Company Registration No. C 88958

PHOENICIA FINANCE COMPANY P.L.C.

Annual Report and Financial Statements

31 December 2019

CONTENTS

GENERAL INFORMATION

Company registration

Phoenicia Finance Company p.l.c. ('the Company') was registered in Malta on 23 October 2018 as a public limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. The Company is incorporated and domiciled in Malta with its registered office is The Phoenicia Hotel, The Mall, Floriana, FRN1478, Malta. The Company's registration number is C 88958.

Directors

Mark Shaw	(appointed on 23 October 2018)
Jean Pierre Ellul Castaldi	(appointed on 23 October 2018)
Mario P Galea	(appointed on 23 October 2018)
Etienne Borg Cardona	(appointed on 23 October 2018)
Benjamin Muscat	(appointed on 23 October 2018)

Company secretaries

Jennifer Shaw	(appointed on 23 October 2018)

Registered office

The Phoenicia Hotel
The Mall
Floriana, FRN 1478
MALTA

Bankers

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

Auditor

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

DIRECTORS' REPORT

The Directors of the Company present their first report and the financial statements for the period 23 October 2018, being the date of incorporation, to 31 December 2019.

Company incorporation

Phoenicia Finance Company p.l.c. ('the Company') was registered in Malta on 23 October 2018 as a public limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. The Company is incorporated and domiciled in Malta with its registered office is The Phoenicia Hotel, The Mall, Floriana, FRN1478, Malta.

Principal activity

The Company's principal activity is to carry on the business of a finance company in connection with the ownership, development, operation and financing of hotels, resorts, leisure facilities, and tourism related activities.

Principal risks and uncertainties

The Company is mainly dependant on the business prospects of the Company itself, Phoenicia Malta Limited and Phoenicia Hotel Company Limited (collectively referred to as "the Group" or "the Phoenicia Group"), whose business mainly relates to the ownership, management and operation of The Phoenicia Malta hotel ("the Hotel" or "the Phoenicia"), an iconic five-star hotel situated in Floriana. Consequently, the operating results of the Group have a direct effect on the Company's financial position and performance, including the ability of the Company to meet its payment obligations under the issued bonds.

The Company's assets consist principally of the loans advanced to the related companies and the accrued interest thereon. Therefore, the ability of these companies to affect payments to the Company under such loans will depend on their respective cash flows and earnings.

Review of the business

The Company issued €25,000,000 4.15% Unsecured Bonds to the general public by virtue of prospectus dated 15 November 2018 and approved by the Listing Authority on the same date. The unsecured bonds are redeemable on 15 December 2028, subject to early redemption at the option of the Company on 15 December 2023, 15 December 2024, 15 December 2025, 15 December 2026 or 15 December 2027 subject to the Company giving the Bondholders at least 60 days' notice in writing.

Interest is payable annually on 15 December. Phoenicia Malta Limited and Phoenicia Hotel Company Limited have provided a Corporate Guarantee in favour of the bondholder, of which further information is contained in Annex II of the Securities Note forming part of the Prospectus, as Guarantors.

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 17 in these financial statements.

Results and dividends

The results for the year are set out in the statement of comprehensive income on page 17. 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. In accordance with the Company's Memorandum and Articles of Association, the present Directors are to remain in office.

DIRECTORS' REPORT - continued

Statement of Directors' Responsibilities Pursuant to Listing Rule 5.68

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 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.

Going Concern Statement Pursuant to Listing Rule 5.62

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

Since the start of 2020, the world has suffered from a wide spread COVID-19 pandemic, resulting in disruptions to businesses worldwide. Governments in many countries have responded with monetary and fiscal interventions to assist companies worldwide overcome these unprecedented financial difficulties. Governments in many countries have responded with monetary and fiscal interventions to assist companies overcome these unprecedented financial difficulties.

The Company has a loan agreement with its immediate parent, Phoenicia Malta Limited (note 8). As a result of the pandemic and measures taken by the Governments, the hotel, owned by Phoenicia Malta Limited and operated by Phoenicia Hotel Company Limited has experienced curtailment of its business since March 2020, and due to the health and safety risk to our guests and staff resulting from COVID-19, the hotel cannot accommodate hotel guests at present, thus not being able to generate revenue since then. To date the Group is in receipt of various COVID-19 business assistance programmes in order to mitigate against the adverse financial impact of this pandemic on the Company, and to safeguard its future wellbeing and that of its bondholder and other stakeholders.

