

SP FINANCE p.l.c

**No. 89, The Strand,
Sliema,
Malta.**

Co. Registration No. C-89462

Ref: SPF - 25/2021

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by SP Finance p.l.c. a company registered under the laws of Malta with company registration number C-89462 (the "Company") pursuant to Listing Rules issued by the Listing Authority.

Quote

At a meeting held earlier today, the Board of Directors of the Company considered and approved the Company's Audited Financial Statements for the financial year ended 31st December 2020.

The above-mentioned audited financial statements of the Company are attached to the present Company Announcement and are also available for viewing at the registered office of the Company as also in the Investor Relations section on the Company's web portal.

Unquote



Dr. Andrea Micallef
Company Secretary
30th April 2021

SP FINANCE P.L.C.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st DECEMBER 2020

Company No. C- 89462

SP FINANCE P.L.C.

CONTENTS

	PAGE
Report of the directors	1 to 5
Statement of compliance with the principles of good Corporate governance	6 to 9
Independent auditors' report	10 to 16
Statement of profit or loss and other comprehensive income	17
Statement of financial position	18 to 19
Statement of changes in equity	20
Statement of cash flows	21 to 22
Notes to the financial statements	23 to 62

SP FINANCE P.L.C.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2020

Directors:-	Mr. Joseph Casha Mrs. Josephine Casha Dr. Alex Perici Calascione – Non-executive director Dr. Reuben Debono – Non-executive director Mr. Mark Anthony Grech – Non-executive director
Secretary:	Dr. Andrea Micallef
Security trustee:	Alter Domus Trustee Services (Malta) Limited
Bankers:-	HSBC Bank Malta p.l.c., Business Banking Centre Mill Street, Qormi
Registered Office:-	89, The Strand, Sliema, Malta.

The directors hereby present their annual report together with the audited financial statements of SP Finance p.l.c. (the “**Company**”) for the year ended on 31 December 2020.

The directors also present their annual report together with the audited financial statements of the SP Finance p.l.c. Group (the “**Group**”) which comprises the Company and its fully owned subsidiaries, namely SP Investments Limited (Reg. No. C89468), Pebbles St. Julian’s Limited (Reg. No. C89612), Pebbles Resort Limited (Reg. No. C89613) and Sea Pebbles Limited (Reg. No. C6138) for the year ended on 31 December 2020.

Principal Activities

The Company’s principal activity is to act as an investment holding company of the Group.

The Group’s principal activities consist in the ownership and operation of the Pebbles Boutique Aparthotel in Sliema and the operation of the hotel Pebbles Resort in St. Paul’s Bay.

Bond Issue

In terms of the Prospectus dated 8 April 2019 the Company had offered for subscription an amount of €12 million 4% Secured Bonds 2029 of a nominal value of €100 per Bond issued at par. The Bonds were fully subscribed and admitted to the Official List of the Malta Stock Exchange p.l.c. with effect from 3 May 2019. Sea Pebbles Limited acted as guarantor of this bond issue (the “**Guarantor**”).

In accordance with the Prospectus, the proceeds from the bond issue were utilised by the Group to acquire properties connected with its current hotel operations and planned expansion projects, to refurbish and upgrade the San Pawl Hotel (now Pebbles Resort) and to repay an outstanding bank financing facility.

SP FINANCE P.L.C.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2020

Review of Business

The Company registered a profit before tax of €23,074 (2019: Profit of €121,399) while the Group registered a loss before tax of €2,108,683 (2019: Loss of €575,606). The Group's revenue in 2020 amounted to €1,180,818 (2019: €2,848,953).

The significant decreases in revenue and profitability are solely attributable to the travel restrictions imposed by global health authorities due to the COVID-19 pandemic which resulted in a year-on-year decrease of approximately 75% in the number of tourists visiting Malta between 2019 and 2020. The Malta International Airport was practically closed between March and June 2020 forcing the Group to close the two hotels it operates, which are its principal source of revenue.

Key Risks

The key risks that apply to the Company and the Group are those inherent in the operation of a hospitality business and include both risks arising from competitive pressures from similar establishments located in Malta as well as risks arising from Malta's general attractiveness as a holiday destination.

As from February 2020, similarly to all businesses operating in the tourism industry, the Group is facing an additional risk consisting of the disruption and uncertainties caused by the COVID-19 pandemic. The impact of COVID-19 and the associated additional risks for the Company and the Group are further explained in the next paragraph.

COVID-19 and Statement pursuant to Listing Rule 5.62

The COVID-19 pandemic that impacted the world in 2020 and continues to impact it to this day has had severe repercussions on global economies. The tourism industry was particularly badly hit due to travel restrictions imposed by governments on the advice of health authorities. Even in the absence of government-imposed restrictions, travellers were nonetheless reluctant to be away from home during uncertain times and constantly changing travel restrictions, resulting, as stated above, in a decrease of 75% in the number of tourists visiting Malta in 2020 compared to 2019.

The Group generates its revenue almost exclusively through the operation of two hotels. It does not have, and is not expected to have in the foreseeable future, any alternative sources of revenue that can mitigate the negative effects brought about by COVID-19. Its financial performance was therefore inevitably impacted by COVID-19 and will continue to be impacted until the pandemic subsides, and the travel industry returns to its pre-COVID-19 levels.

The Directors and senior management worked tirelessly from the beginning of the pandemic to ensure that the Group was able to survive these difficult times. Management implemented an aggressive cost containment strategy, from when it became apparent that COVID-19 was going to have a significant effect on the Group's operations.

The Group welcomed the measures introduced by government to support wages of its staff as a positive assistance to reduce the largest expense, payroll, without which, mass redundancies would have been inevitable. Deferment of taxes also helped to reduce pressures on working capital during the peak of the pandemic. The Group also benefitted from the MDB COVID-19 Guarantee Scheme whereby it obtained additional funds of €2.1m to finance its working capital. At this time the Group also availed itself of bank loan deferrals which also helped maintain its cash-flow.

In view of the long duration of the effect of this pandemic, the directors have made a thorough evaluation of the short- to medium-term likely impact of the pandemic on the Group's finances, especially with a view to determine the probability that the Group will continue with its operations in the foreseeable future.

SP FINANCE P.L.C.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2020

In making this evaluation, the Directors acknowledged that the Group's financial prospects are intrinsically linked to factors concerning COVID-19 that are uncertain and completely beyond its control, such as:

- The date when the pandemic will be declared by global health authorities as no longer constituting a health hazard;
- The travel restrictions that governments may continue to impose before and even after the health hazard is over, especially in the United Kingdom which represents the major source country for tourists staying in the Group's hotels;
- Travellers' willingness to take holidays outside their home country even when the pandemic is over;
- Other restrictions that may continue to be imposed by local authorities such as that relating to the number of people who can assemble in groups;
- The continued availability and effectiveness of vaccines especially in view of new virus variants that are periodically emerging throughout the world;
- The willingness of people to be vaccinated in sufficiently large numbers as to ensure the attainment of 'herd immunity' within the community.

Apart from the uncertainties concerning COVID-19 that impact its revenue stream, the Group faces other uncertainties concerning its cost-base and financing, among which:

- The possibility to continue benefitting from significant discounts on certain major operating costs where the granting of such discounts is not contractually binding;
- The extent to which the COVID-19 wage supplement will be extended by the authorities;
- The extension of the moratorium on the repayment of the MDB COVID-19 loans, which in the absence of an extension, the Group would start repaying in September 2021.

Within this context of pervasive uncertainty that by its nature cannot be effectively mitigated, the Directors requested management to prepare detailed financial projections based on various assumptions regarding the timing and pace of the post-pandemic recovery.

The financial projections that were considered by the directors as representing the most prudent - realistic scenario were those that assumed that results in FY 2021 will be marginally better than those attained in FY2020. However, there are far too many variables at time of writing to make any definitive statements.

In determining whether, in the context of the financial projections referred to in the previous paragraph, the Directors consider the company to be unlikely to continue operating in the foreseeable future, several additional factors were taken into account, namely:

- Senior management's ability and enthusiasm in seeking ways to diversify its revenue stream by transforming the hotel into Malta's first music hotel during the summer months following an exclusive ten-year agreement with the internationally renowned brand 'Bora-Bora Ibiza'. This agreement should generate significantly higher occupancy levels and more importantly room rates throughout the summer months;
- The Group's hotels' very high customer reviews on the most popular online booking sites, which augurs well for high room-occupancy levels when international travel resumes, as well as decent occupancy levels until then when the hotels are open mainly for local clients;

SP FINANCE P.L.C.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2020

- The high probability that the moratorium on the MDB loans will be extended by six months, thus signifying that repayment of the loans will start in March 2022 rather than September 2021;
- The excellent relationship the Group enjoyed with its bankers over the last decades, which suggests that additional bank financing, if needed, will likely be forthcoming;
- A commitment in writing issued by Sea Pebbles Properties Limited, a related company outside the Group, in favour of the Company that any cash shortfall that may result within the Group in the period up to April 2022 will be loaned to this company on very favourable terms. The cash will be generated by Sea Pebbles Properties Limited from properties it is expected to sell up to April 2022.

Following this detailed assessment, the directors concluded that if the Group is unable to generate sufficient financial resources through its operations because of the global pandemic, it is very likely it will be able to access adequate external financial resources, including from related companies, as to permit it to continue in operational existence for the foreseeable future.

Therefore, in terms of Listing Rule 5.62, the Directors hereby state that these financial statements have been prepared on the going concern basis.

Results, Dividends and Reserves

The results for the year are set in the Statement of Profit and Loss and Other Comprehensive Income on page 17.

The Board does not propose the payment of a dividend.

The Group's retained earnings as at 31 December 2020 amounted to negative €955,957 (2019: €502,761) while the Company's retained earnings on the same date amounted to €140,107 (2019: €120,909).

Statement of Directors' Responsibilities for the Financial Statements

The Companies Act (Chapter 386 of the Laws of Malta) requires the directors of SP Finance p.l.c. to prepare annual financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the profit or loss for the year in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

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

- Adopt the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business;
- Select suitable accounting policies and apply them consistently from one accounting year to another;
- Make judgements and estimates that are reasonable and prudent; and
- Account for income and charges relating to the accounting year on the accruals basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Group and the Company and enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act. The directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud, errors and other irregularities.

The financial statements of SP Finance p.l.c. and the Group for the year ended on 31 December 2020 are included in the Annual Report 2020, which is available on the Company's website.

SP FINANCE P.L.C.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2020

Statement of Responsibility pursuant to the Listing Rule 5.68

The directors confirm that, to the best of their knowledge:

- The financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2020, and of the financial performance and the cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that the Company and the Group face.

Statement pursuant to Listing Rule 5.70.1


Pebbles Resort Limited rented the bars and restaurants located within the Pebbles Resort to Sea Pebbles Leisure Limited, a company outside the Group whose directors are Mr. Joseph Casha and Mrs. Josephine Casha. The latter company was contracted to provide the meals and breakfasts consumed by guests of Pebbles Resort.

Sea Pebbles Limited rented restaurants located in Sliema to Med Asia Limited, a company outside the Group in which Mrs. Josephine Casha is a director. The rental agreement was entered into in 2011.


Auditors

VCA Certified Public Accountants have intimated their willingness to continue in office. A resolution for their reappointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 30 April 2021 and signed on its behalf by:



Mr. Joseph Casha
Director



Mrs. Josephine Casha
Director

SP FINANCE P.L.C.

STATEMENT OF COMPLIANCE WITH PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Introduction

Pursuant to the Listing Rules as issued by the Listing Authority of the Malta Financial Services Authority, S.P. Finance p.l.c. (the 'company' or the 'Issuer') is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance (the 'Principles') contained in Appendix 5.1 of the Listing Rules as well as the measures adopted to ensure compliance with these same Principles.

Since its inception, the company's principal activity was to raise funds from the capital market to finance the operations of other group companies forming part of the Sea Pebbles Group (the 'Group').

The Board of Directors acknowledges that the Code does not dictate or prescribe mandatory rules but recommends principles of good practice. Nonetheless, the Board strongly believes that the Principles are in the best interest of the shareholders and other stakeholders since they ensure that the Directors and Management of the company adhere to internationally recognised high standards of Corporate Governance.

