PHOENICIA

Combined Financial Statements

31 December 2020

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Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

to the Directors of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company P.L.C

Report on the audit of the combined financial statements

Opinion

We have audited the combined financial statements of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company P.L.C (collectively referred to as the Reporting entity), set on pages 5 to 34, which comprise the combined statements of financial position as at 31 December 2020, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements give a true and fair view of the combined financial position of the Reporting entity's as at 31 December 2020, and of its combined financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which describes the impact of the COVID-19 outbreak on the Reporting entity. Note 2 also explains the actions and plans of the Reporting entity along with the material uncertainty related to the length of the recovery period leading to normality which is impacted by the duration of restrictions on global travel imposed by governments and the potential longer-term impact thereof on customer behaviour. As stated in note 2, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Reporting entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

to the Directors of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company P.L.C

Responsibilities of the directors for the combined financial statements

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

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

Auditor's responsibilities for the audit of the combined financial statements

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

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

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

Building a better working world

INDEPENDENT AUDITOR'S REPORT

to the Directors of Phoenicia Hotel Company Limited, Phoenicia Malta Limited and Phoenicia Finance Company P.L.C

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

- evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the combined financial information of the entities or business activities within the group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

Ernst & Young Malta Limited
Certified Public Accountants

30 April 2021

COMBINED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Notes	2020 EUR	2019 EUR
Revenue	4	**2,940,645**	13,264,688
Cost of sales	5	**(4,266,007)**	(7,196,946)
Gross profit		**(1,325,362)**	6,067,742
Administrative expenses	5	**(2,498,801)**	(3,070,684)
Selling and marketing expenses	5	**(454,582)**	(691,278)
Other income	6	**902,880**	332,566
Operating (loss)/profit	i	**(3,375,865)**	2,638,346
Finance costs	8	**(1,766,157)**	(1,793,556)
(Loss)/profit before tax		**(5,142,022)**	844,790
Income tax credit	9	**2,215,584**	44,789
(Loss)/profit for the year		**(2,926,438)**	889,579
Other comprehensive income for the year not to be reclassified to profit or loss in the future periods			
Revaluation of property, plant and equipment, net of tax	9	**3,028,480**	-
Total comprehensive income for the year, net of tax		**102,042**	889,579

The accounting policies and explanatory notes on pages 9 to 34 form an integral part of the combined financial statements.

i. Analysed as:

	2020 EUR	2019 EUR
EBITDA *	**(1,206,381)**	4,905,660
Depreciation	**(2,169,484)**	(2,267,314)
Operating (loss)/profit	**(3,375,865)**	2,638,346

**EBITDA is a measure not defined by IFRS and represents earnings before interest, tax, depreciation and amortization (note 5)*

COMBINED STATEMENT OF FINANCIAL POSITION
as at 31 December 2020

	Notes	2020 EUR	2019 EUR
ASSETS			
Non-current assets			
Property, plant and equipment	10	**90,196,213**	86,399,109
Deferred tax asset	11	**5,198,265**	2,979,672
Other receivables	13	**50,000**	50,000
Total non-current assets		**95,444,478**	89,428,781
Current assets			
Inventories	12	**149,857**	197,474
Trade and other receivables	13	**524,217**	734,310
Cash and cash equivalents	14	**93,447**	1,198,026
Total current assets		**767,521**	2,129,810
TOTAL ASSETS		**96,211,999**	91,558,591
EQUITY AND LIABILITIES			
Equity			
Issued capital	15	**13,386**	13,386
Deferred shares	15	**838,574**	838,574
Revaluation Reserve	15	**39,226,612**	36,260,350
Retained earnings	15	**(3,507,904)**	(643,684)
Total equity		**36,570,668**	36,468,626
Non-current liabilities			
Interest-bearing loans and borrowings	17	**46,587,435**	44,446,270
Deferred tax liability	11	**5,505,524**	4,761,292
Total non-current liabilities		**52,092,959**	49,207,562
Current liabilities			
Trade and other payables	16	**4,564,947**	3,952,835
Interest-bearing loans and borrowings	17	**2,964,300**	1,909,804
Current tax payable		**19,125**	19,764
Total current liabilities		**7,548,372**	5,882,403
Total liabilities		**59,641,331**	55,089,965
TOTAL EQUITY AND LIABILITIES		**96,211,999**	91,558,591

The accounting policies and explanatory notes on pages 9 to 34 form an integral part of the financial statements.

The financial statements on pages 5 to 34 have been authorised for issue by the Board of Directors on 28 April 2021 and signed on its behalf by:

JEAN PIERRE ELLUL CASTALDI
Director

MARK SHAW
Director

COMBINED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

	Issued capital EUR	Deferred shares EUR	Revaluation reserve EUR	Retained earnings EUR	Total EUR
FINANCIAL YEAR ENDED 31 DECEMBER 2020					
At 1 January 2020	13,386	838,574	36,260,350	(643,684)	36,468,626
Loss for the year	-	-	-	(2,926,438)	(2,926,438)
Other comprehensive income for the year	-	-	3,028,480	-	3,028,480
Total comprehensive income	-	-	3,028,480	(2,926,438)	102,042
Depreciation transfer for land and buildings	-	-	(62,218)	62,218	-
At 31 December 2020	**13,386**	**838,574**	**39,226,612**	**(3,507,904)**	**36,570,668**
FINANCIAL YEAR ENDED 31 DECEMBER 2019					
At 1 January 2019	13,386	838,574	36,322,568	(1,595,481)	35,579,047
Loss for the year	-	-	-	889,579	889,579
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income	-	-	-	889,579	889,579
Depreciation transfer for land and buildings	-	-	(62,218)	62,218	-
At 31 December 2019	**13,386**	**838,574**	**36,260,350**	**(643,684)**	**36,468,626**

The accounting policies and explanatory notes on pages 9 to 34 form an integral part of the financial statements.