DIRECTORS' REPORT - continued

Going Concern Statement Pursuant to Listing Rule 5.62 - continued

The Group, comprising of the Company, Phoenicia Hotel Company Limited and Phoenicia Malta Limited, which provide cross intra-group guarantees and are managed as a combined entity, has prepared projections for the upcoming 12 months and beyond, based on historical financial information and forecasts, as well as realistic assumptions to assess the financial situation. The Group is at an advanced stage of negotiations with the Bank of Valletta to obtain further finance and amendments to existing loan facilities including a moratorium on capital and interest repayments, as well as other easing in support of the working capital and liquidity requirements of the Company.

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

Further mitigations are available to management against unforeseen developments including effecting further cost cutting measures that can be put in place. Notwithstanding this, in the current prevailing circumstance of the COVID-19 pandemic, management considers that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern. The material uncertainties identified by the Directors are, obtaining further finance, notwithstanding the advanced stage of negotiations with the bank, the duration of current restrictions on global travel imposed by governments and the potential longer-term impact thereof on customer behaviour, and the duration of the government's business assistance schemes which are currently by way of wage supplements and deferral of taxes as well as government backed loan facilities.

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

Events after the reporting period

As disclosed within the Going Concern Statement above, the recent outbreak of COVID-19 has undoubtedly impacted many economies across the globe, with many countries experiencing unprecedented freefall recession. The Company has been monitoring the situation and the necessary actions are being taken in the best interests of the Company, the Guarantors and the bondholders.

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:

MARK SHAW	**MARIO P. GALEA**
Director	**Director**

29 May 2020

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

Introduction

Pursuant to the requirements of the Listing Rules issued by the Listing Authority of the Malta Financial Services Authority, Phoenicia Finance Company p.l.c. (the 'Issuer' or the 'Company') hereby presents its Corporate Governance Statement ("the Statement").

The Company acknowledges that although the Code of Principles of Good Governance ("the Code") contained in Appendix 5.1 of the Listing Rules does not dictate or prescribe mandatory rules, compliance with the principles of good corporate governance recommended in the Code is in the best interests of the Company, its shareholders and other stakeholders. In deciding on the most appropriate manner in which to implement the Principles, the Board of Phoenicia Finance Company p.l.c. (the "Board") has taken cognisance of its size, which inevitably impacts on the structures required to implement the Principles without diluting the effectiveness thereof.

The Company does not have any Equity Securities in issue, is privately held and has no institutional shareholders. Consequently, and in accordance with Listing Rule 5.101, the Company is exempt from disclosing in this Statement, information prescribed by Listing Rules 5.97.1 to 5.97.3; 5.97.6 and 5.97.8.

Roles and responsibilities of the Board

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for:

- the Company's strategy and decisions with respect to the issue, servicing and redemption of its bonds;
- monitoring that its operations are in conformity with its commitments towards bondholders, shareholders, other external financiers and all relevant laws and regulations.

The Board is also responsible for ensuring that the Company installs and operates effective internal control and management information systems and that it communicates effectively with the market.

The Board of Directors

The Board is composed of five directors, who were all appointed upon inception of the Company. The Board is composed of members with diverse knowledge, judgment and experience to enable it to properly complete its tasks. The balance of skills and experience is appropriate for the requirements of the Company and that changes to the Board's composition can be managed without undue disruption.

The Board is composed of:

Mr Jean Pierre Ellul Castaldi	Executive Director
Mr Mark Shaw	Non-executive Director (Chairman)
Mr Mario P Galea	Independent non-executive Director
Mr Etienne Borg Cardona	Independent non-executive Director
Mr Benjamin Muscat	Independent non-executive Director

For the financial period ended 31 December 2019, the executive Director occupied an executive position within the Group while the non-executive Directors were not engaged in the daily management of the Company. The independent non-executive members are each free of any business, family or other relationship with the Issuer, its controlling shareholder or the management which could interfere materially with the exercise of their independent and impartial judgement. Throughout the financial year, Mr Mark Shaw acted as Chairman.

