SPINOLA DEVELOPMENT COMPANY LIMITED

Annual Report and Consolidated Financial Statements
31 December 2020

Company Registration Number: C331

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Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2020.

Principal activities

The principal activities of the group are the development and the operation of the Portomaso Complex in St. Julians, Malta. This complex includes the Hilton (Malta) and its convention centre, the Portomaso Business Tower, residential apartments, a car park and commercial outlets.

Review of business

The Group's performance for 2020 was obviously materially impacted by the COVID-19 pandemic which effected all economies globally taxing mostly those sectors exposed to services, hospitality being at the top of the list.

The ensuing disruptions created challenges across our operational base which directly impacted our bottom line. The Group's directors, management and staff adapted to this new reality with a strategy for economic survival, to shield as best as one could all our stakeholders. These financial results need to be viewed in the perspective of this unprecedented calamity.

Total revenue for the year under review stood at €34.31 million, a drop 42.5% from last year. The drop is mainly attributable to the hospitality segment which is being reviewed below. Hence gross profit for the year totalled €17.00 million, a reduction of 38.5% for a gross profit margin of 49.6%, an increase of three percentage points when compared to the 2019 margin. Administrative cost, partly offset by other income at €4.27 million, against last year's €9.40 million, leading to an operating profit of €12.73 million or 37.1% of revenue against the 2019 €18.24 million. Net finance costs amounted to €2.30 million, an increase of €0.36 million over the previous year. This is the second consecutive increase following a number of years when the net financing costs were regularly on a downward trend.

Profit for the year after taxation amounted to €11.19 million, a drop of €1.09 million which considering the disruption the Group's operations witnessed is a commendable result.

Reviewing the total revenue make-up for the year, income from hospitality and ancillary services took a pounding, dropping by no less than 68.1% from 2019 and making up 38.7% of the company's total revenue. Compared to previous years' revenue from this segment, this used to be much higher reflecting our dependency on hospitality operations. This has been a consistent revenue generator improving year-on-year for the last ten years.

Revenue from property development only partially made up for lower hospitality revenue reaching €14.93 million, against last year's €11.73 million, up by 27.3%, while rental operations and complex management revenue totalled at €6.12 million, a drop of 4.3% from 2019. The profitability profile by segment was for the first time materially changed as the hospitality segment registered a net loss owing to the pandemic which loss was fully offset by the Group's property development performance.

What started off as a better performing year in the hospitality segment, was short lived, as the first two months superior performance were abruptly halted as a result of the pandemic. The overall performance of this segment during 2020 definitely needs to be put into context, as occupancy the main revenue driver for the hotel immediately fell as arrivals to Malta withered. Additionally, it is worth noting that while a number of hotels in the 5-star segment stopped operating, Hilton remained open during the whole year deploying staff to meet the resultant demand which was obviously very low however, it was decided to retain operations running at a bare minimum so as to be prepared for the much hoped comeback in tourism.

Directors' report - continued

Review of business - continued

With hindsight although there was an improvement in the beginning of summer tourism again dropped although there was a mild improvement in the beginning of summer, this was again halted when COVID-19 related cases increased, and further restriction announced by the Health Authorities. Occupancy levels in summer averaged 36% compared to a typical summer with occupancy reaching 94%, such that the full year occupancy of the year was 28% against the 2019 average occupancy of 82%. When it comes to room rate, once again the average room rate for the recent past had to be slashed in a bid to attract demand, primarily from the local market. It is worth noting that the airport has closed between March 2020 and June 2020 naturally, this in itself this was a stranglehold on our hospitality segment quite opposite to previous years when performance across the whole year exceeded that of the past as more aircraft seat capacity was placed on an ever growing airline network to the Island. Before closing off this short review of the hospitality segment it should be noted that our hotel management immediately put in practice the required health protocols in order to protect both clients and staff while redundancies were avoided as the hotel made use of the COVID-19 wage supplement scheme introduced by Government during the year.

With reference to the ancillary operations within hospitality, the marina fared well and according to budget the carpark faced a reduced revenue although still returning a contribution at the end of the year. The same cannot be said for the tower bar as this was closed for much of the year and although we applied the necessary cost control this unit made a loss.

Property development turnover reached €14.93 million up by €3.20 million over the previous year. This is mainly due to the fact that in 2020 the Group finally delivered what remained of office block next to the Portomaso Business Tower with final settlement being made in Q1 of 2020. Additionally, deliveries of two apartments were also undertaken leading to only one finished apartment in stock, other than the new units under development as noted below which we now hold in stock.

Revenue from rental operations and complex management costs at €6.12 million decreased marginally from the previous year, once again totally due to the pandemic. After due consideration, discounts were given to tenants occupying premises at Portomaso and operating in the F&B segment. Considering, the hardship faced by these units it was decided that as landlords we will partially alleviate this state of affairs by waiving for a number of months' part of their rental commitment.

The overall cost to revenue ratio when compared to previous year dropped by six percentage points to 63.8% as a result of tighter cost control and the benefit derived from the wage supplement with respect to the hospitality segment which went to cushion at least part of our payroll commitment and reduce what ended up being the loss making year for this segment.

Direct costs stood at €17.31 million. These were practically half of the 2019 figure as they dropped in line with operations, while those related to property were also lower than the previous year despite a higher turnover from this segment. Reviewing these costs together with administrative expenses underlines what was noted before, namely the drop in wages and salaries as the average number of employees in the hospitality segment declined as expiring contracts were not renewed, there was practically no overtime and the wage supplement at €2.63 million enabled us to cushion this expense item and reduce the overall loss within this segment of operation. Employee cost still made up for 34.0% of the total cost base, much higher than the previous years as the other cost components mainly operational supplies, utilities, operators charges and other expenses in general were very much below those registered in 2019 directly as a consequence of the pandemic and hence the very low occupancy at the hotel. Depreciation for this year stood out as the single largest item, noting that this is a fixed cost and hence does not work in line with variable operations.

Directors' report - continued

Review of business - continued

Net finance costs recorded their second consecutive increase after a declining trend over the previous 5 years. Although in monetary terms the increase was only €356,000, this was 18.3% over that of the previous year and is totally due lower finance income which was higher than the decrease in interest payable. The previous year's higher finance income was a direct reflection of superior cash balances held by the company following the exceptional performance in both our hospitality and property development segments. Both enjoyed consistently higher revenues particularly over the last few years were in addition to higher profitability from the hotel a substantial number of property units within Portomaso were sold in 2018 and 2019.

This overall group performance, despite being totally overshadowed by the pandemic still led to a profit before tax of €10.43 million, albeit a third below that registered in 2019. Group EBITDA stood at €18.90 million with a still healthy interest cover of 8.2.

The company's total assets stood at €229.60 million, a drop of €15.03 million, mainly due to a lower figure with respect to Property Plant and Equipment which totalled €158.94 million, €3.21 million lower than the figure in December 2019 as new commissioned assets were practically offset by disposals with the balance representing the net depreciation charge. Investment property was marginally lower at €12.88 million, once again due to the annual depreciation charge. As in the past it is worth noting that the fair market value attributed by the directors to investment property is estimated as €38.41million. Current assets stood €56.77 million with a material decrease of €8.46 million in trade and other receivables owing to lower trade receivables mostly in line with the hotel performance for the year. The low level of revenue decreased debtors substantially when compared to prior year ends. Simultaneously, amounts owed by fellow subsidiaries was halved to €3.69 million following an internal exercise to clear these related party balances. This exercise impacted a number of credit and debit balances with fellow subsidiaries and our parent and was partly responsible for both lower current assets and current liabilities. An amount due in respect of indirect taxation was also settled during the course of the year. Inventories at €22.48 million increased by €2.51 million mainly due to additional works carried out during the year on a limited number of apartments which are today structurally finished. Additionally, further property was acquired as part of a property annexed to Portomaso. Moreover, Halland Developments continued with excavation works on the site of the ex-Halland Aparthotel as this property will eventually be the venue of an upmarket residential complex. Cash and cash equivalents stood at €24.98 million a drop of €3.64 million being the first-time cash decrease since for a number of years. It is worth noting that the lower cash balance reflects the year's operating performance, underlining the much lower turnover achieved practically throughout the year. However, the substantial liquidity the Group enjoys gives a high degree of comfort to directors and external stakeholders particularly when navigating through these challenging times.

On the other hand, current liabilities saw a much higher overall drop of 58.9% from the previous years. This reduction in the current liability position is totally due to lower trade payables, once again in line with the hotel operations, advance deposits which decreased by €5.80 million as the office building next to Portomaso Business Tower was fully delivered, while capital and other payables at €2.36 million were half of what these were last year as capital commitments which had been entered into have tailed off with fewer projects taken up during the course this year in line with the Group's commitments to preserve liquidity. During 2020 the Group was very selective with new investments maintaining a level of activity with respect to capital projects which had either started in prior years or couldn't be delayed for operational reasons. Other projects both within Portomaso as a whole and specifically within the hotel perimeter were delayed. Accruals and deferred income at €4.55 million dropped by €3.99 million due to lower deferred income with respect to the hotel and a reduced level of capital creditors as new projects were at a reduced level of uptake. The overall working capital position thus improved to a level of 4.5:1.

Directors' report - continued

Review of business - continued

Group borrowings at €54.40 million were only marginally lower than the previous year since as a consequence of the pandemic a loan moratorium was announced by the Central Bank through which capital repayments in 2020 were shifted by roughly a year. Interest was of course paid as and when due. No new bank facilities were entered into except for a Malta Development Bank backed loan facility which was applied for in late 2020 with respect to the Hilton Malta as a buffer should the low occupancy level prolong such that it would be necessary to resort to such a facility to bridge the gap. The facility was approved in early 2021. The average interest rate charged on both external funding and intra group as at par with last years. Out of the total borrowings of €49.82 million represent funds from a fellow group company in the form of the two bond issues on the market which mature in 2024 and 2027 respectively. These intra group loans are repayable in line with the group long term business plans which dovetail into our sister company bond commitments. Deferred tax liabilities classified as non-current stood at €26.37 million, marginally decreasing from last year. As in the past this accounts mainly for the tax allocated to the revaluation of the Group's property and timing differences.