The company currently has a corporate decision-making and supervisory structure that is tailored to suit the company's requirements and designed to ensure the existence of adequate checks and balances within the company, whilst retaining an element of flexibility, particularly in view of the size of the company and the nature of its business. The company adheres to the Principles, except for those instances where there exist particular circumstances that warrant non-adherence thereto, or at least postponement for the time being.

Additionally, the Board recognises that, by virtue of Listing Rule 5.101, the company is exempt from making available the information required in terms of Listing Rules 5.97.1 to 5.97.3; 5.97.6 and 5.97.8.

Roles and Responsibilities

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

1. the Company's strategy and decisions with respect to the issue, servicing and redemption of its bonds;
2. monitoring that its operations are in conformity with its commitments towards bondholders, shareholders and all relevant laws and regulations; and
3. ensuring that the Company installs and operates effective internal control and management systems and that it communicates effectively with the market.

The Board of Directors

The Board of Directors of the company is responsible for the overall long-term direction of the company, in particular in being actively involved in overseeing the systems of control and financial reporting and that the company communicates effectively with the market. The Company has in place systems whereby the directors obtain timely information not only at meetings of the Board but at regular intervals or when the need arises.

Directors are appointed during the Company's Annual General Meeting for periods of one year, at the end of which term they may stand again for re-election. The Articles of Association of the Company clearly set out the procedures to be followed in the appointment of directors.

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

- that the proceeds of the bonds are applied for the purposes for which they were sanctioned as specified in the prospectus of the bonds issued;
- the proper utilisation of the resources of the Company; and
- the annual report and financial statements, the relevant public announcements and the Company's compliance with its continuing obligations under the Listing Rules.

SP FINANCE P.L.C.

STATEMENT OF COMPLIANCE WITH PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Complement of the Board

The Board of Directors meets regularly, with a minimum of four times annually, and is currently composed of five Members, three of which are completely independent from the company or any other related companies and therefore free of any significant business relationship, family or other relationships with the Issuer, its controlling shareholders or the management, that creates a conflict of interest such as to impair their judgement.

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 and the shareholders. During the current financial period, meetings of the Board were held as frequently as considered necessary.

The Board members are notified of forthcoming meetings by the Company secretary (Dr. Andrea Micallef) with the issue of an agenda and necessary supporting documentation which are then discussed during the Board meetings.

During the financial year under review, the Board met formally seven (7) times and was always attended by more than 75% of the Officers of the Company.

Dr. Alex Perici Calascione, Mr. Mark Anthony Grech and Dr. Reuben Debono are the independent non-executive directors of the company.

Executive Directors

Josephine Casha

Joseph Casha

Independent, Non-Executive Directors

Dr. Alex Perici Calascione

Dr. Reuben Debono

Mr. Mark Anthony Grech

The remuneration of the Board is reviewed periodically by the shareholders of the company. The company ensures that it provides Directors with relevant information to enable them to effectively contribute to Board decisions.

The Directors are fully aware of their duties and obligations, and should a conflict of interest in decision making ever to arise, the current internal policy of the Company is such as to ensure that the particular Director refrains from participating in such decisions. The Board member concerned shall not take part in the assessment by the Board as to whether a conflict of interest exists. A Director shall not vote in respect of any contract, arrangement, transaction or proposal in respect of which he has a material interest.

Risk Management and Internal Control

The company's system of internal controls is designed to manage all the risks in the most appropriate manner. However, such controls cannot provide an absolute elimination of all business risks or losses. Therefore, the Board, inter alia, reviews the effectiveness of the company's system of internal controls in the following manner:

- Reviewing the company's strategy on an on-going basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders;
- Implementing an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve company objectives;
- Identifying and ensuring that significant risks are managed satisfactorily; and
- Company policies are being observed.

SP FINANCE P.L.C.

STATEMENT OF COMPLIANCE WITH PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Audit Committee

The Board of Directors of the Company has established an Audit Committee in accordance with the requirements of the Listing Rules issued by the Listing Authority. The Audit Committee's primary objective is to assist the Board in fulfilling its responsibilities relating to risk, control, and governance, as well as to review the financial reporting process and the process for monitoring compliance with applicable laws and regulations.

The Audit Committee is a sub-committee of the Board constituted to fulfil an overseeing role in connection with the quality and integrity of the Company's financial statements. In performing its duties, the Audit Committee maintains effective working relationships with the Board of Directors, management, and the external auditors of the Company. The Committee also has the function of scrutinising and evaluating any proposed transaction to be entered into by the Company and a related party, to ensure that the execution of any such transaction is at arm's length and on a commercial basis ultimately in the interest of the Company.

The Board has set formal Terms of Reference of the Audit Committee that establish its composition, role, and scope. The Board reserves the right to amend these Terms of Reference from time to time. The Terms of Reference of the Audit Committee are modelled on the principles set out in the Listing Rules 5.117 – 5.134A.

The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibility by reviewing the company financial statements and disclosures, monitoring the system of internal control established by management as well as the audit processes. The Audit Committee is a sub-committee of the Board and is directly responsible and accountable to the Board.

In terms of the Maltese Companies Act (Chap. 386) and the Malta Financial Services Authority Listing Rules, the financial statements of SP Finance plc are subject to annual audit by its external auditors. Moreover, the Audit Committee has direct access to the external auditors of the Company, who attend the meeting at which the Company's financial statements are approved.

The Audit Committee which met seven (7) times during the year under review is currently composed of the following individuals:

Mr. Mark Anthony Grech (Chairman)
Dr. Alex Perici Calascione
Dr. Reuben Debono

This current complement addresses the requirement established by the Listing Rules that the Audit Committee is composed of non-executive directors, the majority of which being independent.

The Board considers Mr. Mark Anthony Grech to be competent in accounting and auditing matters in terms of the Listing Rules. Mr Mark Anthony Grech is considered as an independent director since he is free of any significant business, family or other relationship with the Company, its controlling shareholders or the management of either, that could create a conflict of interest such as to impair his judgement. Furthermore, the Board considers that the Audit Committee, as a whole, to have relevant competence in the sector the company is operating.

The Audit Committee was formally set up on the 6 November 2019. Communication with and between the Secretary, top level management and the Committee is ongoing and considerations that required the Committee's attention were acted upon between meetings and decided by the Members (where necessary) through electronic circulation and correspondence.

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.

SP FINANCE P.L.C.

STATEMENT OF COMPLIANCE WITH PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Committees

The directors believe that, due to the Company's size and operation, the remuneration, evaluation and nominations committees that are suggested by the Code are not required and that the function of these can effectively be undertaken by the Board itself. However, the Board is tasked to review on an annual basis, the remuneration paid to the directors and to carry out an evaluation of their performance and that of the Audit Committee. The shareholders approve the remuneration paid to the directors at the annual general meeting of the Company.

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 determined by the Company further to a General Meeting during which the proposed aggregate emoluments or an increase in the maximum limit of such aggregate emoluments shall be proposed. Furthermore, the remuneration of directors is a fixed amount per annum and does not include any variable component relating to profit sharing, share options or pension benefits. During the year under review, the directors received emoluments amounting in total to €24,000.

Conclusion

The Board considers that, to the extent otherwise disclosed herein, the Company was generally in compliance with the Principles throughout the period under review as befits a company of its size and nature.

Approved by the Board of Directors and signed on its behalf on 30 April 2021.


Josephine Casha


Joseph Casha

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SP FINANCE P.L.C

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated and stand-alone parent company financial statements of SP Finance p.l.c. set out on pages 17 to 62 which comprise the consolidated and parent company statement of financial position as at 31 December 2020, and the consolidated and parent company statement of profit and loss and comprehensive income, changes in equity and cashflow for the year then ended 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 Group and the Company as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been prepared in accordance with the requirements of the Companies Act (Cap. 386), enacted in Malta.

Our opinion is consistent with our additional report to the audit committee.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern as a result of COVID-19

We draw attention to Note 1 to these financial statements, which describes the directors' assessment of the estimated impacts of COVID-19 on the Group's projected financial results, cash flows and financial position, taking cognisance of the unprecedented nature of the adverse economic conditions currently being experienced. These events or conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independence

We are independent of the Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group and the Company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Group and the Company are disclosed in note 7 to the financial statements.

Our Audit Approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SP FINANCE P.L.C

of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedure and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Materiality</i>	€29,000
<i>How we determined it</i>	2.5% of turnover
<i>Rationale for the materiality benchmark applied</i>	We selected turnover as the materiality benchmark and saw the effect on the Group's results. In our view, the turnover of the Group is considered the most appropriate measure of the success of the Group in generating enough profits to service its annual obligations towards the bond holders. We chose 2.5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €1,450 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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. In addition to the matter described in the Material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Valuation and impairment of property, plant and equipment, investment property and right-of-use asset

Risk Description

The outbreak of Covid-19 and the effects on the hospitality industry constituted a triggering event in terms of IAS 36 Impairment of Assets for the relevant group of assets described in more detail in note 10,11 and 12 to the financial statements. An impairment assessment was carried out by the Group on the assets mentioned below and indicated no need for impairment provisions. The Company's year-end impairment assessment was significant to our audit given the significance of the impact of Covid-19 on the Group's results for the year ended 31 December 2020, and also because the impairment assessment used on one of the hotels, with a carrying asset value of € 10.5m, operated by the Group relies heavily on forecasting future cash flows in the present environment which is highly uncertain. The forecasting of future cash flows has been based on various assumptions such as long-term growth rate, the rate used to discount future cash flows, and assumptions around economic recovery of the industry in a post Covid-19 environment. The remaining balance amounting to €28m of the assets held by the Group were valued by a third-party professional valuer using the comparison market approach applying the expected sales price per square meter. Furthermore, the assets tested for impairment represent more than 95% of the Group's total assets.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SP FINANCE P.L.C

Valuation and impairment of property, plant and equipment, investment property and right-of-use asset	How the scope of our audit responded to the risk
<p>The Group's property comprises 2 hotels; one owned and one leased and investment property which comprises mainly of two outlets and a guest house property that are held for long term rental yields or for capital appreciation. The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future returns.</p> <p>Management have carried out a re-assessment, using a professional valuer, for its owned properties classified as investment property amounting to €6m and classified within property, plant and equipment amounting to €22m, to determine whether a material shift in fair value would have occurred during 2020. The valuation reports by the third-party valuer as at 31 December 2019 and 2020 are computed using the comparison market approach and Level 3 inputs of the fair valuation hierarchy.</p> <p>The second hotel operated by the Group is held under an operating lease and therefore classified as Right-of-use asset (ROU). The ROU asset amounting to €4.6m and its improvements and movables amounting to an additional €5.9m classified within property, plant and equipment were assessed for impairment using discounted cashflows (DCF). In light of the increase in the level of uncertainty as a result of COVID-19, the Directors applied a DCF analysis using multiple cash flow projections taking into consideration assumed probabilities of different future events and/or scenarios instead of a single cash flow scenario. For each scenario, management assigned probability weights, based on their expectations of the achievable outcomes. The most significant judgements relate to the projected cash flows, the discount rate and growth rates.</p>	<ul style="list-style-type: none"> - Considered the objectivity, independence, competence and capabilities of the external valuer. - Reviewed the methodologies used by the external valuer and by the directors to estimate the fair value. - Considered the appropriateness of the fair values estimated by the external valuers based on our knowledge of the industry. - Assessed the key inputs in the calculations of the DCF presented such as revenue growth and discount rate, by reference to management's forecasts, data external to the Group and our own expertise. - Testing the mathematical accuracy of the calculations derived from each model. - Reviewed the appropriateness of the disclosures in the financial statements in connection with the impairment assessment.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SP FINANCE P.L.C

Significant Financing Transactions

Risk Description

The principal activity of the Company, SP Finance p.l.c. is to raise financial resources from the capital market to finance the capital projects of the companies forming part of SP group. These debt securities are guaranteed by the subsidiary, Sea Pebbles Limited. The funds received from the debt securities in issue have been invested in €12m cumulative redeemable preference shares in SP Investments Limited. The recoverability of the financial asset at amortised cost and the debt servicing thereon is dependent on the generation of profits from the operating subsidiaries of SP Investments Limited.