The Board main principle is that it has the first level responsibility of executing corporate governance through accountability, monitoring, strategy formulation and policy development. The activities of the Board are exercised in a manner designed to ensure that it can effectively supervise the operations of the Company and protect the interests of bondholders, external borrowers and the shareholders.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE - continued

The Board of Directors - continued

The Board members are notified of forthcoming meetings by the Company secretary (Dr Jennifer Shaw) in advance together with an agenda as necessary so that they have ample opportunity to appropriately consider the information prior to the upcoming Board meeting, which are then discussed during the Board meeting and convey their opinions.

Meetings of the Board were held four times during the period under review and were always attended in full. Individual directors, apart from attendance at formal Board meetings, participate in other informal meetings during the year as may be required, either to assure good corporate governance, or to contribute more effectively to the decision-making process.

Apart from setting the strategy and direction of the Company, the Board retains direct responsibility for approving and monitoring:

- direct supervision, supported by expert professional advice as appropriate, on the issue and listing of bonds;
- that the proceeds of the bonds are applied for the purposes for which they were sanctioned as specified in the offering memorandum of the bonds in issue;
- proper utilisation of the resources of the Company;
- approval of the annual report and financial statements and of relevant public announcements and for the Company's compliance with its continuing listing obligations.

The Board does not consider it necessary to institute separate committees such as the remuneration and the nomination committees, as would be appropriate in an operating company. This is largely due to the fact that the Company does not have any employees.

Remuneration Statement

Pursuant to the Company's Memorandum and Articles of Association, the maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders in General Meeting. Furthermore, the remuneration of directors is a fixed amount per annum of EUR10,000 and does not include any variable component relating to profit sharing, share options or pension benefits.

Internal Control and Risk Management Systems

The directors are aware that internal control systems, for which they are responsible are designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

The Board maintains sound risk management and internal control systems. It is responsible for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. The Board establishes formal and transparent arrangements to apply risk management and internal control principles, as well as maintaining an appropriate relationship with the company's auditors.

During the financial period under review the Company operated a system of internal controls which provided effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing the Company.

The Board is adjourned periodically of the financial affairs and operational developments of the group entities, Phoenicia Malta Limited and Phoenicia Hotel Company Limited who have provided a Corporate Guarantee in favour of the bondholders.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE - continued

The Audit Committee

During the current financial period, the Audit Committee met four times with full attendance.

The Terms of Reference of the Audit Committee, which were approved by the Listing Authority of the Malta Financial Services Authority, are modelled on the principles set out in the Listing Rules themselves. The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibility by reviewing the group financial statements and disclosures, monitoring the system of internal control established by management as well as the audit process.

The Board established the Audit Committee, which meets regularly, with a minimum of four times annually, and is currently composed of the following individuals:

Mr Mario P Galea (Chairman)
Mr Mark Shaw
Mr Benjamin Muscat

All three members are non-executive Directors on the Board and the majority of the members are independent of the Issuer as required by Section 5.117 of the Listing Rules. Furthermore, Mr Mario P Galea is the appointed Chairman and is an independent of the issuer as required by the aforementioned Section of the Listing Rules. Furthermore, Mr Mario P Galea and Mr Benjamin Muscat, both non-executive members of the committee, are competent in accounting and/or auditing in terms of the Listing Rules.

Communication with and between the Company Secretary, top level management and the Committee is ongoing and considerations that require the Committee's attention are acted upon between meetings and decided by the Members (where necessary) through electronic circulation and correspondence. As required by the Companies Act (Chapter 386 of the Laws of Malta) and the Malta Financial Services Authority Listing Rules, the financial statements of the Company are subject to annual audit by its external auditors. Moreover, the non-executive directors have direct access to the external auditors of the Company, who attend the Board meetings at which the Company's financial statements are approved. Moreover, in ensuring compliance with other statutory requirements and with continuing listing obligations, the Board is advised directly, as appropriate, by its appointed broker, legal advisor and the external auditors. Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the Company's expense.