The Group's equity position thus reached €137.52 million an increase of €5.98 million represented by the profit for the year less a dividend payment made out of accumulated profits. The revaluation reserve remains in line with that of the previous year, decreasing by the yearly charge for depreciation on the revalued portion of the buildings. The total liabilities to equity multiple decreased to 0.67 from last year's 0.86 which despite this year's bleak performance with reference to the hospitality industry due to the COVID-19 pandemic reflects the robustness of the Group's financial standing.

From a cashflow point of view the much lower cash from operating activities at €4.27 million was only a shadow of previous years, once again due to the pandemic. We met our commitments in full with respect to both capital and operational suppliers and managed to make out a decent dividend payment although nowhere near that of the previous year. The net movement in cash and cash equivalents was a negative of €3.64 million leading to a year end at cash balance of €24.98 million.

Directors' report - continued

Outlook for the financial year ending 2021

As already noted above 2020 was exceptional because of the vagaries brought about by the pandemic. As we write this report the COVID-19 vaccination roll-out has taken a solid push forward both locally and generally in Europe which represents the main source of our tourism. When it comes to the latter the current state of affairs is, however, still doubtful although there seems to be light at the end of the tunnel. Without making any forward-looking statements in this respect the indication we are getting from the market is one which forecasts a healthy level of appetite for people to travel and an encouraging degree of interest in tourism to the Island. As of now the vaccination program in Malta is one of the most advanced and augurs well for incoming visitors listing Malta as a safe destination. Our hotel management and staff are eager to welcome the much-needed level of occupancy while taking all the necessary health precautions as directed by the Health Authorities. This situation is evolving from day to day and as we have done in 2020 both directors and management will continue to monitor and take the necessary action as deemed fit and appropriate. It is fair to state that the revised figures we have from Hilton for this year should return a gross operating profit and a positive EBIDTA. The other smaller operations associated with the hospitality segment namely the marina, car park and tower bar have also been negatively impacted particularly the last two outlets. The marina should return a profit on the same basis as last year, as operations were not materially different from the previous, however the car park reflects the lower patronage at the hotel and the F&B outlets which are still closed. We are hopeful that these will open sooner rather than later, obviously health requirement taking precedence. The tower bar suffered the most as it was and is still closed. It is estimated that this year we would still be able to generate some profit should this unit open for business as from the second half of the year. We are, however, also aware that once the F&B outlets open the level of business would still be subdued due to social distancing measures which of course need to be carefully observed. In our forecast for the year this degree of limited operation has been taken into account as the ramp up in business may shift to a lower pick up around mid-year.

When it comes to the property development segment. We should this year finish off the new block of apartments within Portomaso which comprises of 13 apartments and commercial spaces. We are glad to note that this segment of operation has maintained its rhythm. In fact, we have managed to enter into promise of sale agreements and forecast to deliver by year end. As for rental income, we envisage this to be at the same level as last year as we have again provided a buffer until all our leased premises are allowed to go back into service. Revenue related to complex management, which is relatively minor in context of the whole should not witness any changes.

Taking all this into consideration the Group's directors and management will persevere into their focus towards the complex operations within the context of the pandemic and Health Authorities directives. We will continue with our strategy of strict cost control including projected capital expenditure in order to safeguard our cash resources and reduce operational leverage. Capital expenditure itself across the Group is looked into item by item, and only authorised if we cannot delay or is detrimental to carry out when business returns. The only major project relating to the Group currently in progress is the ex-Halland Aparthotel already referred to above. It is envisaged to finalise pending issues with planning permits soon and structural construction should then be able to commence once excavation works are fully completed. We are also determined that the program of works once started is carried out at an appropriate pace in light of the economic conditions and the Group's financial commitments. As noted above we will continue to utilise the Government wage supplement with respect to payroll as applicable, this we have found essential in these dire times. If required, we will also be making use of the Malta Development Bank backed loan, should the level of activity necessitate so.

Directors' report - continued

Outlook for the financial year ending 2021 - continued

Having said this, we are much more confident now than we were at any point in time last year and are eager to take on a higher level of activity which should lead towards what the Group and the local economy in general enjoyed during the last number of years. It is also important to note that Spinola Development Company Limited is adequately capitalised and liquid enough to meet its immediate cashflow obligations. It is worthwhile noting, that going forward even when we stress the Group's cashflow for the coming year, the end result for our diversified operations should still prove to make a positive result.

In view of this, the directors have concluded that at the time of approving these financial statements no material uncertainty exists that may cast doubt on the company's ability to continue as a going concern.

Financial risk management

The group's and company's activities expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Refer to Note 2 in these financial statements.

Conduct review

Reference is made to the serious allegations made with respect to a former director, Mr Yorgen Fenech. The latter's resignation has not impacted management continuity at the company and the group. The posts of Executive Chairman and Chief Executive Officer are held by Mr Raymond Fenech, who has occupied these roles as since 2014.

Since reports first surfaced in 2018 linking Mr Yorgen Fenech to irregularities, he had strenuously denied all allegations in his regards both publicly and within the Group. The events unfolding in late 2019 caused concern and dismay across the group. To this effect, the Tumas Group issued a statement disassociating itself from the alleged actions.

An external review has since been completed, entailing the examination of the records of the group over an extended period, which has provided the Board of the ultimate parent with additional comfort on this point. It is the intention of the Tumas Group, of which the company forms part, to continue to monitor developments that come to its attention and to take appropriate action as it deems necessary.

Results and dividends

The income statements are set out on page 15. During the year the directors declared a net dividend of €5,214,000 (2019: €35,214,500).

Directors

The directors of the company who held office during the year were:

Raymond Fenech
Emmanuel Fenech
Raymond Sladden

The company's Articles of Association do not require any directors to retire.

Directors' report - continued

Statement of directors' responsibilities for the financial statements

The directors are required by the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the group and the parent company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Spinola Development Company Limited for the year ended 31 December 2020 are included in the Annual Report 2020, which is published in hard-copy printed form and may be made available on the Tumas Group's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the group's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

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

On behalf of the board

Raymond Fenech
Director

Emmanuel Fenech
Director

Registered office:
Tumas Group Corporate Office
Level 3
Portomaso Business Tower
Portomaso
St. Julians
Malta

30 April 2021

Independent auditor's report

To the Shareholders of Spinola Development Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and the Parent Company's financial position of Spinola Development Company Limited as at 31 December 2020, and of the Group's and Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

Spinola Development Company Limited's financial statements, set out on pages 13 to 62, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2020;
- the Consolidated and Parent Company income statements for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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.

Independence

We are independent of the Group and the Parent Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Independent auditor's report - *continued*

To the Shareholders of Spinola Development Company Limited

Other information

The directors are responsible for the other information. The other information comprises of the Directors' report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), 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 and the Parent 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 or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional 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 Group and the Parent 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 Group or the Parent 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 or the Parent 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 the Parent 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

The Annual Report and Financial Statements 2020 contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the Other information section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Independent auditor's report - *continued*

To the Shareholders of Spinola Development Company Limited

Area of the *Annual Report and Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 1 to 7) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	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). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Independent auditor's report - *continued*

To the Shareholders of Spinola Development Company Limited

Area of the *Annual Report and Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion: • adequate accounting records have not been kept, or 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. • we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Parent Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

PricewaterhouseCoopers
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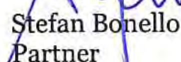
Zone 5, Central Business District
Qormi
Malta



Stefan Bonello
Partner

30 April 2021

Statements of financial position

		As at 31 December			
		Group		Company	
	Notes	**2020**	2019	**2020**	2019
		€	€	**€**	€
ASSETS					
Non-current assets					
Property, plant and equipment	4	**158,938,515**	162,151,897	**158,938,515**	162,151,897
Investment property	5	**12,884,554**	13,378,408	**12,884,554**	13,378,408
Investments in subsidiaries	6	**-**	-	**118,791**	118,791
Trade and other receivables	7	**1,003,795**	1,365,210	**7,853,365**	1,365,210
Total non-current assets		**172,826,864**	176,895,515	**179,795,225**	177,014,306
Current assets					
Inventories	8	**22,475,794**	19,961,115	**8,475,660**	8,512,309
Trade and other receivables	7	**8,826,886**	17,287,697	**7,302,421**	15,381,809
Current tax assets		**494,674**	1,874,069	**494,674**	1,874,069
Cash and cash equivalents	9	**24,975,548**	28,613,661	**24,572,821**	28,119,345
Total current assets		**56,772,902**	67,736,542	**40,845,576**	53,887,532
Total assets		**229,599,766**	244,632,057	**220,640,801**	230,901,838

Statements of financial position - continued

	Notes	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
		As at 31 December			
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	10	**13,652,805**	13,652,805	**13,652,805**	13,652,805
Revaluation reserves	11	**88,710,834**	89,536,334	**88,710,834**	89,536,334
Retained earnings		**35,159,910**	28,359,084	**29,411,221**	15,258,065
Total equity		**137,523,549**	131,548,223	**131,774,860**	118,447,204
Non-current liabilities					
Borrowings	12	**53,110,096**	53,364,576	**53,110,096**	53,364,576
Trade and other payables	13	**-**	43,200	**-**	2,183,377
Deferred tax liabilities	14	**26,367,699**	29,037,758	**25,558,296**	28,231,485
Total non-current liabilities		**79,477,795**	82,445,534	**78,668,392**	83,779,438
Current liabilities					
Borrowings	12	**1,285,715**	1,285,715	**1,285,715**	1,285,715
Trade and other payables	13	**10,867,909**	28,886,652	**8,911,834**	27,389,481
Current taxation		**444,798**	465,933	**-**	-
Total current liabilities		**12,598,422**	30,638,300	**10,197,549**	28,675,196
Total liabilities		**92,076,217**	113,083,834	**88,865,941**	112,454,634
Total equity and liabilities		**229,599,766**	244,632,057	**220,640,801**	230,901,838

The notes on pages 19 to 62 are an integral part of these financial statements.

