

**PHOENICIA HOTEL COMPANY LIMITED**

**Annual Report and Financial Statements**

**31 December 2021**

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

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**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

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**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 OC1.

**Directors**

Mr. Jean Pierre Ellul Castaldi  
Mr. Mark Shaw

**Company Secretary**

Mr. Jean Pierre 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**

2 New Bailey  
6 Stanley Street, Salford  
Greater Manchester, M3 5GS  
UNITED KINGDOM

**Auditors**

Ernst & Young Malta Limited  
Certified Public Accountants  
Regional Business Centre  
Achille Ferris Street  
Msida, MSD 1751  
MALTA

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

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**DIRECTORS' REPORT**

The Directors of the Company present their annual report and financial statements for the year ended 31 December 2021.

**Company incorporation**

Phoenicia Hotel Company Limited (“the Company”) is registered in United Kingdom as a private company limited by shares since 10 October 1935 with registration number 00305858. On 2 July 2021, its registered office has changed to 2 New Bailey, 6 Stanley Street, Salford, Greater Manchester M3 5GS, United Kingdom. The Company is effectively operated and managed from Malta where it is registered as an overseas company with registration number OC1 since 21 April 1965. The Company’s principal activity is the operation of The Phoenicia Hotel in Malta.

**Principal activity**

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

**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).

**Review of the business**

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

	<b>2021</b>	2020	Change
	<b>EUR</b>	EUR	%
Revenue	<b>8,036,899</b>	2,940,645	173
Loss before tax for the year	<b>(1,046,896)</b>	(4,736,922)	78
Total equity	<b>1,071,877</b>	1,076,940	-

During the year ended 31 December 2021 the Company has seen a significant and continued increase in demand for its services where revenue increased by EUR5.1 million (2020: decreased by EUR10.3 million) representing an increase of 173% (2020: decrease of 78%) from prior year.

## **DIRECTORS' REPORT - continued**

### **Financial risk management**

The Company's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. Refer to note 20 in these financial statements.

### **Results and dividends**

The results for the year are set out in the statement of comprehensive income on page 10. The Directors do not recommend the payment of a dividend.

### **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.

### **Statement of Directors' responsibilities**

The Companies Act (Cap. 386) requires the Directors to prepare financial statements in accordance with generally accepted accounting principles as defined in the same Act, and in accordance with the provision of such Act, for each financial period which give a true and fair view of the financial position of the Company as at the end of the financial period and of the profit or loss for that period. In preparing the financial statements, the Directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the Company will continue in the business;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items;
- report comparative figures corresponding to those of the preceding accounting period; and
- prepare the financial statements in accordance with generally accepted accounting principles as defined in the Companies Act (Cap. 386) and in accordance with the provision of the same Act.

The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act (Cap. 386) enacted in Malta. This responsibility includes designing, implementing and maintaining 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. The Directors 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.

In view of the above information, we declare that to the best of our knowledge, the financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU"), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and that this report includes a fair review of the performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

# PHOENICIA HOTEL COMPANY LIMITED

## Annual Financial Statements for the year ended 31 December 2021

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### DIRECTORS' REPORT - continued

#### Going concern statement

During the year ended 31 December 2021, the Company incurred a loss before tax of EUR1,046,896 (2020: loss before tax of EUR4,736,922). As at 31 December 2021, its current liabilities exceeded current assets by EUR4,713,220 (2020: EUR7,328,523).

These financial statements have been prepared on a going concern basis. The Directors have made appropriate assessment of the going concern and reviewed the Company's budget for the next financial year. The Directors are confident that the Company has adequate resources to remain in operation for the foreseeable future, and to meet its liabilities when they fall due. The Directors have therefore continued to adopt the going concern basis of accounting in preparing these annual financial statements.

During the year ended 31 December 2021, the Hotel, owned by Phoenicia Malta Limited and operated by Phoenicia Hotel Company Limited has registered a significant increase in demand for its services following a period of recovery from the negative impacts of the outbreak of Covid-19 pandemic in 2020. This recovery was a result of increased consumer confidence over the summer and autumn months, and also as a result of management's ongoing monitoring of the situation to safeguard the financial wellbeing of the business, implementing cost cutting measures where necessary, whilst at the same time maintaining the hotel product at the highest standard possible in order to be well prepared for the rebound once business recovery continues to approach pre-pandemic levels.

During the ongoing recovery of business, the Group, comprising of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company p.l.c., continued to avail itself of Covid-19 business assistance programmes, namely for wage supplements, deferral of taxes, and other business assistance programmes, as applicable.

