Company Registration No. C 41576

PHOENICIA MALTA LIMITED

Separate Financial Statements

31 December 2020

CONTENTS

GENERAL INFORMATION

Company registration

Phoenicia Malta Limited (the "Company") is registered in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. The Company's registration number is C 41576.

Directors

Jean Pierre Ellul Castaldi
Mark Shaw

Company secretaries

Jean Pierre Ellul Castaldi
Mark Shaw

Registered office

The Phoenicia Hotel
The Mall
Floriana, FRN 1478
MALTA

Bankers

Bank of Valletta
58, St. Zachary Street
Valletta, VLT 1130
MALTA

Auditor

Ernst & Young Malta Limited
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
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INDEPENDENT AUDITOR'S REPORT
to the Shareholders of Phoenicia Malta Limited

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Phoenicia Malta Limited (the "Company"), set on pages 6 to 31 which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the Companies Act. Our responsibilities under those standards and under the Companies Act 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 Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board of Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern
We draw attention to Note 2 in the financial statements, which describes the impact of the COVID-19 outbreak on the Group, of which the company forms part. Note 2 also explains the actions and plans of the Group along with the material uncertainty related to the length of the recovery period leading to normality which is impacted by the duration of restrictions on global travel imposed by governments and the potential longer-term impact thereof on customer behaviour. As stated in note 2, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information
The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Malta Limited - continued

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Companies 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 related 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.

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 ISAs, we exercise professional judgment and maintain professional skepticism 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 the directors.
- conclude on the appropriateness of the directors' 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.

We communicate with the Directors 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.

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INDEPENDENT AUDITOR'S REPORT
to the Shareholders of Phoenicia Malta Limited - continued

Report on other legal and regulatory requirements
Matters on which we are required to report by the Companies Act

We have responsibilities under the Companies Act to report to you if in our opinion:
- proper 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.

We have nothing to report to you in respect of these responsibilities.

The partner in charge of the audit resulting in this independent auditor's report is Shawn Falzon for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

30 April 2021

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Notes	2020 EUR	2019 EUR
Rental income	4	**2,493,000**	2,350,000
Administrative expenses	5	**(74,813)**	(71,789)
Operating profit		**2,418,187**	2,278,211
Other income	6	**-**	332,566
Finance costs	7	**(1,872,365)**	(1,822,879)
Profit before tax		**545,822**	787,898
Income tax expense	8	**(47,040)**	(19,764)
Profit for the year		**498,782**	768,134
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year, net of tax		**498,782**	768,134

The accounting policies and explanatory notes on pages 10 to 31 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2020

	Notes	2020 EUR	2019 EUR
ASSETS			
Non-current assets			
Investment property	9	**85,506,090**	83,955,295
Investment in subsidiary	10	**250,000**	250,000
Other receivables	12	**50,000**	50,000
		85,806,090	84,255,295
Current assets			
Trade and other receivables	12	**2,011,599**	1,832,494
Cash and short-term deposits	16	**1,362**	2,000
		2,012,961	1,834,494
TOTAL ASSETS		**87,819,051**	86,089,789
EQUITY AND LIABILITIES			
Equity			
Issued capital	13	**5,000**	5,000
Other reserves	13	**34,584,245**	34,584,245
Retained earnings		**(695,148)**	(1,193,930)
Total equity		**33,894,097**	33,395,315
Non-current liabilities			
Interest-bearing loans and borrowings	14	**44,184,666**	43,954,368
Deferred tax liability	11	**6,580,568**	6,533,528
		50,765,234	50,487,896
Current liabilities			
Interest-bearing loans and borrowings	14	**2,304,575**	1,852,612
Trade and other payables	15	**855,145**	334,202
Current tax payable		**-**	19,764
		3,159,720	2,206,578
Total liabilities		**53,924,954**	52,694,474
TOTAL EQUITY AND LIABILITIES		**87,819,051**	86,089,789

The accounting policies and explanatory notes on pages 10 to 31 form an integral part of the financial statements.