The financial statements on pages 13 to 62 were authorised for issue by the board of directors on 30 April 2021 and were signed on its behalf by:

Raymond Fenech
Director

Emmanuel Fenech
Director

Income statements

		Year ended 31 December			
		Group		Company	
	Notes	**2020**	2019	**2020**	2019
		€	€	**€**	€
Revenue	15	**34,310,230**	59,712,709	**31,957,481**	57,030,923
Cost of sales	16	**(17,305,789)**	(32,065,159)	**(17,270,792)**	(32,065,159)
Gross profit		**17,004,441**	27,647,550	**14,686,689**	24,965,764
Administrative expenses	16	**(4,594,797)**	(9,796,516)	**(4,457,865)**	(9,488,581)
Other income		**324,009**	391,892	**324,009**	391,892
Operating profit		**12,733,653**	18,242,926	**10,552,833**	15,869,075
Finance income	18	**326,838**	795,463	**326,838**	795,463
Finance costs	18	**(2,629,309)**	(2,741,843)	**(2,629,309)**	(2,741,843)
Investment income	19	**-**	-	**9,000,000**	-
Profit before tax		**10,431,182**	16,296,546	**17,250,362**	13,922,695
Tax income/(expense)	20	**758,644**	(4,017,048)	**1,291,794**	(3,457,729)
Profit for the year		**11,189,826**	12,279,498	**18,542,156**	10,464,966

The notes on pages 19 to 62 are an integral part of these financial statements

Statements of changes in equity

Group	Notes	Share capital €	Revaluation reserves €	Retained earnings €	Total equity €
Balance at 1 January 2019		13,652,805	90,361,834	50,468,586	154,483,225
Comprehensive income					
Profit for the year		-	-	12,279,498	12,279,498
Other comprehensive income:					
Transfer of depreciation through asset use (net of deferred tax)	11,14	-	(825,500)	825,500	-
Total comprehensive income		-	(825,500)	13,104,998	12,279,498
Transactions with owners					
Dividends for 2019	21	-	-	(35,214,500)	(35,214,500)
Balance at 31 December 2019		**13,652,805**	**89,536,334**	**28,359,084**	**131,548,223**
Balance at 1 January 2020		13,652,805	89,536,334	28,359,084	131,548,223
Comprehensive income					
Profit for the year		-	-	11,189,826	11,189,826
Other comprehensive income:					
Transfer of depreciation through asset use (net of deferred tax)	11,14	-	(825,500)	825,500	-
Total comprehensive income		-	(825,500)	12,015,326	11,189,826
Transactions with owners					
Dividends for 2020	21	-	-	(5,214,500)	(5,214,500)
Balance at 31 December 2020		**13,652,805**	**88,710,834**	**35,159,910**	**137,523,549**

The notes on pages 19 to 62 are an integral part of these financial statements.

Statements of changes in equity - continued

Company	Notes	Share capital €	Revaluation reserves €	Retained earnings €	Total equity €
Balance at 1 January 2019		13,652,805	90,361,834	39,182,099	143,196,738
Comprehensive income					
Profit for the year		-	-	10,464,966	10,464,966
Other comprehensive income:					
Transfer of depreciation through asset use (net of deferred tax)	11,14	-	(825,500)	825,500	-
Total comprehensive income		-	(825,500)	11,290,466	10,464,966
Transactions with owners					
Dividends for 2019	21	-	-	(35,214,500)	(35,214,500)
Balance at 31 December 2019		**13,652,805**	**89,536,334**	**15,258,065**	**118,447,204**
Balance at 1 January 2020		13,652,805	89,536,334	15,258,065	118,447,204
Comprehensive income					
Profit for the year		-	-	18,542,156	18,542,156
Other comprehensive income:					
Transfer of depreciation through asset use (net of deferred tax)	11,14	-	(825,500)	825,500	-
Total comprehensive income		-	(825,500)	19,367,656	18,542,156
Transactions with owners					
Dividends for 2020	21	-	-	(5,214,500)	(5,214,500)
Balance at 31 December 2020		**13,652,805**	**88,710,834**	**29,411,221**	**131,774,860**

The notes on pages 19 to 62 are an integral part of these financial statements.

Statements of cash flows

	Notes	Year ended 31 December Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Cash flows from operating activities					
Cash generated from operations	22	**7,127,250**	50,665,639	**6,657,431**	49,557,542
Dividend received		**-**	-	**9,000,000**	-
Interest received		**326,838**	795,463	**326,838**	795,463
Interest paid		**(2,629,309)**	(2,741,843)	**(2,629,309)**	(2,741,843)
Net income tax paid		**(553,155)**	(5,818,471)	**(2,000)**	(5,194,118)
Net cash generated from operating activities		**4,271,624**	42,900,788	**13,352,960**	42,417,044
Cash flows from investing activities					
Purchase of property, plant and equipment and investment property		**(2,727,737)**	(2,831,531)	**(2,727,737)**	(2,831,531)
Movement in non-current receivables		**361,415**	(511,174)	**(6,488,155)**	(511,174)
Net cash used in investing activities		**(2,366,322)**	(3,342,705)	**(9,215,892)**	(3,342,705)
Cash flows from financing activities					
Repayments of bank borrowings		**(285,715)**	(1,285,715)	**(285,715)**	(1,285,715)
Dividends paid		**(5,214,500)**	(35,214,500)	**(5,214,500)**	(35,214,500)
Movement in non-current payables		**(43,200)**	(43,200)	**(2,183,377)**	4,116
Net cash used in financing activities		**(5,543,415)**	(36,543,415)	**(7,683,592)**	(36,496,099)
Net movement in cash and cash equivalents		**(3,638,113)**	3,014,668	**(3,546,524)**	2,578,240
Cash and cash equivalents at beginning of year		**28,613,661**	25,598,993	**28,119,345**	25,541,105
Cash and cash equivalents at end of year	9	**24,975,548**	28,613,661	**24,572,821**	28,119,345

The notes on pages 19 to 62 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

These consolidated financial statements include the financial statements of Spinola Development Company Limited and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, as modified by the fair valuation of the non-current asset category of property, plant and equipment except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the group's accounting policies (Note 3 - Critical accounting estimates and judgements).

Despite the negative impact of the COVID-19 pandemic on the group operations in 2020, the group managed to report a net profit of €11,189,826, and a stronger net equity position over that reported in 2019 totalling at €137,523,549. These financial statements disclose a positive working capital of €44,174,480 which include a cash position of €24,975,548. The financial position of the group was further strengthened with the banking facility of €4,000,000 obtained from the Malta Development Bank. In the group's projections for 2021, it is assumed that the current negative impact will last throughout this year and beyond. These forecasts highlight that the Group has enough liquidity to go forward, in a sustainable manner, meeting its commitments accordingly, giving the necessary level of comfort that the group is in a position, should this be the case to absorb the negative business cycle and meet its immediate cashflow obligations based on the knowledge as at today. In view of this the directors have concluded that at the time of approving these financial statements no material uncertainty exists of the ability of the Group to continue operating as a going concern.

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. 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 accounting policies impacting the group's financial performance and position.

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 that are mandatory for the group's accounting periods beginning after 1 January 2020. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU.

The directors are of the opinion that there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application.

1. Summary of significant accounting policies - continued

1.2 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired. If this is less than the fair value of the net identifiable assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 1.6)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

In the company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, that is at cost less impairment. Cost includes directly attributable costs of the investments. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

A listing of the subsidiaries is set out in Note 6 to the consolidated financial statements.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in these 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 financial statements are presented in euro which is the group's and company's functional and presentation currency.

1. Summary of significant accounting policies - continued

1.3 Foreign currency translation - continued

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains and losses are presented in the income statements within 'administrative expenses'.

1.4 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings, are shown at fair value based on periodic valuations by qualified valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis 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 revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Land and buildings is shown at market value, based on valuations by qualified valuers. Valuations are carried out periodically when the directors consider it appropriate to do so such that the carrying amount of land does not differ materially from that which would be determined using fair values at the statement of financial position date. Office, hotel and ancillary operational mechanical and electrical equipment, furniture, fixtures and operational equipment are stated at historical cost less depreciation. Assets in course of construction are not depreciated.

Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity. All other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment - continued

Freehold land is not depreciated as they are deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	%
Buildings	2 - 14
Mechanical and electrical equipment	5 - 25
Furniture, fixtures and operational equipment	7 - 50

The assets' residual values and useful lives are revalued, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.6).

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are recognised in profit or loss. When a revalued asset is sold, the amount is included in the revaluation reserve relating to the asset and is transferred to retained earnings.

1.5 Investment property

Investment property, principally comprising floors in the Portomaso Business Tower and commercial outlets, are held for long-term rental yields and are not occupied by the group.

The group adopts the cost model under IAS 40, 'Investment property', whereby investment property is stated in the statement of financial position at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Land is not depreciated as it is deemed to have an indefinite life. The capitalised costs of buildings is depreciated using the straight-line method over a maximum of one hundred years at most, in accordance with their useful lives. Useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The fair value of these properties is disclosed in the financial statements and is based on active market prices, taking into consideration the nature, location or condition of the specific asset. These valuations are revised annually by the directors. A property's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Note 1.6).

1. Summary of significant accounting policies - continued

1.5 Investment property - continued

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its cost and accumulated amortisation at the date of the reclassification becomes its cost and accumulated depreciation for subsequent accounting purposes. When the group decides to dispose of an investment property without development, the group continues to treat the property as an investment property. Similarly, if the group begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment.

If an item of property, plant and equipment becomes an investment property because its use has changed, its cost and accumulated depreciation at the date of reclassification becomes its cost and accumulated amortisation for subsequent accounting purposes.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting inventories is its carrying amount at the date of change in use

1.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.7 Financial assets

Classification

The group classifies its financial assets as financial assets measured at amortised costs. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The group classifies its financial assets at amortised cost only if both the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and

- The contractual terms give rise to cash flows that are solely payments of principal and interest.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

Classification - continued

Assessment whether contractual cash flows are solely payments of principal and interest.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the group commits to purchase or sell the asset. 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.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Interest income on debt instruments measured at amortised cost from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition of these instruments is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated statement of profit or loss.

Impairment

The group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The group's financial assets are subject to the expected credit loss model.