Recoverability of Parent Company bond proceeds invested in its Subsidiary Company SP Investments Ltd	How the scope of our audit responded to the risk
<p>Financial assets at amortised costs includes proceeds from the bond issue which were invested through cumulative redeemable preference shares in the subsidiary SP investments Limited. Investment in preference shares as at 31 December 2020 amounted to €12 million.</p> <p>The eventual redemption of this investment of €12m will be used to repay the principal amount of the bond, which is why we have given additional attention to this area. On an annual basis the Company is principally dependent on the receipt of dividend payments from this financial asset to maintain its debt financing.</p> <p>Both the businesses of Sea Pebbles Ltd “the Guarantor” and Pebbles Resort Ltd “the Group Company” operate in the hospitality sector and were therefore severely impacted by the spread of the COVID-19 pandemic to Europe in 2020. This pandemic is still creating unprecedented levels of uncertainty in local and global economies alike. It is as yet unknown when travel restrictions will be lifted and the market’s reaction thereto. The directors have assessed the impact of the COVID-19 pandemic on the recoverability of the Company’s investment in its subsidiary companies. The assessment was based on four scenarios which were weighted in line with management’s expectations and were used to assess the possible extent of the impact on the recoverability of the financial asset held at amortised cost.</p> <p>The financial asset at amortised cost is subject to impairment testing in accordance with the expected credit loss model in terms of IFRS9.</p>	<p>We have agreed the terms of its financial asset to supporting documentation.</p> <p>We have assessed the financial situation of Sea Pebbles Ltd “the Guarantor” and Pebbles Resort Ltd “the Group Company”. In doing this, we made reference to the latest audited financial statements, management accounts, cash flow projections, forecasts and other prospective information made available to us, with particular focus on the review of the directors’ assessment of the impact of the COVID-19 pandemic on the Group’s business. We performed additional audit work on the assumptions, conditions and relevant risk assessments used by the directors to model the weighted scenarios due to the pandemic.</p> <p>At the date of this report the pandemic’s ongoing effects are still subject to high levels of uncertainty with the full range of possible effects unknown.</p>

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SP FINANCE P.L.C

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. Except for our opinions on the directors' report in accordance with the Companies Act (Cap.386) and on the Corporate Governance Statement of Compliance in accordance with the Listing Rules issued by the Maltese Listing Authority, our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386). Based on the work we have performed, in our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap.386).

In addition, in light of the knowledge and understanding of the Group and 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.

Responsibilities of the Directors and those charged with governance for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, 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 Group's and 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 Group and the Company or to cease operations, or has no realistic alternative but to do so.

The directors have delegated the responsibility for overseeing the Group's and the Company's financial reporting process to the Audit Committee.

Auditor's Responsibilities for the Audit Committee

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SP FINANCE P.L.C

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Group's and Company's business and the overall economy.
- 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.

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 the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current year 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.

Report on Other Legal and Regulatory Requirements

Report on Corporate Governance Statement of Compliance

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



CERTIFIED PUBLIC ACCOUNTANTS

VCA Certified Public Accountants
Finance House, First Floor,
Princess Elizabeth Street,
Ta' Xbiex, XBX 1102, Malta.

t: (+356) 21 333 680
f: (+356) 21 335 679
e: info@vca.com.mt
w: www.vca.com.mt

Vat No. MT 2158 - 7124

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SP FINANCE P.L.C

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 read the Statement of Compliance and consider the implications 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 any 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 corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance 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.

We also have responsibilities:

- Under the Maltese Companies Act (Cap. 386) we are required to report to you if, in our opinion:
 - We have not received all the information and explanations we require for our audit.
 - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
 - The financial statements are not in agreement with the accounting records and returns.
- Under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

Appointment

We were first appointed as auditors of the Group and the Company for the financial period ended 31 December 2019. Our appointment has been renewed by shareholders resolution representing a total period of uninterrupted appointment of 2 years.

This copy of the audit report has been signed by:

MICHAEL CURMI

for and on behalf of

VCA CERTIFIED PUBLIC ACCOUNTANTS

30 April 2021

SP FINANCE P.L.C.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Group 2020 12 months €	Group 2019 12 months €	Company 2020 12 months €	Company 2019 14 months €
Revenue	4	1,180,818	2,848,953	492,000	440,000
Costs					
Cost of sales	7	(1,194,708)	(1,918,034)	(34,677)	(29,869)
Gross (loss)/profit		(13,890)	930,919	457,323	410,131
Administrative expenses	7	(164,097)	(201,765)	(44,249)	(28,732)
Other operating income	5	283,115	105,550	90,000	60,000
Loss on sale of property, plant & equipment		-	(14,000)	-	-
Earnings before interest, tax and depreciation		105,128	820,704	503,074	441,399
Depreciation		(1,538,270)	(789,322)	-	-
Operating (loss)/profit		(1,433,142)	31,382	503,074	441,399
Finance costs	6	(853,321)	(606,988)	(480,000)	(320,000)
Modification gain on financial liabilities		177,780	-	-	-
(Loss)/Profit before taxation		(2,108,683)	(575,606)	23,074	121,399
Tax credit/(expense)	9	649,965	187,992	(3,876)	(490)
(Loss)/Profit for the year		(1,458,718)	(387,614)	19,198	120,909
Total comprehensive income for the year		(1,458,718)	(387,614)	19,198	120,909
Profit attributable to:					
Equity holders of the Company		(1,458,718)	(387,614)	19,198	120,909

SP FINANCE P.L.C.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020


	Notes	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Assets					
Non-current assets					
Property, Plant and equipment	10	28,016,163	28,092,155	-	-
Right-of-use assets	11	4,649,853	5,161,833	-	-
Investment property	12	6,004,491	5,974,491	-	-
Investment in subsidiary	13	-	-	19,097,783	19,097,783
Financial assets at amortised cost	14	-	-	12,000,000	12,000,000
Other financial assets at amortised cost	15	631,997	1,082,482	-	-
Deferred tax asset	17	457,342	-	-	-
		39,759,846	40,310,961	31,097,783	31,097,783
Current assets					
Trade and other receivables	16	459,617	397,939	300,406	350,381
Current income tax asset	19	201,020	112,000	201,020	112,000
Cash at bank and in hand		115,872	623,613	2,743	5,815
		776,509	1,133,552	504,169	468,196
Total Assets		40,536,355	41,444,513	31,601,952	31,565,979


SP FINANCE P.L.C.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Notes	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Equity					
Called up issued share capital	21	250,000	250,000	250,000	250,000
Share premium	24	17,750,000	17,750,000	17,750,000	17,750,000
Revaluation reserve	22	14,799,920	14,799,920	-	-
Fair value gain reserve	23	2,938,013	2,938,013	-	-
Other reserve	24	(17,531,725)	(17,531,725)	1,098,983	1,098,983
Retained earnings		(955,957)	502,761	140,107	120,909
Total equity		17,250,251	18,708,969	19,239,090	19,219,892
Liabilities					
Non-current liabilities					
Borrowings	20	14,012,646	13,005,233	12,000,000	12,000,000
Lease liability long term	11	4,947,767	5,072,123	-	-
Deferred tax liability	17	2,261,540	2,365,143	-	-
		21,221,953	20,442,499	12,000,000	12,000,000
Current liabilities					
Trade and other payables	18	855,669	1,448,354	362,862	346,087
Current income tax liability	19	172,930	226,100	-	-
Borrowings	20	793,389	400,000	-	-
Lease liability	11	242,163	218,591	-	-
		2,064,151	2,293,045	362,862	346,087
Total liabilities		23,286,104	22,735,544	12,362,862	12,346,087
Total equity and liabilities		40,536,355	41,444,513	31,601,952	31,565,979

These financial statements were approved and authorised for issue by the Board of Directors on the 30 April 2021 and signed on its behalf by: -


Mr. Joseph Casha
Director


Ms. Josephine Casha
Director

SP FINANCE P.L.C.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

Group	Share capital €	Share premium €	Revaluation Reserve €	Fair value gain reserve €	Other reserve €	Retained earnings €	Total €
Balance at 1 January 2019	250,000	17,750,000	14,799,920	2,938,013	(17,531,725)	890,375	19,096,583
<u>Comprehensive income</u>							
Loss for the year	-	-	-	-	-	(387,614)	(387,614)
Balance at 31 December 2019	250,000	17,750,000	14,799,920	2,938,013	(17,531,725)	502,761	18,708,969
<u>Comprehensive income</u>							
Loss for the year	-	-	-	-	-	(1,458,718)	(1,458,718)
Balance at 31 December 2020	250,000	17,750,000	14,799,920	2,938,013	(17,531,725)	(955,957)	17,250,251

Company	Share capital €	Share premium €	Other reserve €	Retained earnings €	Total €
As at 19 November 2018	-	-	-	-	-
<u>Comprehensive income</u>					
Profit for the year	-	-	-	120,909	120,909
Total comprehensive income	-	-	-	120,909	120,909
<u>Transactions with owners</u>					
Issue of share capital (before reorganisation)	1,200	-	-	-	1,200
<u>Adjustments relating to reorganisation</u>					
Reorganisation of group	248,800	17,750,000	1,098,983	-	19,097,783
Balance at 31 December 2019	250,000	17,750,000	1,098,983	120,909	19,219,892
<u>Comprehensive income</u>					
Profit for the year	-	-	-	19,198	19,198
Balance at 31 December 2020	250,000	17,750,000	1,098,983	140,107	19,239,090

SP FINANCE P.L.C.

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Group 2020 12 months €	Group 2019 12 months €	Company 2020 12 months €	Company 2019 14 months €
Cashflow from operating activities				
(Loss)/Profit before taxation	(2,108,683)	(575,606)	23,074	121,399
<i>Adjustments for:</i>				
Depreciation	1,538,270	789,322	-	-
Finance costs	821,739	585,934	480,000	320,000
Amortisation of bond issue costs	31,582	21,055	-	-
Dividend income	-	-	(492,000)	(440,000)
Loss on disposal of fixed assets	-	14,000	-	-
Provision for doubtful debts	6,761	7,126	-	-
Rental concession	(133,335)	-	-	-
Modification gain on financial liability	(177,780)	-	-	-
<i>Operating (loss)/profit before working capital changes</i>	(21,446)	841,831	11,074	1,399
Movement in receivables/related company balances	382,046	(436,128)	46,099	(350,381)
Movement in payables	(592,684)	1,040,285	16,775	25,597
<i>Cash (used in) /generated from operations</i>	(232,084)	1,445,988	73,948	(323,385)
Income tax paid	(53,170)	(173,326)	-	-
Interest paid	(821,739)	(265,934)	(480,000)	-
<i>Net cashflows (used in) /generated from operating activities</i>	(1,106,993)	1,006,728	(406,052)	(323,385)
Cashflows from investing activities				
Payments to acquire property, plant and equipment	(822,581)	(9,415,701)	-	-
Payments to acquire investment property	(30,000)	(2,163,091)	-	-
Proceeds from sale of property, plant and equipment	-	700,000	-	-
Net dividends received	-	-	402,980	328,000
Investment in preference shares of subsidiary	-	-	-	(12,000,000)
<i>Net cashflows (used in)/generated from investing activities</i>	(852,581)	(10,878,792)	402,980	(11,672,000)

SP FINANCE P.L.C.

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Group 2020 12 months	Group 2019 12 months	Company 2020 12 months	Company 2019 14 months
Cashflows from financing activities					
Movement in bank loans		1,579,141	(2,161,693)	-	-
Dividends paid		-	-	-	-
Cash issue of shares		-	-	-	1,200
Movement in third party borrowings		(233,332)	1,700,000	-	-
Bond proceeds		-	12,000,000	-	12,000,000
Bond issue costs		-	(315,822)	-	-
Lease liability payments		(95,165)	(146,242)	-	-
Movement in directors' balances		-	(510,493)	-	-
<i>Net cash generated from financing activities</i>		1,250,644	10,565,750	-	12,001,200
Net movement in cash and cash equivalents					
Cash and cash equivalents at the beginning of the year		623,613	(70,073)	5,815	-
Cash and cash equivalents at the end of the year	25	(85,317)	623,613	2,743	5,815

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Basis of preparation

Reporting entity

SP Finance P.L.C (the 'Company') is a public limited liability which was incorporated in Malta on 19 November 2018. The Company's financial statements in the comparative year cover the period from the date of incorporation being 19 November 2018 to 31 December 2019. The Company's registration number is C-89462 and the Company's registered office is 89, the Strand, Sliema, Malta.

SP Finance P.L.C and its subsidiaries referred to as 'the Group' principal activities include the ownership, rental, developments and operation of hotels.

The consolidated financial statements include the financial statements of SP Finance P.L.C and its subsidiaries. The Company and the subsidiaries are together referred to as 'the Group'.