Additionally, the Group has also benefitted from an extended moratorium on capital and interest repayments of existing loan facilities. The monthly debt servicing repayments recommenced in September 2021. As at 31 December 2021, the Group had undrawn bank overdraft facilities amounting to EUR0.6 million.

The Group, which provides cross intra-group guarantees and is managed as a combined entity, prepared projections up to March 2023, based on historical financial information, forecasts, as well as realistic assumptions to assess the financial situation. In preparing its projections, the Group has considered further prudent recovery of the business.

The Directors have also taken into consideration the positive performance and positive outlook to date for the year ending 31 December 2022 where it is confident that targets are on track to be achieved. The targets are at a level of more than 85% when compared to those achieved pre-Covid in 2019, including the average occupancy and rooms revenue per available room. The Directors consider that it has the necessary resources and liquidity requirements in place to meet all commitments including all debt servicing. The Directors have performed stress testing over its projected revenue, took into consideration the continuous release of Covid restrictions throughout the world, including those originating from the local government, and also notes the increasing demand for the hotel by way of bookings, together with stress testing over projected cost of operations and working capital. After having taken into consideration these scenarios, and considering other mitigations available to the Group, including uncommitted costs, government assistance, working capital management and available financing, the Directors have concluded that the possibility of having another covid interruption that could impact its forecast is not deemed to be a significant risk and, on this basis, management concludes that no significant uncertainties exist.

#### 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 24).

**DIRECTORS' REPORT - continued**

**Events after the reporting period**

The geopolitical situation in Eastern Europe intensified in February 2022, with Russia's invasion of Ukraine. This was followed by a number of sanctions imposed against certain entities and individuals in Russia. The Company considers these events as non-adjusting events after the reporting period.

The Company does not have significant reliance on Russia, Ukraine, or neighbouring countries. The Company's Directors continue to monitor the situation for possible impact of changing macroeconomic conditions that may affect the Company's financial position or operations especially as a result of rising inflation and global supply-chain disruption.

There were no other events after the reporting period which require disclosure in these financial statements.

**Auditors**

Ernst & Young Malta Limited 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:



**JEAN PIERRE ELLUL CASTALDI**  
Director



**MARK SHAW**  
Director

27 April 2022

# **INDEPENDENT AUDITOR'S REPORT**

## **to the Shareholders of Phoenicia Hotel Company Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Phoenicia Hotel Company Limited (the "Company"), set on pages 10 to 39 which comprise the statement of financial position as at 31 December 2021, 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 2021, 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.

#### **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.

## **INDEPENDENT AUDITOR'S REPORT**

### to the Shareholders of Phoenicia Hotel Company Limited - continued

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

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **INDEPENDENT AUDITOR'S REPORT** to the Shareholders of Phoenicia Hotel Company Limited - continued

### **Report on other legal and regulatory requirements**

#### *Matters on which we are required to report by the Companies Act*

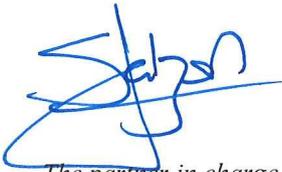
We are required to express an opinion as to whether the directors' report has been prepared in accordance with the applicable legal requirements. In our opinion the directors' report has been prepared in accordance with the Companies Act.

In addition, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' report. We have nothing to report in this regard.

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

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit.

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



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

Ernst & Young Malta Limited  
Certified Public Accountants

27 April 2022

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2021**

	Notes	2021 EUR	2020 EUR
Revenue	4	<b>8,036,899</b>	2,940,645
Cost of sales	5	<b>(7,618,734)</b>	(6,114,760)
<b>Gross profit/(loss)</b>		<b>418,165</b>	(3,174,115)
Administrative expenses	5	<b>(1,274,462)</b>	(1,098,355)
Selling and marketing expenses	5	<b>(456,984)</b>	(454,582)
Other income	6	<b>1,294,634</b>	1,077,880
<b>Operating loss</b>		<b>(18,647)</b>	(3,649,172)
Finance costs	8	<b>(1,028,249)</b>	(1,087,750)
<b>Loss before tax</b>		<b>(1,046,896)</b>	(4,736,922)
Income tax credit	9	<b>1,041,833</b>	2,381,711
<b>Loss for the year</b>		<b>(5,063)</b>	(2,355,211)
Other comprehensive income for the year		-	-
<b>Total comprehensive loss for the year, net of tax</b>		<b>(5,063)</b>	(2,355,211)

*The accounting policies and explanatory notes on pages 14 to 39 form an integral part of the financial statements.*

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

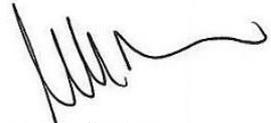
**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2021**