Expected credit loss model

The group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

1. **Summary of significant accounting policies** - continued

1.7 Financial assets - continued

Impairment - continued

Expected credit loss model - continued

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. The group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and it considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data such as significant financial difficulty of the borrower or issuer, or a breach of contract such as a default or being more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Simplified approach model

For trade receivables, the group applies the simplified approach required by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December, 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 liability of the customers to settle the receivable. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

1. **Summary of significant accounting policies** - continued

1.8 Inventories

Inventories are stated at the lower of cost and net realisable value, and include transport and handling costs, determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Property held for development and resale

When the main object of a property project is the development for resale purposes, the asset is classified in the financial statements as inventory. Any elements of the project which are identified for business operation or long-term investments properties are transferred at their carrying amount or fair value to property, plant and equipment or investment property when such identification is made and the cost thereof can be reliably segregated.

The development property is carried at the lower of cost and net realisable value. The purchase cost of acquiring the property represents the cash equivalent value of the contracted price. In case of land previously held as tangible non-current assets, the transfer value is the carrying value of the land as last revalued prior to its transfer to inventories.

Cost comprises the purchase cost of acquiring the property together with other costs incurred during its subsequent development by specifically identifying the cost of individual items including:

- The costs incurred on development works and construction works in progress, including demolition, site clearance, excavation, construction and acquisition costs, together with the expenses incidental to acquisition and costs of ancillary activities such as site security;

- The cost of various design and other studies conducted in connection with the project, together with all other expenses incurred in connection therewith;

- Any borrowing costs, including imputed interests, attributable to the development phases of the property project;

- Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Gains and losses on disposal of property inventories are determined by reference to their carrying amount and are taken into account in determining gross profit. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

1. Summary of significant accounting policies - continued

1.9 Trade and other receivables

Trade receivables comprise amounts due from customers for property sold or services performed and rendered in the ordinary course of the group's business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit loss allowance (Note 1.7).

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within cost of sales and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1.10 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks and bank overdrafts. In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

1.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.12 Financial liabilities

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative contracts, are classified as financial liabilities measured at amortised cost, i.e. not at fair value through profit or loss under IFRS 9. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction 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, is cancelled or expires.

1.13 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1. Summary of significant accounting policies - continued

1.14 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Issue costs incurred in connection with the issue of the secured bonds and loans from fellow subsidiaries include mainly arraignment, manager fees and professional fees.

1.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.16 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from 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 tax asset is realised or the deferred tax liability is settled.

Under this method the group is required to make provision for deferred income taxes on the revaluation of certain property assets on the difference between the carrying values or financial reporting purposes and their tax base. Such deferred tax is charged or credited directly to the reserve.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1. Summary of significant accounting policies - continued

1.17 Provisions

Provisions for legal claims are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance costs.

1.18 Revenue recognition

Revenues include all revenues from the ordinary business activities of the group. Ordinary activities do not only refer to the core business but also to other recurring sales of goods or rendering of services. Revenues are recorded net of value added tax. The group's business includes property sales, property rentals and sales of services in the hospitality industry, carpark, marina, tower bar and complex management operations.

(a) Sale of goods and services

Revenues are recognised in accordance with the provision of goods or services, provided that collectability of the consideration is probable.

IFRS 15 requires that at contract inception the goods or services promised in a contract with a customer are assessed and each promise to transfer to the customer the good or service is identified as a performance obligation. Promises in a contract can be explicit or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

A contract asset must be recognised if the group's recorded revenue for fulfilment of a contractual performance obligation before the customer paid consideration or before – irrespective of when payment is due – the requirements for billing and thus the recognition of a receivable exist. The group classifies a contract asset as accrued income.

A contract liability must be recognised when the customer paid consideration or a receivable from the customer is due before the group fulfilled a contractual performance obligation and thus recognised revenue. The group classifies the contract liabilities as advanced deposits or deferred income.

IFRS 15 provides more detailed guidance on how to account for contract modifications. Changes must be accounted for either as a retrospective change (creating either a catch up or deferral of previously recorded revenues), prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts which will not require any reallocation.

1. **Summary of significant accounting policies** - continued

1.18 Revenue recognition - continued

(a) Sale of goods and services - continued

Property sales

The group develops and sells properties for commercial and residential purposes. Revenue is recognised when control over the property has been transferred to the client. The properties have generally no alternative use for the group after legal title has passed to the customer due to contractual restrictions. An enforceable right to payment does not arise until legal title has passed to the customer. These transactions generally relate to property delivered in a finished stated. The period for execution of these transaction generally exceeds 12 months but rarely goes beyond 24 months. The group considers the conditions set in the property transfer contract which includes the transfer of the title of the property and all the related building and finishes as one performance obligation. This is because the goods or services provided by the group are not separately identifiable from other promises in the contract. In effect, the customer expects and has contracted to receive the property in a finished state. Although the goods or services received by the customer from the group are capable of being distinct (for e.g. the overall management of the project, site preparation, construction, plumbing, electrical services and other finishing), these are all be combined into one performance obligation.

The group recognises revenue from the point in time when the legal title has passed to the customer until all the contractual performance obligation are executed and delivered. Generally, the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The client controls the asset upon the transfer of property title. Therefore, as the finishing works are being performed by the group, it is the customer who controls the assets being created from such works. In measuring revenue over time, management measures its progress towards complete satisfaction of that performance obligation, in order to determine the timing of revenue recognition. The purpose of measuring progress towards satisfaction of a performance obligation is to recognise revenue in a pattern that reflects the transfer of control of the promised good or service to the customer.

On the allocation of the total contract transaction price to identified portions of performance obligations, a portion of the total transaction price can be allocated to performance obligations portions that are unsatisfied or partially satisfied at the end of the reporting period. These are referred to as unfulfilled performance obligations and are the goods or services that the group is obliged to provide to clients and customers during the remaining fixed term of the contract.

The revenue is measured at the transaction price agreed under the contract and the consideration is due when legal title has been transferred. In most cases, this give rise to contract liabilities in the form of advance deposits for portion of the performance obligations not yet executed by the group at the date of the contract. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

1. Summary of significant accounting policies - continued

1.18 Revenue recognition - continued

(a) Sale of goods and services - continued

Property sales - continued

The group does not consider costs to fulfil contracts to be significant as costs in connection with property sales will generally fall within the scope of IAS 2 – Inventories until disposal of the asset, at which stage the asset recognised from capitalising the costs to obtain or fulfil a contract is amortised on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates. Since the performance obligation will be satisfied over time, the group release these costs using a method consistent with the method used to measure progress and recognise revenue. The assumptions underlying the period over which the costs are expensed are periodically reviewed and adjusted in line with observations. Termination of the contractual relationship with the customer results in the immediate expensing of the remaining deferred costs. Where the carrying amount of deferred costs exceeds the remaining consideration expected to be received for the transfer of the related goods and services, less expected costs relating directly to the transfer of these goods and services still to be incurred, the excess amount is similarly immediately expensed.

Sales of services in the hospitality activity

Revenue from services is generally recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue arising on hospitality activities are recognised when the service is performed and goods are supplied. Revenue is usually in cash, credit card or on credit. The recorded revenue includes credit card fees payable for the transaction.

Sales of goods - retail

Sales of goods are recognised when the group has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in finance costs. Restaurant and bar sales are recognised upon performance of the service.

Sales of services

Sales of services including income from marina, car park and complex management are recognised in the accounting period in which the services are provided, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Financing

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

1. **Summary of significant accounting policies** - continued

1.18 Revenue recognition - continued

(b) Property rentals and related income

Rentals receivable, short-term lets receivable and premia charged to tenants of immovable property are recognised in the period when the property is occupied. Premia are taken to the income statement over the period of the leases to which they relate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

1.19 Contract assets and liabilities

The timing of revenue recognition may differ from customer invoicing. Trade receivables presented in the statement of financial position represent an unconditional right to receive consideration (primarily cash), i.e. the services and goods promised to the customer have been transferred.

By contrast, contract assets mainly refer to amounts allocated per IFRS 15 as compensation for goods or services provided to customers for which the right to collect payment is subject to providing other services or goods under that same contract. These assets are classified and disclosed as accrued income.

Contract liabilities represent amounts paid by customers before receiving the goods and/or services promised in the contract. This is typically the case for advances received from clients or amounts invoiced and paid for goods or services not transferred yet, such as contracts payable in advance. These liabilities are classified and disclosed as advanced deposits or deferred income.

1.20 Deferred Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants related to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants related to assets, i.e. in respect of the purchase of property, plant and equipment, are included in liabilities as deferred government grants, and are credited to profit or loss on a straight-line basis over the expected lives of the related assets, presented within 'Other operating income'.

Grants related to income are presented as a deduction in reporting the related expense.

1. Summary of significant accounting policies - continued

1.21 Finance income and costs

Finance income and costs are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method.

When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate. Finance costs includes the effect of amortising any difference between net proceeds and redemption value in respect of the group's borrowings.

1.22 Leases

Where the group is a lessor

Assets leased out under operating leases are included in investment property in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned investment property. Rental income is recognised as it accrues, unless collectability is in doubt. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of the adoption of the new leasing standard.

1.23 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment, investment property or property held for development and resale are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the group's interest-bearing borrowings.

1.24 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's and company's financial statements in the period in which the dividends are approved by the company's shareholders.

2. Financial risk management

2.1 Financial risk factors

The group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management, covering risk exposures for all subsidiaries focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

The board of directors provides principles for overall group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. The group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective group's functional currency.

The group is exposed to foreign exchange risk arising primarily from the group's purchases, a part of which are denominated in the US dollar. Management does not consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions to be significant since balances are settled within very short periods in accordance with the negotiated credit terms. Also foreign exchange risk attributable to future transactions is not deemed to be material since the group manages the risk by reflecting, as far as is practicable, the impact of exchange rate movements registered with respect to purchases in the respective sales prices.

All the group's loans and receivables, cash and cash equivalent and borrowings are denominated in euro.

Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of reporting year is not deemed necessary.

(ii) Cash flow and fair value interest rate risk

The group does not have significant interest-bearing assets, and its income and operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates, comprising bank borrowings (Note 12), expose the group to cash flow interest rate risk. The group's borrowings are subject to an interest rate that varies according to revisions made to the Bank's Base Rate. Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Borrowings issued at fixed rates, consisting primarily of loans from fellow subsidiaries which are carried at amortised cost (Note 12) and therefore do not expose the group to cash flow and fair value interest rate risk.