The financial statements of the Company and the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the requirements of the Companies Act (Cap. 386).

These financial statements have been prepared under the historical cost convention basis as modified by the fair valuation of the land and buildings class of property, plant and equipment and investment property. The functional currency of the Company is the Euro which is also the presentation currency of the Group.

Group reorganisation

The Company was incorporated on 19 November 2018 under the terms of the Maltese Companies Act, 1995. On 28 November 2018, the Company acquired 100% indirect shareholding in Sea Pebbles Limited through a 100% direct shareholding in SP Investments Limited. Sea Pebbles Limited was already in existence and operating. The substance of the acquisition was that of a group restructuring by virtue of which the Company became the new parent company of the Group. Accordingly, the ultimate shareholders of Sea Pebbles Limited remained unchanged and the restructuring solely interposed a new holding company SP Investments Limited which is wholly owned by the Company, SP Finance P.L.C. This transaction has been accounted for in the consolidated financial statements as a reorganisation, and these have been compiled as though SP Finance P.L.C, was already the parent Company of the Group from incorporation.

Accordingly, in order to provide more meaningful information to potential investors, the comparative figures include the financial performance and position of the Group even though the new parent company was legally incorporated on 19 November 2018. The comparative figures of the Group therefore present the consolidated results for Sea Pebbles Limited and adjustments to reflect the impact of the reorganisation which have been reflected in the statement of changes in equity.

The accounting policies are consistent with the policies previously adopted by Sea Pebbles Limited except for reorganisation between Group entities under common control are accounted for using the reorganisation method of accounting. Under the reorganisation method of accounting, assets and liabilities are incorporated at the predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entity's pre organisation financial statements. No goodwill arises in reorganisation accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity is included in equity. The financial statements incorporate the acquired entities' full year results, including comparatives, as if the pre-reorganisation structure was already in place at the commencement of the comparative period. As a result of this group restructuring the Company became the new parent company of the Group.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Basis of preparation (continued)

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID -19 on the Group's cash flows

The Directors are conscious that in common with similar businesses operating in the hospitality industry all judgements reached at this stage remain subject to material degree of underlying uncertainty, however the following matters are considered to constitute a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

In FY 2020, the Directors worked tirelessly from the beginning of the pandemic to ensure that the Group was able to survive these difficult times. Various cost cutting measures were taken to compensate for the loss of revenue and to preserve the liquidity of the Group, with a target to reduce overall operating costs significantly. The Group welcomed the measures introduced by government to support wages of its staff as a positive assistance to reduce the largest expense, payroll, without which, mass redundancies would have been inevitable. Deferment of taxes also helped to reduce pressures on working capital during the peak of the pandemic.

To respond to the severe downside scenario, the Group also obtained a loan facility of €2.1 M and has taken further actions by reducing the non-essential expenditure, freezing non-essential recruitment, and reducing working hours.

In view of the long on-going effect of this pandemic, the directors have made a thorough evaluation of the short- to medium-term likely impact of the pandemic on the Group's finances, especially with a view to determine the probability that the Group will continue with its operations in the foreseeable future.

In making this evaluation, the Directors acknowledged that the Group's financial prospects are intrinsically linked to factors concerning COVID-19 that are uncertain and completely beyond its control, such as:

- The date when the pandemic will be declared by global health authorities as no longer constituting a health hazard;
- The travel restrictions that governments may continue to impose before and even after the health hazard is over, especially in the United Kingdom which represents the major source country for tourists staying in the Group's hotels;
- Travellers' willingness to take holidays outside their home country even when the pandemic is over;
- Other restrictions that may continue to be imposed by local authorities such as that relating to the number of people who can assemble in groups;
- The continued availability and effectiveness of vaccines especially in view of new virus variants that are periodically emerging throughout the world; and
- The willingness of people to be vaccinated in sufficiently large numbers as to ensure the attainment of 'herd immunity' within the community.

Apart from the uncertainties concerning COVID-19 that impact its revenue stream, the Group faces other uncertainties concerning its cost-base and financing, among which:

- The possibility to continue benefitting from significant discounts on certain major operating costs where the granting of such discounts is not contractually binding;
- The extent to which the COVID-19 wage supplement will be extended by the authorities; and
- The extension of the moratorium on the repayment of the Malta Development Bank loans, which in the absence of an extension, the Group would start repaying in September 2021.

Within this context of pervasive uncertainty that by its nature cannot be effectively mitigated, the Directors requested management to prepare detailed financial projections based on various assumptions regarding the timing and pace of the post-pandemic recovery.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Basis of preparation (continued)

The financial projections that were considered by the directors as representing the most prudent - realistic scenario were those that assumed that results in FY 2021 will be marginally better than those attained in FY 2020. However, there are far too many variables at time of writing to make any definitive statements.

In determining whether, in the context of the financial projections referred to in the previous paragraph, the Directors consider the company to be unlikely to continue operating in the foreseeable future, several additional factors were taken into account, namely:

- Senior management's ability and enthusiasm in seeking ways to diversify its revenue stream by transforming the hotel into Malta's first music hotel during the summer months following an exclusive ten-year agreement with the internationally renowned brand 'Bora-Bora Ibiza'. This agreement should generate significantly higher occupancy levels and more importantly room rates throughout the summer months;
- The Group's hotels' very high customer reviews on the most popular online booking sites, which augurs well for high room-occupancy levels when international travel resumes, as well as decent occupancy levels until then when the hotels are open mainly for local clients;
- The high probability that the moratorium on the MDB loans will be extended by six months, thus signifying that repayment of the loans will start in March 2022 rather than September 2021;
- The excellent relationship the Group enjoyed with its bankers over the last decades, which suggests that additional bank financing, if needed, will likely be forthcoming;
- A commitment in writing issued by Sea Pebbles Properties Limited, a related company outside the Group, in favour of SP Finance p.l.c. that any cash shortfall that may result within the Group in the period up to April 2022 will be loaned to this company on very favourable terms. The cash will be generated by Sea Pebbles Properties Limited from properties it is expected to sell up to April 2022.

Following this detailed assessment, the directors concluded that if the Group is unable to generate sufficient financial resources through its operations as a consequence of the global pandemic, it is very likely it will be able to access adequate external financial resources, including from related companies, as to permit it to continue in operational existence for the foreseeable future.

Accordingly, based on the outcome of the cash flow projections in a prudent scenario as referred to, the Directors consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of the 2020 financial statements.

Standards, interpretations and amendments to published standards effective in 2020

In 2020, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2020. Other than changing its accounting policies for leases as a result of adopting IFRS 16 'Leases', the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's and the Company's accounting policies.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in 2020 (continued)

COVID-19-related Rent Concessions – Amendments to IFRS 16

As at 31 December 2020, the Group received COVID-19 related rent concessions which had an impact on the Group's financial statements. A lessee shall apply the amendment for annual reporting periods beginning on or after 1 June 2020.

The Group has early adopted COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment states that lessees may elect not to assess whether a COVID-19 related rent concession is a lease modification. A lessee who makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account if the change was not a lease modification. Such an exemption is only applicable if the rent concession occurred as a direct consequence of COVID-19 and only if the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- There is no substantive change to other terms and conditions of the lease.

The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

IAS 1 and IAS 8 Amendment – Definition of Material

As of 1 January 2020, an amendment to IAS 1 and IAS 8 definition of Material came into effect. The amendment clarifies the definition of material and how it should be applied by including in the definition guidance that until now features elsewhere in IFRS standards. In addition, the explanation accompanying the definition has been improved. Finally, the amendment ensures that the definition of material is consistent across all IFRS standards.

Other accounting amendments effective as from 1 January 2020 did not have a significant impact on the Group's and Company's financial results, position, cashflows and accounting policies.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1st January 2021. The Group has not early adopted these revisions to the requirements of IFRS's as adopted by the EU and the Company's directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's and the Company's financial statements in the period of initial application.

2. Principal accounting policies

A summary of the more important accounting policies, which have been applied consistently, is set out below:

Basis of consolidation

Subsidiaries

A subsidiary is an entity that is controlled by the company. The company controls an investee when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group financial statements include the financial statements of the parent Company and all its subsidiaries. The results of the subsidiaries acquired or disposed of during the period are included in the Group statement of profit or loss and other comprehensive income from the date of their acquisition or up to date of their disposal.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Principal accounting policies (continued)

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, cash flows and any unrealised gains relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including any goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

In the Company's financial statements, investments in subsidiaries are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses. Dividends from the investment are recognised in profit or loss.

Property, plant & equipment

Property, plant and equipment are initially measured at cost and subsequently, land and buildings are stated at market value, based on valuations by external independent valuers, less depreciation. Revaluations are carried out at regular intervals, but at least every five years, unless the directors consider it appropriate to have an earlier revaluation, such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Plant and equipment are stated at historical cost less depreciation. Assets in the course of construction for production, supply or administrative purposes are classified as property, plant and equipment under development and are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy on borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are available for use.

Costs include expenditure that is directly attributable to the acquisition of the items. 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 Group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Any revaluation increase arising on the revaluation is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus unless it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation surplus relating to a previous revaluation of that asset. When the asset is derecognised, the attributable revaluation remaining in the revaluation surplus is transferred to retained earnings.

Property, plant and equipment are derecognised on 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, and are included in profit or loss in the period of derecognition. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost or revalued amount, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Principal accounting policies (continued)

Freehold buildings	2%
Electrical installations	10%
Furniture, fixtures and fittings	5%-10%
Equipment	10%
Motor vehicles	20%
Computer equipment	10%
Other fixed assets	10%

Freehold land is not depreciated as it is deemed to have an indefinite life. The depreciation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises freehold and leasehold land and buildings, and land and buildings held under long term operating leases.

Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value at the end of the reporting period. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the period in which they arise. Fair value is based on active market prices, adjusted, if necessary, for difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discontinued cash flow projections. These valuations are reviewed periodically by the Group directors.

The fair value of investment property reflects, among other factors, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

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

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and is stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

An item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount and are recognised in profit or loss in the period of derecognition.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Principal accounting policies (continued)

Financial instruments

Financial assets

Recognition and derecognition

The Group recognises a financial asset initially at fair value in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Classification and subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group's and the Company's debt instruments principally comprise loans and advances to other undertakings and investments.

The Group's debt instruments are subsequently measured at either amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Financial assets measured at amortised cost

Debt instruments that meet the following conditions are subsequently measured at amortised cost when:

- the financial asset is held within a business model whose objective is 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.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance, measured in accordance with the Group's accounting policy 'Impairment of financial assets' further below.

Changes in the carrying amount of financial assets carried at amortised cost, as a result of foreign exchange gains or losses, impairment gains or losses and interest income are recognised in profit or loss. On derecognition, any difference between the carrying amount and the consideration received is recognised in profit or loss and is presented separately in the line item 'Gains and losses arising from the derecognition of financial assets measured at amortised cost'.

Financial assets measured at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within fair value gains/(losses) on financial instruments at FVTPL in the period in which it arises.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Principal accounting policies (continued)

Impairment of financial assets

In terms of IFRS 9, the Group and Company applies an expected credit loss (“ECL”) model as opposed to an incurred credit loss model under IAS 39. As from 1 January 2018 the Group and the Company has to assess on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and fair value through other comprehensive income.

For trade and other receivables, the Group and Company applies the simplified approach and recognises lifetime ECL. The ECLs on these financial assets are estimated using a provision matrix based on the respective Companies’ historical credit loss experience based on the past due status of the debtors, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The impact on the Group and the Company of this change in the impairment model is not significant in view of the high quality of the counterparties to which the Group and Company is exposed to credit risk, and the loss allowance is not material.

For all other financial instruments, the Company uses the general approach, which requires an assessment as to whether the counterparty has experienced a significant increase in credit risk since initial recognition. This assessment forms the basis as to whether lifetime ECL should be recognised and is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. As at reporting date, the credit risk on the Group’s and the Company’s financial instruments has not increased significantly since initial recognition and consequently the Group and the Company measures the loss allowance at an amount equal to 12-month ECL (‘12m ECL’).

Financial liabilities

The Group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provision of the instrument. The Group’s financial liabilities are classified as financial liabilities which are not at fair value through profit or loss. These financial liabilities are recognised initially at fair value, being the fair value of consideration received, net of transactions costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, cancelled or expired.