COMBINED STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

	Notes	2020 EUR	2019 EUR
Operating activities			
(Loss)/profit before tax		**(5,142,022)**	844,790
Non-cash adjustments to reconcile loss before tax to net cash flows:			
Depreciation of property, plant and equipment	10	**2,169,484**	2,267,314
Amortization of deferred income	16	**(5,093)**	(6,188)
Interest expense	8	**1,766,157**	1,793,556
Other income	6	**-**	(332,566)
Working capital adjustments:			
Decrease in trade and other receivables		**210,092**	50,678
Decrease/(increase) in inventory		**47,616**	(11,690)
Increase/(decrease) in trade and other payables		**617,206**	(531,143)
Income tax paid		**(3,648)**	(38,316)
Net cash flows (used in)/from operating activities		**(340,208)**	4,036,435
Investing activities			
Purchase of property, plant and equipment		**(2,193,876)**	(1,585,168)
Net cash flows used in investing activities		**(2,193,876)**	(1,585,168)
Financing activities			
Payment of bond issue costs		**-**	(122,348)
Proceeds from new loans	21	**2,720,534**	-
Repayment of bank loans	21	**(251,322)**	(1,705,597)
Interest paid		**(1,039,707)**	(1,723,948)
Net cash flows from financing activities		**1,429,505**	(3,551,893)
Net movement in cash and cash equivalents		**(1,104,579)**	(1,100,626)
Cash and cash equivalents at 1 January		**1,198,026**	2,298,652
Cash and cash equivalents at 31 December	14	**93,447**	1,198,026

The accounting policies and explanatory notes on pages 9 to 34 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The combined financial statements include the combination of Phoenicia Malta Limited, Phoenicia Hotel Company Limited and Phoenicia Finance Company plc, together referred to as the 'Reporting entity' or 'the Companies' or 'the Group', for the year ended 31 December 2020.

The financial statements of Phoenicia Malta Limited, Phoenicia Hotel Company Limited and Phoenicia Finance Company p.l.c. for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 28 April 2021.

Phoenicia Malta Limited is a limited liability company incorporated and domiciled in Malta under the Companies Act, Cap. 386 of the Laws of Malta. Its registered office is The Phoenicia Hotel, The Mall, Floriana, FRN 1478, Malta. The Company's principal activity is the owning and rental of its property (5-star hotel) to Phoenicia Hotel Company Limited.

Phoenicia Hotel Company Limited is registered in United Kingdom as a private company limited by shares, incorporated and domiciled in the UK. The Company is effectively operated and managed from Malta where it is registered as an overseas company with registration number OC1. Its registered office is Eversheds House 70, Great Bridgewater Street, Manchester M1 5ES, United Kingdom. The Company's principal activity is the operation of Phoenicia Hotel in Malta.

Phoenicia Finance Company plc is a public liability company incorporated and domiciled in Malta under the Companies Act, Cap. 386 of the Laws of Malta. Its registered office is The Phoenicia Hotel, The Mall, Floriana, FRN 1478, Malta. The Company's principal activity is that of acting as the financing arm of the Group and is thus dependent upon the operations and performance of Phoenicia Malta Limited and Phoenicia Hotel Company Limited.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The combined financial statements have been prepared as general-purpose financial statements which comply with the requirements of International Financial reporting standards as adopted by the EU.

The Companies are under common control and they have historically operated as combined entities under common management. The parent, Phoenicia Hotel (Lux) S.A.R.L., registered in Luxembourg, is exempt from the obligation to draw up and to publish consolidated accounts as it meets the small group exemption criteria. Moreover, Phoenicia Malta Limited and Phoenicia Hotel Company Limited are also the guarantors of a bond which was issued by Phoenicia Finance Company plc. The combined financial statements are also required in the context of Phoenicia Finance Company plc continuing listing obligations.

The combined financial statements have been drawn up on the basis of the financial statements of Phoenicia Malta Limited, Phoenicia Hotel Company Limited and Phoenicia Finance Company plc for the year ended 31 December 2020. The accounting policies of the Companies are consistent with the policies adopted by the Reporting entity. The results of the Group, including the parent and each of the combined entities, are not materially different from the results of the Reporting entity.

In preparing these combined financial statements the Reporting entity applied all consolidation procedures under IFRS, whereby all significant intercompany accounts and transactions between Phoenicia Malta Limited, Phoenicia Hotel Company Limited and Phoenicia Finance Company plc have been eliminated in the accompanying combined financial statements.

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The financial statements are presented in Euro (EUR), which represents the functional and presentation currency of each of the combined entities. Apart from land and buildings, which are carried at fair value less depreciation, these financial statements are prepared under the historical cost convention.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE - continued

Going concern

During the year ended 31 December 2020, the Reporting entity incurred a loss before tax of EUR5,142,022) (2019: profit before tax of EUR844,790). The Reporting entity's current liabilities exceeded its current assets by EUR6,780,851 (2019: EUR3,752,593).