Based on the above, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk

Credit risk principally arises from cash and cash equivalents comprising deposits with financial institutions, and loans and advances to related parties, as well as credit exposures to clients and customers, including outstanding receivables and committed transactions. The group's and the company's principal exposures to credit risk as at the end of the reporting period are analysed as follows and is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The figures disclosed in the table below in respect of trade and other receivables exclude prepayments and advance payments on projects:

The maximum exposure to credit risk at the end of the reporting period was:

	Group		**Company**	
	2020	2019	**2020**	2019
	€	€	**€**	€
Carrying amounts				
Financial assets measured at amortised cost				
Trade and other receivables (Note 7)	**8,531,244**	16,637,550	**14,527,206**	14,898,263
Cash and cash equivalents (Note 9)	**24,975,548**	28,613,661	**24,572,821**	28,119,345
	33,506,792	45,251,211	**39,100,027**	43,017,608

The maximum exposure to credit risk at the end of the reporting period in respect of the trade receivables by type of customer was:

	Group		**Company**	
	2020	2019	**2020**	2019
	€	€	**€**	€
Property development and management	**3,282,775**	4,619,161	**2,502,664**	3,735,675
Hospitality	**386,505**	1,347,496	**386,505**	1,347,496
	3,669,280	5,966,657	**2,889,169**	5,083,171

The group and the company holds collateral as security for the receivables within the property related sector for an amount of €2,225,000 (2019: €2,967,172).

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Trade and other receivables (including contract assets)

The group assesses the credit quality of its trade customers, the majority of which are unrated, taking into account financial position, past experience and other factors. The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. It has policies in place to ensure that sales of goods and services are effected to customers with an appropriate credit history. 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 creditworthiness analysis for new customers includes a review through external sources when available. The group monitors the performance of its trade and other receivables on a regular basis to identify incurred collection losses, which are inherent in the group's debtors, taking into account historical experience in collection of accounts receivable.

In view of the nature of the group's activities and the market in which it operates, a limited number of customers account for a certain percentage of the group's trade and other receivables. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk with respect to contractual debts, these exposures are monitored and reported more frequently and rigorously. These customers trade frequently with the respective group undertakings and are deemed by management to have positive credit standing, usually taking cognisance of the performance history without defaults.

The group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The group's trade and other receivables, which are not credit impaired financial assets, are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any significant losses from non-performance by these customers.

Impairment of trade and other receivables (including contract assets)

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) *Credit risk* - continued

Impairment of trade and other receivables (including contract assets) - continued

The expected loss rates are based on the payment profiles of sales over a period of time before the reporting date 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 group adjusts the historical loss rates based on expected changes in these factors. On that basis, the loss allowance for the group and the company as at 31 December 2020 amounted to €432,217 and €173,368 and 1 January 2020 amounted to €393,206 and €125,415. This assessment did not give rise to material difference upon the adoption of IFRS 9. No further analysis of these loss allowances have been disclosed in these financial statements as the overall allowances are not deemed material in the context of the group's financial position and performance.

The group established an allowance for impairment that represented its estimate of expected credit losses in respect of trade and other receivables. The individually credit impaired trade receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Hence, provisions for impairment in respect of credit impaired balances with corporate trade customers relate to entities which are in adverse trading and operational circumstances. Reversals of provisions for impairment of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The group and the company do not hold any significant collateral as security in respect of the credit impaired assets.

Trade receivables and contract assets 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 180 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts written off are credited against the same line item.

Cash and cash equivalents

The group principally banks with local and European financial institutions with high-quality standing or rating.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is insignificant.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Loans receivable from subsidiaries and amounts due from subsidiaries

The group and the company's receivables include loans receivable from subsidiaries and fellow subsidiaries (Notes 7 and 13). The group monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any significant losses from non-performance or default.

Loans receivable from subsidiary are categorised as Stage 1 for IFRS 9 purposes (i.e. performing) in view of the factors highlighted above. The expected credit loss allowances on such loans are based on the 12-month probability of default, capturing 12-month expected losses and hence are considered insignificant.

(c) 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' (Notes 13 and 12). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the group's obligations.

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period detailed by the group segments to ensure that no additional financing facilities are expected to be required over the coming year.

Moreover, annual detailed cash flow projections are prepared to assess the matching of cash inflows and outflows arising from expected maturities of financial instruments. The group manages its liquidity risk through this continuous assessment, coupled with the group's committed borrowing facilities (that it can access) to meet liquidity needs as referred to previously.

The carrying amounts of the group's assets and liabilities are analysed into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date in the respective notes to the financial statements.

The following table analyses the group's and company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

Group	Carrying amount	Contractual cash flows	Within one year	One to five years	Over five years
	€	€	€	€	€
31 December 2020					
Bank borrowings	4,571,425	4,927,128	1,451,589	3,475,539	-
Loans from fellow subsidiary	49,824,386	61,575,513	2,237,500	32,468,390	26,869,623
Trade and other payables	10,453,542	10,453,542	10,453,542	-	-
	64,849,353	**76,956,183**	**14,142,631**	**35,943,929**	**26,869,623**
31 December 2019					
Bank borrowings	4,857,140	5,241,061	1,464,257	3,776,804	-
Loans from fellow subsidiary	49,793,151	63,819,144	2,243,630	33,421,678	28,153,836
Trade and other payables	22,669,416	22,669,416	22,669,416	-	-
	77,319,707	**91,729,621**	**26,377,303**	**37,198,482**	**28,153,836**

Company	Carrying amount	Contractual cash flows	Within one year	One to five years	Over five years
	€	€	€	€	€
31 December 2020					
Bank borrowings	4,571,425	4,927,127	1,451,589	3,475,539	-
Loans from fellow subsidiary	49,824,386	61,575,513	2,237,500	32,468,390	26,869,623
Trade and other payables	8,885,959	8,885,959	8,885,959	-	-
	63,281,770	**75,388,599**	**12,575,048**	**35,943,929**	**26,869,623**
31 December 2019					
Bank borrowings	4,857,140	5,241,061	1,464,257	3,776,804	-
Loans from fellow subsidiary	49,793,151	63,819,144	2,243,630	33,421,678	28,153,836
Trade and other payables	23,629,235	23,629,235	23,629,235	-	-
	78,279,526	**92,689,440**	**27,337,122**	**37,198,482**	**28,153,836**

2. Financial risk management - continued

2.2 Capital risk management

The capital of the group is managed with a view of maintaining a controlled relationship between capital and structural borrowings in order to maintain an optimal capital structure which reduces the cost of capital. To maintain or adjust its capital structure, the group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as structural borrowings divided by total capital.

Total capital is measured by reference to the amounts reflected in the consolidated financial statements where the property, plant and equipment are stated at revalued amounts that are regularly assessed and updated as necessary. Reported equity is adjusted for fair value surplus (net of deferred tax) over the notional carrying amount of investment property.

Furthermore, the group has not taken account of potential fair value surpluses related to a number of undeveloped properties within its inventory portfolio. These properties comprise namely, the Halland land and the directium dominium related to the Portomaso land. The directors consider the potential increase over the recorded base cost from the respective revaluations as latent equity which will be realized when the respective property earning potential is crystalized.

Structural borrowings include all interest bearing borrowings stated net of any funds made available for the repayment of such liabilities. Borrowings include loans from a fellow subsidiary (Tumas Investments p.l.c.) whose unsecured bonds and bank borrowings are secured and guaranteed by the company.

The gearing ratios at 31 December 2020 and 2019 were as follows:

	Group	
	2020	2019
	€	€
Total borrowings (Note 12)	**54,395,811**	54,650,291
Less: Cash and cash equivalents (Note 9)	**(24,975,548)**	(28,613,661)
Less: Group treasury funds (Note 7)	**(2,441,410)**	(1,610,000)
Net borrowings	**26,978,853**	24,426,630
Reported equity	**137,523,549**	131,548,223
Adjustment for fair value on investment property	**46,168,718**	24,497,109
Total equity	**183,692,267**	156,045,332
Total capital	**210,671,120**	180,471,962
Gearing	**13%**	14%

2. Financial risk management - continued

2.3 Fair values of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses as a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Refer to Note 4 for details of such techniques.

Financial instruments not carried at fair values

The carrying amounts of cash at bank, trade receivables (net of impairment provisions), payables and borrowings are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

As at the end of the reporting period, the fair values of financial assets and liabilities, approximate the carrying amounts shown in the statement of financial position.

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 directors, 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 IAS 1.

As referred to in Note 4 to the financial statements, the group's and company's land and buildings category of property, plant and equipment was re-valued on 31 December 2020 by the directors on the basis of professional advice, which considers forecasted net potential returns for the property.