The Company has formal mechanisms to monitor dealings by restricted persons in the bonds of the Company and has also put in place the appropriate mechanisms for the advance notification of such dealings.

Relations with the Market

The market is kept up to date with all relevant information, and the Company regularly publishes such information on its website to ensure consistent relations with the market.

Other Information

In view of the size and type of operations of the Company, the Board does not consider the Company to require the setting up of a nomination committee.

During the financial period under review, no private interests or duties unrelated to the Company were disclosed by the directors which were or could have been likely to place any of them in conflict with any interests in, or duties towards the Company.

The Directors of the Company and Group adheres to accepted principles of corporate social responsibility in their day-to-day management practices of the Company and the Group. The Company and the Group are continuously committed to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE - continued

Conclusion

The Board considers that the Company has generally been in compliance with the principles throughout the period under review as befits a company of this size and nature.

Approved by the Board of Directors and signed on its behalf on 29 May 2020 by:

MARK SHAW	**MARIO P. GALEA**
Director	**Director**

29 May 2020

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Finance Company P.L.C.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Phoenicia Finance Company P.L.C (the "Company"), set on pages 17 to 35, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act").

Basis for opinion

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

Material uncertainty related to going concern

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

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Finance Company P.L.C. - continued

Report on the audit of the financial statements - continued

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matters described in the Material uncertainty related to going concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Recoverability of loan to parent company

The loan receivable from parent company as described in note 8, represents 97% of the Company's total assets as of 31 December 2019. The loan receivable is classified as financial asset at amortised cost measured using the effective interest method and is subject to impairment, as described in note 3.2. The company recognises an allowance for expected credit losses based on the cash flows that the company expects to receive. The 2019 recoverability assessment of the loan receivable considers the financial position and performance of the parent company, as well as the cash flow projections for Phoenicia Hotel Company Limited and Phoenicia Malta Limited (the parent company), as guarantors of the Company's bond.

Due to significance of the balance of the loan receivable from parent company, and the dependency of the Company on the performance and recoverability of such loan to meet its ongoing obligations, we have considered the recoverability of the loan receivable a key audit matter.

Our audit procedures over the recoverability of the loan receivable from the parent company include amongst others:

- inspecting the loan agreements, agreeing terms of conditions with the parent company and analysing whether the performance of the loan is in line therewith;
- confirming the outstanding balances with the parent company;

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Finance Company P.L.C. - continued

Report on the audit of the financial statements - continued

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud - continued

- evaluating the Company's assessment of the recoverability of loan receivable. The Company, together with Phoenicia Malta Limited (the parent company) and Phoenicia Hotel Company Limited are managed as a combined entity (the "Group"). Our procedures focused on analysing the cash flow projections of the Group, considering the reasonableness of key assumptions underlying the planned cash inflows and outflows and assessing their consistency with understanding of the business and industry development and historical data, together with analysis of the financial position and performance of the related party borrower (the parent company); and
- evaluating the Company's assessment of the subsequent events including the effects of COVID-19 to determine the adequacy of the non-adjusting events disclosures.

We have also assessed the relevance and adequacy of disclosures related to the loan receivable from parent company presented in notes 3.2, 3.3, 8 and disclosures relating to subsequent events presented in note 19 to the financial statement.

Other information

The directors are responsible for the other information. The other information comprises the directors' report and the statement of compliance with the principles of good corporate governance, which we obtained up to the date of this auditor's report. However, the other information does not include 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 Finance Company P.L.C. - continued

Report on the audit of the financial statements - continued

Responsibilities of the directors and those charged with governance 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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;

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Finance Company P.L.C. - continued

Report on the audit of the financial statements - continued

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

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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; and
- 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 those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Finance Company P.L.C. - continued

Report on other legal and regulatory requirements

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

Directors' report
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.

Other requirements
We also have responsibilities under the Companies Act to report if in our opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; and
- 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.

Appointment
We were appointed as the statutory auditor by the directors of the Company with effect from 29 October 2019. This is the first year of appointment as statutory auditors.

Consistency with the additional report to the audit committee
Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which was issued on the same date as this report.