	Notes	2021 EUR	2020 EUR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	4,119,149	4,690,123
Right-of-use assets	11	20,336,272	22,185,024
Deferred tax asset	12	6,602,819	5,560,986
<b>Total non-current assets</b>		<b>31,058,240</b>	32,436,133
<b>Current assets</b>			
Inventories	13	185,654	149,857
Trade and other receivables	14	842,235	537,391
Cash and cash equivalents	15	1,967,269	2,155
<b>Total current assets</b>		<b>2,995,158</b>	689,403
<b>TOTAL ASSETS</b>		<b>34,053,398</b>	33,125,536
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	16	8,386	8,386
Deferred shares	16	838,574	838,574
Retained earnings	16	224,917	229,980
<b>Total equity</b>		<b>1,071,877</b>	1,076,940
<b>Non-current liabilities</b>			
Bank loans	18	5,095,818	2,290,310
Lease liabilities	11	20,177,325	21,740,360
<b>Total non-current liabilities</b>		<b>25,273,143</b>	24,030,670
<b>Current liabilities</b>			
Trade and other payables	17	5,046,793	5,853,035
Bank loans	18	1,098,550	670,508
Lease liabilities	11	1,563,035	1,494,383
<b>Total current liabilities</b>		<b>7,708,378</b>	8,017,926
<b>Total liabilities</b>		<b>32,981,521</b>	32,048,596
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>34,053,398</b>	33,125,536

*The accounting policies and explanatory notes on pages 14 to 39 form an integral part of the financial statements.*

*The financial statements on pages 10 to 39 have been authorised for issue by the Board of Directors on 27 April 2022 and signed on its behalf by:*

  
**JEAN PIERRE ELLUL CASTALDI**  
 Director

  
**MARK SHAW**  
 Director

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

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**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2021**

	<b>Issued capital EUR</b>	<b>Deferred shares EUR</b>	<b>Retained earnings EUR</b>	<b>Total EUR</b>
<b>FINANCIAL YEAR ENDED 31 December 2021</b>				
At 1 January 2021	<b>8,386</b>	<b>838,574</b>	<b>229,980</b>	<b>1,076,940</b>
Loss for the year	-	-	(5,063)	(5,063)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss	-	-	(5,063)	(5,063)
At 31 December 2021	<b>8,386</b>	<b>838,574</b>	<b>224,917</b>	<b>1,071,877</b>
<b>FINANCIAL YEAR ENDED 31 December 2020</b>				
At 1 January 2020	<b>8,386</b>	<b>838,574</b>	<b>2,585,191</b>	<b>3,432,151</b>
Loss for the year	-	-	(2,355,211)	(2,355,211)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss	-	-	(2,355,211)	(2,355,211)
At 31 December 2020	<b>8,386</b>	<b>838,574</b>	<b>229,980</b>	<b>1,076,940</b>

*The accounting policies and explanatory notes on pages 14 to 39 form an integral part of the financial statements.*

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2021**

	Notes	2021 EUR	2020 EUR
<b>Operating activities</b>			
Loss before tax		(1,046,896)	(4,736,922)
<i>Non-cash adjustments to reconcile loss before tax to net cash flows:</i>			
Depreciation of property, plant and equipment	10	991,633	911,913
Depreciation of right of use assets	11	1,848,752	1,848,751
Rent concession	11	(175,000)	(175,000)
Amortization of deferred income	17	(2,999)	(5,093)
Interest expense	8	1,028,249	1,087,750
<i>Working capital adjustments:</i>			
(Increase)/decrease in trade and other receivables		(270,662)	199,665
(Increase)/decrease in inventory		(35,797)	47,616
Increase/(decrease) in trade and other payables		297,509	(86,173)
		<b>2,634,789</b>	(907,493)
Interest paid		(51,855)	(2,207)
<b>Net cash flows from/(used in) operating activities</b>		<b>2,582,934</b>	(909,700)
<b>Investing activities</b>			
Purchase of property, plant and equipment	10	(420,659)	(643,081)
Advances (to)/from related parties		(1,134,934)	435,502
<b>Net cash flows used in investing activities</b>		<b>(1,555,593)</b>	(207,579)
<b>Financing activities</b>			
Repayments of borrowings	20	(16,693)	(11,043)
Proceeds from new loans	20	3,279,466	2,720,534
Payment of principal portion of lease liabilities	11	(1,319,383)	(1,253,746)
Payment of interest portion of lease liabilities	11	(1,005,617)	(1,071,254)
<b>Net cash flows from financing activities</b>		<b>937,773</b>	384,491
<b>Net movement in cash and cash equivalents</b>		<b>1,965,114</b>	(732,788)
<b>Cash and cash equivalents at 1 January</b>		<b>2,155</b>	734,943
<b>Cash and cash equivalents at 31 December</b>	15	<b>1,967,269</b>	2,155