These financial statements have been prepared on a going concern basis. The Directors have made appropriate assessment of the going concern and reviewed the Reporting entity's budget for the next financial year. The Directors are confident that the Reporting entity has adequate resources to remain in operation for the foreseeable future and meet its liabilities when they fall due. The Directors have therefore continued to adopt the going concern basis of accounting in preparing these annual financial statements subject to the uncertainty noted in this section. The financial statements do not contain the adjustments that would result if the Reporting Entity was unable to continue as a going concern.

Since the first cases of COVID-19, the impacts arising from the pandemic have persisted throughout the year, resulting in continuous disruptions to the world economy. As disclosed in previous year's Combined Financial Statements issued by Phoenicia Finance Company p.l.c., the hotel has experienced a total curtailment of its business from March to June 2020 together with a substantial reduction in demand for the rest of the year. The hotel adapted to the situation to safeguard the financial health of the business, where management implemented cost cutting measures whilst ensuring that the hotel was prepared to welcome guests once restrictions were lifted. The Group has continued with the works relating to the completion of the Spa whilst also refreshing a number of locations within the Hotel. Towards the end of June 2020, the outlets re-opened and started serving guests once again with the main focus being the Bastion Pool and as from July 2020 the hotel started welcoming guests once again with the re-opening of the local airport. The new Spa, managed by the world-renowned French Spa operators, Deep Nature, also opened its door to guests toward the end of the year.

In response to impacts of the Covid-19 pandemic, the Government of Malta announced a number of measures to assist the affected entities and the Group has successfully obtained further finance to support working capital and liquidity requirements, amendments to existing loan facilities including a moratorium on capital and interest repayments, as well as other easing in support of the working capital and liquidity requirements of the Reporting entity (note 17). The Reporting entity is also in receipt of other Covid-19 business assistance programmes announced by the government, namely for wage supplements, deferral of taxes and other business assistance programmes as applicable. As at 31 December 2020, the Group had undrawn bank facilities amounting to EUR3.9 million.

The Reporting entity has prepared projections for the upcoming 12 months and beyond, based on historical financial information, forecasts, as well as realistic assumptions to assess the financial situation. In preparing its projections the Group has considered prolonged cost cutting measures and has also considered prudent timing and constant recovery of business. Further mitigations are also available to management against unforeseen developments including effecting further cost cutting measures that can be put in place.

Notwithstanding this, in the current prevailing circumstances of the Covid-19 pandemic, management considers a material uncertainty exists that may cast significant doubt on the Reporting Entity's ability to continue as a going concern. The material uncertainty identified by the Directors is the length of the recovery period leading to normality which is impacted by the duration of restrictions on global travel imposed by governments and the potential longer-term impact thereof on customer behaviour.

Due consideration is given to this uncertainty and mitigating factors are being taken into consideration in order to ensure the going concern of the Reporting Entity.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective during the year:

- Amendment to IFRS 16: Leases Covid 19: Related Rent Concessions
- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

The adoption of these standards, where applicable, did not have significant impact on the financial statements or performance of the Reporting entity.

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

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (effective for financial year beginning on or after 1 January 2021)
- Amendments to IFRS 4: Insurance Contracts – Deferral of IFRS19 (effective for financial year beginning on or after 1 January 2021)

The reporting entity is still assessing the impact that the IBOR reform will have on the financial statements. The amendments to IFRS 4 are not expected to impact the Reporting entity's operations. The Reporting entity will adopt the changes in standards, where applicable, on their effective date.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue

Revenues include all revenues from the ordinary business activities of the Reporting entity and are recorded net of value added tax. Discounts to customers are recognised as a reduction in revenue. They are recognised in accordance with the provision for goods or services provided that collectability of the consideration is probable.

Revenue mainly represents income earned for accommodation and catering services. Revenue from accommodation is recognised over a period of time whereas revenue from catering and other services is recognised at a point in time. Service revenue is recognised when services have been rendered and collectability is reasonably assured.

The Reporting entity considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale, the Reporting entity considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any). The performance obligation is to provide hospitality and leisure services as and when customers make use of the services. The transaction price follows a fee structure which is known at the date of booking or consumption of service and thus no significant estimates are required in this respect.

Contract balances

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Reporting entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

A contract liability is the obligation to transfer goods or services to a customer for which the Reporting entity has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Reporting entity transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Reporting entity performs under the contract.

Borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currency transactions

Functional and presentation currency

These financial statements are presented in Euro ('EUR'), the currency of the primary economic environment in which that Reporting entity operates.

Transactions and balances

Transactions in foreign currencies have been converted into Euro at the rates of exchange ruling on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Euro at the rates of exchange ruling at the reporting date. All resulting differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation difference on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Property, plant and equipment

Property, plant and equipment, excluding land and buildings, are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Land and buildings are measured at fair value less accumulated depreciation and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred within equity to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

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

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment less any residual value over the expected useful lives. The annual rates used for this purpose, which are consistent with those used in the previous year, are as follows:

Buildings (including fixtures)	-	15 - 50 years
Plant, machinery and other equipment	-	3 - 15 years
Crockery, utensils and linen	-	3 - 15 years

The depreciation method applied and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting year. Depreciation of an asset ceases when the asset is either classified as held for sale or derecognised. Assets in the course of construction are not depreciated.