The financial statements on pages 6 to 31 have been authorised for issue by the Board of Directors on 30 April 2021 and signed on its behalf by:

JEAN PIERRE ELLUL CASTALDI
Director

MARK SHAW
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

	Issued capital EUR	Retained earnings EUR	Other reserves EUR	Total EUR
At 1 January 2020	**5,000**	**(1,193,930)**	**34,584,245**	**33,395,315**
Profit for the year	-	498,782	-	498,782
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	498,782	-	498,782
At 31 December 2020	**5,000**	**(695,148)**	**34,584,245**	**33,894,097**
At 1 January 2019	**5,000**	**(1,962,064)**	**34,584,245**	**32,627,181**
Profit for the year	-	768,134	-	768,134
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	768,134	-	768,134
At 31 December 2019	**5,000**	**(1,193,930)**	**34,584,245**	**33,395,315**

The accounting policies and explanatory notes on pages 10 to 31 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

	Notes	2020 EUR	2019 EUR
Operating activities			
Profit before tax		**545,822**	787,898
Adjustments to reconcile profit before tax to net cash flows			
Non-cash:			
Other income	6	-	(332,566)
Finance costs	7	**1,872,365**	1,822,879
Working capital adjustments:			
Decrease/(increase) in trade and other payables		**(195,221)**	(133,844)
(Decrease)/increase in other receivables		**281,351**	(350,000)
Income tax paid		**(3,648)**	(37,073)
Net cash flows from operating activities		**2,500,669**	1,757,294
Investing activities			
Purchase of investment property		**(1,550,795)**	(1,438,802)
Net cash flows used in investing activities		**(1,550,795)**	(1,438,802)
Financing activities			
Proceeds from loan from subsidiary	21	**325,000**	1,750,000
Repayment of bank loans	21	**(240,278)**	(1,641,667)
Advances from related party		**2,266**	1,282,179
Interest paid		**(1,037,500)**	(1,708,375)
Net cash flows used in financing activities		**(950,512)**	(317,863)
Net movement in cash and cash equivalents		**(638)**	629
Cash and cash equivalents at 1 January		**2,000**	1,371
Cash and cash equivalents at 31 December	16	**1,362**	2,000

The accounting policies and explanatory notes on pages 10 to 31 from an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The financial statements of the Phoenicia Malta Limited ('the Company') for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 30 April 2021. Phoenicia Malta Limited is a limited liability company incorporated and domiciled in Malta under the Companies Act, Cap. 386 of the Laws of Malta. Its registered office is The Phoenicia Hotel, The Mall, Floriana, FRN1478, Malta. The Company's principal activity is the rental of investment property to a related party.

2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards issued as adopted by the European Union and comply with the Companies Act, Cap. 386 of the Laws of Malta. The financial statements are prepared in Euro (EUR), which represents the functional and presentation currency of the Company.

IFRS 10, Consolidated Financial Statements, requires a parent company to prepare consolidated financial statements in which it consolidates its investments in subsidiaries. However, the Company is exempted from the preparation of consolidated financial statements in accordance with Section 173 of the Companies Act, Cap. 386 of the Laws of Malta.

These financial statements have been prepared under the historical cost convention, except for investment property that have been measured at fair value.

Going Concern

During the year ended 31 December 2020, the Company generated a profit before tax of EUR544,822 (2019: EUR787,898). As at 31 December 2020, its current liabilities exceeded current assets by EUR1,146,759 (2019: EUR372,084).

These financial statements have been prepared on a going concern basis. The Directors have made appropriate assessment of the going concern and reviewed the Company's budget for the next financial year. The Directors are confident that the Company has adequate resources to remain in operation for the foreseeable future and meet its liabilities when they fall due. The Directors have therefore continued to adopt the going concern basis of accounting in preparing these annual financial statements subject to the uncertainty noted in this section. The financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

Since the first cases of COVID-19, the impacts arising from the pandemic have persisted throughout the year, resulting in continuous disruptions to the world economy. As disclosed in previous year's annual report and also in the latest Financial Analysis Summary dated 28th September 2020, the hotel has experienced a total curtailment of its business from March to June 2020 together with a substantial reduction in demand for the rest of the year. The hotel adapted to the situation to safeguard the financial health of the business, where management implemented cost cutting measures whilst ensuring that the hotel was prepared to welcome guests once restrictions were lifted. The Group has continued with the works relating to the completion of the Spa whilst also refreshing a number of locations within the Hotel. Towards the end of June 2020, the outlets re-opened and started serving guests once again with the main focus being the Bastion Pool and as from July 2020 the hotel started welcoming guests once again with the re-opening of the local airport. The new Spa, managed by the world-renowned French Spa operators, Deep Nature, also opened its door to guests toward the end of the year.