Modifications to existing financial liabilities are accounted for as an extinguishment of the original liability and the recognition of a new financial liability if the modification represents a substantial modification. The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid, is at least 10% different from the discounted present value of the remaining cash flow of the original financial liability.

Where modifications to financial liabilities are not substantial, the Group discounts the present value of the revised cash flows using the original effective interest rate. The difference between the revised present value and the carrying amount of the original financial liability is recognised in profit or loss at the date of the modification.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group’s impairment policies and the calculation of the loss allowance are provided in policy ‘Impairment of financial assets’.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Principal accounting policies (continued)

Trade and other payables

Trade payables are classified within current liabilities unless payment is not due within 12 months from the reporting period. They are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method, unless the effect of discounting is immaterial.

Borrowings are classified as current liabilities unless the companies within the Group have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

Ordinary shares issued by the Company

Ordinary shares issued by the Company are classified as equity instruments.

Cash and cash equivalents and bank deposits

Cash and cash equivalents comprise cash in hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented in current liabilities on the statement of financial position. Bank deposits that the directors do not consider a component of cash equivalents, are presented separately in the statement of financial position.

Provisions

Provisions are recognised when the Group companies have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

Impairment of non-financial assets

All non-financial assets are tested for impairment except for investment property measured at fair value through profit or loss. At each balance sheet date, the carrying amount of assets is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount is the higher of fair value (which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) less costs of disposal and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated. For the purposes of assessing impairment, assets are grouped at the lowest levels for

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Principal accounting policies (continued)

Impairment of non-financial assets (continued)

which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Impairment losses are recognised immediately in the income statement, unless the asset is carried at a revalued amount, in which case, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset.

An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Revenue recognition

Hospitality

Revenue from hospitality includes revenue from accommodation and other ancillary services. The substantial majority of services are provided to customers during their stays in the Group's hotels, and, depending on the type of booking, some services, would generally be amalgamated into one 'contract' (for example, bed and breakfast).

Each of the services rendered is assessed to be a distinct performance obligation, and if applicable, the Group allocates the transaction price to each of the services rendered to the customer on a relative basis, based on their stand-alone selling price. Revenue from such operations is recognised over time since the customer benefits as the Group is performing; the majority of revenue relates to accommodation (i.e., the amount allocated to such performance obligation is recognised over the customer's stay at the respective hotel).

Dividends received

Dividends income from investment is recognised when the shareholders' right to receive payment has been established.

Management services

The company provides management services to its subsidiaries. Such services have been assessed to fall within scope of the IFRS 15 series guidance such that they are recognised as one performance obligation over time during the contract term.

Borrowing costs

Borrowing costs include the costs incurred in obtaining external financing. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

Leases

Where the Group is a lessee, with the exception of short-term leases and leases of low value assets, the Group recognises a right-of-use asset and a corresponding liability at the date at which a leased asset is available for use by the Group. Further details on the Group's accounting policy, and a summary of its leasing arrangements as a lessee is described in note 12.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Principal accounting policies (continued)

The Group has applied COVID-19-Related Rent Concessions – Amendment to IFRS 16. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

Lease income from operating leases where the Group or the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective assets leased out under operating leases are included in investment property in the balance sheet.

Modifications to operating leases where the Group is the lessor are accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued payments relating to the original lease as part of the lease payments for the new lease.

Taxation

Current and deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also dealt with in other comprehensive income or in equity, as appropriate.

Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. However, deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax in relation to the revaluation of land and buildings is charged or credited to other comprehensive income (to the extent that the revaluation is recognised in other comprehensive income). For buildings, deferred tax is recognised on the basis that the tax will be recovered through use (i.e., the corporate rate of tax in Malta), whilst land is expected to be recovered through sale. Deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property is realised through the income statement.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, including deferred tax assets for unused tax losses and unused tax credits carried forward, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences (or the unused tax losses and unused tax credits) can be utilised to the period when the asset is realised or the liability is settled based on the tax rates that have been enacted by the balance sheet date. Deferred tax assets and liabilities are offset when the Group companies have a legally enforceable right to settle its current tax assets and liabilities on a net basis.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Principal accounting policies (continued)

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Company's functional and presentation currency. Transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the re-translation of monetary items are recognised in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was determined. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not re-translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM").

The board of SP Finance PLC, ("the Board") assess the financial performance and position of the Group and make strategic decisions. The Board has been identified as being the CODM.

Related parties

Related parties are those persons or bodies of persons having relationships with the Company as defined in International Accounting Standard No. 24.

Dividends

Dividends to holders of equity instruments are recognised as liabilities in the period in which they are declared, being appropriately authorised and the distribution is no longer at the discretion of the Company.

Government grants

Grants from government are recognised at their fair value when there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants related to income are recognised in profit or loss over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Such grants are presented as part of profit or loss.

Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset. The grant is recognised as income over the life of the depreciable asset by way of a reduced depreciation charge.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Group's directors, except as follows, the accounting estimates 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 critical in terms of the requirements of IAS1 (revised).

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Critical accounting estimates and judgements (continued)

Fair value measurement and valuation processes

The Group's property, plant and equipment and investment property are measured at fair value. In estimating the fair value of these assets, the Group uses the market comparison approach which obtains market-observable data to the extent that it is available. The Group engages third party qualified valuers to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of these assets are disclosed in note 10 to these financial statements. The risk of changes to fair values to non-financial assets is also increased as a result of COVID-19.

Expected credit loss allowances on loans and advances

Credit loss allowance represent management's best estimate of expected credit losses in the financial assets subject to IFRS 9 impairment requirements at the balance sheet date. In this respect the directors are required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The Group and Company use the PD, LGD and EAD models in assessing loans and receivable and the provision matrix model for trade receivables to support the measurement of ECL.

Due to the uncertainties around forecasting, various sensitivity analysis were carried out on the year-end assessment to reflect, amongst others a best case, base case and pessimistic scenarios weighted in line with management's expectation with all scenarios resulting in no need for impairment provisions and hence no adjustments were made to these financial statements. Under both methods the ECL were deemed to be immaterial.

4. Segment information and revenue from contracts with customers

4.1. Segment information

The standard requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The Group's CODM, consisting of the board of directors examine the Group's performance namely from an industry/product perspective. The Board of Directors considers the Group to be made up of one segment, that is the operating of two hotels. The CODM assesses performance based on the measure of EBITDA (earnings before interest, tax, depreciation and amortisation).

All of the Group's non-current assets are located in Malta and therefore the geographical information that would have otherwise been required by IFRS 8, is not presented in these consolidated financial statements.

4.2. Revenue from contracts with customers

i. Disaggregation of revenue from contracts with customers

	Group 2020 12 months €	Group 2019 12 months €	Company 2020 12 months €	Company 2019 14 months €
Hospitality segment				
Accommodation service	1,180,818	2,848,953		-
Dividends received from subsidiaries	-	-	492,000	440,000
	1,180,818	2,848,953	492,000	440,000

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

4. Segment information and revenue from contracts with customers (continued)

ii. Liabilities related to contracts with customers

The Group has recognised the following liabilities relating to contracts with customers:

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Contract liabilities				
Advance deposits – hospitality	37,892	82,810	-	-
Deferred income – hospitality	-	29,069	-	-
Total contract liabilities	37,892	111,879	-	-

No revenue recognised in the current year which relates to carried forward contract liabilities

5. Other operating income

	Group 2020 12 months €	Group 2019 12 months €	Company 2020 12 months €	Company 2019 14 months €
Service charge	60,500	23,900	90,000	60,000
Rental income	89,280	81,650	-	-
Rental concessions	133,335	-	-	-
	283,115	105,550	90,000	60,000

6. Finance costs

	Group 2020 12 months €	Group 2019 12 months €	Company 2020 12 months €	Company 2019 14 months €
Interest on overdraft	17,579	9,593	-	-
Interest on bank borrowings	2,570	35,598	-	-
Other interest	8,477	8,474	-	-
Bond interest	480,000	320,000	480,000	320,000
Interest on lease liability	313,113	212,269	-	-
Bond issue costs	31,582	21,054	-	-
	853,321	606,988	480,000	320,000

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

7. Expenses by nature

	Group 2020 12 months €	Group 2019 12 months €	Company 2020 12 months €	Company 2019 14 months €
Direct costs	442,881	1,007,624	1,477	1,194
Wages and salaries	332,805	430,956	9,200	7,964
Directors' remuneration	114,000	140,712	24,000	20,712
Utility expenses	207,746	180,451	-	-
Repairs and maintenance	119,899	171,173	-	-
Other expenses	141,474	188,883	44,249	28,731
	<u>1,358,805</u>	<u>2,119,799</u>	<u>78,926</u>	<u>58,601</u>

Profit before tax for the Group is stated after charging the following fees in relation to services provided by the external auditors of the Group.

	Group 2020 12 months €	Group 2019 12 months €	Company 2020 12 months €	Company 2019 14 months €
Total remuneration payable to the auditors for:				
Audit services	13,500	13,500	13,500	13,500
Audit services charged by the component auditor	11,724	11,724	-	-
	<u>25,224</u>	<u>25,224</u>	<u>13,500</u>	<u>13,500</u>

8. Staff costs and employee information

	Group 2020 12 months €	Group 2019 12 months €	Company 2020 12 months €	Company 2019 14 months €
Wages and salaries (including directors)	762,474	536,292	33,200	28,676
Social security costs	56,115	35,376	-	-
	<u>818,589</u>	<u>571,668</u>	<u>33,200</u>	<u>28,676</u>
Government grant	(371,784)	-	-	-
	<u>446,805</u>	<u>571,668</u>	<u>33,200</u>	<u>28,676</u>

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Staff costs and employee information (continued)

Government assistance

The Maltese Government announced a number of measures to financially support businesses where operations were significantly impacted by the COVID-19 pandemic. The Group was eligible to benefit from the COVID Wage supplement under Annex A, receiving €800 on a monthly basis per full-time employee starting from 9 March 2020.

The average number of persons employed during the year, including directors, was made up as follows:

	Group 2020 Number	<i>Group 2019 Number</i>	Company 2020 Number	<i>Company 2019 Number</i>
Operations and administrations	51	32	4	4

9. Tax (credit)/expense

	Group 2020 12 months €	<i>Group 2019 12 months €</i>	Company 2020 12 months €	<i>Company 2019 14 months €</i>
Deferred tax (credit)/ charge	(560,945)	(75,992)	3,876	490
Current tax (credit)/ charge	(89,020)	(112,000)	-	-
	(649,965)	<i>(187,992)</i>	3,876	<i>490</i>

The tax expense and the tax charge using the statutory income tax rate of 35% are reconciled as follows

	Group 2020 12 months €	<i>Group 2019 12 months €</i>	Company 2020 12 months €	<i>Company 2019 14 months €</i>
(Loss)/Profit before taxation	(2,108,683)	(575,606)	23,074	121,399
Tax (credit)/charge at 35%	(738,039)	(201,462)	8,076	42,490
Depreciation charges not deductible by way of capital allowances	10,522	10,522	-	-
Expenses disallowed for tax purposes	80,505	6,886	78,980	-
Additional allowable deductions	(2,953)	(3,938)	-	-
Deferred tax liability at reduced rate	-	-	-	-
Tax effect of non-taxable income	-	-	(83,180)	(42,000)
Tax (credit)/expense	(649,965)	<i>(187,992)</i>	3,876	<i>490</i>

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

10.	Property, Plant & Equipment Group	Land & Buildings €	Motor Vehicles €	Equipment €	Electrical Installations €	Furniture, & Fittings €	Computer Equipment €	Other fixed assets €	Total €
	Cost/ Valuation								
	As at 1 January 2019	19,139,592	33,061	472,467	233,477	1,209,657	39,617	-	21,127,871
	Additions	5,161,389	13,000	1,200,969	918,643	1,893,645	23,055	205,000	9,415,701
	Disposals	(714,000)	-	-	-	-	-	-	(714,000)
	As at 1 January 2020	23,586,981	46,061	1,673,436	1,152,120	3,103,302	62,672	205,000	29,829,572
	Additions	637,037	-	143,255	20,192	19,159	2,938	-	822,581
	As at 31 December 2020	24,224,018	46,061	1,816,691	1,172,312	3,122,461	65,610	205,000	30,652,153
	Depreciation								
	As at 1 January 2019	335,592	21,876	301,018	80,916	445,123	38,693	-	1,223,218
	Charge for the year	165,838	7,232	94,120	69,708	157,519	2,699	17,083	514,199
	As at 1 January 2020	501,430	29,108	395,138	150,624	602,642	41,392	17,083	1,737,417
	Charge for the year	309,170	7,853	61,308	115,866	363,711	6,498	34,167	898,573
	As at 31 December 2020	810,600	36,961	456,446	266,490	966,353	47,890	51,250	2,635,990
	Net Book Value								
	As at 31 December 2020	23,413,418	9,100	1,360,245	905,822	2,156,108	17,720	153,750	28,016,163
	As at 31 December 2019	23,085,551	16,953	1,278,298	1,001,496	2,500,660	21,280	187,917	28,092,155

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

10. Property, Plant & Equipment (continued)

Fair value of property

The Group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which, the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

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

The Group's land and buildings, within property, plant and equipment consists principally of hotel properties that are owned and managed by the Group's subsidiaries. The Group's investment property comprises mainly of two outlets and a guest house property that are held for long term rental yields or for capital appreciation or both and are measured at fair value on annual basis as required by IAS 40.