Non-audit services
No prohibited non-audit services referred to in Article 18A(1) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta were provided by us to the Company, and we remain independent of the Company as described in the Basis for opinion section of our report.

No other services besides statutory audit services and services disclosed in the annual report and in the financial statements were provided by us to the Company.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Phoenicia Finance Company P.L.C. - continued

Report on other legal and regulatory requirements - continued

Matters on which we are required to report by the Listing Rules

Corporate governance statement

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their annual report a statement of compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the statement of compliance prepared by the directors. We are also required to express an opinion as to whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified material misstatements with respect to the information referred to in Listing Rules 5.97.4 and 5.97.5.

We read the statement of compliance and consider the implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the annual report. Our responsibilities do not extend to considering whether this statement is consistent with the other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the statement of compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's governance procedures or its risk and control procedures.

In our opinion:

- the corporate governance statement set out on pages 6 to 9 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority
- in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit the information referred to in Listing Rules 5.97.4 and 5.97.5 are free from material misstatement

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

Ernst & Young Malta Limited
Certified Public Accountants

29 May 2020

STATEMENT OF COMPREHENSIVE INCOME
for the period from 23 October 2018 to 31 December 2019

	Notes	Period from 23 October 2018 to 31 December 2019 EUR
Finance income	4	**1,264,880**
Finance costs	5	**(1,225,578)**
Net interest earned		**39,302**
Administrative expenses	6	**(85,348)**
Expected credit losses	8	**(13,373)**
Loss before tax		**(59,419)**
Income tax credit	7	**20,797**
Loss for the period		**(38,622)**
Other comprehensive income for the period		-
Total comprehensive loss for the period, net of tax		**(38,622)**

The accounting policies and explanatory notes on pages 21 to 35 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019 EUR
ASSETS		
Non-current assets		
Financial assets	8	**24,175,701**
Deferred tax asset	9	**20,797**
		24,196,498
Current assets		
Financial assets	8	**55,668**
Other receivables	10	**181,970**
Cash and cash equivalents	11	**461,083**
		698,721
TOTAL ASSETS		**24,895,219**
EQUITY AND LIABILITIES		
Equity		
Issued share capital	12	**250,000**
Accumulated losses		**(38,622)**
Total equity		**211,378**
Non-current liabilities		
Interest-bearing borrowings	13	**24,511,442**
		24,511,442
Current liabilities		
Interest-bearing borrowings	13	**45,355**
Trade and other payables	14	**127,044**
		172,399
Total liabilities		**24,683,841**
TOTAL EQUITY AND LIABILITIES		**24,895,219**

The accounting policies and explanatory notes on pages 21 to 35 form an integral part of the unaudited financial statements.

The financial statements on pages 17 to 35 have been authorised for issue by the Board of Directors on 29 May 2020 and signed on its behalf by:

MARK SHAW
Director

MARIO P. GALEA
Director

STATEMENT OF CHANGES IN EQUITY
for the period from 23 October 2018 to 31 December 2019

	Issued capital EUR	Accumulated losses EUR	Total EUR
At 23 October 2018	-	-	-
Issue of share capital	250,000	-	250,000
Comprehensive income			
Loss for the period	-	(38,622)	(38,622)
Other comprehensive income for the period	-	-	-
Total comprehensive loss for the period	-	(38,622)	(38,622)
At 31 December 2019	**250,000**	**(38,622)**	**211,378**

The accounting policies and explanatory notes on pages 21 to 35 form an integral part of the unaudited financial statements.

STATEMENT OF CASH FLOWS
for the period from 23 October 2018 to 31 December 2019

	Notes	Period from 23 October 2018 to 31 December 2019 EUR
Operating activities		
Loss before tax		**(59,419)**
Adjustments to reconcile loss before tax to net cash flows		
Non-cash:		
Finance income	4	**(1,264,880)**
Finance costs	5	**1,225,578**
Movement in expected credit losses		**13,373**
Working capital adjustments:		
Increase in trade and other payables		**127,042**
Increase in other receivables		**(35,839)**
Cash from operations		**5,855**
Interest received		**1,063,082**
Interest paid		**(1,063,082)**
Net cash flows from operating activities		**5,855**
Investing activities		
Loan issued to related party		**(24,189,074)**
Net cash flows used in investing activities		**(24,189,074)**
Financing activities		
Proceeds from issue of share capital	12	**250,000**
Proceeds from issue of bonds	13	**25,000,000**
Payment of bond issue costs	13	**(605,698)**
Net cash flows from financing activities		**24,644,302**
Net movement in cash and cash equivalents		**461,083**
Cash and cash equivalents at 23 October 2018		**-**
Cash and cash equivalents at 31 December	11	**461,083**