In response to impacts of the Covid-19 pandemic, the Government of Malta announced a number of measures to assist the affected entities and the Group has successfully obtained further finance to support working capital and liquidity requirements, amendments to existing loan facilities including a moratorium on capital and interest repayments, as well as other easing in support of the working capital and liquidity requirements of the Group, the Company forms part of. The Group is also in receipt of other Covid-19 business assistance programmes announced by the government, namely for wage supplements, deferral of taxes and other business assistance programmes as applicable. As at 31 December 2020, the Group had undrawn bank facilities amounting to EUR3.9 million.

NOTES TO THE FINANCIAL STATEMENTS - continued

2 BASIS OF PREPARATION - continued

Going Concern - continued

The Group, comprising of the Company, Phoenicia Hotel Company Limited and Phoenicia Finance Company p.l.c., which provide cross intra-group guarantees and are managed as a combined entity, has prepared projections for the upcoming 12 months and beyond, based on historical financial information, forecasts, as well as realistic assumptions to assess the financial situation. In preparing its projections the Group has considered prolonged cost cutting measures and has also considered prudent timing and constant recovery of business. Further mitigations are also available to management against unforeseen developments including effecting further cost cutting measures that can be put in place.

Notwithstanding this, in the current prevailing circumstances of the Covid-19 pandemic, management considers a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The material uncertainty identified by the Directors is the length of the recovery period leading to normality which is impacted by the duration of restrictions on global travel imposed by governments and the potential longer-term impact thereof on customer behaviour.

Due consideration is given to this uncertainty and mitigating factors are being taken into consideration in order to ensure the going concern of the Company.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective during the year:

- Amendment to IFRS 16: Leases Covid 19: Related Rent Concessions
- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

The adoption of these standards, where applicable, did not have significant impact on the financial statements or performance of the Company.

Standards, interpretations and amendments to published standards as adopted by the EU which are not yet effective

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective for the current reporting year and which the Company has not early adopted but plans to adopt upon their effective date. The new and amended standards follow:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (effective for financial year beginning on or after 1 January 2021)
- Amendments to IFRS 4: Insurance Contracts – Deferral of IFRS19 (effective for financial year beginning on or after 1 January 2021)

The company is still assessing the impact that the IBOR reform will have on the financial statements of the company. The amendments to IFRS 4 are not expected to impact the Company's operations. The Company will adopt the changes in standards, where applicable, on their effective date.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

Standards, interpretations and amendments to published standards that are not yet adopted by the European Union

- IFRS 17: Insurance Contracts, including Amendments to IFRS 17 (effective for financial years beginning on or after 1 January 2023)
- Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date
- Amendments to IFRS 3: Business Combinations (effective for financial years beginning on or after 1 January 2022)
- Amendments to IAS 16: Property, Plant and Equipment (effective for financial years beginning on or after 1 January 2022)
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets (effective for financial years beginning on or after 1 January 2022)
- Amendments to Annual Improvements 2018-2020 (effective for financial years beginning on or after 1 January 2022)
- Amendments to IAS 1: Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for financial years beginning on or after 1 January 2023)
- Amendments to IAS 8: Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (effective for financial years beginning on or after 1 January 2023)

The Company is still assessing the impact that these new standards will have on the financial statements.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Taxes - continued

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred in the purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Investment property

Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment property is measured at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment property including the corresponding tax effect are included in the profit or loss in the year in which they arise.

Transfers are made to (or from) investment property only when there is a change in use.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets - continued

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments - continued

Financial assets – continued

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired

or

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments - continued

Financial assets – continued

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The 12-month ECL is calculated by multiplying the 12-month Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments - continued

Financial liabilities - continued

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Leases - continued

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Investment in subsidiary

Investment in subsidiary is stated at cost less any accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents with an original maturity of three months or less, net of outstanding bank overdrafts.

3.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, the Directors are required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and, if a change is needed, it is accounted for in the year the changes become known.