*The accounting policies and explanatory notes on pages 14 to 39 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. Effective on 02 July 2021, the Company’s registered office is 2 New Bailey, 6 Stanley Street, Salford, Greater Manchester, M3 5GS. Prior to this date, the Company’s registered office was 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**

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 Company has prepared its financial statements in line with the general rule set out in article 387 of the Companies Act, Cap. 386 of the Laws of Malta which provides that an overseas company is to prepare its accounts in such form and manner as would be required of a company formed and registered in Malta.

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 2021, the Company incurred a loss before tax of EUR1,046,896 (2020: loss before tax of EUR4,736,922). As at 31 December 2021, its current liabilities exceeded current assets by EUR4,713,220 (2020: EUR7,328,523).

These financial statements have been prepared on a going concern basis. The Directors have made appropriate assessment of the going concern and reviewed the Company’s budget for the next financial year. The Directors are confident that the Company has adequate resources to remain in operation for the foreseeable future, and to meet its liabilities when they fall due. The Directors have therefore continued to adopt the going concern basis of accounting in preparing these annual financial statements.

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During the ongoing recovery of business, the Group, comprising of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company p.l.c., continued to avail itself of Covid-19 business assistance programmes, namely for wage supplements, deferral of taxes, and other business assistance programmes, as applicable.

Additionally, the Group has also benefitted from an extended moratorium on capital and interest repayments of existing loan facilities. The monthly debt servicing repayments recommenced in September 2021. As at 31 December 2021, the Group had undrawn bank overdraft facilities amounting to EURO.6 million.

The Group, which provides cross intra-group guarantees and is managed as a combined entity, prepared projections up to March 2023, based on historical financial information, forecasts, as well as realistic assumptions to assess the financial situation. In preparing its projections, the Group has considered further prudent recovery of the business.

## **NOTES TO THE FINANCIAL STATEMENTS – continued**

### **2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE – continued**

#### *Going concern – continued*

The Directors have also taken into consideration the positive performance and positive outlook to date for the year ending 31 December 2022 where it is confident that targets are on track to be achieved. The targets are at a level of more than 85% when compared to those achieved pre-Covid in 2019, including the average occupancy and rooms revenue per available room. The Directors consider that it has the necessary resources and liquidity requirements in place to meet all commitments including all debt servicing. The Directors have performed stress testing over its projected revenue, took into consideration the continuous release of Covid restrictions throughout the world, including those originating from the local government, and also notes the increasing demand for the hotel by way of bookings, together with stress testing over projected cost of operations and working capital. After having taken into consideration these scenarios, and considering other mitigations available to the Group, including uncommitted costs, government assistance, working capital management and available financing, the Directors have concluded that the possibility of having another covid interruption that could impact its forecast is not deemed to be a significant risk and, on this basis, management concludes that no significant uncertainties exist.

### **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 which have been adopted by the Company as of 1 January 2021:

- Amendments to IFRS 16 Leases: Covid 19 Related Rent Concessions beyond 30 June 2021
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform - Phase 2
- Amendments to IFRS 4: Insurance Contracts – Deferral of IFRS 19
- Attributing Benefit to Periods of Service (IAS 19 Employee Benefits) – IFRS Interpretation Committee (IFRS IC or IFRIC) Agenda Decision issued May 2021

Other than as 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 Amendment to IFRS 16 are described below.

#### **Amendments to IFRS 16 Leases: Covid 19 Related Rent Concessions beyond 30 June 2021**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued**

**Amendments to IFRS 16 Leases: Covid 19 Related Rent Concessions beyond 30 June 2021 - continued**

During the year ended 31 December 2021, the lessor gave a rent concession to the lessee where such change in lease payments resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change, the reduction in lease payments affects only payments originally due on or before 30 June 2022 and there is no substantive change to other terms and conditions of the lease. As a result, the lessee applied the practical expedient and applied such expedient to all rent concessions that meet the conditions set out by the amendment and the amount is recognized in profit or loss for the year.

*Impact on the income statement for year ended 31 December 2021:*

	<b>EUR</b>
<i>Other income</i>	
Rent Concession	175,000
	<hr/>
Impact on operating profit	<b>175,000</b>
	<hr/> <hr/>

**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:

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

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, where applicable, on their effective date.