The accounting policies and explanatory notes on pages 21 to 35 from an integral part of the unaudited financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Phoenicia Finance Company p.l.c. ('the Company') was registered in Malta on 23 October 2018 as a public limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. The Company is incorporated and domiciled in Malta with its registered office is The Phoenicia Hotel, The Mall, Floriana, FRN1478, Malta.

The Company's principal activity is to carry on the business of a finance company in connection with the Group's ownership, development, operation and financing of hotels, resorts, leisure facilities, and tourism related activities.

2 BASIS OF PREPARATION

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

These financial statements have been prepared under the historical cost convention. These financial statements cover the period from 23 October 2018 to 31 December 2019.

Going Concern

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

Since the start of 2020, the world has suffered from a wide spread COVID-19 pandemic, resulting in disruptions to businesses worldwide. Governments in many countries have responded with monetary and fiscal interventions to assist companies worldwide overcome these unprecedented financial difficulties. Governments in many countries have responded with monetary and fiscal interventions to assist companies overcome these unprecedented financial difficulties.

The Company has a loan agreement with its immediate parent, Phoenicia Malta Limited (note 8). As a result of the pandemic and measures taken by the Governments, the hotel, owned by Phoenicia Malta Limited and operated by Phoenicia Hotel Company Limited has experienced curtailment of its business since March 2020, and due to the health and safety risk to our guests and staff resulting from COVID-19, the hotel cannot accommodate hotel guests at present, thus not being able to generate revenue since then. To date the Group is in receipt of various COVID-19 business assistance programmes in order to mitigate against the adverse financial impact of this pandemic on the Company, and to safeguard its future wellbeing and that of its bondholder and other stakeholders.

The Group, comprising of the Company, Phoenicia Hotel Company Limited and Phoenicia Malta Limited, which provide cross intra-group guarantees and are managed as a combined entity, has prepared projections for the upcoming 12 months and beyond, based on historical financial information and forecasts, as well as realistic assumptions to assess the financial situation. The Group is at an advanced stage of negotiations with the Bank of Valletta to obtain further finance and amendments to existing loan facilities including a moratorium on capital and interest repayments, as well as other easing in support of the working capital and liquidity requirements of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

2 BASIS OF PREPARATION - continued

Going Concern - continued

Further mitigations are available to management against unforeseen developments including effecting further cost cutting measures that can be put in place. Notwithstanding this, in the current prevailing circumstance of the COVD-19 pandemic, management considers that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern. The material uncertainties identified by the Directors are, obtaining further finance, notwithstanding the advanced stage of negotiations with the bank, the duration of current restrictions on global travel imposed by governments and the potential longer-term impact thereof on customer behaviour, and the duration of the government's business assistance schemes which are currently by way of wage supplements and deferral of taxes as well as government backed loan facilities.

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

3.1 ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Borrowing costs

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

Taxes

Current tax

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

The carrying amount of deferred 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Value added tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

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

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Financial assets at fair value through 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.

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

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

Financial assets at fair value through profit or loss

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

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.

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).

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

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.

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.

Cash and cash equivalents

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

In the opinion of the Directors, the accounting estimates, assumptions and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as significant in terms of the requirements of IAS 1 (revised) - 'Presentation of financial statements', except as disclosed below.

Recoverability of loan to parent company

The Company assesses the credit risk of parent company, for assessing the recoverability of the loan provided to parent, and continues to monitor for significant increase in credit risk since initial recognition. If there is a significant increase in credit risk, a lifetime ECL is recognised. The principle of significant deterioration in credit risk is achieved by performing an assessment to compare the risk of default occurring at the reporting date with the risk of default occurring at the date of initial recognition, by reference to an analysis of the financial performance and position of related party borrowers and the cashflow projections of the Group. The assessment of the ECL is a significant estimate, since the amount thereof is sensitive to changes in circumstances and to forecasted economic conditions. The Company's ECL on the loan to parent is disclosed in note 8.

