**PHOENICIA**

**Combined Financial Statements**

**31 December 2019**

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# INDEPENDENT AUDITOR'S REPORT

to the Directors of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company P.L.C

## Report on the audit of the combined financial statements

### Opinion

We have audited the combined financial statements of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company P.L.C (collectively referred to as the Reporting entity), set on pages 5 to 34, which comprise the combined statements of financial position as at 31 December 2019, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements give a true and fair view of the combined financial position of the Reporting entity's as at 31 December 2019, and of its combined financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

### 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 24 in the financial statements, which describes the impact of the COVID-19 outbreak on the Reporting entity. Note 2 – Going Concern explains the actions and plans of the Reporting entity along with the effects of obtaining further financing from the bank, the current restrictions on global travel and its impact on customer behavior, and the current Government's business assistance schemes. As stated in note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Reporting entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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# INDEPENDENT AUDITOR'S REPORT

to the Directors of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company P.L.C

**Responsibilities of the directors for the combined financial statements**

The directors are responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, the directors are responsible for assessing the Reporting entity'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 Reporting entity or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the combined financial statements**

Our objectives are to obtain reasonable assurance about whether the combined 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 combined 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 combined 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 Reporting entity's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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# INDEPENDENT AUDITOR'S REPORT

to the Directors of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company P.L.C

**Auditor's responsibilities for the audit of the combined financial statements - continued**

- 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 Reporting Entity'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 combined 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 Reporting entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the combined financial information of the entities or business activities within the group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

*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

29 May 2020

## COMBINED STATEMENT OF COMPREHENSIVE INCOME
**for the year ended 31 December 2019**

| | Notes | 2019<br>EUR | 2018<br>EUR |
|---|---|---|---|
| Revenue | 4 | **13,264,688** | 12,933,075 |
| Cost of sales | 5 | **(7,196,946)** | (6,954,253) |
| **Gross profit** | | **6,067,742** | 5,978,822 |
| Administrative expenses | 5 | **(3,070,684)** | (3,050,337) |
| Selling and marketing expenses | 5 | **(691,278)** | (572,344) |
| Other income | 6 | **332,566** | - |
| **Operating profit** | i | **2,638,346** | 2,356,141 |
| Finance costs | 8 | **(1,793,556)** | (5,097,526) |
| **Profit/(loss) before tax** | | **844,790** | (2,741,385) |
| Income tax credit | 9 | **44,789** | 645,489 |
| **Profit/(loss) for the year** | | **889,579** | (2,095,896) |
| *Other comprehensive income for the year not to be reclassified to profit or loss in the future periods* | | | |
| Re-estimation of deferred tax liability | 9 | **-** | 1,800,541 |
| **Total comprehensive income/(loss) for the year, net of tax** | | **889,579** | (295,355) |

*The accounting policies and explanatory notes on pages 9 to 34 form an integral part of the combined financial statements.*

i. Analysed as:

| | 2019<br>EUR | 2018<br>EUR |
|---|---|---|
| EBITDA * | **4,905,660** | 4,672,730 |
| Depreciation | **(2,267,314)** | (2,316,589) |
| Operating profit/(loss) | **2,638,346** | 2,356,141 |

**EBITDA is a measure not defined by IFRS and represents earnings before interest, tax, depreciation and amortization (note 5)*

## COMBINED STATEMENT OF FINANCIAL POSITION
## as at 31 December 2019

| | Notes | 2019 EUR | 2018 EUR |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **86,399,109** | 87,145,815 |
| Deferred tax asset | 11 | **2,979,672** | 2,886,814 |
| Other receivables | 13 | **50,000** | 50,000 |
| **Total non-current assets** | | **89,428,781** | 90,082,629 |
| **Current assets** | | | |
| Inventories | 12 | **197,474** | 185,784 |
| Trade and other receivables | 13 | **734,310** | 784,988 |
| Cash and cash equivalents | 14 | **1,198,026** | 2,499,621 |
| **Total current assets** | | **2,129,810** | 3,470,393 |
| **TOTAL ASSETS** | | **91,558,591** | 93,553,022 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Issued capital | 15 | **13,386** | 13,386 |
| Deferred shares | 15 | **838,574** | 838,574 |
| Revaluation Reserve | 15 | **36,260,350** | 36,322,568 |
| Retained earnings | 15 | **(643,684)** | (1,595,481) |
| **Total equity** | | **36,468,626** | 35,579,047 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 17 | **44,446,270** | 46,045,714 |
| Deferred tax liability | 11 | **4,761,292** | 4,732,987 |
| **Total non-current liabilities** | | **49,207,562** | 50,778,701 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **3,952,835** | 5,009,638 |
| Interest-bearing loans and borrowings | 17 | **1,909,804** | 1,946,351 |
| Current tax payable | | **19,764** | 38,316 |
| Bank overdraft | 14 | **-** | 200,969 |
| **Total current liabilities** | | **5,882,403** | 7,195,274 |
| **Total liabilities** | | **55,089,965** | 57,973,975 |
| **TOTAL EQUITY AND LIABILITIES** | | **91,558,591** | 93,553,022 |

*The accounting policies and explanatory notes on pages 9 to 34 form an integral part of the financial statements.*

*The financial statements on pages 5 to 34 have been authorised for issue by the Board of Directors on 29 May 2020 and signed on its behalf by:*