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

- Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (effective for financial years beginning on or after 1 January 2023)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for financial years beginning on or after 1 January 2023)
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for financial years beginning on or after 1 January 2023)

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

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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.

**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).

**NOTES TO THE FINANCIAL STATEMENTS – continued**

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

**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. There were no changes in the depreciation method applied or the useful life during 2021. 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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

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

**Financial assets - continued**

*Subsequent measurement*

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

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

*Financial assets at amortised cost (debt instruments)*

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

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

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

*Financial assets at fair value through OCI (debt instruments)*

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - continued**

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

**Financial assets - continued**

*Financial assets at fair value through profit or loss*

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

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

*Derecognition*

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

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

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

*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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

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

**Financial assets – continued**

*Impairment of financial assets - continued*

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**

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**

*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 11.

*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**

**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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

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

**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 and included within 'Other Income'.

**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. Refer to note 12.

*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. by 2032.

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**4. REVENUE**

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

	<b>2021</b>	2020
	<b>EUR</b>	EUR
<i>Services transferred over time</i>		
Accommodation	<b>5,102,139</b>	1,648,382
<i>Services/goods transferred at a point in time</i>		
Catering	<b>2,653,569</b>	1,202,789
Other	<b>281,191</b>	89,474
Revenue from contracts with customers	<b>8,036,899</b>	2,940,645

**5. EXPENSES BY NATURE**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Staff costs (note 7)	<b>2,910,077</b>	2,456,781
Depreciation on owned assets (note 10)	<b>991,633</b>	911,913
Depreciation on right of use assets (note 11)	<b>1,848,752</b>	1,848,751
Auditors remuneration	<b>35,000</b>	35,000
Other expenses	<b>3,564,718</b>	2,415,252
Total cost of sales, administrative and selling expenses	<b>9,350,180</b>	7,667,697

**6. OTHER INCOME**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Government grants (i)	<b>1,119,634</b>	902,880
Rent concession (note 11)	<b>175,000</b>	175,000
	<b>1,294,634</b>	1,077,880

(i) Government grants include EUR1.1million (2020: EUR0.9million) for Covid-19 wage supplement received from the Government of Malta, which is a contribution to the employer to support the wages of its employees.

**7. STAFF COSTS**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Director's remuneration	<b>171,707</b>	119,876
Social security costs	<b>1,936</b>	1,902
	<b>173,643</b>	121,778

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**7. STAFF COSTS - continued**

The total employment costs were as follows:

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Wages and salaries	<b>2,710,154</b>	2,267,072
Social security costs	<b>199,923</b>	189,709
	<b>2,910,077</b>	2,456,781

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

	<b>2021</b>	2020
	<b>Number</b>	Number
Guest service	<b>96</b>	86
Administrative	<b>33</b>	30
	<b>129</b>	116

**8. FINANCE COSTS**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Interest on bank loan	<b>22,632</b>	16,496
Interest on lease liabilities	<b>1,005,617</b>	1,071,254
	<b>1,028,249</b>	1,087,750

**9. INCOME TAX CREDIT**

The tax for the year is made up as follows:

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Current tax	-	-
Deferred tax (note 12)	<b>1,041,833</b>	2,381,711
Income tax credit	<b>1,041,833</b>	2,381,711

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:

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**9. INCOME TAX CREDIT - continued**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Loss before tax	<b>(1,046,896)</b>	(4,736,922)
Theoretical tax at the applicable 35% rate	<b>(366,414)</b>	(1,657,922)
<i>Tax effect of:</i>		
- allowances on leased hotel property	<b>(639,842)</b>	(756,760)
- expenses not deductible for tax purposes	<b>473</b>	35,187
- other differences	<b>(36,050)</b>	(2,216)
Income tax credit	<b>(1,041,833)</b>	(2,381,711)

**10. PROPERTY, PLANT AND EQUIPMENT**

	<b>Plant, machinery and equipment EUR</b>	<b>Crockery, utensils and linen EUR</b>	<b>Assets under construction EUR</b>	<b>Total EUR</b>
<b>Cost</b>				
At 1 January 2020	14,170,488	589,021	49,643	14,809,152
Additions	643,081	-	-	643,081
Transfers	49,643	-	(49,643)	-
At 31 December 2020	14,863,212	589,021	-	15,452,233
At 1 January 2021	14,863,212	589,021	-	15,452,233
Additions	417,473	-	3,186	420,659
<b>At 31 December 2021</b>	<b>15,280,685</b>	<b>589,021</b>	<b>3,186</b>	<b>15,872,892</b>
<b>Accumulated depreciation</b>				
At 1 January 2020	9,369,097	481,100	-	9,850,197
Depreciation for the year	874,158	37,755	-	911,913
At 31 December 2020	10,243,255	518,855	-	10,762,110
At 1 January 2021	10,243,255	518,855	-	10,762,110
Depreciation for the year	953,878	37,755	-	991,633
<b>At 31 December 2021</b>	<b>11,197,133</b>	<b>556,610</b>	<b>-</b>	<b>11,753,743</b>
<b>Net book value</b>				
<b>At 31 December 2021</b>	<b>4,083,552</b>	<b>32,411</b>	<b>3,186</b>	<b>4,119,149</b>
At 31 December 2020	4,619,957	70,166	-	4,690,123