In the opinion of the Directors, the accounting estimates, assumptions 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 significant in terms of the requirements of IAS 1 (revised) - ‘Presentation of financial statements’, except as disclosed below.

Fair value of investment property

The Company carries its investment properties at fair value, with changes in fair value being recognised in the Statement of comprehensive income in accordance with IAS 40, ‘Investment Property’. This is based on valuations performed at least every two years. The last valuation was performed in 2020 (note 9).

In the years where a valuation is not obtained, management verifies all major inputs used in the previous valuation report, by assessing the discount rate and the capitalisation rate against changes in discount and growth rates, as well as assessing the results achieved against the cash flow and earnings assumption used in the previous valuation. Based on these analyses management assesses whether any changes in inputs would lead to significant changes in value of the property

Deferred tax liability

The company’s investment property is measured using the fair value model in IAS40. IAS12 establishes a rebuttable presumption requiring the deferred tax liability to be measured on the basis that the IP will be recovered through sale. This presumption is rebuttable if the Investment property is depreciable and the company expects to consume substantially all the economic benefits through use over time rather than through sale.

Judgement is required to determine whether the company expects to consume substantially all the economic benefits through use. In exercising its judgement management has taken into account the proportion of non-depreciable assets and the extent of depreciable assets that are expected to be recovered through use based on existing plans compared to the economic useful life. In making this assessment, management concluded that it does not expect to consume substantially all the economic benefits through use and consequently measured the deferred tax liability based on the rebuttable presumption that the value of the investment property will be recovered through sale i.e. deferred tax is calculated at 8% of the sales value of the Investment Property (as opposed to the normal tax rate of 35% on taxable income). The amount of deferred tax is limited to the fair value adjustment and the remaining tax payable on sale, is assumed to be a transaction tax which is taken into account in determining the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS - continued

4. RENTAL INCOME

Rental income represent rent arising from the lease of investment property to a related company. In 2018, the company entered into a new lease agreement with a related company for the rental of the hotel land and building for a period of one (1) year, renewable for further period of one (1) year each up to a maximum period of fifteen (15) years in aggregate. In terms of the lease agreement, the Company receives annual rent of EUR2,500,000 revisable every three years assuming a complete development of the hotel.

Following the outbreak of Covid-19 pandemic, the Company gave a rent concession amounting to EUR175,000. The company accounted for the lease modification as a new lease from the date the concession was granted accounting for the income over the remaining lease term.

Rental income for the year is as follows:

	2020 EUR	2019 EUR
Annual rent	**2,500,000**	-
Rent concession	**(175,000)**	-
Unamortised portion of rent concession (note 12)	**168,000**	-
Rental income	**2,493,000**	-

5. EXPENSES BY NATURE

	2020 EUR	2019 EUR
Auditor’s remuneration	**22,950**	40,650
Legal fees	**15,000**	22,419
Other professional fees	**35,415**	6,907
Bank charges	**633**	998
Ground rent	**815**	815
Administrative expenses	**74,813**	71,789

6. OTHER INCOME

Other income for the year ended 31 December 2019 amounting to EUR332,566 represents unclaimed advances by previous shareholders of the Company.

7. FINANCE COST

	2020 EUR	2019 EUR
Interest payable on bank loans (note 14)	**596,945**	631,704
Interest payable on loan from subsidiary (note 14)	**1,275,420**	1,191,175
	1,872,365	1,822,879

NOTES TO THE FINANCIAL STATEMENTS - continued

8. INCOME TAX EXPENSE

The income tax expense for the year is comprised of the following:

	2020 EUR	2019 EUR
Current tax expense	**-**	19,764
Deferred tax expense	**47,040**	-
	47,040	19,764

The income tax expense differs from the theoretical tax expense that would apply on the Company's profit before tax using the applicable tax rate in Malta of 35% as follows:

	2020 EUR	2019 EUR
Profit before tax	**545,822**	787,898
Theoretical tax expense at 35%	**191,038**	275,764
Tax effect of		
- expenses not deductible for tax purposes	**25,899**	24,841
- other income not subject to tax	**-**	(116,398)
- maintenance allowance	**(169,897)**	(164,443)
Income tax expense	**47,040**	19,764

9. INVESTMENT PROPERTY

	Total EUR
At 1 January 2019	82,516,493
Additions	1,438,802
At 31 December 2019	83,955,295
Additions	1,550,795
At 31 December 2020	**85,506,090**

The loan facilities are secured by a general hypothec of EUR18.9 million (2019: EUR19.1 million) over the company's assets and a special hypothec of EUR18.9 million (2019: EUR19.1 million) over the Company's investment property. The loans are also secured by a general hypothecary guarantee of EUR18.9 million (2019: EUR19.1 million) given by a related party.