All the recurring property fair value measurements at 31 December 2020 and 2019, as applicable, use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the current and preceding financial years.

A reconciliation from the opening balance to the closing balance of property for recurring fair value measurement categorised within level 3 of the fair value hierarchy, for the current and preceding financial years, is reflected in the table above and in note 12 for investment property.

Valuation techniques

The Group obtains independent valuations for its freehold land and buildings at least every five years. In addition to the revaluations carried out on hotel properties, the Group's investment properties, which comprise two restaurant outlets and a guest house are measured by an independent valuer on an annual basis as required by IAS 40.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates. The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available, the directors consider information from a variety of sources.

Valuation processes

In 2020, the directors carried an assessment for those properties measured in accordance with the revaluation model under IAS 16 for property, plant and equipment and IAS 40 for Investment property, to determine whether a material shift in fair value has occurred.

Where management, through its assessment, concludes that the fair value of hotel properties differs materially from its carrying amount, and at least every 5 years, an independent valuation report prepared by third party qualified valuers, is performed. The report is based on information provided by the Group, publicly available information and the expert valuer's knowledge and experience in the field. The information provided to the valuers, together with the assumptions and the valuation models used by the valuer, are reviewed by the directors. This includes a review of the fair value movement over the period. The directors consider whether the valuation report is appropriate in order to revalue the Group's property.

The Group's property (land and buildings together with all other integral assets) and investment property were last revalued on 31 December 2018 and reflected in the Group's financial statements. The valuations were again obtained by

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

10. Property, Plant & Equipment (continued)

the independent professional qualified valuer on 31 December 2019 and 2020. The land and buildings together with all other integral assets were valued by Perit Colin Zammit (a firm of architects and civil engineers). The external valuations of the property as at 31 December 2018, 2019 and 2020, as applicable, have been performed using the comparison market approach and Level 3 inputs of the fair valuation hierarchy.

In view of a limited number of properties with similar characteristics, the valuations have been performed using unobservable inputs. The significant inputs to the approach used is a sales price per square metre related to transactions in comparable properties located in proximity to the respective property, with adjustments for differences in the size and condition of the property. As at 31 December 2020, the resultant fair value did not differ materially from the book values of the property.

Information about fair value measurements using significant unobservable inputs (Level 3)

Group	Fair value at		Valuation technique	Unobservable inputs	Relationship of unobservable inputs to fair value
	31 Dec 2020	31 Dec 2019			
Description	€	€			
<u>Property, plant, and equipment</u>					
Current use as hotel properties	22,149,797	22,035,494	Comparison Approach	Sales price per square metre * €5,500	The higher the sales price per square metre the higher the fair value
<u>Investment properties</u>					
Leased buildings	6,004,491	5,974,491	Comparison Approach	Sales price per square metre * €5,800	The higher the sales price per square metre the higher the fair value

*These inputs represent the range of inputs used in the external valuation carried out as at 31 December 2019 and 2020.

Historical cost basis of properties

If the cost model had been used, the carrying amounts of the revalued properties classified as property, plant and equipment would be €10,954,703 (2019: €11,030,695). The revalued amounts include a revaluation surplus of €17,061,460 before tax (2019: €17,061,460), which is not available for distribution to the shareholders of SP Finance P.L.C.

Use as collateral

Land and buildings held by the Group, with a carrying amount of €13.8m (2019: €13.8m) are pledged as security for non-current borrowings.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

11. Leases

This note provides information for leases where the Group is a lessee. For leases where the Group is a lessor, see note 12 to these financial statements.

i. Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	Group	
	2020	2019
	€	€
Right-of-use assets		
Land and buildings	4,090,095	4,664,983
Equipment	213,102	109,410
Furniture & fittings	346,656	387,440
	4,649,853	5,161,833
Lease liabilities		
Current	242,163	218,591
Non-current	4,947,767	5,072,123
	5,189,930	5,290,714

Additions to the right-of-use assets during the 2020 financial year were € 127,717 (2019: € 5,409,695).

Impairment Assessment on the Carrying Value

The outbreak of Covid-19 and the effects on the hospitality industry constituted a triggering event in terms of IAS 36 Impairment of Assets, on the Group's Right-of-use (ROU) asset. The ROU asset held by the Group was assessed for impairment in combination with an amount of €5.9m classified within property, plant and equipment, since these assets relate to the same hotel operated by the Group and therefore have been assessed as one cash generating unit.

In light of the increase in the level of uncertainty as a result of COVID-19, the directors assessed the fair value of the Group's ROU asset in 2020 by using a discounted cash flow (DCF) analysis applying the expected cash flow approach. This approach uses multiple cash flow projections taking into consideration assumed probabilities of different future events and/or scenarios instead of a single cash flow scenario. For each scenario, management assigned probability weights, based on their expectations of the achievable outcomes.

The resultant weighted DCF valuation carried out by the directors exceeded the carrying value of the ROU asset and the carrying value of the plant and equipment held in the balance sheet as at 31st December 2020, therefore, no impairment was required to be recognised in these financial statements.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

11. Leases (continued)

ii. Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Group 2020 €
Depreciation charge of right-of-use assets	
Land and buildings	574,888
Equipment	24,025
Furniture & fittings	40,784
	<hr/>
	639,697
	<hr/>
Interest expense (included in finance cost)	313,113

The total cash outflow for leases in 2020 was € 408,278 (2019: €358,511).

iii. The Group's leasing activities and how these are accounted for

The Group leases land, buildings, equipment and furniture. The Group's rental contracts are for fixed periods of 5 to 10 years, but may have extension options as described in (v) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for leases in the Group except for furniture leases and some equipment leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

11. Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and
- makes adjustments specific to the lease, e.g., term and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalue its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use land and buildings held by the Group.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

COVID-19-related rent concessions

The Group negotiated rent concessions with its landlord for property used as San Pawl Hotel as a result of the severe impact of the COVID-19 pandemic during the year. The Group applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions. The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions is €177,780 (2019: nil).

iv. Variable lease payments

The Group's leases do not contain variable payment terms.

v. Extension and termination options

Extension and termination options are included in the Group's property leases. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Group has an option to extend the present leases of land and building for an additional 5 years, however, this has not been reflected in the right-of-use asset or in the lease liability since the Group is currently not reasonably certain that the option for this extension will be exercised. When the Group determines that it is reasonably certain that the option will be exercised, the right-of-use asset and corresponding lease liability will be adjusted for in the Group financial statements.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

12. Investment property

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
At the beginning of the year	5,974,491	3,811,400	-	-
Additions	30,000	2,163,091	-	-
Revaluation	-	-	-	-
At the end of the year	6,004,491	5,974,491	-	-

Investment property is valued annually on 31 December at fair value comprising open market value approved by the directors on the basis of a professional valuation prepared by an independent architect. Fair value disclosures are included in note 10.

Valuation of these assets has been reassessed after the balance sheet date following the spread of the COVID-19 pandemic and the resulting implication on the Group's operations.

i. Amounts recognised in profit or loss for investment properties

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Rental income from lease	42,188	56,250	-	-

ii. Lease arrangements

The Group's investment properties are leased to tenants with rentals payable on a monthly or quarterly basis. Lease payments for some contracts include fixed annual increases, but there are no variable lease payments that depend on an index.

The future minimum operating lease payments under non-cancellable leases are as follows:

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Within one year	131,308	104,440	-	-
Between 1 – 2 years	132,058	131,308	-	-
Between 2 – 3 years	132,058	132,058	-	-
Between 3 – 4 years	104,500	132,058	-	-
Between 4 – 5 years	104,500	104,500	-	-
Later than 5 years	307,750	412,250	-	-
	912,174	1,016,614	-	-

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

13. Investment in subsidiary

On 28 November 2018, the Company acquired 100% of the share capital of SP investments through an exchange of shares for a consideration of 10,000 100% paid up Ordinary shares of €1 each with a premium of €17,750,000.

Company	Shares in subsidiary €	Total €
At 1 January 2020	19,097,783	-
Additions	-	19,097,783
At 31 December 2020	19,097,783	19,097,783

The investment in subsidiary is accounted for using the reorganisation method of accounting and therefore reflects the Net Asset Value of the pre-existing assets and liabilities acquired. Refer to note 1 and 24.

All subsidiary undertakings are included in the consolidation and are accounted for on the basis of direct equity interest and are stated at cost less any accumulated impairment losses. Dividends from investment in subsidiaries are recognised in profit or loss as disclosed in the accounting policies note 2.

Valuation of these assets has been reassessed after the balance sheet date following the spread of the COVID-19 pandemic and the resulting implication on the Company's operations.

Shares in subsidiaries represent the following investments:

Company	Registered address	Principal Activity	2020 %	2019 %
SP Investments Limited	89, The Strand, Sliema	Holding Company	Holding 100%	<i>Holding</i> 100%
Sea Pebbles Limited	89, The Strand, Sliema	Hospitality operations	100%	100%
Pebbles Resort Limited	89, The Strand, Sliema	Hospitality operations	100%	100%
Pebbles St. Julian's Limited	89, The Strand, Sliema	Non-Operating	100%	100%

14. Financial assets at amortised costs

		Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Non-Current					
Redeemable preference shares	<i>Note i</i>	-	-	12,000,000	12,000,000
		-	-	12,000,000	12,000,000

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

14. Financial assets at amortised costs (continued)

i. Redeemable preference shares

This investment represents 100% holding of the 4.1% non-voting, cumulative redeemable preference shares. These preference shares are redeemable within a period of up to 30 years of their allotment. The subsidiary has the right to redeem all or part of the said preference shares on any date it chooses within the aforesaid thirty-year period with the mutual consent of the Company. Provided that the directors of each of the issuer and the subsidiary have undertaken that the redemption of any of the preference shares is to occur subject to the proceeds thereof being held by the Company.

15. Other financial assets at amortised costs

		Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Non-Current					
Amounts due by commonly controlled entities	<i>Note i</i>	631,997	1,082,482	-	-
		<u>631,997</u>	<u>1,082,482</u>	<u>-</u>	<u>-</u>

i. Amounts due by commonly controlled entities

Amounts due by commonly controlled entities are unsecured and interest free. The balance of €542,482 is repayable within 2-3 years in accordance with the signed repayment agreement in place.

16. Trade and other receivables

		Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Trade receivables		14,179	67,208	-	-
Other receivables		53,677	166,563	-	-
VAT refundable		58,250	108,090	-	-
Amounts owed by subsidiary	<i>Note i</i>	-	-	298,534	290,381
Amounts due by commonly controlled entities	<i>Note ii</i>	265,000	-	-	-
Prepayments and accrued income		68,511	56,078	1,872	60,000
		<u>459,617</u>	<u>397,939</u>	<u>300,406</u>	<u>350,381</u>

i. Amounts owed by subsidiary

Amounts owed by subsidiary are unsecured, interest free and repayable on demand.