**MR. J. P. ELLUL CASTALDI**
**Director**

**MR. MARK SHAW**
**Director**

## COMBINED STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2019

| | Issued capital EUR | Deferred shares EUR | Revaluation reserve EUR | Retained earnings EUR | Total EUR |
|---|---|---|---|---|---|
| **FINANCIAL YEAR ENDED 31 DECEMBER 2019** | | | | | |
| At 1 January 2019 | 13,386 | 838,574 | 36,322,568 | (1,595,481) | 35,579,047 |
| Loss for the year | - | - | - | 889,579 | 889,579 |
| Other comprehensive income for the year | - | - | - | - | - |
| Total comprehensive income | - | - | - | 889,579 | 889,579 |
| Depreciation transfer for land and buildings | - | - | (62,218) | 62,218 | - |
| At 31 December 2019 | **13,386** | **838,574** | **36,260,350** | **(643,684)** | **36,468,626** |
| **FINANCIAL YEAR ENDED 31 DECEMBER 2018** | | | | | |
| At 1 January 2018 | 13,386 | 838,574 | 34,584,245 | 438,197 | 35,874,402 |
| Loss for the year | - | - | - | (2,095,896) | (2,095,896) |
| Other comprehensive income for the year | - | - | 1,800,541 | - | 1,800,541 |
| Total comprehensive income | - | - | 1,800,541 | (2,095,896) | (295,355) |
| Depreciation transfer for land and buildings | - | - | (62,218) | 62,218 | - |
| At 31 December 2018 | **13,386** | **838,574** | **36,322,568** | **(1,595,481)** | **35,579,047** |

*The accounting policies and explanatory notes on pages 9 to 34 form an integral part of the financial statements.*

## COMBINED STATEMENT OF CASH FLOWS
## for the year ended 31 December 2019

| | Notes | 2019<br>EUR | 2018<br>EUR |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) before tax | | **844,790** | (2,741,385) |
| *Non-cash adjustments to reconcile loss before tax to net cash flows:* | | | |
| Depreciation of property, plant and equipment | 10 | **2,267,314** | 2,316,589 |
| Amortization of deferred income | 16 | **(6,188)** | (6,188) |
| Interest expense | 8 | **1,793,556** | 5,097,526 |
| Other income | 6 | **(332,566)** | - |
| *Working capital adjustments:* | | | |
| Decrease/(increase) in trade and other receivables | | **50,678** | (49,831) |
| (Increase)/decrease in inventory | | **(11,690)** | 23,839 |
| (Decrease)/increase in trade and other payables | | **(531,143)** | 125,828 |
| Income tax paid | | **(38,316)** | **-** |
| **Net cash from operating activities** | | **4,036,435** | 4,766,378 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(1,585,168)** | (4,916,879) |
| **Net cash used in investing activities** | | **(1,585,168)** | (4,916,879) |
| **Financing activities** | | | |
| Proceeds from issue of bonds | 21 | **-** | 25,000,000 |
| Payment of bond issue costs | | **(122,348)** | (483,350) |
| Proceeds from bank loans | 21 | **-** | 2,984,168 |
| Repayment of bank loans | 21 | **(1,705,597)** | (4,619,658) |
| Repayment of amounts due to other parties | 16 | **-** | (1,662,434) |
| Repayment of other loans | 21 | **-** | (12,266,111) |
| Payment of break fee | 8 | **-** | (3,383,047) |
| Interest paid | | **(1,723,948)** | (2,918,212) |
| **Net cash from financing activities** | | **(3,551,893)** | 2,651,356 |
| **Net increase in cash and cash equivalents** | | **(1,100,626)** | 2,500,855 |
| **Cash and cash equivalents at 1 January** | | **2,298,652** | (202,203) |
| **Cash and cash equivalents at 31 December** | 14 | **1,198,026** | 2,298,652 |

*The accounting policies and explanatory notes on pages 9 to 34 form an integral part of the financial statements.*

## NOTES TO THE FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

The combined financial statements include the combination of Phoenicia Malta Limited, Phoenicia Hotel Company Limited and Phoenicia Finance Company plc, together referred to as the 'Reporting entity' or 'the Companies' or 'the Group', for the year ended 31 December 2019. The combined financial statements for the year ended 31 December 2018, included the combination of Phoenicia Malta Limited and Phoenicia Hotel Company Limited and includes also Phoenicia Finance Company plc for the period 23 October 2018, being the date of incorporation, to 31 December 2018.

The financial statements of Phoenicia Malta Limited and of Phoenicia Hotel Company Limited for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 29 May 2020. The financial statements of Phoenicia Finance plc for the period from 23 October 2018, being the date of incorporation, to 31 December 2019 were authorised for issue by the Board of Directors on 29 May 2020.

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, FRN 1478, Malta. The Company's principal activity is the owning and rental of its property (5-star hotel) to Phoenicia Hotel Company Limited.

Phoenicia Hotel Company Limited is registered in United Kingdom as a private company limited by shares, incorporated and domiciled in the UK. The Company is effectively operated and managed from Malta where it is registered as an overseas company with registration number OC1. Its registered office is Eversheds House 70, Great Bridgewater Street, Manchester M1 5ES, United Kingdom. The Company's principal activity is the operation of Phoenicia Hotel in Malta.

Phoenicia Finance Company plc is a public 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, FRN 1478, Malta. The Company's principal activity is that of acting as the financing arm of the Group and is thus dependent upon the operations and performance of Phoenicia Malta Limited and Phoenicia Hotel Company Limited.

### 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The combined financial statements have been prepared as general-purpose financial statements which comply with the requirements of International Financial reporting standards as adopted by the EU.

The Companies are under common control and they have historically operated as combined entities under common management. The parent, Phoenicia Hotel (Lux) S.A.R.L., registered in Luxembourg, is exempt from the obligation to draw up and to publish consolidated accounts as it meets the small group exemption criteria. Moreover, Phoenicia Malta Limited and Phoenicia Hotel Company Limited are also the guarantors of a bond which was issued by Phoenicia Finance Company plc. The combined financial statements are also required in the context of Phoenicia Finance Company plc continuing listing obligations.

The combined financial statements have been drawn up on the basis of the financial statements of Phoenicia Malta Limited, Phoenicia Hotel Company Limited and Phoenicia Finance Company plc for the year ended 31 December 2019. The accounting policies of the Companies are consistent with the policies adopted by the Reporting entity. The results of the Group, including the parent and each of the combined entities, are not materially different from the results of the Reporting entity.

In preparing these combined financial statements the Reporting entity applied all consolidation procedures under IFRS, whereby all significant intercompany accounts and transactions between Phoenicia Malta Limited, Phoenicia Hotel Company Limited and Phoenicia Finance Company plc have been eliminated in the accompanying combined financial statements.