NOTES TO THE FINANCIAL STATEMENTS - continued

9. INVESTMENT PROPERTY - continued

The Company's investment property comprises a hotel building ('sites in operation') and its surrounding lands ('other sites').

The prior valuation of the property had been obtained as of 29 October 2018. This valuation was prepared by an external, independent and qualified architects and the value for both the sites in operation and the other sites was determined by the application of a market-derived capitalisation rate to the annual earnings to establish the present value of the income stream associated with each asset. A capitalisation rate of 7% was applied to the company's annual earnings to derive the fair value of the sites in operation whilst a capitalisation rate of 25% was applied to derive the fair value of the other sites. An implicit assumption in this method is that the cash flow is perpetuity and the discount rate is a constant.

As at 31 December 2020, the valuation technique of the sites in operation was changed in the context of the sudden operative disruptions and uncertainties caused by the Covid-19 pandemic, whereby a valuation technique which considers the medium to long-term projection was deemed to be more appropriate in the circumstances to reflect the impact of the Covid-19 pandemic.

The fair value of the sites in operation was determined by management based on a multi-period projection and Discounted Cash Flow ('DCF') model. The derived valuation was adjusted for assets amounting to EUR4.6 million which form an integral part of the property but recognised separately in the related hotel operating company. The value of the other sites was determined similar to the prior valuation based on the application of a market derived capitalisation rate to the annual earnings.

Valuation process

The company engages internal personnel to determine the fair value of the investment property. At the date of the valuation, management:
- verifies all major inputs in the valuation
- assess property valuation movements when compared to the prior year valuation reports

In the years where a valuation is not obtained, management verifies all major inputs used in the previous valuation report, by assessing the discount rate and the capitalisation rate against changes in discount and growth rates, as well as assessing the results achieved against the cash flow and earnings assumption used in the previous valuation. Based on these analyses management assesses whether any changes in inputs would lead to significant changes in value of the property (note 3.3).

Sites in operation

In the valuation of the sites in operation, management considered a 10-year (2021-2030) DCF model, with a terminal value calculation, considering a long-term growth rate assumption. Management expects to return to the pre- Covid-19 pandemic level of activity in 2023. The model also considers a discount rate of 10%.

The discount rate and the cash flows have been determined to be significant unobservable inputs. The lower the discount rate, the higher the fair value. Conversely, the lower the cash flows, the lower the fair value. An analysis of the impact of a reasonable change in the significant unobservable inputs on the fair value of the property is included below:

	Change	**Change in value EUR' million**
Cash flows	One-year delay*	(9)
Discount rate	9% / 11%	13 / (10)

** The cash flow sensitivity analysis considers a return to the pre- Covid-19 pandemic level in 2024 being a one year delay from the base cash flows.*

NOTES TO THE FINANCIAL STATEMENTS - continued

9. INVESTMENT PROPERTY - continued

Other sites

In the valuation of the other sites, management derived the fair value by the application of a capitalisation rate of 25% to the company's annual earnings.

The capitalisation rate and the annual earnings have been determined to be significant unobservable inputs. The lower the capitalisation rate, the higher the fair value. Conversely, the lower the annual earnings, the lower the fair value. An analysis of the impact of a reasonable change in the significant unobservable on the fair value of the property is included below:

	Change in Rate	**Change in value EUR' million**
Capitalisation rate	20% / 30%	3 / (2)
Annual earnings	+10% / -10%	1 / (1)

The investment property is categorised under level 3 of the fair valuation hierarchy. The different levels in the fair value hierarchy are defined as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year.