The Group and Company assess whether any loss allowance is required on its financial assets as set out in the accounting policies and note 29.

ii. Amounts due by commonly controlled entities

Amounts due by commonly controlled entities are unsecured and interest free. The balance is repayable in accordance with the signed repayment agreement in place.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

17. Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% / 10% (2019 – 35% / 10%). The movement in the deferred tax account is as follows:

	Group 2020	<i>Group 2019</i>	Company 2020	<i>Company 2019</i>
	€	€	€	€
At the beginning of the year	(2,365,143)	<i>(2,441,137)</i>	-	-
<i>Recognised in profit or loss:</i>				
Movement in unabsorbed tax losses and capital allowances	380,278	<i>308,436</i>	-	-
Movement in excess of capital allowances over depreciation	23,329	<i>(176,878)</i>	-	-
Movement in effect of provisions	2,366	<i>2,494</i>	-	-
Movement in effect of bond issue costs amortisation	11,053	<i>(103,167)</i>	-	-
Movement in effect of leases accounting under IFRS 16	143,919	<i>45,109</i>	-	-
<i>Recognised in other comprehensive income:</i>				
Effect due to revaluation of Land & Buildings	-	-	-	-
At the end of the year	(1,804,198)	<i>(2,365,143)</i>	-	-
	Group 2020	<i>Group 2019</i>	Company 2020	<i>Company 2019</i>
	€	€	€	€
Effect recognised in:				
Deferred tax movements recognised in profit & loss (note 9)	560,945	<i>75,992</i>	(3,876)	<i>(490)</i>
Deferred tax movements recognised in equity	-	-	-	-
Transfer of tax losses between group companies	-	-	3,876	<i>490</i>
	560,945	<i>75,992</i>	-	-

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

17. Deferred taxation (continued)

The following amounts are shown in the balance sheet:

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
<i>Deferred tax assets</i>				
Unabsorbed tax losses and capital allowances	688,714	308,436	-	-
Effect of leases accounting under IFRS 16	189,026	45,109	-	-
Effect of provisions	4,860	2,496	-	-
	<u>882,600</u>	<u>356,041</u>	<u>-</u>	<u>-</u>
<i>Deferred tax liabilities</i>				
Effect of excess of capital allowances over depreciation	(333,144)	(356,477)	-	-
Effect due to amortisation of bond issue costs	(92,114)	(103,167)	-	-
Effect due to revaluation of Land & Buildings	(1,880,400)	(1,880,400)	-	-
Effect due to revaluation of Investment Property	(381,140)	(381,140)	-	-
	<u>(2,686,798)</u>	<u>(2,721,184)</u>	<u>-</u>	<u>-</u>
	<u>(1,804,198)</u>	<u>(2,365,143)</u>	<u>-</u>	<u>-</u>

Presented in the balance sheet as follows:

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Deferred tax asset	457,342	-	-	-
Deferred tax liability	(2,261,540)	(2,365,143)	-	-
	<u>(1,804,198)</u>	<u>(2,365,143)</u>	<u>-</u>	<u>-</u>

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

18. Trade and other payables

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Trade payables	197,498	615,252	-	-
Other payables	102,554	63,856	-	5,750
Indirect taxes	-	-	14,035	-
Amounts owed to commonly controlled entities and related entities	53,834	61,195	4,366	490
Accruals	463,891	596,172	344,461	339,847
Deferred income and advanced deposits	37,892	111,879	-	-
	855,669	1,448,354	362,862	346,087

i. Amounts due to commonly controlled entities and related entities

Amounts due to commonly controlled entities and related entities are unsecured, interest free and repayable on demand.

19. Current income tax asset/(liability)

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Balance as the beginning of the year	(114,100)	(399,426)	112,000	-
Credit/(Charge) for the year	89,020	112,000	-	-
Settlement tax paid	53,170	173,326	-	-
Tax at source	-	-	89,020	112,000
Balance at the end of the year	28,090	(114,100)	201,020	112,000
<i>Balance sheet allocation</i>				
Asset	201,020	112,000	201,020	112,000
Liability	(172,930)	(226,100)	-	-
	28,090	(114,100)	201,020	112,000

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

20. Borrowings		Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Falling due within a year					
Bank overdrafts	<i>Note i</i>	201,189	-	-	-
Bank borrowings	<i>Note ii</i>	236,649	-	-	-
Third party borrowings	<i>Note iii</i>	355,551	400,000	-	-
		<u>793,389</u>	<u>400,000</u>	<u>-</u>	<u>-</u>
Falling due after more than one year					
Bank borrowings	<i>Note ii</i>	1,342,496	-	-	-
Bonds	<i>Note iv</i>	11,736,815	11,705,233	12,000,000	12,000,000
Third party borrowings	<i>Note iii</i>	933,335	1,300,000	-	-
		<u>14,012,646</u>	<u>13,005,233</u>	<u>12,000,000</u>	<u>12,000,000</u>
Total borrowings		<u>14,806,035</u>	<u>13,405,233</u>	<u>12,000,000</u>	<u>12,000,000</u>

The debts securities are disclosed at the value of the proceeds less the net book amount of the transaction costs as follows:

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Face value of bonds				
Bonds	12,000,000	12,000,000	12,000,000	12,000,000
	<u>12,000,000</u>	<u>12,000,000</u>	<u>12,000,000</u>	<u>12,000,000</u>
Issue costs	(315,822)	(315,822)	-	-
Accumulated amortisation	52,637	21,055	-	-
Net book amount	<u>(263,185)</u>	<u>(294,767)</u>	<u>-</u>	<u>-</u>
Amortised cost	<u>11,736,815</u>	<u>11,705,233</u>	<u>12,000,000</u>	<u>12,000,000</u>

- (i) The Group's banking facilities as at 31st December 2020 amounted to €700,000 (2019: €700,000). The Company does not have a facility. The Group's overdrafts are secured by general hypothecs and special hypothecs over the Group's assets, guarantee's over related party assets and by pledges over various insurance policies.
- (ii) The Group's bank loan facilities as at 31st December 2020 amounted to €2,163,000 (€583,859 unutilised at year end). These facilities are secured by general hypothecs and special hypothecs over the Group's assets, guarantee's over related party assets and by a guarantee provided by Malta Development Bank (MDB).

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

20. Borrowings (continued)

- (iii) The third-party loan relates to capital expenditure which is being repaid in quarterly instalments of €100,000. This loan is unsecured and interest-free.
- (iv) By virtue of the Prospectus dated 8 April 2019, SP Finance p.l.c. issued for subscription by the general public 120,000 secured bonds having a nominal value of €100 each for an aggregate principal amount of €12,000,000. These bonds have been issued at par.

The bonds are subject to a fixed interest rate of 4% per annum payable on the 3 May of each year up to redemption date. All bonds, unless previously purchased and cancelled, will be redeemed on 3 May 2029.

The bonds are subject to the terms and conditions in the prospectus and are listed on the Malta Stock Exchange. The quoted market price as at 31st December 2020 for the 4% unsecured Bonds was €100.99 (2019: €100.10). The directors are of the opinion that this price represents the fair value of these liabilities; as at balance sheet date, the fair value of the bonds therefore amounts to €12,118,800 (2019: €12,012,000). The fair value calculation is classified within Level 1 of IFRS 13's fair value hierarchy.

	Group 2020	<i>Group 2019</i>	Company 2020	<i>Company 2019</i>
	€	€	€	€
Interest rate exposure:				
At floating rates	1,780,330	-	-	-
At fixed rates	11,736,815	11,705,233	12,000,000	12,000,000
Interest free	1,288,890	1,700,000	-	-
Total borrowings	14,806,035	<i>13,405,233</i>	12,000,000	<i>12,000,000</i>

	Group 2020	<i>Group 2019</i>	Company 2020	<i>Company 2019</i>
	%	%	%	%
Weighted average effective interest rates				
At the balance sheet date:				
Bank overdrafts	5.85	5.85	-	-
Bank loans	0.55	-	-	-
Bond	4	4	4	4

	Group 2019	<i>Group 2019</i>	Company 2020	<i>Company 2019</i>
	€	€	€	€
Maturity of long-term borrowings:				
Between 1 and 5 years	2,275,831	1,300,000	-	-
Over 5 years	11,736,815	11,705,233	12,000,000	12,000,000
	14,012,646	<i>13,005,233</i>	12,000,000	<i>12,000,000</i>

Collateral granted in favour of the security trustee

Security for the fulfilment of the Company's obligations in term of the bond issue is to grant in favour of the security trustee for the benefit of the bond holders, a first ranking special hypothec over the security property for the sum of €12,000,000 and interest thereon and charges in connection therewith, to be constituted by the Guarantor in favour of the security trustee for the benefit of the beneficiaries by virtue of the Security Trust Deed dated 24 April 2019.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

21. Share capital and share premium

The share capital for the period 1 January 2018 to 17 November 2018 represents the share capital of Sea Pebbles Limited, a subsidiary which was in existence prior to the reorganisation and in which the Company has an indirect 100% shareholding. During the period commencing on 18 November 2018 to 31 December 2018 and prior to the reorganisation of group, the Company was incorporated having a nominal value of €1,200 ordinary shares 100% paid up. Subsequently the Company issued an additional 248,800 ordinary shares at with a nominal value of €1 each at a premium of €71.342444 totalling to €17,500,000 to the ultimate shareholders for an exchange of shares in SP investments Limited.

Details of share capital for Company as at 31 December 2020

	2020 €
Authorised, issued and fully paid up	
250,000 Ordinary shares of €1 each 100% paid up	250,000
	<u>250,000</u>

Details of share capital for Company as at 31 December 2019

	2019 €
Authorised, issued and fully paid up	
250,000 Ordinary shares of €1 each 100% paid up	250,000
	<u>250,000</u>

22. Revaluation reserve

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
At the beginning of the year	14,799,920	14,799,920	-	-
Gain on revaluation reserve	-	-	-	-
Deferred tax liability arising on revaluation of property	-	-	-	-
At the end of the year	<u>14,799,920</u>	<u>14,799,920</u>	<u>-</u>	<u>-</u>

The revaluation reserve was created on the revaluation of the Group's property plant and equipment. The revaluation reserve is a non-distributable reserve.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

23. Fair value gain reserve

This reserve represents changes in fair value, net of deferred tax, on the investment properties held by the Group for long-term rental yields. Movement in fair values are presented in profit or loss as part of 'fair value gains on investment property'. Information about the valuation process of the investment property is disclosed in note 10 to these financial statements.

	Group 2020	<i>Group 2019</i>	Company 2020	<i>Company 2019</i>
	€	€	€	€
At the beginning of the year	2,938,013	2,938,013	-	-
Gain on revaluation reserve	-	-	-	-
Deferred tax liability arising on revaluation of property	-	-	-	-
At the end of the year	2,938,013	2,938,013	-	-

This reserve is a non-distributable reserve.

24. Group Reorganisation

On 28 November 2018, the Company acquired 100% of the share capital of SP Investments Limited through an exchange of shares for a consideration of 10,000 100% paid up Ordinary shares of €1 each with a premium of €17,750,000. SP Investment Limited's shareholders prior to this transaction became shareholders of the Company, and this reorganisation has been recognised in accordance with the accounting policy applicable to such transactions.

The following table summarises the consideration paid by the Company and the amounts of assets acquired, and liabilities assumed, that were recognised in the consolidated statement of financial position as at 28 November 2018, being the date of the legal reorganisation:

Group

	2020	2019
	€	€
Consideration		
As at the beginning of the year	17,531,725	-
Adjustments relating to reorganisation		
Share premium	-	17,750,000
Share capital	-	(217,075)
Share capital before reorganisation	-	(1,200)
Other reserves created upon reorganisation	17,531,725	17,531,725

Company

	€
Consideration	
Non-cash consideration	17,998,800
Recognised amounts of identifiable assets acquired, and liabilities assumed	
Net assets acquired	19,097,783
Equity adjustments:	
Other reserves created upon reorganisation	(1,098,983)

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

25. Cash and cash equivalents

	Group 2019 €	Group 2019 €	Company 2020 €	Company 2019 €
Cash at bank and in hand	115,872	623,613	2,743	5,815
Overdraft	(201,189)	-	-	-
At the end of the year	(85,317)	623,613	2,743	5,815

The balances of cash and cash equivalents are available for use by the Group and Company in their entirety.