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The financial statements are presented in Euro (EUR), which represents the functional and presentation currency of each of the combined entities. Apart from land and buildings, which are carried at fair value less depreciation, these financial statements are prepared under the historical cost convention.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE - continued

***Going concern***

During the year ended 31 December 2019, the Reporting Entity generate a profit before tax of EUR844,790 (2018: loss before tax of EUR2,741,385). The Reporting Entity's current liabilities exceeded its current assets by EUR3,752,593 (2018: EUR3,724,881).

These financial statements have been prepared on a going concern basis, which assumes that the Directors have a reasonable expectation that the Reporting Entity has adequate resources to remain in operation for the foreseeable future and meet its liabilities when they fall due. The Reporting Entity has therefore continued to adopt the going concern basis of accounting in preparing the annual financial statements subject to the risks and uncertainties noted in this section. The financial statements do not contain the adjustments that would result if the Reporting Entity was unable to continue as a going concern.

Since the start of 2020, the world has suffered from a wide spread COVID-19 pandemic, resulting in disruptions to businesses worldwide. Global border restrictions, local mobility restrictions, and the enforced closure of local food and beverage outlets, and other places of entertainment, has undoubtedly had a negative impact on the Reporting Entity, the local hospitality industry in general, as well as most other industries worldwide. Governments in many countries have responded with monetary and fiscal interventions to assist companies worldwide overcome these unprecedented financial difficulties.

As a result of the pandemic and measures taken by governments, Phoenicia Hotel Company Limited has experienced curtailment of its business since March 2020, and due to the health and safety risk to our guests and staff resulting from COVID-19, the hotel cannot accommodate hotel guests at present, thus not being able to generate revenue since then. To date, the Reporting Entity is in receipt of various COVID-19 business assistance programmes in order to mitigate against the adverse financial impact of this pandemic on the Reporting Entity, and to safeguard its future wellbeing, that of its employees, and all stakeholders.

The Reporting Entity prepared projections for the upcoming 12 months and beyond, based on historical financial information and forecasts, as well as realistic assumptions where necessary to assess the financial situation. The Group is at an advanced stage of negotiations with the Bank of Valletta to obtain further finance and 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 Company.

In preparing its projections the Group has considered cost cutting measures and has considered prudent timing and recovery of business whilst retaining the hotel prepared to receive business at the right opportunity whilst also continuing with the completion of the Spa as per plan.

Further mitigations are 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 that material uncertainties exist that may cast significant doubt on the Reporting Entity's ability to continue as a going concern. The material uncertainties identified by the Directors are, obtaining further finance, notwithstanding the advanced stage of negotiations to date with the bank, the duration of current restrictions on global travel imposed by governments and the potential longer-term impact thereof on customer behaviour, and the duration of the government's business assistance schemes which are currently by way of wage supplements and deferral of taxes as well as government backed loan facilities.

Due consideration is given to these uncertainties and mitigating factors have been taken into consideration in order to ensure the going concern of the Reporting Entity. The Directors continue to monitor the situation on an ongoing basis with a view to minimizing the impact of the COVID-19 pandemic on the Reporting Entity, and to resuming operations as soon as circumstances permit.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 2.1 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:

- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRS 16 Leases

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

**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 Reporting entity has not early adopted but plans to adopt upon their effective date. The new and amended standards follow:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective for financial year beginning on or after 1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (effective for financial year beginning on or after 1 January 2020)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for financial year beginning on or after 1 January 2020)

The changes resulting from these standards are not expected to have a material effect on the financial statements of the Reporting entity.

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

- IFRS 17 Insurance Contracts (effective for financial year beginning on or after 1 January 2021)
- Amendment to IFRS 3 Business Combinations (endorsement date is not yet confirmed)
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (endorsement date is not yet confirmed)
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Reporting entity is still assessing the impact that these new standards may have on the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Revenue**

Revenues include all revenues from the ordinary business activities of the Reporting entity and are recorded net of value added tax. Discounts to customers are recognised as a reduction in revenue. They are recognised in accordance with the provision for goods or services provided that collectability of the consideration is probable.

Revenue mainly represents income earned for accommodation and catering services. Revenue from accommodation is recognised over a period of time whereas revenue from catering and other services is recognised at a point in time. Service revenue is recognised when services have been rendered and collectability is reasonably assured.

The Reporting entity considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale, the Reporting entity considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any). The performance obligation is to provide hospitality and leisure services as and when customers make use of the services. The transaction price follows a fee structure which is known at the date of booking or consumption of service and thus no significant estimates are required in this respect.

*Contract balances*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Reporting entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

A contract liability is the obligation to transfer goods or services to a customer for which the Reporting entity has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Reporting entity transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Reporting entity performs under the contract.

**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 capitalized 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Foreign currency transactions**

*Functional and presentation currency*

These financial statements are presented in Euro ('EUR'), the currency of the primary economic environment in which that Reporting entity operates.

*Transactions and balances*

Transactions in foreign currencies have been converted into Euro at the rates of exchange ruling on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Euro at the rates of exchange ruling at the reporting date. All resulting differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation difference on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

**Property, plant and equipment**

Property, plant and equipment, excluding land and buildings, are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Land and buildings are measured at fair value less accumulated depreciation and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred within equity to retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Property, plant and equipment - continued**

Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Reporting entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment less any residual value over the expected useful lives. The annual rates used for this purpose, which are consistent with those used in the previous year, are as follows:

| | | |
|---|---|---|
| Buildings (including fixtures) | - | 15 - 50 years |
| Plant, machinery and other equipment | - | 3 - 15 years |
| Crockery, utensils and linen | - | 3 - 15 years |

The depreciation method applied and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting year. Depreciation of an asset ceases when the asset is either classified as held for sale or derecognised. Assets in the course of construction are not depreciated.