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount of the asset. These are included in the statement of comprehensive income in the year of derecognition.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises the direct invoiced cost. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

Financial instruments

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

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Reporting entity's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Reporting entity has applied the practical expedient, the Reporting entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at fair value through OCI (debt instruments)

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

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

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

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

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

Financial assets at fair value through profit or loss

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

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

Derecognition

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

- The rights to receive cash flows from the asset have expired

or

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets

The Reporting entity recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Reporting entity expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Reporting entity applies a simplified approach in calculating ECLs. Therefore, the Reporting entity does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Reporting entity that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities - continued

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that there will be taxable profit against which a deductible temporary difference can be used, unless the deferred tax asset arises from the initial recognition of an asset or liability that is not from a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Value added tax

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

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

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

Grants

Grants are not recognised until there is reasonable assurance that the entity will comply with the conditions attached and that the grants will be received.

Grants in respect of fixed assets are credited to the profit and loss account in equal annual instalments over the useful lives of the assets concerned. Other grants are credited to the profit and loss account in the same year as the expenditure to which they contribute.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.1. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the tax losses and unabsorbed capital allowances can be utilised.

Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. In exercising its judgement management has taken into account budgets and the ability to carry forward losses for offset indefinitely.

Deferred tax liability

The Reporting entity's own-used Land and buildings within Property, plant and equipment is measured at Revalued amounts under IAS16. In the financial statements of Phoenicia Malta Limited, these Land and buildings were classified as Investment Property at fair value, and the resulting deferred tax liability was measured on the basis that the value of these assets will be recovered through sale (rather than through use) under the rebuttable presumption in IAS40. In Malta the income tax rate applicable to benefits generated through operating the asset (recovery through use) is 35%, while that applicable on sale of property is 8% on the sales proceeds.

Judgement is required in preparing these combined financial statements to determine whether the Reporting entity will recover the value of the Land and Building through use or through sale, or partially through use and sale. In making this assessment, management made an estimation of the amount relating to non-depreciable assets, being land carried at Fair Value, where the deferred tax on revaluation assumes recovery through sale (as it cannot be recovered through use). For the depreciable portion, an estimation of the period over which management expects to recover the Property, Plant and Equipment through use was made. Management assumes that Property, plant and equipment will be recovered through use for fifteen (15) years in line with the latest plans of the Reporting entity whereas the remaining balance beyond this period of use is assumed to be recovered through sale. There were no changes to the period over which Property, plant and equipment will be recovered through use, during the current year.

Revalued amount of property, plant and equipment

The Reporting entity carries its Land and buildings within Property, plant and equipment at revalued amount, with changes in the revalued amount being recognised in the statement of other comprehensive income in accordance with IAS 16, 'Property, Plant and Equipment'. This is based on valuations performed at least every two years. The last market valuation was performed in 2020 (note 10).

In the years where a valuation is not obtained, management verifies all major inputs used in the previous valuation report, by assessing the discount rate and the capitalisation rate against changes in discount and growth rates, as well as assessing the results achieved against the cash flow and earnings assumption used in the previous valuation. Based on these analyses management assesses whether any changes in inputs would lead to significant changes in value of the property

NOTES TO THE FINANCIAL STATEMENTS - continued

4. REVENUE

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

	2020	2019
	EUR	EUR
Services transferred over time		
Accommodation	**1,648,382**	9,169,418
Services/goods transferred at a point in time		
Catering	**1,202,789**	3,888,230
Other	**89,474**	207,040
Revenue from contracts with customers	**2,940,645**	13,264,688

5. EXPENSES BY NATURE

	2020	2019
	EUR	EUR
Staff costs (note 7)	**2,486,778**	3,472,233
Depreciation	**2,169,484**	2,267,314
Auditors remuneration	**66,977**	84,500
Other expenses	**2,496,151**	5,134,861
Total cost of sales, administrative and selling expenses	**7,219,390**	10,958,908

Earnings before interest, tax, depreciation and amortisation ("EBITDA") is a measure not defined by IFRS used by management to communicate the financial performance of the Reporting entity.

6. OTHER INCOME

	2020	2019
	EUR	EUR
Government grants (i)	**902,880**	-
Other income (ii)	**-**	332,566
	902,880	332,566

(i) Government grants refer to the Covid-19 wage supplement received from the Government of Malta during the year ended 31 December 2020. The wage supplement is the Government contribution to the employer to support the wages of its employees.

(ii) Other income of EUR332,566 represents unclaimed advances by previous shareholders of Phoenicia Malta Limited.

NOTES TO THE FINANCIAL STATEMENTS - continued

7. STAFF COSTS

	2020 EUR	2019 EUR
Directors' remuneration	**149,873**	203,714
Social security costs	**1,902**	1,856
	151,775	205,570

The total employment costs were as follows:

	2020 EUR	2019 EUR
Wages and salaries	**2,297,069**	3,245,411
Social security costs	**189,709**	226,822
	2,486,778	3,472,233

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

	2020 Number	2019 Number
Guest service	**86**	118
Administrative	**33**	35
	119	153

8. FINANCE COSTS

	2020 EUR	2019 EUR
Interest payable on interest-bearing loans and borrowings (note 17)	**613,442**	647,279
Interest on bonds	**1,037,624**	1,036,389
Amortisation of bond issue costs	**115,091**	109,888
Other finance charges	**-**	-
	1,766,157	1,793,556

NOTES TO THE FINANCIAL STATEMENTS - continued

9. INCOME TAX CREDIT

The tax for the year is made up as follows:

	2020	2019
	EUR	EUR
Current tax	**19,125**	19,764
Deferred tax (note 11)	**(2,234,709)**	(64,553)
Income tax credit	**(2,215,584)**	(44,789)

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

	2020	2019
	EUR	EUR
Loss before tax	**(5,142,022)**	844,790
Theoretical tax at the applicable 35% rate	**(1,799,707)**	295,677
Tax effect of:		
- expenses not deductible for tax purposes	**61,086**	60,711
- other income not subject to tax	**(158,137)**	(116,398)
- other rates of tax	**(318,826)**	(284,779)
Income tax credit	**(2,215,584)**	(44,789)

Income tax in other comprehensive income

The tax impact, which is entirely attributable to deferred taxation, relating to the revaluation of land and buildings (note 10) recorded in other comprehensive income and accordingly presented directly in equity as follows:

	2020	2019
	EUR	EUR
Revaluation gain on property, plant	**3,772,712**	
and equipment (note 10)	**-**	-
Deferred tax	**(744,232)**	-
Revaluation of property, plant and equipment net of tax	**3,028,480**	-

NOTES TO THE FINANCIAL STATEMENTS - continued

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings EUR	Plant, machinery and equipment EUR	Crockery, utensils and linen EUR	Assets under construction EUR	Total EUR
Cost					
At 1 January 2019	76,311,367	18,536,213	589,021	1,807,239	97,243,840
Additions	404,115	81,805	-	1,034,688	1,520,608
Transfers	-	-	-	-	-
At 31 December 2019	76,715,482	18,618,018	589,021	2,841,927	98,764,448
At 1 January 2020	76,715,482	18,618,018	589,021	2,841,927	98,764,448
Additions	64,947	643,081	-	1,485,848	2,193,876
Transfers	4,020,815	118,821	-	(4,139,636)	-
Revaluation gain	3,772,712	-	-	-	3,772,712
Depreciation transfers	(2,551,704)	(11,464,264)	-	-	(14,015,968)
At 31 December 2020	**82,022,252**	**7,915,656**	**589,021**	**188,139**	**90,715,068**
Accumulated depreciation					
At 1 January 2019	850,568	8,804,112	443,345	-	10,098,025
Depreciation for the year	850,568	1,378,991	37,755	-	2,267,314
At 31 December 2019	1,701,136	10,183,103	481,100	-	12,365,339
At 1 January 2020	1,701,136	10,183,103	481,100	-	12,365,339
Depreciation for the year	850,568	1,281,161	37,755	-	2,169,484
Depreciation transfers	(2,551,704)	(11,464,264)	-	-	(14,015,968)
At 31 December 2020	**-**	**-**	**518,855**	**-**	**518,855**
Net book value					
At 31 December 2019	75,014,346	8,434,915	107,921	2,841,927	86,399,109
At 31 December 2020	**82,022,252**	**7,915,656**	**70,166**	**188,139**	**90,196,213**

Had land and buildings not been included in the financial statements at revaluation less accumulated depreciation, the carrying amount as at 31 December 2020 would have been EUR29,464,237 (2019: EUR30,187,645).

As disclosed in note 16, at 31 December, the Reporting entity had creditors for capital expenditure amounting to EUR1,171,223 (2019: EUR1,171,223).

The loan facilities are secured by a general hypothec of EUR18.9 million (2019: EUR19.1 million) over the assets of Phoenicia Malta Limited and a special hypothec of EUR18.9 million (2019: EUR19.1 million) over the land and buildings of Phoenicia Malta Limited.

In 2020 and 2019, there were no borrowing costs arising from bank and other borrowings capitalised within land and buildings.

NOTES TO THE FINANCIAL STATEMENTS - continued

10. PROPERTY, PLANT AND EQUIPMENT - continued

Revalued amount

Phoenicia Malta's property comprises a hotel building ('sites in operation') and its surrounding lands ('other sites').

The prior valuation of the property had been obtained as of 29 October 2018. This valuation was prepared by an external, independent and qualified architects and the value for both the sites in operation and the other sites was determined by the application of a market-derived capitalisation rate to the annual earnings to establish the present value of the income stream associated with each asset. A capitalisation rate of 7% was applied to the company's annual earnings to derive the fair value of the sites in operation whilst a capitalisation rate of 25% was applied to derive the revalued amount of the other sites. An implicit assumption in this method is that the cash flow is perpetuity and the discount rate is a constant.

As at 31 December 2020, the valuation technique of the sites in operation was changed in the context of the sudden operative disruptions and uncertainties caused by the Covid-19 pandemic, whereby a valuation technique which considers the medium to long-term projection was deemed to be more appropriate in the circumstances to reflect the impact of the Covid-19 pandemic.

The revalued amount of the sites in operation was determined by management based on a multi-period projection and Discounted Cash Flow ('DCF') model. The value of the other sites was determined similar to the prior valuation based on the application of a market derived capitalisation rate to the annual earnings. Revaluation gains are credited to other comprehensive income.

Valuation process

The company engages internal personnel to determine the fair value of the investment property. At the date of the valuation, management:

- verifies all major inputs in the valuation
- assess property valuation movements when compared to the prior year valuation reports

In the years where a valuation is not obtained, management verifies all major inputs used in the previous valuation report, by assessing the discount rate and the capitalisation rate against changes in discount and growth rates, as well as assessing the results achieved against the cash flow and earnings assumption used in the previous valuation. Based on these analyses management assesses whether any changes in inputs would lead to significant changes in value of the property (note 3.1).