4. Property, plant and equipment

Group and Company	Land and buildings €	Assets not yet commissioned €	Mechanical and electrical equipment €	Furniture, fixtures and operational equipment €	Total €
At 1 January 2019					
Cost or valuation	144,772,748	627,595	30,513,955	24,219,837	200,134,135
Accumulated depreciation	-	-	(20,765,315)	(13,806,714)	(34,572,029)
Net book amount	144,772,748	627,595	9,748,640	10,413,123	165,562,106
Year ended 31 December 2019					
Opening net book amount	144,772,748	627,595	9,748,640	10,413,123	165,562,106
Commissioned assets and additions	518,961	(570,860)	349,079	2,381,805	2,678,985
Disposals	(746,423)	-	(655,567)	(2,973,984)	(4,375,974)
Depreciation charge	(2,601,391)	-	(1,602,591)	(1,871,256)	(6,075,238)
Depreciation released on disposal	762,102	-	646,803	2,953,113	4,362,018
Closing net book amount	142,705,997	56,735	8,486,364	10,902,801	162,151,897
At 31 December 2019					
Cost or valuation	144,545,286	56,735	30,207,467	23,627,658	198,437,146
Accumulated depreciation	(1,839,289)	-	(21,721,103)	(12,724,857)	(36,285,249)
Net book amount	142,705,997	56,735	8,486,364	10,902,801	162,151,897
Year ended 31 December 2020					
Opening net book amount	142,705,997	56,735	8,486,364	10,902,801	162,151,897
Commissioned assets and additions	155,478	999,431	243,290	1,253,082	2,651,281
Disposals	(19,207)	-	(347,660)	(2,046,870)	(2,413,737)
Depreciation charge	(2,410,102)	-	(1,395,540)	(1,793,606)	(5,599,248)
Depreciation released on disposal	19,207	-	335,632	1,793,483	2,148,322
Closing net book amount	**140,451,373**	**1,056,166**	**7,322,086**	**10,108,890**	**158,938,515**
At 31 December 2020					
Cost or valuation	144,681,557	1,056,166	30,103,097	22,833,870	198,674,690
Accumulated depreciation	(4,230,184)	-	(22,781,011)	(12,724,980)	(39,736,175)
Net book amount	**140,451,373**	**1,056,166**	**7,322,086**	**10,108,890**	**158,938,515**

4. Property, plant and equipment - continued

Fair valuation of property

On 31 December 2018, the directors approved the revaluation of the group's and company's property, plant and equipment, which comprises the Hilton Hotel, the Portomaso car park and related ancillary operations, after assessing the valuations prepared by professionally qualified valuers. The valuation is based on the discounted cash flow methodology. The book value of the property has been adjusted to the revaluation and the resultant surplus, net of applicable deferred income taxes, has been credited to the revaluation reserve in other comprehensive income within shareholders' equity (Note 11). The directors have reassessed the property's valuation in view of the COVID-19 pandemic and resulting restrictions on the hospitality industry, as mandated by the Health Authorities, together with the closure of ports, which have significantly impacted the company's operations. The 2020 valuation reassessment was primarily based on revised projected income streams which take into consideration a lower business activity in the next few years, until reaching the 2019 level of business and assumed normality by 2024. The directors are of the opinion that the carrying amount of property, plant and equipment as at 31 December 2020, does not differ materially from that which would be determined using fair values that take account of the above considerations.

The group and the company are 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 and the company's land and buildings, within property, plant and equipment, comprises the properties described above; investment property (Note 5) comprises principally the Portomaso Business Towers and commercial outlets leased out principally to third parties. Certain areas within this portfolio are also rented out to fellow subsidiaries within the Tumas group. All the recurring property fair value measurements at 31 December 2020 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The group's and the company'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 year ended 31 December 2020.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy is reflected in the table above. Movements reflect additions, disposals and depreciation for the year ended 31 December 2020.

4. Property, plant and equipment - continued

Valuation processes

The valuations of the properties are performed regularly taking into consideration valuation reports prepared by qualified valuers. These reports are based on both:

- information provided by the group which is derived from the group's financial systems and is subject to the group's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the board of directors and top officials within the group's finance function. This includes a review of fair value movements over the period.

Valuation techniques

Given the specific nature of these assets, the valuations of the Level 3 property have been performed by reference to valuation models. These valuation models include:

- in the case of the Hilton Hotel, the Portomaso car park and related ancillary operations classified as property, plant and equipment, the property, plant and equipment's discounted projected cash flows; and
- in the case of the Portomaso Business Tower and commercial outlets leased out and classified as investment property, the annual rental value earned, capitalised at a rate ranging from 6% to 12% that reflects the risks inherent in the utilisation of the specific properties.

The future cash flows from operating the Hilton Hotel and related ancillary operations (including the Portomaso car park) have been derived from financial forecasts assessed in relation to past performance and the industry's general outlook. The significant inputs to this approach include:

Net cash inflows	based on the actual operating net cash inflows generated and projected forwards for an eleven year period. These cash flows take into consideration periodic capital expenditure based on expected refurbishment costs that will be incurred over the period of projections.
Growth rate	based on management's estimated average growth in the hotel's operating cash flows; and
Discount rate	reflecting current market assessments of the uncertainty in the amount and timing of cash flows, and based on current market risk free rates, an equity market risk premium and other risk premiums attached to an investment in the property being valued including any element of projection risk inherent in the projected future cash flows;
Terminal value	based on the properties' net operating cash flows at the end of the eleven year projection period, and capitalised at a capitalisation rate that reflects the properties' actual location, size and quality and taking into account market data at the valuation date.

4. Property, plant and equipment - continued

Valuation techniques - continued

The significant unobservable inputs in the valuation of the Portomaso Business Tower and commercial outlets leased out include the average annual rental value of the properties, and a capitalisation rate that reflects the properties' actual location, size and quality and taking into account market data at the valuation date.

Information about fair value measurements of property, plant and equipment using significant unobservable inputs (Level 3) include average pre-tax net cash flows of €13 million (2019: €13 million) in the explicit period with an average growth rate of 2% (2019: 2%) in the residual value and a pre-tax average of 9.8% (2019: 10.25%).

In respect of these valuations, the higher the pre-tax operating cash inflows, growth rate, and terminal value, the higher the fair value. Conversely, the lower the discount rate, the estimated refurbishment costs, and capitalisation rate used in calculating the terminal value, the higher the fair value.

As at 31 December 2020, the carrying amount of land within property, plant and equipment amounts to €67,400,000 (2019: €67,400,000). The carrying amount of land would have been €863,468 (2019: €863,468) had the assets been included in the financial statements at cost.

Depreciation charge of €5,599,248 (2019: €6,075,238) is included in the group's and company's income statements as follows: €5,582,737 (2019: €6,057,563) in cost of sales and €16,511 (2019: €17,675) in administrative expenses.

Borrowings are secured by the group's property, plant and equipment (Note 12).

5. Investment property

	Group and Company	
	2020	2019
	€	€
Year ended 31 December		
Opening net book amount	**13,378,408**	13,804,632
Additions	**76,456**	152,546
Disposals	**(904)**	(1,312,006)
Depreciation charge	**(569,451)**	(574,523)
Depreciation released on disposal	**45**	1,307,759
Closing net book amount	**12,884,554**	13,378,408
At 31 December		
Cost or valuation	**21,785,779**	21,710,227
Accumulated depreciation	**(8,901,225)**	(8,331,819)
Net book amount	**12,884,554**	13,378,408

As at 1 January 2019, the cost and accumulated depreciation of the group's and company's investment property amounted to €22,869,687 and €9,065,055 respectively. Depreciation charge of €569,451 (2019: €574,523) is included in cost of sales.

Borrowings are secured by the group's investment property (Note 12).

5. **Investment property** - continued

The fair open market value of investment property as at 31 December 2020 is estimated by the directors at €38,414,021 (2019: €40,597,418) on the basis of the present value of contracted and anticipated income streams from the property concerned.

The vast majority of the above noted investment property is presently leased out under operating leases to third parties and related parties within the Tumas Group.

The following amounts have been recognised in the income statements:

	Group		**Company**	
	2020	2019	**2020**	2019
	€	€	**€**	€
Rental income	**3,510,123**	3,878,843	**1,300,000**	1,300,000
Direct operating and administrative expenses	**(650,712)**	(810,532)	**(610,300)**	(624,043)

6. **Investments in subsidiaries**

	Company	
	2020	2019
	€	€
At 31 December		
Opening and closing cost and net book amount	**118,791**	118,791

Details of the above investments held in subsidiaries at 31 December is shown below:

	Registered office	**Class of shares held**	**Percentage of shares held**	
			2020	2019
			%	%
Portomaso Leasing Company Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	**100**	100
Halland Developments Company Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	**100**	100
Premium Real Estate Investment Limited	Tumas Group Corporate Office, Level 3, Portomaso Business Tower Portomaso St. Julians Malta	Ordinary shares	**99**	99

7. Trade and other receivables

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Non-current				
Amounts owed by parent	**1,003,795**	1,365,210	1,003,795	1,365,210
Amounts owed by subsidiaries	**-**	-	6,849,570	-
	1,003,795	1,365,210	**7,853,365**	1,365,210
Current				
Trade receivables	**3,669,280**	5,966,657	**2,889,169**	5,083,171
Amounts owed by subsidiary	**-**	-	**-**	60,539
Amounts owed by fellow subsidiaries	**3,690,135**	7,889,134	**3,624,708**	6,972,872
Amounts owed by related parties	**45,733**	50,394	**45,733**	50,394
Other receivables	**122,301**	94,555	**114,231**	94,477
Advance payments on projects	**665,100**	1,050,620	**167,044**	1,050,620
Indirect and other taxation	**-**	1,271,600	**-**	1,271,600
Prepayments and accrued income	**634,337**	964,737	**461,536**	798,136
	8,826,886	17,287,697	**7,302,421**	15,381,809
Total trade and other receivables	**9,830,681**	18,652,907	**15,155,786**	16,747,019

Amounts owed by parent, subsidiary, fellow subsidiaries and related parties are unsecured, and are repayable on demand. In 2019, certain advances carried interest an average rate of 2%. The directors do not expect that related amounts disclosed as non-current are settled within the next twelve months. The company's exposure to liquidity risk related to trade and other receivables is disclosed in Note 2.

Included within amounts owed by fellow subsidiaries, subsidiaries and parents are funds of €2,441,410 (2019: €1,610,000) which have been advanced as part of the Tumas Group treasury function. These amounts can be re-allocated to the company's banking accounts after year end at the company's request.

Receivables above are stated net of provision for impairment of receivables:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Trade receivables	**432,217**	393,206	**173,368**	125,415

Advanced payments on projects relate to funds advanced to suppliers not yet utilised for development works as at year end. These mainly relate to new projects entered into by the group.

As disclosed in accounting policy 1.18 and 1.19 the group classifies contract assets as accrued income.

7. Trade and other receivables - continued

The provision for impairment of receivables for the year is disclosed in Note 16 and is included in the income statement as follows:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Administrative expenses	**39,011**	89,877	**47,953**	(25,859)

The group's exposure to credit and currency risks and impairment losses relating to trade receivables are disclosed in Note 2.

The amount of expected loss to be provided for in accordance with IFRS 9 was not deemed material and thus it was not reflected in the group's financial assets.

8. Inventories

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Property held for resale	**21,727,618**	19,119,635	**7,727,484**	7,670,829
Food and beverage	**187,627**	270,597	**187,627**	270,597
Consumables	**560,549**	570,883	**560,549**	570,883
	22,475,794	19,961,115	**8,475,660**	8,512,309

Borrowings are secured by the group's property held for resale (Note 12).