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount of the asset. These are included in the statement of comprehensive income in the year of derecognition.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises the direct invoiced cost. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

**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 Reporting entity's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Reporting entity has applied the practical expedient, the Reporting entity 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.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Financial instruments - 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 Reporting entity. The Reporting entity 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 Reporting entity 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.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Financial instruments - continued**

***Financial assets - continued***

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

Upon initial recognition, the Reporting entity 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 Reporting entity 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.

*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 Reporting entity 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 Reporting entity has transferred substantially all the risks and rewards of the asset, or (b) the Reporting entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Reporting entity 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 Reporting entity continues to recognise the transferred asset to the extent of its continuing involvement.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Financial instruments - continued**

***Financial assets - continued***

*Impairment of financial assets*

The Reporting entity 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 Reporting entity 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 Reporting entity applies a simplified approach in calculating ECLs. Therefore, the Reporting entity 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 PD, LGD, and 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 Reporting entity 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. 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.

**Cash and cash equivalents**

Cash and cash equivalents 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.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Taxes**

*Current income tax*

Current income tax assets and liabilities for the current and prior periods 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 there will be taxable profit against which a deductible temporary difference can be used, unless the deferred tax asset arises from the initial recognition of an asset or liability that is not from a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

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.

*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.

**Grants**

Grants are not recognised until there is reasonable assurance that the entity will comply with the conditions attached and that the grants will be received.

Grants in respect of fixed assets are credited to the profit and loss account in equal annual instalments over the useful lives of the assets concerned. Other grants are credited to the profit and loss account in the same year as the expenditure to which they contribute.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3.1. 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 judgement 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 in the year the change becomes known.

In the opinion of the management, 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.

**Deferred tax assets**

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the tax losses and unabsorbed capital allowances can be utilised.

Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. In exercising its judgement management has taken into account budgets and the ability to carry forward losses for offset indefinitely.

**Deferred tax liability**

The Reporting entity's own-used Land and buildings within Property, plant and equipment is measured at Revalued amounts under IAS16. In the financial statements of Phoenicia Malta Limited, these Land and buildings were classified as Investment Property at fair value, and the resulting deferred tax liability was measured on the basis that the value of these assets will be recovered through sale (rather than through use) under the rebuttable presumption in IAS40. In Malta the income tax rate applicable to benefits generated through operating the asset (recovery through use) is 35%, while that applicable on sale of property is 8% on the sales proceeds.

Judgement is required in preparing these combined financial statements to determine whether the Reporting entity will recover the value of the Land and Building through use or through sale, or partially through use and sale. In making this assessment, management made an estimation of the amount relating to non-depreciable assets, being land carried at Fair Value, where the deferred tax on revaluation assumes recovery through sale (as it cannot be recovered through use). For the depreciable portion, an estimation of the period over which management expects to recover the Property, Plant and Equipment through use was made. During the prior year management extended the period over which Property, plant and equipment will be recovered through use to 15 years in line with the updated plans of the Reporting entity (note 9). The remaining balance beyond the period of use was assumed to be recovered through sale. There were no changes to the period over which Property, plant and equipment will be recovered through use, during the current year.

**Fair value of property, plant and equipment**

The Reporting entity carries its Land and buildings within Property, plant and equipment at revalued amount, with changes in the revalued amount being recognised in the statement of other comprehensive income in accordance with IAS 16, 'Property, Plant and Equipment'. This is based on market valuations performed by independent professional architects at least every two years. The last market valuation was performed in 2018 (note 10).

In a year when market valuations are not obtained, management verifies all major inputs used in the previous to the independent valuation report, by assessing the capitalisation rate against changes in discounts and growth rate, as well as assessing the results achieved against the earnings assumption used in the valuation report. Based on these analysis management holds discussions with the independent architect, to assess whether any changes in inputs would lead to significant changes in values of property.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 4. REVENUE

The Reporting entity's entire revenue is derived locally from the operations of the hotel in Malta.

| | 2019 EUR | 2018 EUR |
|---|---|---|
| *Services transferred over time* | | |
| Accommodation | **9,169,418** | 9,069,186 |
| | | |
| *Services/goods transferred at a point in time* | | |
| Catering | **3,888,230** | 3,677,107 |
| Other | **207,040** | 186,782 |
| Revenue from contracts with customers | **13,264,688** | 12,933,075 |

### 5. EXPENSES BY NATURE

| | 2019 EUR | 2018 EUR |
|---|---|---|
| Staff costs (note 7) | **3,472,233** | 3,383,789 |
| Depreciation | **2,267,314** | 2,316,589 |
| Auditors remuneration | **84,500** | 67,500 |
| Other expenses | **5,134,861** | 4,809,056 |
| Total cost of sales, administrative and selling expenses | **10,958,908** | 10,576,934 |

Earnings before interest, tax, depreciation and amortisation ("EBITDA") is a measure not defined by IFRS used by management to communicate the financial performance of the Reporting entity.

### 6. OTHER INCOME

Other income of EUR332,566 represents unclaimed advances by previous shareholders of Phoenicia Malta Limited, as disclosed in note 16 up to prior year.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 7. STAFF COSTS

| | 2019 EUR | 2018 EUR |
|---|---|---|
| Directors' remuneration | **203,714** | 170,420 |
| Social security costs | **1,856** | 1,851 |
| | **205,570** | 172,271 |

The total employment costs were as follows:

| | 2019 EUR | 2018 EUR |
|---|---|---|
| Wages and salaries | **3,245,411** | 3,154,639 |
| Social security costs | **226,822** | 229,150 |
| | **3,472,233** | 3,383,789 |

The average number of persons employed by the Reporting entity during the year was as follows:

| | 2019 Number | 2018 Number |
|---|---|---|
| Guest service | **118** | 108 |
| Administrative | **35** | 31 |
| | **153** | 139 |

### 8. FINANCE COSTS

| | 2019 EUR | 2018 EUR |
|---|---|---|
| Interest payable on interest-bearing loans and borrowings (note 17) | **647,279** | 1,625,179 |
| Break fee on other loan (i) | - | 3,383,047 |
| Interest on bonds | **1,036,389** | 72,048 |
| Amortisation of bond issue costs | **109,888** | 7,252 |
| Other finance charges | **-** | 10,000 |
| | **1,793,556** | 5,097,526 |

(i) The break fee on other loan amounting to EUR3.4 million was incurred by Phoenicia Malta Limited as a result of the early repayment of the Other loan (note 17).