**NOTES TO THE FINANCIAL STATEMENTS - continued**

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

As disclosed in note 17, at 31 December, the company had payables for capital expenditure amounting to EUR1,171,223 (2020: EUR1,171,223).

**11. 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 Company had 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 and a discount rate of 4.5% was determined to be the incremental borrowing rate.

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

	<b>2021</b>	2020
	<b>EUR</b>	EUR
<b>Hotel land and building</b>		
As at 1 January	<b>22,185,024</b>	24,033,775
Additions	-	-
Depreciation on right of use assets (note 5)	<b>(1,848,752)</b>	(1,848,751)
<b>As at 31 December</b>	<b>20,336,272</b>	22,185,024

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

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**NOTES TO THE FINANCIAL STATEMENTS - continued**

**11. LEASES - continued**

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

	<b>2021</b>	2020
	<b>EUR</b>	EUR
As at 1 January	<b>23,234,743</b>	24,663,489
Additions	-	-
Accretion of interest (note 8)	<b>1,005,617</b>	1,071,254
Rent concession (i) (note 6)	<b>(175,000)</b>	(175,000)
Payments	<b>(2,325,000)</b>	(2,325,000)
	<hr/>	<hr/>
As at 31 December	<b>21,740,360</b>	23,234,743
	<hr/> <hr/>	<hr/> <hr/>
Disclosed as follows:		
Current liabilities	<b>1,563,035</b>	1,494,383
Non-current liabilities	<b>20,177,325</b>	21,740,360
	<hr/>	<hr/>
As at 31 December	<b>21,740,360</b>	23,234,743
	<hr/> <hr/>	<hr/> <hr/>

- (i) As disclosed in Note 2.1, following the outbreak of Covid-19 pandemic, the lessor gave a rent concession to the Company where the latter applied the practical expedient where the amount of rent concession is being recognized in profit or loss for the year within 'Other Income'.

The non-current lease liabilities are analysed as follows:

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Between one and two years	<b>1,634,841</b>	1,563,035
Between two and five years	<b>5,369,107</b>	5,133,285
More than five years	<b>13,173,377</b>	15,044,040
	<hr/>	<hr/>
	<b>20,177,325</b>	21,740,360
	<hr/> <hr/>	<hr/> <hr/>

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**12. DEFERRED TAX ASSETS**

The movement in deferred tax asset is as follows:

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Balance as at 1 January	<b>5,560,986</b>	3,179,275
Credited to income statement (note 9)	<b>1,041,833</b>	2,381,711
Balance as at 31 December	<b>6,602,819</b>	5,560,986

Deferred income tax at 31 December relates to the following:

	<b>2021</b>	2020
	<b>EUR</b>	EUR
<i>Deferred income tax asset is attributable to the following:</i>		
- unutilized tax losses and capital allowances	<b>5,974,288</b>	5,093,170
- excess of capital allowances over depreciation	<b>122,481</b>	71,853
- allowances for impairment	<b>14,619</b>	28,561
- leases under IFRS 16	<b>491,431</b>	367,402
	<b>6,602,819</b>	5,560,986

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.

**13. INVENTORIES**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Catering and bar supplies	<b>110,586</b>	76,535
Hotel consumables	<b>75,068</b>	73,322
	<b>185,654</b>	149,857

**14. TRADE AND OTHER RECEIVABLES**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Trade receivables (note i)	<b>659,255</b>	88,030
Amounts due from related party (note ii)	<b>72,767</b>	38,585
Prepayments	<b>75,221</b>	108,273
Indirect taxes	<b>-</b>	280,900
Other receivables	<b>34,992</b>	21,603
	<b>842,235</b>	537,391

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**14. TRADE AND OTHER RECEIVABLES - continued**

- (i) Trade receivables are presented net of expected credit losses (ECL) of EUR41,768 (2020: EUR81,604). An amount of EUR39,836 from lifetime ECL provision was credited to profit or loss during the year ended 31 December 2021 (2020: EUR nil). No interest is charged on trade and other receivables. As at 31 December, the ageing analysis of trade receivables is as follows:

		Neither past due nor impaired			Past due but not impaired
	Total	0-30 days	30-60 days	61-90 days	
	EUR	EUR	EUR	EUR	EUR
<b>2021</b>	<b>659,255</b>	<b>265,580</b>	<b>53,766</b>	<b>149,274</b>	<b>190,635</b>
2020	88,030	20,854	3,714	63,462	-

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

**15. CASH AND CASH EQUIVALENTS**

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

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Cash at bank and in hand	<b>1,967,269</b>	2,155

The company has an overdraft facility of EUR600,000 (2020: EUR600,000) for working capital requirements, which is secured by a general hypothec of EUR600,000 (2020: EUR600,000) over the assets of the company and a special hypothecary guarantee of EUR600,000 (2020: EUR600,000) given by a related company over its property (note 22).

**16. ISSUED CAPITAL AND RESERVES**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
<b>Authorised:</b>		
16,000 ordinary shares of 0.25 GBP each	<b>9,318</b>	9,318
<b>Issued and fully paid up:</b>		
14,400 ordinary shares of 0.25 GBP each	<b>8,386</b>	8,386

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**16. 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.

**17. TRADE AND OTHER PAYABLES**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Trade payables	<b>967,702</b>	808,922
Amounts due to related parties (i)	<b>910,269</b>	1,840,193
Accruals	<b>804,841</b>	778,046
Contract liabilities (ii)	<b>648,315</b>	929,318
Indirect taxes including social security (iii)	<b>477,885</b>	301,707
Payables for capital expenditure (iv)	<b>1,171,223</b>	1,171,223
Deferred income (v)	-	2,997
Other payables	<b>66,558</b>	20,629
<b>Total current trade and other payables</b>	<b>5,046,793</b>	5,853,035

- (i) The amounts due to related parties are unsecured and interest free. The amounts are repayable on demand.
- (ii) 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 EUR481,402 (2020: EUR332,033). Amounts are expected to be recognised in revenue during the year ending 31 December 2022.
- (iii) During the year ended 31 December 2020, the Government of Malta has issued a scheme in response of the Covid-19 pandemic for the deferral of indirect taxes and was further extended during the year ended 31 December 2021. The Company has obtained this deferral and the balance is expected to be settled during the year ending 31 December 2022.
- (iv) Payables for capital expenditure represents a retention amount arising from the recent development of Phoenicia Hotel. These amounts will remain as payable as a result of a disagreement with the main contractor, as disclosed in Note 24.

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**17. TRADE AND OTHER PAYABLES - continued**

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

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Balance at 1 January	<b>2,999</b>	8,090
Amortisation for the year	<b>(2,999)</b>	(5,093)
<b>Balance at 31 December</b>	<b>-</b>	<b>2,999</b>

**18. BANK LOANS**

	<b>2021</b>	2020
	<b>EUR</b>	EUR
<b>Current</b>		
Bank loans (i)	<b>1,029,092</b>	603,020
Bank loans (ii)	<b>69,458</b>	67,488
<b>Total current interest-bearing loans and borrowings</b>	<b>1,098,550</b>	670,508
<b>Non-current</b>		
Bank loans (i)	<b>4,955,975</b>	2,120,533
Bank loans (ii)	<b>139,843</b>	169,777
<b>Total non-current interest-bearing loans and borrowings</b>	<b>5,095,818</b>	2,290,310
<b>Total interest-bearing loans and borrowings</b>	<b>6,194,368</b>	2,960,818

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

	<b>2021</b>	2020
	<b>EUR</b>	EUR
Between one and two years	<b>1,213,632</b>	1,271,538
Between two and five years	<b>3,738,682</b>	1,018,772
More than five years	<b>143,504</b>	-
	<b>5,095,818</b>	2,290,310

- (i) During the year ended 31 December 2020, the Company obtained a facility of EUR6 million from the bank to cover shortfall in operating cashflow arising from the Covid-19 pandemic. The facility benefits from the support of the Government of Malta by means of a capped portfolio guarantee and is eligible for an interest rate subsidy of 2.4% for the first two years. This facility bears a fixed interest rate of 2.5% for the first 2 years plus guarantee fee.
- (ii) These bank loans bear an interest rate of 3.5% per annum over the bank's base rate and are secured by a general hypothec of EUR209,301 (2020: EUR225,944) over the assets of the company and a special hypothecary guarantee of EUR209,301 (2020: EUR225,944) given by a related company over its property (note 22).
- (iii) As at 31 December 2021, the Company had banking facilities amounting to EUR0.6 million (2020: EUR3.9 million) which were unutilized at year-end.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**19. FINANCIAL COMMITMENTS**

As disclosed in notes 15 and 18, 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 EUR20.6 million (2020: EUR18.9 million) in favour of a related party (note 22).