The events as disclosed in note 19 and the material uncertainties as disclosed in note 2 are considered to be non-adjusting subsequent events and their impact is not reflected in the ECL estimation for the period ended 31 December 2019. It is still difficult to estimate the financial effects of the ECL on financial statement for the year ending 31 December 2020.

4. FINANCE INCOME

	Period from 23 October 2018 to 31 December 2019 EUR
Interest on loan to parent company	1,240,869
Commitment fee for period of unutilised loan	24,011
	1,264,880

5. FINANCE COSTS

	Period from 23 October 2018 to 31 December 2019 EUR
Interest on bonds	(1,108,438)
Amortisation of bond issue costs	(117,140)
	(1,225,578)

NOTES TO THE FINANCIAL STATEMENTS - continued

6. EXPENSES BY NATURE

	Period from 23 October 2018 to 31 December 2019 EUR
Directors' fees	**35,757**
Corporate expenses	**26,083**
Professional fees	**11,754**
Audit fees (i)	**8,850**
Legal fees	**2,360**
Other expenses	**544**
Administrative expenses	**85,348**

(i) Auditor's remuneration for the period ended 31 December 2019 amounted to EUR 8,850. Other fees for non-audit services payable to the Company's auditor amounted to EUR 7,257.
(ii) There were no employed persons with the Company for the year ended 31 December 2019.

7. INCOME TAX EXPENSE

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

	Period from 23 October 2018 to 31 December 2019 EUR
Loss before tax	**(59,419)**
Theoretical tax expense at 35%	**(20,797)**
Income tax credit (i)	**(20,797)**

(i) The income tax credit is comprised of deferred tax credit (note 9).

NOTES TO THE FINANCIAL STATEMENTS - continued

8. FINANCIAL ASSETS

	2019 EUR
Non-current	
Loan to parent company	**24,189,074**
Allowance for expected credit losses	**(13,373)**
	24,175,701
Current	
Loan to parent company	**55,668**
Total financial assets, net of expected credit losses	**24,231,369**

Financial assets represent the funds raised by the bond issue which have been advanced to the parent company. The loan bears interest rate of 4.73% per annum payable annually in arrears. On 1 September 2019 the interest rate was revised to 5.25% per annum. The loan is repayable on 30 November 2028.

As at 31 December 2019, the loan is recognised net of an allowance for expected credit losses of EUR13,373.

9. DEFERRED TAX ASSETS

The movement in deferred tax asset is as follows:

	2019 EUR
Credited to income statement (note 7)	**20,797**
Balance as at 31 December	**20,797**

Deferred income tax at 31 December relates to the following:

	2019 EUR
Unutilized tax losses	**16,116**
Expected credit losses of financial assets	**4,681**
	20,797

The Directors have taken steps to adjust the finance income of the company, as detailed in Note 8 and to ensure profitability in the foreseeable future. They are confident that the deferred tax asset recognised in the financial statements will be realised. Tax losses do not expire under Maltese legislation.

NOTES TO THE FINANCIAL STATEMENTS - continued

10. OTHER RECEIVABLES

	2019 EUR
Prepayments of administrative expenses	**35,839**
Amounts due from parent company (i)	**146,131**
	181,970

(i) Amounts due from parent company represent expenses paid by the Company on behalf of the parent Company. These are unsecured, non-interest bearing and payable on demand.

11. CASH AND CASH EQUIVALENTS

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

	2019 EUR
Cash at bank	**461,083**

12. SHARE CAPITAL

	2019 EUR
Authorised:	
250,000 Ordinary shares of EUR1 each	**250,000**
Issued and fully paid:	
250,000 Ordinary shares of EUR1 each	**250,000**

The ordinary shares shall rank *pari passu* amongst each other for all purposes irrespective of any premium paid thereon. Each ordinary share shall be entitled to one vote.