Sites in operation

In the valuation of the sites in operation, management considered a 10-year (2021-2030) DCF model, with a terminal value calculation, considering a long-term growth rate assumption. Management expected to return to the pre- Covid-19 pandemic level of activity in 2023. The model also considers a discount rate of 10%.

The discount rate and the cash flows have been determined to be significant unobservable inputs. The lower the discount rate, the higher the fair value. Conversely, the lower the cash flows, the lower the fair value. An analysis of the impact of a reasonable change in the significant unobservable inputs on the fair value of the property is included below:

	Change	**Change in value EUR' million**
Cash flows	One-year delay (i)	(9)
Discount rate	9% / 11%	13 / (10)

(i) The cash flow sensitivity analysis considers a return to the pre- Covid-19 pandemic level in 2024 being a one-year delay from the base cash flows.

NOTES TO THE FINANCIAL STATEMENTS - continued

10. PROPERTY, PLANT AND EQUIPMENT - continued

Other sites

In the valuation of the other sites, management derived the fair value by the application of a capitalisation rate of 25% to the company's annual earnings.

The capitalisation rate and the annual earnings have been determined to be significant unobservable inputs. The lower the capitalisation rate, the higher the fair value. Conversely, the lower the annual earnings, the lower the fair value. An analysis of the impact of a reasonable change in the significant unobservable on the fair value of the property is included below:

	Change in Rate	**Change in value EUR' million**
Capitalisation rate	20% / 30%	3 / (2)
Annual earnings	+10% / -10%	1 / (1)

Fair value hierarchy

The value determined by the architects assumes that the development of the property under construction is complete. Accordingly, the value was adjusted for the estimated costs to complete the development of the property under construction.

The property is categorised under level 3 of the fair valuation hierarchy. The different levels in the fair value hierarchy are defined as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Reporting entity's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year.

11. DEFERRED TAX

Deferred income tax at 31 December relates to the following:

	2020 EUR	2019 EUR
Deferred tax asset is attributable to the following:		
- unutilized tax losses and capital allowances	**5,093,170**	2,899,854
- excess of capital allowances over depreciation	**71,853**	51,825
- allowances for impairment	**28,561**	23,312
- expected credit losses	**4,681**	4,681
	5,198,265	2,979,672
Deferred tax liability is attributable to the following:		
- Land and buildings	**(5,505,534)**	(4,761,292)

NOTES TO THE FINANCIAL STATEMENTS - continued

11. DEFERRED TAX – continued

Management made an estimation of the depreciable portion i.e. an estimation of the period over which management expects to recover the Property, Plant and Equipment through use with the remaining balance assumed to be recovered through sale. In Malta the income tax rate applicable to benefits generated through operating the asset (recovery through use) is 35%, while that applicable on sale of property is 8% on the sales proceeds.

The Directors have assessed the recognition of the deferred tax asset and they are confident that the deferred taxation recognised in the financial statements will be realised in the foreseeable future through trading operations. Tax losses and unabsorbed capital allowances do not expire under Maltese legislation.

12. INVENTORIES

	2020 EUR	2019 EUR
Catering and bar supplies	**76,535**	115,138
Hotel consumables	**73,322**	82,336
	149,857	197,474

13. TRADE AND OTHER RECEIVABLES

	2020 EUR	2019 EUR
Non-current		
Other receivables (note ii)	**50,000**	50,000
Current		
Trade receivables (note i)	**88,030**	563,300
Other receivables	**21,603**	55,035
Prepayments for administrative expenses	**133,684**	115,975
	524,217	734,310

(i) Trade receivables are presented net of a provision for impairment of EUR66,604 (2018: EUR66,604). No interest is charged on trade and other receivables. As at 31 December, the ageing analysis of trade receivables is as follows:

		Neither past due nor impaired			Past due but not impaired
	Total EUR	0-30 days EUR	30-60 days EUR	61-90 days EUR	EUR
2020	**88,030**	**20,854**	**3,714**	**63,462**	**-**
2019	563,300	192,642	84,222	286,436	-

(ii) Other non-current receivables include guarantee payments which will be released once the development of property is complete.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. CASH AND CASH EQUIVALENTS

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

	2019	2019
	EUR	EUR
Cash at bank and in hand	**93,447**	1,198,026

The Reporting entity has an overdraft facility of EUR600,000 (2019: EUR600,000) for working capital requirements, which is secured by a general hypothec over the assets of Phoenicia Hotel Company Limited and a special hypothecary guarantee of EUR600,000 (2019: EUR600,000) given by Phoenicia Malta Limited over its land and buildings.

15. ISSUED CAPITAL AND RESERVES

Ordinary shares

	Phoenicia Malta Limited EUR	**Phoenicia Hotel Company Limited EUR**	**Total as at December EUR**
Authorised ordinary shares:			
9,999 Ordinary shares 'A' of EUR1 each	9,999	-	9,999
1 Ordinary share 'B' of EUR1	1	-	1
16,000 ordinary shares of 0.25 GBP each	-	9,318	9,318
Total authorised ordinary shares	**10,000**	**9,318**	**19,318**
Issued and fully paid up:			
4,999 Ordinary shares 'A' of EUR1 each	4,999	-	4,999
1 Ordinary share 'B' of EUR1	1	-	1
14,400 ordinary shares of 0.25 GBP each	-	8,386	8,386
Total issued and fully paid up ordinary shares	**5,000**	**8,386**	**13,386**

Holders of Ordinary shares 'A' have the right to vote and receive dividend whilst holders of Ordinary shares 'B' have the right to vote without the right to receive dividend.