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 9. INCOME TAX CREDIT

The tax for the year is made up as follows:

| | **2019** | 2018 |
|---|---|---|
| | **EUR** | EUR |
| Current tax | **19,764** | 38,316 |
| Deferred tax (note 11) | **(64,553)** | (683,805) |
| Income tax credit | **(44,789)** | (645,489) |

The taxation on the Reporting entity's profits differs from the standard rate of Malta tax that would arise using the basic tax rate applicable as follows:

| | **2019** | 2018 |
|---|---|---|
| | **EUR** | EUR |
| Loss before tax | **844,790** | (2,741,385) |
| Theoretical tax at the applicable 35% rate | **295,677** | (959,485) |
| *Tax effect of:* | | |
| - clarification of treatment of capital allowances (note i) | **-** | (612,877) |
| - expenses not deductible for tax purposes | **60,711** | 1,194,351 |
| - other income not subject to tax | **(116,398)** | - |
| - other rates of tax | **(284,779)** | (267,477) |
| Income tax credit | **(44,789)** | (645,489) |

*Income tax in other comprehensive income*

In 2018, the tax impact is entirely attributable to deferred taxation, relating to the revaluation of land and buildings (note 10) recorded in other comprehensive income and accordingly presented directly in equity as follows:

| | **2019** | 2018 |
|---|---|---|
| | **EUR** | EUR |
| Deferred tax (i) | **-** | (1,800,541) |
| Revaluation of property, plant and equipment net of tax | **-** | (1,800,541) |

i) During the previous year, the Reporting entity sought a clarification in relation to the treatment of certain capital allowances. This resulted in a favourable effect which is reflected in the deferred tax, amounting to EUR2,413,418 for the year ended 31 December 2018.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 10. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings EUR | Plant, machinery and equipment EUR | Crockery, utensils and linen EUR | Assets under construction EUR | Total EUR |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | 75,776,676 | 16,692,389 | 589,021 | 1,449,379 | 94,507,465 |
| Additions | 489,351 | 1,888,983 | - | 358,041 | 2,736,375 |
| Transfers | 45,340 | (45,159) | - | (181) | - |
| **At 31 December 2018** | **76,311,367** | **18,536,213** | **589,021** | **1,807,239** | **97,243,840** |
| At 1 January 2019 | 76,311,367 | 18,536,213 | 589,021 | 1,807,239 | 97,243,840 |
| Additions | 404,115 | 81,805 | - | 1,034,688 | 1,520,608 |
| **At 31 December 2019** | **76,715,482** | **18,618,018** | **589,021** | **2,841,927** | **98,764,448** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2018 | - | 7,375,846 | 405,590 | - | 7,781,436 |
| Depreciation for the year | 850,568 | 1,428,266 | 37,755 | - | 2,316,589 |
| **At 31 December 2018** | **850,568** | **8,804,112** | **443,345** | **-** | **10,098,025** |
| At 1 January 2019 | 850,568 | 8,804,112 | 443,345 | - | 10,098,025 |
| Depreciation for the year | 850,568 | 1,378,991 | 37,755 | - | 2,267,314 |
| **At 31 December 2019** | **1,701,136** | **10,183,103** | **481,100** | **-** | **12,365,339** |
| **Net book value** | | | | | |
| **At 31 December 2019** | **75,014,346** | **8,434,915** | **107,921** | **2,841,927** | **86,399,109** |
| At 31 December 2018 | 75,460,799 | 9,732,101 | 145,676 | 1,807,239 | 87,145,815 |

Had land and buildings not been included in the financial statements at revaluation less accumulated depreciation, the carrying amount as at 31 December 2019 would have been EUR30,187,645 (2018: EUR30,571,880).

As disclosed in note 15, at 31 December, the Reporting entity had creditors for capital expenditure amounting to EUR1,171,223 (2018: EUR1,235,786).

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 10. PROPERTY, PLANT AND EQUIPMENT - continued

The loan facilities are secured by a general hypothec of EUR19.1 million (2018: EUR20.6 million) over the assets of Phoenicia Malta Limited and a special hypothec of EUR19.1 million (2018: EUR20.6 million) over the land and buildings of Phoenicia Malta Limited. The Reporting entity is committed to a development project as detailed in note 18.

In 2019 and 2018, there were no borrowing costs arising from bank and other borrowings capitalised within land and buildings.

**Fair value**

Phoenicia Malta Limited's property comprises of a hotel building and its surrounding lands. An independent valuation of the land and buildings was performed by architects to determine the revalued amount as at 31 December 2018. The amount did not result in an increase in fair value compared to the value that was observed as at 31 December 2017.

The assessment of the revalued amount of the property was performed in accordance with the International Valuation Standards Committee and adopted by the European Group of Valuers Association. Revaluation gains are credited to other comprehensive income.

**Valuation processes**

The Reporting entity engages external, independent and qualified architects to determine the revalued amount of the property. At the date of the valuation, management:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior valuation report;
- holds discussions with the independent architects.

In the years where a valuation is not obtained, management verifies all major inputs used in the previous independent valuation report, by assessing the capitalisation rate against changes in discount and growth rates, as well as assessing the results achieved against the earning assumption used in the previous valuation report. Based on these analyses management holds discussions with the independent architect, to assess whether any changes in inputs would lead to significant changes in value of the property (note 3.1).

**Valuation techniques and inputs**

The revalued amount was determined by the income approach. This method involves the application of a market-derived discount rate to the annual earnings to establish the present value of the income stream associated with the asset. An implicit assumption in this method is that the cash flow is to perpetuity and the discount rate is a constant.