10. INVESTMENT IN SUBSIDIARY

	2020 EUR	2019 EUR
At 31 December	**250,000**	**250,000**

The subsidiary at 31 December 2020 is shown below:

	Principal activity	**Registered office**	**Class of shares held**	**Percentage of shares held 2020**	**Percentage of shares held** 2019
Phoenicia Finance Company p.l.c.	Financing	The Phoenicia Hotel The Mall, Floriana	Ordinary	99.99%	99.99%

NOTES TO THE FINANCIAL STATEMENTS - continued

10. INVESTMENT IN SUBSIDIARY - continued

(i) Phoenicia Finance Company p.l.c. ("PFC") was incorporated by Phoenicia Malta Limited on 23 October 2018 to carry on the business of a finance company in connection with the ownership, development, operation and financing of hotels, resorts, leisure facilities, and tourism related activities.

(ii) The financial statements of PFC are available to the public. The company has issued bonds that are traded on the Malta Stock Exchange.

(iii) PFC has issued a loan to the Company, being its immediate parent company (note 14). PFC also holds a current account with the Company (note 12).

11. DEFERRED TAX LIABILITY

The movement in deferred tax asset is as follows:

	2020 **EUR**	2019 EUR
Balance as at 1 January	**6,533,528**	6,533,528
Debited to the income statement	**47,040**	-
Balance as at 31 December	**6,580,568**	6,533,528

	2020 **EUR**	2019 EUR
Deferred tax liability is attributable to the following:		
- Investment Property	**6,533,528**	6,533,528
- Other receivables	**47,040**	-
Balance as at 31 December	**6,580,568**	6,533,528

Deferred income taxes on investment property calculated on all temporary differences under the liability method. Temporary differences arise on the fair value of the property and are measured using a property tax rate of 8%.

12. TRADE AND OTHER RECEIVABLES

	2020 **EUR**	2019 EUR
Non-current		
Other receivables (i)	**50,000**	50,000
	50,000	50,000
Current		
Amounts due from related parties (ii)	**1,840,193**	1,832,494
Prepayments	**3,406**	-
Other receivables (iii)	**168,000**	-
	2,011,599	1,832,494

NOTES TO THE FINANCIAL STATEMENTS - continued

12. TRADE AND OTHER RECEIVABLES - continued

(i) Other non-current receivables include guarantee payments which will be released once the development of investment property is complete.

(ii) Amounts due from related parties represent a current account which is used to manage cash between the Company and related parties. The amounts are unsecured and interest-free and repayable on demand.

(iii) Other receivables refer to the unamortised portion of rent concession granted to the lessees and which is accounted for as deduction from rental income over the remaining lease term (note 4)

	2020	2019
	EUR	EUR
Rent concession granted during the year (note 4)	**175,000**	-
Amortisation of rent concession for the year	**7,000**	-
Balance as at year end (note 4)	**168,000**	-

13. ISSUED CAPITAL AND RESERVES

Issued Capital

	2020	2019
	EUR	EUR
Authorised:		
9,999 Ordinary shares 'A' of EUR1 each	**9,999**	9,999
1 Ordinary share 'B' of EUR1	**1**	1
	10,000	10,000
Issued and fully paid:		
4,999 Ordinary shares 'A' of EUR1 each	**4,999**	4,999
1 Ordinary share 'B' of EUR1	**1**	1
	5,000	5,000

Holders of Ordinary shares 'A' have the right to vote and receive dividend whilst holders of Ordinary shares 'B' have the right to vote without the right to receive dividend.

Other reserves

Other reserves represent unrealised fair value gains on investment properties, net of tax, that are not available for distribution

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INTEREST-BEARING LOANS AND BORROWINGS

	2020 EUR	2019 EUR
Non-current		
Bank loan (i)	**19,670,593**	19,765,294
Loan from subsidiary (ii)	**24,514,073**	24,189,074
	44,184,666	43,954,368
Current		
Bank loan (i)	**2,248,313**	1,796,944
Loan from subsidiary (ii)	**56,262**	55,668
	2,304,575	1,852,612
Total interest-bearing loans and borrowings	**46,489,241**	45,806,980

The non-current interest-bearing loans and borrowings are analysed as follows:

	2020 EUR	2019 EUR
Between one and two years	**1,795,307**	1,641,668
Between two and five years	**5,385,923**	4,924,999
More than five years	**37,003,436**	37,387,701
	44,184,666	43,954,368

The Company has the following facilities:

(i) Bank loan facilities of EUR21,166,682 (2019: EUR21,406,960) bearing an average interest of 2.80% (2019: 2.84%) (minimum rate) plus 3 months EURIBOR per annum. The loan facilities are secured by a general hypothec for EUR18.9 million (2019: EUR19.1 million) over all the assets of the Company. The facilities are also secured by a special hypothec of EUR18.9 million (2019: EUR19.1 million) on the Company's investment property. A general hypothecary guarantee of EUR18.9 million (2019: EUR19.1 million) was also given by a related company.