9. Cash and cash equivalents

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Cash at bank and in hand	**24,975,548**	28,613,661	**24,572,821**	28,119,345

The amount of expected loss to be provided for in accordance with IFRS 9 was not deemed material and thus it was not reflected in the group's financial assets.

10. Share capital

	Group and Company 2020 €	2019 €
Authorised, Issued and fully paid		
1,164,687 ordinary "A" shares of €1 each	**1,164,687**	1,164,687
6,988,119 ordinary "B" shares of €1 each	**6,988,119**	6,988,119
5,499,999 redeemable 6% preference shares of €1 each	**5,499,999**	5,499,999
	13,652,805	13,652,805

Each ordinary share entitles the holder thereof to one vote at general meeting of the company. The ordinary shares shall rank pari passu in all respects independently of the letter by which they are denoted. Redeemable preference shares shall not carry any voting rights.

11. Revaluation reserves

	Group and Company 2020 €	2019 €
Surplus arising on revaluation of land within:		
Property, plant and equipment	**87,519,649**	88,345,149
Investment property	**1,191,185**	1,191,185
Revaluation reserves at end of year	**88,710,834**	89,536,334

	2020 €	2019 €
Revaluation of property, plant and equipment		
At the beginning of year, before deferred taxation	**116,777,747**	118,047,747
Transfer of depreciation to retained profits through asset use	**(1,270,000)**	(1,270,000)
	115,507,747	116,777,747
Deferred taxation (Note 14)	**(27,988,098)**	(28,432,598)
At 31 December	**87,519,649**	88,345,149

	2020 €	2019 €
Revaluation of investment property		
At the beginning of year, before deferred taxation	**1,339,584**	1,339,584
Deferred taxation (Note 14)	**(148,399)**	(148,399)
At 31 December	**1,191,185**	1,191,185

The revaluation reserves are non-distributable reserves.

12. Borrowings

	Group and Company	
	2020	2019
	€	€
Non-current		
Bank loans	**3,285,710**	3,571,425
Loans from fellow subsidiary	**49,824,386**	49,793,151
	53,110,096	53,364,576
Current		
Bank loans	**1,285,715**	1,285,715
	1,285,715	1,285,715
Total borrowings	**54,395,811**	54,650,291

The bank loans and overdrafts are secured by:

(a) general and special hypothecs over the group's assets;
(b) general hypothecs and guarantees provided by fellow subsidiaries;
(c) pledges on the group's insurance policies;
(d) letters of undertaking.

The group's and company's banking facilities as at 31 December 2020 amounted to €10,907,114 (2019: €7,778,130).

Loans from fellow subsidiary are disclosed at the value of the proceeds less the net book amount of the issue costs, as follows:

	Group and Company	
	2020	2019
	€	€
Face value of loans from fellow subsidiary	**50,000,000**	50,000,000
Issue costs	**318,430**	318,430
Accumulated amortisation	**(142,816)**	(111,581)
Closing net book amount	**175,614**	206,849
Amortised cost at 31 December	**49,824,386**	49,793,151

12. Borrowings - continued

By virtue of an offering memorandum dated 7 July 2014, the group issued 5% bonds maturing in 2024 for an amount of €25,000,000 through Tumas Investments plc. The bonds are guaranteed by the company, which has bound itself jointly and severally liable for the payment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum.

By virtue of an offering memorandum dated 29 May 2017, the group issued 3.75% bonds maturing in 2027 for an amount of €25,000,000 through Tumas Investments plc. The bonds are guaranteed by the company, which has bound itself jointly and severally liable for the payment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum.

Proceeds for these bonds have been advanced to the company through loans from fellow subsidiary.

The interest rate exposure of borrowings was as follows:

	Group and Company	
	2020	2019
	€	€
Total borrowings:		
At fixed rates	**49,824,386**	49,793,151
At floating rates	**4,571,425**	4,857,140
	54,395,811	54,650,291

Weighted average effective interest rates at the end of the reporting period date:

	Group and Company	
	2020	2019
Bank loans	**4.4%**	4.4%
Loans from fellow subsidiaries	**4.5%**	4.5%

This note provides information about the contractual terms of the group's and company's interest-bearing loans and borrowings. For more information about the groups' and company's exposure to interest rate and liquidity risk, see Note 2.

13. Trade and other payables

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Non-current				
Amounts owed to subsidiaries	-	-	-	2,183,377
Deferred income	-	43,200	-	-
	-	43,200	-	2,183,377
Current				
Trade payables	**2,479,103**	3,326,850	**2,452,435**	3,312,863
Advance deposits	**388,492**	6,188,488	-	5,914,875
Capital and other payables	**2,357,078**	4,622,844	**2,357,078**	4,622,844
Deferred institutional grant	**25,875**	28,748	**25,875**	28,748
Amounts owed to parent	-	5,655,308	-	5,655,308
Amounts owed to related parties	**204,321**	417,277	**204,321**	417,277
Indirect and other taxation	**867,022**	105,555	**652,992**	-
Accruals and deferred income	**4,546,018**	8,541,582	**3,219,133**	7,437,566
	10,867,909	28,886,652	**8,911,834**	27,389,481
Total trade and other payables	**10,867,909**	28,929,852	**8,911,834**	29,572,858

Amounts owed to parent and related parties are unsecured, interest free and are repayable on demand.

Institutional grants relate to funds advanced directly by the Government of Malta or other institutions to the company, co-financing its capital expenditure on the property, plant and equipment. Such funds are treated as deferred income and are credited to the profit and loss account on a systematic basis over the useful lives of the assets. The closing amount relates to the deferred portion of these grants to be credited to the profit and loss account on a systematic basis over the remaining useful life of the property, plant and equipment owned by the company.

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 2.

14. Deferred taxation

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
At beginning of year	**29,037,758**	30,282,531	**28,231,485**	29,435,750
Deferred tax on transfer of depreciation through asset use (Note 20)	**(444,500)**	(444,500)	**(444,500)**	(444,500)
Deferred tax on temporary differences arising on depreciation of non-current assets (Note 20)	**(725,551)**	(768,817)	**(725,551)**	(768,817)
Deferred tax on temporary differences arising on capital allowances (Note 20)	**(1,228,183)**	-	**(1,228,183)**	-
Deferred tax on temporary differences arising on provisions (Note 20)	**(13,652)**	(31,456)	**(16,782)**	9,052
Deferred tax on unutilised investment tax credits (Note 20)	**(273,657)**	-	**(273,657)**	-
Under provision of deferred tax on group relief	**15,484**	-	**15,484**	-
At 31 December	**26,367,699**	29,037,758	**25,558,296**	28,231,485

The balance at 31 December represents temporary differences on:

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Revaluation of property, plant and equipment (Note 11)	**27,988,098**	28,432,598	**27,988,098**	28,432,598
Revaluation of investment property (Note 11)	**148,399**	148,399	**148,399**	148,399
Revaluation of property held for resale	**900,000**	900,000	**-**	-
Unabsorbed capital allowances	**(1,228,183)**	-	**(1,228,183)**	-
Unutilised investment tax credits	**(273,657)**	-	**(273,657)**	-
Depreciation of non-current assets	**(1,015,704)**	(305,637)	**(1,015,704)**	(305,637)
Provisions	**(151,254)**	(137,602)	**(60,657)**	(43,875)
	26,367,699	29,037,758	**25,558,296**	28,231,485

14. Deferred taxation - continued

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2019: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property which as from 2015 is computed on the basis applicable to disposals of immovable property, that is, tax effect of 10% of the transfer value.

The hospitality arm of the group has been availing itself of investment aid under the various investment tax credit schemes that were applicable for hotels during 2018.

15. Revenue

The group's operations consist of the ownership of prime tourism and leisure properties, which include the operation of a hotel, the development of residential, rental and commercial property for trading and renting purposes and the provision of ancillary services to this industry. All these operations are conducted locally.

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Hospitality and ancillary services	**13,263,829**	41,593,798	**13,263,829**	41,593,798
Property development	**14,930,791**	11,731,477	**14,930,791**	11,731,477
Rental operations	**3,511,794**	3,883,075	**1,300,000**	1,300,000
Complex management operations	**2,603,816**	2,504,359	**2,462,861**	2,405,648
	34,310,230	59,712,709	**31,957,481**	57,030,923

Unfulfilled performance obligations

As at 31 December 2020 the group and company assigned €Nil (2019: €11,890,792) of the transaction price to unfulfilled performance obligations. This is due to the fact that all performance obligations on contracts entered into up to end of year were fulfilled. Unfulfilled performance obligations are the goods or services that the group is obliged to provide to clients and customers during the remaining fixed term of the contract. As allowed by the simplification procedure in IFRS 15, these disclosures are only related to performance obligations with an initial term greater than one year.

On the allocation of the total contract transaction price to identified performance obligations, a portion of the total transaction price can be allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. As outlined previously, the group has elected to apply certain available practical expedients when disclosing unfulfilled performance obligations, including the option to exclude expected revenues from unsatisfied obligations of contracts with an original expected duration of one year or less.

The assumptions underlying the period over which the costs to fulfil contracts are expensed are periodically reviewed and adjusted in line with observations. Termination of the contractual relationship with the customer results in the immediate expensing of the remaining deferred costs. Where the carrying amount of deferred costs exceeds the remaining consideration expected to be received for the transfer of the related goods and services, less expected costs relating directly to the transfer of these goods and services still to be incurred, the excess amount is similarly immediately expensed.