The capitalisation rate is based on the actual location, size and quality of the property and taking into account market data at the valuation date as follows:

| | **Unobservable capitalisation rate** |
|---|---|
| Sites in operation | a capitalisation rate of 7% was used. |
| Other sites | a capitalisation rate of 25% was used. |

For each valuation for which capitalisation rate have been determined to be significant unobservable inputs, the lower the capitalisation rate, the higher the fair value. Conversely, the higher the capitalisation rate, the lower the revalued amount.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 10. PROPERTY, PLANT AND EQUIPMENT - continued

**Valuation techniques and inputs - continued**

| Capitalisation rate sensitivity: | **Change in Rate** | **Change in value EUR' million** |
|---|---|---|
| Sites in operation | 6% / 8% | 14 / (10) |
| Other sites | 20% / 30% | 3 / (2) |

| Annual earnings sensitivity: | **Change in Rate** | **Change in value EUR' million** |
|---|---|---|
| Sites in operation | +5% / -5% | 18 / (14) |
| Other sites | +5% / -5% | 3 / (2) |

**Fair value hierarchy**

The value determined by the architects assumes that the development of the property under construction is complete. Accordingly, the value was adjusted for the estimated costs to complete the development of the property under construction.

The 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 Reporting entity'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.

### 11. DEFERRED TAX

Deferred income tax at 31 December relates to the following:

| | **2019 EUR** | 2018 EUR |
|---|---|---|
| *Deferred tax asset is attributable to the following:* | | |
| - unutilized tax losses and capital allowances | **2,899,854** | 2,829,467 |
| - excess of capital allowances over depreciation | **51,825** | 34,036 |
| - allowances for impairment | **23,312** | 23,311 |
| - expected credit losses | **4,681** | - |
| | **2,979,672** | 2,886,814 |
| *Deferred tax liability is attributable to the following:* | | |
| - Land and buildings | **(4,761,292)** | (4,732,987) |

Management made an estimation of the depreciable portion i.e. an estimation of the period over which management expects to recover the Property, Plant and Equipment through use with the remaining balance assumed to be recovered through sale. In Malta the income tax rate applicable to benefits generated through operating the asset (recovery through use) is 35%, while that applicable on sale of property is 8% on the sales proceeds. During the previous year management extended the period over which Property, plant and equipment will be recovered through use to 15 years in line with the updated plans of the Reporting entity.

The Directors have assessed the recognition of the deferred tax asset and they are confident that the deferred taxation recognised in the financial statements will be realised in the foreseeable future through trading operations. Tax losses and unabsorbed capital allowances do not expire under Maltese legislation.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 12. INVENTORIES

| | 2019 EUR | 2018 EUR |
|---|---|---|
| Catering and bar supplies | **115,138** | 96,413 |
| Hotel consumables | **82,336** | 89,371 |
| | **197,474** | 185,784 |

### 13. TRADE AND OTHER RECEIVABLES

| | 2019 EUR | 2018 EUR |
|---|---|---|
| **Non-current** | | |
| Other receivables (note ii) | **50,000** | 50,000 |
| **Current** | | |
| Trade receivables (note i) | **563,300** | 624,751 |
| Other receivables | **55,035** | 37,575 |
| Prepayments for administrative expenses | **115,975** | 122,662 |
| | **734,310** | 784,988 |

(i) Trade receivables are presented net of a provision for impairment of EUR66,604 (2018: EUR66,604). No interest is charged on trade and other receivables. As at 31 December, the ageing analysis of trade receivables is as follows:

| | | Neither past due nor impaired | | | Past due but not impaired |
|---|---|---|---|---|---|
| | Total EUR | 0-30 days EUR | 30-60 days EUR | 61-90 days EUR | EUR |
| **2019** | **563,300** | **192,642** | **84,222** | **286,436** | **-** |
| 2018 | 624,751 | 350,157 | 132,182 | 79,526 | 62,886 |

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

### 14. CASH AND CASH EQUIVALENTS

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

| | 2019 EUR | 2018 EUR |
|---|---|---|
| Cash at bank and in hand | **1,198,026** | 2,499,621 |
| Bank overdraft | **-** | (200,969) |
| | **1,198,026** | 2,298,652 |

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 14. CASH AND CASH EQUIVALENTS - continued

The Reporting entity has an overdraft facility of EUR600,000 (2018: EUR600,000) for working capital requirements, which is secured by a general hypothec over the assets of Phoenicia Hotel Company Limited and a special hypothecary guarantee of EUR600,000 (2018: EUR600,000) given by Phoenicia Malta Limited over its land and buildings. As at 31 December 2019, the reporting entity had banking facilities amounting to EUR600,000 (2018: EUR399,031) which were unutilized at year-end.

### 15. ISSUED CAPITAL AND RESERVES

**Ordinary shares**

| | Phoenicia Malta Limited EUR | Phoenicia Hotel Company Limited EUR | Total as at December EUR |
|---|---|---|---|
| Authorised ordinary shares: | | | |
| 9,999 Ordinary shares ‘A’ of EUR1 each | 9,999 | - | 9,999 |
| 1 Ordinary share ‘B’ of EUR1 | 1 | - | 1 |
| 16,000 ordinary shares of 0.25 GBP each | - | 9,318 | 9,318 |
| Total authorised ordinary shares | **10,000** | **9,318** | **19,318** |
| Issued and fully paid up: | | | |
| 4,999 Ordinary shares ‘A’ of EUR1 each | 4,999 | - | 4,999 |
| 1 Ordinary share ‘B’ of EUR1 | 1 | - | 1 |
| 14,400 ordinary shares of 0.25 GBP each | - | 8,386 | 8,386 |
| Total issued and fully paid up ordinary shares | **5,000** | **8,386** | **13,386** |

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.

**Deferred shares**

The authorised, issued and fully paid up deferred shares of EUR838,574 are made up of 1,440,000 deferred shares of GBP 0.25 each.

Deferred shares are not entitled to dividends and carry no voting rights. On winding up, holders of deferred shares are entitled to repayment of capital, after the capital had been repaid in full to the holders of ordinary shares. Holders of deferred shares are not entitled to participate in any further surplus arising on winding up.