26. Related party transactions

During the course of the year the Group and the Company entered into transactions with related parties. These transactions have been carried at arm's length. The related party transactions in question were:

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Revenue				
<u>Subsidiaries</u>				
Service charge	-	-	90,000	60,000
Dividends received	-	-	492,000	440,000
Other operating income				
<u>Commonly controlled entities</u>				
Rental income	89,280	81,650	-	-
Service fee	60,500	23,900	-	-
	<u>149,780</u>	<u>105,550</u>	<u>582,000</u>	<u>500,000</u>
Other operating expenses				
<u>Commonly controlled entities</u>				
Direct costs	172,086	86,626	-	-
	<u>172,086</u>	<u>86,626</u>	<u>-</u>	<u>-</u>
Non-current assets				
<u>Property, plant and equipment</u>				
Acquisition of immovable property	275,000	-	-	-
	<u>275,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

Key management personnel include the board of directors. Key management compensation, consisting of directors' remuneration, has been disclosed in note 8 to the financial statements.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

27. Commitments

Capital expenditure

Commitments for capital expenditure not provided for in these financial statements are as follows:

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Authorised but not contracted	-	-	-	-
Contracted but not provided for	-	110,985	-	-

28. Contingent liabilities

As at 31 December 2020 the Group provided general and special hypothecs over the Group's immovable property to the amount of €1,110,000 (2019: €1,110,000) to related undertakings outside the Group.

As at 31 December 2020, the Group is standing as a surety against the debt of a third party for the value of €655,000 (2019: €735,000) which is secured by immovable property of the Group. The debt is repayable by the third-party debtor and is also personally guaranteed by the ultimate shareholders of the Group.

29. Financial risk management

The Group's activities potentially expose it to a variety of financial risks on its financial assets and financial liabilities. The key components of financial risks to the Group are: market risk (namely, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. During 2020, a re-assessment of the financial risks which the Group and the Company are exposed to has been made as a result of the onset of the COVID-19 pandemic and the directors have continued to closely monitor the situation and its impact on the Group's operations after the balance sheet date.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, and quoted prices, will affect the Group's income or financial position. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises on its interest-bearing borrowings and deposits held with banks. Borrowings issued at variable rates, comprising bank borrowings, expose the Group to cash flow interest rate risk. The Group's bank borrowings are subject to an interest rate that varies according to revisions made to the Bank's Base Rate and three-month Euribor. The directors monitor the level of floating rate borrowings as a measure of cash flow risk taken on.

The Group has adopted a cautious risk policy with regards to interest rate fluctuation through the issue of a €12,000,000 ten-year bond incurring interest of 4%. Debt securities issued at fixed rates and bank deposits expose the Group to fair value interest rate risk.

Bank deposits and borrowings are carried at amortised cost. Accordingly, a shift in interest rates would not have an impact on profit or loss.

A shift in interest rates on borrowings at variable rates will however have an impact on profit or loss. The directors consider the potential impact on the Group's profit or loss of a defined interest rate shift of 1%, that is reasonably possible, at the end of the reporting period keeping all other variables constant, to amount to +/- €16,000 (2019: NIL).

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

29. Financial risk management (continued)

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and credit risk exposures to customers, including outstanding receivables and committed transactions. The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2020	<i>Group 2019</i>	Company 2020	<i>Company 2019</i>
	€	€	€	€
Carrying amounts				
Financial assets at amortised cost	-	-	12,000,000	<i>12,000,000</i>
Other financial assets at amortised cost	631,997	<i>1,082,482</i>	-	-
Trade and other receivables	459,617	<i>397,939</i>	300,406	<i>350,381</i>
Cash at bank and in hand	115,872	<i>623,613</i>	2,743	<i>5,815</i>
	1,207,486	<i>2,104,034</i>	12,303,149	<i>12,356,196</i>

Financial assets at amortised cost comprise of investment in preference shares in subsidiary company as described in note 14. These loans are secured and the failure of the related undertaking could have an impact on the Company's results.

Group companies bank only with local financial institutions with high quality standing or rating. The Group has no concentration of credit risk that could materially impact on the sustainability of its operations. However, in common with similar business concerns, the failure of specific large customers could have a material impact on the Group's results.

The Group assesses the credit quality of its customers taking into account financial position, past experience and other factors. Standard credit terms are in place for individual clients, however, wherever possible, new corporate customers are analysed individually for creditworthiness before the Group's standard payment and service delivery terms and conditions are offered. The Group's review includes external credit worthiness databases when available.

Impairment of financial assets

The Group and the Company have three types of financial assets that are subject to the expected credit loss model:

- Trade receivables and accrued income relating to the provision of services;
- Financial assets at amortised cost for Company, comprising investment in preference shares in subsidiary undertaking;
- Other financial assets at amortised costs comprising loans receivable from related parties outside the group; and
- Cash and cash equivalents.

Trade receivables and accrued income

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued income.

To measure the expected credit losses, trade receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. The Group has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the accrued income since they have substantially the same characteristics.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

29. Financial risk management (continued)

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2020 and 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The directors also considered the current economic downturn due to COVID-19 in updating the Group's provision matrices, including stressing forward-looking scenarios. However, the Group's main revenue streams are cash-based and hence the Group has not been severely impacted from an 'expected loss' perspective due to this fact.

Based on the assessment carried out in accordance with the above methodology, the identified expected credit loss allowance on trade receivables and accrued income, was deemed immaterial. The movement in loss allowances as at 31 December 2020 and 2019 is also deemed immaterial by management. On this basis, the information pertaining to loss rates and loss allowances in the Group's provisions matrix, which would have otherwise been required by IFRS 7, is not presented as at 31 December 2020 and 2019.

Trade receivables and accrued income are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 1 year past due.

Financial assets at amortised costs

As disclosed above, the Company's main exposures are a loan to the Company's subsidiary, representing the advance of the bonds raised by the Company invested as redeemable preference shares. The Company's management monitor intra-group credit exposures on a regular basis and ensure timely performance of these assets in the context of its overall liquidity management. The loss allowances for these financial assets are based on assumptions about risk of default and expected loss rates. The Company's management uses judgement in making these assumptions, based on the counterparty's past history, existing market conditions, as well as forward-looking estimates at the end of each reporting period.

As at year-end, the Directors considered its counterparties' equity position in light of the events revolving around COVID-19. Given its related party relationship with its debtors, the Directors assessed recoverability of these balances by leveraging on cash flow projections prepared by the respective counterparties. The cash flow projections, which stretch over the term of the loan, consider whether the counterparty could meet its obligations under different, forward-looking scenarios.

After taking into account the results of their assessment, together with the fact that the counterparty has met its obligations as and when due, the resultant impairment charge required was deemed immaterial, and accordingly is not recognised in these financial statements.

Other financial assets at amortised cost

The Group's other financial assets at amortised cost which are subject to IFRS 9's general impairment model comprise of loan advanced to a related undertaking outside the Group.

The Group monitors intra-group credit exposures at individual entity level on a regular basis and ensure timely performance of these assets in the context of its overall liquidity management. The loss allowances for these financial assets are based on assumptions about risk of default and expected loss rates. The Company's management uses judgement in making these assumptions, based on the counterparty's past history, existing market conditions, as well as forward-looking estimates at the end of each reporting period.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

29. Financial risk management (continued)

Where the counterparties' financial position suggests that it does not have sufficient liquid assets at balance sheet date to repay the loan if this is demanded, the probability of default is deemed to be 100%. Given that the related party relationships of such balances are between entities under common control, the directors assess the loss given default of the balance by analysing recovery strategies that the Group would allow, taking cognisance of such related party relationship. These recovery strategies typically include a projection of the net cash flows emanating from allowing the counterparty to operate, incorporating multiple forward-looking scenarios that take into account all reasonable and supportable information available to the Group. In response to the COVID-19 pandemic, the directors adjusted the expected net cash flows emanating from recovery strategies by stressing the cash flows to take into account the impact of loss of business due to COVID-19 related closures or declines in business. In making this analysis, the Group also takes into account any support of shareholders in place.

After making this analysis, the directors concluded that the resulting loss-given-default rates are low, such that when applied to the PD x LGD x EAD methodology to calculate the IFRS 9 ECL allowance, the resulting impairment charge required was deemed to be immaterial.

Cash at bank

The Group's cash is placed with reputable financial institutions, such that management does not expect any institution to fail to meet repayments of amounts held in the name of the companies within the Group. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was insignificant.

Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally trade and other payables and interest-bearing borrowings disclosed in note 20. Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meeting the Group's obligations.

The directors monitor liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period, in order to ensure that adequate funding is in place in order for the Group to be in a position to meet its commitments as and when they will fall due. In response to the possible future liquidity constraints arising from the COVID-19 pandemic, the directors and the Group's senior management undertook a number of measures. The impact of these measures on the consolidated financial statements include:

- The negotiating of a €2.1 m loan granted under the Company Guarantee Scheme by the government of Malta through the Malta Development Bank; and
- Waiver of rent payable in related to the San Pawl Hotel.

As at 31 December 2020, the Group is in a net current liability position of €1.2m. Following this detailed assessment, the directors concluded that if the Group is unable to generate sufficient financial resources through its operations as a consequence of the global pandemic, it is very likely it will be able to access adequate external financial resources, including from related companies, as to permit it to continue in operational existence for the foreseeable future.

Accordingly, based on the outcome of the cash flow projections in a prudent scenario as referred to, the Directors consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of the 2020 financial statements.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

29. Financial risk management (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Within one year				
Trade and other payables	817,777	1,336,475	362,862	346,087
Bank borrowings	305,808	1,082,482	-	-
Third party borrowings	355,551	400,000	-	-
Bonds	480,000	480,000	480,000	480,000
Lease liability	541,613	526,013	-	-
	<u>2,500,749</u>	<u>3,824,970</u>	<u>842,862</u>	<u>826,087</u>
Between 2 – 5 years				
Bank borrowings	184,614	-	-	-
Third party borrowings	933,335	1,300,000	-	-
Bonds	1,920,000	1,920,000	1,920,000	1,920,000
Lease liabilities	2,966,184	2,421,368	-	-
	<u>6,004,133</u>	<u>5,641,368</u>	<u>1,920,000</u>	<u>1,920,000</u>
Over 5 years				
Bonds	13,920,000	14,400,000	13,920,000	14,400,000
Lease liabilities	3,412,482	4,342,912	-	-
	<u>17,332,482</u>	<u>18,742,912</u>	<u>13,920,000</u>	<u>14,400,000</u>
Total	<u>25,837,364</u>	<u>28,209,250</u>	<u>16,682,862</u>	<u>17,146,087</u>

The amount of trade and other payables, for both the Group and Company, classified as repayable within one year in the table above, are contractually repayable on demand.

Financial instruments not measured at fair value

At 31 December 2020 and 31 December 2019, the carrying amounts of payables, receivables and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities. The fair values of long-term borrowings, together with the related fair value disclosures, are presented in note 20.

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

30. Capital management

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

The capital structure of the Group consists of net debt (borrowings as presented in note 20 after deducting cash and bank balances, presented in note 25) and equity of the Group (comprising issued capital, reserves and retained earnings as presented in the Statement of Changes in Equity).

The Group monitors the capital structure on a monthly basis by monitoring the balances of assets and liabilities.

31. Cash flow information

Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Statement of Cash Flows as cash flows from financing activities.

Group

	As at 31 December 2019	Cashflows	Other liability related changes	As at 31 December 2020
	€	€	€	€
Bank borrowings	-	1,579,141	-	1,579,141
Third party loans	1,700,000	(233,332)		1,466,668
Bonds	11,705,235	-	(31,582)	11,673,653
Lease liability	5,290,717	(95,165)	-	5,195,552
	18,695,952	1,250,644	(31,582)	19,915,014

Group

	As at 31 December 2018	Adoption of IFRS 16	Cashflows	Other liability related changes	As at 31 December 2019
	€	€	€	€	€
Bank borrowings	2,161,693	-	(2,161,693)	-	-
Third party loans	-	-	1,700,000	-	1,700,000
Bonds	-	-	12,000,000	(294,765)	11,705,235
Lease liability	-	27,261	(146,242)	5,409,698	5,290,717
	2,161,693	27,261	11,392,065	5,114,933	18,695,952

SP FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

31. Cash flow information (continued)

Company	As at 31 December 2019	Cashflows	Other liability related changes	As at 31 December 2020
	€	€	€	€
Bonds	12,000,000	-	-	12,000,000
	<u>12,000,000</u>	<u>-</u>	<u>-</u>	<u>12,000,000</u>

Company	As at 19 November 2018	Cashflows	Other liability related changes	As at 31 December 2020
	€	€	€	€
Bonds	-	12,000,000	-	12,000,000
	<u>-</u>	<u>12,000,000</u>	<u>-</u>	<u>12,000,000</u>

32. Statutory information

SP Finance P.L.C. is a limited liability Company and is incorporated in Malta.