**20. 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 exposure to credit risk is represented by the carrying amount of each financial assets as disclosed in note 14 and note 15.

**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.

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued**

**Interest rate sensitivity**

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

	Increase/decrease in basis points	Effect on profit before tax EUR' 000
<b>2021</b>	<b>+100</b>	<b>(63)</b>
	<b>-50</b>	<b>7</b>
<b>2020</b>	<b>+100</b>	<b>(68)</b>
	<b>-50</b>	<b>44</b>

**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 2.1 – 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
<b>31 December 2021</b>					
Interest-bearing loans and borrowings					
Bank loan	6,194,368	6,769,733	1,212,436	5,412,432	144,865
Lease liabilities	21,740,360	27,500,000	2,500,000	10,000,000	15,000,000
Trade and other payables	5,046,793	5,046,793	5,046,793	-	-
	<b>32,981,521</b>	<b>39,316,526</b>	<b>8,759,229</b>	<b>15,412,432</b>	<b>15,144,865</b>
<b>31 December 2020</b>					
Interest-bearing loans and borrowings					
Bank loan	2,960,818	3,052,652	744,989	2,307,663	-
Lease liabilities	23,234,743	30,000,000	2,500,000	10,000,000	17,500,000
Trade and other payables	5,853,035	5,853,035	5,853,035	-	-
	<b>32,048,596</b>	<b>38,905,687</b>	<b>9,098,024</b>	<b>12,307,663</b>	<b>17,500,000</b>

**PHOENICIA HOTEL COMPANY LIMITED**  
**Annual Financial Statements for the year ended 31 December 2021**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued**

**Changes in liabilities arising from financing activities**

	<b>1 January 2021 EUR</b>	<b>Cash flows EUR</b>	<b>Rent expense EUR</b>	<b>Accrued interest EUR</b>	<b>31 December 2021 EUR</b>
Amounts due to related parties	1,840,193	(3,254,924)	2,325,000	-	910,269
Bank loans	2,960,818	3,262,773	-	(29,223)	6,194,368

	<b>1 January 2020 EUR</b>	<b>Cash flows EUR</b>	<b>Rent expense EUR</b>	<b>Accrued interest EUR</b>	<b>31 December 2020 EUR</b>
Amounts due to related parties	1,818,644	(2,303,451)	2,325,000	-	1,840,193
Bank loans	237,039	2,709,491	-	14,288	2,960,818

**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.

**21. FAIR VALUE MEASUREMENT**

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

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

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

At 31 December 2021 and 2020 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 2021**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**22. RELATED PARTY TRANSACTIONS AND BALANCES**

Note 23 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:

<b>Related parties</b>		<b>Purchases from related party</b>	<b>Amounts owed (to)/ from related party</b>
Phoenicia Malta Limited	<b>2021</b>	<b>2,325,000</b>	<b>(910,269)</b>
	2020	2,325,000	(1,840,193)
Phoenicia Finance Company p.l.c.	<b>2021</b>	-	<b>72,767</b>
	2020	-	38,585
Hazledene Group Limited	<b>2021</b>	<b>109,357</b>	-
	2020	110,353	(13,088)

*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 19). During the year, the company also received a rent concession of EUR175,000 (2020: EUR175,000) from Phoenicia Malta Limited (Note 6). The loans of the related party are secured by a special hypothecary guarantee of EUR20.6 million (2020: EUR18.9 million) given by the Company. As disclosed in notes 15 and 18, the related party has also provided guarantees amounting to EUR809,301 (2020: EUR825,994) 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 7 as 'Directors remuneration'.

**23. 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**

**24. CONTINGENT LIABILITES**

The 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.

Based on expert technical advice received, 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.

The company continues to monitor this development with the guidance of its external legal counsel.

**25. EVENTS AFTER THE REPORTING PERIOD**

The geopolitical situation in Eastern Europe intensified in February 2022, with Russia's invasion of Ukraine. This was followed by a number of sanctions imposed against certain entities and individuals in Russia. The Company considers these events as non-adjusting events after the reporting period.

The Company does not have significant reliance on Russia, Ukraine, or neighbouring countries. The Company's Directors continue to monitor the situation for possible impact of changing macroeconomic conditions that may affect the Company's financial position or operations especially as a result of rising inflation and global supply-chain disruption.

There were no other events after the reporting period which require disclosure in these financial statements.