Deferred shares

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

Deferred shares are not entitled to dividends and carry no voting rights. On winding up, holders of deferred shares are entitled to repayment of capital, after the capital had been repaid in full to the holders of ordinary shares. Holders of deferred shares are not entitled to participate in any further surplus arising on winding up.

Revaluation reserve

The revaluation reserve represents unrealised revaluation gains on Land and buildings within Property, plant and equipment, net of tax that are not available for distribution.

Retained earnings

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

NOTES TO THE FINANCIAL STATEMENTS - continued

16. TRADE AND OTHER PAYABLES

	2020 EUR	2019 EUR
Trade payables	**854,968**	1,012,464
Creditors for capital expenditure	**1,171,223**	1,171,223
Accruals	**848,421**	881,887
Contract liabilities (i)	**929,318**	577,279
Indirect taxes including social security	**691,033**	110,431
Deferred income (i)	**2,997**	8,090
Other payables	**75,987**	67,711
VAT payable	**-**	123,750
	4,564,947	3,952,835

(i) Contract liabilities represent advances from customers which are excepted to the recognised in the profit or loss within one year. Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period amounted to EUR332,033 (2019: EUR494,575). Amounts are expected to be recognised in revenue sometime in 2021 and 2022, with certain bookings deferred indefinitely until travel restrictions are eased and the clients are willing to travel again.

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

	2020 EUR	2019 EUR
Balance at 1 January 2019	**8,090**	14,278
Amortisation for the year	**(5,093)**	(6,188)
Balance at 31 December 2019	**2,997**	8,090

17. INTEREST-BEARING LOANS AND BORROWINGS

	2020 EUR	2019 EUR
Non-current		
Bank loans (i)	**19,670,593**	19,765,294
Bank loan (ii)	**2,120,533**	-
Bank loan (iii)	**169,777**	169,534
4.15% Unsecured Bonds 2023-2028 (iv)	**24,626,533**	24,511,442
	46,587,435	44,446,270
Current		
Bank loans (i)	**2,248,313**	1,796,944
Bank loan (ii)	**603,020**	-
Bank loan (iii)	**67,488**	67,505
Accrued interest on 4.15% Unsecured Bonds 2023-2028 (iv)	**45,479**	45,355
	2,964,300	1,909,804
Total interest-bearing loans and borrowings	**49,551,735**	46,356,074

NOTES TO THE FINANCIAL STATEMENTS – continued

17. INTEREST-BEARING LOANS AND BORROWINGS - continued

The Reporting entity has the following facilities:

(i) Bank loan facilities of EUR21,166,682 (EUR2019: EUR21,406,960) bearing an average interest of 2.80% (2019: 2.84%) (minimum rate) plus 3 months EURIBOR per annum. The loan facilities are secured by a general hypothec for EUR18.9 million (2019: EUR19.1 million) over all the assets of Phoenicia Malta Limited. The facilities are also secured by a special hypothec of EUR18.9 million (2019: EUR19.1 million) on Phoenicia Malta Limited land and buildings. The loans are also secured by a general hypothecary guarantee of EUR18.9 million (2019: EUR19.1 million) provided by Phoenicia Hotel Company Limited.

(ii) During the year ended 31 December 2020, the Company obtained a facility of EUR6 million from the bank to cover shortfall in operating cashflow arising from the Covid-19 pandemic. The facility benefits from the support of the Government of Malta by means of a capped portfolio guarantee and is eligible for an interest rate subsidy of 2.4% for the first two years. This facility bears a fixed interest rate of 2.5% for the first 2 years plus guarantee fee.

(iii) These bank loans bear an interest rate of 3.5% per annum over the bank's base rate and are secured by a general hypothec of EUR225,944 (2019: EUR237,038) over the assets of Phoenicia Hotel Company Limited and a special hypothecary guarantee of EUR225,944 (2019: EUR237,038) given over the Land and buildings of Phoenicia Malta Limited.

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

	2020	2019
	EUR	EUR
Non-current		
Bonds	**25,000,000**	**25,000,000**
Issue costs	**(605,698)**	**(605,698)**
Accumulated amortisation	**232,231**	**117,140**
	24,626,533	**24,511,442**

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

The Unsecured Bonds are subject to a fixed interest rate of 4.15%. The quoted market price as at 31 December 2020 for the Unsecured bonds was EUR 98.00 (2019: EUR103.90).

(v) There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current period.

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

	2020	2019
	EUR	EUR
Between one and two years	**3,066,847**	1,713,231
Between two and five years	**6,404,694**	5,022,969
More than five years	**37,489,361**	38,198,628
	46,960,902	44,934,828

NOTES TO THE FINANCIAL STATEMENTS – continued

18. FINANCIAL COMMITMENTS

As at 31 December 2020, the Reporting entity had no significant capital commitments. As at 31 December 2019, the Reporting entity had capital commitments with respect to the development of property estimated at EUR1.3 million which were estimated predominantly by the Reporting entity's cost consultants.

Collateral provided to the Bank by the Companies are disclosed in notes 14 and 17.

19. FAIR VALUE MEASUREMENT

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

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

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

At 31 December 2020 and 2019 the carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and current interest-bearing loans and borrowings approximated their fair values in view of the nature of the instruments or their short-term maturity (level 2). The fair values of non-current bank loans are not materially different from their carrying amounts particularly due to re-pricing (level 2). The fair values of non-current unsecured bonds can be defined by reference to the quoted market price (level 1) which as at 31 December 2019 was EUR103.90 (2018: EUR104.15). The fair value is estimated at EUR 25.975 million when compared to the carrying amount of EUR 24.55 million.

20. RELATED PARTY TRANSACTIONS AND BALANCES

Note 23 provides information about the Reporting entity's structure, including details of the parent and ultimate parent company.

The following table provides the total amount of transactions and balances with related parties for the relevant financial year:

		Purchases from related party	Amounts owed to related party
Related parties			
Hazledene Group Limited	**2020**	**110,353**	**(13,088)**
	2019	115,386	(9,000)

Hazledene Group Limited

Hazledene Group Limited is an entity in which the shareholders of the Companies have an interest. During the year the Reporting entity entered into transactions with this party for an expense of an administrative nature.

Key management personnel

Amounts payable to key management personnel as disclosed in note 7 as 'Directors remuneration'.

NOTES TO THE FINANCIAL STATEMENTS – continued

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Reporting entity's activities may expose it to the various types of risks: market risk (interest rate risk), credit risk and liquidity risk.

Credit risk

Financial assets which potentially subject the Reporting entity to concentrations of credit risk consist principally of trade and other receivables and cash and cash equivalents.

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Reporting entity is not exposed to major concentrations of credit risk.

The Reporting entity's short-term deposits are placed with quality financial institutions. Carrying amounts for trade and other receivables are stated net of the necessary provisions which have been made against bad and doubtful debts in respect of which the Directors reasonably believe that recoverability is doubtful.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets as disclosed in note 13 and note 14.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rates on the borrowings are disclosed in note 17.

Interest rate sensitivity

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

	Increase/decrease in basis points	**Effect on profit before tax EUR '000**
2020		
	+100	**(292)**
	-50	**56**
2019	+100	**(228)**
	-50	**112**

Liquidity risk

Liquidity risk is the risk that the Reporting entity is unable to meet its payment obligations associated with its financial liabilities when they fall due.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through adequate amount of committed credit facilities.

The Reporting entity actively manages its risk of a shortage of funds by closely monitoring the maturity of its financial assets and liabilities and projected cash flows from operations. The Directors believe, that the current liability position can be redressed as detailed in Note 2 Going concern.

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

NOTES TO THE FINANCIAL STATEMENTS – continued

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk - continued

	Carrying amount EUR	Undiscounted contractual cash flows EUR	Within one-year EUR	1 to 5 years	Over 5 years EUR
31 December 2020					
Interest-bearing loans and borrowings	49,925,203	61,141,430	4,626,204	15,521,560	40,993,666
Trade and other payables	4,564,947	4,564,947	4,564,947	-	-
	54,490,150	**65,706,377**	**9,191,151**	**15,521,560**	**40,993,666**
31 December 2019					
Interest-bearing loans and borrowings	46,844,632	60,113,302	3,354,324	12,807,204	43,951,774
Trade and other payables	3,952,835	3,952,835	3,952,835	-	-
	50,797,467	**64,066,137**	**7,307,159**	**12,807,204**	**43,951,774**

Changes in liabilities arising from financing activities

Bank loans and other loans

	1 January 2020 EUR	Cash flows EUR	Accrued interest EUR	31 December 2020 EUR
2020	**46,844,632**	**2,469,212**	**611,359**	**49,925,203**
2019	48,590,511	(1,705,597)	(40,282)	46,844,632

Capital management

The Reporting entity's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The primary objective of the Reporting entity's capital management is to ensure that it maintains adequate capital to support its operations. The Reporting entity's Directors manage the Reporting entity's capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis.

To maintain or adjust its capital structure, the Reporting entity may adjust its borrowings. There were no changes in the Reporting entity's approach to capital management during the year.

NOTES TO THE FINANCIAL STATEMENTS - continued

22. CONTINGENT LIABILITES

The Reporting entity is in disagreement with the main contractor of the recent development of Phoenicia Hotel regarding certain differences between applications for payment made by the contractor and amounts that have been certified as due based on the assessment of a professional cost consultancy firm engaged by the Reporting entity since inception of the project. The Reporting entity is also contesting claims for additional services from architects, involved in the same development, due to delays and additional expense caused by their execution of the services provided.

The Directors are of the opinion that no amounts are due, and accordingly, no provision is being made in the financial statements. Furthermore, the Reporting entity has a number of counter claims against the contractor and the architects relating to delays and defects, amongst others.

23. PARENT AND ULTIMATE CONTROLLING PARTY

The immediate and ultimate parent company is Phoenicia Hotel (Lux) S.a.r.l. registered in Luxembourg. The ultimate controlling party is Mark Shaw, a British national residing in Edinburgh, Scotland.

24. EVENTS AFTER THE REPORTING PERIOD

As Covid-19 pandemic evolves, the Government of Malta has continued to implement additional measures after year end to address the resulting public health issues and the economic impact. Since the end of the reporting year, the Government of Malta has also announced additional measures to assist the affected entities including the extension of wage supplement scheme, the extension of the moratoria granted under the COVID-19 guarantee Scheme by a further 6 months and further tax deferrals. The Reporting entity continues to monitor the situation and taking appropriate measures to minimise the impact of the Covid-19 pandemic and to continue operations.