(ii) A loan from subsidiary of EUR24,514,074 (2019: EUR24,189,074) is unsecured and bears an interest of 5.25% per annum payable annually in arrears. Prior to 1 September 2019 the interest rate was of 4.73% per annum payable annually in arrears. The loan is repayable on 30 November 2028.

(iii) There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current and prior year.

NOTES TO THE FINANCIAL STATEMENTS - continued

15. TRADE AND OTHER PAYABLES

	2020 EUR	2019 EUR
Trade payables	**34,677**	29,321
VAT payable (i)	**389,326**	123,750
Amounts due to related parties	**385,723**	146,131
Accruals	**45,419**	35,000
	855,145	334,202

(i) VAT payable is normally settled every quarter. During the year, the Government of Malta has issued a scheme in response of the Covid-19 pandemic for the deferral of indirect taxes. The Company has obtained this deferral and the balance is to be settled during the year ending 31 December 2021.

16. CASH AND SHORT-TERM DEPOSITS

Cash and cash equivalents included in the statement of cash flows comprise of the following items within the statement of financial position:

	2020 EUR	2019 EUR
Cash at bank	**1,362**	2,000

17. PARENT AND ULTIMATE CONTROLLING PARTY

The immediate and ultimate parent company is Phoenicia Hotel (Lux) S.a.r.l. registered in Luxembourg. The ultimate controlling party is Mark Shaw, a British national residing in Edinburgh, Scotland.

18. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions

The following table provides the total amount of transactions and balances with related parties for the relevant financial year:

The company forms part of a group together with other entities, namely Phoenicia Hotel Company Limited and Phoenicia Finance Company p.l.c., together referred to as “the Group”.

The Company has undertaken the following transactions with related parties:

		Interest expense	Rental income	Net amounts from related party	Loan payable to related party
Phoenicia Hotel Company Limited	**2020**	**-**	**2,325,000**	**1,840,193**	**-**
	2019	-	2,350,000	1,832,494	-
Phoenicia Finance Company p.l.c	**2020**	**1,275,420**	**-**	**385,723**	**24,570,336**
	2019	1,264,880	-	132,280	24,244,742

As disclosed in note 9 and note 14, the loans are also secured by a guarantee provided by a related party. Moreover, the Company has provided guarantees amounting to EUR825,994 (2019: EUR837,038) to a related party.

NOTES TO THE FINANCIAL STATEMENTS - continued

19. CONTINGENT LIABILITIES

A related company is in disagreement with the main contractor of the recent development of Phoenicia Hotel regarding certain differences between applications for payment made by the contractor and amounts that have been certified as due based on the assessment of a professional cost consultancy firm engaged by the Company since inception of the project. The company is also contesting claims for additional services from architects, involved in the same development, due to delays and additional expense caused by their execution of the services provided.

The Directors are of the opinion that no amounts are due, and accordingly, no provision is being made in the financial statements. Furthermore, the Company has a number of counter claims against the contractor and the architects relating to delays and defects, amongst others. Should amounts, if any, become payable, these will be partly recharged to the company.

20. COMMITMENTS

As at 31 December 2020, the Company had no significant capital commitments. As at 31 December 2019, the Company had capital commitments with respect to the development of property estimated at EUR1.3 million which were estimated predominantly by the Company's cost consultants.

As disclosed in note 9 and note 14, the Company has also provided the bank with guarantees over the assets of the Company.

21. FINANCIAL RISK MANAGEMENT

The Company's principal financial assets comprise of other receivables and cash and short-term deposits which arrive directly from its operations. The Company's main financial liabilities are interest-bearing loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Company's operations.