**Revaluation reserve**

The revaluation reserve represents unrealised revaluation gains on Land and buildings within Property, plant and equipment, net of tax that are not available for distribution.

**Retained earnings**

Retained earnings represent accumulated retained profits that are available for distribution to the Reporting entity’s shareholders.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 16. TRADE AND OTHER PAYABLES

| | 2019 EUR | 2018 EUR |
|---|---|---|
| Trade payables | **1,012,464** | 1,451,345 |
| Creditors for capital expenditure | **1,171,223** | 1,235,786 |
| Amounts due to other parties (i) | **-** | 332,566 |
| Accruals | **881,887** | 1,171,755 |
| Contract liabilities (ii) | **577,279** | 524,657 |
| Indirect taxes including social security | **110,431** | 97,861 |
| Deferred income (iii) | **8,090** | 14,278 |
| Other payables | **67,711** | 18,607 |
| VAT payable | **123,750** | 162,783 |
| | **3,952,835** | 5,009,638 |

(i) Amounts due to other parties represented advances by the previous shareholders of Phoenicia Malta Limited, which were fully released during the year. The amounts were unsecured, non-interest bearing and with no fixed date for repayment.

(ii) Contract liabilities represent advances from customers which are excepted to the recognised in the profit or loss within one year. Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period amounted to EUR494,575 (2018: EUR474,452).

(iii) Deferred income includes capital grants which are being amortised over the life of the asset.

| | EUR |
|---|---|
| Balance at 1 January 2019 | 14,278 |
| Amortisation for the year | (6,188) |
| **Balance at 31 December 2019** | **8,090** |

### 17. INTEREST-BEARING LOANS AND BORROWINGS

| | 2019 EUR | 2018 EUR |
|---|---|---|
| **Non-current** | | |
| Bank loan (i) | **19,765,294** | 21,406,961 |
| Bank loan (ii) | **169,534** | 237,199 |
| 4.15% Unsecured Bonds 2023-2028 (iv) | **24,511,442** | 24,401,554 |
| | **44,446,270** | 46,045,714 |
| **Current** | | |
| Bank loan (i) | **1,796,944** | 1,810,532 |
| Bank loan (ii) | **67,505** | 63,770 |
| Accrued interest on 4.15% Unsecured Bonds 2023-2028 (iv) | **45,355** | 72,049 |
| | **1,909,804** | 1,946,351 |
| **Total interest-bearing loans and borrowings** | **46,356,074** | 47,992,065 |

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 17. INTEREST-BEARING LOANS AND BORROWINGS - continued

The Reporting entity has the following facilities:

(i) Bank loan facilities of EUR21,406,960 (EUR2018: EUR23,048,627) bearing an average interest of 2.84% (2018: 2.90%) (minimum rate) plus 3 months EURIBOR per annum. The loan facilities are secured by a general hypothec for EUR19.1 million (2019: EUR20.6 million) over all the assets of Phoenicia Malta Limited. The facilities are also secured by a special hypothec of EUR19.1 million (2018: EUR20.6 million) on Phoenicia Malta Limited land and buildings. The loans are also secured by a general hypothecary guarantee of EUR19.1 million (2018: EUR20.6 million) provided by Phoenicia Hotel Company Limited.

(ii) The outstanding balance as at year end on these loans amounted to EUR237,038 (2018: EUR300,969). The interest rate is of 3.5% (2017: 3.5%) per annum over the bank's base rate. The loans facilities are secured by a general hypothec of EUR237,038 (2018: EUR300,969) over the assets of Phoenicia Hotel Company Limited and a special hypothecary guarantee of EUR237,038 (2018: EUR300,969) given over the Land and buildings of Phoenicia Malta Limited.

(iii) The Unsecured Bonds are disclosed at the value of the proceeds less the unamortised balance of the issue costs, as follows:

| | **2019** | 2018 |
|---|---|---|
| | **EUR** | EUR |
| ***Non-current*** | | |
| Bonds | **25,000,000** | 25,000,000 |
| Issue costs | **(605,698)** | (605,698) |
| Accumulated amortisation | **117,140** | 7,252 |
| | **24,511,442** | 24,401,554 |

Unless previously purchased and cancelled, the Unsecured Bonds will be redeemed at their nominal value (together with interest accrued up to the date fixed for redemption) on 15 December 2028 provided that Phoenicia Finance Company p.l.c. reserves the right to redeem all the Unsecured Bonds on any one of the Early Redemption Dates, that is, 15 December 2023, 15 December 2024, 15 December 2025, 15 December 2026 or 15 December 2027, subject to Phoenicia Finance Company p.l.c. giving at least 60 days' notice in writing to all Bondholders of its intention to effect such earlier redemption.

The Unsecured Bonds are subject to a fixed interest rate of 4.15%. The quoted market price as at 31 December 2019 for the Unsecured bonds was EUR103.90 (2018: EUR104.15).

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

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

| | **2019** | 2018 |
|---|---|---|
| | **EUR** | EUR |
| Between one and two years | **1,713,231** | 1,709,197 |
| Between two and five years | **5,022,969** | 5,094,669 |
| More than five years | **38,198,628** | 39,840,294 |
| | **44,934,828** | 46,644,160 |

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 18. FINANCIAL COMMITMENTS

As at 31 December 2019, the Reporting entity had capital commitments with respect to the development of property estimated at EUR1.3 million (2018: EUR2.7 million). The capital commitments were estimated predominantly by the Reporting entity's cost consultants.

Collateral provided to the Bank by the Companies are disclosed in notes 14 and 17.

### 19. FAIR VALUE MEASUREMENT

IFRS 7 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 Reporting entity'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 Reporting entity 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 Reporting entity 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 2019 and 2018 the carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and current interest-bearing loans and borrowings approximated their fair values in view of the nature of the instruments or their short-term maturity. The fair values of non-current bank loans are not materially different from their carrying amounts particularly due to re-pricing. The fair values of non-current unsecured bonds can be defined by reference to the quoted market price which as at 31 December 2019 was EUR103.90 (2018: EUR104.15). The fair value is estimated at EUR 25.975 million when compared to the carrying amount of EUR 24.55 million.