16. Expenses by nature

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Employee benefit expense (Note 17)	**7,455,838**	11,807,575	**7,455,838**	11,807,575
Depreciation on:				
- Property, plant and equipment (Note 4)	**5,599,248**	6,075,238	**5,599,248**	6,075,238
- Investment property (Note 5)	**569,451**	574,523	**569,451**	574,523
Property development costs	**656,327**	5,792,649	**656,327**	5,792,649
Operating supplies and related expenses	**2,232,377**	2,464,315	**2,232,377**	2,464,315
Utilities	**1,028,017**	1,397,304	**1,028,017**	1,397,304
Operators charges	**188,586**	2,560,111	**188,586**	2,560,111
Increase/(decrease) in provisions for impairment of receivables (Note 7)	**39,011**	89,877	**47,953**	(25,859)
Management fees	**450,000**	670,012	**450,000**	670,012
Commissions payable	**320,290**	55,973	**320,290**	55,973
Other expenses	**3,361,441**	10,374,098	**3,180,570**	10,181,899
Total cost of sales, administrative expenses	**21,900,586**	41,861,675	**21,728,657**	41,553,740

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2020 and 2019 relate to the following:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Annual statutory audit	**50,715**	61,480	**46,020**	57,100
Other assurance services	**9,920**	9,600	**9,920**	9,600
Tax advisory services	**1,750**	3,000	**800**	2,000
Other non-assurance services	**3,000**	3,000	**3,000**	3,000
	65,385	77,080	**59,740**	71,700

17. Employee benefit expense

	Group and Company	
	2020	2019
	€	€
Wages and salaries	**7,252,267**	11,407,268
Social security costs	**762,083**	814,047
	8,014,350	12,221,315
Recharged to fellow subsidiaries	**(558,512)**	(413,740)
	7,455,838	11,807,575

The average number of persons employed by the group and company during the year were:

	Group and Company	
	2020	2019
Direct	**255**	367
Indirect	**99**	108
Administration	**50**	71
	404	546

Wages and salaries are presented net wage supplement from the Government amounting to €2,631,372 in view of the COVID-19 pandemic. Grants related to income are presented as a deduction in reporting the related expenses.

18. Finance income and costs

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Finance income				
Interest from fellow subsidiaries	**-**	241,883	**-**	241,883
Interest from parent	**-**	209,585	**-**	209,585
Bank interest	**326,838**	343,995	**326,838**	343,995
	326,838	795,463	**326,838**	795,463

	Group and Company	
	2020	2019
	€	€
Finance costs and similar charges		
Bank loans and overdrafts	**206,932**	88,433
Loans from fellow subsidiaries	**2,240,985**	2,237,501
Amortisation of issue transaction costs	**31,235**	29,838
Other finance charges	**150,157**	386,071
	2,629,309	2,741,843

19. Investment income

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Dividend received from subsidiary	**-**	-	**9,000,000**	-

20. Tax (income)/expense

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Current tax expense:				
on taxable profit subject to tax at 35%	**299,892**	3,630,159	**190,216**	3,488,846
on taxable profit subject to tax at 15%	**420,344**	458,514	**-**	-
on taxable income subject to tax at 10%	**1,189,179**	1,173,148	**1,189,179**	1,173,148
on taxable income subject to tax at 5%	**2,000**	-	**2,000**	-
Deferred tax income (Note 14)	**(2,670,059)**	(1,244,773)	**(2,673,189)**	(1,204,265)
Tax (income)/expense	**(758,644)**	4,017,048	**(1,291,794)**	3,457,729

The tax on the group's and company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Profit before tax	**10,431,182**	16,296,546	**17,250,362**	13,922,695
Tax on profit at 35%	**3,650,914**	5,703,791	**6,037,627**	4,872,943
Tax effect of:				
Maintenance allowance on rental income attributable to immovable property	**(110,463)**	(119,426)	**(91,000)**	(91,000)
Expenses not allowable for tax purposes	**152,413**	236,888	**140,450**	211,974
Under/(over) provision of current tax	**11,154**	(121,966)	**11,154**	(123,868)
Impact of change in tax rules on property sales	**(2,471,868)**	(678,684)	**(2,471,868)**	(678,684)
Investment tax credits	**(273,657)**	(273,657)	**(273,657)**	(273,657)
Intragroup transactions	**(1,050,000)**	-	**(4,200,000)**	-
Unrecognised Deferred tax in prior year	**-**	(15,479)	**-**	(15,479)
Property tax rules on rental income	**(222,637)**	(269,919)	**-**	-
Temporary differences attributed to property, plant and equipment	**(444,500)**	(444,500)	**(444,500)**	(444,500)
Tax (income)/expense	**(758,644)**	4,017,048	**(1,291,794)**	3,457,729

21. Dividends

	Group and Company	
	2020	2019
	€	€
Dividends on ordinary shares:		
Distribution from Final Tax account		
Gross and net dividend on ordinary shares	**5,000,000**	35,000,000
Dividends per share	**€0.61**	€4.29
Dividend on preference shares:		
Distribution from Final Tax account / Immovable Property account		
Gross dividend on redeemable 6% preference shares	**214,500**	330,000
Tax at source at 35%	**-**	(115,500)
Net dividends	**214,500**	214,500
Total net dividends	**5,214,500**	35,214,500

22. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Operating profit	**12,733,653**	18,242,926	**10,552,833**	15,869,075
Adjustments for:				
Depreciation on:				
- Property, plant and equipment (Note 4)	**5,599,248**	6,075,238	**5,599,248**	6,075,238
- Investment property (Note 5)	**569,451**	574,523	**569,451**	574,523
Net loss on disposal of investment property and property, plant and equipment	**266,274**	18,203	**266,274**	18,203
Amortisation of issue costs	**31,235**	29,839	**31,235**	29,839
Movement in provision for impairment of trade and other receivables (Note 7)	**39,011**	89,879	**47,953**	(25,857)
Changes in working capital:				
Inventories	**(2,514,679)**	(2,568,146)	**36,649**	(1,641,456)
Trade and other receivables	**8,421,800**	24,080,110	**8,031,435**	24,349,361
Trade and other payables	**(18,018,743)**	4,123,067	**(18,477,647)**	4,308,616
Cash generated from operations	**7,127,250**	50,665,639	**6,657,431**	49,557,542

Net debt reconciliation

All the movements in the company's net debt related only to cash flow movements and disclosed as part of the financing activities in the statement of cash flows on page 18.

23. Commitments

Capital commitments

At 31 December the group and company had capital commitments not provided for in these financial statements as follows:

	Group and Company			
	Contracted	**Not contracted**	Contracted	Not Contracted
	2020		2019	
	€	**€**	€	€
Inventory (property development)	**960,470**	**800,332**	1,177,231	1,767,541
Non-current assets	**142,837**	**1,114,691**	918,196	855,988
	1,103,307	**1,915,023**	2,095,427	2,623,529

23. Commitments - continued

Operating lease commitments – where the group and the company are lessors

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

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Not later than 1 year	**2,016,556**	2,561,541	**1,300,000**	1,300,000
Later than 1 year and not later than 5 years	**1,112,417**	5,022,491	**1,300,000**	1,300,000
Later than 5 years	**298,596**	1,055,484	**2,600,000**	3,900,000
	3,427,569	8,639,516	**5,200,000**	6,500,000

The company's leases relate to an operating lease with a subsidiary. Refer to Note 5.

24. Contingencies

At 31 December 2020, the company had guarantees of €73,747,267 (2019: €67,139,374) issued on behalf of other fellow subsidiaries' bank facilities. The guarantees are supported by general and special hypothecs over the company's assets.

25. Related party transactions

The company forms part of the Tumas Group of Companies. All companies forming part of the Tumas Group are related parties since these companies are all ultimately owned by Tumas Group Company Limited which is considered by the directors to be the ultimate controlling party. Trading transactions between these companies include items which are normally encountered in a group context. The group is ultimately fully owned by members of the Fenech family, who are therefore considered to be related parties.

Related parties also include foreign Hilton hotels and related affiliates. Trading transactions with these related parties are entered into on a regular basis as a result of normal trading transactions, and mainly relate to corporate costs, management fees and operators' charges.

25. Related party transactions - continued

The following transactions were carried out with related parties:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Income from services				
Rents receivable from subsidiary	**-**	-	**1,300,000**	1,300,000
Rents receivable from fellow subsidiary	**695,938**	824,733	**-**	-
Maintenance fees receivable from subsidiary	**-**	-	**671,401**	657,411
Expenditure for goods and services				
Net interest and similar charges payable to related parties	**2,240,985**	1,786,033	**2,240,985**	1,786,033
Management fees charged by fellow subsidiaries	**450,000**	670,012	**450,000**	670,012
Operators' charges and other fees payable to other related parties	**188,586**	2,560,111	**188,586**	2,560,111
Payroll recharges	**558,512**	413,740	**558,512**	413,740

Year end balances arising from related party transactions are disclosed in Notes 7, 13 and 17 to the financial statements.

26. Statutory information

Spinola Development Company Limited is a limited liability company and is incorporated in Malta.

The immediate parent company of Spinola Development Company Limited is Spinola Investments Limited, a company registered in Malta, with its registered address at Tumas Group Corporate Office, Level 3, Portomaso Business Tower, Portomaso, St. Julians, Malta. Spinola Investments Limited is exempt from the preparation of consolidated accounts by virtue of section 174(1)(a) of the Companies Act, 1995.

The ultimate parent company of Spinola Development Company Limited is Tumas Group Company Limited, a company registered in Malta, with its registered address at Tumas Group Corporate Office, Level 3, Portomaso Business Tower, Portomaso, St. Julians, Malta.

The issued share capital of Tumas Group Company Limited (the ultimate parent) comprises 44,001 ordinary shares and 1 ordinary 'B' share. The ordinary 'B' share had certain rights attached to it that gave its holder ultimate control of the group.

The ordinary 'B' share was held in the name of the Estate of George Fenech from the date of George Fenech's demise on 2 December 2014. By virtue of a statutory Form T dated 19 February 2019 and filed with the Registry of Companies on 14 March 2019, the ordinary 'B' share was transferred to the younger son of George Fenech, who did not exercise any of the powers of the said share.

On 3 December 2020, amendments were made to the Memorandum and Articles of Association of the ultimate parent company whereby the rights attached to the ordinary 'B' share were revoked.

Since the demise of George Fenech in December 2014, Raymond Fenech, a director of all Tumas companies and a shareholder of all Tumas Group, has acted as the executive chairman of the board of Tumas Group Company Limited and as Chief Executive Officer of the Tumas Group generally. All decisions taken by the board of the ultimate parent were executed by the chairman in his role as chief executive officer of the group.

27. Comparative information

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's presentation format for the purpose of fairer presentation.