Credit risk

Financial assets which potentially subject the Company to concentrations of credit risk consist principally of other receivables and cash and short-term deposits

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company considers that with the exception of the balances due from related parties (note 12), it is not exposed to major concentrations of credit risk.

The Company's short-term deposits are placed with quality financial institutions. Carrying amounts for other receivables are stated net of the necessary provisions which have been made against bad and doubtful debts in respect of which the Directors reasonably believe that recoverability is doubtful.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The maximum exposures to credit risk are represented by the carrying amount of each financial assets as disclosed in note 12 and note 16.

NOTES TO THE FINANCIAL STATEMENTS - continued

21. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk

The presentation of the financial assets and liabilities under the present headings within the statement of financial position is intended to indicate the timing in which cash flows will arise.

The Company actively manages its risk of a shortage of funds by closely monitoring the maturity of its financial assets and liabilities and projected cash flows from operations

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company does not expect the amounts due to related parties as disclosed in note 14 to be settled within one year.

The table does not reflect the expected cash flows. It summarises the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted payments:

	Carrying amount EUR	Undiscounted contractual cash flows EUR	Within one year EUR	1 to 5 years EUR	Over 5 years EUR
31 December 2020					
Interest-bearing loans and borrowings	46,489,241	60,351,675	4,113,641	14,143,604	42,094,430
Other liabilities	855,145	855,145	855,145	-	
	47,344,386	**61,206,820**	**4,968,786**	**14,143,604**	**42,094,430**

	Carrying amount EUR	contractual cash flows EUR	Undiscounted Within one year EUR	1 to 5 years EUR	Over 5 years EUR
31 December 2019					
Interest-bearing loans and borrowings	45,806,980	61,133,476	3,507,398	13,555,524	44,070,554
Other liabilities	334,202	334,202	334,202	-	-
	46,141,182	**61,467,678**	**3,841,600**	**13,555,524**	**44,070,554**

Interest rate risk

The interest rates on the borrowings are disclosed in note 14. The bank loan is subject to variable interest rates.

NOTES TO THE FINANCIAL STATEMENTS - continued

21. FINANCIAL RISK MANAGEMENT - continued

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax.

	Increase/decrease in basis points	Effect on profit before tax EUR '000
2020	**+100**	**224**
	-50	**100**
2019	+100	225
	-50	113

Changes in liabilities arising from financing activities

	1 January 2020 EUR	Cash flows EUR	Accrued interest EUR	Other changes EUR	31 December 2020 EUR
Bank loans and other loans	21,562,238	(240,278)	596,945	-	21,918,905
Loan from subsidiary	24,244,742	325,000	237,920	(237,327)	24,570,335

	1 January 2019 EUR	Cash flows EUR	Accrued interest EUR	Other changes EUR	31 December 2019 EUR
Bank loans and other loans	23,217,493	(1,641,667)	(13,588)	-	21,562,238
Loan from subsidiary	22,512,780	1,750,000	128,092	(146,130)	24,244,742

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payments to shareholders, return capital to shareholders, issue new shares or adjust financing arrangements. No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS - continued

22. FAIR VALUE MEASUREMENT

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible as outlined above. For assets and liabilities that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At 31 December 2020 and 2019, the carrying amounts of cash and short-term deposits, trade and other receivables, trade and other payables and current interest-bearing loans and borrowings approximated their fair value in view of the nature of the instruments or their short-term maturity.

The fair values of non-current interest-bearing loans and borrowings are estimated at 2% under their carrying amounts (2019: 4% above the carrying amount) in line with the change in the quoted price of the bond issued by a related company (level 2). As at 31 December 2020, the fair value was estimated at EUR24.0 million (2019: EUR25.2 million) when compared to the carrying amount of EUR24.5 million (2019: EUR24.2 million).

23. EVENTS AFTER THE REPORTING PERIOD

As Covid-19 pandemic evolves, the Government of Malta has continued to implement additional measures after year end to address the resulting public health issues and the economic impact. Since the end of the reporting year, the Government of Malta has also announced additional measures to assist the affected entities including the extension of wage supplement scheme, the extension of the moratoria granted under the Covid-19 guarantee Scheme by a further 6 months and further tax deferrals. The Company continues to monitor the situation and taking appropriate measures to minimise the impact of the Covid-19 pandemic and to continue operations.