925)
	16,186,650	16,259,075

The amounts due to shareholders represent uncalled share capital paid in advance.

11. Called up issued share capital

	2001 Lm	2000 Lm
Authorised		
14,000,000 Ordinary shares of Lm1 each	**14,000,000**	14,000,000
10,000,000 Preference shares "A" of Lm1 each	**10,000,000**	10,000,000
	24,000,000	24,000,000
Issued and paid up share capital		
40,000 Ordinary shares of Lm1 each 25% paid up	**10,000**	10,000
3,960,000 Ordinary shares of Lm1 each 39.28% paid up (2000: 25% paid up)	**1,555,488**	990,000
6,000,000 Ordinary shares of Lm1 each 39.28% paid up (2000: 27% paid up)	**2,356,800**	1,620,000
1,440,000 Ordinary shares of Lm1 each 39.28% paid up (2000: 32.75% paid up)	**565,632**	471,600
480,000 Ordinary shares of Lm1 each 39.28% paid up (2000: 27% paid up)	**188,772**	129,984
80,000 Ordinary shares of Lm1 each 100% paid up	**80,000**	80,000
	4,756,692	3,301,584

In terms of the capital structure outlined above, the company's shareholders have obligations towards the company amounting to Lm7,243,308 (2000: Lm8,698,416), representing the unpaid amount on their shares. These obligations are secured by first class bank guarantees in the company's favour.

12. Other working capital movements

	Group		Company	
	2001 Lm	2000 Lm	**2001 Lm**	2000 Lm
Debtors	**(359,286)**	(67,782)	**(304,400)**	(67,782)
Creditors	**406,062**	369,461	**352,361**	369,461
Other working capital movements	**46,776**	301,679	**47,961**	301,679

13. Cash and cash equivalents

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following:

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**242,111**	75,848	**241,959**	75,848

14. Financial instruments

Credit risk

Financial assets which potentially subject the group and company to concentrations of credit risk consist principally of cash at bank. The group's and company's cash is placed with quality financial institutions.

Fair values

At 31 December 2001 and 2000 the carrying amounts of cash at bank, debtors, creditors and accrued expenses and short-term borrowings approximated their fair values. The fair values of long-term bank borrowings are not materially different from their carrying amounts. The directors have assessed the fair value of the amount due to Government re purchase of land (Note 10) by reference to the yield to maturity at balance sheet date of long term Malta Government securities with tenor similar to the repayment terms of the liability towards Government. On this basis, the fair value at 31 December 2001 of the amount due to Government with respect to the purchase of land amounted to Lm17,926,924.

15. Related party transactions

During the year, the company and group entered into transactions with related parties. These transactions comprised mainly the carrying out of site clearance and excavation works and the acquisition of insurance cover. The amounts incurred during the year amounted to Lm394,000.

These transactions are entered into on an arm's length basis and are subject to the scrutiny of the Board of Directors.

16. Commitments

In addition to settling the liabilities associated with the purchase price of the land, the emphyteutical grant entered into with the Government provides for a series of development obligations relating to the contents of the project and the timescales over which it should be completed. As a result of these commitments, it is expected that a total development investment in excess of Lm100 million will be made. The emphyteutical grant specifies a maximum overall period of 25 years for completion of the project.

17. Statutory information

MIDI p.l.c. is a public limited liability company and is incorporated in Malta.

Detailed Accounts

Detailed profit and loss account

	2001 Lm	2000 Lm
Berthing fees	**14,584**	6,392
Other income	**1,000**	-
Administrative expenses (page 21)	**(15,572)**	(3,044)
Operating profit	**12**	3,348
Interest receivable	**9,777**	18,740
Profit before tax	**9,789**	22,088

Administrative expenses

	2001 Lm	2000 Lm
Administration charge	**3,750**	-
Audit fee	**2,910**	1,500
Legal and professional fees	**1,342**	286
Salaries	**3,490**	350
General expenses	**1,839**	908
Security services	**1,209**	-
Telephone	**1,032**	-
	15,572	3,044