### 20. RELATED PARTY TRANSACTIONS AND BALANCES

Note 23 provides information about the Reporting entity's structure, including details of the parent and ultimate parent company.

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

| | | Purchases from related party | Amounts owed (to)/ from related party |
|---|---|---|---|
| **Related parties** | | | |
| *Hazledene Group Limited* | **2019** | **115,386** | **(9,000)** |
| | 2018 | 61,036 | - |

*Hazledene Group Limited*

Hazledene Group Limited is an entity in which the shareholders of the Companies have an interest. During the year the Reporting entity entered into transactions with this party for an expense of an administrative nature.

*Key management personnel*

Amounts payable to key management personnel as disclosed in note 6 as 'Directors remuneration'.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Reporting entity's activities may expose it to the various types of risks: market risk (interest rate risk), credit risk and liquidity risk.

**Credit risk**

Financial assets which potentially subject the Reporting entity to concentrations of credit risk consist principally of trade and other receivables and cash and cash equivalents.

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Reporting entity is not exposed to major concentrations of credit risk.

The Reporting entity's short-term deposits are placed with quality financial institutions. Carrying amounts for trade and 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.

The maximum exposures to credit risk is represented by the carrying amount of each financial assets as disclosed in note 13 and note 14.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rates on the borrowings are disclosed in note 16.

**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 Reporting entity's profit before tax.

| | Increase/decrease in basis points | Effect on profit before tax EUR '000 |
|---|---|---|
| **2019** | | |
| | **+100** | **(228)** |
| | **-50** | **112** |
| 2018 | +100 | (243) |
| | -50 | 121 |

**Liquidity risk**

Liquidity risk is the risk that the Reporting entity is unable to meet its payment obligations associated with its financial liabilities when they fall due.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through adequate amount of committed credit facilities.

The Reporting entity 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. The Directors believe, that the current liability position can be redressed as detailed in Note 2 Going concern.

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

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

**Liquidity risk - continued**

| | Carrying amount EUR | Undiscounted contractual cash flows EUR | Within one-year EUR | 1 to 5 years EUR | Over 5 years EUR |
|---|---|---|---|---|---|
| **31 December 2019** | | | | | |
| Interest-bearing loans and borrowings | 46,844,632 | 60,113,302 | 3,354,324 | 12,807,204 | 43,951,774 |
| Trade and other payables | 3,952,835 | 3,952,835 | 3,952,835 | | |
| | **50,797,467** | **64,066,137** | **7,307,159** | **12,807,204** | **43,951,774** |
| **31 December 2018** | | | | | |
| Interest-bearing loans and borrowings | 48,590,511 | 63,418,738 | 3,458,274 | 13,039,244 | 46,921,220 |
| Bank overdraft | 200,969 | 200,969 | 200,969 | - | - |
| Trade and other payables | 5,009,638 | 5,009,638 | 5,009,638 | - | - |
| | **53,801,118** | **68,629,345** | **8,668,881** | **13,039,244** | **46,921,220** |

**Changes in liabilities arising from financing activities**

*Bank loans and other loans*

| | 1 January 2019 EUR | Cash flows EUR | Accrued interest EUR | 31 December 2019 EUR |
|---|---|---|---|---|
| **2019** | **48,590,511** | **(1,705,597)** | **(40,282)** | **46,844,632** |
| 2018 | 38,703,096 | 11,098,399 | (1,210,984) | 48,590,511 |

**Capital management**

The Reporting entity's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The primary objective of the Reporting entity's capital management is to ensure that it maintains adequate capital to support its operations. The Reporting entity's Directors manage the Reporting entity's capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis.

To maintain or adjust its capital structure, the Reporting entity may adjust its borrowings. There were no changes in the Reporting entity's approach to capital management during the year.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 22. CONTINGENT LIABILITES

The Reporting entity 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 Reporting entity has a number of counter claims against the contractor and the architects relating to delays and defects, amongst others.

### 23. 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.

### 24. EVENTS AFTER THE REPORTING PERIOD

The recent outbreak of COVID-19 has undoubtedly impacted many economies across the globe, with many countries experiencing unprecedented freefall recession. Mobility restrictions imposed by Governments in most countries has resulted in massive disruption to businesses worldwide, notwithstanding that many Governments have responded with monetary and fiscal interventions to help impacted companies.

As a result of the pandemic and measures taken by the Government, the Group has experienced curtailment of its business since March 2020, and due to the health and safety risk to our guests and staff resulting from COVID-19, the hotel cannot accommodate hotel guests at present, thus not being able to generate revenue since then. The Company has a plan in place for the upcoming 12 months and beyond to meet its liabilities when they fall due. The hotel has also taken advantage of the period of business curtailment brought about by the recent outbreak of COVID-19 and embarked on a project led by our extended maintenance team to refresh a number of locations within the hotel. This project continues to evidence the Company's objective and commitment towards exceeding the hotel's guest expectations and that the hotel is committed to going the extra mile at every opportunity to make our guests' future stays truly memorable ones.

The hotel continued with the project of completion of the Spa building in line with the plan together with the upgrading of a number of other areas of the hotel.

The Group has been monitoring the situation and the necessary actions are being taken to ensure the health and safety of its customers and employees. More detail is disclosed in note 2 Going Concern, describing the work done by the Group in respect of mitigating those risks arising from such pandemic. The Directors conclude that, notwithstanding the material uncertainties, the Directors have a reasonable expectation that the Group has adequate resources to remain in operation for the foreseeable future and meet its liabilities when they fall due.

The main assets that may be impacted by the developments COVID 19 are the valuation of own-used Land and buildings within Property, plant and equipment which is measured at Revalued amounts under IAS16 (note 10) and the deferred tax asset (note 11). At this time, it is still difficult to estimate the full financial impact on financial statement for the year ending 31 December 2020, given the uncertainties described in note 2 around the recovery of the hotel business.

The Reporting Entity has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact.