

COMPANY ANNOUNCEMENT

The following is a company announcement issued by Phoenicia Finance Company p.l.c. [C 88958] (hereinafter the “Company”) of The Phoenicia Hotel, The Mall, Floriana FRN 1478, pursuant to Chapter 5 of the Malta Financial Services Authority Listing Rules:

Quote

The Company announces that the Board of Directors of its guarantors, Phoenicia Malta Limited (“PML”) and Phoenicia Hotel Company Limited (“PHCL”) have today considered and approved their respective audited financial statements for the year ended 31 December 2019. The said financial statements are enclosed herewith and available for viewing on the Company’s website at <http://www.phoeniciafinance.com/financial-statements/>

In addition, the Board of Directors of each of PML and PHCL have also considered and approved the combined financial statements of PML, PHCL and the Company for the period ended 31 December 2019. These combined financial statements are not required statutorily and have been prepared for comparative purposes with the projected combined financial statements in the prospectus of the Company dated 15th November 2013 (the “Prospectus”). The said combined financial statements are enclosed herewith and available for viewing on the Company’s website at <http://www.phoeniciafinance.com/financial-statements/>.

In terms of Listing Rule 5.16.24, it is being disclosed that the combined financial results as published in the combined financial statements for the year ended 31 December 2019, show a combined profit after tax for the year of €890,000 which is an improvement of €27,000 on the forecasted combined profit after tax published in the Financial Analysis Summary of June 2019.

Profit before tax for the year ended 31 December 2019 resulted in €845,000 compared to a forecast of €1,611,000, whereas EBITDA for the year ended 31 December 2019 resulted in €4,906,000 compared to a forecast of €5,971,000. These shortfalls are mainly a result of the drop in revenue of €1,949,000 when compared to forecast, and which was primarily caused by the marginally lower REVPAR achieved as a result of the uncertainties caused by the longer-term negotiations on BREXIT in the United Kingdom, this being the Phoenicia Hotel’s main feeder market source. The REVPAR did, however, show continued growth over 2018, and continues to compare favourably to results achieved in competitive properties.

Company Registration No: C88958

Registered Address: The Phoenicia Hotel, The Mall, Floriana, Malta

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PHOENICIA FINANCE
COMPANY P.L.C

Unquote

BY ORDER OF THE BOARD

29 May 2020

Dr. Jennifer Shaw
COMPANY SECRETARY

Company Registration No: C88958

Registered Address: The Phoenicia Hotel, The Mall, Floriana, Malta

www.phoeniciafinance.com | investorrelations@phoeniciamalta.com | T:21225241

Company Registration No. C 41576

PHOENICIA MALTA LIMITED

Separate Financial Statements

31 December 2019

PHOENICIA MALTA LIMITED
Annual Report and Financial Statements for the year ended 31 December 2019

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PHOENICIA MALTA LIMITED

Annual Report and Financial Statements for the year ended 31 December 2019

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 7 to 32 which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 23 in the financial statements, which describes the impact of the COVID-19 outbreak on the Company. Note 2 explains the actions and plans of the Group, of which the company forms part, along with 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 Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Malta Limited - continued

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 other than our reporting on other legal and regulatory requirements.

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.

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.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Malta Limited - continued

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

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.



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.

A handwritten signature in blue ink, appearing to read 'Shawn Falzon', with a stylized flourish at the end.

*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

PHOENICIA MALTA LIMITED
Separate Financial Statements for the year ended 31 December 2019

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 EUR	2018 EUR
Rental income	4	2,350,000	2,250,000
Administrative expenses	5	(71,789)	(105,824)
Operating profit		2,278,211	2,144,176
Other income	6	332,566	-
Finance costs	7	(1,822,879)	(5,072,920)
(Loss) / Profit before tax		787,898	(2,928,744)
Income tax expense	8	(19,764)	(38,316)
(Loss) / Profit for the year		768,134	(2,967,060)
Other comprehensive income for the year		-	-
Total comprehensive income for the year, net of tax		768,134	(2,967,060)

The accounting policies and explanatory notes on pages 11 to 32 form an integral part of the financial statements.

PHOENICIA MALTA LIMITED**Separate Financial Statements for the year ended 31 December 2019****STATEMENT OF FINANCIAL POSITION****as at 31 December 2019**

	Notes	2019 EUR	2018 EUR
ASSETS			
Non-current assets			
Investment property	9	83,955,295	82,516,493
Investment in subsidiary	10	250,000	250,000
Other receivables	12	50,000	50,000
		84,255,295	82,816,493
Current assets			
Trade and other receivables	12	1,832,494	2,882,939
Cash and short-term deposits	16	2,000	1,371
		1,834,494	2,884,310
TOTAL ASSETS		86,089,789	85,700,803
EQUITY AND LIABILITIES			
Equity			
Issued capital	13	5,000	5,000
Other reserves	13	34,584,245	34,584,245
Retained earnings		(1,193,930)	(1,962,064)
Total equity		33,395,315	32,627,181
Non-current liabilities			
Interest-bearing loans and borrowings	14	43,954,368	43,846,035
Deferred tax liability	11	6,533,528	6,533,528
		50,487,896	50,379,563
Current liabilities			
Interest-bearing loans and borrowings	14	1,852,612	1,884,238
Trade and other payables	15	334,202	771,505
Current tax payable		19,764	38,316
		2,206,578	2,694,059
Total liabilities		52,694,474	53,073,622
TOTAL EQUITY AND LIABILITIES		86,089,789	85,700,803

The accounting policies and explanatory notes on pages 11 to 32 form an integral part of the financial statements.

The financial statements on pages 7 to 32 have been authorised for issue by the Board of Directors on 29 May 2020 and signed on its behalf by:



JEAN PIERRE ELLUL CASTALDI
Director



MARK SHAW
Director

PHOENICIA MALTA LIMITED
Separate Financial Statements for the year ended 31 December 2019

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

	Issued capital EUR	Retained earnings EUR	Other reserves EUR	Total EUR
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
At 1 January 2018	5,000	1,004,996	34,584,245	35,594,241
Profit for the year	-	(2,967,060)	-	(2,967,060)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	(2,967,060)	-	(2,967,060)
At 31 December 2018	5,000	(1,962,064)	34,584,245	32,627,181

The accounting policies and explanatory notes on pages 11 to 32 form an integral part of the financial statements.

PHOENICIA MALTA LIMITED
Separate Financial Statements for the year ended 31 December 2019

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 EUR	2018 EUR
Operating activities			
(Loss) / Profit before tax		787,898	(2,928,744)
<i>Adjustments to reconcile profit before tax to net cash flows</i>			
Non-cash:			
Other income	6	(332,566)	-
Finance costs	7	1,822,879	1,689,873
Working capital adjustments:			
Increase in trade and other payables		(133,844)	123,058
Increase in other receivables		(350,000)	-
Break fee		-	3,383,047
Income tax paid		(37,073)	-
Net cash flows from operating activities		1,757,294	2,267,234
Investing activities			
Purchase of investment property		(1,438,802)	(847,391)
Advances to related party		-	(2,136,776)
Increase in investment in subsidiary	10	-	(250,000)
Net cash flows used in investing activities		(1,438,802)	(3,234,167)
Financing activities			
Proceeds from bank loans	21	-	2,984,168
Proceeds from loan from subsidiary	21	1,750,000	22,439,074
Repayment of other loans	21	-	(12,266,111)
Repayment of amounts due to other parties	14	-	(1,662,434)
Repayment of bank loans	21	(1,641,667)	(4,559,167)
Payment of break fee	7	-	(3,383,047)
Advances from related party		1,282,179	313,407
Interest paid		(1,708,375)	(2,899,201)
Net cash flows from financing activities		(317,863)	966,689
Net movement in cash and cash equivalents		629	(244)
Cash and cash equivalents at 1 January		1,371	1,615
Cash and cash equivalents at 31 December	16	2,000	1,371

The accounting policies and explanatory notes on pages 11 to 32 form an integral part of the financial statements.

PHOENICIA MALTA LIMITED
Separate Financial Statements for the year ended 31 December 2019

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 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, 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 2019, the Company generated a profit before tax of EUR787,898 (2018: loss before tax of EUR2,928,744). As at 31 December 2019, its current liabilities exceeded current assets by EUR372,084 (2018: net current asset position of EUR190,251). The loss in previous year is attributable to a one-off break-fee of EUR3,383,047 due to the early repayment of interest-bearing loans and borrowings (note 7).

These financial statements have been prepared on a going concern basis, which assumes that the Directors have a reasonable expectation that the company has adequate resources to remain in operation for the foreseeable future and meet its liabilities when they fall due. The Director have 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. These financial statements do not contain the adjustments that would result if the Company 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 local hospitality industry, as well as most other industries worldwide. Governments in many countries have responded with monetary and fiscal interventions to assist companies overcome these unprecedented financial difficulties.

The Company has a lease agreement with Phoenicia Hotel Company Limited, which is a wholly owned subsidiary of the immediate parent of the Company, for the rental of the Investment Property (note 4) and the Company also has a loan from its subsidiary (note 14). As a result of the pandemic and measures taken by the 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 Company and the Group are in receipt of various COVID-19 business assistance programmes in order to mitigate against the adverse financial impact of this pandemic on the Company, and to safeguard its future wellbeing and that of its stakeholders.

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. (note 18), which provide cross intra-group guarantees and are managed as a combined 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 Company'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 sustain the going concern of the Company. 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 Company, and to resuming operations as soon as circumstances permit.

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:

- 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 Company.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

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 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, interpretations and amendments are not expected to have a material effect on the financial statements. The Company will adopt the changes in standards on their effective date.

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

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Taxes - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 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 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.

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

Policies applicable as of 1 January 2019

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

Policies applicable after 1 January 2019 - 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Leases - continued

Policies applicable before 1 January 2019

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of comprehensive income 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 of ownership of an asset are classified as operating leases. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

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 market valuations performed by independent professional architects at least every two years. The last market valuation was performed in 2018 (note 9).

In a year when market valuations are not obtained, management verifies all major inputs used in the previous 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.

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)

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.

PHOENICIA MALTA LIMITED

Separate Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued**5. EXPENSES BY NATURE**

	2019 EUR	2018 EUR
Auditor's remuneration	40,650	15,150
Legal fees	22,419	3,400
Other professional fees	6,907	86,219
Bank charges	998	240
Ground rent	815	815
Administrative expenses	71,789	105,824

6. OTHER INCOME

Other income of EUR332,566 represents unclaimed advances by previous shareholders of the Company, as disclosed in note 15 up to prior year.

7. FINANCE COST

	2019 EUR	2018 EUR
Interest payable on interest-bearing loans and borrowings (note 14)	1,822,879	1,679,873
Break fee on other loan (i)	-	3,383,047
Other finance charges	-	10,000
	1,822,879	5,072,920

(i) The break fee on other loan amounting to EUR3.4 million was incurred by the Company as a result of the early repayment of the Other loan (note 14).

8. INCOME TAX EXPENSE

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

	2019 EUR	2018 EUR
Current tax expense	19,764	38,316
Deferred tax expense	-	-
	19,764	38,316

PHOENICIA MALTA LIMITED
Separate Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

8. INCOME TAX EXPENSE - continued

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:

	2019 EUR	2018 EUR
Profit/(loss) before tax	787,898	(2,928,744)
Theoretical tax (credit) / expense at 35%	275,764	(1,025,061)
Tax effect of		
- expenses not deductible for tax purposes	24,841	1,184,067
- other income not subject to tax	(116,398)	-
- other rates: property tax (8% - see note 11)	-	36,754
- maintenance allowance	(164,443)	(157,444)
Income tax expense	19,764	38,316

9. INVESTMENT PROPERTY

	Total EUR
At 1 January 2018	81,669,102
Additions	847,391
At 31 December 2018	82,516,493
Additions	1,438,802
At 31 December 2019	83,955,295

The loan facilities are secured by a general hypothec of EUR19.1 million (2018: EUR20.6 million) over the company's assets and a special hypothec of EUR19.1 million (2018: EUR20.6 million) over the Company's investment property. The loans are also secured by a general hypothecary guarantee of EUR19.1 million (2018: EUR20.6 million) given by a related party. The Company is committed to a development project as detailed in note 20.

Fair value

An independent valuation of the Company's investment property was performed by architects to determine the fair value 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 Company's investment property comprises a hotel building and its surrounding lands. As of 29 October 2018, an assessment of the fair value of the investment property was performed in accordance with the International Valuation Standards Committee and adopted by the European Group of Valuers Association. Fair value movements are credited to profit and loss and subsequently transferred to other reserves under equity.

Valuation processes

The Company engages external, independent and qualified architects to determine the fair value of the investment property. At the date of the valuation, management:

NOTES TO THE FINANCIAL STATEMENTS - continued

9. INVESTMENT PROPERTY - continued

Valuation processes - continued

- 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 3.3).

Valuation techniques and inputs

The fair value 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 perpetuity and the discount rate is a constant.

The capitalisation rate is based on the actual location, size and quality of the investment 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 fair value.

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)

The value determined by the architects assumes that the development of the investment property under construction is complete. Accordingly, the value was adjusted for the estimated costs to complete the development of the property under construction and the value of property, plant and equipment held by a related Company.

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.

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NOTES TO THE FINANCIAL STATEMENTS - continued

10. INVESTMENT IN SUBSIDIARY

	2019 EUR	2018 EUR
At 1 January	250,000	-
Increase in investment in subsidiary (note i)	-	250,000
At 31 December	<u>250,000</u>	<u>250,000</u>

The subsidiary at 31 December 2019 is shown below:

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

- (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

Deferred income taxes are 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

	2019 EUR	2018 EUR
<i>Non-current</i>		
Other receivables (i)	50,000	50,000
	<u>50,000</u>	<u>50,000</u>
<i>Current</i>		
Amounts due from related parties (ii)	982,494	2,382,939
Accrued income (iii)	850,000	500,000
	<u>1,832,494</u>	<u>2,882,939</u>

- (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) Accrued income represents rental income not yet billed to related parties.

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NOTES TO THE FINANCIAL STATEMENTS - continued

13. ISSUED CAPITAL AND RESERVES

Issued Capital

	2019 EUR	2018 EUR
Authorised:		
(2018: 9,999) Ordinary shares 'A' of EUR1 each	9,999	9,999
1 Ordinary share 'B' of EUR1	1	1
	<u>10,000</u>	<u>10,000</u>
Issued and fully paid:		
(2018: 4,999) Ordinary shares 'A' of EUR1 each	4,999	4,999
1 Ordinary share 'B' of EUR1	1	1
	<u>5,000</u>	<u>5,000</u>

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.

14. INTEREST-BEARING LOANS AND BORROWINGS

	2019 EUR	2018 EUR
<i>Non-current</i>		
Bank loan (i)	19,765,294	21,406,961
Loan from subsidiary (ii)	24,189,074	22,439,074
	<u>43,954,368</u>	<u>43,846,035</u>
<i>Current</i>		
Bank loan (i)	1,796,944	1,810,532
Loan from subsidiary (ii)	55,668	73,706
	<u>1,852,612</u>	<u>1,884,238</u>
Total interest-bearing loans and borrowings	<u><u>45,806,980</u></u>	<u><u>45,730,273</u></u>

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

	2019 EUR	2018 EUR
Between one and two years	1,641,668	1,641,667
Between two and five years	4,924,999	4,925,000
More than five years	37,387,701	37,279,368
	<u>43,954,368</u>	<u>43,846,035</u>

PHOENICIA MALTA LIMITED
Separate Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INTEREST-BEARING LOANS AND BORROWINGS - continued

The Company has the following facilities:

- (i) Bank loan facilities of EUR21,406,960 (2018: 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 (2018: EUR20.6 million) over all the assets of the Company. The facilities are also secured by a special hypothec of EUR19.1 million (2018: EUR20.6 million) on the Company's investment property. A general hypothecary guarantee of EUR19.1 million (2018: EUR20.6 million) was also given by a related company.
- (ii) A loan from subsidiary of EUR24,189,074 (2018: EUR22,439,074) is unsecured and bears an interest of 4.73% per annum payable annually in arrears. On 1 September 2019 the interest rate was revised to 5.25% per annum. 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 period.

15. TRADE AND OTHER PAYABLES

	2019 EUR	2018 EUR
Trade payables	29,321	254,656
VAT payable	123,750	162,783
Amounts due to other parties (i)	-	332,566
Amounts due to related parties	146,131	-
Accruals	35,000	21,500
	334,202	771,505

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

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:

	2019 EUR	2018 EUR
Cash at bank	2,000	1,371

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.

PHOENICIA MALTA LIMITED
Separate Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

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:

		Rental income related party	Amounts from related party	Amounts owed to related party
Phoenicia Hotel Company Limited	2019	2,350,000	968,644	-
	2018	2,250,000	2,250,823	-
Phoenicia Finance Company p.l.c	2019	-	13,850	24,390,873
	2018	-	132,116	22,439,074

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 EUR837,038 (2018: EUR900,968) to a related party.

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 2019, the Company had capital commitments with respect to the development of investment property estimated at EUR1.3million (EUR2.7 million).

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

PHOENICIA MALTA LIMITED
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NOTES TO THE FINANCIAL STATEMENTS - continued

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.

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 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

PHOENICIA MALTA LIMITED
Separate Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

21. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

	Carrying amount EUR	contractual cash flows EUR	Undiscounted		
			Within one year EUR	1 to 5 years EUR	Over 5 years EUR
31 December 2018					
Interest-bearing loans and borrowings	45,730,273	60,715,944	3,313,232	12,875,175	44,527,537
Other liabilities	771,505	771,505	771,505	-	-
	46,501,778	61,487,449	4,084,737	12,875,175	44,527,537

Interest rate risk

The interest rates on the borrowings are disclosed in note 13. The bank loan is subject to variable interest rates.

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
2019	+100	225
	-50	113
2018	+100	239
	-50	120

Changes in liabilities arising from financing activities

	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	(146,131)	24,244,742
	1 January 2018 EUR	Cash flows EUR	Accrued interest EUR	Other changes EUR	31 December 2018 EUR
Bank loans and other loans	38,341,636	(13,841,110)	(1,283,033)	-	23,217,493
Loan from subsidiary	-	22,439,074	73,706	-	22,512,780

NOTES TO THE FINANCIAL STATEMENTS - continued

21. FINANCIAL RISK MANAGEMENT - continued

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 2019 and 31 December 2018.

22. 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 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 2019 and 2018, except as disclosed in note 8, 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 3.9% over their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS - continued

23. EVENTS AFTER THE REPORTING PERIOD

The recent outbreak of COVID-19 has undoubtedly impacted many economies across the globe, with many countries experiencing unprecedented levels of economic 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.

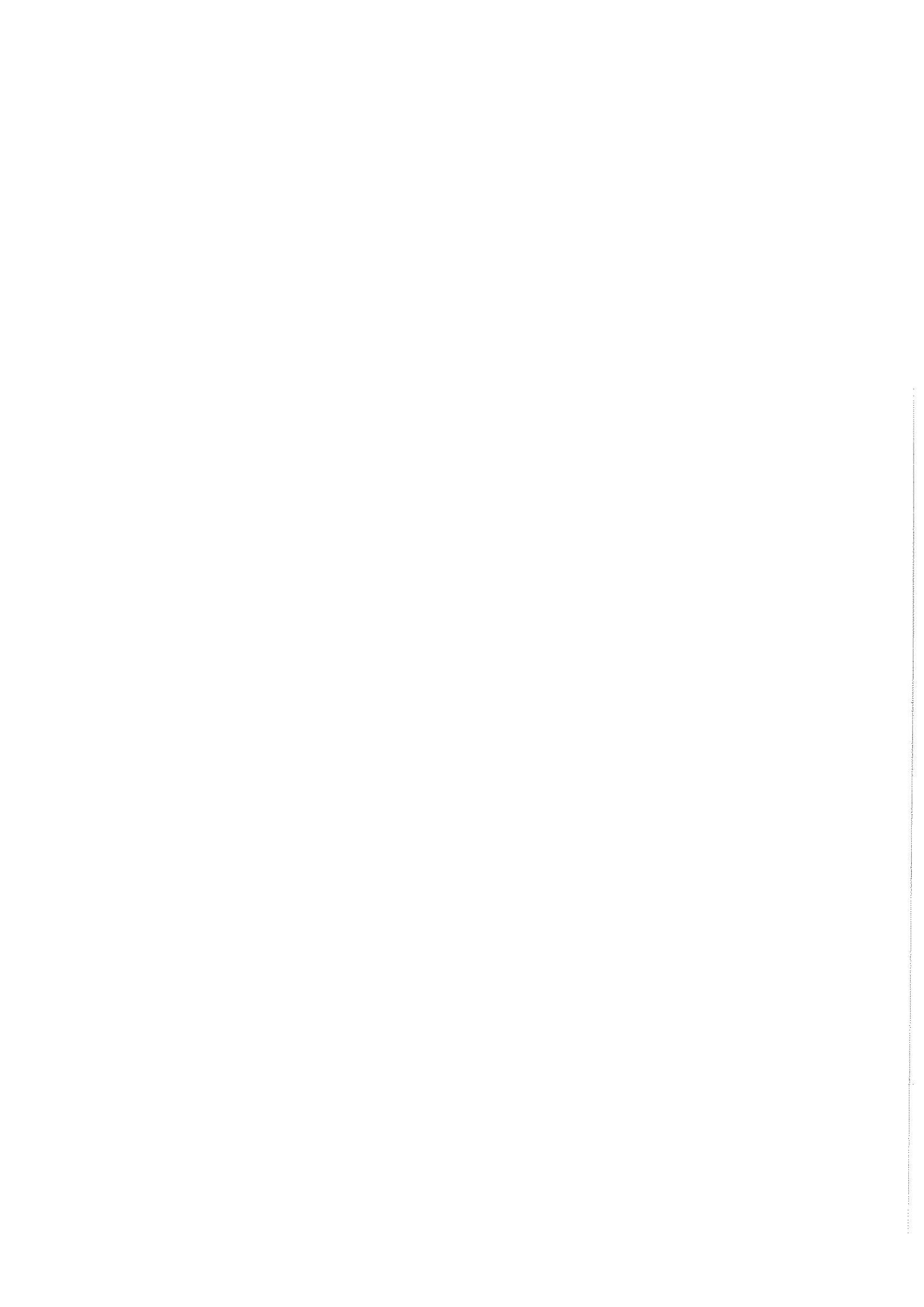
As a result of the pandemic and measures taken by the Government, the Group has experienced curtailment of its business since March 2020, and due to the health and safety risk to our guests and staff resulting from COVID-19, the hotel cannot accommodate hotel guests at present, thus not being able to 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 Company has adequate resources to remain in operation for the foreseeable future and meet its liabilities when they fall due.

The main asset that may be impacted by the developments COVID 19 is the valuation of Investment Property which is measured at fair value, for which a sensitivity analyses has been provided (note 9). 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 Company 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.



Company Registration No. 00305858

PHOENICIA HOTEL COMPANY LIMITED

Annual Report and Financial Statements

31 December 2019

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

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PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

GENERAL INFORMATION

Phoenicia Hotel Company Limited (“the Company”) is registered in the United Kingdom as a private company limited by shares. The Company is operated and managed from Malta where it is registered as an overseas company with registration number OCI.

Directors

Mr. J.P. Ellul Castaldi
Mr. M.D. Shaw

Company Secretary

Mr. J.P. Ellul Castaldi

Bankers

Bank of Valletta plc
St. Anne Street
Floriana FRN 9011
MALTA

Solicitors

Zammit Pace Advocates
35, St. Barbara Bastions
Valletta VLT 1961
MALTA

Registered Office

70 Eversheds House
Great Bridgewater Street
Manchester M1 5ES
UNITED KINGDOM

Auditors

Ernst & Young LLP
One Cambridge Business Park
Cambridge CB4 0WZ
UNITED KINGDOM

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

STRATEGIC REPORT

Company Registration No. 00305858

The Directors present their Strategic Report for the year ended 31 December 2019.

Principal activity

The Company's principal activity, which is unchanged since last year, is the operation of Phoenicia Hotel in Malta.

Review of the business

The Company's key financial performance indicators during the year were as follows:

	2019 EUR	2018 EUR	Change %
Revenue	13,264,688	12,933,075	3
Profit before tax for the year	709,737	1,465,987	-52
EBITDAR (earnings before Interest, Tax, Depreciation, Amortisation and Rent)	4,708,579	4,787,829	-2
Total equity	3,432,151	2,429,953	41

During the year under review revenue increased by EUR331,613 (2018: EUR6,155,930) representing an increase of 3% (2018: 91%) from the prior year. The increase in revenue is a result of improved occupancy and average room rate together with improved catering performance for the year as compared to 2018.

Other matters

The Company continues to be in disagreement with the main contractor of the recent development of Phoenicia Hotel. It is also contesting claims for additional services from architects, involved in the same development. The Directors are of the opinion that no amounts are due, and accordingly, no provision is being made in the financial statements (note 23).

Principal risks and uncertainties

The Directors and executive management regularly meet to review the principal risks and uncertainties of the business. It is the opinion of the Directors that the main significant risks that may affect the business are broadly categorised as interest rate, credit and liquidity risks.

Up to the date of the present financial statements the Company did not have any hedging policy with respect to interest rate risk, as exposure to such risk was not deemed to be significant by the Directors given that the Company's income and operating cash flows are substantially independent of changes in the market interest rate.

Financial assets that potentially subject the Company to concentrations of credit risk consist principally of cash at bank and debtors. The Company's cash is placed with quality financial institutions whilst debtors are presented net of provision for doubtful debts. Credit risk with respect to debtors is limited since there is no concentration of credit risk.

The Company actively manages its liquidity risk 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 through the operations of the Company and unutilised banking facilities (Note 2.1 – Going concern).

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

STRATEGIC REPORT - continued

Company Registration No. 00305858

Recent and future developments

In 2019, the Phoenicia Hotel achieved further growth in its revenue and profitability with an exceptional occupancy and average room rate. In 2019, which is considered to be the first stabilized year post the recent refurbishment of the Hotel in 2015-2017, the hotel operation generated an EBITDAR of EUR4.7 million, representing an excellent profit conversion on a turnover of EUR13.3 million.

The hotel embarked on a project of completion of the Spa building in Q3 of 2019 together with the upgrading of a number of other areas of the hotel. These works are now in the final stages of completion, and are planned to be finalised in the short term. The SPA will entail an indoor swimming pool, 5 treatment rooms, a gym, studio, sauna, steam room, experience showers, salt room and a juice bar, and will be managed by the world-renowned French Spa operators, Deep Nature.

The recent outbreak of COVID-19 has undoubtedly impacted many economies across the globe, with many countries experiencing levels of economic recession. Mobility restrictions imposed by governments in most countries have 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 the restrictive measures taken by governments, the Company 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 been monitoring the situation and has taken the necessary actions to ensure the health and safety of its customers and employees. The Company has prepared projections for the upcoming 12 months and beyond, based on historical financial information as well as realistic assumptions where necessary to assess the financial situation.

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 our objective and commitment towards exceeding our guest expectations, and we are committed to going the extra mile at every opportunity to make our guests' future stays truly memorable ones. Further disclosures in respect of Covid-19 are included in the Directors' Report.

The strategic report was approved by the Board of Directors and was signed on its behalf by:



MR. J. P. ELLUL CASTALDI
Director
Phoenicia Hotel Company Limited
Company Registration No. 00305858

29 May 2020

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

DIRECTORS' REPORT

Company Registration No. 00305858

The Directors present their report for the year ended 31 December 2019.

Results and dividends

The statement of comprehensive income is shown on page 11 and the movements in the reserves are disclosed in the statement of changes in equity on page 13. The Directors did not propose the payment of any dividends.

Going concern

In line with the FRC guidance on going concern issued in 2016 and taking into account the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014, the Directors have undertaken an exercise to review the appropriateness of the continued use of the going concern basis.

During the year ended 31 December 2019, the Company generated a profit before tax of EUR709,737 (2018: EUR1,465,987). As at 31 December 2019, its current liabilities exceeded current assets by EUR5,335,578 (2018: EUR6,106,555).

These financial statements have been prepared on a going concern basis, which assumes that the Directors have a reasonable expectation 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 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 company 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 local hospitality industry, as well as most other industries worldwide. Governments in many countries have responded with monetary and fiscal interventions to assist companies overcome these unprecedented financial difficulties.

As a result of the pandemic and measures taken by the governments, the Company 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. Management is continuously assessing the situation, and all necessary action is being taken to ensure the health and safety of its customers and its employees. To date, the Company is in receipt of various local COVID-19 business assistance programmes in order to mitigate against the adverse financial impact of this pandemic on the Company, and to safeguard its future wellbeing, that of its employees, and all stakeholders.

The Group, comprising of the Company, Phoenicia Malta Limited and Phoenicia Finance Company p.l.c. (note 21), which provide cross intra-group guarantees and are managed as a combined 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, needed in the shorter term 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.

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

DIRECTORS' REPORT - continued

Company Registration No. 00305858

Going concern – continued

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 Company's ability to continue as a going concern.

The material uncertainties identified by the Directors are:

- obtaining further financing, notwithstanding the advanced stage of negotiations 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 sustain the going concern of the Company. 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 Company, and to resuming operations as soon as circumstances permit.

Other matter

The Company is in disagreement with the main contractor of the recent development of Phoenicia Hotel. It is also contesting claims for additional services from architects, involved in the same development. The Directors are of the opinion that no amounts are due, and accordingly, no provision is being made in the financial statements (note 23).

Future developments

The future developments of the Company are described in the Strategic Report.

Financial management

The financial management activities are described in the Strategic report within: 'Principal risks and uncertainties'

Directors

The Directors who held office until the date of authorisation of these financial statements are stated on page 2. There were no changes in the directorship during the year. In accordance with the Company's Memorandum and Articles of Association, the present Directors are to remain in office.

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

DIRECTORS' REPORT - continued

Company Registration No. 00305858

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of approval confirms that:

- a) So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) The Director has taken all the steps that he ought to have taken as a director in order to become aware of any relevant audit information and to establish the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

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

The Directors' report was approved by the Board of Directors and was signed on its behalf by:



MR. J. P. ELLUL CASTALDI
Director
Phoenicia Hotel Company Limited
Company Registration No. 00305858

29 May 2020

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Financial Statements in accordance with applicable United Kingdom Law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The Directors are responsible for preparing the financial statements for each financial year which give a true and fair view in accordance with IFRS, of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently, to make judgements and estimates that are reasonable and prudent;
- state whether the financial statements comply with International Financial Reporting Standards as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHOENICIA HOTEL COMPANY LIMITED

Opinion

We have audited the financial statements of Phoenicia Hotel Company Limited for the year ended 31 December 2019 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainties related to going concern

We draw attention to Note 2.1 in the financial statements, which describes the material uncertainties in relation to the absence of a formal commitment from the Bank of Valetta for obtaining further finance, the duration of impediments on global travel imposed by Governments' and the duration of the Government's business assistance schemes mainly by way of wage supplements and deferral of taxes.

As stated in Note 2.1, these events or conditions, indicate that material uncertainties exist 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PHOENICIA HOTEL COMPANY LIMITED - CONTINUED**

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Ruth Logan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge
29 May 2020

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 EUR	2018 EUR
Revenue	4	13,264,688	12,933,075
Cost of sales	5	(9,045,698)	(9,204,253)
Gross profit		4,218,990	3,728,822
Administrative expenses	5	(1,671,439)	(1,671,479)
Selling and marketing expenses	5	(691,279)	(572,344)
Operating profit		1,856,272	1,484,999
Finance costs	7	(1,146,535)	(19,012)
Profit before tax		709,737	1,465,987
Income tax credit	8	292,461	683,805
Profit for the year		1,002,198	2,149,792
Other comprehensive income for the year		-	-
Total comprehensive income for the year, net of tax		1,002,198	2,149,792

The accounting policies and explanatory notes on pages 15 to 40 form an integral part of the financial statements.

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019 EUR	2018 EUR
ASSETS			
Non-current assets			
Property, plant and equipment	9	4,958,955	5,886,893
Right-of-use assets	10	24,033,775	-
Deferred tax asset	11	3,179,275	2,886,814
Total non-current assets		32,172,005	8,773,707
Current assets			
Inventories	12	197,474	185,784
Trade and other receivables	13	721,842	775,954
Cash and cash equivalents	14	734,943	8,217
Total current assets		1,654,259	969,955
TOTAL ASSETS		33,826,264	9,743,662
EQUITY AND LIABILITIES			
Equity			
Issued capital	15	8,386	8,386
Deferred shares	15	838,574	838,574
Retained earnings	15	2,585,191	1,582,993
Total equity		3,432,151	2,429,953
Non-current liabilities			
Bank loans	17	169,534	237,199
Lease liabilities	17	23,234,742	-
Total non-current liabilities		23,404,276	237,199
Current liabilities			
Trade and other payables	16	5,493,585	6,811,771
Bank loans	17	67,505	63,770
Lease liabilities	17	1,428,747	-
Bank overdraft	14	-	200,969
Total current liabilities		6,989,837	7,076,510
Total liabilities		30,394,113	7,313,709
TOTAL EQUITY AND LIABILITIES		33,826,264	9,743,662

The accounting policies and explanatory notes on pages 15 to 40 form an integral part of the financial statements.

The financial statements on pages 11 to 40 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

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

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

	Issued capital EUR	Deferred shares EUR	Retained earnings EUR	Total EUR
FINANCIAL YEAR ENDED 31 DECEMBER 2019				
At 1 January 2019	8,386	838,574	1,582,993	2,429,953
Profit for the year	-	-	1,002,198	1,002,198
Other comprehensive income for the year	-	-	-	-
Total comprehensive income	-	-	1,002,198	1,002,198
At 31 December 2019	<u>8,386</u>	<u>838,574</u>	<u>2,585,191</u>	<u>3,432,151</u>
FINANCIAL YEAR ENDED 31 DECEMBER 2018				
At 1 January 2018	8,386	838,574	(566,799)	280,161
Profit for the year	-	-	2,149,792	2,149,792
Other comprehensive income for the year	-	-	-	-
Total comprehensive income	-	-	2,149,792	2,149,792
At 31 December 2018	<u>8,386</u>	<u>838,574</u>	<u>1,582,993</u>	<u>2,429,953</u>

The accounting policies and explanatory notes on pages 15 to 40 form an integral part of the financial statements.

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 EUR	2018 EUR
Operating activities			
Profit / (Loss) before tax		709,737	1,465,987
<i>Non-cash adjustments to reconcile loss before tax to net cash flows:</i>			
Depreciation of property, plant and equipment	9	1,009,743	1,059,018
Depreciation of right of use assets	10	1,848,752	-
Amortization of deferred income	16	(6,188)	(6,188)
Interest expense	7	1,146,535	19,012
<i>Working capital adjustments:</i>			
Increase in trade and other receivables		45,973	(9,287)
Decrease/(increase) in inventory		(11,689)	23,839
(Decrease)/increase in trade and other payables		34,740	(184,182)
		<u>4,777,603</u>	<u>2,368,199</u>
Interest paid		(15,573)	(19,013)
Net cash from operating activities		<u>4,762,030</u>	<u>2,349,186</u>
Investing activities			
Purchase of property, plant and equipment		(146,366)	(4,069,487)
Advances to related parties		(1,274,039)	(344,918)
Net cash used in investing activities		<u>(1,420,405)</u>	<u>(4,414,405)</u>
Financing activities			
Repayments of borrowings	19	(63,930)	(60,491)
Advances from related parties		-	2,136,776
Payment of lease liability		(2,350,000)	-
Net cash from financing activities		<u>(2,413,930)</u>	<u>2,076,285</u>
Net increase in cash and cash equivalents		<u>927,695</u>	<u>11,066</u>
Cash and cash equivalents at 1 January		<u>(192,752)</u>	<u>(203,818)</u>
Cash and cash equivalents at 31 December	14	<u>734,943</u>	<u>(192,752)</u>

The accounting policies and explanatory notes on pages 15 to 40 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Phoenicia Hotel Company Limited (“the Company”) is registered in United Kingdom as a private company limited by shares. 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 The Phoenicia Hotel in Malta.

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and comply with the Companies Act 2006 (United Kingdom).

The financial statements are presented in Euro (EUR), which represents the functional and presentation currency of the Company and all values are rounded to the nearest Euro, except when otherwise indicated. These financial statements are prepared under the historical cost convention.

Going concern

During the year ended 31 December 2019, the Company generated a profit before tax of EUR709,737 (2018: EUR1,465,987). As at 31 December 2019, its current liabilities exceeded current assets by EUR5,335,578 (2018: EUR6,106,555).

These financial statements have been prepared on a going concern basis, which assumes that the Directors have a reasonable expectation 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 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 company 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 local hospitality industry, as well as most other industries worldwide. Governments in many countries have responded with monetary and fiscal interventions to assist companies overcome these unprecedented financial difficulties.

As a result of the pandemic and measures taken by the Governments, the Company 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. Management is continuously assessing the situation, and all necessary action is being taken to ensure the health and safety of its customers and its employees. To date, the Company is in receipt of various local COVID-19 business assistance programmes in order to mitigate against the adverse financial impact of this pandemic on the Company, and to safeguard its future wellbeing, that of its employees, and all stakeholders.

The Group, comprising of the Company, Phoenicia Malta Limited and Phoenicia Finance Company p.l.c. (note 21), which provide cross intra-group guarantees and are managed as a combined 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, needed in the shorter term 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.

NOTES TO THE FINANCIAL STATEMENTS – continued

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE - continued

Going concern - continued

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 Company's ability to continue as a going concern.

The material uncertainties identified by the Directors are:

- obtaining further financing, 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
- 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 sustain the going concern of the Company. 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 Company, and to resuming operations as soon as circumstances permit.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Standards, interpretations and amendments to published standards as adopted 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

Other than disclosed below, the adoption of these standards, where applicable, did not have significant impact on the financial statements or performance of the Company. The nature and effect of the changes as a result of adoption of IFRS 16 are described below.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

NOTES TO THE FINANCIAL STATEMENTS – continued

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

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

IFRS 16 – Leases - continued

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 year, renewable for further period of one year each up to a maximum period of fifteen (15) years in the aggregate. The Company chose the modified retrospective application of IFRS 16 with the cumulative of initially applying the standard recognised at the date of initial application as an adjustment to equity. Consequently, the Company did not restate the comparative information.

The Company has performed a detailed impact assessment of IFRS 16. In its assessment management assumed that the rental agreement will be renewed up to its maximum period i.e. a remaining period of thirteen (13) years. A discount rate of 4.5% was determined to be the incremental borrowing rate. In summary the impact of IFRS 16 adoption is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

	EUR'000
<i>Assets</i>	
Right-of-use assets	25,883
<i>Liabilities</i>	
Lease liabilities	<u>25,883</u>
<i>Net impact on equity</i>	-

Impact on the income statement for year ended 31 December 2019:

	EUR
Rent of hotel land and building	2,350,000
Depreciation on right of use assets	<u>(1,848,752)</u>
<i>Impact on gross profit / operating profit</i>	501,248
Interest on lease liabilities	<u>(1,130,962)</u>
<i>Net impact on profit before tax</i>	(629,714)

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 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, interpretations and amendments are not expected to have a material effect on the financial statements. The Company will adopt the changes in standards on their effective date.

NOTES TO THE FINANCIAL STATEMENTS – continued

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

Revenue

Revenues include all revenues from the ordinary business activities of the Company 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 Company 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 Company 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 Company 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 Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company 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 Company performs under the contract.

NOTES TO THE FINANCIAL STATEMENTS – continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Company 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 are stated at historical cost less accumulated depreciation and accumulated impairment losses.

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:

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.

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 Company 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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets - continued

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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 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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial liabilities - continued

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.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Leases

Policies applicable as of 1 January 2019

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

Policies applicable as of 1 January 2019 - continued

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, as follows:

Hotel Property	-	15 years
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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.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

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.

The Company's lease liabilities are detailed in Note 17.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

Policies applicable before 1 January 2019

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.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of comprehensive income 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 of ownership of an asset are classified as operating leases. 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. Rentals payable under operating leases are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

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

Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Company.

Taxes

Current tax

Current 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 tax

Deferred 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 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.

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

3.1. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

Right-of-use assets

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 year, renewable at the option of the lessee for further period of one year each up to a maximum period of fifteen (15) years in the aggregate.

In light of the aforementioned option to extend, management uses its judgement to determine whether or not this option to extend would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and future developments to determine the lease term.

In its assessment, management determined that the option to extend will be honoured up to the maximum term i.e. a remaining period of thirteen (13) years.

4. REVENUE

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

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

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

5. EXPENSES BY NATURE

	2019 EUR	2018 EUR
Staff costs (note 6)	3,442,049	3,378,217
Rent of hotel land and building (note 18)	-	2,250,000
Depreciation on owned assets (note 9)	1,009,743	1,059,018
Depreciation on right of use assets (note 10)	1,848,752	-
Auditors remuneration	35,000	42,500
Other expenses	5,072,872	4,718,341
	<u>11,408,416</u>	<u>11,448,076</u>

6. STAFF COSTS

	2019 EUR	2018 EUR
Director's remuneration	173,530	164,848
Social security costs	1,856	1,851
	<u>175,386</u>	<u>166,699</u>

The total employment costs were as follows:

	2019 EUR	2018 EUR
Wages and salaries	3,215,227	3,149,067
Social security costs	226,822	229,150
	<u>3,442,049</u>	<u>3,378,217</u>

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

	2019 Number	2018 Number
Guest service	118	108
Administrative	32	31
	<u>150</u>	<u>139</u>

7. FINANCE COSTS

	2019 EUR	2018 EUR
Interest on bank loan	15,573	19,012
Interest on lease liabilities	1,130,962	-
	<u>1,146,535</u>	<u>19,012</u>

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

8. INCOME TAX CREDIT

The tax for the year is made up as follows:

	2019 EUR	2018 EUR
Current tax	-	-
Deferred tax (note 11)	(292,461)	(683,805)
Income tax credit	<u>(292,461)</u>	<u>(683,805)</u>

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

	2019 EUR	2018 EUR
Profit/(loss) before tax	<u>709,737</u>	<u>1,465,987</u>
Theoretical tax at the applicable 35% rate	248,408	513,095
<i>Tax effect of:</i>		
- allowances on leased hotel property	(588,790)	(582,257)
- clarification of treatment of capital allowances (note i)		(612,877)
- expenses not deductible for tax purposes	49,700	-
- other differences	(1,779)	(1,766)
Income tax credit	<u>(292,461)</u>	<u>(683,805)</u>

- i) During the previous year, the Company 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 EUR 612,877 for the year ended 31 December 2018.

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

9. PROPERTY, PLANT AND EQUIPMENT

	Plant, machinery and equipment EUR	Crockery, utensils and linen EUR	Assets under construction EUR	Total EUR
Cost				
At 1 January 2018	12,199,518	589,021	49,824	12,838,363
Additions	1,888,984	-	-	1,888,984
Transfers	181	-	(181)	-
At 31 December 2018	14,088,683	589,021	49,643	14,727,347
At 1 January 2019	14,088,683	589,021	49,643	14,727,347
Additions	81,805	-	-	81,805
Transfers	-	-	-	-
At 31 December 2019	14,170,488	589,021	49,643	14,809,152
Accumulated depreciation				
At 1 January 2018	7,375,846	405,590	-	7,781,436
Depreciation for the year	1,021,263	37,755	-	1,059,018
At 31 December 2018	8,397,109	443,345	-	8,840,454
At 1 January 2019	8,397,109	443,345	-	8,840,454
Depreciation for the year	971,988	37,755	-	1,009,743
At 31 December 2019	9,369,097	481,100	-	9,850,197
Net book value				
At 31 December 2019	4,801,391	107,921	49,643	4,958,955
At 31 December 2018	5,691,574	145,676	49,643	5,886,893

As disclosed in note 16, at 31 December, the company had payables for capital expenditure amounting to EUR1,171,223 (2018: EUR1,235,786).

NOTES TO THE FINANCIAL STATEMENTS - continued

10. LEASES

Company as a lessee

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 year, renewable for further period of one year each up to a maximum period of fifteen years in the aggregate. In terms of the lease agreement, the Company pays annual rent of EUR2,500,000 revisable every three years assuming a complete development of the hotel.

The carrying amounts of right-of-use assets recognised and the movements during the year are as follows:

	Hotel land and building EUR
As at 1 January 2019 (note 2.2)	25,882,527
Additions	-
Depreciation on right of use assets (note 5)	(1,848,752)
As at 31 December 2019	24,033,775

The carrying amounts of lease liabilities and the movements during the period are as follows:

	2019 EUR	2018 EUR
As at 1 January (note 2.2)	25,882,527	-
Additions	-	-
Accretion of interest (note 7)	1,130,962	-
Payments	(2,350,000)	-
As at 31 December (note 17)	24,663,489	-

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

11. DEFERRED TAX ASSETS

The movement in deferred tax asset is as follows:

	2019 EUR	2018 EUR
Balance as at 1 January	2,886,814	2,203,009
Credited to income statement (note 8)	292,461	683,805
Balance as at 31 December	<u>3,179,275</u>	<u>2,886,814</u>

Deferred income tax at 31 December relates to the following:

	2019 EUR	2018 EUR
<i>Deferred income tax asset is attributable to the following:</i>		
- unutilized tax losses and capital allowances	2,883,738	2,829,467
- excess of capital allowances over depreciation	51,825	34,036
- allowances for impairment	23,312	23,311
- leases under IFRS 16	220,400	-
	<u>3,179,275</u>	<u>2,886,814</u>

The Directors are confident that the deferred taxation recognised in the financial statements will be realised in the foreseeable future through trading operations conducted by the Company. Tax losses and unabsorbed capital allowances do not expire under Maltese legislation.

12. INVENTORIES

	2019 EUR	2018 EUR
Catering and bar supplies	115,138	96,413
Hotel consumables	82,336	89,371
	<u>197,474</u>	<u>185,784</u>

13. TRADE AND OTHER RECEIVABLES

	2019 EUR	2018 EUR
Trade receivables (note i)	563,300	624,751
Amounts due from related party (note ii)	23,371	31,511
Prepayments	80,136	82,118
Other receivables	55,035	37,574
	<u>721,842</u>	<u>775,954</u>

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

13. TRADE AND OTHER RECEIVABLES

- (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:

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

- (ii) The amounts due from related parties are unsecured and interest free. The amounts are repayable on demand.

14. CASH AND CASH EQUIVALENTS

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

	2019 EUR	2018 EUR
Cash at bank and in hand	734,943	8,217
Bank overdraft	-	(200,969)
	<u>734,943</u>	<u>(192,752)</u>

The company has an overdraft facility of EUR600,000 (2018: EUR600,000) for working capital requirements, which is secured by a general hypothec of EUR600,000 (2018: EUR600,000) over the assets of the company and a special hypothecary guarantee of EUR600,000 (2018: EUR600,000) given by a related company over its property (note 21).

15. ISSUED CAPITAL AND RESERVES

	2019 EUR	2018 EUR
Authorised:		
16,000 ordinary shares of 0.25 GBP each	9,318	9,318
Issued and fully paid up:		
14,400 ordinary shares of 0.25 GBP each	<u>8,386</u>	<u>8,386</u>

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

15. ISSUED CAPITAL AND RESERVES - continued

Deferred shares

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

Retained earnings

Retained earnings represent accumulated retained profits that are available for distribution to the company's shareholders.

16. TRADE AND OTHER PAYABLES

	2019	2018
	EUR	EUR
Trade payables	968,260	1,284,732
Payables for capital expenditure	1,171,223	1,235,786
Amounts due to related parties (i)	968,644	2,250,823
Accruals (ii)	1,675,754	1,385,027
Contract liabilities (iii)	577,279	524,657
Indirect taxes including social security	110,431	97,861
Deferred income (iv)	8,090	14,278
Other payables	13,904	18,607
	<u>5,493,585</u>	<u>6,811,771</u>

- (i) The amounts due to related parties are unsecured and interest free. The amounts are repayable on demand.
- (ii) Included with accruals is an amount of EUR850,000 (2018: EUR500,000) representing rent not yet billed by related parties.
- (iii) Contract liabilities represent advances from customers. 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).
- (iv) Deferred income includes capital grants which are being amortised over the life of the asset.

	EUR
Balance at 31 December 2018	14,278
Amortisation for the year	(6,188)
Balance at 31 December 2019	<u><u>8,090</u></u>

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

17. INTEREST-BEARING LOANS AND BORROWINGS

	2019 EUR	2018 EUR
Current interest-bearing loans and borrowings		
Lease liabilities (note 10)	1,428,747	-
Bank loan	67,505	63,770
Total current interest-bearing loans and borrowings	1,496,252	63,770
Non-current interest-bearing loans and borrowings		
Lease liabilities (note 10)	23,234,742	-
Bank loan	169,534	237,199
Total non-current interest-bearing loans and borrowings	23,404,276	237,199
Total interest-bearing loans and borrowings	24,900,528	300,969

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

	2019 EUR	2018 EUR
Between one and two years	1,565,946	67,530
Between two and five years	5,005,790	169,669
More than five years	16,832,540	-
	23,404,276	237,199

The Company's interest-bearing loans and borrowings bear an interest rate is of 3.5% per annum over the bank's base rate. As at 31 December 2019, the Company has banking facilities amounting to EUR600,000 (2018: EUR398,705) which were unutilized at year-end.

The loans facilities are secured by a general hypothec of EUR237,038 (2018: EUR300,969) over the assets of the company and a special hypothecary guarantee of EUR237,038 (2018: EUR300,969) given by a related company over its property (note 21).

18. FINANCIAL COMMITMENTS

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 year, renewable for further period of one year each up to a maximum period of fifteen years in the aggregate. In terms of the lease agreement, the Company pays annual rent of EUR2,500,000 revisable every three years assuming a complete development of the hotel.

As disclosed in notes 14 and 17, the Company has also provided the bank with guarantees over the assets of the Company.

The Company also provides a first general hypothecary guarantee of EUR19.1 million (2018: EUR20.6 million) in favour of a related party (note 21).

NOTES TO THE FINANCIAL STATEMENTS – continued

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company'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 Company 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 Company is not exposed to major concentrations of credit risk.

The Company'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.

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 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.

With the exception of bank balances and related party loans, the Company is not subject to cash flow interest rate risk. The Company's financial assets and liabilities are principally non-interest bearing. As a result, the Company is not subject to significant amounts of risk due to fluctuations on the prevailing levels of market interest rates.

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
2019	+100	(2,974)
	-50	1,117
2018	+100	(3,468)
	-50	1,684

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Liquidity risk

Liquidity risk is the risk that the Company 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 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. The Directors believe, that the current liability position can be redressed through the operations of the Company and unutilised banking facilities (Note 3.1 – 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.

	Carrying amount	Undiscounted contractual cash flows EUR	Within 1 year EUR	1 to 5 years EUR	Over 5 years EUR
31 December 2019					
Interest-bearing loans and borrowings					
Bank loan	237,039	260,890	79,504	181,386	-
Lease liabilities	24,663,489	32,500,000	2,500,000	10,000,000	20,000,000
Trade and other payables	5,493,585	5,493,585	5,493,585	-	-
	30,394,113	38,254,475	8,073,089	10,181,386	20,000,000

31 December 2018					
Interest-bearing loans and borrowings					
Bank loan	300,969	340,438	79,504	260,934	-
Bank overdraft	200,969	200,969	200,969	-	-
Trade and other payables	6,811,771	6,811,771	6,811,771	-	-
	7,313,709	7,353,178	7,092,244	260,934	-

Changes in liabilities arising from financing activities

	1 January 2019 EUR	Cash flows EUR	Rent expense EUR	Other EUR	31 December 2019 EUR
Amounts due to related parties	2,250,823	(3,643,179)	2,350,000	-	968,644
Bank loans and other loans	300,969	(63,930)	-	-	237,039
	1 January 2018 EUR	Cash flows EUR	Rent expense EUR	Other EUR	31 December 2018 EUR
Amounts due to related parties	427,453	(831,630)	2,655,000	-	2,250,823
Bank loans and other loans	361,460	(60,491)	-	-	300,969

NOTES TO THE FINANCIAL STATEMENTS - continued

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Capital management

The Company'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 Company's capital management is to ensure that it maintains adequate capital to support its operations. The Company's Directors manage the Company'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 Company may adjust its borrowings. There were no changes in the Company's approach to capital management during the year.

20. 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 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 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 (Level 2). The fair values of non-current interest-bearing loans and borrowings are not materially different from their carrying amounts particularly due to re-pricing (Level 2).

PHOENICIA HOTEL COMPANY LIMITED
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

21. RELATED PARTY TRANSACTIONS AND BALANCES

Note 22 provides information about the Group'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:

Related parties		Purchases from related party	Amounts owed (to)/ from related party
Phoenicia Malta Limited	2019	2,350,000	(968,644)
	2018	2,250,000	(2,250,823)
Phoenicia Finance Company p.l.c.	2019	-	23,371
	2018	-	31,511
Hazledene Group Limited	2019	115,386	(9,000)
	2018	61,036	-

Phoenicia Malta Limited

The Company has a lease agreement with Phoenicia Malta Limited, which is a wholly owned subsidiary of the immediate parent of Phoenicia Hotel Company Limited for the rental of the hotel (note 18). The loans of the related party are secured by a special hypothecary guarantee of EUR19.1 million (2018: EUR20.6 million) given by the Company. As disclosed in notes 14 and 17, the related party has also provided guarantees amounting to EUR837,038 (2018: EUR900,968) to secure the Company's bank facilities.

Phoenicia Finance Company p.l.c.

The company has a current account balance with Phoenicia Finance Company p.l.c. a fully owned subsidiary of Phoenicia Malta Limited.

Hazledene Group Limited

Hazledene Group Limited is an entity in which the shareholders of the company have an interest. During the year the company 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'.

22. PARENT AND ULTIMATE PARENT COMPANY

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

23. CONTINGENT LIABILITIES

The Company continues to be 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 a related company owning the property.

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 levels of economic 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 Company 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 our objective and commitment towards exceeding our guest expectations and we are 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 Company 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 3.1 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 company 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 right-of-use assets (note 10) and deferred tax asset (note 11). At this time, it is still difficult to estimate the financial effects on financial statement for the year ending 31 December 2020.

The Company 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.

PHOENICIA

Combined Financial Statements

31 December 2019

PHOENICIA
Combined Financial Statements for the year ended 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.



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.



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

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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

	Notes	2019 EUR	2018 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)
<i>Other comprehensive income for the year</i>			
<i>not to be reclassified to profit or loss in the future periods</i>			
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 EUR	2018 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)*

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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

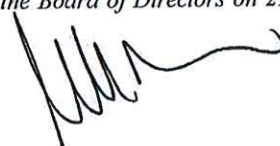
	Notes	2019 EUR	2018 EUR
ASSETS			
Non-current assets			
Property, plant and equipment	10	86,399,109	87,145,815
Deferred tax asset	11	2,979,672	2,886,814
Other receivables	13	50,000	50,000
Total non-current assets		89,428,781	90,082,629
Current assets			
Inventories	12	197,474	185,784
Trade and other 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

PHOENICIA**Combined Financial Statements for the year ended 31 December 2019****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.

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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

	Notes	2019 EUR	2018 EUR
Operating activities			
Profit/(loss) before tax		844,790	(2,741,385)
<i>Non-cash adjustments to reconcile loss before tax to net cash flows:</i>			
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)	-
<i>Working capital adjustments:</i>			
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.

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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.

PHOENICIA
Combined Financial Statements for the year ended 31 December 2019

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	2018
	EUR	EUR
<i>Services transferred over time</i>		
Accommodation	9,169,418	9,069,186
<i>Services/goods transferred at a point in time</i>		
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	2018
	EUR	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.

PHOENICIA
Combined Financial Statements for the year ended 31 December 2019

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).

PHOENICIA**Combined Financial Statements for the year ended 31 December 2019****NOTES TO THE FINANCIAL STATEMENTS - continued****9. INCOME TAX CREDIT**

The tax for the year is made up as follows:

	2019 EUR	2018 EUR
Current tax	19,764	38,316
Deferred tax (note 11)	(64,553)	(683,805)
Income tax credit	<u>(44,789)</u>	<u>(645,489)</u>

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 EUR	2018 EUR
Loss before tax	844,790	(2,741,385)
Theoretical tax at the applicable 35% rate	295,677	(959,485)
<i>Tax effect of:</i>		
- 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	<u>(44,789)</u>	<u>(645,489)</u>

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 EUR	2018 EUR
Deferred tax (i)	-	(1,800,541)
Revaluation of property, plant and equipment net of tax	<u>-</u>	<u>(1,800,541)</u>

- 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.

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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
<i>Deferred tax asset is attributable to the following:</i>		
- 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	-
	<u>2,979,672</u>	<u>2,886,814</u>
<i>Deferred tax liability is attributable to the following:</i>		
- 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.

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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
	<u>197,474</u>	<u>185,784</u>

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
	<u>734,310</u>	<u>784,988</u>

- (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:

	Total EUR	Neither past due nor impaired			Past due but not impaired EUR
		0-30 days EUR	30-60 days EUR	61-90 days 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)
	<u>1,198,026</u>	<u>2,298,652</u>

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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.

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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 EUR	2018 EUR
<i>Non-current</i>		
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 EUR	2018 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			
<i>Hazledene Group Limited</i>	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.

PHOENICIA

Combined Financial Statements for the year ended 31 December 2019

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 LIABILITIES**

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.