NOTES TO THE FINANCIAL STATEMENTS - continued

13. INTEREST-BEARING BORROWINGS

	2019 EUR
Non-current	
4.15% Unsecured Bonds 2023-2028	**24,511,442**
Current	
Accrued interest on 4.15% Unsecured Bonds 2023-2028	**45,355**

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

	2019 EUR
Non-current	
Bonds (note i)	**25,000,000**
Issue costs	**(605,698)**
Accumulated amortisation	**117,140**
	24,511,442

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

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

iv) The related companies Phoenicia Malta Limited and Phoenicia Hotel Company Limited have jointly and severally provided a guarantee in favour of the bondholders in respect of both the interest due and the principal amount.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. TRADE AND OTHER PAYABLES

	2019 EUR
Trade creditors	**14,883**
Amounts due to related parties (i)	**37,221**
Accruals	**21,133**
Other payables	**53,807**
	127,044

(i) Amounts due to related parties represent expenses paid by related companies on behalf of the Company. These are unsecured, non-interest bearing and with no fixed date for repayment (note 16).

15. PARENT AND ULTIMATE CONTROLLING PARTY

The immediate parent of the Company is Phoenicia Malta Limited registered in Malta. The 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.

16. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions

The following table provides the total amount of transactions and balances with related parties:

	Interest income income	Amounts owed to related party	Amounts from related party
Immediate parent company	**1,264,880**	**(13,850)**	**24,390,873**
Other related company	**-**	**(23,371)**	**-**

The Company has issued a loan to its immediate parent company (note 8) for re-financing of debt purposes, thus reducing the financing cost of its immediate parent company.

The Company also makes use of current accounts with its immediate parent company and another related company for expenses paid by the Company on behalf of related companies (note 10) or paid by the related companies on behalf of the Company (note 14).

Key management personnel comprise the Directors of the Company. Remuneration to the Directors is disclosed in Note 6.

NOTES TO THE FINANCIAL STATEMENTS - continued

17. FINANCIAL RISK MANAGEMENT

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

Credit risk
Financial assets which potentially subject the Company to concentrations of credit risk consist principally of non-current financial assets and cash and short-term deposits.

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company considers that with the exception of the non-current financial assets (note 8), it is not exposed to major concentrations of credit risk.

The Company's short-term deposits are placed with quality financial institutions.

The maximum exposures to credit risk are represented by the carrying amount of each financial assets as disclosed in note 8 and note 11.

Liquidity risk

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

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

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

	Carrying amount EUR	Undiscounted contractual cash flows EUR	Within one year EUR	1 to 5 years EUR	Over 5 years EUR
31 December 2019					
Interest-bearing loans and borrowings	25,000,000	34,337,500	1,037,500	4,150,000	29,150,000
Trade and other payables	127,044	127,044	127,044	-	-
	25,127,044	**34,464,544**	**1,164,544**	**4,150,000**	**29,150,000**

Interest rate risk

In view of the nature of its activities, the Company's transactions consist of interest income on the loans advanced to related companies from the proceeds of the bond issue and the interest payable on the bonds. However, these are independent of changes in market interest rates. Both the loans receivable from related companies and the bonds are subject to fixed interest rates. The Company has charged a higher lending rate on its receivables to cover its operating expenses. Also, the loans receivable have similar maturities to the bonds payable.

NOTES TO THE FINANCIAL STATEMENTS - continued

17. FINANCIAL RISK MANAGEMENT - continued

Capital management

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

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

18. FAIR VALUE MEASUREMENT

At 31 December 2019 the carrying amounts of the non-current financial assets and cash and short-term deposits, trade and other payables and current interest-bearing borrowings approximated their fair value in view of the nature of the instruments or their short-term maturity. The fair value of non-current interest-bearing borrowings can be defined by reference to the quoted market price which as at 31 December 2019 was EUR103.90. The fair value is estimated at EUR 25.975 million when compared to the carrying amount of EUR 24.55 million.

19. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

The main asset that may be impacted by the developments COVID 19 is the loan receivable from parent company (note 3.3. and note 8). At this time, it is still difficult to estimate the full financial effects on financial statements for the year ending 31 December 2020, given the uncertainties described in note 2.

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